Federal Reserve Bank of Chicago . . .

Agricultural Letter

October 1, 1976

Number 1398

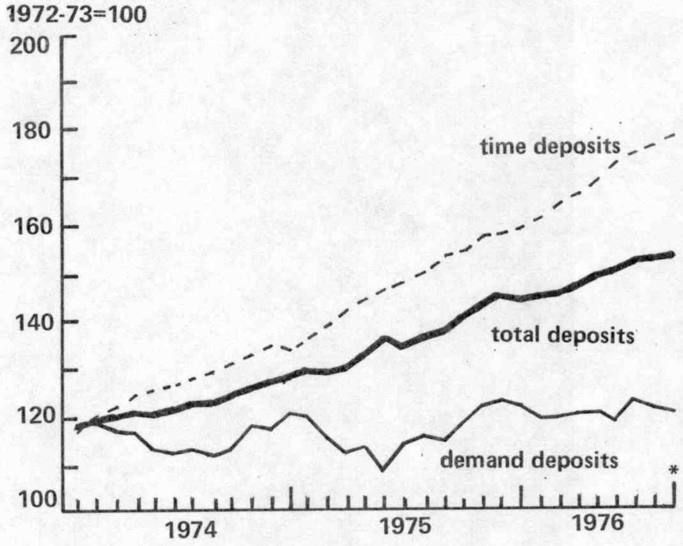
FARM LOANS outstanding at banks that are members of the Federal Reserve Bank of Chicago rose to $2.2 billion as of June 30, 1976, up 11 percent from mid-1975. Furthermore, the year-to-year increase was over twice as large as that of the prior year. In Iowa alone the year-to-year rise in farm loans experienced by member banks exceeded that of the states' two farm-lending agencies of the Farm Credit System—unusual compared to the experience of recent years.

Non-real estate farm loans held by district member banks rose to $1.75 billion as of June 30, a 12 percent rise and more than triple the rate of growth experienced by banks in the 1974/75 period. Iowa recorded the largest rise—up 27 percent—reflecting the increase in the number of cattle being fed and higher feeder cattle costs. Non-real estate farm loans actually declined slightly in Iowa in 1974/75. Illinois and Indiana banks experienced only marginal increases in non-real estate loan outstandings—1 percent and 2 percent, respectively. The near stagnant situation in Illinois is due to a few large banks in Chicago which have experienced a substantial drop in agricultural loan volume the past year. PCAs operating within Illinois and Indiana experienced a relative decline in growth rates—their outstandings still grew at a faster pace than non-real estate bank loans—whereas PCAs in Iowa recorded increases. Michigan banks experienced a 15 percent rise in non-real estate loan outstandings, while Wisconsin bank outstandings increased 7 percent.

Real estate loans secured by farmland at member banks rose 11 percent in the year ending June 30, 1976. Greater participation by banks in the farm mortgage market most likely reflects the continuing uptrend in farmland values, increased capital expenditures to improve real estate, improved liquidity positions, and less attractive rates for alternative bank investments. Iowa and Illinois member banks recorded year-to-year increases of 27 and 26 percent, respectively, in farm mortgages. In both states the rate of growth either equaled or slightly exceeded the growth of the FLBs doing business there. Indiana banks recorded a 16 percent increase in outstandings, and Wisconsin banks experienced a 3 percent rise. Michigan banks showed a rather sizable 12 percent decline in real estate loans. This decline is influenced by the year-earlier outstandings, which rose at an unusual pace relative to prior experience in Michigan and ran markedly higher than the experience of the other four district states.

FLBs and PCAs operating in district states recorded increases in outstandings of 20 and 16 percent, respectively. In contrast to banks, however, the rates of growth are off somewhat from prior periods. The 6.4 percent year-to-year increase in farm mortgages held by life insurance companies on June 30—at the national level—was down slightly from the same prior period.

The 1974/75 surge in time deposits at rural banks continues unabated



*August 1976.
Source: Monthly index of 200 Seventh District agricultural banks.

Time deposits are expanding rapidly in rural areas according to a monthly index of over 200 Seventh District member banks heavily engaged in agricultural lending. The index of demand deposits fluctuates from month to month but currently is up about 7 percent from the level of two years ago. The index of time deposits has risen 37 percent during the same period. Since time deposits are generally more stable than demand deposits, such a change in the deposit structure may lead to some changes in portfolio structures. This could be one of the reasons why rural bankers have increased their loan-to-deposit ratios in the past couple of years. The shift to more time deposits—usually slightly more costly to maintain—might also have an impact on bank earnings and/or be reflected in rates of interest charged on loans. Also, bankers may be somewhat more willing to invest in longer-term loans such as farm mortgages.

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