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# Agricultural Bankers Developments 1974



A summary of information and opinions by agricultural bankers responding to the 1974 Agricultural Credit Situations Survey conducted by the Agricultural Bankers Division of The American Bankers Association.

## FOREWORD

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## HIGHLIGHTS

The past three years have seen important changes relating to agriculture—both in the financial sector and through legislation designed to assist banks in handling agricultural credit. Greater worldwide reliance on U.S. agricultural production has been given further importance in recent years. Thus an opportunity exists for the agricultural banker to be the catalyst in developing the capacities of our food-producing nation to meet these increasing needs. Agriculture, continuing its "technical drive," enters a dynamic era unparalleled by any other time in history.

The information reflects year-end 1973 data, trends and developments concerning 1973, and expectations about 1974. A total of 1,124 banks' responses are included in the results—approximately 50 percent of those contacted that met the survey criteria. These banks held \$7.5 billion in farm loans at year-end 1973, or approximately one-third of the total farm credit extended by commercial banks. The survey this year represents a new sampling of banks selected on a random basis from all banks reporting farm loans. The selection criteria and other information concerning the survey are set forth at the end of the report.

The farmer had an excellent year in 1973, with a record realized net farm income of nearly \$26 billion. Bankers generally reflected the improved condition of farmers in their answers and comments to the survey.

One banker reflected the optimism by saying: "It is an exciting era in agriculture—net worth increases are the largest in my lifetime and the largest of most of our customers in their lifetimes." Another banker appropriately voiced the concern expressed by others and cautioned lenders to exercise careful judgement in farm credit during 1974 after the previous year's unusually high prices and profits. The cost-price squeeze continues to frustrate the farmer and his financiers. Several problem areas were indicated by bankers to be important now and in the future: fertilizer availability and high costs; fed cattle price fluctuations; skyrocketing land prices; dealer credit availability; low legal usury rates in many states; long-term credit for all farmers; and overline assistance with compatible interest rates.

Banks held farm loans totaling \$22.7 billion at the end of 1973—a 19 percent increase over 1972. Eight out of 10 banks responding to the survey experienced an increase in 1973. More banks expect further increases in general operating and equipment loans in 1974; but fewer expect increases in livestock loan volume.

- Six out of 10 banks felt 1973 was a better year than 1972 with respect to farm loan repayments. Three out of four banks expects farmers' ability to repay loans to be either unchanged or improved during 1974.
- Virtually all agricultural banks (99 percent) experienced deposit growth in 1973. Farm families' deposits kept closer pace with the total deposits growth than noted in previous surveys.
- Approximately one-half of the banks reported loan-deposit ratios above 60 percent as compared with 44 percent a year earlier.
- Four out of five banks handled their loan demand from the banks' own resources. Nearly all of those unable to do so sought outside funds.
- Nearly one-half of the banks seeking additional outside funds sold participations to correspondent banks. More than one out of four banks expect to need outside funds to handle anticipated loan demand in 1974.
- Fifty-five percent of the agricultural banks are now reporting legal lending limits of \$150,000 or above, compared to 37 percent five years earlier, and 23 percent 10 years ago.
- Interest rates have risen appreciably on all types of farm loans over the past 18 months as contrasted with a decrease in the previous 18 months. The present rates are the highest reported throughout any period surveyed back to 1962.
- Bankers overwhelmingly indicated the farmer is receiving adequate credit from all potential sources. Nine out of 10 bankers feel the current level of interest rates does not restrict farmers in their use of credit.

## FARM LOAN VOLUME

All banks, according to the U. S. Department of Agriculture, held a total of \$22.7 billion in farm loans at the end of 1973. This was a 19 percent increase over a year earlier. Non real estate farm loans held equalled \$17.3 billion, an increase of 21 percent; farm real estate loans equalled \$5.4 billion—a 13 percent increase.

A high percentage of banks, 78 percent, reported the increase in farm loan volume during the second half of 1973 as compared to the same period in 1972. Over 25 percent of these cited the increase as substantial. This increase was general for all regions and sizes of banks.

Nearly 84 percent of the banks expected further increases in general operating loans in 1974. With respect to equipment loans, this percentage was lower—approximately 75 percent; while only 60 percent anticipated increases in their livestock loan volume during 1974. In those areas where cattle is the most important source of agricultural income, the percentage expecting an increase in livestock loans showed a substantial change within the industry: in 1973, 85 percent of banks in such areas reported increased livestock loans, while only 67 percent expected a further increase in these loans in 1974.

