FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

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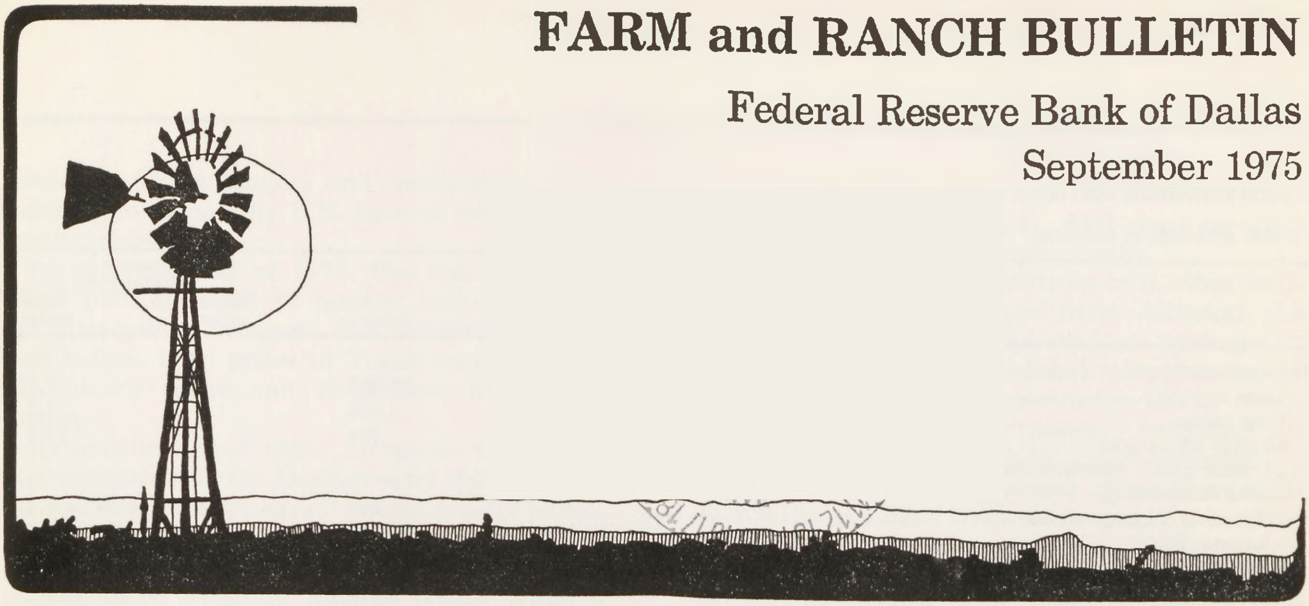


FARM LOAN DEMAND STRONG; LOANABLE FUNDS ADEQUATE

Overall demand for farm and ranch loans at commercial banks is strong, loan repayments are sluggish, and loan renewals and extensions are above average. But even with strong demand for loans, the supply of loanable funds is adequate. And bankers are being selective in their lending, with many reporting they have increased their collateral requirements. These are the major findings of a midyear survey of nearly 150 southwestern agribankers that was conducted by the Federal Reserve Bank of Dallas.

The demand for non-real-estate loans—particularly loans for crop operations—has increased in the past year. About 80 percent of the bankers reported that loan demand is either above average or average, while only 20 percent said loan demand is weaker than usual.

The strong demand for operating loans reflects the reduced incomes of many crop growers during 1974, the large acreages of crops planted this year, and high costs of supplies. Further, the sharply higher farm costs in the past year have coincided with lower prices for crops. However, demand for livestock loans has weakened, reflecting sluggishness in the cattle feeding industry. The number of cattle on feed is considerably below a year earlier, and prices for feeder and stocker cattle remain depressed.

The livestock industry has been depressed since last year, when—under the pressure of large supplies—cattle prices fell sharply as feed costs were mounting. Consequently, many loans that would otherwise have been repaid have been renewed.

Crop growers in the Eleventh District also have had difficulty making repayments. Adverse weather reduced yields last year, and market prices—despite strengthening recently—have been generally weak since last fall. Over a third of the respondent bankers, therefore, reported a below-average rate of loan repayment. And only a few bankers indicated repayments are above average. Almost half the respondents said the rate of renewals and extensions is above average, reflecting the financial squeeze on both crop and livestock producers.

Loanable funds to support agricultural credit are available to qualified borrowers, as nearly two-fifths of the bankers are actively seeking new farm loan accounts. And only 10 percent of

FARM FINANCE DATA

(Dollar amounts in millions)

Item	Latest 1975 period	Value	Percent change from Month earlier	Percent change from Year earlier
Agricultural banks in Texas[1]				
Total deposits	July	$2,905	0.4%	8.0%
Total loans	July	1,408	1.6	4.2
Federal funds sold	July	304	.7	24.2
Production credit associations				
Loans outstanding				
Eleventh District states	June	1,213	1.2	8.7
United States	June	10,786	2.3	18.5
Loans made				
Eleventh District states	June	156	3.2	5.7
United States	June	1,216	–3.7	27.0
Federal land banks				
Loans outstanding				
Eleventh District states	June	1,956	1.5	21.4
United States	June	15,437	1.7	24.5
New money loaned				
Eleventh District states	June	38	20.9	5.2
United States	June	321	–2.6	3.6
Interest rates[2]				
Feeder cattle loans	July	9.47%	n.a.	n.a.
Other farm operating loans	July	9.39	n.a.	n.a.
Farm real estate loans	July	9.26	n.a.	n.a.

1. Selected member banks in Texas with 25 percent or more agricultural loans (seasonally adjusted data)
2. Averages of rates reported in District agricultural credit survey
n.a. — Not available

the bankers have been forced to turn down or reduce the size of farm loans this spring because of a shortage of funds.

