A Fifth District Review of . . .

FARM FINANCIAL AND CREDIT CONDITIONS

This analysis, prepared in December 1969 at the request of USDA's Agricultural Finance Branch, is based on a sample survey of Fifth District bank agricultural specialists and on data from the U. S. Department of Agriculture, the Farm Credit Administration, and the Federal Deposit Insurance Corporation.

Latest information compiled from official sources, coupled with a sample survey of bankers' opinions, combine to tell the story of the financial and credit conditions of Fifth District farmers in 1969. Briefly, it reads like this. Gross farm income recorded a healthy gain over 1968's reduced level. Off-farm income also rose. Farm and family living costs were high and rising. Spending for family living items and farm inputs increased, but purchases of machinery and equipment were generally smaller. Farmland values continued to advance but showed signs of slowing down. Farmers' demand for credit was up, but loan funds were tighter and more costly. Bankers screened farm loan applications more carefully. Generally, their farm loan repayment experience was better.

Farm Income and Costs District farmers' income situation improved materially in 1969. A year earlier, cash receipts from marketings were the smallest since 1965, and realized net farm income was at its lowest level since 1959. Cash receipts from farm marketings in 1969 showed a healthy increase over 1968, probably surpassing the record level attained in 1967. Direct Government payments from the various farm programs may have been up slightly. With these indications, a substantial boost in realized gross farm income seems assured. No doubt there was some gain in realized net farm income, but the sharp rise in farm production expenses limited its advance. Earnings from off-farm employment continued to increase, adding further to farmers' improved income position in 1969.

Bankers' views concerning farm income in 1969 compared with that in 1968 were generally on the plus side. Expectations for an increase in gross income from farming were voiced by 80% of the reporting bankers. One-fourth looked for a considerable increase, while 55% felt the upturn would be slight. Of the remaining 20%, half expected little change and half anticipated a slight decline.

Our opinion is generally in line with the expressed belief of those bankers who felt that gross cash receipts from farming in 1969 advanced substantially. True, 1969 cash income from farming doubtless was lower than a year ago on some types of farms and in some entire localities. Farmers producing cotton and truck crops and those in Virginia's James River Basin, which suffered the disaster of Hurricane Camille, are cases in point. Gains elsewhere and on other types of farms give every indication of more than offsetting these declines, however.

Livestock production and prices, in the District as in the nation, provided the basis for a high and improved level of income from livestock and livestock products in 1969. Market supplies of cattle and calves, hogs, and milk were roughly the same as in 1968. Supplies of poultry and poultry products were larger, however: eggs, 4%; broilers, 11%; and turkeys, some 14%. Livestock prices were up sharply from year-earlier levels in all District states, with average increases ranging from 7% in Maryland to 12% in North Carolina. Farmers' January-November cash receipts from sales of livestock and livestock products were 11% above those in 1968. Gains were recorded by all states and ranged from 7% in West Virginia to 15% in North Carolina. In view of the indicated increased annual production of poultry and eggs and the continued high prices, and since poultry and poultry products are the District's leading source of livestock income, the improved January-November level of livestock receipts was probably maintained in December.

District crop production and prices, as was the case with livestock, also provided the basis for a high and improved level of farm income in 1969. Gains over 1968 in the output of the major field crops were substantial. Flue-cured tobacco, soybeans, and corn—in order, the first, second, and third principal crop income producers—recorded production increases of 10%, 51%, and 12%, respectively. Other major output gains were: sweet potatoes, 16%; apples, 15%; sorghum grain, 28%; and pecans, 171%. Virginia's fire-cured and sun-cured tobacco crops were also larger, with impressive increases of 8% and 5%, in that order. Peanut production—the fourth major source of crop income—was slightly smaller, but quality was good. Cotton, with 1969 output down 19%, recorded the chief decline. The District's favorable crop production

picture in 1969 relative to that in 1968 was in marked contrast to the national situation where crop output, though a record, was only slightly above that a year earlier.

