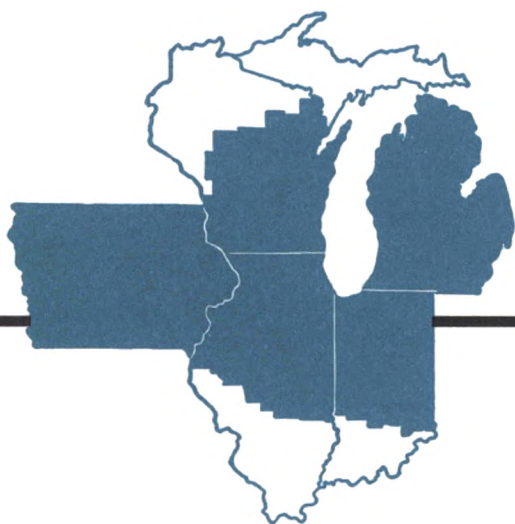


Business Conditions

1967 August



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Trends in banking and finance

What's happened to liquidity

Contrasting changes have been charted over the past year and a half in the liquidity position of financial institutions. Particularly affected have been commercial banks and savings and loan associations.

The banks

With business corporations since the end of 1966 covering a large and growing portion of their financing needs in the capital markets, commercial banks have been in a position to improve their liquidity positions. At the end of last summer it appeared that banks had reached something close to rock bottom in holdings of liquid assets, at least as compared with earlier postwar experience.

Not only were loans for many banks at new highs in relation to deposits, but in addition large proportions of U. S. Government securities—the bank assets most easily convertible into cash, especially the short-term Governments—were effectively immobilized as they were pledged as collateral against deposits of

state, local and Federal governments. Moreover, a technique on which many banks had come to rely heavily in meeting liquidity needs—the acquisition of funds through the issuance of certificates of deposit—had become virtually useless with legal rate ceilings lower than the market yields offered by competing users of funds.

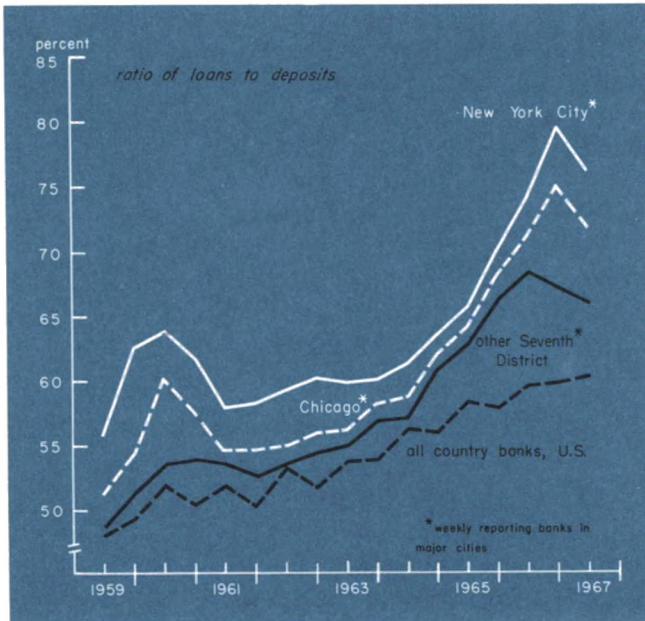
How much liquidity has been restored to the banking system since late 1966? The conventional way of judging changes in liquidity is to look at the proportion of “nonliquid” assets (principally loans) or, conversely, “liquid” assets that banks hold in relation to deposits. While it is obvious that these ratios as such do not measure the way banks *feel* about their liquidity—which is what really matters—changes in them may be indicative of trends toward more or less comfortable positions, given reasonably stable prospects for flows of funds.

Despite some reversal of the steady climb in loan-deposit ratios, reflecting the channel-

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Loan-deposit ratios remain relatively high



ing of a larger share of bank funds into investments, bank liquidity by the conventional measures is still relatively low. There is evidence also that many banks have abandoned the short-term U. S. Government security portfolio as a primary liquidity reservoir, with growth in bank holdings of investments since late last year mostly confined to securities in the intermediate (one to five) maturity range.

Outstanding customer loans in relation to collected deposits for large city banks reached a peak toward the close of 1966.¹ Although

¹As used in this article, loans exclude interbank credits and loans to securities dealers since these are assumed to represent uses of short-run cash surpluses. Deposits are adjusted for cash items in process of collection.

loan volume leveled off after mid-year, the sharp runoff of time certificates of deposit in the fourth quarter continued to push loan-deposit ratios higher. Much of the easing in such ratios during the first quarter of this year reflected the recovery of CD money as market rates moved down. By mid-1967, large city banks were showing ratios somewhat lower than a year earlier, but country banks were more "loaned-up" than ever before (see chart).

As one might have expected, the banks that had the highest ratios last summer generally experienced the greatest improvement in liquidity, as measured by the loan-deposit ratio; but inevitably there have been exceptions. Of the 55 Seventh District city banks that report their assets and liabilities weekly, 17 had loan ratios higher than 75 percent in mid-September, and the average

ratio for these banks was 81 percent. Although six months later the average had dropped to 77 percent, individual ratios had risen during the period at about one-third of the banks.

Another factor obviously bearing on the liquidity question is the *level* of loan-deposit ratios. In previous postwar "breathing spells" in loan demand, the relatively small contraction in these ratios reflected the strong desire by banks to increase loans over the longer run, while reducing their holdings of investments. At present levels, however, there clearly is much less latitude for a further increase in loan-deposit ratios, and many banks undoubtedly would prefer to see them somewhat lower. The willingness of banks to meet

loan demand in the future, however, is not likely to shrink so long as they are able to attract proportionate deposit inflows. For the banking system as a whole, of course, this will depend on the extent to which the Federal Reserve supplies the necessary reserves, and for individual banks it will depend also upon the competitiveness of deposit solicitation efforts.

