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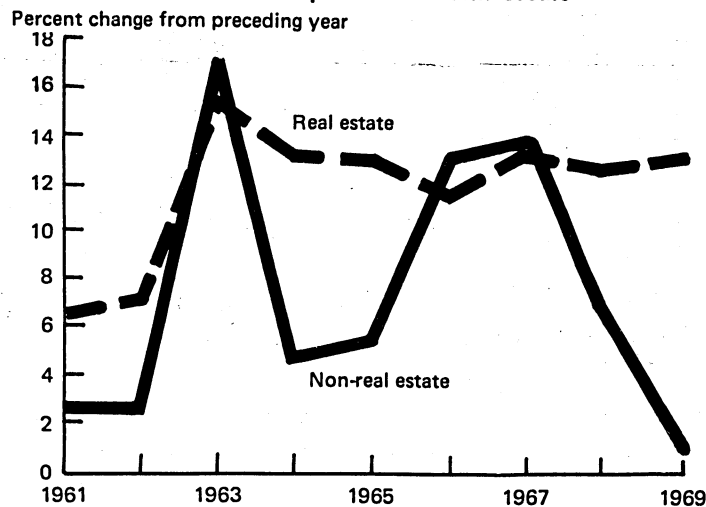
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Federal Reserve Bank of Chicago - -

September 19, 1969

**FARM CREDIT EXTENDED BY BANKS** in the Seventh Federal Reserve District continued to rise slowly during the first half of 1969. Total farm credit outstanding at member banks at midyear was up around 3 percent from the beginning of the year and about 4 percent higher than mid-1968. Most of the gain came in loans secured by farm real estate—up nearly 13 percent from last year and about in line with increases in recent years. Non-real estate loans, on the other hand, were up only about 1 percent from the year before.

**Slowing in Non-Real Estate Lending  
Moderates Expansion of Farm Credit**



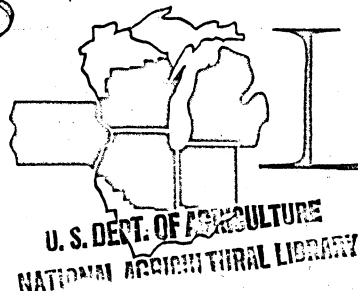
The continued rapid gain in farm real estate mortgage credit outstanding at district banks appears surprising in view of the further tightening of credit conditions. Interest rates on mortgage loans at country banks continued to rise during the first half of 1969. At midyear, more than 95 percent of the bankers responding to a survey of credit conditions indicated they were charging 7 percent or more on mortgage loans. By comparison, the 7-percent rate was charged by 80 percent of the banks at the beginning of the year and about half of the banks as of mid-1968. In addition, a number of banks report boosting their collateral requirements on real estate mortgage loans.

The magnitude of the rise in farm mortgage loans at banks is in contrast with the experience of other major institutional lenders, at least during the early part of this year. During the first quarter, the growth in farm debt secured by mortgages at other institutions slowed appreciably as the volume of new loans made declined. Although the volume of mortgage loans made nationally by the Federal Land Banks was about 5 percent higher than the year before, new lending by life insurance companies was off by about a third and new lending by the Farmers Home Administration was nearly halved. New loans made by these three types of lenders in the first quarter of 1969 were about a tenth smaller than in the previous year. Mortgage loans outstanding at the end of the first quarter were only about 5 percent above the same date a year ago.

The demand for credit to finance farmland transfers has been strong, at least in some states. Though the number of farm transfers per thousand farms was lower in each of the

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# Agricultural Letter



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Corn Belt states, they were up sharply in both Michigan and Wisconsin. Land values have also been up sharply in these states. An increasing proportion of the farms sold in recent months has been financed by the seller, but banks in both Michigan and Wisconsin show sizable increases in mortgage loans.

Part of the increase in mortgage debt held by banks reflects the purchase of participation certificates from the Farmers Home Administration. These investments are virtually riskless and carry attractive interest rates in the 8 to 8-1/2 percent range. Also, because of the more stringent credit requirements at banks, 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 small rise in non-real estate loans.

Non-real estate loans increased only moderately and numerous banks reported declines both from the beginning of the year and from the year before. Farm costs have been up sharply this year—nationally they are estimated to be running about 7 percent above last year. In an attempt to minimize these increases, farmers are no doubt holding down borrowing, wherever possible.

