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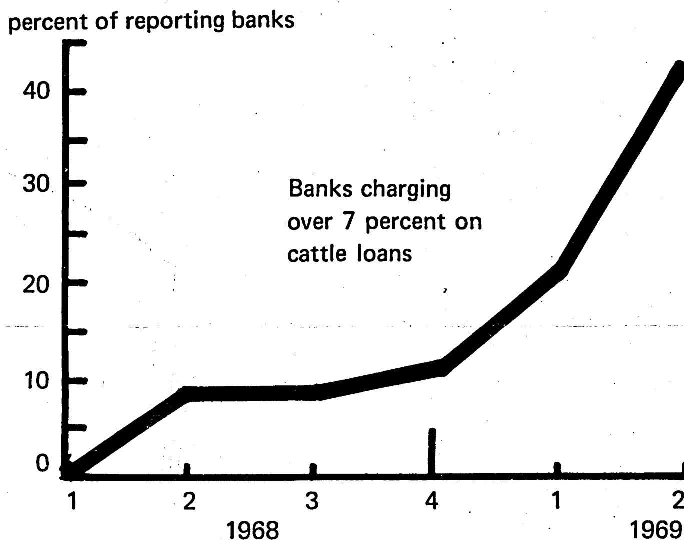
INTEREST RATES on farm loans are up sharply at Seventh District banks. Ninety-five percent of the agricultural bankers responding to a July 1 survey reported charging 7 percent or more on loans. Six months ago, only 60 percent of the bankers were charging 7 percent or more on feeder cattle loans and about 80 percent were charging such rates on farm real estate loans.

A large number of Iowa banks boosted rates on farm loans in the second quarter. The interest rate ceiling in Iowa was raised from 7 to 9 percent last April, enabling farm loans to compete with other types of loans and investments at current market rates. Since then, rates have been moving up and, as of July 1, over two-thirds of the bankers surveyed in Iowa were charging more than 7 percent on feeder cattle loans and four-fifths reported charging such rates on farm real estate loans.

Bankers in Wisconsin and Indiana also reported charging higher rates on farm loans. As a result, the proportion of banks in the district charging over 7 percent on feeder cattle loans (comparable data for farm real estate loans are not available) more than doubled since April of this year.

Interest Rates Up Sharply at District Banks



The recent lifting of interest rate ceilings in Illinois and Michigan is also likely to result in increased rates in these states. In Illinois, the maximum legal lending rate on loans to individuals has been raised from 7 to 8 percent but the new law did not become effective until July 1. Although the former law exempted loans for business purposes from the rate ceiling, farmers sometimes commingle their funds (in most cases a farm is both a business and a residence) and bankers in Illinois were often hesitant to charge more than 7 percent on loans to farmers. The Michigan legislature has just recently passed a bill which will remove rate ceilings completely through 1970 (the former maximum rate on loans to individuals was 7 percent).

Increased interest charges apparently have not had much of a dampening effect on farmers' demand for operating credit. However, demand for farm mortgage credit is apparently down slightly in the Corn Belt states. This is probably due partly to low grain prices during the past two years.

Over a fourth of the bankers surveyed on July 1 indicated that demand for real estate loans had decreased. This was twice the proportion reporting a decrease in a year-earlier survey. But over half said that demand for real estate credit was the same as a year ago. For non-real estate loans such as loans to buy feeder cattle or machinery, over half the bankers also reported that demand was the same as a year ago. But in contrast to real estate loans, only an eighth said demand for these loans had decreased. However, fewer bankers reported increased demand for non-real estate credit. Only about a third of the bankers reported increased demand this year compared to nearly half of the bankers in mid-1968.

Loan-to-deposit ratios of reporting banks are similar to those of last year indicating that lending activity has not increased significantly relative to deposits. However, more bankers are reporting a decrease in the availability of loanable funds. Approximately 45 percent of the banks reported less funds for real estate loans than last year, and a third reported fewer funds for non-real estate lending. In the mid-1968 survey the relative proportions for banks reporting a decline in loanable funds was significantly lower—a third of the banks for real estate loans and less than a fourth for non-real estate loans.

Other investments, namely Federal funds, Treasury bills, and Government bonds provide alternatives to farm lending for agricultural banks. Indeed, yields on these nearly riskless investments have been extremely attractive in recent months. Recently the rate on Federal funds ranged between 8 and 9 percent—about 3 percentage points higher than a year ago. Six month Treasury bills and 3 to 5 year Government bonds have been yielding 7 percent or more.

Farmers must compete with these and other uses for funds and, until inflation is convincingly brought under control, no easing of the relatively higher rates on farm loans may be expected.

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