

Federal Reserve Bank of Dallas

August 1983

Texas Agricultural Lending—Where do banks fit in?

Through the years the average farm size has increased, and technological improvements have resulted in better, more efficient machinery. Farming has become more and more capital intensive. As the capital requirements of farming have grown, so has the need for agricultural credit.

Many different types of lenders serve the borrowing needs of the farmer. The major institutional lenders are the Farm Credit System (Federal Intermediate Credit Banks, Production Credit Associations, Federal Land Banks and Associations, and Banks for Cooperatives), commercial banks, and the Farmers Home Administration. The Commodity Credit Corporation and life insurance companies are also important agricultural lenders. Noninstitutional lenders include owner-sellers of farm real estate and agri-businesses along with their associated financial subsidiaries.

The Role of Commercial Banks

According to the latest estimate of the Federal Reserve System, as of January 1, 1983, commercial banks accounted for approximately 27 percent of the dollar volume of outstanding farm loans in the U.S. held by institutions. This is second only to the 41 percent held by the Farm Credit System. If only non-real estate debt is considered, commercial banks were responsible for 41 percent of the credit extended to the farm sector by institutions, far more than any other organization.

Texas is close to the national

average. As of January 1, 1983, commercial banks accounted for 35 percent of all outstanding agricultural loans from Texas institutions. As was true for the nation, Texas banks were primarily involved with lending for agricultural production. Loans to finance production were 81 percent of the total farm loans held by U.S. banks and 82 percent of the farm loan portfolios of Texas banks.

Agricultural vs. Nonagricultural Banks

During the past several years agricultural lending by commercial banks has both grown in volume and

become less concentrated. While the dollar volume of agricultural loans held by banks in Texas grew 216 percent from 1970 to 1983, over the same period the dollar volume of all loans held by Texas banks grew 504 percent. As a result, the average agricultural loan to total loan ratio of Texas banks dropped from 20.7 percent to 10.0 percent. Even if banks that had no agricultural loans are excluded, this ratio dropped from 23.9 percent to 12.6 percent. For the same group of banks, the average dollar volume of agricultural loans outstanding grew only 147 per-

(Continued on back page)

Dry Conditions Affect Farm Income

Dry conditions in West Texas are wreaking havoc on both crops and livestock. While much of the affected area consists of low density cattle ranches, there also are some important cotton producing counties. For these counties, the Payment-in-Kind (PIK) program, in addition to the regular federal government disaster relief programs, will soften the impact of the drought. Dawson County is a good example, with well over 90 percent of its cash receipts from cotton and most of that cotton nonirrigated.

Dawson went for PIK in a big way, with only a 119 acres not enrolling out of over 300,000 eligible. As part of PIK, almost 89,000 acres were set aside by Dawson County farmers, who will receive in-kind compensation based on the historical productivity of those

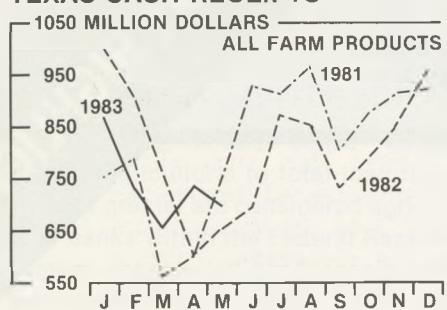
acres.

About 180,000 acres were permitted to grow cotton, plus any nonparticipating cotton acreage. Recent estimates figure the drought yield loss at around 90 percent on about 175,000 acres. Using 1981 yields and a price of 55 cents a pound, this drought means a potential loss of about 34 million dollars worth of cotton for Dawson County farmers. But if there had been no PIK program the loss potential would have been near 50 million dollars, as the withdrawn acreage would have been in production and most likely would have suffered similar losses. Instead, in-kind payments for withheld acreage will help to offset between one-quarter and one-half of the cotton crop losses.

