



Federal Reserve Bank of Dallas

## FARM and RANCH BULLETIN

February 1972

---

### CHANGING AGRICULTURE MEANS CHANGING CREDIT NEEDS

Dramatic changes in agriculture have afforded significant increases in production and efficiency. Larger production units, more sophisticated management, substitution of capital for both land and labor, and increased specialization are among the changes that have brought about more efficient production in agriculture, the nation's largest business. These same changes have also modified the credit needs of farmers.

Total agricultural debt in the United States on January 1, 1960, was \$23.6 billion. By January 1, 1971, it was estimated at \$59.4 billion, an increase of over 150 percent. Due to greatly expanded demands and periodic high interest rates, credit cost was the most rapidly expanding cost item in agriculture during this period.

The increased demand for credit has resulted from the changes noted above and consequent cost shifts. Increasingly, farm inputs are of off-farm origin and fall in the broad category of capital (fertilizer, pesticides, machinery, etc.). Farming is becoming increasingly land and capital intensive. On January 1, 1971, for the first time, more of the agricultural debt was non-real-estate (\$29.8 billion) than real estate (\$29.6 billion) debt.

Two other important trends are the increasing size of loans and the declining equity ratio of farms. Because of the expanding size of farm operations and more expensive capital inputs, loans are becoming larger. The average real estate loan more than doubled between 1965 and 1971, and similar trends have been noted for non-real-estate loans. Farmers' equity has declined from 88 percent in 1960 to an estimated 81 percent in 1971, although it is still very high on the average.

This increased demand—especially in size of loans—and declining equity place increased pres-

sure on all lenders to service agriculture. This pressure is especially noticeable among lenders of production credit as the production credit needs of the larger and more sophisticated operations expand. Nationally, the leading institutional source of this type of credit is the commercial bank. In the Southwest, commercial banks provide about 68 percent of the production credit extended by institutional lenders.

#### Role of commercial banks

At the start of 1971, commercial banks had \$15.5 billion in agricultural loans. Non-real-estate loans accounted for \$11.1 billion, or 71 percent, of this total. About 88 percent of all insured commercial banks were participating in agricultural lending, and over 20 percent had at least half of their loan portfolio in agriculture.

Commercial banks in the United States have experienced a 133-percent increase in agricultural lending over the past ten years. However, this growth has not kept up with the total expansion in agricultural lending. Several reasons have been projected for this difference in growth: (1) legal lending limitations, (2) the static deposit situation of rural banks, (3) credit demand from nonagricultural sectors, and (4) competition for agricultural loans among institutional lenders.

The American Bankers Association reports that the proportion of banks with legal loan limits under \$50,000 declined from 31 percent in 1965 to 12 percent in 1970. However, 55 percent of all agricultural banks still had legal loan limits under \$150,000 and only 10 percent had limits of \$1 million or over. There was a slight decline during 1970 in the number of excess loan applications that were otherwise

acceptable. While this was due in some degree to improving legal limits, much of it was the result of increased competition from other lenders.

Deposits at rural banks have not been expanding as rapidly as deposits at urban banks. Because of this, rural banks, which are the front line in agricultural lending, have not experienced increases in their legal loan limits sufficient to service the increasing size of loans demanded. Most of the competition for funds has come from other banks, savings and loan associations, and Government bonds.

The high demand for funds that resulted in the slow growth of rural bank deposits was coupled with high credit demands for nonagricultural business expansion and consumer credit. These demands are in competition with agricultural demands. Because these nonagricultural loans often have higher interest rates, farmers are at a competitive disadvantage, especially during periods of tight money, such as

the late 1960's.

In addition, competition is increasing among agricultural lenders. Production credit associations had a 258-percent increase in non-real-estate loans between 1961 and 1971, while merchants and dealers showed a 152-percent increase. Federal land banks showed a 181-percent increase for real estate loans during the same period.

### Banking's reaction

Initially, commercial banks were slow in responding to the needs of a changing agriculture and the rising competition of other lenders. However, it is clear that commercial banking is now beginning to meet the challenge of these changing conditions.

An ABA study in 1950 found that only about 1,000 banks had agricultural specialists on their staffs. In 1970, nearly 3,500 banks employed agri-

## FARM LOANS HELD BY VARIOUS U.S. LENDERS, JANUARY 1

Type and lender	Volume outstanding (Million dollars)			Percent change 1971 from	
	1971	1970	1961	1970	1961
<b>NON-REAL-ESTATE</b>					
Banks .....	\$11,102	\$10,330	\$4,991	7%	122%
Production credit associations .....	5,295	4,533	1,480	17	258
Federal Intermediate Credit banks .....	220	224	88	2	150
Farmers Home Administration .....	795	785	420	1	89
Merchants, dealers, finance companies, and others .....	12,340p	11,230	4,900	10	152
Total .....	29,752p	27,102	11,879	10	152
<b>REAL ESTATE</b>					
Banks .....	4,445	4,113	1,691	8	163
Life insurance companies .....	5,626	5,746	2,975	-2	89
Federal land banks .....	7,145	6,714	2,539	6	181
Farmers Home Administration <sup>1</sup> .....	347	455	484	-24	-28
Individuals and others .....	12,024p	11,441	5,131	5	135
Total .....	\$29,588p	\$28,469	\$12,820	4%	131%

p—Preliminary

1. Direct loans only

SOURCE: American Bankers Association (compiled from data furnished by Economic Research Service, U.S. Department of Agriculture)

---

cultural specialists and about half of these were full-time agricultural representatives. This indicates banking's awareness of the need for specialized personnel to evaluate and service the increasingly complex credit needs of agriculture. Many urban banks have also employed agricultural personnel because of the increased demand from large agricultural production units and agribusiness. These banks also find agricultural specialists invaluable in servicing the needs of their correspondent country banks.

