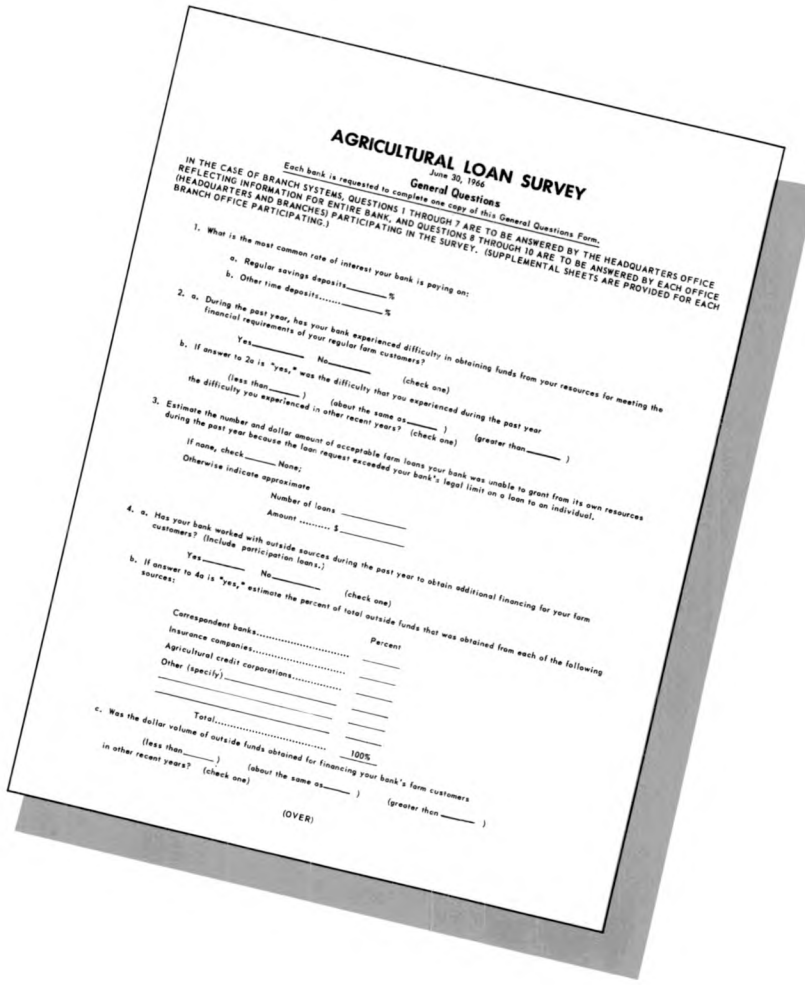


AGRICULTURAL LOAN SURVEY

June 30, 1966

General Questions

Each bank is requested to complete one copy of this General Questions Form.

IN THE CASE OF BRANCH SYSTEMS, QUESTIONS 1 THROUGH 7 ARE TO BE ANSWERED BY THE HEADQUARTERS OFFICE REFLECTING INFORMATION FOR ENTIRE BANK, AND QUESTIONS 8 THROUGH 10 ARE TO BE ANSWERED BY EACH OFFICE (HEADQUARTERS AND BRANCHES) PARTICIPATING IN THE SURVEY. (SUPPLEMENTAL SHEETS ARE PROVIDED FOR EACH BRANCH OFFICE PARTICIPATING.)

1. What is the most common rate of interest your bank is paying on:
   a. Regular savings deposits_____%
   b. Other time deposits_____%
2. a. During the past year, has your bank experienced difficulty in obtaining funds from your resources for meeting the financial requirements of your regular farm customers?
   Yes_____ No_____ (check one)
   b. If answer to 2a is "yes," was the difficulty that you experienced during the past year the difficulty you experienced in other recent years? (check one) (less than_____) (about the same as_____) (greater than_____)
3. Estimate the number and dollar amount of acceptable farm loans your bank was unable to grant from its own resources during the past year because the loan request exceeded your bank's legal limit on a loan to an individual.
   If none, check_____ None;
   Otherwise indicate approximate
   Number of loans _____
   Amount ..... $_____
4. a. Has your bank worked with outside sources during the past year to obtain additional financing for your farm customers? (Include participation loans.)
   Yes_____ No_____ (check one)
   b. If answer to 4a is "yes," estimate the percent of total outside funds that was obtained from each of the following sources:

	Percent
Correspondent banks.....	_____
Insurance companies.....	_____
Agricultural credit corporations.....	_____
Other (specify)_____	_____
_____	_____
_____	_____
Total.....	100%

   c. Was the dollar volume of outside funds obtained for financing your bank's farm customers in other recent years? (check one) (less than_____) (about the same as_____) (greater than_____)