Much attention has been focused on the fact that from October through June, on a seasonally adjusted basis, commercial banks increased their holdings of U. S. Government securities by roughly 4 billion dollars and acquired another 7 billion dollars of other securities. On the basis of information available for the weekly reporting banks, however, it appears that the bulk of the Treasury issues had maturities of more than a year. Likewise, the bulk of the municipal issues acquired were of intermediate maturity. On balance the ratio of short-term securities to total assets rose only slightly at District reporting banks—from 6.2 percent last September to 7.5 percent prior to the July Treasury financing.

Despite the narrow maneuverability to accommodate future loan demand suggested by the present composition of bank assets, there is no reason to expect that banks will encounter serious difficulties in the period ahead because of their liquidity positions. In fact, two major factors seem likely to remove some of the pressure now evident. First, and most immediate, is the importance of the U. S. Government sector in the prospective total demand for credit in the second half of 1967. As banks participate in the new Treasury financing, their liquidity can be expected to improve.

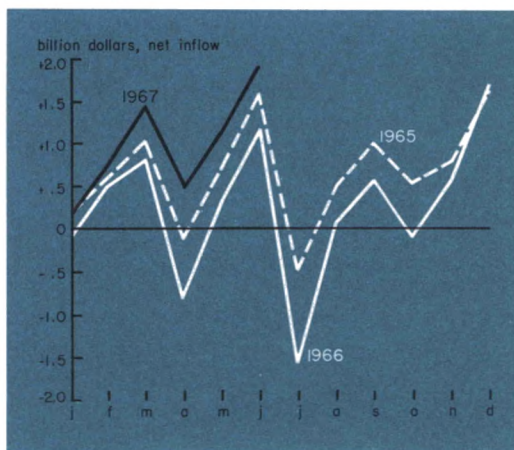
Second, and probably with longer-term implications, is the reduction in the need for bank credit resulting from the huge volume of capital market financing that has occurred

this year. Notwithstanding current expectations of strong seasonal loan demand this fall, the improved liquidity position of corporations, combined with a slowing in the growth of business inventories and capital expenditures seems certain to moderate business demands for bank credit for a considerable span of time. Such a view is supported by the experience following earlier periods of heavy capital market financing in 1957 and 1961. In the long run, of course, the ability to meet loan demand must derive mainly from overall deposit growth, which in turn will depend upon the availability of reserves provided by the Federal Reserve.

The savings and loan associations

Net inflow of share capital at savings and loan associations rebounded sharply in the fourth quarter of 1966 and continued at a near record level through at least the first six months of this year. The abrupt falling off in savings inflow earlier in 1966—with a net

Sharp rebound in savings and loan inflow began in fourth quarter 1966



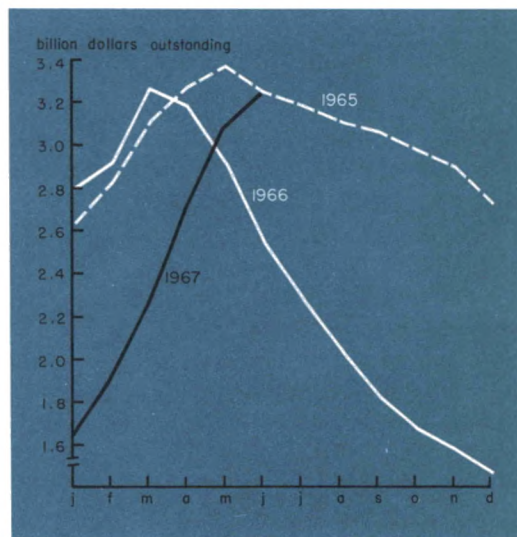
outflow of 750 million dollars occurring in the third quarter—had given strong motivation to the industry to curtail the volume of mortgage lending. But because of the long lead time involved in real estate financing and the practical necessity of honoring outstanding loan commitments, the associations were able to checkrein their new loan disbursements only after some time lag. As a consequence, they were obliged to add almost 1.2 billion dollars to their borrowings from the Federal Home Loan Banks during the first three quarters of 1966 while also allowing their cash holdings to run down by 1.3 billion during the same interval.

The roll back on September 26, 1966 from $5\frac{1}{2}$ to 5 percent in the ceiling rate that may be paid by commercial banks on time certificates of deposit of less than 100,000 dollars apparently was accountable in large part for the quick recovery in savings and loan share inflow in the ensuing quarter, when outstanding share capital racked up a net gain of nearly 2.3 billion dollars. Coming as it did at a time of virtually no net change in mortgage loan outstandings, this sharp increase in savings capital enabled the associations to pay down their advances to the Home Loan Banks by 240 million dollars while adding 733 million to their holdings of cash.

With a share capital increase of 2.4 billion dollars in the first quarter of this year—up from 1.3 billion in the year-earlier quarter—the associations began to renew their interest in new mortgages. Yet their net loan acquisitions in the first three months of this year, while up sharply from the final quarter of last year, were only a third or so as great as in the first quarter of 1966.

The liquidity of the savings and loan industry—also “conventionally” defined as the ratio of cash and Government securities to total share capital—has remained com-

Backlog of savings and loan mortgage loan commitments reached 1966 level by May 1967



paratively low by past experience. At the end of April 1967 the liquidity ratio was just under 10 percent, compared with 9.5 percent a year earlier but 10.3 percent in April 1965.

