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AGRICULTURAL CREDIT CONDITIONS in the Seventh Federal Reserve District continue to reflect strong farm loan demand and further improvement in the availability of funds. Fifty-five percent of the more than 650 district agricultural banks that responded to a July 1 survey indicated the demand for farm loans exceeded the year-earlier level during the second quarter. In conjunction with the rather low proportion of bankers noting declines, this proved one of the strongest indications of year-to-year strength in farm loan demand in the past decade of quarterly surveys. At the same time, however, evidence of improved fund availability was the strongest in over three years.

The strength in farm loan demand is also reflected in the agricultural lending activities of the Farm Credit System, the leading institutional lender to farmers. During the first half of this year loans made by Production Credit Associations (PCAs) were 18 percent above the same period a year ago. New money loaned by Federal Land Banks (FLBs) during the past six months was up 4 percent from the high year-earlier level, and three to four times the semiannual volume typically extended during the late sixties and early seventies. Although data on a state basis are not strictly comparable, it appears that PCA lending in district states parallels the national trend, while FLB activity substantially exceeds the overall pace.

Although fund availability has improved—presumably due largely to higher deposits—the rise in bank lending activities has edged loan-to-deposit ratios higher. Among Seventh District agricultural banks the midyear loan-to-deposit ratios averaged 57.3 percent, up about 1 percentage point from both the previous quarter and a year earlier. As is typically the case, the loan-to-deposit ratios averaged highest among agricultural banks in Michigan and Wisconsin, 64 and 63 percent, respectively. Ratios in Illinois averaged 51 percent, while those in Indiana and Iowa averaged 55 and 58 percent, respectively.

Despite higher loan-to-deposit ratios it appears that agricultural banks are still pursuing an easier credit policy, a trend that has been evident for about the past year. For the fourth consecutive quarterly survey, over two-fifths of the responding bankers indicated current loan-to-deposit ratios are below desired levels. Moreover, reports on currently desired loan-to-deposit ratios averaged 59.5 percent, up about 1 percentage point from both the previous quarter and a year ago. These indications that rural banks are leaning towards an easier credit policy no doubt reflect other factors that have improved relative to a year ago, such as the higher rate of repayment on farm loans and reduced pressures for renewals or extensions.

Despite indications of easier credit policies, rural banks have held the line on interest rates—probably because of the strong loan demand. Interest rates charged on feeder cattle loans averaged 8.78 percent at midyear, while those for operating loans and farm real estate mortgages averaged 8.88 and 8.95 percent, respectively. Over the past four quarterly surveys the average rates for these three types of farm loans have been virtually constant.

Continued strength in farm loan demand during the current quarter was the view expressed by a comparatively large proportion of the bankers that responded to the midyear survey. Particular strength was indicated for operating loans and for farm machinery loans, trends that have prevailed for the past several quarters. With the exception of bankers in Wisconsin, however, the general concensus is that the demand for dairy loans will be down. Moreover, the recent profit squeeze for cattle feeders was no doubt a major factor behind the strong indication that feeder cattle loan demand will fall below year-earlier levels during the current quarter.

Seasonal borrowing privileges would be available to a larger number of member banks if recent proposals are adopted by the Board of Governors of the Federal Reserve System. The seasonal borrowing privilege, originally implemented in April 1973, provides member banks special borrowing privileges from reserve banks. The privileges are available to member banks who regularly experience a seasonal need for funds because of wide fluctuations in loans and deposits—typically smaller banks heavily engaged in agricultural lending. Among other things the proposals would permit banks to sell a "normal" volume of fed funds while using seasonal credit. Moreover, the eligibility factor that currently requires that the seasonal need must persist for two months would be shortened to four weeks under the recent proposals. In addition, the amount of the seasonal need that currently must be met by borrowing banks would be lowered from 5 percent of deposits to 4 percent for banks with up to $100 million in deposits. For banks with more than $100 million in deposits, this requirement is graduated to 7 percent on the second $100 million in deposits and 10 percent on all deposits over $200 million.

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