Banks overwhelmingly (95 percent) feel farmers are receiving adequate credit from all potential sources. This was generally true in all regions and is consistent with the 1972 survey.

### *Agri-Business Loans*

Since banks do not separately report agri-business loans, they were asked to compare, to the best of their ability, the bank's volume of such loans with the amount extended directly to farmers. One-third of the bankers believed their volume of agri-business loans was about equal to the amount extended directly to farmers; one-half felt that their agri-business loan volume was less; and about one-fifth indicated the amount was greater than their farm loan volume. The only significant regional variation was in the South where a greater number of bankers reported that agri-business loans were more important.

### *Farm Real Estate Lending*

The banks were asked the most common ratio of loan to the price of the land purchased during July through December 1973. Those answering this question were categorized in the following manner: Under 60 percent ratio—34 percent; 60 to 79 percent ratio—62 percent; over 80 percent ratio—4 percent.

Nationwide, four out of five bankers stated that the ratio in 1973 was unchanged from the previous year.

Less than seven out of 10 banks answered this question. The remainder indicated either that they did not know the ratio or that their farm real estate loan volume was not large enough.

## LOAN REPAYMENT

Six out of 10 banks felt that 1973 was a better year than 1972 with respect to farm loan repayments. This result was even more pronounced in the West, where 73 percent of the banks reported a decrease in unplanned loan renewals, followed by the Corn Belt and Plains where the experience was comparable to that reported nationwide.

Fewer than 9 percent of the banks reported an increase in loan renewals in 1973. A significant variation occurred in the South where as many as 15 percent of the banks reported an increase in unplanned renewals. Nationwide, the major reasons cited for unplanned renewals were increased cost of operation and expansion; farmers holding commodities for later sale in the hopes of higher prices and for tax purposes; transportation difficulties; and overall poor management.

Nearly one-third of the bankers expect farmers to handle loan repayments with decreasing difficulty in 1974. Of the remaining two-thirds, 44 percent see no change from 1973, with the others (22 percent) foreseeing more difficulty. A somewhat greater proportion of the bankers in the South see difficulty ahead in 1974.

Banks located in the areas where cattle and corn are the major sources of agricultural income showed the greatest change in the 1974 loan repayment outlook as compared to the 1973 experience. Only 11 percent of the cattle bankers and 6 percent of the bankers in corn-producing areas indicated increased difficulties in 1973. For the 1974 repayment outlook, these percentages increased to 28 and 15 respectively. A majority of bankers in dairy regions indicated unchanged conditions for both 1973 and 1974.

## DEPOSIT GROWTH

Virtually all agricultural banks (99 percent) experienced a growth in total deposits during 1973, with three out of five reporting the increase as substantial. The deposit growth from farm families was reported by 93 percent of the banks, with one-half of these citing the increase as substantial. This upward trend in deposits of farm families was most pronounced in the West, Corn Belt, and Plains. This represents a stronger increase in the deposits of farm families relative to all deposits than when last studied in 1971. In that survey, only 65 percent of the banks reported farm family deposits up compared to 98 percent for all deposits.

## LOAN-DEPOSIT RATIOS

Nearly one-half of the banks reported year-end 1973 loan-deposit ratios of 60 percent or higher. One out of five of these had ratios of 70 percent or over. Table 1 shows the year-end 1973 distribution by regions.

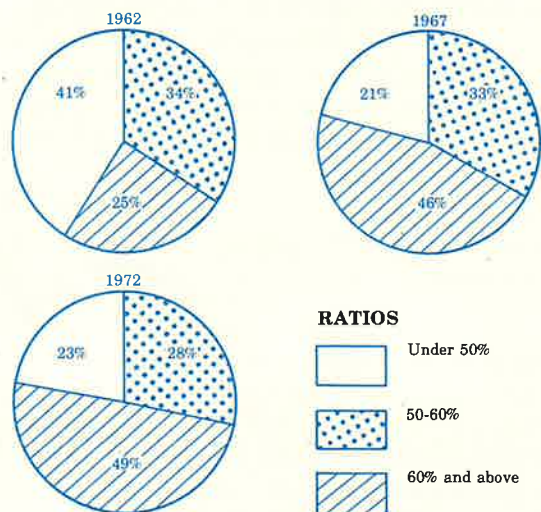
Table 1

**Distribution of Agricultural Banks  
by Loan-to-Deposit Ratio  
(Year-End 1973)**

Ratio	Regions					
	All	North East	Corn Belt	South	Plains	West
Total .....	100%	100%	100%	100%	100%	100%
Under 50% .....	25	17	32	20	30	13
50% to 59% .....	26	22	25	32	26	26
60% to 69% .....	31	35	28	30	30	38
70% and over .....	18	26	15	18	14	23

The proportion of banks reporting ratios in the higher range (above 60 percent) increased substantially between 1962 and 1967 but has remained relatively level since. An offsetting change was a decline and leveling out of the number of banks in the lower range (under 50 percent), with those banks in the middle range (50-60 percent) remaining relatively constant throughout the 10-year period.

