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FARM CREDIT DEMAND at banks in the Seventh Federal Reserve District continued to moderate through year-end, according to a recent survey of rural banks. About half the banks responding reported the demand for non-real estate farm loans in the fourth quarter to be about the same as in the year-earlier period, while about a fifth indicated a slackening in requests. Only about a third of the banks saw a strengthening in the demand for these loans made chiefly to cover general operating expenses and purchases of livestock and machinery.

Demand for credit to buy farm real estate was somewhat weaker than the year before. About half the bankers reported that demand had not changed, while around a third viewed the demand as weaker than in late 1968.

The apparent slackening in demand for farm credit is attributable in part to high interest rates which have caused many farmers to delay capital expenditures and curtail expenses wherever possible in order to minimize borrowing needs.

Interest rates charged by agricultural banks in the district have moved steadily upward following the legislative changes in the usury ceilings in Iowa, Illinois, and Michigan earlier in 1969. Nearly two-fifths of the bankers reported charging 8 percent or more on feeder cattle loans at the end of 1969—up from about a third of the banks charging such rates in September. In January 1969, only 5 percent of these banks were charging 8 percent. Interest rates on loans secured by farm real estate have also increased. About three-fifths of the banks are currently charging at least 8 percent. Last fall about half of the banks were charging 8 percent on real estate loans; a year ago only one in 20 banks was charging that rate.

Expenditures for most capital items were off from the previous year. Through the first ten months of 1969, tractor sales in the district states were about 10 percent under the year before. Sales of combines and hay balers (two other major machinery items) also were down sharply as were sales of most other harvesting machines.

Activity in the real estate market slowed appreciably in 1969. The number of farmland transfers continued to decline and land prices were reported softening, especially during the latter part of the year. According to an early January survey of country banks, land values showed practically no change overall in the fourth quarter and in many areas declines were reported.

Loans were up in some areas to accommodate farmers attempting to minimize their tax liabilities. Because of very high incomes in 1969, many farmers purchased additional supplies before year-end and planned to delay sales to early 1970. (Tax rates will be slightly lower this year because of the surtax expiration at midyear.)

Continued moderation in farm credit demand is anticipated by most bankers over the next few months. Only about a fourth of the bankers foresee a stronger demand for non-real estate loans in the first quarter, while nearly two-thirds expect it to be about equal to a year ago. About two-fifths of the bankers expect the demand for loans to buy or improve farmland to decline.

One factor which may increase credit needs somewhat, especially in the cash grain areas, is the elimination of the advance payments under the feed grain program. In recent years, farmers have received half their payments in the spring of the year for acreage idled under the program. In 1969, advance payments amounted to $375.5 million nationally. Such payments to farmers in the Seventh District states account for about a third of the national total.

Loan-to-Deposit Ratios Higher at Rural Banks

	Average loan-to-deposit ratio reported		
	December 1968	December 1969	Desired
		(percent)	
Illinois	49	49	52
Indiana	51	52	54
Iowa	52	54	50
Michigan	60	61	61
Wisconsin	53	56	57
Seventh District	53	55	55

Loan-to-deposit ratios have edged up and collateral requirements have been increased at many banks. About two-fifths of the banks reported loan-to-deposit ratios above those a year ago, while about a fourth indicated they had increased the amount of collateral required. Nevertheless, farmers in many areas should have little difficulty in obtaining needed credit. Many banks indicate they would like to increase their loan volume. About 28 percent of the banks reported loan-to-deposit ratios below those they would consider most desirable, while about half felt their present lending level was about right. This varies by locality, however. Around a fifth of the banks indicated their current loan-to-deposit ratios were higher than desired.

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