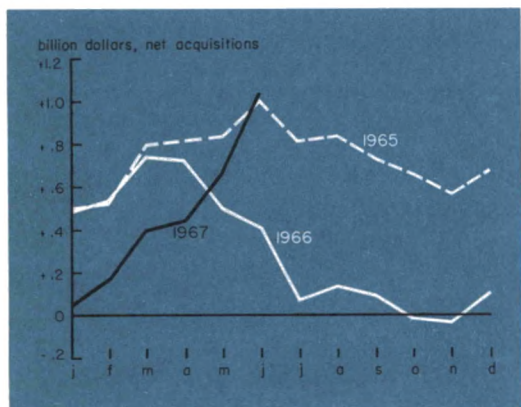
Obviously, the conventional liquidity yardstick for savings and loan associations has the same drawback as its counterpart for the commercial banks in that it does not directly shed light on any gap that may exist between actual and desired levels of liquidity. Thus, even a level that appeared high in the light of past experience might now seem unduly low to association managers expecting a sizable expansion in loan demand later in the year or uncertain over the future course of savings inflow.

With long-term market rates of interest at or close to their highs of 1966 and expecta-

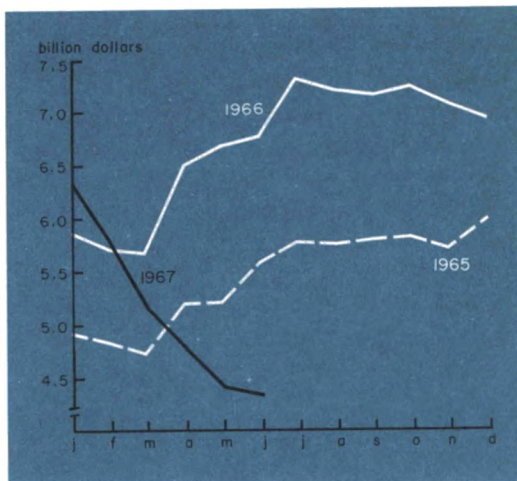
tions widespread that economic activity will expand through the remainder of this year, suppliers of mortgage funds other than the savings and loan associations—chiefly life insurance companies and the mutual savings and commercial banks—have been and apparently are confident of continuing for some time ahead to be confronted with an attractive variety of outlets for funds. The financial pressures associated with the recent moderate revival in housing activity, therefore, have converged largely on the savings and loan associations, which specialize in residential financing. An important result has been that mortgage loan terms began to tighten somewhat in May after the modest easing that had been under way during the January-April period. This serves to suggest that savings and loan associations had not yet achieved desired levels of liquidity, given their expectations for the months ahead.

The conventional liquidity measures for savings and loan associations also is deficient

Savings and loan mortgage lending responded to savings gain, after short lag



Savings and loan debt to Home Loan Banks declined sharply



in failing to reflect the availability of “borrowed liquidity” in the form of advances by Home Loan Banks to member associations. As has been indicated, association borrowings from this source were sizable during 1966, with outstanding balances rising 938 million dollars for the year as a whole. A substantial net reduction in advances, however, has occurred since July 1966 when total advances reached a record 7.3 billion dollars. By the end of June 1967 association debt to the Home Loan Banks had been reduced by 4 billion dollars from its 1966 peak.

The ability of the savings associations to utilize credit from the Home Loan Banks—albeit at interest rates closely aligned to the market—is a factor that has a distinct bearing on the “effective” liquidity position of the industry. The substantial borrowing potential that this source represents, coupled with the sizable volume of net savings inflow in the first half, would suggest that the savings asso-

ciations are well situated at present to finance a growing volume of residential construction during the remainder of 1967.

Significantly, such a judgment assumes that recent trends in share capital growth at savings and loan associations will persist in coming months. Appreciable further increases in yields on market instruments, however, could cloud the prospects for additional growth in share capital, given the prevailing ceilings on savings account rates that savings and loan associations and banks may not exceed. Moreover, termination of the present regulatory control of savings and loan dividend rates and of bank time deposit rates by reference to deposit denominations, which is scheduled to occur in late September under the statutory authority now in effect, could

complicate matters still further if it were to lead to an outflow of funds from savings and loan shares to market securities or the obligations of other financial institutions.

Adoption of a Federal income tax surcharge undoubtedly would serve to strengthen the chances of sustained high levels of savings inflow into savings and loan associations and banks in coming months. Such fiscal action would reduce Treasury borrowing below what otherwise would be needed and would restrain private spending, thus tending to moderate upward pressures on capital market yields. Under these circumstances a more normal and orderly flow of savings than occurred during the period of stringent credit markets in 1966 hopefully would be maintained.

1966 farm loan survey*

Larger loans, longer maturities, higher interest rates

Agricultural loans held by commercial banks in the Seventh Federal Reserve District continue to reflect the changes taking place on farms. Three major trends are widely evident, all with an impact on credit. First and foremost is the continued growth in the size of farm operations. Second, and closely associated with the first, is the large volume of purchases of farm machinery and equipment made to reduce dependence upon farm labor which has become increasingly expensive and scarce. Finally, farmers continue to specialize in particular lines of production and to purchase greater proportions of their overall inputs—such as seed, fertilizers, chemicals, feeds and feeder animals.

All these trends are based largely upon a rapidly advancing technology and, hence, are likely to continue in the years ahead. The impact on farm credit has been considerable and also is likely to continue.

Larger loans

Possibly the most striking development in the extension of bank credit to farmers during the past decade has been the substantial rise in the average loan size. The average loan in 1966 was more than double that reported ten years earlier. Inasmuch as the average investment per farm has risen by more than two and one-half times during this period, the large increase in loan size is not surprising.

*The first of this series of articles on the 1966 farm loan survey appeared in *Business Conditions*, May, 1967, pp. 11-16.

