



Federal Reserve Bank of Dallas

FARM and RANCH BULLETIN

February 1973

NEW STRENGTH IN AGRICULTURE CHALLENGES FARM LENDERS

Agricultural credit increased sharply last year, following a general surge of strength in agriculture and improvements in financial conditions. The increase in agricultural lending results mainly from the growth and increasing mechanization of farming and ranching operations, rising costs, and higher prices for land and other production items. In addition, the development of large, specialized agricultural industries—such as commercial cattle feeding—requires vast amounts of capital and credit.

Although agricultural credit is already a big market, it is expected to get bigger. By 1972, the nation's farm debt had risen to \$67 billion from about \$25 billion in 1960—a gain of more than 165 percent. The debt is expected to reach about \$110 billion by 1980.

Growing credit needs

As the need for capital continues to exceed the amount farmers can supply from their normal cash flow, the proportion of this need met by borrowing will continue to grow. The trend in the debt-asset ratio shows this trend. Where the ratio was only 12 percent in 1960, it had increased to almost 20 percent by 1972.

The increased use of resources is reflected in the uptrend in average size of commercial farm operations. The gain in size has come about mainly through the consolidation of smaller units.

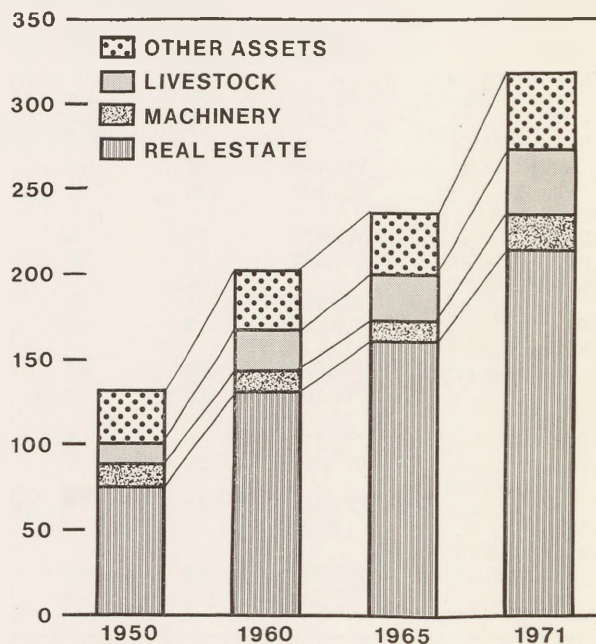
Changes in gross income, production costs, and net returns also point out the increasing need for large amounts of capital and credit. For example, where realized gross farm income in Texas has risen 58 percent since 1960, realized net income has risen only 21 percent. But production expenses have increased 78 percent. Because there are fewer farm units, however, realized net in-

come per farm has climbed substantially. As farms and ranches expand, so do the use of credit and the need for still more credit.

Loans held by major lenders in the Eleventh District states (Arizona, Louisiana, New Mexico, Oklahoma, and Texas) have increased rapidly

AVERAGE DISTRIBUTION OF ASSETS HELD BY U.S. FARMERS AND RANCHERS

BILLION DOLLARS



1971 figures preliminary

SOURCE: U.S. Department of Agriculture

FARM REAL ESTATE LOANS HELD BY PRINCIPAL LENDERS, JANUARY 1, 1972

Area and lender	Amount held (Thousand dollars)	Percent of area total	Percent change from January 1, 1970
ARIZONA			
Banks	\$5,380	2%	-39%
FLB's	37,346	13	3
Life insurance companies	106,755	38	1
FHA	2,342	1	81
Individuals and others	126,587 ^e	46	6
Total	278,410	100	2
LOUISIANA			
Banks	83,396	14	18
FLB's	172,487	29	25
Life insurance companies	133,389	23	-4
FHA	3,376	1	-26
Individuals and others	198,071 ^e	33	18
Total	590,719	100	13
NEW MEXICO			
Banks	12,266	4	42
FLB's	66,068	22	13
Life insurance companies	80,445	27	-4
FHA	1,356	(1)	-1
Individuals and others	141,414 ^e	47	11
Total	301,549	100	8
OKLAHOMA			
Banks	102,377	14	8
FLB's	157,528	22	25
Life insurance companies	163,592	23	-7
FHA	5,526	1	-9
Individuals and others	290,372 ^e	40	27
Total	719,395	100	14
TEXAS			
Banks	207,817	9	6
FLB's	577,371	27	15
Life insurance companies	571,645	27	-7
FHA	13,022	1	1
Individuals and others	768,084 ^e	36	10
Total	2,137,939	100	6