—Hilary Smith

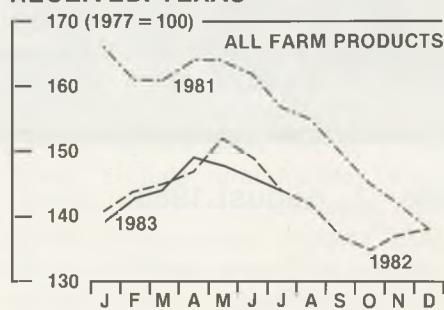
PRIME INDICATORS OF THE TEXAS AGRICULTURAL ECONOMY

TEXAS CASH RECEIPTS



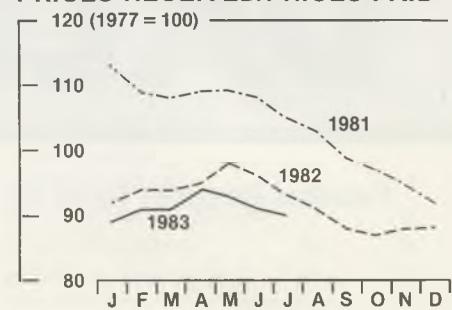
SOURCE: U.S. Department of Agriculture.

INDEX OF PRICES RECEIVED: TEXAS



SOURCE: U.S. Department of Agriculture.

PRICES RECEIVED/PRICES PAID¹

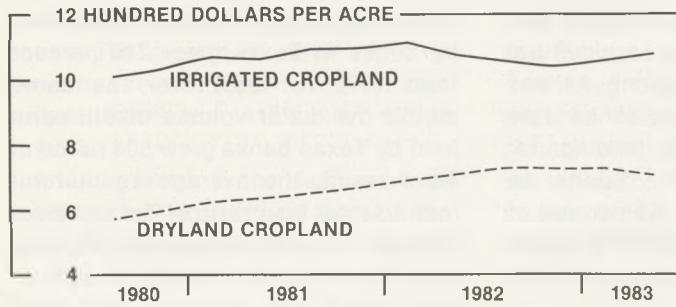


1. Prices received by farmers in Texas divided by prices paid by farmers nationwide (No separate series exists for prices paid in Texas).

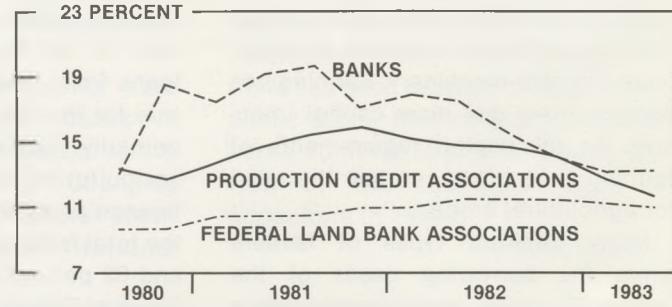
SOURCES: U.S. Department of Agriculture.

Federal Reserve Bank of Dallas.

ELEVENTH DISTRICT FARM REAL ESTATE VALUES



INTEREST RATES ON TEXAS FARM LOANS¹

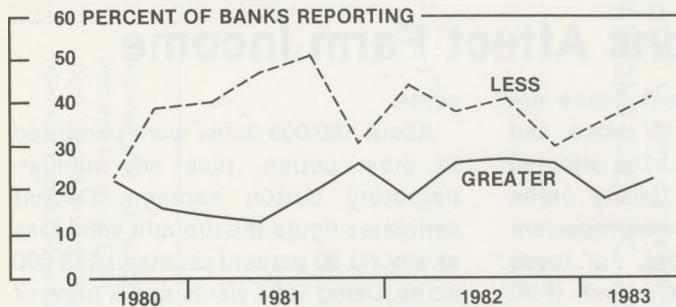


1. FBLA rates are for farm real estate loans, bank and PCA rates are for farm operating loans.

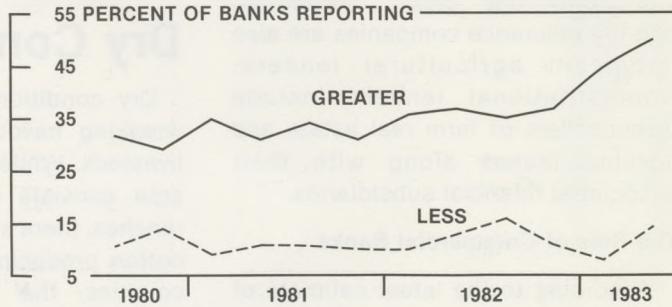
ELEVENTH DISTRICT AGRICULTURAL LOANS

Bankers report whether the variable is "greater," "the same," or "less" than a year ago.
Percent reporting "greater" or "less" are depicted below.

