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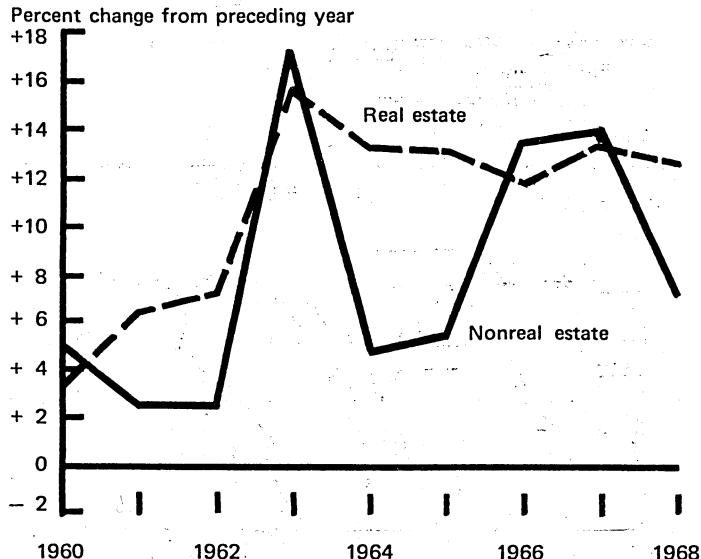
Federal Reserve Bank of Chicago -

September 6, 1968

MIDWEST FARMERS continued to increase their use of bank credit over the past year. In line with the increases of recent years, loans secured by farm real estate had advanced about 12 percent at midsummer. The increase in use of non-real-estate credit, however, was about 7 percent higher or half that of the two previous 12-month periods.

Rapid gains in farm real-estate mortgage credit outstanding were widespread throughout the Seventh District, whether the increase was counted from a year before or from the beginning of the year. In view of continued tight credit conditions, the magnitude of the increase was surprising. Interest rates on mortgage loans at country banks continued to rise during the first half of 1968. At midyear, more than three-fifths of the bankers responding to a survey of credit conditions indicated they were charging 7 percent or more on mortgage loans. That is against half charging such a rate in March and with less than one in ten as of mid-1967.

Bank Loans to Farmers Continue to Expand but at Slower Pace



In addition, the farm real-estate market has reportedly softened in recent months, apparently reflecting more stringent financing requirements and poorer prospects for farm income. In the second quarter, bankers in about half the 17 reporting areas of the district said land values had declined. This decline, the most widespread decline since the early 1960s, presumably would have tended to lessen demand for farm mortgage funds. Activities of other major institutional mortgage lenders has slowed. At the end of the first quarter, life insurance companies reported a rise of only 7 percent in outstanding farm real-estate loans, and the outstanding volume of Farmers Home Administration loans declined about 7 percent. Thus, bankers may have been extending a greater proportion of the total farm mortgage credit during the past year than they have in recent years.

The more moderate advance in nonreal-estate credit extended to farmers was also unexpected. Most of the increase in outstanding nonreal-estate loans came in the latter part of 1967. Since the beginning of the year, the volume outstanding



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increased only 1 percent. These loans were up less than 1 percent in Illinois and down nearly 2 percent in Iowa.

The acreage planted to crops in states of the district was sharply reduced this year, and sales of farm machinery have been down. But, overall, farm costs have continued to rise, partly because of higher prices. Nationally, production costs are expected to be 3 percent higher than last year. Moreover, cattle feeding activity, a major factor affecting loan demand in the Seventh District, has increased in recent months. Not only have more animals been placed on feed—about 5 percent more than in the second quarter a year ago—but prices of feeder cattle are also higher. Choice feeder steers at Kansas City have been averaging \$1 to \$2 a hundredweight higher than a year before, boosting the average cost \$10 to \$15 a head.

Production Credit Associations have apparently handled a bigger share of the nonreal-estate credit demand this year. During the first half of the year, credit outstanding at Production Credit Associations advanced nearly a fifth from the first six months of 1967. Also, because of more stringent credit requirements, many farmers may be using real estate to secure loans for production purposes, causing these loans to be reported in the real-estate category. That, too, would help explain the rapid rise in farm real-estate loans.

The outlook for farm loans for the rest of the year is closely related to crop conditions and farmers' intentions to purchase feeder cattle. High crop production generally would permit a heavy payoff of outstanding loans in cash crop areas in the fall. In the cattle feeding areas, however, a big corn crop usually indicates a heavy demand for feeder cattle and a large volume of feeder loans.