1. Less than one-half of 1 percent

e—Estimated

SOURCE: American Bankers Association

NON-REAL-ESTATE FARM LOANS HELD BY PRINCIPAL LENDERS, JANUARY 1, 1972

Area and lender	Amount held (Thousand dollars)	Percent of area total	Percent change from January 1, 1970
ARIZONA			
Banks	\$223,977	90%	-1%
PCA's	21,137	8	34
FHA	4,522	2	27
Total	249,636	100	2
LOUISIANA			
Banks	84,005	49	12
PCA's	71,616	42	13
FHA	15,627	9	-8
Total	171,248	100	10
NEW MEXICO			
Banks	108,514	62	34
PCA's	59,450	34	10
FHA	6,443	4	-18
Total	174,407	100	22
OKLAHOMA			
Banks	424,693	68	35
PCA's	168,305	27	26
FHA	29,848	5	43
Total	622,846	100	33
TEXAS			
Banks	999,148	67	24
PCA's	409,943	28	36
FHA	69,174	5	-12
Total	1,478,265	100	25

SOURCE: American Bankers Association

over the past ten years. Total farm loans outstanding (real estate and non-real-estate) increased from about \$2.6 billion on January 1, 1962, to about \$6.7 billion at the start of 1972—a gain of 158 percent.

In the five southwestern states, all institutional lenders except the Farmers Home Administration have reported growth in the amount of farm loans held since 1962. Loans held by production credit associations posted the largest gain, but those held by commercial banks, federal land banks, and individuals and other noninstitutional lenders also registered sizable gains in the 1962-72 period. Consequently, the shares of out-

standing credit held by these four lender groups expanded while the shares held by life insurance companies and the Farmers Home Administration declined.

Continuing growth

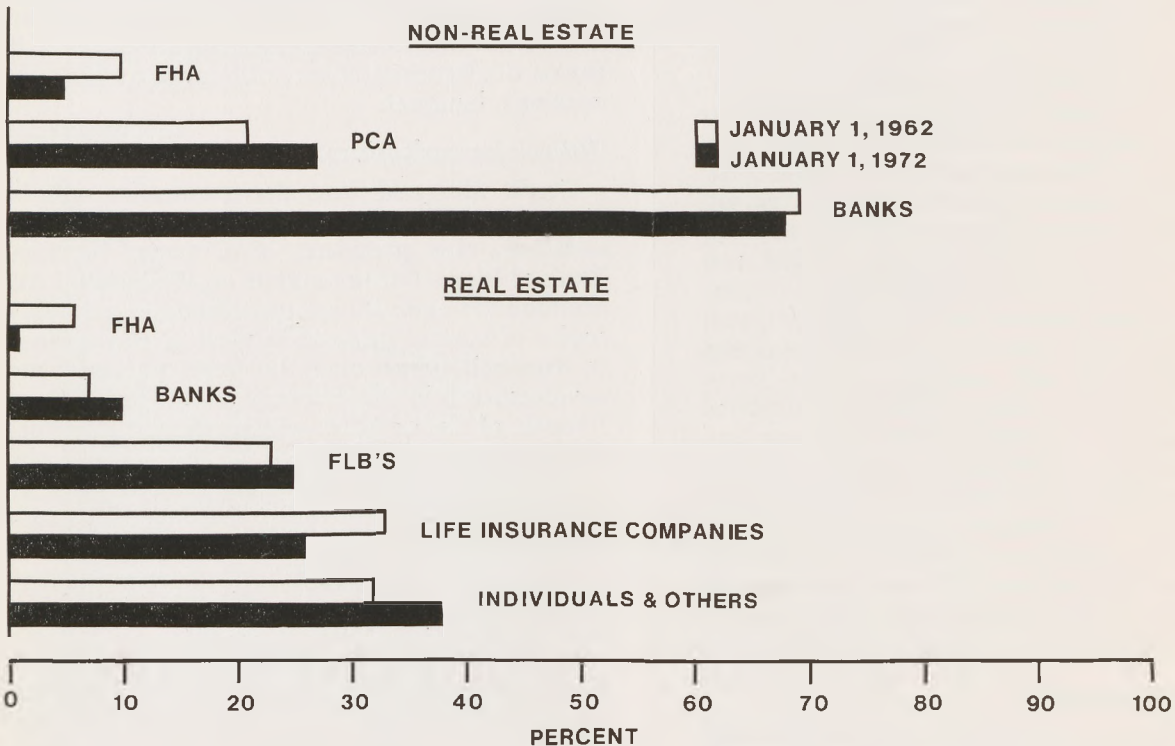
Agriculture's need for capital will, no doubt, continue to grow, increasing the demand for credit. This seemingly irreversible trend places a premium on financial management ability. As a result, progressive agricultural lenders and bor-