Over 80 percent of the bankers in the ABA study who faced excess loan demand in 1970 attempted to obtain funds—generally by selling participations to correspondent banks. Some borrowed from the Federal Reserve System, and a few placed loans with the Federal Intermediate Credit banks. A few banks have created credit corporations or similar organizations internally.

An increasing number of banks are offering farm accounting services and management services. There are also some banks that offer farm equipment leasing services.

### **The future**

Many commercial banks seem aware of the changing situation in agricultural lending, but the response has not been universal. A recent study by the Federal Reserve Bank of Dallas of the financing of cattle feeding noted extreme variation in reaction to agricultural loans among bankers and regions. Noticeable differences exist between banks in their aggressiveness in obtaining agricultural loans and the competitiveness of interest rates and services offered by various banks.

It is also apparent that many of the more innovative services are found primarily in larger banks. But, frequently, rural areas are not served by these large banks nor by an interested big-city correspondent bank.

As agriculture becomes more and more sophisticated, it requires more credit, better credit, and more knowledgeable lenders. It is estimated that by 1980, the agricultural debt will be between \$90 billion and \$137 billion. Satisfying this need is not the exclusive right of any single institution but should be the complementary effort of all lenders. Commercial banks are responding. But to meet the challenge adequately, there must be more awareness and adaptation at all levels—and particularly among the country banks that serve the majority of the agricultural areas of the United States.

### **FARM AND RANCH CREDIT SCHOOL TO MEET AT TEXAS A&M**

The 20th Annual Farm and Ranch Credit School will convene February 14 on the Texas A&M campus to discuss the problems of financing Texas' changing agriculture. The three-day conference is conducted by the department of agricultural economics and rural sociology of Texas A&M University in cooperation with the Texas Bankers Association. Registration is from 1 p.m. to 7 p.m. Monday, February 14, in the Memorial Student Center.

The first event of the conference will be a smorgasbord supper Monday evening, featuring presentation of awards by the Texas Bankers Association and an address by TBA President Oscar Lindemann of Dallas.

On Tuesday morning, Dr. John Hopkin, Stiles Professor of Agricultural Finance at Texas A&M, and Dr. Edward Uvacek, Texas A&M extension livestock marketing economist, will cover the general financial and economic outlook. Both are noted authorities in their respective fields.

"Sources of Funds" will be the general topic for a Tuesday afternoon session. Otto Moser, chairman of the board of the State Bank of DeKalb, will chair the session and discuss "How I Can Handle

---

My Customers' Business." Other topics and speakers include:

- "Correspondent Bankers," Tommie E. Stuart, vice president, First National Bank, Fort Worth  
"What I Expect of the Correspondent Banker," Edward Leatherwood, vice president, First State Bank, Gustine  
"Common Trusts," Henry Searcy, trust officer, Citizens National Bank, Waco  
"Insurance Companies," S. R. Greenwood, president, Temple National Bank, Temple  
"Agricultural Credit Corporations," Rex Reeves, president, Farmers and Stockmens Bank, Clayton, New Mexico

A special feature of this session will be an address by Leon W. Cowan, vice president in charge of bank relations and services for the Federal Reserve Bank of Dallas. His topic is "The Federal Reserve Bank and Agriculture."

The theme for the Wednesday morning session will be "Make Yourself a Better Banker for Your Customers," with a focus on the mechanics of handling loans. Walter C. Richburg, vice president

of First Victoria National Bank, Victoria, and Pat Malone, executive vice president, First National Bank, Hereford, will examine the aspects of cow-calf loans and feedlot lending. Other topics and speakers are:

- "Cattle Financing," Arthur B. Adams, president, Lawrence Systems, Inc.  
"Mechanics of Row-Crop Loans," Joe Montgomery, executive vice president, Security State Bank, Littlefield  
"Federal Crop Insurance," Richard H. Aslakson, manager, Federal Crop Insurance Corporation, U.S. Department of Agriculture  
"Bankers Are Important," Dr. T. R. Timm, head of the department of agricultural economics and rural sociology, Texas A&M University

A registration form is included in this issue of the *Farm and Ranch Bulletin*. It may be mailed to James I. Mallett, Economist-Management, Texas Agricultural Extension Service, Texas A&M University, College Station, Texas 77843.

Prepared by Dale L. Stansbury

---

## REGISTRATION AND ROOM RESERVATION FORM, FARM AND RANCH CREDIT SCHOOL

Name \_\_\_\_\_  
Bank \_\_\_\_\_

Position \_\_\_\_\_  
Address \_\_\_\_\_

Please complete this section for room reservations.

1. Give the number of each type accommodation desired:  
(a) Single room \_\_\_\_\_ (b) Double for two \_\_\_\_\_ (c) Twin for two \_\_\_\_\_ (d) Three or more \_\_\_\_\_
2. Motel preference \_\_\_\_\_
3. Give names of others included in this reservation, indicating by brackets those sharing room:  
Name \_\_\_\_\_  
Bank \_\_\_\_\_  
Address \_\_\_\_\_
4. Day of arrival \_\_\_\_\_

Name \_\_\_\_\_  
Bank \_\_\_\_\_  
Address \_\_\_\_\_  
Departure \_\_\_\_\_

### INFORMATION

Rooms will be reserved in the Memorial Student Center in the order that requests are received to the extent of facilities. Thereafter, reservations will be made in nearby modern motels or according to your preference listed above.

You will receive notice as to where your reservation has been made.

Please do not send money in advance for your reservation or registration.

---