Farm machinery sales have been lagging behind last year's pace in the Seventh District, which would tend to moderate credit demands. Although the number of feeder cattle coming into the district has been above last year, the relatively high returns from feeding in the first half probably permitted many farmers to operate largely on a cash basis.

Production Credit Associations have apparently handled a bigger share of the non-real estate credit demand this year. During the first half of this year, credit outstanding at Production Credit Associations in the Seventh District advanced about 10 percent.

Demand for farm credit over the next several months may strengthen somewhat. Farm costs are expected to continue advancing at a rapid rate. The gain in farm incomes is, on the other hand, expected to slow, especially incomes of livestock farmers.

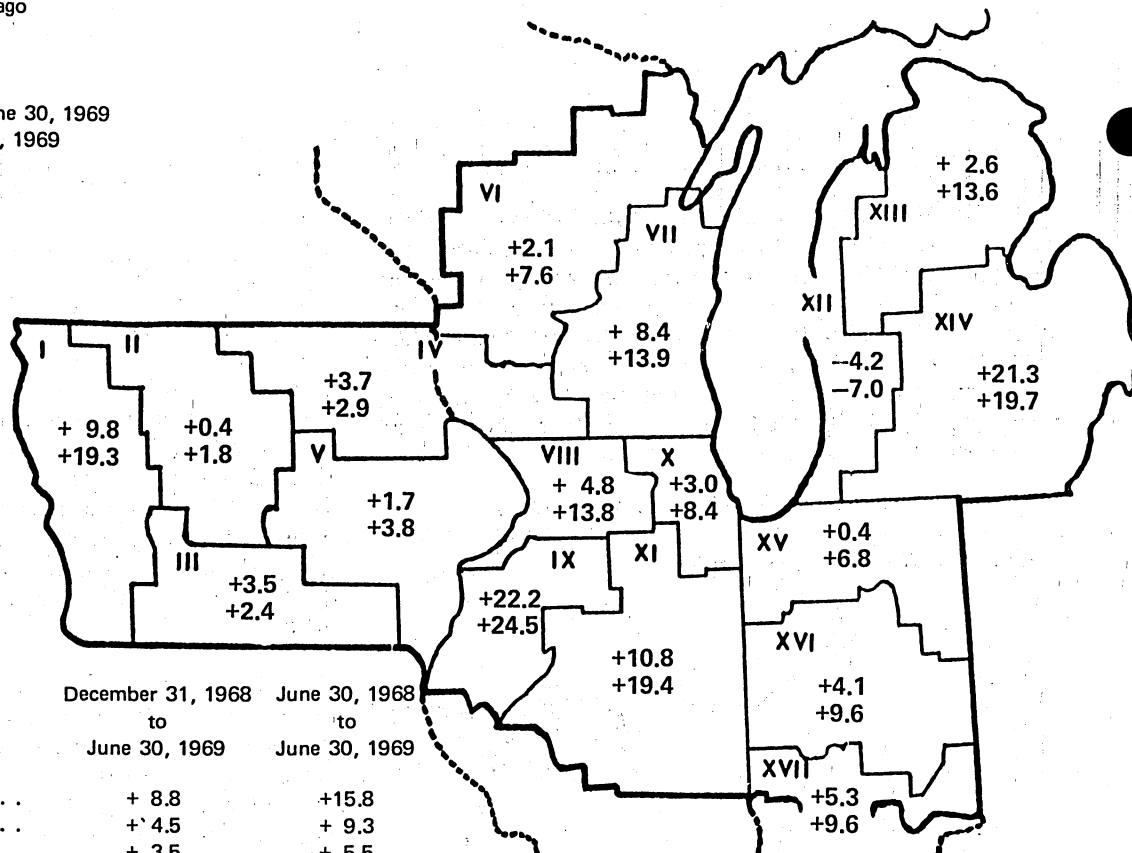
*Farm Borrowing in the Midwest, a 45-page booklet based on information from surveys conducted by the Federal Reserve System and the Farm Credit Administration is now available. Copies may be obtained without charge from the Research Department, Federal Reserve Bank of Chicago, Box 834, Chicago, Illinois, 60690.*

Roby L. Sloan  
Agricultural Economist

Farm real estate loans outstanding  
District member banks outside Chicago

Percent change:

