Agricultural Banking Developments 1975

AMERICAN BANKERS ASSOCIATION

The Agricultural Credit Situation Survey reflects 1974 year-end data, trends and developments concerning 1974, as well as expectations about 1975. This year as the result of an enlarged mailing of the questionnaire, 1,810 responses were received. The size of the median bank responding for 1975 shifted to a smaller bank; one that is more representative of the typical agricultural bank. The regional focus of this enlarged mailing and the responses were, however, within the same proportions as past surveys.

FARM LOAN VOLUME

The banks responding to the survey held a total of $5.9 billion in agricultural loans—one-fourth of the total estimated $24.1 billion of farm debt held by all banks on December 31, 1974.

In last year's survey, 84 percent predicted that the dollar volume for 1974 operating loan requests would increase; the 1975 survey shows that 82 percent experienced operating loan increase during 1974. For 1975, 83 percent of the bankers felt that operating loan dollar volume would increase. The increase expected by regions ranges from 91 percent in the Corn Belt to 76 percent in the South.

A year ago, equipment loan requests were anticipated to increase by 75 percent, but, only 69 percent actually experienced an increase. For 1975, only 44 percent expected equipment loans to increase. And in the Plains states even fewer bankers (37 percent) expected equipment loans to increase in 1975.

About one-half of the survey respondents predicted that the 1975 bank real estate dollar loan volume would be unchanged. Thirty-eight percent of those responding to this question experienced increases in 1974, but only 21 percent expected increases in 1975.

LOAN REPAYMENT

The sharp drop in livestock prices during 1973 and 1974 was probably the biggest factor in unplanned renewals or loan repayment difficulties when bankers compared 1974 with 1973. This was the most frequently stated cause for unplanned renewals on this year's survey.

Bankers indicated that the 1974 carryover would cause available credit for new loans in 1975 to be less.

Nationwide, three out of five bankers anticipated increasing difficulties in 1975 regarding repayment ability for the typical farm borrower. The difficulty anticipated varied from a low 53 percent in the Corn Belt to 68 percent in the Plains.

DEPOSIT GROWTH

Deposit growth in this year's survey has reverted to previous patterns. While 89 percent of those banks responding indicated they experienced total deposits growth in 1974, only 62 percent reported deposit growth from farm families.

Farm deposits decreased in 20 percent of all banks reporting on a nationwide basis, and decreased in 30 percent of the Plains states banks reporting.

LOAN-DEPOSIT RATIOS

A year ago nearly one-half of the banks reported year-end 1973 loan-deposit ratios of 60 percent or higher. This year only 42 percent of the banks responded as having a 60 percent loan-deposit ratio. However, one out of three of the banks in this category had a ratio of 70 percent or higher (the differing profile of banks responding to this year's survey and last year's survey should be kept in mind when making comparisons). Table 1 shows the year-end 1974 distribution by regions.

Table 1

		Regions				
Ratio	All	North East	Corn Belt	South	Plains	West
Total	100%	100%	100%	100%	100%	100%
Under 50%	30	27	35	24	34	18
50% to 59%	28	25	29	28	30	28
60% to 69%	28	29	27	33	23	37
70% to over	14	19	9	15	13	17

SUPPLY OF FUNDS

Table 2 shows that the Corn Belt had the greatest number of banks indicating excess funds; while the West had fewer than one-out-of-five in that position.

Table 2

		Regions				
Situation	Total	North East	Corn Belt	South	Plains	West
Funds Exceeded Demand	31%	27%	37%	26%	34%	18%
Good Balance with Demand	42%	41%	46%	38%	41%	44%
Loan Demand Exceeded Funds ...	27%	32%	17%	36%	25%	38%

Sources of Additional Funds

Loans sold to correspondent banks continue to be the g source of additional funds for agricultural banks—two out of three of the banks who obtained additional funds in 1974 used this method. Bankers in the Plains and West continue, as they have in years past, to exceed the nationwide averages in their use of correspondent banks to generate additional funds for agriculture. Federal funds purchases were used by nearly one-half of those obtaining additional funds the past year. Recently, loan participations with other area banks have become more common: one out of three of those obtaining additional funds used this approach last year to provide a greater amount of funds to agricultural borrowers. While bankers in the South continue to use correspondent banks in proportion to the nationwide average for such usage, only one out six southern banks, or one-half of the nationwide average, are using area banks for participations.

