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AGRICULTURAL CREDIT CONDITIONS continue to show significant easing despite evidence that strong loan demand is holding interest rates high. Well over one-half of the nearly 750 district agricultural bankers who responded to a July 1 survey indicated that farm loan demand exceeded the year-earlier level during the second quarter. In the same survey, however, 35 percent of the bankers reported year-to-year gains in fund availability, while only 14 percent indicated a reduction. This contrasts markedly with conditions one year ago when the proportion of bankers noting year-to-year declines in fund availability substantially exceeded those reporting increases, and provides the strongest evidence of improved fund availability since the April 1972 survey.

Other evidence that credit conditions in rural areas are easing is reflected in loan-to-deposit ratios. Among the surveyed banks loan-to-deposit ratios at midyear averaged 56 percent. In contrast to the normal seasonal rise, the midyear ratio was unchanged from the average reported in the April survey and 2 percentage points below the high reported one year ago. Moreover, the proportion of bankers who consider their current loan-to-deposit ratios below the desired level exceeds by nearly 2 to 1 those who view their ratios to be above the desired level—the highest margin since the April 1974 survey. These findings, however, are partially influenced by the indication that desired loan-to-deposit ratios now average about 50 basis points above the levels of a year ago.

The improved fund availability may in part reflect a transfer of some farm loans and/or farm loan customers to other lenders. A number of the bankers responding to the most recent survey commented on the assistance their farm customers obtained through the emergency loan programs of the Farmers Home Administration as well as the refinancing of loans by Federal Land Banks. Such transactions provide the banks with loan repayments and tend to temper the strong loan demand of the banks' farm customers.

Further evidence of the easing credit conditions in rural areas is suggested by the declining proportion of bankers who reported year-to-year increases in collateral requirements on non-real estate farm loans. Although the 22 percent of the bankers who indicated year-to-year increases in collateral requirements during the second quarter is still high in comparison to the 1972-73 period, it is well below the share of bankers holding such views in the latter half of 1974.

Interest rates on farm loans made by district agricultural banks held steady at historically high levels during the second quarter, despite the easing in credit conditions. The rates reported for feeder cattle loans averaged 8.76 percent, down only 8 basis points from the April 1 survey and 16 basis points above the rapidly rising level of a year ago. Rates on farm real estate mortgages averaged 8.89 percent, up 29 basis points from the year-earlier level.

New agricultural lending activity among major institutional lenders has slowed appreciably in recent months, in part reflecting a slowing in major capital expenditures by farmers. Nationwide, new loans made by Production Credit Associations (PCAs) rose only 1.5 percent above the year-earlier level during the first five months of this year. During the same period in 1974, new loans made by PCAs rose 21 percent above the year-earlier level. The year-to-year increase in new money loaned by Federal Land Banks was 15 percent during the first half of 1975, compared to a 20 percent advance during the first half of 1974.

Further evidence of a slowing in farm lending activity is suggested by a 43 percent year-to-year decline in new farm mortgage commitments acquired by major life insurance companies during the first five months of 1975. The drop in the new commitments coupled with a rise in take-downs left the amount of outstanding commitments more than one-third below the year-earlier level at the end of May.

While evidence of bank lending activity is far less available, there are strong indications that agricultural loans at larger banks are down significantly. For example, agricultural loans outstanding at large weekly reporting district banks were nearly 12 percent below the year-earlier level at the end of July. The decline, no doubt, largely reflects the curtailed inventory of cattle in feedlots. Agricultural lending by rural banks, however, continues to expand. For example, the index of total loans at district member banks heavily engaged in agricultural lending was up 12 percent from a year ago in July. The increase, however, is somewhat less than the year-to-year increases posted during the latter half of 1974.

Gary L. Benjamin
Agricultural Economist