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Federal Reserve Bank of Chicago - -

December 5, 1975

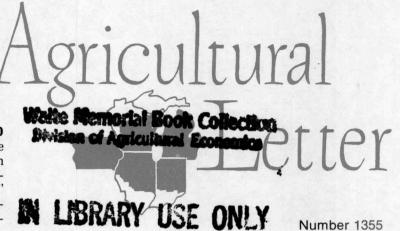
THE NATIONAL AGRICULTURAL AND RURAL AFFAIRS CONFERENCE, sponsored by the American Bankers Association, was held recently in Houston, Texas. The conference focused on "Agribanking: Perspective, Professionalism and Profits," and dealt with the monetary, political, and social implications of today's agriculture and the financial resources necessary to support it.

The more than 700 bankers in attendance were generally enthusiastic about the future of agriculture and the opportunity to continue financing this most vital industry. At the start of 1975 banks held 63 percent of all institutional non-estate farm debt -and over 20 percent of farm real estate institutional debt. Agricultural bankers tended to agree that the most dramatic change from a year ago has occurred in the livestock sector, particularly in the area of cattle feeding. Cattle feeders across the country sustained substantial losses through much of 1974 and into the early part of 1975. A year ago bankers were very concerned about cattle feeders' losses. Since mid-1975, however, a turnaround in cattle prices has put feeders in a profitable position. Furthermore, the Farmers Home Administration's emergency livestock loan program, instituted by Congress in 1974, allowed distressed livestock producers to obtain loans from commercial lenders with a 90 percent guarantee. Approximately 3,300 loans totaling over \$380 million have been made under the program.

Workshop sessions served as forums to discuss present conditions and possible future changes in agricultural banking. The financing of young men and women trying to get established in farming generated considerable discussion. Young farmers typically are in a highly leveraged position that involves a major risk for lenders. Rapid increases in land prices and sharp rises in farm machinery prices have exacerbated the situation. Several bankers suggested that young farmers could be better accommodated by providing venture capital under established banking guidelines. It was recommended that policy determinations specify the share of the loan portfolio that could be allocated to agricultural venture capital.

Participants in another workshop generally agreed that the risk factor involved in agricultural lending has increased in recent years as a result of the greater volatility in agricultural prices. To offset some of the increased risk, bankers have boosted collateral requirements and asked borrowers to make forward contracts (or hedge) at fixed prices. Another alternative proposed was to reduce the percentage of agricultural loans in the portfolio and increase the proportion of lower risk loans and securities.

Bankers acknowledged a continuing trend toward requiring more detailed information about the



agricultural enterprise being financed. This allows both the lender and the borrower a better opportunity to evaluate all aspects of the enterprise. There was some discussion about the practice of requesting audited financial statements from farm customers with large lines of credit. The practice has been used in conjunction with business and industry loans for years, and the consensus was it will become more common at rural banks in the future.

The need for periodic reviews of outstanding loans was stressed. Some banks use demand notes that come due within six or 12 months to accomplish this. The notes afford banks an opportunity to make adjustments in interest rates at the time of the review. About 10 percent of the bankers participating in one session were utilizing variable rates on agricultural loans. Typically, larger banks utilize the variable rate—usually a fixed markup to the prime rate.

Sessions dealing with asset management stressed the need for risk analysis in conjunction with security purchases, a situation spotlighted by the New York City situation. Agricultural banks, however, often purchase local municipal and political securities which are not rated and must develop their own methods of analysis. The agricultural bankers expressed a commitment to continue to purchase local issues, vital to many rural communities.

The outlook session painted a generally optimistic picture for agriculture in 1976. The livestock sector is expected to remain profitable with relatively high prices expected the first half and with some downward pressures on prices in the second half. These downward pressures may be offset by lower feed prices if the 1976 feed grain crop approaches a normal level. Lower feed prices would also benefit dairy farmers. Nevertheless, crop prices are likely to remain at levels that will return a profitable margin, although down somewhat from the high levels of 1975. There are encouraging signs that prices of farm inputs—chemicals, fertilizer, and seed—may be down in 1976.

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