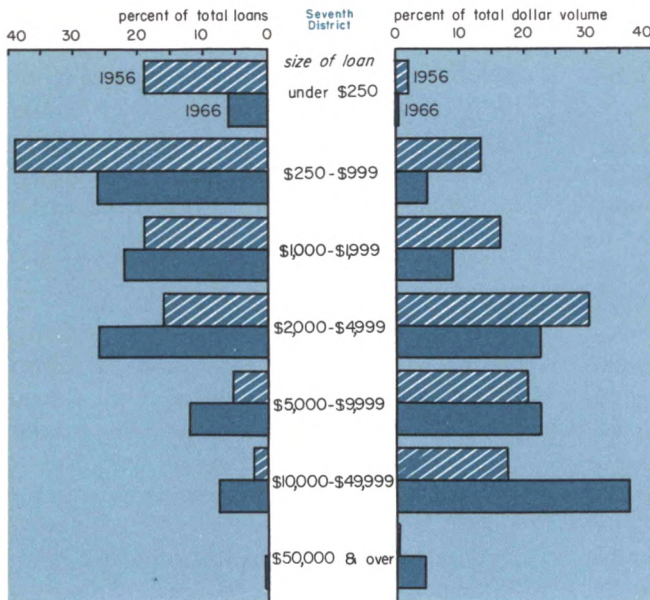
Banks, however, make a large number of relatively small loans. The original amount of more than one-third of the agricultural loans outstanding at mid-1966 was less than \$1,000 while one-seventh of these loans were for less than \$500. But small loans were a substantially larger proportion in 1956 when well over half of all farm loans made by commercial banks were \$1,000 or less.

These small loans, though numerous, account for only a small portion of the total dollar amount of loans. Those for less than \$1,000, for example, accounted for about 5 percent of the total dollar volume, while loans for \$10,000 or more accounted for about two-fifths, and those for \$25,000 or more for around 15 percent of the total.

The size of a loan depends largely upon the purpose for which it was made. Loans for the purchase of farm real estate averaged \$11,634 and were the largest of any "purpose category," followed by those for the purchase of feeder livestock, which averaged \$6,547. On the other hand, loans written for operating expenses were small, averaging \$1,973. Only loans for purchase of automobiles, other consumer durables and for family living expenses were smaller.

Although the average loan size for operating expenses was relatively small, more than one-fifth of the agricultural credit outstanding at banks in the District was of this type. Loans for all current expenditures, including those for operating, family living and feeder cattle, amounted to about 45 percent of

Large loans increase in number and proportion of credit outstanding



the total loans outstanding as of mid-1966. (Feeder cattle loans are at a relatively low level at midyear.) In this category of "short-term" loans the greatest increase—more than double—had occurred since the previous farm loan survey in 1956. For the most part, this rapid expansion merely reflects the steadily rising expenditures for farm production items and the larger proportion of such items being financed.

Bank loans for capital items, other than farmland, rose about 94 percent between 1956 and 1966. About two of every five farm notes held by District banks, accounting for about 30 percent of the credit outstanding, were for capital items—such as breeding

livestock, machinery and equipment, improvements for land and buildings, automobiles and other consumer durables. Machinery, tractors, trucks and other items of this type accounted for more than half of the credit outstanding for capital goods, and the total amount extended for this purpose was exceeded only by that loaned for feeder cattle and other operating expenses. Smaller amounts of credit were used for improving land and buildings and financing purchases of breeder livestock, automobiles and other consumer durable goods.

Loans for the purchase of farm real estate, while few in number, accounted for about 18 percent of the dollar amount outstanding because of the large average size of such loans. The amount extended for this purpose had about doubled in the past decade, reflecting both the steady rise in land prices and the general trend

toward financing a greater proportion of the purchase price.

Loans for consolidation or payment of debt also rose since the preceding survey, but the increase was less than for most other types of loans. Credit for this purpose accounted for about 3.5 percent of the total bank credit outstanding to farmers as of mid-1966, compared with approximately 4 percent of total outstandings a decade earlier. This relative improvement may have been associated with the rise of farm income, which in 1966 was at a near record level.

Collateral is important

Security is often stressed in the extension

of credit to help assure payment upon maturity. Borrowers, however, that have good financial statements and have demonstrated their capacity for repayment often receive unsecured loans. As of mid-1966, about 29 percent of the agricultural loans outstanding at District banks were unsecured. This was a slightly smaller proportion than in 1956.

Chattel mortgages were the most common form of security for farm loans. Some 44 percent of the farm loans, representing nearly 46 percent of the dollar amount outstanding at mid-1966, were secured by chattel mortgages. These proportions represented a significant increase from the previous survey when less than two-fifths of the loans, amounting to about one-third of the outstanding credit, were secured by chattel mortgages. Nearly four-fifths of the livestock and more than two-thirds of the machinery loans were secured in this manner. The increase in chattel mortgages since the 1956 survey is undoubtedly associated with the expansion in owner-

ship of farm machinery and other durables that can be used as collateral and the increasing amounts of funds borrowed to purchase machinery, livestock and similar items.

About four-fifths of the outstanding indebtedness secured by farm mortgages was to buy farmland or to improve land or buildings. Loans for the purpose of consolidating or paying debts were also frequently secured by real estate mortgages; about one-third of such loans were secured in this manner.

