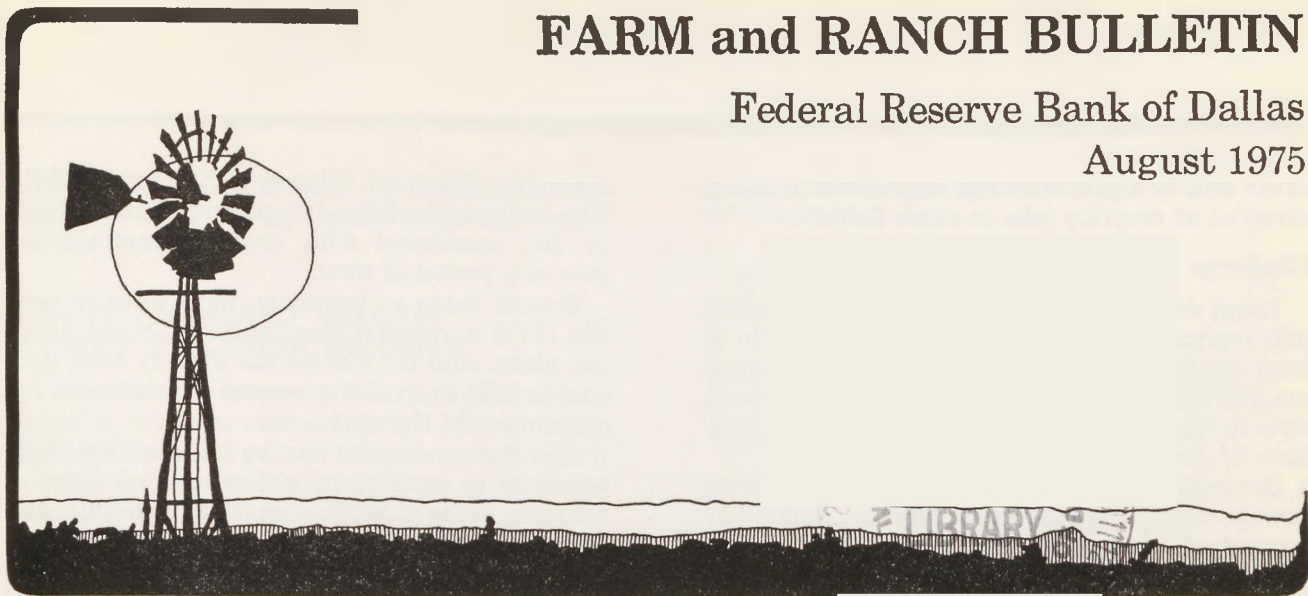


# FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

August 1975



## DEVELOPMENT OF RURAL AREAS EMPHASIZES ROLE OF BANKERS

After several decades of net population shifts to metropolitan centers, people have started opting for life in rural communities. Population data since 1970 show an accelerating movement to nonmetropolitan areas. Obviously, this has special implications for small communities.

With proper planning and long-term commitment to development, areas outside the large metropolitan centers can take positive steps in ensuring sustained economic growth. Bankers, by helping to define both opportunities and problems, can assist in establishing goals for their communities. And by providing access to financial and other resources, they can help develop procedures for implementing desired development. Rural development fosters new job opportunities to boost local income, improves community facilities and services, and provides a better quality of living in the less urban areas of the nation.

### Development program

Interest in developing small and medium-size communities has gained momentum. And efforts are being directed primarily at job development.

With job development comes rural development. Jobs produce income that is used in building and improving community life. And they generate a tax base that provides public services.

According to a spokesman for the County and Rural Services Division of the Texas Department of Community Affairs, prospects for rural development in Texas are good. A new program, TEXAS FIRST, will be of particular interest to rural communities. The primary objective of the program is to assist in the expansion of more than 160 companies in Texas over the next 12 months. In meeting that objective, the experience and expertise of manpower and industrial developers will be mobilized.

The TEXAS FIRST program is aimed at creating a wide spectrum of jobs—indicative of the emphasis on attracting diverse business and industrial organizations to small communities. No longer is the focus on agriculture alone. While it is still the base of most rural economies and despite the fact it continues to grow, agriculture is becoming increasingly mechanized. This diminishing number of agricultural jobs was a major contributor to the migration from rural

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areas and is a prime reason why effort is being directed at creating jobs in other fields.

### **Challenge to bankers**

Rural development will require bank financing and servicing and will markedly alter the role of banking. In addition to continuing to serve farmers and ranchers, bankers must become responsive to the wants and needs of an expanding base of business activities.

