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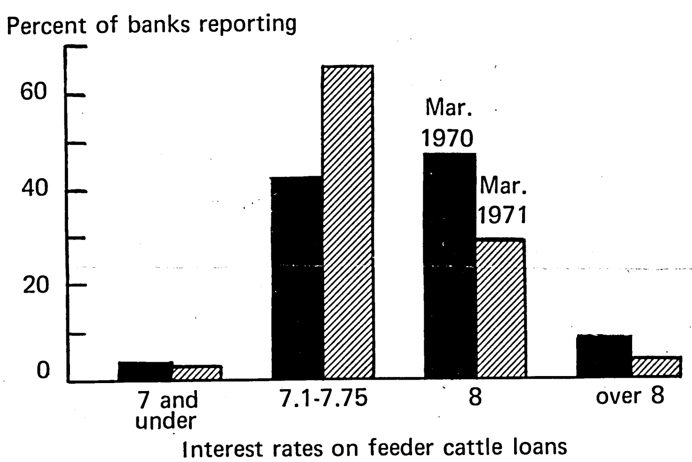
DEMAND FOR AGRICULTURAL LOANS was greater than a year ago during the first quarter of 1971, according to many Seventh District bankers. The increased demand came at a time of greater availability of funds and lower interest rates.

Almost half of the nearly 300 bankers responding to an April 1 survey reported increased demand for non-real estate farm loans during the first quarter compared to a year ago. Only about 10 percent indicated that loan demand had diminished. Part of the increased demand undoubtedly results from a decline in the rate of loan repayments and a corresponding rise in loan renewals and extensions. About one-fourth of the bankers surveyed indicated the rate of loan repayment was lagging that of a year earlier. About the same proportion indicated increased renewals and extensions. Low hog prices, lower government payments, and reduced crop yields because of last year's blight disease and drought probably have contributed most to farmers' difficulty in meeting scheduled loan repayments. New loan demand also likely resulted from the substantial increase in acreage planted to crops this year. More fuel, fertilizer, and seed will be needed because of the anticipated increase of four million acres to be planted in the five district states this season. Furthermore, loan demand probably was stepped up by the relatively dry weather in the Midwest which has allowed field work to progress well ahead of last year's schedule.

Interest Rates Lower at Many Agricultural Banks



Despite the increased loan demand, loan-deposit ratios at most reporting banks were about the same as a year ago at the end of the first quarter. This reflected greater availability of funds—about half the bankers indicated more funds were available for lending than a year ago. Rising deposits as well as declining yields on alternative investments have contributed to the greater availability of funds at agricultural banks. Deposits at agricultural banks rose 8 percent from a year ago during the first quarter of 1971. During the same period, the effective interest rate on 90-day Treasury bills averaged 3.8 percent, compared to nearly 7.3 percent a year earlier. The federal funds rate (the rate at which banks lend to each other) averaged less than 4 percent, down from about 8.5 percent the year before. While rates on farm loans declined from year-ago levels during the first quarter, the declines have been substantially smaller than the declines in rates on alternative investments such as government securities and federal funds. As a result, yields on farm loans are more attractive, comparatively, than they were a year ago. This helps explain an apparent increased desire of bankers to extend loans. Well over 40 percent of the bankers surveyed on April 1 indicated their loan-deposit ratio was below the desired level. Last year, when actual loan-deposit ratios were about the same as this year, only 25 percent of the bankers reported their loan-deposit ratio below the desired level.

Anticipated demand for farm loans during the second quarter of 1971 is mixed. Sixty percent of the bankers surveyed expect demand for general operating loans (fuel, seed, and fertilizer) to be greater than a year ago. Last year, only 25 percent anticipated increased demand for such loans. Bankers foresee much less strength in loan demand for feeder cattle and farm real estate, however. Only 13 percent of the bankers responding to the April 1 survey anticipated greater demand for feeder cattle loans during the second quarter compared to a year ago. These expectations are probably based on the decline in feeding activity already experienced. As of April 1, the numbers of cattle on feed in the five district states was more than 10 percent below a year ago.

About one-fifth of the survey respondents expect a decline in demand for farm real estate credit at their banks. This probably reflects the increased activity of other farm mortgage lenders. New money loaned by Federal Land banks through March was up nearly one-third from a year ago in the Seventh District states. Life insurance companies have apparently increased their farm mortgage lending in the district also, especially in Iowa and Illinois. About 45 percent of the bankers surveyed in these states reported life insurance companies were more active in seeking farm mortgage loans during the first quarter compared to a year ago. Although farm mortgage rates are lower than a year ago (7.5 to 8 percent at Federal Land banks, compared to 9 percent last year), rates still are more attractive than last year when compared to alternative investments. In addition, because of lower interest rate levels, lending by life insurance companies is no longer restrained by usury ceilings. Reduced policy loan demands on insurance companies have also freed more funds for lending.

On balance, farm credit will likely continue to be in ample supply in coming months. Reflecting this, nearly one-third of the bankers surveyed expect further decline in farm loan rates from March levels during the second quarter. The remainder foresee stable rates.

Dennis B. Sharpe
Agricultural Economist