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2-17
Credit and Financial Outlook, Benton County, Indiana

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M. R. Janssen

Farm Economics Division
Economic Research Service, USDA

Income and Expense Situation:

A large percentage of farms in Benton County are cash grain farms. Only one-fourth of the farms are livestock farms, although many farms have a few hogs, beef cows or feeder cattle. Thus, much grain produced in the county is sold and shipped to other areas. Yields and prices of crops are important in determining the level of farm income of the area.

All wheat and some soybeans are sold at harvest time. The remainder of the beans and most of the corn is either sealed after harvest or sold the next calendar year. Thus the crop of 1960 affects to a large extent farm income in 1961. Last year, both corn and soybean yields were new records for Benton County. Many farmers, however, did not have enough storage space to store all of their corn and sold the excess at harvest time for a very low price. Still, with some temporary storage, a large quantity of corn was available for sealing or for sale in 1961. The price received for corn was somewhat lower than a year earlier if it was held until 1961. The price received for soybeans varied considerably, depending on the time of sale. Because of the large yield, most producers realized excellent gross income from their soybeans.

Several small beef cow herds are found in the area. Moderately good feeder calf prices prevailed during the year, but the total effect on gross farm income is small in most instances.

Reduced business activity late in 1960 and early this year probably affected the number of hours worked off the farm by some operators. It also may have slowed any increase in the number of farmers who could secure off-farm work. However, most farmers with off-farm work have employment in service industries. These were generally not affected as seriously as manufacturing in the area.

Only 150 acres in the county are in the Soil Bank, but nearly 80 percent of farms intended to divert 28,000 acres from corn production. On June 1, certificates valued at \$111,000 were issued with total computed payments at \$600,000. In addition, a larger quantity of grain was sealed or under purchase agreements than in 1960. A total of 3,300,000 bushels of corn and 947,000 bushels of soybeans were held. This provided additional income early in the year and permitted an orderly sale of products.

The feed grain program will increase cash income in 1961. However, unless the program is continued to provide a similar pattern of payments, cash income in 1962 could be reduced. The amount of corn sealed will probably equal that of the 1960 crop.

1/ Cooperative work with the Department of Agricultural Economics, Purdue University.

Social Security has enabled some older farmers to retire - some ahead of the usual retirement age. However, the number of individuals involved has been small since the initial eligibility in 1959. The effect in some cases has been to permit part-owners to field rent the farms while the owner continues to live on the farmstead.

Debt and Credit Conditions:

Credit needs of farmers appear to be approximately the same in 1961 as in 1960. The total outstanding loans by all lenders interviewed was 2 percent smaller. However, there appears to be less dealer and merchant credit outstanding. In addition, the amount of corn sealed was much larger in the county than a year earlier. Banks held \$764,000 more of CCC loans than in 1960. The CCC loans had a higher interest rate than last year and funds were less retracted.

There seemed to be some reluctance for two correspondent banks to enter into large participating loans for cattle feeding. The local banks did not encourage these loans, but the lower interest rate of the PCA encouraged farmers to use this agency for large feeder loans. For this reason, there was some shifting of loan volume among lenders. Generally, anyone who had any credit standing and income potential could get credit. Only the operators of small inadequate farms with little net worth were unable to secure adequate funds.

Merchants selling feed, fertilizer, petroleum products and other items that cannot be financed with a conditional sales contract, established credit policies during the past 2 years with various incentives or penalties to aid collections. These have been highly successful in reducing accounts receivable, with apparently a favorable effect on sales. One dealer charges 6 percent interest after 10 days, but finds this is the same as the bank rate and therefore will charge 7 percent after January 1. Another dealer charges 1 percent per month after 30 days. Sales have generally been unaffected because some customers with large accounts may avoid making additional purchases or may buy elsewhere to avoid embarrassment.

Delinquencies and carryovers on loans are infrequent, usually resulting from a change in plans. Most borrowers who are in difficulty voluntarily liquidate assets and settle their accounts before it becomes necessary to foreclose. In many cases, lenders suggest off-farm employment to supplement farm income. The off-farm employment often becomes the primary occupation, leading to withdrawing from agriculture.

One index of financial conditions in an area is the time of payment of property taxes. This year the total taxes to be collected were higher than in 1960, but the total taxes collected on September 1 were much higher than in 1960.

There is a shift in the competitive relationship between the Federal Land Bank Association and insurance companies in lending on real estate. Insurance companies have reduced appraisals while the FLBA has in effect increased them. Thus in some instances, the FLBA has been able to lend more than other lenders. However, the number of sales of farm land has continued exceedingly low. For the past several years, from 9 to 15 farms have been sold in the county. This is less than half of the state average rate of sales.