**LOAN-TO-DEPOSIT RATIOS  
OF AGRICULTURAL BANKS FOR SELECTED YEARS**



NOTE: The above reflects mid-year figures.

In expressing loan-deposit ratio goals for 1974, two out of five banks indicated a desire to achieve still higher ratios by increasing loans. There were no significant regional variations to this view. This desire to further increase loan ratios is comparable to the views expressed by agricultural banks in the 1972 survey.

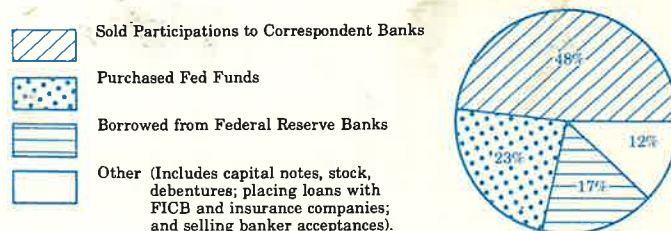
## SUPPLY OF FUNDS

Four out of five banks said they were generally able to handle their total loan demand from their own bank re-

sources during the second half of 1973. The only regional variation was in the Plains, where one-fourth of the agricultural banks found a need to obtain outside funds.

Nearly all (96 percent) of the 231 banks that had a loan demand exceeding their own resource capability sought additional outside funds with the *primary* sources shown in the following graph.

**PRIMARY SOURCES OF ADDITIONAL FUNDS**



Nearly one-half of the banks using a city correspondent for additional sources of funds were located in the Plains; 30 percent of the banks borrowing from the Federal Reserve were in the Corn Belt.

In looking ahead at the first half of 1974, 27 percent of the banks anticipate a loan demand that will require them to seek outside funds. Somewhat higher percentages were reported in the West and Plains (36 percent and 32 percent, respectively).

Those banks expecting loan demand to require them to seek outside funds during 1974 were broken out by the major source of agricultural income as follows: cattle—35 percent; corn—20 percent; and dairy—23 percent.

## LEGAL LENDING LIMITATIONS

The following table gives the distribution of banks in the various lending limit categories by regions.

Table 2  
**Distribution of Agricultural Banks  
by Legal Loan Limit  
(Year-End 1973)**

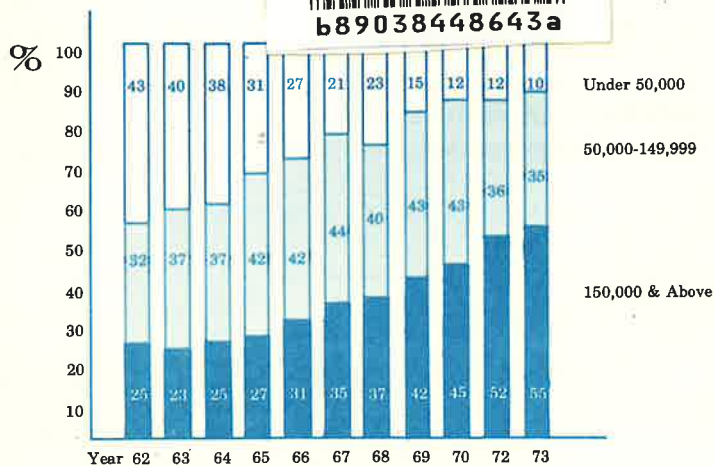
Legal Lending Limits	Regions					
	All	North East	Corn Belt	South	Plains	West
Total .....	100%	100%	100%	100%	100%	100%
Under \$50,000 .....	10	11	12	5	12	5
\$50,000 to \$149,000 .....	35	45	41	28	31	17
\$150,000 and above .....	55	44	47	67	57	78

An upward trend in legal lending limits continues, with 55 percent of the agricultural banks now reporting limits of \$150,000 or above, compared to only 37 percent five years ago and 23 percent 10 years earlier. The following graph illustrates this trend since 1962.