The District's crop sector, unlike the nation's, was generally a source of price strength in 1969. Average crop prices were up moderately in North Carolina and fairly substantially in Maryland and Virginia. Flue-cured tobacco, peanut, soybean, and corn prices received during the fall harvesting season were all above their respective support levels. Flue-cured tobacco prices were at an all-time high, some 9% above 1968's average. Peanut and corn prices were also well above those a year earlier.

District farmers' cash receipts from crop marketings for the first eleven months of 1969, as reported by USDA's Economic Research Service, were 9% larger than a year ago. Yet, value of the District's total crop output in 1969, reported by USDA's Statistical Reporting Service, was roughly 13% above that in 1968. In view of the generally favorable crop production and price situations which prevailed in the District during the fall marketing season and the value of production data, it would seem that the gain in the District's crop receipts for the year as a whole was even larger than the 9% reported for the January-November period.

Taking all cost factors into consideration, there seems little doubt that farm production expenses continued their record-setting pace in 1969. Average prices paid by farmers, including interest, taxes, and farm wage rates, rose sharply—advancing more than 5% during the year. Costs for many farmers were further increased by the need to purchase more inputs. Half the reporting bankers, in fact, were of the opinion that the volume of purchased inputs had risen. (Two-fifths said the increase had been slight but one-tenth felt it had been considerable.) Only 15% believed that the volume of purchased inputs had been reduced—and only slightly so, at that.

Earnings from nonfarm employment—a growing source of buying power for farm families—continued to advance. This opinion, voiced by half the replying bankers, applied equally to both farm operators and other members of farm families. Much of the reported increase resulted from more jobs in industrial plants which have located in, or on the fringe of, rural communities. Some resulted from higher wages in well-established nonfarm jobs.

Farmers' Savings and Spending Financial savings and reserves of Fifth District farmers at year's end appeared, on balance, to be roughly the same as, or slightly larger than, a year earlier. This situation probably resulted from a combination of two factors: (1) an improved level of income, and (2) reduced expenditures for machinery and equipment, facilities, and other capital goods.

Farmers' spending for family living items, like that of other consumers, continued to advance. This resulted not only from the general increase in the cost of living but also from the fact that farmers' spending patterns generally continue, each year, to become more and more like those of their urban counterparts. Actually, only 15% of the bankers surveyed felt that farmers had exhibited consumer resistance to 1969's higher price tags for family living items.

Farmers' expenditures for farm machinery and equipment, facilities, and other capital goods were in strong contrast to their spending for family living purposes. On balance, their purchases of capital items were below those in 1968—more so for machinery and equipment than for facilities and other capital goods. The high cost of capital items, especially machinery and equipment, appeared to be a major determining factor in farmers' attempts to reduce expenses. There were cases, too, where farmers had purchased new equipment quite recently, and hence did not need replacements. There were, however, exceptions to the generally reduced level of expenditures for capital items in 1969. In instances where replacements were badly needed, especially in states (the Carolinas) where increases in "usury" limits were under serious consideration in their legislative bodies, farmers upped their spending for machinery and automated equipment over that in 1968. With an eye toward beating the expected higher cost of borrowed funds for use in making these purchases, farmers reportedly obtained financing and did their buying early in 1969. Growing labor shortages and higher farm wage rates were also among the deciding factors in cases where purchases of capital items were larger.

Farmland values, in the District as in the nation, continued to rise but showed indications of slowing down. The advance in the District was somewhat smaller than that in the nation as a whole. Respondents' replies to the question "How did prices of farmland in calendar year 1969 compare with those in calendar 1968?" were in general agreement with the situation revealed by data from the Department of Agriculture. North Carolina bankers reported that prices of flue-cured tobacco land had not only leveled off in recent years but had actually declined. Where five years ago flue-cured tobacco allotments sold for $5,000 to $7,000 per acre, they were selling for $3,000 to $4,000 in 1969. Much of this price

decline was attributed to the labor situation in the flue-cured areas.

