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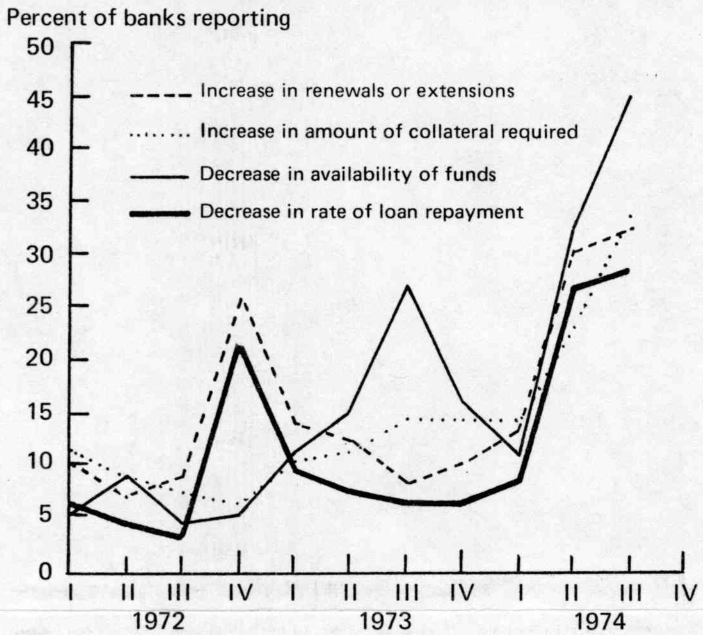
FARM LOAN DEMAND remained strong in the third quarter of 1974, according to nearly one-half of the 750 bankers responding to an October 1 survey. In addition, an increasing number of bankers reported a slowing in loan repayments and an increase in the number of loan renewals. Almost one-half of the bankers reported that the availability of funds declined during the third quarter compared to the corresponding year-earlier period. Nearly one-third of the reporting banks indicated that their loan-to-deposit ratios have risen above desired levels. Partly as a result of these developments, many banks have increased collateral requirements, boosted interest rates, and generally upgraded lending standards.

Trends in Non-Real Estate Farm Loans*



*Compared to the corresponding year-earlier quarter.

Interest rates charged by rural banks on non-real estate farm loans continued their upward trend during the third quarter. As of October 1, interest rates on new feeder cattle loans averaged slightly over 9 percent for the district, up 42 basis points from July 1. However, the average interest rates charged by Seventh District rural banks remained far under that of larger city banks. For example, a sample of mostly large city banks located throughout the U.S. charged an average of 10.8 percent on feeder cattle loans during the first week of September.

Loan demand may be off slightly in the fourth quarter according to the district bankers. The biggest drop is expected to be in the category of feeder cattle loans. Two-thirds of the bankers expect a decrease in feeder cattle loans, the most pessimistic response to this question in nearly ten years. Dairy loans and farm real estate loans might also be down somewhat from the year-earlier fourth quarter. On the other hand, bankers anticipate a heavier demand for operating loans, farm machinery loans, and crop storage loans in the fourth quarter than during the corresponding year-earlier period.

Although there are indications of easing loan demand, nearly one-third of all bankers responding to the survey anticipate that their banks will experience a more-than-normal amount of difficulty in meeting agricultural loan demand during the fourth quarter. Either reductions in demand and time deposits or slow growth in such deposits was cited as a problem by over 80 percent of those bankers anticipating possible difficulty. The next most serious problem stems from the higher yields available to the banks on alternative investments. Three-quarters of the bankers reported this problem would have some effect on their ability to satisfy farm loan volume. Many rural bankers accept lower returns from farm loans in the short run in order to satisfy customers over the longer term. As the disparity in yields continues over a long period, however, it becomes exceedingly difficult for bankers to forego the higher returns available from other alternatives. Over one-half the bankers anticipating possible difficulty also cited more rigid lending standards and declines in borrower equity as having some effect on extension of credit over the next several months.

There appears to be an increasing polarization between banks that have adequate funds and those that anticipate some difficulty in meeting agricultural loan demand. Most banks in areas where the crop harvest is good anticipate few, if any, problems. But many banks in areas where farmers have experienced large losses from livestock feeding operations or where crop yields have been reduced by weather-related problems, no doubt, will find it increasingly difficult to satisfy agricultural loan demand in the coming months.

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