LEGAL LENDING LIMITATIONS

Table 3 gives the distribution of respondents in the various lending limit categories by regions.

Table 3

Legal Lending Limits	Regions: All	North East	Corn Belt	South	Plains	West
Total	100%	100%	100%	100%	100%	100%
Under $50,000	14	20	14	8	12	5
$50,000 to $149.999 .	52	54	55	47	52	43
$150,000 and above ..	34	26	31	45	36	52

Excess Loan Applications

Seventy percent of the bankers reported accepting loan applications from borrowers which exceeded their legal loan limit during 1974. This is up from 58 percent accepting such applications in 1973. The West reported 86 percent had excess loan applications in 1974, compared to 70 percent in 1973. Banks in the South represent the low range in applications exceeding their legal loan limit in 1974, 40 percent against only 26 percent in 1973.

Use of Correspondents

To fulfill excess farm loan applications, 58 percent of those indicating they had excess loan applications said they utilized a correspondent for overline participations during 1974. The figure increases to 75 percent for the West and Plains compared to the 1974 survey results of 68 percent and 64 percent respectively.

The number of banks placing loans with city correspondent was down from a year ago, when one-half of those answering this question noted an increase in participations. This year's survey responses showed that 45 percent of those answering the question increased the number of loans placed with city correspondents. The South was on the extreme high side, with 61 percent of that region's banks noting the number increased.

INTEREST RATES

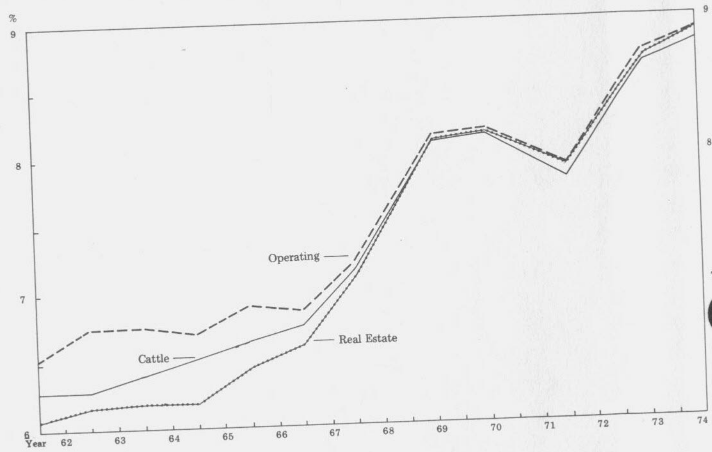
Interest rates during 1974 continued to rise, but not at the appreciable rate they had over the prior 18-month period. The average rate reported for major types of loans and the change from a year earlier, is shown by regions in Table 4.

Table 4

Types and Sizes of Loans	Regions: All	North East	Corn Belt	South	Plains	West
Real Estate						
$15,000	8.92	8.75	8.69	8.96	9.25	9.58
Change	+.22	+.21	+.31	+.27	+.27	+.32
Operating						
$10,000	8.90	8.81	8.60	8.82	9.15	9.75
(Change)	+.15	+.19	+.19	+.17	+.15	+.38
Cattle						
$10,000	8.82	8.78	8.44	8.81	9.10	9.70
(Change)	+.18	+.19	+.26	+.18	+.18	+.39

*Average farm loan interest rates.

The following graph reflects a long-term upward trend of interest rates which rose sharply during last half of the 1960s.



MERCHANT AND DEALER CREDIT

The survey this year included a question on the extent of change expected by bankers in 1975 regarding the volume of credit provided to farmers by local merchants and dealers in their communities.

Table 5

Merchants and Dealers Selling	Decrease	Remain Unchanged	Increase	Not Sure
Tractors, Machinery ..	34%	35%	25%	6%
Feed, Seed, Fertilizer	34%	21%	42%	3%
Livestock, Poultry ...	41%	35%	10%	14%
Gas, Oil	27%	22%	46%	5%
Land, (Contracts, Mortgages)	16%	39%	30%	15%

Regionally, more Plains states bankers indicated that credit extended by merchants and dealers would decrease than did bankers nationwide, except in the credit area of gas and oil where they generally agreed with the nationwide average. In the gas and oil categories, bankers in the Corn Belt and Western states showed a belief that credit from merchants and dealers would decrease more than the nationwide figures.