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AGRICULTURAL CREDIT CONDITIONS at Seventh District rural banks are characterized by strong loan demand, improvement in fund availability, stable interest rates, and increasing concerns with debt repayment capabilities of some borrowers. One-half of the 700 rural banks that responded to an October 1 survey indicated the demand for farm loans exceeded the year-earlier level during the third quarter, extending the evidence of the past several quarters that farmers are aggressively seeking borrowed funds. The proportion of bankers noting year-to-year gains in the availability of funds dropped somewhat from earlier surveys, but at 38 percent substantially exceeded those reporting declines in fund availability.

The improvement in fund availability reflects significant growth in deposits at rural banks as well as portfolio adjustments encouraged by the more competitive rates on agricultural loans. An index of total deposits at district member banks that are heavily engaged in agricultural lending was 12 percent above the year-earlier level in September, with fairly uniform gains among all district states. Fund availability has also been augmented by the stable and comparatively high interest rates on agricultural loans, while rates on such investments as Treasury bills and federal funds have averaged well below year-earlier levels for several months. As of October 1, interest rates charged on feeder cattle loans by district rural banks averaged 8.76 percent, while rates on farm real estate mortgages averaged 8.96 percent. These rates have been virtually flat for the past two years.

A rise in new lending among rural banks has substantially boosted loan-to-deposit ratios. District-wide, loan-to-deposit ratios reported on the October 1 survey averaged 59.2 percent. This represents a new high and an unusually large increase of approximately 2 percentage points from both the previous quarter and a year earlier. Loan-to-deposit ratios among banks in Iowa and Wisconsin paced the rise—up nearly 4 and 6 percentage points, respectively, from a year ago—perhaps reflecting some underlying loan repayment difficulties particularly evident in those states.

There were some indications in the most recent survey that rural banks may be experiencing some slight problems in their farm loan portfolios. District-wide for example, the proportion of the bankers that noted year-to-year declines in farm loan repayment rates exceeded those noting increases by 7 percentage points, in contrast to earlier surveys that had suggested stable-to-rising loan repayment rates. Similarly, the margin by which bankers reporting year-to-year increases in farm loan renewals and extensions exceeded those reporting declines was higher than in most recent surveys. These developments had been evident for several quarters in Iowa—presumably reflecting the substantial losses of cattle feeders because of low cattle prices. But the more recent survey found similar developments in loan repayments and renewals in the other four district states, and particularly in Wisconsin where drought-reduced crop output has been most evident.

Bankers' views of the financial characteristics of their farm customers differ between district states

	Ill.	Ind.	Iowa	Mich.	Wis.	Dist.
	("net" percent of banks)*					
Net earnings of farmers	-24	15	-45	-5	-4	-20
Number of farm customers						
-planning major capital purchases	3	23	-26	5	-19	-7
-with credit needs exceeding banks lending limit	27	14	15	5	20	18
-at their debt capacity	15	14	42	14	32	26
-with loan repayment problems	-7	-16	20	5	14	5
-likely to refinance short-term debt	-4	-1	35	14	28	18
-likely to carry operating debt into next year	17	-10	45	14	37	25

*"Net" is defined as the percent of bankers responding "higher" (than a year ago) to the indicated question minus the percent responding lower.

Evidence of varying degrees of concern with debt repayment capability was also implied by the bankers' responses to special questions on the financial characteristics of their farm loan customers. In general, the responses differed widely between district states with bankers in Indiana—where crop yields are up sharply this year—reporting good conditions, while bankers in Iowa and Wisconsin strongly indicated deteriorating conditions relative to a year ago (see Table). For example, the proportion of bankers in Iowa and Wisconsin that noted year-to-year increases in the number of farm customers with loan repayment problems substantially exceeds those reporting declines. In contrast, the "net" response of bankers in Indiana suggested fewer loan repayment problems. Similarly, the evidence in Wisconsin and Iowa suggests that banks in those states are expecting increases in both the number of farm customers who will refinance short-term debt with long-term debt and the number of customers who will carry over 1976 operating debt into next year. In contrast, the proportion of Indiana bankers expecting year-to-year declines in refinancing and loan carryovers exceeded those anticipating increases. Indiana bankers also stood apart from those in other district states in terms of the large margin by which those noting year-to-year increases in both farm earnings and anticipated capital expenditures exceeded those expecting declines.

Gary L. Benjamin
Agricultural Economist