The slowdown in the purchase of farmland for farm enlargement, evidenced to a slight degree in 1968, continued to an even greater extent in 1969. Tight money and expensive credit appeared to be the chief reasons for this slowdown. Because of this situation, sellers were reported to be providing increasing amounts of farm real estate financing in some areas. And bankers said they were referring more and more farmers to the Federal land banks for this type of financing. Some slight increase in buying land for farm enlargement was noted by 20% of the survey respondents, and 45% believed there had been little change in this type of market activity. In areas where enlargement purchases had declined, farm rental or leasing arrangements had increased. By enlarging their farming operations in this manner, farmers can, of course, still make more efficient use of available capital and labor and yet reduce their debt load at the same time.

Buying farmland for nonfarm purposes appears to have generated a great deal of market activity during 1969. Fifty-five per cent of the bankers surveyed reported increased purchases of this type, with 30% indicating that the increase had been considerable. Only 10% felt that a slight decline from a year earlier had occurred. Among the reasons given for increased purchases of farmland by nonfarm buyers were: development of recreational sites, subdivisions, and industrial parks; construction of motels, restaurants, service stations, and truck stops along interstate highways; buying lots for vacation cabins and retirement homes; for speculative purposes, tax shelters, and as a hedge against inflation. Generally, where purchases of farmland by nonfarm buyers had risen, the rise in the price of farmland had been significant.

Farm Credit Situation Farmers' demand for credit continued upward in 1969. The number of farmers borrowing from banks dropped slightly, but the average size farm loan increased. Farm loan repayments at banks were generally better than in 1968, and the number of delinquencies was lower. Farm loan renewals in general were down.

Bankers' loan policies were, for the most part, tighter. This credit tightening was evidenced in a number of ways: requiring shorter terms, being more selective, making loans to regular customers only, and charging higher rates of interest. And some bankers were no longer making farm-mortgage loans because of the shortage of long-term money.

Without exception, all bankers reported that interest rates charged farmers in 1969 were higher than those in 1968. The most prevalent rate in 1969, by far, was 8%. But interest charges ranged from 7% to 8% for farm-mortgage loans, from 7% to 9% for short-term loans, and from 7% to 12% for intermediate-term loans. Legislation raising "usury" limits was passed in both North and South Carolina during 1969. The new legal limits in South Carolina became effective on May 21, raising the ceiling on the contract rate of interest from 7% to 8% on loans up to $50,000, to 10% on loans ranging from $50,000 to $100,000, and to 12% on loans in the $100,000 to $500,000 range. There is no limit on loans in excess of $500,000, or on loans to corporations. North Carolina's new legal limits went into effect on July 2. Prior to this date, North Carolina bankers had been subject to a 6% legal limit on farm-mortgage loans and to 6% plus the addition of permissible fees on non-real-estate loans. North Carolina's new contract interest rates applicable to farm loans are: 8% on loans of $50,000 or less secured by a first mortgage or deed of trust on real property, 9% on farm-mortgage loans in excess of $50,000 up to $100,000 and on short-term loans of $100,000 or less, and 12% on loans ranging from more than $100,000 to $300,000. There is no limit on loans in excess of $300,000. On instalment loans, the ceilings are 15% for those of $5,000 or less, 12% for those not exceeding $300,000. Similar legislation increasing contract interest rate ceilings from 6% to 8% was enacted in Virginia, Maryland, and West Virginia in 1968. An interesting observation: Most bankers were of the opinion that "truth in lending" had had no deterring effect on farmers' borrowings at all. If farmers needed and could get loan funds, bankers said they considered the interest charge to be just another input cost.

