FEDERAL RESERVE BANK OF SAN FRANCISCO

Farm Lending: '66

TREMENDOUS changes have occurred in Western agriculture over the past decade, according to the Federal Reserve surveys of commercial-bank farm lending conducted in 1956 and 1966. Between these dates, farms have declined in number but have increased in size, in terms of both acreage and investment in land and buildings. Meanwhile, production expenses have risen by two-thirds in the short space of a decade, to outpace gross farm income through most of this period.

Western farmers have met much of their increased financing requirements from their own resources. However, farmers have also had to rely on non-farm sources to finance their production activities and their investment in capital items. As this article indicates, Twelfth District commercial banks have been an important source of such supplementary finance.

Westerners owe more

On the 1966 survey date, almost 100,000 Western farmers were in debt to District banks to the tune of over $1.8 billion. These borrowers represented only 5 percent of all borrowers in the national survey, but their borrowings amounted to 16 percent of the national total of $11.7 billion.

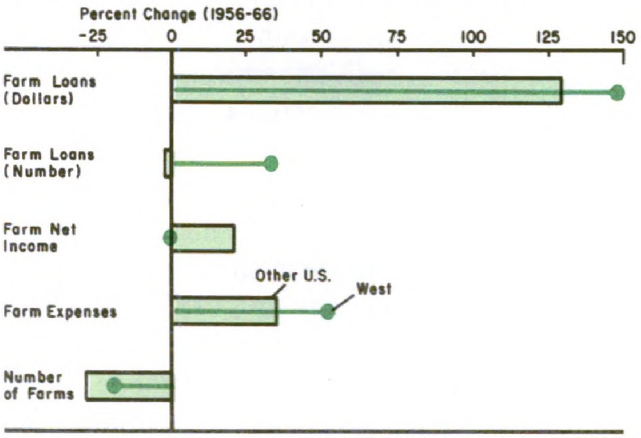
This difference reflects a wide discrepancy in average bank debt between Western farmers and their counterparts elsewhere. Farm borrowers at District banks averaged $18,500 in indebtedness, while borrowers at banks elsewhere averaged only $5,900. (The latter figure is about the same as the average debt owed by District farmers a decade ago.) The discrepancy reflects in turn the relatively large size of Western farming operations; District farms are twice as large as the national average in terms of acreage and even larger in terms of the value of land and buildings.

Survey data show that commercial banks have provided financing for the great majority of the agricultural community. In the District, the 100,000 farm borrowers in 1966 represented two-thirds of all potential farm borrowers in the region. Farm corporations accounted for a significant share of total funds borrowed—15 percent of the dollar amount outstanding in 1966 as against only 5 percent of the total in 1956.

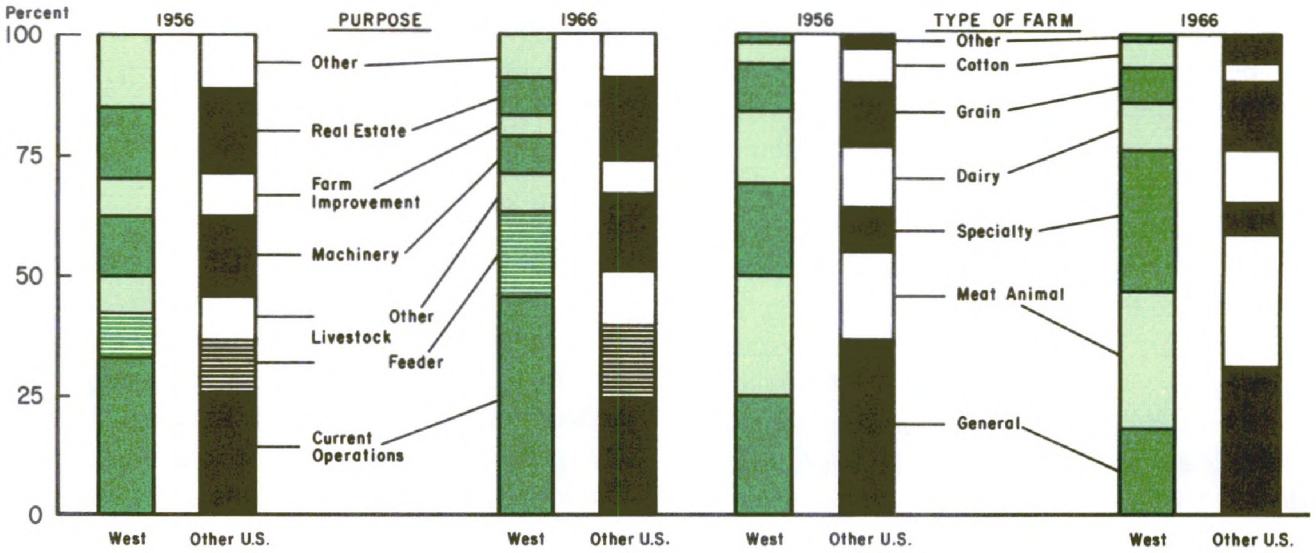
Borrowing for current expenses

The Western farm community sharply increased its borrowing in every category over the decade, from a total of $0.7 billion in 1956 to $1.8 billion in 1966. The sharpest gains occurred in borrowing for current expenses; borrowing for such purposes accounted for 63 percent of total debt in 1966, or half again as large as the share achieved in