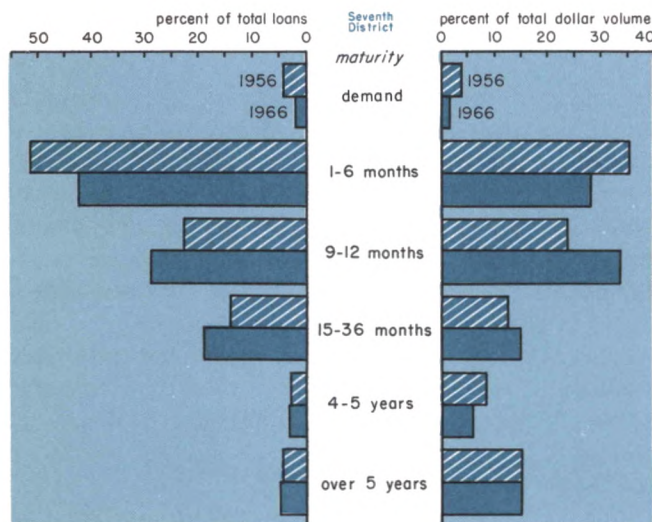
Maturities short but lengthened

The maturities of farm loans made by Seventh District banks were predominantly short term. Indeed, approximately three-fourths of the loans, representing around two-thirds of the farmers' outstanding indebtedness, were for maturities of one year or less; loans written with maturities of six months or less accounted for approximately 44 percent of the number of loans and about 30 percent of the dollar volume.

Yet maturities have lengthened considerably since the earlier survey. In mid-1956 about 55 percent of the loans outstanding, amounting to around 40 percent of the outstanding dollar amount, had maturities of six months or less. The importance of short-term notes is associated in part with the crop planting and harvesting seasons and the cycle of livestock feeding; traditional lending practices in many country banks may also be reflected.

About 57 percent of the loans made for operating expenses matured within six months and an additional 34 percent within one year. Only a small amount had maturities extending beyond one

Loans of 9-36-month maturity increase . . .



year. Similar maturities were reported for feeder cattle loans with more than 90 percent of the total dollar volume maturing in one year or less.

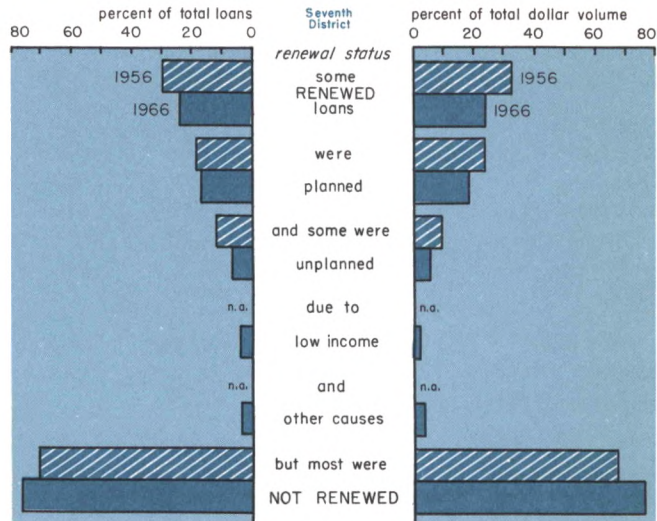
Short maturities were also common for loans to finance farm machinery and equipment—approximately one-fifth of such loans had maturities of six months or less. However, over half had maturities exceeding one year and about 10 percent of such loans provided for payment in excess of four years.

Loans to buy real estate, of course, were written primarily with longer maturities—about two-thirds of the dollar amount exceeded five years. Only about 14 percent of the loans for the purchase of real estate specified repayment within one year. Many of the loans providing short maturities were probably made to individuals with substantial assets or were made as interim loans while other assets were being sold or other financing was being arranged.

Renewals lengthen maturities

While a sizable proportion of notes are written with relatively short maturities, the stated maturity does not always coincide with the length of time credit is outstanding to the banks. Renewals of loans are used widely in farm lending and often serve to stretch out repayment periods. Nearly one-fourth of all the loans outstanding in mid-1966 had been renewed at least once. Moreover, this figure may understate the portion of loans that are ultimately renewed because some of the loans were made too close to the survey date to be subject to renewal.

... and many loans with short maturities are lengthened by renewals



n.a. Not available.

Of the total amount of loans renewed, more than three-fourths had been renewed under an understanding at the time the loan was originally made that this might be done. Many District bankers apparently feel the need for the flexibility that this type of arrangement permits by providing them with the opportunity to review the progress the borrower has made at frequent intervals before extending the credit for an additional period. In addition, farmers may find such arrangements advantageous in accommodating changes in marketing or expenditure plans.

Arrangements of this type appear slightly more prevalent for intermediate-term loans. For example, about one-third of the dollar volume of loans for livestock other than