rowers alike have turned to the tools of financial management, such as cash flow statements, balance sheets, capital budgeting, and more detailed records.

As the characteristics of modern farming have changed, so has today's farmer. The progressive farm operator is probably in the business largely by choice and has the resources and management capacity to succeed. Generally, he is well informed and has the ability and knowledge to make decisions about complex farm production

INSTITUTIONAL LENDERS' SHARES OF FARM CREDIT MARKET

FIVE SOUTHWESTERN STATES



SOURCE: American Bankers Association

and marketing problems. Of course, this farm operator keeps records that indicate comparative earnings of different enterprises, as well as the usual business records. Today, in order to meet the growing credit needs of his farm, the operator often seeks a credit package of short-term, intermediate-term, and long-term loans tailored to the cash flow plans of his business.

ANNUAL CLINIC TO FOCUS ON CHANGES IN AGRICULTURAL FINANCE

“New Dimensions in Agricultural Finance” is the theme of the 21st Annual Texas Farm and Ranch Credit School for Commercial Bankers set for February 12-14 at Texas A&M University. The school is cosponsored by the Texas Bankers Association (TBA) and the host university.

Registration will begin at 10 a.m. Monday, February 12, at A&M’s Memorial Student Center. Presentation of TBA-sponsored awards and an address by TBA President Leon Stone of Austin will highlight Monday evening’s smorgasbord.

Tuesday’s schedule includes a presentation by John Hopkin, nationally known authority on agricultural finance, on “Projecting Capital and Credit Needs for Texas Agriculture.” New dimensions of the Farm Credit Administration program will be discussed by E. A. Jaenke, governor of the administration. He will comment on the Farm Credit Act of 1971, which opened new avenues for an adequate and flexible flow of money into rural areas to meet current and future rural credit needs. The final Tuesday morning session will feature Lynn Futch of the Farmers Home Administration, speaking about the relationship between bankers and the FHA and focusing special attention on the changes in FHA lending services brought about by recent legislation.

Financial management

New dimensions in financial management will receive attention in Tuesday’s early afternoon sessions. Economist J. Michael Sprott will speak on “Budgets for Texas Crops and Livestock,” the

topic of a new publication of the Texas Agricultural Extension Service. “Purchase, Lease, or Hire Equipment” will be discussed by Peter Barry of the Texas A&M Department of Agricultural Economics. He will compare the economics of alternative methods available for obtaining farm machinery.

Also on Tuesday afternoon, Don Workman, senior vice president of the First National Bank of Lubbock, will speak on “Mechanics of Livestock Loans—Cow-Calf, Stocker, Feeder.” Bill Jones, vice president of First National Bank, Levelland, will discuss “Mechanics of Crop Loans.” Marcus H. Dougharty, senior vice president of First Security National Bank of Beaumont, will conclude the afternoon program speaking on “Financial Statements and Analysis.”

The Honorable W. R. Poage of Texas, chairman of the Committee on Agriculture of the U.S. House of Representatives, will speak at Tuesday evening’s banquet.

Outlook for agriculture

Credit files and loan documentation will be discussed on Wednesday morning by Bill Nesbitt, assistant vice president of Citizens National Bank of Waco. Other sessions on Wednesday will examine the agricultural and economic outlook—topics of special interest in view of the upsurge in livestock prices over the past year and new developments in the economy in general. Edward Uvacek, of Texas A&M, will speak on “Livestock Prices and Future Outlook.” The general economic outlook will be discussed by William H. Kelly, director of research at the Federal Reserve Bank of Dallas. A wrap-up session, presided over by Tom Prater, Texas A&M extension economist, will conclude the program for adjournment at noon Wednesday.

Registration may be made by writing James I. Mallett, Texas Agricultural Extension Service, Texas A&M University, College Station, Texas 77843, or by calling (713) 845-3271.

Prepared by Carl G. Anderson, Jr.