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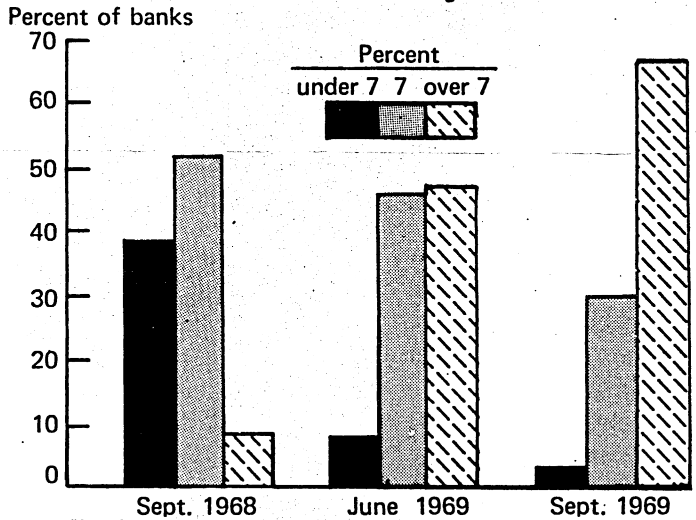
LOANS TO FARMERS at Midwest banks are outstanding in about the same amount as a year ago. At midyear the dollar amount of non-real estate farm loans at member banks in the Seventh Federal Reserve District was only 1 percent above a year ago. A survey of rural banks early in October indicated that farmers' demand for credit had continued weak. Nearly three-fourths of the more than 350 country bankers in the survey indicated either a stable or declining demand for non-real estate farm loans.

Interest rates on loans to farmers, already at historically high levels, advanced further in the third quarter. More than two-thirds of the banks responding to the survey reported the current rate on feeder cattle loans was 7.5 percent or more. In June less than half the banks reported these rates; a year ago less than 10 percent of the banks reported rates at that level. Much of the recent increase in rates has followed the raising of usury ceilings in Illinois and Iowa. In Iowa the ceiling was raised from 7 to 9 percent last April; in Illinois, from 7 to 8 percent at midyear. (The usury law in Illinois still exempts loans for business purposes.) These changes enable farm loans to compete more effectively with other types of loans and investments for a portion of the available supply of credit. Rates have increased at most banks in these states since the change in usury laws. Although the interest ceiling in Michigan was removed for some types of loans, it apparently still applies to most farm loans and virtually all the banks in Michigan reported a 7-percent rate, the maximum permitted under the usury law.

Interest Rates Move Higher*



*Typical rates on feeder cattle loans at Seventh District "Agricultural Banks."

The relatively high cost of money has, no doubt, caused farmers to minimize their borrowing. Collateral requirements have become more stringent too. About a fourth of the bankers reported boosting the collateral required on farm loans in the third quarter. Also, farmers' incomes, especially livestock farmers, have been running well ahead of a year ago which tends to reduce borrowing needs. In the district states cash receipts from marketings through midyear averaged about 7 percent higher than in the year earlier period; receipts from sales of livestock were about 12 percent ahead of the year-ago period.

The demand for credit by Seventh District farmers is generally expected to continue moderate during the fourth quarter. About two-thirds of the bankers expect loan demand to stay about the same as last year and about a sixth expect it to be less than a year ago. Credit demand by farmers during the remainder of the year will be closely related, of course, to the harvesting and marketing of crops and farmers' purchases of feeder cattle. The size of this year's crops in the district is about equal to that of last year. Marketing and harvesting conditions are more favorable, although in recent weeks heavy rains have halted harvesting in some areas. Last year much of the grain was in poor condition and prices were depressed at harvesttime. As a result, loan-payoffs were slow and renewals rose sharply. That experience is not expected to be repeated this year.

Another reason for anticipating some softness in farm credit demands is the smaller purchases of farm machinery. More than two-fifths of the bankers expect a decline in the amount of credit needed to finance equipment purchases. Although prices of farm machinery and equipment are about 5 percent higher than a year ago, the Farm and Industrial Equipment Institute reports retail tractor sales through August were 11 percent under last year in the district states. Lower sales of harvesting equipment also are indicated.

Loans to finance feeder cattle purchases, on the other hand, may run somewhat higher over the next few months. Cattle placed on feed during the third quarter in the district states were about 2 percent above the same quarter last year. Though expected lower returns from cattle feeding operations since then may curtail the numbers going into feedlots, higher prices for these animals are likely to keep credit demand for cattle feeding at a high level. Feeder cattle prices (500-700 pound steers at Kansas City) are currently about \$31 per hundredweight—about \$4 above a year ago.

Funds available to accommodate farmers' credit needs should be adequate in most areas. Although some banks reported reduced availability of funds as compared with a year ago, deposit growth at "agricultural banks" overall has been rapid this year. Time deposits at these banks in September were about 12 percent higher than in 1968 and demand deposits were 4 percent higher.

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