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NOTE: Data for 1971 is not available.

## EXCESS LOAN APPLICATIONS

Nationwide, 58 percent of the banks reported that they had received acceptable farm loan applications which exceeded their legal loan limit during 1973. By region this ranged from a low of 26 percent in the South to a high of 70 percent in the Plains and West. Four out of five of the banks with deposits under \$5 million indicated they had acceptable farm loan applications that exceeded their individual lending limit.

## USE OF CORRESPONDENTS

Fifty-three percent of the banks used a city correspondent on agricultural overlines during 1973. In the West and Plains this percentage was higher—68 percent and 64 percent respectively; in the South, only 20 percent used a correspondent.

More than seven out of 10 banks having deposits of under \$5 million found it necessary to utilize correspondents on overlines. In contrast only one out of four of the larger banks (deposits over \$50 million) found a need to do so.

In comparing 1973 with 1972 in use of correspondents' overlines, the survey showed that one-half of the banks that used a correspondent noted that the *number* of loans so handled was greater, with 7 out of 10 indicating the *volume* to be higher.

## INTEREST RATES

Interest rates have risen appreciably on all types of farm loans over the 18-month period ending year-end 1973. The average rate reported for major types of loans and the change from 18 months earlier, is shown by regions in the following table.

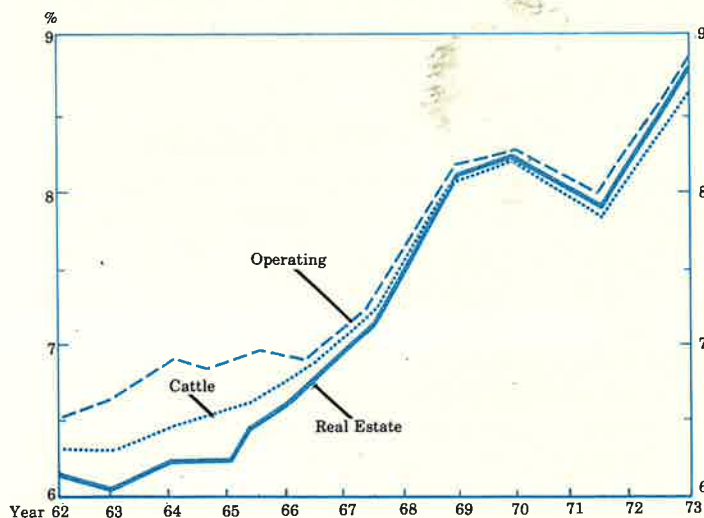
Table 3

Farm Loan Interest Rates\* Year-End 1973  
(With Changes from Mid-Year 1972)

Types and Sizes of Loans	Regions					
	All	North East	Corn Belt	South	Plains	West
<b>Real Estate</b>						
\$15,000 .....	8.70	8.54	8.38	8.69	8.98	9.26
Change .....	+ .81	+ .79	+ .62	+ .87	+ .93	+ 1.00
<b>Operating</b>						
\$10,000 .....	8.75	8.62	8.41	8.65	9.00	9.37
(Change) .....	+ .85	+ .90	+ .68	+ .82	+ .90	+ 1.07
<b>Cattle</b>						
\$10,000 .....	8.64	8.59	8.18	8.63	8.92	9.31
(Change) .....	+ .84	+ .89	+ .57	+ .81	+ .99	+ 1.20

\*The rates indicated represent the mean for each classification. The mean is the arithmetical average of all rates reported, calculated from 10 groups.

Interest rates on farm loans climbed sharply during the late sixties and since then generally have been in the 8 to 9 percent range with some softening experienced during the 71-72 period. The present rates reflect the highest levels reached during the 1962 to 1973 survey period.



The majority of responding banks (75 percent) anticipated that interest rates would remain at their present levels during the first half of 1974; the remaining banks were evenly divided as to whether rates would further increase or decline. The stronger view for some softening in 1974 was expressed by bankers throughout the West and Plains, where rates are generally higher than in other parts of the country.

Bankers agreed overwhelmingly (9 out of 10) that farmers' use of credit is not restricted by interest rates. This view was also expressed in the 1972 survey.

- 100 percent of those banks with \$5,000,000 or more in farm loan volume

## BANK-PCA LOAN PARTICIPATIONS

Fifty-two banks, or approximately 5 percent of the total, reported that, under the new authorization of the 1971 Farm Credit Act, they have participated in one or more farm loans with their local PCA. A somewhat higher proportion in the West and North East reported participation. Corn Belt banks, with only 3 percent reporting such participations, have made the least use of this new alternative source of funds.