Effects of Economic Conditions:

Farmers have been able to improve their reserves and savings during the past year. Bank deposits, particularly time deposits, have increased in the county during the past year by nearly \$700,000. Few savings bonds are purchased by farmers, so there is little effect on reserves or savings. Many farmers apparently have invested in savings and loan associations. The extent and change in this investment could not be determined. However, the total funds farmers have in such investments seem to be about the same as a year ago.

In spite of the smaller corn acreage, the spending for operating expenses was practically the same as in 1960. The total tonnage of fertilizer sold was similar in 1960 and 1961. More chemicals were applied to control weed emergence, offsetting reduced seed costs.

There seems to be no substantial change in expenditures for maintenance of buildings and major improvements. Since a large percentage of farms are operated by tenants, these expenses are not tied as closely to farm income as would be expected with predominantly owner-operated farms.

Family living and household expenses are generally limited to essentials for a moderately good living standard. Purchases of major home appliances have been limited, although they are somewhat higher than a year ago. Farm homes in the area generally have several major home appliances. that are repaired instead of being replaced.

The movement of farmers out of agriculture continues. The shortage of new jobs early in the year slowed the rate of changes from full-time farming to part-time farming or some other occupation. The improved economic activity in the area seems to be giving new emphasis to nonfarm employment of farmers. Larger machinery units continue to make it possible for larger acreages to be handled per man. The prices of the past few years have made it difficult for operators with a small acreage to achieve sufficient volume to make a good living. The units which are released when these operators are employed in other occupations are incorporated in multiple unit farms operated by tenants or part-owners.

Economic opportunities out of farming are not uniform throughout the county. The southeastern part of the county is within easy commuting distance of Lafayette. Many persons are employed in service activities, especially by Purdue University. Other parts of the county are farther from job opportunities, although some service positions are available in the nearby towns.

Variation in Financial Conditions:

Smaller grain farms have difficulty in making good incomes, because net income on grain farms is closely related to size of farm. While differences in management ability can alter income from a given farm, the variability is smaller with grain than with livestock farms. Grain farms had a high volume of production in 1960, which resulted in high total sales in 1961. The feed grain program will raise income during 1961 still further because cash income from diversion payments will be received this year instead of the cash from the sale of corn in 1962. This payment may result in higher income taxes to be paid and lower cash income in 1962 unless the program is continued.

There are few poultry farms in the county. The low incomes from broiler production has virtually ended broiler production in the county. The low turkey prices will mean that the small number of turkey producers will break even at best on the enterprise.

Beef cow herds will have moderately good returns, but is usually a complementary enterprise that utilizes unsalable feed. Hog producers have been faring well during the past year. Dairy farms have enjoyed moderately good returns if herds were of an economical size. The number of small herds continues to decline.

Cattle feeders have not fared well during the past year. With high prices of feeder calves and the low prices of fat cattle, most feedlot operations have either been unprofitable or have shown small net returns. When heavy cattle were marketed early in 1961, the few cattle feeders who followed the system had good returns.

There have been uniformly good crops throughout the county in 1960. In 1961, the crops are nearly as uniform, although soybean yields were lower than a year earlier. Corn yields are likely to be somewhat lower also. The financial condition therefore is similar throughout the area.

Outlook:

The outlook for the next 12 months in Benton County is one of confidence. Farmers are generally pleased that they have a good crop and that price expectations are satisfactory. Lenders and merchants share this confidence. Therefore, credit will be adequate for most farmers. There seems to be little likelihood that interest rates will change. All bankers indicated that unless some drastic event occurred, no change in lending policy would be made. The PCA is sensitive to changes in interest rates of the money market and thus more subject to change.

Credit will be obtainable for all farm operators with a good financial history. Some reluctance will remain when net worth statements do not show a fairly good financial position. Lenders will continue to urge these farmers to seek employment in other occupations.

Merchants expect to sell an increased volume of machinery, auto and household equipment during the coming year. They plan to continue their present credit policies and expect to extend less credit than in the past.

A measure of the optimism is to be found in the comments of individuals interviewed. Only a few minor dissatisfactions were voiced about prices, government programs, or costs of purchased items. These were usually tempered with some comment such as, "We would like to be better off, but it isn't too bad." In previous years far more and deeper dissatisfactions of this kind were expressed.

Other Areas in Indiana:

There seems to be general optimism throughout most of the state. Yields were a record high last year and hog prices have been good. Poultry producers are not faring well financially, but those who do not have excessive losses and attain good conversion rates are making moderately good wages with their contracts. Turkey producers will also have low incomes. Cattle feeders did not have good returns generally.

Banks in agricultural areas generally have higher deposits and lower rates of delinquencies than a year earlier. The FHA has reduced its loans in Benton County, but in the area served with Benton County, they are the same as a year ago.

Farm land prices continue strong, with few farms being sold. If a farm is offered for sale, it usually remains unsold for some time. Often it is taken off the market in preference to reducing the price.

The outlook for Indiana farmers is generally favorable, except for poultry farmers.