Crop prospects are generally very favorable throughout the district. But because prices are very low, there may be a greater than usual demand for funds to extend loans and store grain. Moreover, the prospective corn crop and relatively high cattle prices point to larger purchases of feeder cattle this fall. The favorable range conditions and limited supply of cattle available for feeding are likely to keep feeder-cattle prices well above those last year. Thus, overall loan demand is apt to be greater.

CREDIT CONFERENCE: The annual Illinois Bankers Agricultural Credit Conference will be held September 18 and 19 at Champaign. Additional information can be obtained by writing the Conference Supervisor, 116 Illini Hall, Champaign, Illinois 61820.

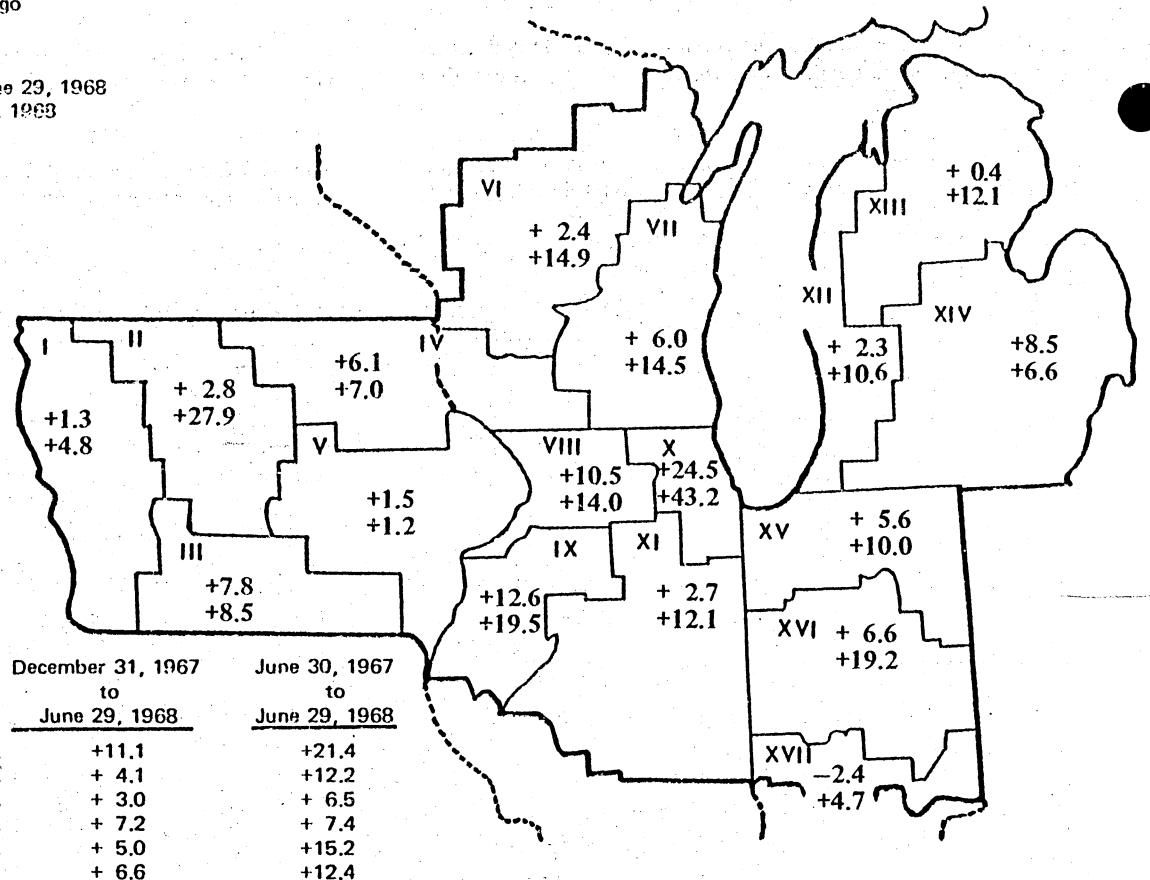
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Agricultural Economist

Farm real estate loans outstanding
District member banks outside Chicago

Percent change:

TOP: December 31, 1967 to June 29, 1968

BOTTOM: June 30, 1967 to June 29, 1968



"Short-term" farm loans outstanding
District member banks outside Chicago
(excludes real estate and CCC guaranteed loans)

Percent change:

TOP: December 31, 1967 to June 29, 1968

BOTTOM: June 30, 1967 to June 29, 1968

