Federal Reserve Bank of Chicago - -

Agricultural Letter

February 6, 1959

Number 494

NON-REAL ESTATE FARM LOANS in the Seventh Federal Reserve District rose at an accelerating rate during 1958. At the end of the year, the total volume of outstanding loans was 22 per cent above the volume at the beginning of the year.

The quality of the debt obligations apparently was upgraded during the year as the sharp rise in farm income enabled many farmers to "clean up" delinquencies carried over from the drought years. The major forces behind the current high level of "short-term" bank loans to farmers appear to be the high levels of cattle feeding operations coupled with high prices for feeder cattle.

Western Iowa, a leading cattle feeding area, had an increase in farm loans of over 40 per cent. Eastern Iowa was up 32 per cent and the other major cattle feeding areas of Iowa and northern and western Illinois reported increases of 20 to 25 per cent. Loans outstanding at banks in Indiana, central Illinois and southern Michigan rose 10 to 15 per cent while in Wisconsin and northern Michigan loans were up 4 to 6 per cent.

In terms of dollar volume, the non-real estate loans increased $77 million to a total of $421 million; Iowa and Illinois accounted for $64 million of this gain.

Farm loan volume this coming spring is expected to be somewhat larger than a year ago, according to estimates of country bankers. The expected increases average 3.5 per cent in Iowa, 2.5 per cent in Illinois and Indiana, and about 1 per cent in Michigan and Wisconsin.

Interest rates on non-real estate farm loans at Seventh District country banks averaged slightly higher than a year earlier. The majority of bankers reported no change in rates during 1958. Nearly 20 per cent reported an increase in rates while a few reported declines. The banks reporting raises generally had lower than average rates, and their change in rates probably reflects the higher rates on alternative investments.

FARM REAL ESTATE LOANS at Seventh District banks on December 31 were up 5 per cent compared with a year earlier. Most states included in the Seventh District shared about equally in the increase although Indiana had a gain of only 4 per cent. Almost all of this expansion occurred in the first nine months of 1958.

Farm real estate lending by institutions other than commercial banks showed a different picture, gaining momentum at the end of the year after a slow start.

The Federal Land Banks reported a 9 per cent increase in the volume of farm real estate loans outstanding for the entire year, most of which came in the last half of 1958. The volume of new loans made during the last six months was more than 50 per cent above the last half of 1957, though about the same as in the 1956 period.

Life insurance companies also reported a considerable increase in the volume of new loans made the last half of 1958. Mortgage commitments in the final quarter were similarly substantially above the corresponding quarter a year earlier, according to preliminary reports. However, both the volume of new loans and mortgage commitments were about the same level as in the last quarter of 1956.

The Farmers Home Administration reported a 5 per cent increase in outstanding "farm-ownership" loans in 1958. However, lending activity of the FHA declined substantially in the last half of the year.

Repayments of mortgage debt were relatively high in 1958, reflecting the high farm income during the year. Repayments in July to December, 1958 were equal to about 4.4 per cent of outstanding principal for life insurance companies, compared with a 3.6 per cent rate of "payoff" in the last half of 1957. Federal Land Banks also had a higher repayment rate, 4.7 per cent in the last half of 1958 compared with 4.2 per cent in the 1957 period.

Foreclosures and delinquent interest payments continued at very low levels in 1958.

FEEDER CATTLE were moved into the Corn Belt earlier last fall than in 1957. The U. S. Department of Agriculture reports that shipments of stocker and feeder cattle into Corn Belt states last December were 42 per cent below the year-earlier figures, whereas shipments in October and November were about the same as year earlier. The largest decline was in Iowa which was down 70 per cent from the very high levels of December 1957.

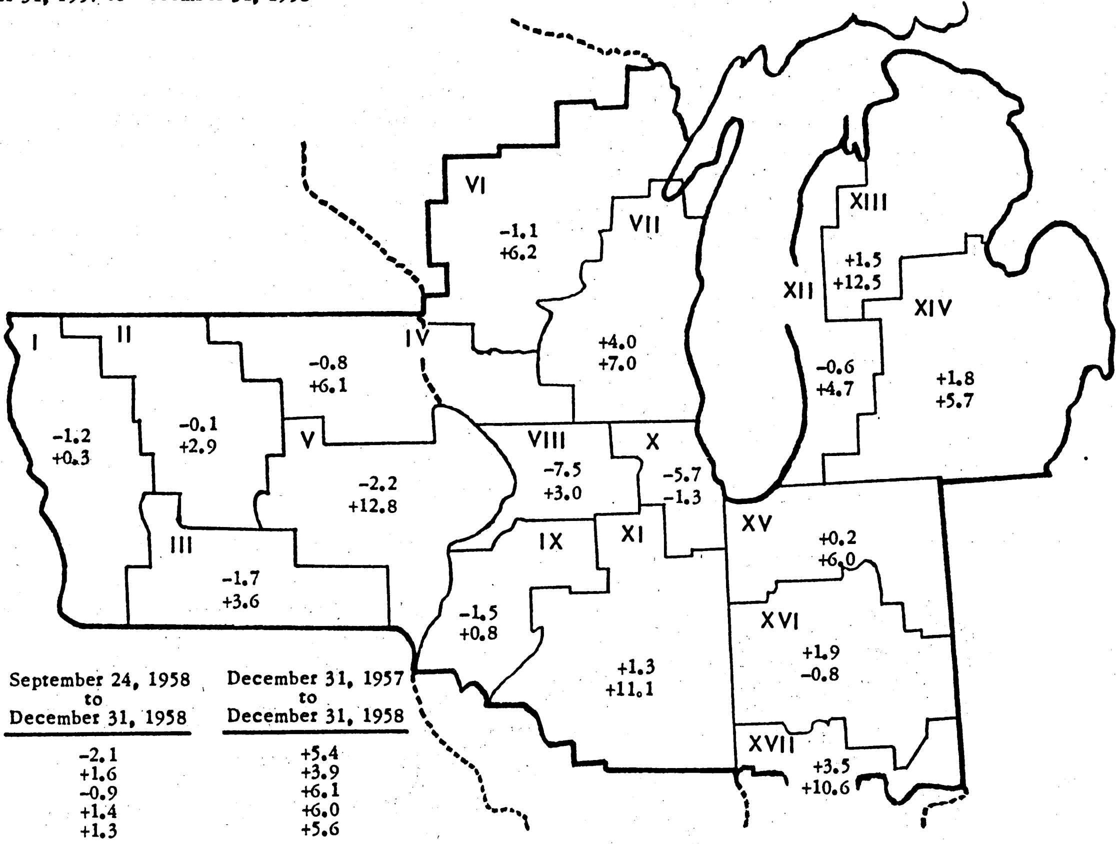
Total shipments of cattle into the nine states the last six months of 1958 were 5 per cent below year earlier but nearly 5 per cent above the 1956 period.