Some rural bankers have been wary of making nonagricultural loans, especially to unfamiliar borrowers—as would be the case when an industry wants to relocate in a rural area. In such cases, a banker has limited information to use in his decision making even though, in terms of the economic benefits to the community, the loan may offer good potential.

Development makes demands on bankers. Bankers are challenged to see that capital is channeled to where it will be used most effectively. Ready to help bankers are new sources of financial assistance. The Farmers Home Administration, the Small Business Administration, and the Economic Development Administration all offer guaranteed loans for business and industrial development. The guarantees help reduce the banker's risk in making a loan and, at the same time, increase his lending capacity. With 85 to 90 percent of the loan guaranteed, only 10 to 15 percent is normally counted against a banker's lending limit.

### **Loan evaluation**

In addition to creating jobs, TEXAS FIRST is geared to assisting bankers and lending institutions by providing financial information and facilitating loan evaluation and processing. Bankers will be furnished information about loan processing, which will improve the service they can offer to borrowers.

In evaluating the loan application of a business seeking financing for relocating or expanding its facilities, loan officers can receive support from a unique computer simulation technique, the In-

teractive Financial Planning System (IFPS). The system identifies the potential profitability or risk associated with any business venture over any period of time.

Several large corporations have already used the IFPS to develop short and long-range financial plans. And the system has already been used successfully to evaluate several development opportunities in the state.

The loan evaluation can be initiated by either borrower or lender. In either case, a team of analysts visits the business to review all costs and revenues involved in its operations and then develops a feasibility study that includes potential risks.

These data are presented to the banker for his evaluation. If the banker wishes, he can use IFPS for a quick calculation of the effect of any possible change on the firm's performance.

Bankers using the guaranteed loan program can also find the system helpful. Long delays associated with obtaining decisions on applications for guaranteed loans should be reduced with use of the system.

### **Encouraging prospects**

Economic prospects for rural areas in Texas appear bright. Population is shifting to smaller communities, and industrial movement to rural areas is equally widespread. With TEXAS FIRST, moreover, the state has established a program of creating jobs and upgrading employment in these areas. And the program has extended to bankers the capacity for handling requests for financing and other services.

At the core of the rural development process, however, will be reactions within the communities. Some rural areas will show significant growth. For other areas, economic growth will not reach its full potential. Either way, opportunities for growth outside urban areas are impressive.

Further information about the TEXAS FIRST program can be obtained by contacting Ray Prewett, Director, Division of County and Rural

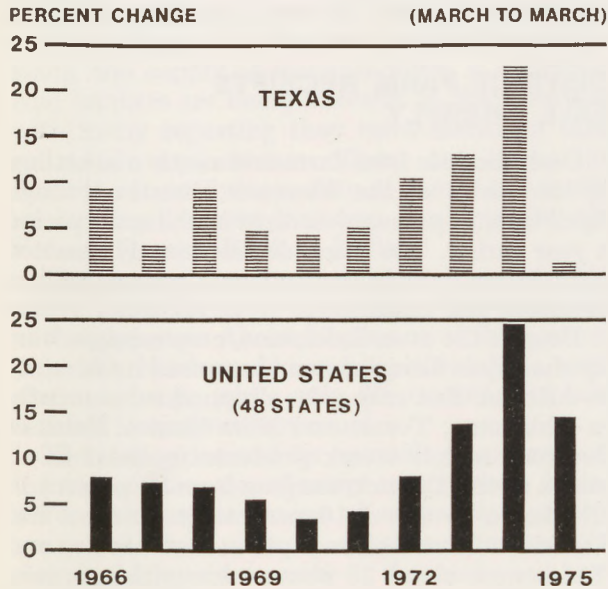
Services, Texas Department of Community Affairs, P. O. Box 13166, Capitol Station, Austin, Texas 78711.

## RISE IN FARMLAND VALUES SLOWED BY LOWER INCOMES

The rate of increase in U.S. farmland values slowed in the year ended March 1. After a substantial 25-percent gain in the year ended March 1, 1974, the rise in farmland values in the most recent March-to-March period was 14 percent. And unimpressive income prospects in the second half of this year may induce a downturn in farmland values by March 1, 1976.