—continued on page 14 11

Farm loans at commercial banks in the Seventh District, June 30, 1956 and 1966*

| Classification | Loans | | Amount outstanding | | Average original size | | Average effective interest rate | |
|-----------------------------------|----------|----------|--------------------|--------------------|-----------------------|-----------|---------------------------------|-----------|
| | 1956 | 1966 | 1956 | 1966 | 1956 | 1966 | 1956 | 1966 |
| | (number) | (number) | (thousand dollars) | (thousand dollars) | (dollars) | (dollars) | (percent) | (percent) |
| All loans | 706,236 | 733,735 | 946,267 | 2,184,674 | 1,581 | 3,486 | 5.8 | 6.3 |
| Original size | | | | | | | | |
| Under \$250..... | 133,660 | 43,574 | 17,978 | 6,579 | 146 | 156 | 7.0 | 7.1 |
| \$250-499..... | 130,366 | 62,317 | 41,545 | 20,299 | 349 | 352 | 7.0 | 7.0 |
| \$500-999..... | 143,461 | 129,714 | 83,940 | 80,263 | 652 | 671 | 6.6 | 6.9 |
| \$1,000-1,999..... | 134,052 | 164,594 | 153,397 | 195,003 | 1,330 | 1,328 | 6.4 | 6.9 |
| \$2,000-4,999..... | 113,720 | 190,285 | 285,320 | 491,915 | 2,930 | 2,977 | 5.9 | 6.6 |
| \$5,000-9,999..... | 36,600 | 86,654 | 194,799 | 493,070 | 6,466 | 6,651 | 5.1 | 6.3 |
| \$10,000-24,999..... | 13,364 | 46,880 | 140,458 | 572,873 | 13,151 | 14,383 | 4.9 | 6.0 |
| \$25,000-49,999..... | 927 | 8,146 | 24,890 | 222,405 | 31,399 | 32,680 | 4.7 | 6.0 |
| \$50,000-99,999..... | 86 | 1,399 | 3,940 | 64,563 | 57,521 | 68,228 | 4.7 | 5.8 |
| \$100,000 and over..... | — | 171 | — | 37,704 | — | 260,671 | — | 6.1 |
| Purpose | | | | | | | | |
| Current expenses | | | | | | | | |
| Feeder livestock..... | 40,324 | 79,838 | 116,783 | 474,160 | 3,129 | 6,547 | 5.3 | 6.0 |
| Other operating expenses..... | 270,642 | 263,206 | 189,839 | 492,469 | 739 | 1,973 | 6.0 | 6.4 |
| Family living..... | | 20,161 | | 13,388 | | 728 | | 6.6 |
| Intermediate term | | | | | | | | |
| Other livestock..... | 50,506 | 50,882 | 70,079 | 140,484 | 1,636 | 3,188 | 5.9 | 6.8 |
| Machinery and equipment..... | 168,829 | 172,693 | 176,495 | 390,974 | 1,266 | 2,779 | 6.6 | 6.8 |
| Improve land and buildings..... | 30,009 | 16,396 | 64,396 | 75,468 | 2,489 | 5,847 | 5.3 | 6.2 |
| Automobiles..... | 43,629 | 38,933 | 29,503 | 50,668 | 921 | 1,782 | 8.5 | 8.2 |
| Other consumer durables..... | | 4,902 | | 2,466 | | 614 | | 8.0 |
| Buy farm real estate..... | 43,789 | 43,414 | 198,737 | 384,698 | 6,030 | 11,634 | 4.8 | 5.8 |
| Consolidate or pay debts..... | 28,288 | 15,439 | 56,124 | 76,655 | 2,267 | 5,486 | 5.7 | 6.2 |
| Other or not ascertained..... | 30,219 | 27,871 | 44,311 | 83,244 | 1,681 | 3,620 | 5.6 | 6.1 |
| Security | | | | | | | | |
| Unsecured..... | 309,493 | 312,100 | 292,930 | 625,485 | 1,012 | 2,161 | 5.8 | 6.3 |
| Comaker or endorser..... | 50,824 | 32,185 | 47,568 | 61,389 | 1,036 | 2,129 | 6.3 | 6.4 |
| Secured | | | | | | | | |
| Chattel mortgage..... | 277,209 | 318,836 | 337,162 | 999,412 | 1,437 | 3,626 | 6.5 | 6.6 |
| Farm real estate..... | 57,918 | 49,584 | 250,479 | 382,467 | 5,715 | 10,708 | 4.8 | 5.9 |
| Government guaranteed..... | 3,858 | 4,003 | 4,290 | 65,931 | 1,684 | 17,344 | 5.5 | 5.0 |
| Other or not ascertained..... | 6,933 | 17,027 | 13,838 | 49,992 | 2,149 | 3,418 | 5.4 | 6.2 |
| Maturity (to nearest date) | | | | | | | | |
| Demand..... | 30,195 | 14,940 | 36,319 | 34,309 | 1,364 | 2,483 | 5.8 | 6.3 |
| 1-6 months..... | 363,862 | 310,595 | 335,951 | 613,718 | 976 | 2,084 | 5.8 | 6.3 |
| 9-12 months..... | 160,222 | 211,695 | 226,913 | 740,771 | 1,590 | 3,848 | 5.9 | 6.2 |
| 15-36 months..... | 100,611 | 138,936 | 119,747 | 327,810 | 1,627 | 3,110 | 7.1 | 7.1 |
| 4-5 years..... | 20,434 | 21,895 | 82,491 | 133,124 | 5,139 | 8,086 | 4.9 | 6.2 |
| Over 5 years..... | 30,911 | 35,673 | 144,845 | 334,943 | 6,363 | 12,602 | 4.7 | 5.7 |