(OVER)

The Southern Agricultural Bank

The credit needs of the southern farm producer are varied. Farmers operating small, general farms may borrow only a few hundred dollars annually to finance next year's crop. Some producers with large vegetable farms require funds exceeding $1,000 per acre just to produce winter vegetables with a three-month growing season. Livestock producers may borrow several thousand dollars for three months to a year to purchase feeder cattle. Other farmers need long-term financing, ten to twenty years or more, to buy farm lands. Nearly all farm operators request intermediate-term credit periodically for farm improvements for the purchasing of equipment and/or livestock.

To meet farm credit needs, financial institutions must be familiar with the financial requirements of agriculture and sufficiently flexible to meet the varied and sometimes volatile demands of farmers. While many different types of institutions to serve particular sectors of the farm lending market have developed over the years, commercial banks are still best suited to meet the total credit needs of farm borrowers.

On June 30, 1966, 84 percent of the 1,521 insured commercial banks in the Sixth Federal Re-

Monthly Review, Vol. LII, No. 3. Free subscription and additional copies available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

serve District reported having outstanding farm loans. They held 319,000 farm loans totaling $792 million, making them the largest class of holder of the region's farm debt.

From time to time questions arise concerning bank lending to farmers. Is agriculture still served by local banks? Are country banks satisfying farmers' demands for larger loans, as production expenses and farm consolidation continue to grow? Are legal lending limits imposed by various state and Federal regulatory agencies restricting bankers' financing of agricultural production? Are bankers working with outside credit sources, such as correspondent banks, insurance companies, farm credit agencies, or other financial institutions, to better serve farm borrowers? And are bankers generally using loanable funds efficiently?

To answer these and other questions, the Federal Reserve System initiated a comprehensive nationwide survey of farm loans and bank lending practices in 1966. The survey, similar to studies conducted in 1947 and 1956, was designed to give an accurate picture of the characteristics of farm borrowers and banks with agricultural loans in the Sixth District and the United States.

In a statistical sampling, 11 percent of the region's banks holding $224 million, or 30 percent, of the farm loans were asked to participate in the study. They supplied data concerning individual borrower, loan, and bank characteristics for a proportion of their farm loans outstanding June 30, 1966. Their figures were then expanded to reflect the total volume of farm loans reported in the June 30, 1966, Report of Condition.

Service Area

Generally, the farm loan survey revealed that the local country bank still plays the lead role in serving the financial needs of southern agriculture. In all states except Florida and Mississippi, the average borrower lived less than 15 miles from the bank that held his loans. In Florida and Mississippi, farmers lived an average of 28 and 33 miles, respectively, from their banks.

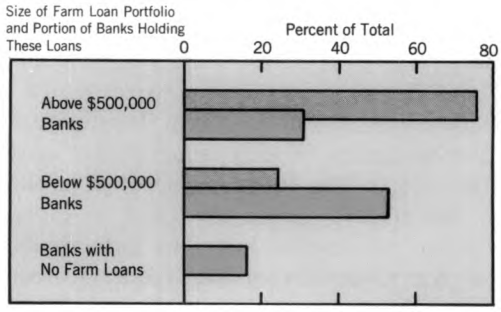
The larger average service area for banks in these two states reflects different trends. In Mississippi, the ratio of banks to land area is lower than in other Gulf Coast states. However, because of a large number of relatively small farms, the average bank services a larger geographical area containing many farm borrowers. In Florida, however, the ratio of banks to farmers is higher than in any other southeastern state. But with the large and specialized credit needs associated with citrus, vegetables, and sugarcane production, many farmers have found it necessary to bank at larger banks often located in urban areas. In other District states the distance between the borrower and the lending bank increases with the amount of the farm loan.