Research Department

Farm real estate loans outstanding,
District member banks outside Chicago

Per cent change:

TOP: September 24, 1958 to December 31, 1958
BOTTOM: December 31, 1957 to December 31, 1958



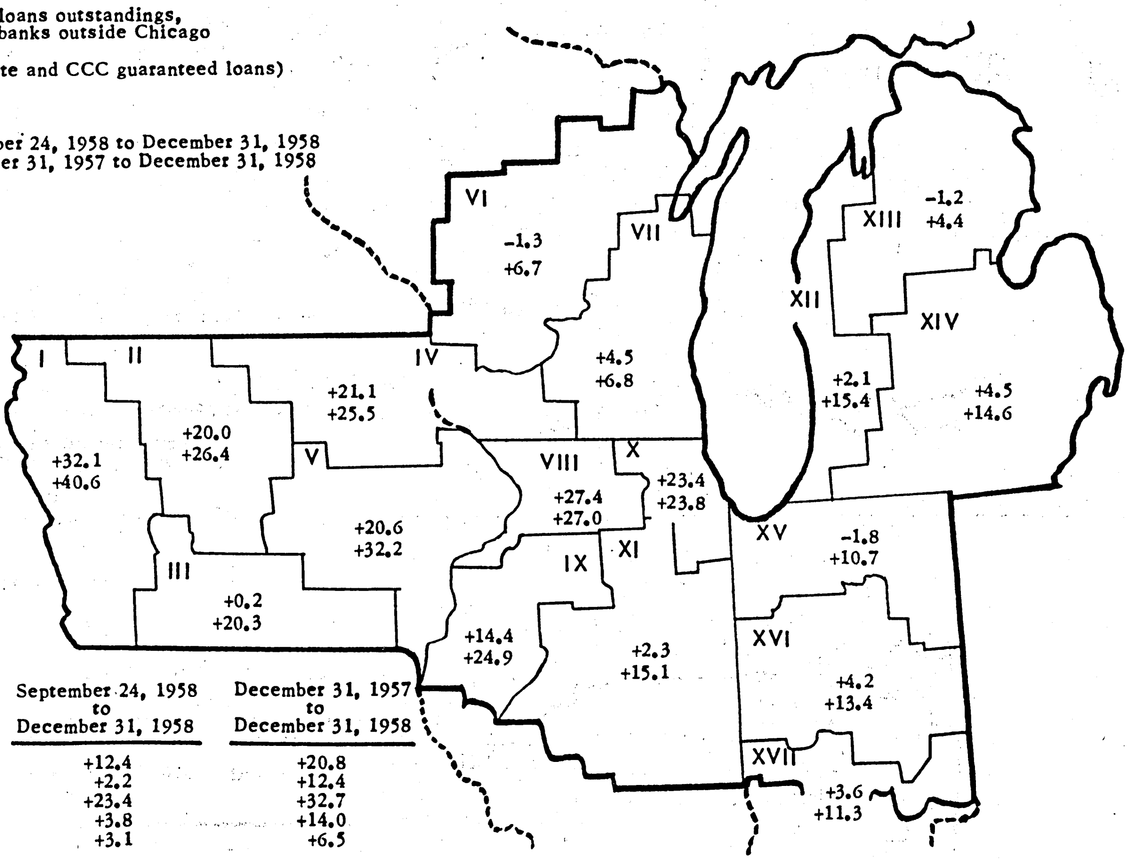
	September 24, 1958 to December 31, 1958	December 31, 1957 to December 31, 1958
Illinois	-2.1	+5.4
Indiana	+1.6	+3.9
Iowa	-0.9	+6.1
Michigan	+1.4	+6.0
Wisconsin	+1.3	+5.6
SEVENTH DISTRICT	+0.3	+5.3

"Short-term" farm loans outstandings,
District member banks outside Chicago

(excludes real estate and CCC guaranteed loans)

Per cent change:

TOP: September 24, 1958 to December 31, 1958
BOTTOM: December 31, 1957 to December 31, 1958



	September 24, 1958 to December 31, 1958	December 31, 1957 to December 31, 1958
Illinois	+12.4	+20.8
Indiana	+2.2	+12.4
Iowa	+23.4	+32.7
Michigan	+3.8	+14.0
Wisconsin	+3.1	+6.5
SEVENTH DISTRICT	+13.2	+22.2