| Classification | Loans | | Amount outstanding | | Average original size | | Average effective interest rate | |
|--|----------|----------|--------------------|-----------|-----------------------|---------|---------------------------------|--------|
| | 1956 | 1966 | 1956 | 1966 | 1956 | 1966 | 1956 | 1966 |
| | (number) | | (thousand dollars) | | (dollars) | | (percent) | |
| Renewal status | | | | | | | | |
| Note has been renewed | 208,487 | 173,464 | 310,238 | 520,267 | 1,670 | 3,327 | 5.8 | 6.5 |
| Planned renewal | 128,381 | 124,081 | 222,981 | 405,166 | 1,965 | 3,604 | 5.6 | 6.4 |
| Unplanned renewal | 80,106 | 49,383 | 87,257 | 115,101 | 1,197 | 2,631 | 6.1 | 6.6 |
| Due to low income | n.a. | 25,081 | n.a. | 43,157 | n.a. | 1,873 | n.a. | 6.6 |
| Other causes | n.a. | 24,302 | n.a. | 71,944 | n.a. | 3,413 | n.a. | 6.5 |
| Not renewed | 496,236 | 560,270 | 634,490 | 1,664,408 | 1,544 | 3,535 | 5.8 | 6.3 |
| Not reported | 1,512 | — | 1,539 | — | 1,296 | — | 5.6 | — |
| Repayment status | | | | | | | | |
| Note is overdue | 18,087 | 13,630 | 29,313 | 25,931 | 2,420 | 1,902 | 5.6 | 6.3 |
| Not overdue | 688,149 | 720,105 | 916,954 | 2,158,743 | 1,559 | 3,500 | 5.8 | 6.3 |
| Method of repayment and interest charge | | | | | | | | |
| Single payment | 508,603 | 538,597 | 606,404 | 1,441,287 | 1,290 | 2,915 | 5.6 | 6.2 |
| Instalment | | | | | | | | |
| On outstanding balance | 130,536 | 146,301 | 294,360 | 668,270 | 3,026 | 6,025 | 5.2 | 6.0 |
| Add-on | 66,877 | { 39,355 | 45,004 | { 60,682 | 973 | { 2,022 | 11.4 | { 10.4 |
| Discount | | { 9,481 | | { 14,435 | | { 2,063 | | { 13.1 |
| Effective interest rates | | | | | | | | |
| Under 5.0 | 30,021 | 2,595 | 155,801 | 19,481 | 6,629 | 11,520 | 4.2 | 3.9 |
| 5.0-5.9 | 99,994 | 53,393 | 290,051 | 403,655 | 3,399 | 9,035 | 5.0 | 5.4 |
| 6.0-6.9 | 337,557 | 359,859 | 357,536 | 1,270,750 | 1,200 | 4,079 | 6.0 | 6.1 |
| 7.0-7.9 | 170,445 | 267,448 | 98,710 | 418,875 | 639 | 1,783 | 7.0 | 7.0 |
| 8.0-8.9 | 2,191 | 7,231 | 996 | 13,143 | 600 | 2,222 | 8.0 | 8.5 |
| 9.0-9.9 | 2,906 | 7,668 | 2,157 | 12,008 | 1,023 | 2,536 | 9.1 | 9.7 |
| 10.0-10.9 | 12,161 | 4,789 | 11,504 | 8,754 | 1,316 | 2,379 | 10.0 | 10.5 |
| 11.0-11.9 | 3,905 | 15,212 | 3,120 | 21,328 | 1,059 | 2,117 | 11.2 | 11.6 |
| 12.0-12.9 | 30,017 | 3,283 | 19,291 | 4,033 | 964 | 1,672 | 12.0 | 12.3 |
| 13.0-14.9 | 13,380 | 8,774 | 5,580 | 9,211 | 612 | 1,402 | 13.9 | 13.8 |
| 15.0 and over | 3,659 | 3,478 | 1,521 | 3,437 | 571 | 1,408 | 16.2 | 17.0 |
| Origin of purchased notes | | | | | | | | |
| Correspondent bank | n.a. | 848 | n.a. | 11,786 | n.a. | 14,701 | n.a. | 6.0 |
| Other bank | n.a. | 2,011 | n.a. | 20,436 | n.a. | 10,544 | n.a. | 5.8 |
| Insurance company | n.a. | 78 | n.a. | 62 | n.a. | 1,000 | n.a. | 6.0 |
| Farmers Home Administration | n.a. | 2,939 | n.a. | 59,308 | n.a. | 21,141 | n.a. | 5.0 |
| Merchant or dealer | n.a. | 86,626 | n.a. | 125,664 | n.a. | 1,798 | n.a. | 7.3 |
| Other | n.a. | 1,883 | n.a. | 4,739 | n.a. | 7,610 | n.a. | 6.3 |
| Not purchased | n.a. | 639,350 | n.a. | 1,962,678 | n.a. | 3,585 | n.a. | 6.3 |
| Total purchased | n.a. | 94,385 | n.a. | 221,995 | n.a. | 2,815 | n.a. | 6.3 |

n.a. Not available.

*The above data were obtained by expanding information reported by a stratified sample of banks to previously reported loan totals for all commercial banks in the District. The reliability of the estimates is lower for the sub-categories of loans than for the totals.

—continued from page 11

feeder animals and slightly more than one-fifth of the machinery loans were renewed according to earlier agreements. Also, nearly two-fifths of the loans outstanding that were made to consolidate and pay debts were renewed by prearrangement, presumably because of the bankers' desire to exercise control over the loan.

While it would appear that renewals serve primarily as a method of handling loans rather than an indicator of credit distress, about one-fourth of the renewals, representing about 5 percent of the total loans outstanding, were unplanned. This proportion was well below the 9 percent estimated in the previous survey in 1956, possibly reflecting the higher farm income in 1966. Difficulty in meeting scheduled repayments was attributed to low income for about two-fifths of the unplanned renewals. This accounted for about 2 percent of the total amount of loans outstanding. The remaining unplanned renewals were due to other causes which were unspecified.

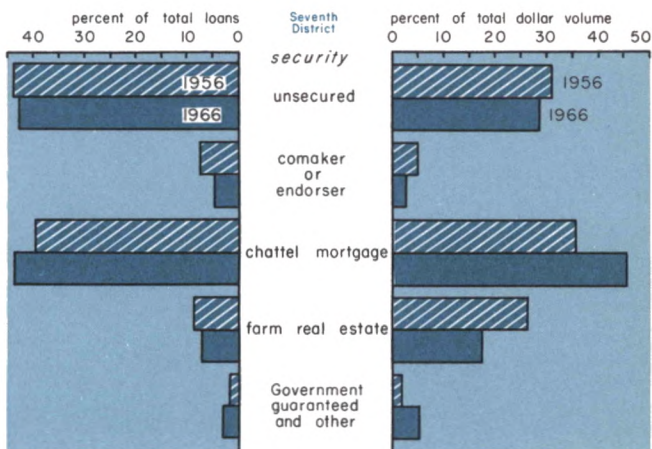
Approximately two of every 100 loans, representing slightly more than 1 percent of the dollar volume outstanding, were reported to be delinquent. This compares with delinquencies amounting to around 3 percent in mid-1956. Furthermore, more than one-third of the past-due loans were delinquent for one month or less. Most delinquencies were for loans made for operating expenses and the purchase of farm real estate, although the highest rate of delinquencies relative to outstandings was for

loans made to consolidate or pay other debts.