Loan Demand

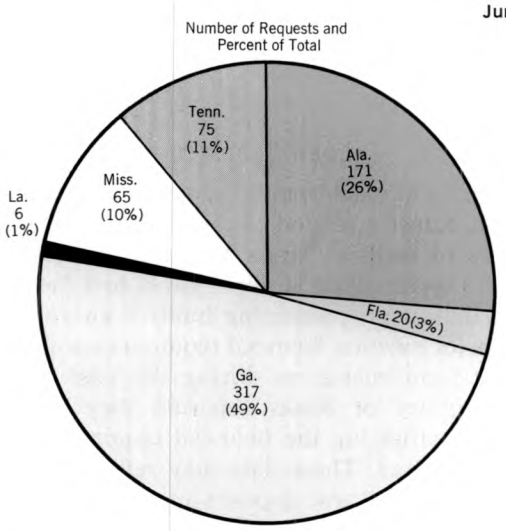
The ability of local country banks to finance farm loans is directly related to the tendency of some farmers to bank at larger financial institutions. Bankers were asked if their bank had "experienced difficulty in obtaining funds from your resources for meeting financial requirements of your regular farm customers during the past year?" The majority of banks reported they had no difficulty satisfying the financial requirements of farm borrowers. These data may reflect the general growth in bank deposits of country banks. And since farm loans represent only a part of a bank's total loan portfolio, bankers in smaller communities have some flexibility in filling loan demands from different sectors of the local economy.

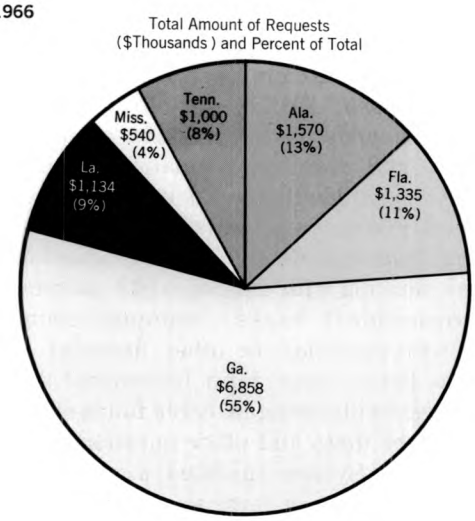
However, an estimated 85 bankers, or nearly 7 percent of the District's banks with farm loans, did experience some difficulty in fulfilling the financial requirements of farm borrowers. Usually, these banks were relatively small, with $200,000-$1,000,000 of farm loans outstanding. As a group, they were actively competing for time deposits—a major source of loanable funds—since seven out of every eight banks were paying 4 percent for passbook savings and 77 percent were paying 4.5 percent or more for other time deposits. These rates were equal to or above rates paid at that time for similar deposits at most other District banks. Furthermore, nearly 58 percent of the 85

Agricultural Loans at Insured Commercial Banks
Sixth District
June 30, 1966



Loan Requests Exceeding Legal Lending Limits
Insured Commercial Banks
Sixth District
June 1965—June 1966





The volume of farm loan requests exceeding legal lending limits are larger, relative to the number of such requests, in Florida, Georgia, and Louisiana. This reflects, in part, the demand for very large individual loans from producers in specialized growing regions in Florida and southern Louisiana.

banks were actively working with outside credit sources, such as correspondent banks, insurance companies, farm credit corporations, and other lending institutions, to obtain additional funds. Many had relatively high loan-to-deposit ratios of 60 percent or more, indicating aggressive lending policies.

Requirements

Legal lending requirements imposed by Federal and state regulatory agencies may also influence the ability of banks to fulfill the credit needs of farm borrowers. When asked to "estimate the number and dollar amount of acceptable farm loans your bank was unable to grant from its own resources because the loan request exceeded your bank's legal limit . . .," District bankers reported that about 650 individual requests totaling $12.4 million exceeded the lending limit. This volume of potential farm loans was less than 2 percent of total farm loans outstanding in mid-1966.

Generally, the intermediate-size banks with $200,000-$1,000,000 in farm loans had the highest frequency of loan requests that exceeded lending limits. The lower the level of capitalization, the criteria commonly used to determine maximum permissible loans to individuals, the higher the proportion of loan requests exceeding the legal limit.

There was one notable exception to this general pattern, however. Banks with very low levels of capitalization and only a few farm loans reported no problems with loan requests exceeding legal lending limits. Many of them are so small that they accept only modest loan requests. Thus, farmers with large credit needs may not even apply for loans at these small banks although they live in their general service area.

The relatively low volume of farm loan requests going beyond legal lending limits probably reflects the large number of small family farms in the South. In most cases, the loan requests from these units are modest. The average farm loan at District banks totaled $2,840, and the average borrowing per customer was $3,806 on July 30, 1965. However, large units in Florida's citrus, vegetable, and sugarcane areas, the Delta cotton region, and Louisiana's cane and rice areas borrowed more money for production expenses to purchase equipment and livestock, and in some cases to purchase additional land. Country banks in these regions reported the high frequency of large individual loan requests.