TOP: December 31, 1968 to June 30, 1969  
BOTTOM: June 30, 1968 to June 30, 1969



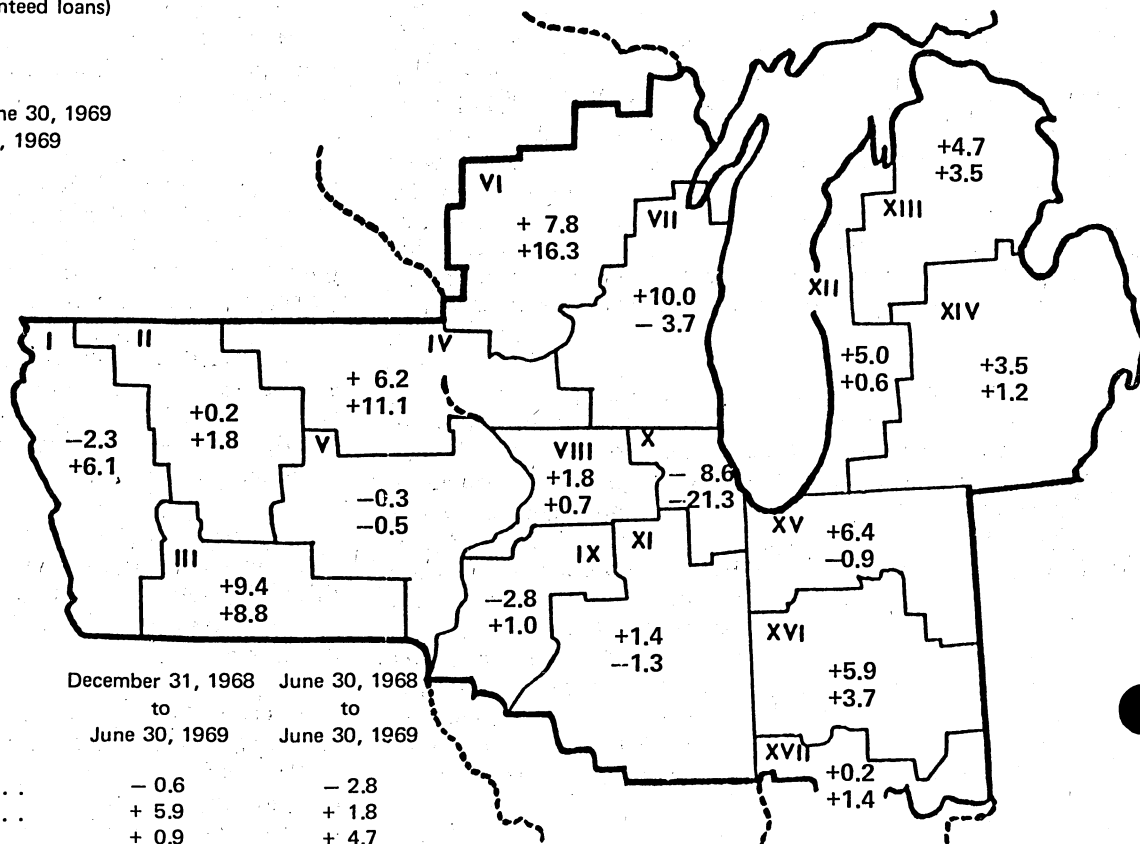
December 31, 1968 to June 30, 1969  
June 30, 1968 to June 30, 1969

Illinois	+ 8.8	+15.8
Indiana	+ 4.5	+ 9.3
Iowa	+ 3.5	+ 5.5
Michigan	+16.8	+15.8
Wisconsin	+ 6.2	+11.6
SEVENTH DISTRICT	+ 9.1	+12.6

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

Percent change:

TOP: December 31, 1968 to June 30, 1969  
BOTTOM: June 30, 1968 to June 30, 1969



December 31, 1968 to June 30, 1969  
June 30, 1968 to June 30, 1969

Illinois	- 0.6	- 2.8
Indiana	+ 5.9	+ 1.8
Iowa	+ 0.9	+ 4.7
Michigan	+ 3.8	+ 1.3
Wisconsin	+ 5.2	+ 2.5
SEVENTH DISTRICT	+ 1.7	+ 1.3