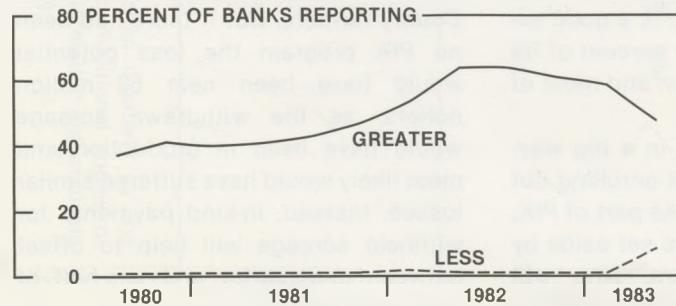
DEMAND FOR LOANS



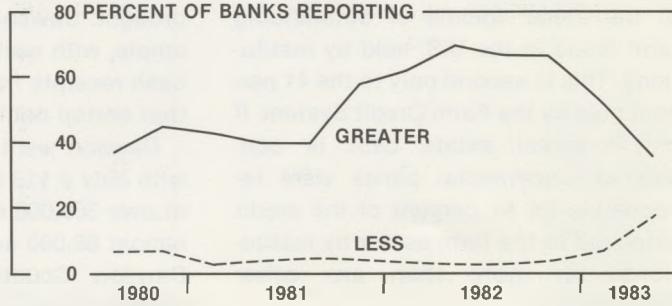
AVAILABILITY OF FUNDS



COLLATERAL REQUIRED



RENEWALS OR EXTENSIONS



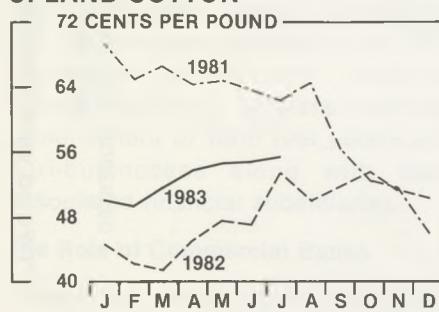
AGRICULTURAL BRIEFS

More wheat and cattle, while corn farmers expect price increases

- Texas wheat farmers will harvest 23 percent fewer acres this year than last, but this acreage reduction has not led to a decline in output. In complying with the PIK program, farmers took the least productive acreage out of production. The acres they planted received more pesticides and fertilizers. Thus, per acre yields are at an all-time high for Texas, and total 1983 estimated production of 156.4 million bushels is the second largest on record.
- Over 25 percent of Texas' crop output is exported. Wheat and cotton account for a large share of these exports. At present, world wheat trade favors consumers since most major exporters have bountiful supplies and prices are low. On the other hand, cotton producers will find more favorable export conditions this summer and fall because foreign competition has been hurt by adverse weather.
- Two items are of note to Texas corn farmers. The national five day average price of corn reached \$3.15 per bushel. Thus, some of the corn stored in the Farmer-Owned Reserve can be removed and sold. Also, the Midwest corn belt is experiencing hot, dry weather which is threatening yields. The possibility of lower yields has boosted price expectations, and farmers whose Reserve corn has been released are waiting for price increases before selling.
- The United States Department of Agriculture's July Cattle on Feed report showed that Texas cattlemen had 5 percent more cattle on feed than a year ago—compared to only about 2 percent more cattle on feed nationally. This means that Texas will produce a greater percentage of the cattle for market in the fourth quarter of 1983, and consequently will receive a greater share of the revenue.

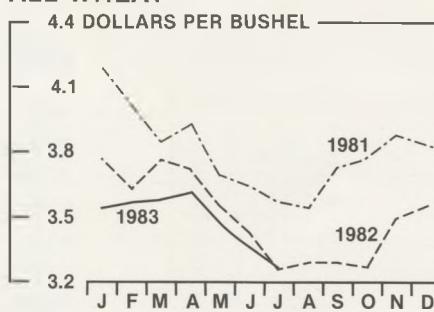
TEXAS COMMODITY MARKET PRICES

UPLAND COTTON



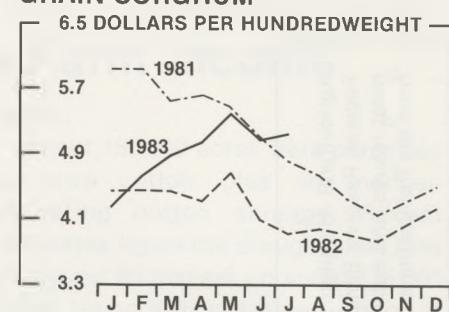
SOURCE: U.S. Department of Agriculture.

