The Southern Farm Borrower

Dynamic changes are taking place in the agricultural sector of the economy. In the last decade, advances in animal husbandry, agronomy, agricultural engineering, and agri-business have appeared with clock-like regularity. And the adjustments in agriculture are reflected in changes in the type of farmers borrowing at commercial banks in the Sixth Federal Reserve District.

Since 1956, total assets, net worth, gross sales, and bank indebtedness have all advanced sharply for the average southeastern farm borrower. The total volume of bank loans to farmers has more than doubled, while the number of borrowers has declined. There has been a marked increase in the number of part-time farmers and producers of single commodities. And the tenant and sharecropper appear less frequently. To better understand the impact of agricultural adjustment on farm producers and bankers, it is necessary to identify specific areas of change from these aggregate data and then to evaluate their influence on production and farm finance.

Personal Characteristics

Throughout the Southeast and other predominantly rural regions in the U.S., farm populations have migrated to urban areas. Generally younger persons have been the most likely prospects to leave the farm. Many older persons have found moving much less attractive and therefore have remained on the farm.

These developments have caused the total number of farm borrowers in the District to decline nearly 12,000, or 5 percent, since 1956, while the average age of borrowers remaining on the farm has advanced from 45 to 48. Because proportionately more young people are leaving the farm, borrowers 44 years of age and younger now account for 38 percent of all farm borrowers, compared with 50 percent ten years ago. This group is responsible for most of the total reduction in borrowers, because the number of farmers 45 years old or over has actually increased.

Although young borrowers are proportionately fewer, they have been expanding their average bank indebtedness much faster than those 45 years or older. Since 1956, the average volume of bank loans held by farm borrowers 35-44 years of age has more than doubled; that of their counterparts under 35 years has gained 90 percent. As a group, farmers over 45 increased their average bank loan by only 8 percent.

Part-Time Farmers—Contrary to the trend toward fewer farmers, however, the number of part-time

farmers, those receiving one-third or more of their gross income from nonfarm sources, has advanced nearly 60 percent in the last decade. Currently, 36 percent of all individual farm operators for which data are available are part-time. The propelling force causing many farmers to seek nonfarm employment is the increasing difficulty to derive adequate income from relatively small farming units. Improved methods of transportation and greater job opportunities in most parts of the Southeast now make it easier for rural citizens to earn extra incomes without moving from their community. This availability of nonfarm employment has probably held down the rate of migration from farms.

The total volume of bank loans to part-time farmers has advanced nearly four times since 1956 because of the increased number of these operators and the 147-percent jump in the average bank debt per borrower. In 1966, the average amount of loans outstanding for these borrowers was $3,775, compared with $3,881 for full-time farmers. Surprisingly, average credit requirements of part-time farmers do not differ significantly from their full-time counterparts.

Farm Type—For both the full-time and part-time farmer, the general farm is still the most common production unit in the Southeast. In 1966, 56 percent of all farm borrowers, about the same proportion as ten years ago, operated general farms. However, the absolute number of these farms has declined, reflecting the total reduction in farm numbers. These farmers had average bank indebtedness of $2,923, well below the $3,806-average of all farm borrowers.

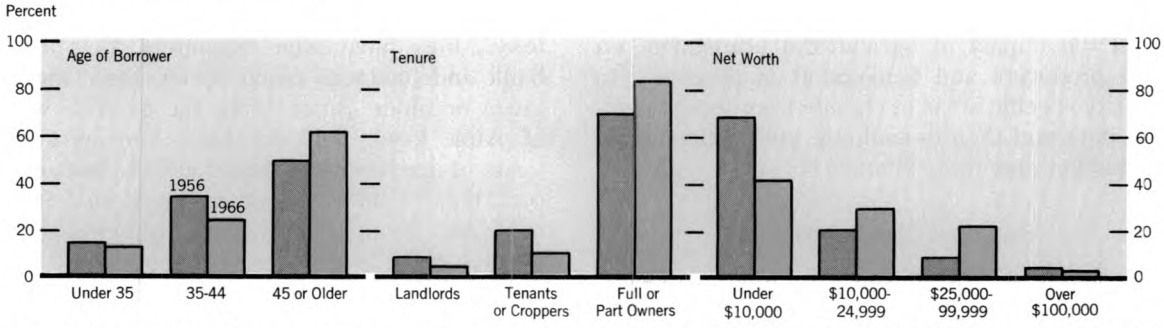
While the relative importance of the general farm has changed little since 1956, the number of specialized farms except cotton has increased sharply. For example, the number of borrowers operating meat animal farms has doubled in the last ten years and now represents 12 percent of the District's farms. The number of borrowers operating poultry farms has increased over 2⅓ times. Also, the number of borrowers specializing in cash grain, fruit, sugarcane, and other major products has advanced sharply since the mid-1950's.