Bank funds available for lending to farmers in 1969 were reported to be smaller than in 1968 by one-fourth of the bankers surveyed. Some bankers noted that they had been losing deposits as the result of disintermediation. Sixty-five per cent indicated that their available funds had been about the same as a year earlier. Where this was the case, however, these bankers frequently pointed out that they were making only short-term or intermediate-term loans. Too, they said they were generally lending only to regular customers whom they considered to be good managers and sound credit risks. The remaining 10% of the respondents stated that their funds were larger. Included in this group was a Virginia bank which has formed its own farm loan corporation as a subsidiary to provide additional credit for the growing capital needs of worthy farm

customers. This corporation, established in mid-1968, makes seven-year farm loans for such purposes as the purchase of breeding livestock, construction of facilities, and general operating needs. Its funds, obtained from the Federal intermediate credit bank, augment the funds available in the bank for agricultural purposes. The corporation's president reports that as a result of having this additional source of loan funds, farmers are using more consumer credit as well as more production credit.

In response to the question "Have you had to turn down farm loan applications this year because of lack of funds?" 10% of the replying bankers said, "Yes."

Farm debt held by three of the District's major institutional lenders — insured commercial banks, Federal land banks, and production credit associations (PCA's)—continued to increase during the year ended June 30, 1969. Farm real estate loans held by all insured commercial banks in mid-1969 totaled $292.5 million, 5% above a year earlier. (This increase, both percentagewise and in dollar terms, was less than during the year ended June 30, 1968.) By comparison, outstanding loans held by the Federal land banks amounted to $430.6 million for a gain of 16% during the same period. Non-real-estate farm debt held by banks at midyear totaled $326.6 million, up about 4% for the same 12-month period. (The gain was fractionally larger in terms of dollars, but slightly smaller on a percentage basis, than during the preceding 12 months.) The volume of non-real-estate debt held by the PCA's was $334.2 million, only slightly larger than the amount held by banks but 19% above their volume outstanding in mid-1968. These data, shown in the accompanying table, indicate that during periods of tight money farmers do have access to other sources of financing when they are unable to obtain loan funds from banks.

Farm Financial and Credit Outlook for 1970

Bankers' views concerning 1970 farm income relative to that in 1969 showed a fair amount of variation, as would normally be expected. On balance, however, some further improvement in farm income is anticipated. When we asked our banker respondents to "gaze into their crystal balls" and give us their thinking on the outlook for farm income in 1970, we prefaced our question with three basic assumptions: (1) weather, average or better; (2) little change in Government farm programs; and (3) continued strong consumer demand. Given these assumptions, 60% estimated that farm income might be up slightly, 35% foresaw little change, and the remainder anticipated a slight decline. Farm costs appear likely to rise further in 1970, according to the expectations of 80% of the survey respondents. The remainder looked for little change. Of those anticipating a continued rise in the prices of farm inputs, all expressed the belief that the advance would be at a slower rate than in 1969.

Farmers in many sections of the District will enter 1970 in a generally more favorable financial position than at the beginning of 1969 because of improvement in their income and equity positions during the year. Unfavorable 1969 returns and somewhat lower equities will reduce the overall financial position of farmers in some localities, however. The major portion of the replying bankers — 65% — felt that farmers' general financial situation would show some slight improvement as they entered 1970. One-fifth believed there would be little change, while the remaining 15% indicated a slight decline.

The debt position of a good many farmers appears

FARM DEBT: AMOUNT OUTSTANDING HELD BY SPECIFIED LENDERS, BY TYPE
United States and Fifth District by States, June 30, 1969 compared with June 30, 1968

State or Area	Farm-Mortgage Debt				Non-Real-Estate Farm Debt			
	All Insured Commercial Banks		Federal Land Banks		All Insured Commercial Banks		Production Credit Associations	
	Amount Outstanding 1969	Change from 1968	Amount Outstanding 1969	Change from 1968	Amount Outstanding 1969	Change from 1968	Amount Outstanding 1969	Change from 1968
	$ Million	Per Cent	$ Million	Per Cent	$ Million	Per Cent	$ Million	Per Cent
Maryland*	70.0	+8.2	54.4	+15.4	35.0	−3.3	35.7	+12.0
Virginia	85.2	+3.7	100.8	+18.4	101.8	+4.3	50.6	+12.3
West Virginia	30.9	+5.8	12.2	+ 4.7	17.1	+2.3	8.2	+12.3
North Carolina	79.3	+3.4	168.1	+13.2	130.0	+4.7	156.8	+18.7
South Carolina	27.1	+6.7	95.1	+22.1	42.7	+5.6	82.9	+26.9
Fifth District	292.5	+5.2	430.6	+16.3	326.6	+3.6	334.2	+18.7
United States**	4,061.5	+8.8	6,555.9	+ 9.8	10,546.1	+5.6	4,569.1	+11.5