ALL WHEAT



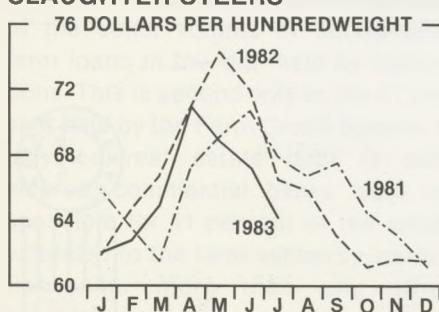
SOURCE: U.S. Department of Agriculture.

GRAIN SORGHUM



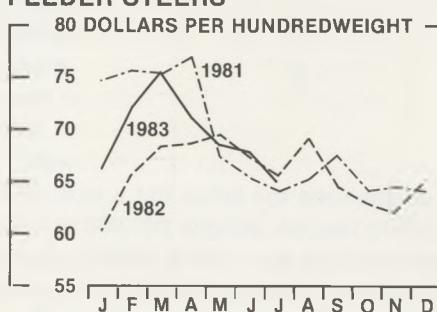
SOURCE: U.S. Department of Agriculture.

SLAUGHTER STEERS



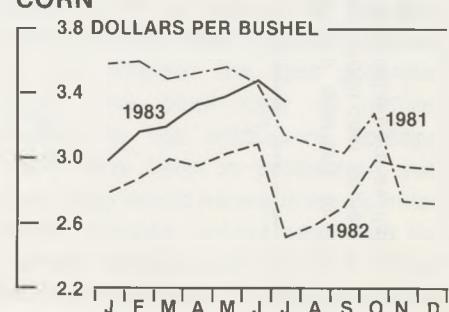
SOURCES: Texas Department of Agriculture.
Federal Reserve Bank of Dallas.

FEEDER STEERS



SOURCES: Texas Department of Agriculture.
Federal Reserve Bank of Dallas.

CORN



SOURCE: U.S. Department of Agriculture.

Texas Lending (cont.)

cent, far less than the above mentioned 216 percent growth in total agricultural loans outstanding. Thus, agricultural lending has become somewhat less important to the average bank in Texas.

In 1970, agricultural banks—banks with an agricultural to total loan ratio of .25 or greater are considered agricultural banks within the Federal Reserve System—accounted for 56 percent of farm loans held by Texas banks. By 1983, agricultural banks held only 40 percent of banks' farm loans. This decline can be attributed to at least two factors. One is the expansion of nonagricultural lending at agricultural banks. The growth of other types of loans has reduced the number of agricultural banks from 415 in 1970 to 223 in 1983.

Another factor in the decline of the importance of agricultural banks is the growth of agricultural lending at other

institutions. Loans outstanding at Federal Land Bank Associations (FLBAs) in Texas grew almost 343 percent from 1970 to 1983, and outstanding loans at Texas' Production Credit Associations (PCAs) increased 232 percent during the same period. (FLBA figures exclude rural housing loans and farm related business loans. PCA figures exclude rural housing loans and loans to farm related business but include aquatic loans.) Loans from the Farmers Home Administration expanded a whopping 1308 percent, although changes in eligibility requirements and lending authority probably accounted for a large part of this increase.

Although agricultural banks have become less important, banks in general continue to play a major role in the extension of farm credit. Changing shares in the total agricultural credit market, including noninstitutional

Table 1
Market Share of Farm Lenders in Texas

As of January 1,	1970	1983
Farm Credit System	26%	32%
Farmers Home		
Administration	3	14
Life Insurance Companies	19	8
Commercial Banks	31	29
Individuals and Others	21	18

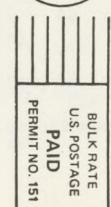
Sources: Farm Credit Administration
Federal Reserve Bank of Dallas

lenders, from 1970 to 1983 (Table 1) show commercial banks' share to have fallen only slightly. Thus, although the trend has been towards more and more public sector financing of agriculture, banks continue to provide a major portion of the loanable funds to agriculture in Texas.

—Brian Galuardi

FEDERAL RESERVE BANK OF DALLAS
STATION K
DALLAS, TEXAS 75222
ADDRESS CORRECTION REQUESTED

032/JNRD20TWH00
JEAN RHODES, RES LIB
FEDERAL RESERVE BOARD
20TH & CONSTITUTION AVE NW
WASHINGTON, DC 20551



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