Repayments

Methods of repaying bank loans generally are related to the purpose of the loan and the regularity of the borrowers' income. Because of the predominance of loans for feeder livestock and operating expenses and the sporadic nature of receipts from farm marketings in much of the District, most loans are repayable in one lump sum. Indeed, about two-thirds of the dollar volume were of this type. This proportion may overstate somewhat the actual importance of single-payment notes because of the widespread practice of planned renewals as noted above. In addition, the outstanding amounts of many single-payment loans at midyear were less than the original amounts of the loans. Single-payment loans, nevertheless, were reported to account for about 99 percent of the total dollars out-

Chattel mortgage loans become more important



standing for feeder cattle and nearly 94 percent of that for operating expenses.

About one-fifth of the loans, representing nearly one-third of the amount outstanding, carried provision for repayment in instalments. These loans, on the average, were considerably larger than the single-payment loans mainly because of the amortized real estate mortgages. Nearly 80 percent of the real estate loans were amortized and in total accounted for more than one-third of all instalment loans. Over half of the loans for equipment provided for repayment in instalments.

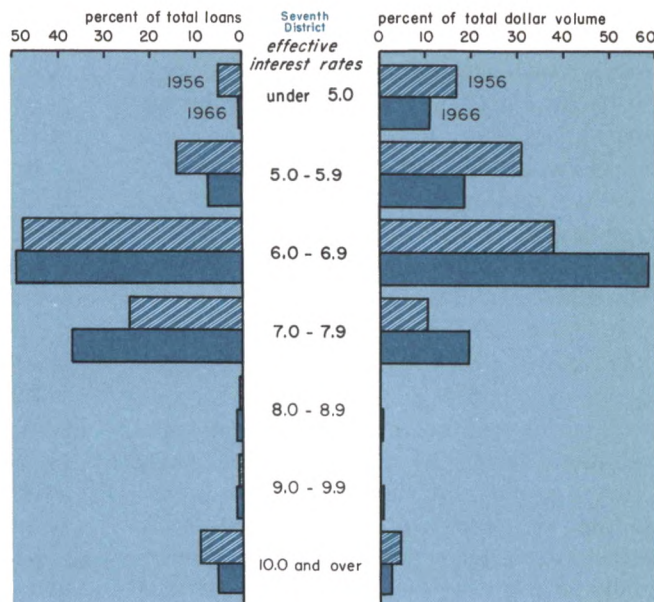
Interest rates

On all farm loans outstanding at District banks in mid-1966, interest rates averaged 6.3 percent. This was about one-half of 1 percent higher than the average rate reported a decade earlier; much of the rise occurred in the months immediately prior to the survey last year.

Depending upon the loan size, security, repayment method, purpose and, presumably, other reasons such as traditional lending practices, interest rates vary widely. Generally, interest rates tended to decline as the size of loans increased, ranging from an average of 7.1 percent for loans under \$250 to 5.8 percent for loans over \$50,000. This probably is because the costs of negotiating and servicing a loan tend to be proportionally smaller for larger loans. Also, the lower rates on large loans may reflect better financial statements of the larger borrowers.

Interest rates on loans secured by real estate were generally lower than on unsecured

Interest rates were higher in 1966



loans or those secured by other collateral, owing, in part, to the larger average size of real estate loans. Also, many of the real estate loans had been written prior to the most recent upward move in interest rates.

Rates on single-payment loans were generally slightly higher than rates on instalment loans with interest payable on the unpaid balance (the latter included real estate loans). Instalment loans where interest payments were discounted or added-on carried substantially higher effective interest charges, averaging 10.4 and 13.1 percent, respectively.

Purchased notes important

Purchased loans accounted for a rather significant portion of the agricultural loans held by District banks, amounting to around 10 percent of the total outstanding farm debt. While comparable data from the 1956 survey

is not available, it would appear that this practice probably has increased over the past few years, primarily because of the rise in debt for such items as machinery and equipment. About half of the purchased loans held by banks at mid-1966 were for capital investments, while most of the remainder were about equally split between loans for current expenses and those to buy farm real estate.

Notes acquired from merchants and dealers accounted for well over half of the purchased notes held by banks and represented approximately 6 percent of the total debt outstanding. Nearly all of these notes had been taken by the merchant or dealer to finance the sale of some capital item. District banks also acquired a relatively large amount of loans from other financial institutions. About one-fourth of those purchased, representing around 3 percent of total outstandings, were acquired from the Farmers Home Administration and were made primarily to buy farm real estate. Most of the remaining were acquired from other banks.

Conclusions

Commercial banks appear to be striving to

keep abreast of the growing as well as changing credit requirements of District farmers. This is partly evidenced, of course, by the more than twofold increase in bank credit outstanding during the past decade. While the number of loans has risen slightly, nearly all of the increase in farmer indebtedness outstanding has come through larger loan size. Banks are securing more loans with chattel mortgages but this development appears to be associated with the relative increase in amounts borrowed to purchase such items rather than a departure from past lending practices. While maturities of loans continue to be predominately of short duration, they have lengthened considerably over the years. In addition, many farmers' intermediate-term credit needs are being met by pre-arranged loan renewals.

All available evidence points to a continuation of the trends toward larger farms, further mechanization and overall adjustments in the structure of production costs and capital investments. Commercial banks will, undoubtedly, continue to have an important role to play in making funds which can facilitate these changes available to agriculture.