The fact that a loan request exceeds a bank's legal lending limit does not mean that the farmer's financial needs cannot be satisfied by that bank. Bankers who served borrowers with approximately 500 large loan requests worked with other financial institutions to obtain additional

financing, primarily participation loans with other banks. By asking other banks to share in the loan, the initiating bank can fill the credit needs of its farm customers, even though it holds only a fraction of the total loan. Moreover, many of the large loan requests were satisfied when the banker helped place large real estate loans with insurance companies and Federal land bank associations. Some non-real estate loans were also referred to institutions, such as the production credit associations and the Farmers Home Administration.

Not all bankers with loan requests in excess of legal lending limits obtained outside financing for their customers, however. Bankers serving farmers with about one-fifth of the loans exceeding the limit set by banking laws made no attempt to secure outside funds. Their customers presumably had to seek additional financing at other banks or financial institutions or be satisfied with smaller loans available at banks where they made requests.

Correspondent Banking

The practice of participating with a correspondent bank in large individual farm loans is one way a local banker can continue to serve his farm customers. However, the farm loan survey indicates that only 169 of the District's bankers had obtained additional financing from correspondent banks in the last year, and only one-half of them actually had participation loans outstanding on June 30, 1966. These banks had initiated and held portions of over 600 individual participation loans totaling nearly $30 million, or an average of $49,000 per loan—yet only a fraction of one percent of all outstanding farm loans and less than 4 percent of the value of all loans.

Besides granting large loan requests through one's own bank, participation loans also enable banks to share risks associated with relatively large loans, to meet growing loan demands with a limited supply of loanable funds, and to serve the financial needs of farm borrowers. Therefore, one might expect that small rural banks with relatively low legal lending limits and small farm loan portfolios would be the major users of participation loans. This is not the case, however. Only 90, or 15 percent, of the individual participation loans outstanding at District banks were initiated by the 761 District banks with less than $500,000 in farm loans. Less than one in eight of the smaller banks with farm loans granted this type of loan to farm customers. The average participation loan at these institutions was $100,000.

Meanwhile, larger banks with total farm loan portfolios exceeding $1 million originated 205 farm participation loans equal to 38 percent of the total value of participation loans originated by reporting banks. Since 188 of the District's

Participations Originated by Reporting Banks

Sixth District

June 30, 1966

	Number of Banks With Farm Loans	Number of Participation Loans Originated by Reporting Banks	Amount Held by Reporting Banks	Amount Held by Correspondent Banks	Average Value Per Participation Loan
			($000)	($000)	Actual Dollars
Volume of Farm Loans Outstanding at District Banks					
More than $1,000,000	188	205	5,817	5,644	55,907
$500,000-$1,000,000	332	316	2,488	6,796	29,380
Less than $500,000	761	90	4,491	4,757	102,756
Distribution of Farm Loans					
Alabama	254	*	*	*	*
Florida	275	394	8,312	10,029	46,551
Georgia	359	101	3,445	4,206	75,752
Louisiana**	113	*	*	*	*
Mississippi**	84	63	862	1,372	35,460
Tennessee**	196	50	150	1,350	30,000
Sixth District Total***	1,281	611	12,796	17,197	49,087

*Figures withheld to prevent disclosure of individual bank data.
**District portion of the state only.
***The same total applies to distribution of farm loans by state and the volume of farm loans.

banks making farm loans are this large, the frequency of participation loans per bank or the general use of this practice is much more common than for smaller banks.

The survey data also indicate considerable variation in the use of participation loans among states. Florida bankers held nearly two-thirds of the District's outstanding participation loans. Of the total volume of farm loans in Florida, 13 percent were participation loans initiated by reporting banks, indicating the common acceptance of this type of bank financing. It may also mirror the attempts of some banks to dissipate the risks associated with volatile farm incomes in the fruit and vegetable producing regions. The average sizes of original participation loans in Georgia and Florida were $76,000 and $46,000, respectively.

Alternative Sources of Funds

Sixteen of the 169 District banks that negotiated multi-bank participations also worked with other nonbank financial institutions to assist farm customers in securing operating and/or capital funds. Eleven of these banks helped farmers get real estate loans through insurance companies, while five worked with insurance companies, as well as agricultural credit corporations and correspondent banks. In addition, 60 bankers reported no participation with correspondent banks, but they did encourage borrowers to get loans from agricultural credit corporations. Similarly, 22 bankers placed loans with insurance companies exclusively, while 14 bankers helped farmers secure funds from other sources, including individuals with money to lend. A total of 280, or 18 percent, of the District's 1,521 bankers attempted to supplement financing for farm borrowers.