Farm-loan volume rises faster than farm expenses over decade



Western farmers utilize bank credit mostly for current expenses . . . most credit goes to meat-animal and specialty-crop producers



1956. In the rest of the nation, however, borrowing for such purposes (despite a strong increase) accounted for just about 40 percent of total outstanding debt in both years.

The upsurge in borrowing at District banks was evident in both current-expense categories. Borrowing for current operating and living expenses thus accounted for 46 percent of total outstanding debt in 1966, and borrowing for feeder-livestock purchases accounted for 17 percent more of the total. Borrowing for the latter purpose was stimulated over the decade by a tripling of the number of cattle in feedlots and a 50-percent increase in the average cost of feeder cattle.

Western farmers increased their borrowing for intermediate-term investment at a somewhat slower pace over the decade. Thus, in 1966, borrowing for livestock purchases (other than feeder cattle) accounted for 7 percent of outstanding bank debt, while borrowing for machinery purchases accounted for 8 percent more. (Farmers elsewhere, despite their smaller spreads, used 16 percent of their bank loans for machinery purchases.) The modest expansion in the financing of machinery and equipment purchases was roughly in line with the increase in Western farms' machinery inventories since 1956.

Western banks meanwhile remained far less active than other banks in financing farm real-estate purchases. Less than 8 percent of farm debt at District banks was allocated to this purpose in 1966, as against 17 percent of outstanding debt at banks elsewhere in the nation.

Interest rates on farm loans on last year's survey date were roughly the same in the West as elsewhere. The average rate on current-expense loans—6.6 percent—was identical at District banks and at banks elsewhere. Average rates at District banks on medium-term investment loans (7.4 percent) and on real-estate loans (6.4 percent) were slightly higher than in the rest of the nation.

Actually, Western farmers paid a higher average rate in each loan-size category, but this was offset by the lower rates associated with their much greater average size of loan.

Meat, specialty farms predominate

General all-purpose farms accounted for only 18 percent of District commercial-bank farm credit outstanding in mid-1966—far

below their 1956 share, and even farther below the 31-percent share of total debt now owed by general farms in the rest of the nation. Meat-animal producers accounted for 29 percent of District farm credit last year, or about the same proportion as elsewhere; meanwhile, fruit-nut and other specialty crop producers accounted for another 29 percent of the District total, or about four times the proportion elsewhere in the nation. (About one-half of the national total of outstanding debt in this category is owed by Western growers.)

Operators of general farms took out far fewer loans at District banks in 1966 than a decade earlier. However, the number of bank customers increased among meat-animal producers, as did their average borrowing, because of the sharp rise in the number and cost of feedlot cattle. Overall, the amount of bank indebtedness per borrower rose substantially over the decade, with poultry and cotton producers recording the sharpest increases.

The expansion in the size of farm operations and in financing requirements was seen most clearly in the poultry field. Over the decade, the volume of bank credit extended to poultry producers increased by two-thirds, at a time when the number of borrowers in this field was declining by two-thirds.

Large-scale borrowing

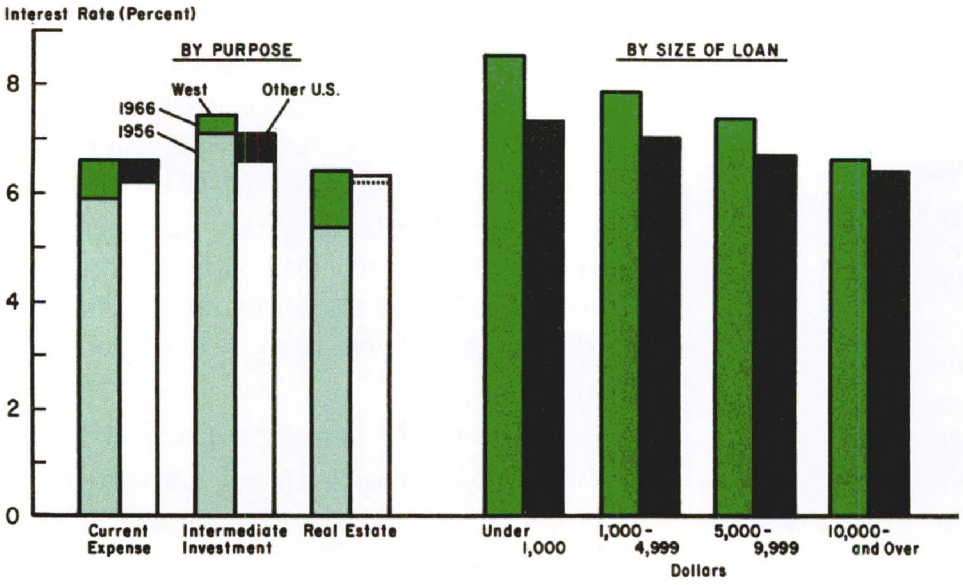
Most debt to District banks last year was owed by large farm borrowers—77 percent of the amount outstanding was owed by those borrowing $25,000 or more, as against 41 percent of the total in 1956. In contrast, only 29 percent of the amount outstanding at banks elsewhere last year was accounted for by this category, and the share was only 9 percent in 1956.

