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Federal Reserve Bank of Chicago - -

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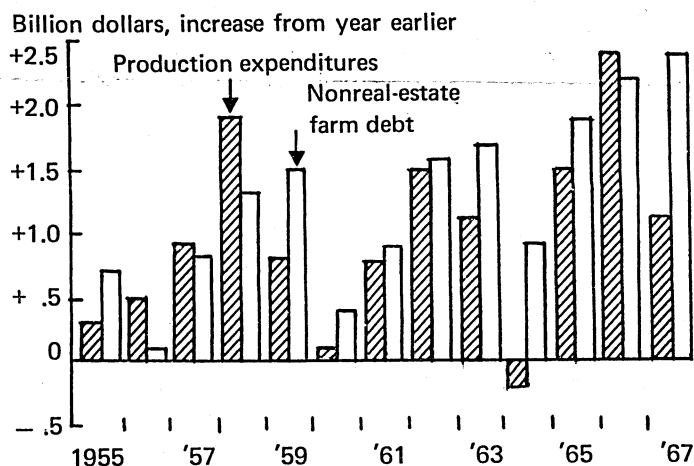
# Agricultural Letter

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**NONREAL-ESTATE DEBT** owed by U. S. farmers rose faster in 1967 than in any other previous year. Credit to finance purchases of machinery, livestock, and feed and to pay taxes, wages, and other current operating expenses increased about \$2.4 billion from the record \$21.2 billion outstanding the year before.

## Rising Production Costs Spur Debt Growth



Increases in farmers' outlays for goods and services used in production appear to have been heavily influencing the level of short-term borrowing for several years. Large increases in production expenditures have generally been accompanied by similar increases in debt. However, in 1967, even though expenditures for production increased less than the year before—about \$1.1 billion compared with \$2.4 billion in 1966—farmers' use of nonreal-estate credit rose even faster. The increase may have partly reflected changing credit conditions and the drop in farm income.

A large part of the debt secured by farm real estate is typically used to finance purchases other than land. According to Department of Agriculture estimates, typically a fourth of the total real-estate mortgage credit extended may be used to finance such expenditures. However, farm mortgage credit became less available last year, and interest rates rose faster on such loans than on short-term loans. Farmers were no doubt reluctant to enter into long-term commitments in an uncertain money market. Rather than seek refinancing for existing real-estate mortgage loans or try to obtain new mortgage loans, many farmers apparently shifted to shorter term loans. Sharply reduced farm income, especially in the second half of 1967, also probably contributed to the need for larger amounts of short-term credit—which would help explain the sharp rise in renewals of outstanding farm loans late in 1967.

Nonreal-estate loans outstanding at institutional lenders increased in the Seventh Federal Reserve District. Commercial banks reported nonreal-estate loans to farmers up 11 percent from the previous year. Loans held by Production Credit Associations were up about 25 percent.

## Nonreal-Estate Loans Up Sharply But Banks' Share Declined (dollar amounts in millions)

| Year beginning January 1 | Commercial banks | P.C.A.    | F.H.A.   | F.I.C.B. | Total  |
|--------------------------|------------------|-----------|----------|----------|--------|
| 1955                     | \$ 703 82%       | \$103 12% | \$ 41 5% | \$ 6 1%  | \$ 853 |
| 1960                     | 1,226 79         | 265 17    | 56 4     | 9 1      | 1,556  |
| 1965                     | 1,556 76         | 380 19    | 94 4     | 17 1     | 2,048  |
| 1966                     | 1,720 76         | 431 19    | 103 4    | 20 1     | 2,273  |
| 1967                     | 2,007 75         | 535 20    | 106 4    | 21 1     | 2,669  |
| 1968                     | 2,223 73         | 669 22    | 116 4    | 24 1     | 3,031  |

Total nonreal-estate farm debt held by major institutional lenders in district states has nearly doubled since 1960 and more than tripled since the mid-1950s. Commercial banks have accounted for the largest part of the increase as well as for most of the total outstanding. But despite the rapid increase in agricultural loans at banks, the proportion of total farm loans extended by banks has declined. In 1955, for example, banks accounted for more than 82 percent of the nonreal-estate loans held by commercial lenders. Last year, that share had declined to about 73 percent, even though the total amount of such bank loans had about tripled. By contrast, Production Credit Associations have shown a more rapid rate of growth, with nonreal-estate loans rising from about \$103 million in 1955 to about \$669 million at the start of 1968—a gain of more than 500 percent. The tremendous increase in nonreal-estate credit extended by Production Credit Associations has brought their share of the total from about 12 percent in 1955 to 22 percent in 1967.

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