Generally, the types of specialized farms listed above are more capital and less labor intensive than tobacco, small cotton, and general farms. Partial evidence of this tendency is apparent from the average outstanding loan of these farmers which totals more than $5,000, well above the average for all farms. With average loans exceeding $25,000, citrus fruit producers have higher credit needs than any other group of farm borrowers in the Southeast.

The drop from over 53,000 to less than 20,000 cotton farms in ten years is perhaps the most spectacular development in southeastern agriculture. Reduction in cotton acreages, increased production costs, lower prices, and better alternative uses for land have made cotton a secondary crop on most District farms. Since many cotton farmers still operate small farms, their average indebtedness has advanced to only $2,971.

Tenure—Along with the decline in the number of general farms and cotton farms has been the reduction in the number of borrowers that are tenants and sharecroppers. In 1956 these borrowers represented 20 percent of banks' farm borrowers; today, less than 10 percent. Similarly, there has been a 50-percent cutback in the number of borrowers who are landlords, while the group of farmers owning all or part of the land they operate has increased slightly in number. Average credit requirements have advanced about 2½ times for both owner-operator and tenant farmers, while the average landlord has borrowed 88 percent more in the last ten years.

Farm Borrowers at District Banks



Since 1956, the proportion of young people, landlords, and tenants has declined. Of those remaining, farmers with higher net worths

Asset and Credit Requirements

Changes in the type of farming and the characteristics of borrowers fail to show some important developments in the asset structure and financial requirements of many farmers. From 1956 to 1966, the financial needs of all farmers continued to advance rapidly. No longer are the major costs of production embodied in the farmer's labor and the homegrown feed supplies for work stock. Today production credit is needed for fertilizer, seed, feed, equipment, gasoline and other petroleum products, repairs, labor and other purchased items. Intermediate- and long-term credit are required to purchase farm machinery, to improve land and buildings, and to buy additional acreages. And as the amount and price of many of these items advance, so does the producer's need for credit.

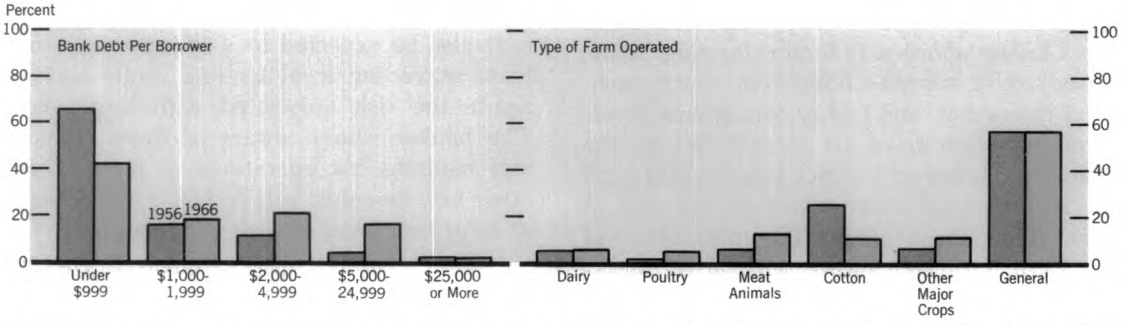
Bank Indebtedness—These trends are, in part, reflected in a lesser number of farm borrowers with small loans. Farmers owing the bank less than $1,000 have dropped from nearly 145,000 to less than 88,000 since 1956, and the number owing $1,000 to $1,999 has advanced only slightly. Meanwhile, the number of borrowers owing larger amounts increased quite sharply between 1956 and 1966. For example, borrowers with indebtedness of $2,000 to $4,999 rose in number by 71 percent, while 130 percent owed banks $5,000 to $9,999. Similarly, three times as many farmers owed $10,000 to $24,999 in 1966 than in 1956, and those owing $25,000 to $99,999 and $100,000 and over gained five and one-half and ten times, respectively.

These adjustments caused a significant shift in the distribution of loans at District banks. On June 30, 1966, 60 percent of the borrowers had loans of $2,000 or less and accounted for only 12 percent of the total volume of farm debt at banks. However, borrowers owing $50,000 or more made up less than one percent of the borrowers but held over 15 percent of the loans.

Net Worth—Just as changes in the sizes of loans identify advances in the financial needs of farm borrowers, the modifications in net worth reflect changes in the size of farm units. Currently, only one-half as many borrowers as ten years ago have net worths of less than $10,000. Part of this decline is the result of the expansion of farming units or repayment of previous indebtedness. However, most of the reduction was probably caused when farmers with these low equities quit farming. Reflecting a generally increased need for production credit, however, the farmers with low net worths that remained on the farm nearly doubled their average bank borrowings.