At first glance, it may be difficult to understand why a banker would refer farm customers to a competitive lending institution. Part of the answer may lie in the fact that bankers seek deposits, as well as loan accounts. The banker who fails to assist a customer in finding additional financing may lose the borrower's future loan business, as well as one or more deposit accounts.

Compensating Balances

The practice of requiring compensating balances, commonly demanded for business and industrial loans, is used infrequently for farm loans. On June 30, 1966, less than one percent of all farm borrowers were required to maintain such a balance.

Compensating balances were required most frequently for large loans. Over 11 percent of all borrowers with loans for $50,000 or more maintained offsetting balances, compared with less than one percent for loans of $10,000 or less. Also, bankers demanded balances most frequently when farmers used the funds to purchase feeder livestock, equipment, or to refinance an old note. The average balance required was 14 percent of the original loan.

Historically, farmers have low bank balances in their demand accounts. For traditional agriculture, most production expenses come in the spring, with major income flows occurring in the fall. Thus, the irregular flows of incomes and expenses are not as adaptable to the practice of requiring compensating balances as businesses or industries with continuous flows of incomes and expenditures.

Alternative Sources of Funds
Insured Commercial Banks
Sixth District

Source	Number of Banks
Correspondent banks only	153
Correspondent banks and insurance companies	11
Correspondent banks, insurance companies, and agricultural credit corporations	5
Insurance companies only	22
Insurance companies and agricultural credit corporations	15
Agricultural credit corporations only	60
Other sources	14
TOTAL	280

Implications

In the seventeen years since 1950, commercial banks in the six District states increased the volume of loans secured by farm real estate nearly five times; the volume of non-real estate farm loans, over two and one-half times; and total deposits, nearly three times. Insurance companies indicate that the farm mortgage loans they hold are up nearly seven-fold, while similar loan volume at Federal land bank associations are up over five times. Production credit associations, banks' major competition for production and intermediate-term loans in the Southeast, report that their loan volume is nearly nine times larger than in 1950.

Thus, since 1950, expansion in the volume of farm loans at banks in District states has only slightly exceeded the growth in deposits, while loans of competitive institutions have expanded relatively faster. Furthermore, these nonbank institutions tend to be making the largest loans.

In the future, banks with rapid deposit growth

may be able to expand farm loan volumes as quickly as needed. Also, some country banks may even experience declining farm credit demands because of reduced farming activities in their service areas. However, the bulk of the country banks in the Southeast most certainly will experience an increase in the number of large individual loan requests, as well as an expansion in total farm loan demand. Some bankers will not respond to the challenge.

The degree with which other banks maintain their role as the major supplier of farm credit depends in part upon their efficiency in allocating available funds to farm borrowers. The use of multi-bank participation loans could move capital from deficient demand areas into excess demand areas. These agreements could also result in the flow of funds between two areas with different growing seasons, thereby making more funds available for both producing regions. In any event, the success individual bankers have in meeting future loan demands of their farm customers may influence the future of their institutions, as well as agricultural producers, the banking industry, and the growth patterns of other institutions lending to farmers.

ROBERT E. SWEENEY

This is the first in a series of articles on the 1966 farm loan survey.

The Per Jacobsson
Foundation Lectures

Foundation lectures on "The Role of the Central Banker Today" were delivered in Rome on November 9, 1966, by Mr. Louis Rasminsky, Governor of the Bank of Canada; Mr. Marcus Wallenberg, Stockholms Enskilda Bank; and Dr. Franz Aschinger, Neue Zücher Zeitung.

The proceedings will be published, as heretofore, in English, Spanish, and French for free distribution.

Requests for copies (indicating the language desired) should be addressed to:

THE PER JACOBSSON FOUNDATION
International Monetary Fund Building
Washington, D. C. 20431 U.S.A.

Bank Announcements

On February 1, three nonmember banks—**The Perkins State Bank,** Williston, Florida; **The Citizens Bank** and **The Columbia Bank,** Columbia, Mississippi—began to remit at par for checks drawn on them when received from the Federal Reserve Bank.

The Bank of South Pinellas, St. Petersburg, Florida, a newly organized nonmember bank, opened on February 20 and began to remit at par. George H. Bangert, Jr., is president, and Jack E. Baker, cashier. Capital totals $200,000; surplus and other capital funds, $150,000.

Another new nonmember bank, **The Bank of West Florida, Ensley,** Pensacola, Florida, opened on February 24 and began to remit at par. Officers include F. M. Turner, Jr., president; E. Allen Brown, vice president; and D. R. Mair, vice president and cashier. Capital is $350,000; surplus and other capital funds, $175,000.