This difference again reflects the larger scale of Western farming operations. Fully 75 percent of District farm debt last year was owed by farmers with a net worth of $100,000 or more (up from 50 percent in 1956), whereas only 35 percent of outstanding debt elsewhere (up from 15 percent in 1956) was accounted for by such large-scale operators.

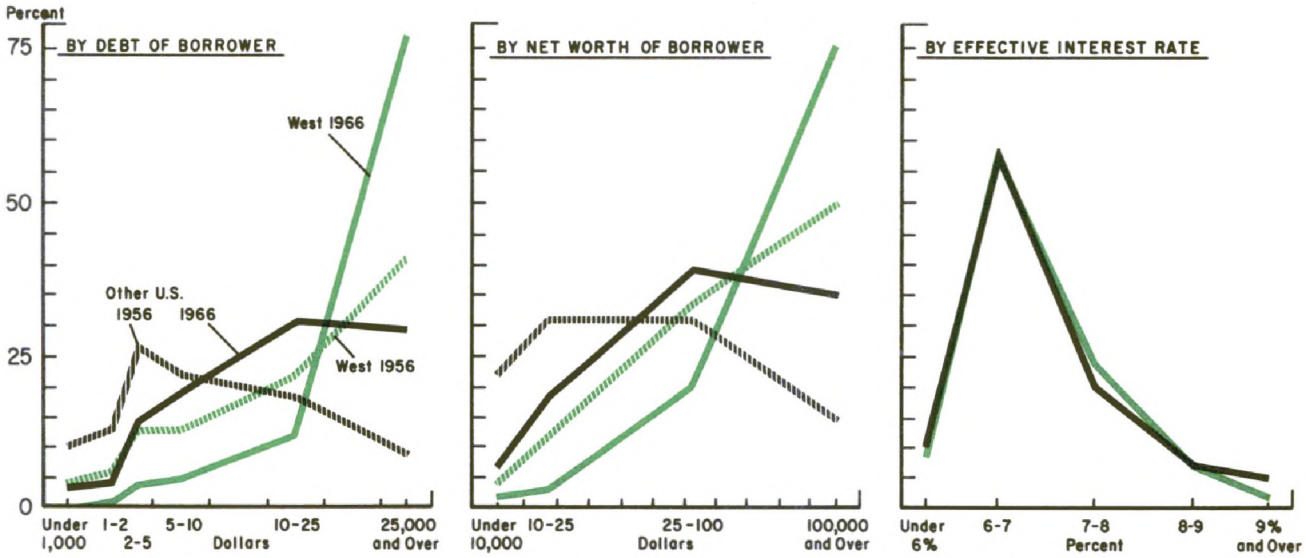
Although the average debt per borrower was greater in the District than elsewhere, the ratio of debt to net worth was essentially the same nationwide. Moreover, delinquency rates on bank loans to District farmers were not out of line with the national average.

Widespread use of credit lines, a common financing technique for large business units, again reflected the

Western farmers pay higher rates in each size class, although rates vary by purpose of loan



Large scale of Western farm operations shown by size of bank loans and by size of farm borrowers . . . most loans carry 6-7 percent rate



large scale of Western farming operations. About 30 percent of farm borrowers at District banks received funds under lines of credit, whereas only 10 percent of borrowers elsewhere received funds this way. And almost two-thirds of the dollar volume of District bank credit was held by borrowers with established credit lines. The disbursement and repayment of funds under lines of credit are generally budgeted to coincide with the individual farmer's need for credit and the flow of income from the sale of his products, and financing of this type is thus ideally suited to large-scale operations.

The 1966 farm lending survey, in sum, shows that District banks have sharply expanded their lending activity in line with the expanded requirements of Western farmers. This increased financing has taken place at a level of interest rates which has kept pace with the advance in interest rates nationally — and, far more than elsewhere, credit has been extended to meet current expenses rather than to finance longer-term investment. Finally, the distribution of debt by type and by size of borrower reflects strikingly the vast size and diversity of Western farming operations.

—Donald Snodgrass