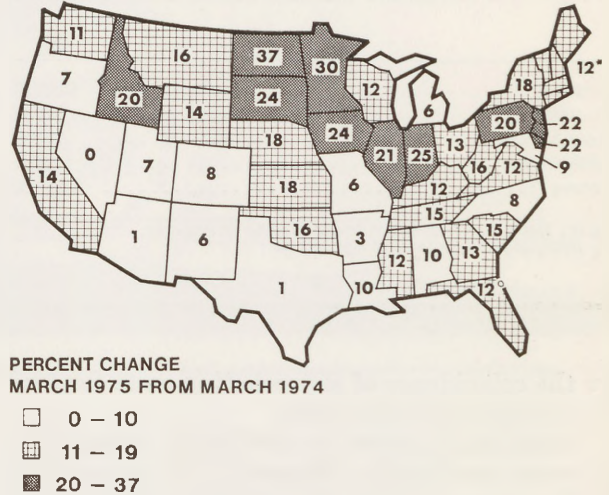
The near doubling of net farm income in 1973 was largely responsible for stimulating the boom in farmland values. And despite a dramatic

## INCREASE IN FARMLAND VALUES



SOURCE: U.S. Department of Agriculture

## INCREASE IN AVERAGE PER-ACRE VALUE OF FARMLAND



<sup>o</sup>Average of Georgia and Alabama indexes

<sup>\*</sup>Average for Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut

SOURCE: U.S. Department of Agriculture

downturn in cattle prices, income levels remained high in 1974—further encouraging buyers to bid up the price of land.

But net farm income is expected to drop sharply in 1975, since a bumper crop harvest will likely weaken grain prices. This would have a moderating influence on the demand for farm real estate.

In the year ended March 1, rates of increase in farmland values ranged from a high of 37 percent in North Dakota to zero in Nevada. Differences among states largely reflected varying income positions of livestock and grain producers.

In states of the Eleventh District, steep declines in farm prices and farm incomes curtailed appreciation of farmland. Incomes of cotton growers were reduced by lower production and falling prices. And cattle producers were squeezed

## CASH RECEIPTS FROM FARM MARKETINGS, JANUARY-APRIL

(Million dollars)

	LIVESTOCK AND PRODUCTS		CROPS		TOTAL	
	1974	1975	1974	1975	1974	1975
Arizona .....	\$202.5	\$168.8	\$139.4	\$157.9	\$341.9	\$326.8
Louisiana .....	137.9	115.2	115.3	194.0	253.2	309.2
New Mexico .....	127.8	96.0	36.4	28.3	164.1	124.4
Oklahoma .....	420.4	283.1	187.2	133.5	607.7	416.6
Texas .....	1,131.6	833.4	1,032.2	582.7	2,163.9	1,416.1

NOTE: Details may not add to totals because of rounding.  
SOURCE: U.S. Department of Agriculture

by the coincidence of skyrocketing costs for feed and falling prices for cattle.

Therefore, in states of the District where farm incomes are largely influenced by cotton and cattle sales—Arizona, New Mexico, and Texas—gains in farmland values were slight. Farm real estate appreciated 1 percent in Arizona and Texas and 6 percent in New Mexico. By contrast, farm real estate values rose 10 percent in Louisiana and a substantial 16 percent in Oklahoma.

Most respondents to the U.S. Department of Agriculture's semiannual real estate market survey last March expected the value of farmland either to be unchanged or to continue slowing in the months ahead. Although a fifth of the respondents expected increases in land values by March 1976, the same proportion indicated values would fall. Slightly over half the respondents expected no change. In March 1974, however, only 2 percent of the respondents had expected market values to fall by March 1975.

Some bankers in the Eleventh District believe an improved outlook for cotton and cattle markets will keep land values stable in the third quarter this year. But beyond that, changes in land values will likely reflect changes in incomes of farmers and ranchers.

The outlook is not encouraging. If crop prices remain close to midyear levels—and large harvests may even drive them down somewhat—real

estate values in crop-producing areas may soften. And in ranching areas, the market for land will likely be sluggish until conditions in the cattle industry improve. The number of potential buyers has declined while the number of farms and ranches offered for sale has held steady—yet another indication of weakness in the market for land.

### DISTRICT FARM RECEIPTS FALL SHARPLY

Cash receipts from farm and ranch marketings in the states of the Eleventh District through April were 27 percent less than in the same period a year earlier. The steep decline largely resulted from lower farm prices and reduced marketings of cotton and grain.

Despite the overall decrease, crop receipts were up sharply in Louisiana and increased moderately in Arizona. But crop sales dropped substantially in Oklahoma, Texas, and New Mexico. Sales of livestock and livestock products declined in all states of the District, ranging from 33 percent in Oklahoma to about 16 percent in Arizona and Louisiana. Livestock receipts in New Mexico and Texas were about 25 percent lower than a year before.

Prepared by Carl G. Anderson, Jr.