* Includes District of Columbia. ** States and other areas.

Sources: Federal Deposit Insurance Corporation and Farm Credit Administration.

to have improved during 1969 because better incomes enabled them to meet their loan obligations on time and, in some instances, to step up their debt repayments. Two-fifths of the bankers surveyed indicated, in fact, that the number of farmers in debt difficulty in 1970 would be somewhat smaller than in 1969, while 5% stated that they had no farmer customers who were in a difficult debt position. Forty-five per cent believed the number would remain about the same, while one-tenth felt a slight increase was likely.

Farmers' demand for credit in 1970 is expected to be roughly the same as, to slightly larger than, in 1969. Half of the participating bankers, in fact, looked for farm loan demand to continue at about the same level as in the current year. The remaining half looked for a slight increase.

There was considerable diversity of opinion expressed concerning the anticipated levels of farmers' spending and investment in 1970. Half the responding bankers were of the opinion that farmers will increase their spending and investment slightly. One-fifth believed that they will continue to spend and invest at about the same level as in 1969, while 30% expected a decline. Most of those anticipating a decrease felt that it would be slight. Bankers generally noted that farmers, like many other people, are becoming more sophisticated in the manner in which they invest their savings.

The supply of bank funds available for loans to farmers in 1970 will vary considerably by type of loan. The continued impact of the tight money situation has resulted in a shortage of funds for long-term farm loans, and bankers expect this shortage to continue in 1970. Three-tenths of the respondents stated, in fact, that they would make no funds available for new mortgage loans to farmers in the year ahead. Thirty-five per cent reported there would be a decrease, with 10% indicating the decline would be considerable. Only 35% felt that funds for farm mortgages would remain about the same as in 1969. Of the seven in this group, one pointed out that his bank's policy was to make only first-mortgage loans to farmers—and those for only ten years. The outlook for funds for short- and intermediate-term farm loans is more favorable. For short-term loans, 70% felt that available funds would be about the same as those in 1969, 20% expected a moderate increase, while the remaining 10% anticipated a slight decrease. Prospects for intermediate-term loan funds to farmers were somewhat similar, though not quite as good. The availability of loan funds for agriculture will, of course, be strongly influenced by general economic developments, the competitive demand for loan funds, the possibility of further increases in "usury" limits in some states, and the prime rate charged by the large city banks which are being used increasingly by country banks as correspondents for farm loans.

Fifty-five per cent of the respondents indicated that no change in bankers' current policies on farm loans was expected for 1970. Tighter loan policies were planned by 40%, more lenient policies (for regular customers only) by 5%.

Interest rates banks charge on farm loans in 1970 will vary considerably, according to our survey responses. An 8% simple rate of interest, however, was the most prevalent cited by far for all three types of farm loans. Interest rates ranging from 7% to 8% were quoted for long-term loans, from 7% to 9% for short-term loans, and from 7% to 12% for loans in the intermediate-term category. (Many of the latter type are carried as instalment loans, hence the higher rates of interest.) To the question "What trends in interest rates on farm loans do you foresee?" 85% expected little change and the remaining 15% indicated an upward trend. Where an upward trend in interest rates was foreseen, some of these bankers were located in Maryland where a further increase in "usury" limits was reported to be under study. The remainder in this group were those bankers whose interest rates in 1969 were still below the new interest ceilings of 8% established in 1968.

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