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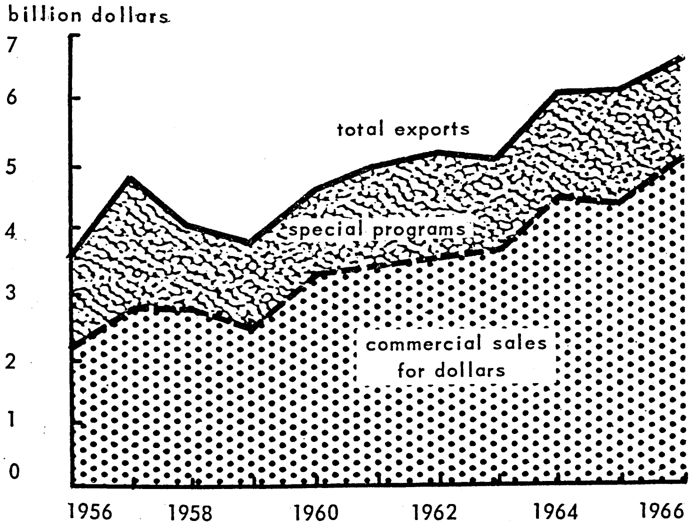
FINANCING FOOD FOR PEACE was the topic of discussion at the National Agricultural Credit Conference in Minneapolis last week—a conference sponsored annually by the American Bankers Association. Most of the discussion centered on how banks could strengthen their ability to meet the rising demand for agricultural credit.

The Food for Peace Act of 1966 provides authorization for $1.9 billion for food grants and $5.5 billion for sales for soft currency and credit during the next two years. Legislation under which such expenditures are made currently will expire at the end of this year. According to estimates by the U. S. Department of Agriculture, the new authorization and amendments to Public Law 480 will not greatly change the value of agricultural commodities exported under these programs. Such exports totaled about $1.6 billion for the year ended June 30.

Government Programs Aid Exports



Source: USDA Fiscal year ended June 30.

The new Act makes food aid from the United States conditional upon efforts to improve production, especially agricultural production on the part of recipient countries. Commodities eligible for export under the food aid programs no longer would be confined specifically to surplus agricultural commodities—although exports under these programs will not ignore the adequacy of supplies for both foreign and domestic needs. The 1966 Act also provides that the nutritional content of foods exported under the program be improved and that the proportion of exports financed by long-term credit be expanded.

In part, because of increased foreign demand, Government restrictions on acreage of grain crops in 1967 recently have been eased. The U. S. Department of Agriculture estimates that 25 to 30 million acres may be brought back into production. This will boost farmers' credit requirements somewhat. In addition, the continued increase in the average size of farms and greater expenditures for fuel, machinery and fertilizer have gradually boosted requirements for total farm operating credit, as well as the average size of loans for this purpose.

During 1966, farm debt outstanding rose more than $4 billion to an estimated $45.8 billion, continuing the steady upswing evident during recent years. Non-real estate debt was estimated at $22.3 billion—up nearly $2 billion from a year earlier; debt secured by mortgage on farm real estate rose a comparable amount. The soundness of all agricultural loans depends ultimately on the overall profitability of the farm. Loan officers, therefore, most often undertake a detailed credit analysis which includes the budgeting of proposed ventures to determine the probable effects on net farm earnings.

Bankers speaking at the conference generally agreed that more accounting data is needed from their customers if adequate credit analysis is to be possible. A number of banks are providing accounting information for farmers by coding and summarizing transactions in checking accounts. According to a midyear survey by the American Bankers Association, an estimated 200 agricultural banks are now providing such a service with an additional 450 giving it consideration.

Bankers also discussed various methods of increasing deposits and securing other funds to serve as a basis for additional farm loans. Although all the methods discussed for obtaining new funds will not be practical for all banks, it was concluded that all avenues should be explored when loan demand in an area exceeds the available loanable funds. Competitive rates can be paid on savings and time deposits to help retain funds in the area. Rates must be competitive with other short-term investments if outflows of local funds are to be held to a minimum. CDs may be an especially useful means of obtaining funds for farm loans because their maturity can be scheduled to coincide with seasonal credit demands. Deposits of local and state governments and agricultural supply firms can be solicited actively. Outside sources —such as insurance companies, subsidiary agricultural credit corporations and correspondent banks—were considered to be important sources of funds. According to the midyear survey by the American Bankers Association, sale of loan participations to correspondents, borrowing from Federal Reserve Banks and placement of real estate loans with insurance companies were used most frequently to obtain outside funds.

David W. Maaske
Economist