In the 1972 survey, shortly after this new authority had been announced but before the service was actually available, banks were evenly divided as to their intentions for using this new source of funds. Nationwide, one-third said they would make use of this new participation program; one-third stated they definitely would not; and the remaining one-third had no opinion at that time. Banks in the Corn Belt and Plains regions indicated the least interest at that time.

## SURVEY BACKGROUND

This survey report provides insight about the agricultural lending activities of banks through presentation of the results of a nationwide survey conducted since 1962.

### SURVEY CRITERIA

The banks included in the 1974 Agricultural Credit Situation Survey were selected from a group which met the following criteria:

- Banks with under \$10 million in deposits having 10 percent or more of their deposits outstanding as farm loans.
- Banks with \$10-50 million in deposits having 5 percent or more of their deposits outstanding as farm loans.
- Banks with \$50 million or more in deposits having 1 percent or more of their deposits in farm loans.

### SAMPLING RATIO

The survey was a random sampling of the banks meeting the above criteria based on FDIC data for year-end 1972. The percentage of banks included in the sample was as follows:

- 10 percent of those banks with under \$500,000 in farm loan volume
- 25 percent of those banks with \$500,000 to \$5,000,000 in farm loan volume

## SURVEY CATEGORIES

The information was categorized by regions, deposits totals, and major source of agricultural income.

The regions were categorized as follows:

**NORTH EAST** The North East and Lake States areas where dairying is important. (Maine, New Hampshire, Massachusetts, Vermont, Connecticut, Rhode Island, New York, New Jersey, Pennsylvania, Maryland & D.C., Delaware, Michigan, Wisconsin, and Minnesota)

**CORN BELT** The five Corn Belt states where corn and other row crops, along with hogs and cattle, are predominant. (Ohio, Indiana, Illinois, Iowa, and Missouri)

**SOUTH** A 12-state area stretching from the South Atlantic Coast on the east to and including the Mississippi Delta on the west—a section experiencing considerable transition in agricultural production, with less dependency on traditional crops such as cotton and tobacco and with increased emphasis on corn, soybeans, cattle, and poultry. (Virginia, West Virginia, Kentucky, South Carolina, North Carolina, Tennessee, Georgia, Alabama, Arkansas, Louisiana, and Florida)

**PLAINS** A combination of the northern and southern plains resulting in a six-state belt stretching through the middle of the country running from the Canadian border on the north to the Mexican border on the south—a section of the country where agriculture is by far the most important industry and where a large proportion of production involves wheat and cattle. (North Dakota, South Dakota, Nebraska, Kansas, Oklahoma, and Texas)

**WEST** A vast land area consisting of the Mountain States on the east with its range livestock and irrigated crop production to the highly intensified and diversified crop production along the Pacific Coast. (Montana, Idaho, Wyoming, Colorado, Utah, New Mexico, Arizona, Washington, Oregon, Nevada, California, Hawaii, and Alaska)

**PROFILE OF RESPONDING BANKS  
BY REGIONS (MEDIAN BANK)**

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	Regions					
	All	North East	Corn Belt	South	Plains	West
(Total Respondents)	(1124)	(201)	(338)	(132)	(343)	(110)
<b>General</b> (000 omitted)						
Total Deposits	\$15,041	\$13,534	\$13,753	\$17,789	\$14,300	\$22,616
<b>Farm Loans</b> (000 omitted)						
Real Estate	353	595	363	995	167	190
All Other	2024	1282	1805	1109	3587	5160
<b>TOTAL FARM LOANS</b>	2874	2131	2349	2410	4053	5603
<b>Ratios</b>						
Total Time & Savings/Total Deposits	58.8%	68.2%	60.4%	55.2%	53.3%	57.4%
Total Farm Loans/Total Deposits	19.2%	15.2%	19.5%	12.2%	27.3%	18.6%

**SPECIAL NOTE**

The Agricultural Bankers Division wishes to emphasize that this report gives the results of a survey. It is not intended as a substitute for individual analysis by each bank of its own practice, costs, charges, and policies. As for these, each bank, exercising independent judgement should make its own determinations. The Division, how-

ever, does feel that individual banks will find this information helpful in evaluating important relationship factors influencing agricultural banks.

The Agricultural Bankers Division wishes to express a special thanks to the bankers participating in this survey and the Surveys and Statistics Division of The American Bankers Association's Research and Planning Group for helping to make the study and report possible.