Contrary to trends toward fewer farming units, the number of farms with higher net worths is actually increasing. At all levels of net worth above $10,000 per borrower, there are now more farmers than in mid-1956. And these individuals account for increasing proportions of the total farm loan portfolios of District bankers. Currently, borrowers with net worths exceeding $25,000 account for approximately 65 percent of the volume of loans outstanding. In 1956, 40 percent of the loans went to farmers reporting this much equity in their farm.

Income—Information relating to the 1956 farm sales is not available, but the 1966 survey indicates that 45 percent of all borrowers had gross incomes below $5,000. Certainly, incomes are near subsistent levels, since farm operators must repay bank loans averaging $1,658, plus various production expenditures not reported in the survey. Discounting the fact that living expenditures are usually lower in rural areas and that many of the borrowers had nonfarm incomes, these small



and higher bank loans appear much more frequently, as do producers specializing in "other major crops" and livestock.

production units will find it difficult to remain operative in the years to come. Those borrowers with incomes below $5,000 will probably be the best candidates to leave the farm, and the aggregate demand for credit from those that remain will grow only slowly. The remaining farm borrowers were about equally divided between those with gross farm incomes of $5,000 to $9,999 and $10,000 and more.

In 1966, 99.4 percent of all farm borrowers at District banks were individual operators. Of the remaining farms, 0.4 percent, or 742, were partnerships, and 0.2 percent, or 468, were corporate-type business structures. These data indicate that the family farm is still the bulwark of southeastern agriculture. However, in certain types of production with extremely high capital requirements and greater economies of scale, such as Florida citrus, the corporate-type business structure appears more frequently. The average indebtedness for partnerships and corporate farms was $19,790 and $64,312, respectively, compared with $3,612 for individuals.

Future

In anticipating future changes in the characteristics of farm borrowers and agriculture, it is safe to assume that past performances will probably continue but perhaps at a more rapid rate. Farm sizes will expand further as more people leave agriculture and the consolidation of farming units continues. These trends will be reinforced by the movement toward more mechanization and specialization of farm production.

Generally, the adaptation of advanced production techniques and mechanization has been slower in the South than in other regions. A large number of social and economic factors, such as a relatively cheap labor supply, a large number of subsistence type farms, highly diversified agriculture in some areas, and a single crop cotton economy in others, have all contributed to the problem. However, in recent years, adjustments in farm production have proceeded more rapidly. Labor shortages, larger farming units, increased credit supplies both from credit agencies and businesses, and higher educational levels of farm operators have all contributed to the adjustments. However, District farmers still rank below their national counterparts in the rate of adjustment in these areas. The proportion of southeastern farm borrowers with total assets under $10,000 and net worths of less than $5,000 is nearly twice as high as in the U.S. Similarly, annual sales were less than $5,000 for 45 percent of the District borrowers, compared with only one-fourth in the U.S. And while adjustments are taking place more rapidly for each of the characteristics mentioned, the rate of change during the last ten years was slower in the Southeast than in the nation.

Nevertheless, the southern farm scene has been changing quickly. And, as these trends continue, very likely today's medium-size or middle income farm will become the subsistence farm of tomorrow. The 131,000 borrowers with total sales of less than $10,000 will certainly find it difficult to maintain net incomes and a good level of living without increasing the size of their farms or without sizable amounts of nonfarm incomes.

If present trends continue, banks can expect only a slight expansion in aggregate loan demand from this block of borrowers. Even though the average credit needs of individual borrowers will increase, ten years from now a substantial number of them will have left the area. Also, banks in these areas may experience problems with deposit growth from agriculture.

Therefore, banks with both the ability and desire to expand aggregate farm loan volumes will need to attract or seek out individuals who are expanding their farming operations. However, the competition for these accounts may be keen. Farmers with large loan requests, plus high net worths and improved income flows, will request better banking services. Local banks that fail to compete in this field may lose prime customers to other institutions with better rates and services.

One future requirement of farm borrowers may include continuous debt financing to implement long-run production plans rather than operate from year to year as in the past. Under these conditions, bankers may be expected to evaluate loans more in terms of productivity and less on value of the collateral pledged by the borrower. Certainly, the banker will have to require balance sheets and cash flow information, as well as cost and return data, to evaluate the productivity and profitability of various enterprises. The banker may also be expected to seek new ways to grant loans exceeding legal lending limits and to dissipate the risk associated with large accounts. The banker who is aware of these adjustments and modifies his operations to meet these and other new demands will be best serving the needs of farm borrowers and the community.

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