Total loans averaged 58 percent of deposits at banks participating in the survey, and more than half the bankers expressed satisfaction with their loan-deposit ratio. But a fifth of the respondents said the ratio is too high, while about a fourth said they would like to extend more loans.

Although loanable funds are more readily available than they were last year, interest rates on agricultural loans have been at the highest level in many years. At respondent banks, interest rates on farm loans averaged more than 9 percent.

Interest rates varied only slightly by type of loan. For all banks in the survey, interest rates on loans for feeder cattle averaged 9.47 percent, slightly higher than for other types of farm loans. Interest rates averaged 9.39 percent for farm operating loans, 9.36 percent for intermediate-term loans, and 9.26 percent for long-term farm real estate loans.

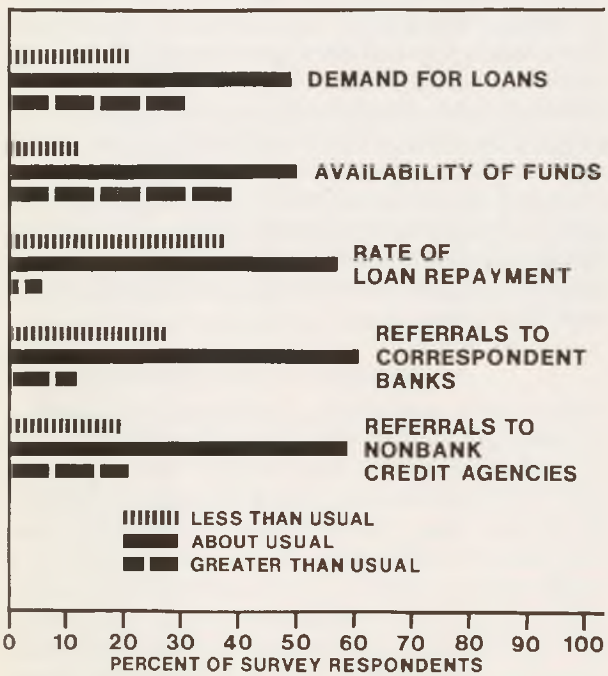
Costs climb

Agribankers in the District are concerned about rapidly climbing operating costs and weakness in commodity prices—particularly prices for calves and cotton. And the index of prices received by Texas farmers and ranchers and the index of prices paid by U.S. farmers reflect those developments.

In the first half of 1975, the index of farm prices paid averaged 12 percent higher than in the same period last year. But compared with a year before, farm prices in Texas were down 47 percent for calves and 39 percent for upland cotton.

Agricultural production prospects were good over most areas of the District early this summer. But because price prospects are extremely uncertain, lending policies are being firmed. Almost 50 percent of the bankers indicated they are requiring more collateral than in recent years, a reflection of reduced income in 1974 and currently high operating costs. And none reported any easing of collateral requirements.

NON-REAL-ESTATE FARM LENDING AT ELEVENTH DISTRICT BANKS, MID-1975



Referrals of non-real-estate loans to other lenders appear to have changed little. Although the majority of bankers reported an average or slightly below-average number of referrals, 12 percent reported an above-average use of correspondent banks and 21 percent indicated increased referrals to nonbank credit agencies.

Referrals to credit agencies other than commercial banks have been most common in areas where cattle and cotton are the main agricultural enterprises. Since both industries have been depressed in the past year, many of the referrals are being made to the emergency loan programs of the Farmers Home Administration.

Other than the Farmers Home Administration, nonbank credit agencies include the Farm Credit Administration—federal land bank associations, production credit associations, and banks for cooperatives—and insurance companies. For non-real-estate loans, production credit associations and the Farmers Home Administration are the main nonbank institutional lenders. In addition, merchants, dealers, and individuals extend large amounts of farm credit.

Outlook mixed

Nearly a third of the respondents expected the volume of non-real-estate loans this summer to be higher than a year before in their area. Conversely, a fourth expected loan demand to ease. Overall loan demand is expected to increase, reflecting the sharp advance in demand for operating loans. Demand for crop storage loans and farm machinery loans is also expected to remain strong—although several bankers noted that purchases of farm machinery have fallen substantially below levels a year earlier.

Demand for feeder cattle loans is expected to remain weak—reflecting continued sluggishness in the cattle feeding industry. Current demand for loans relating to the cattle feeding industry is still weak despite a recent upturn in the number of cattle on feed. Some investors that brought funds from sources outside agriculture are no longer interested in cattle feeding. And because of insufficient equity, some cattlemen with many years' experience cannot qualify for credit. Dairy loans are also expected to remain weak as the cost-price squeeze continues to grip the dairy industry.

Since nearly 90 percent of the respondents expected farmland values to remain stable in the third quarter, demand for farm real estate loans through September is expected to be either slightly lower or unchanged. Only bankers in the Valley area of Texas expected farmland values to increase.

Bankers generally agreed that substantially higher costs of producing food and fiber have narrowed profit margins, making it difficult for farmers and ranchers with limited equity to meet credit requirements. And in appraising their position as lenders, they said that more expertise is needed to adequately evaluate credit arrangements for farm and ranch loans.

The trend toward larger farms and ranches will continue, the bankers said, necessitating even larger capital investments per farm and per farm worker. The upward trend in farm production expenses is also expected to continue. So, although gross sales per farm probably will increase, margins will likely remain narrow. The bankers believed that relatively more agricultural capital would be provided through credit and relatively less through equity, causing the debt-free portion of all farm assets to trend downward.

FARMERS BUY LAND TO EXPAND EXISTING FARMS

Most transfers of farmland involve parts of farms, not complete farms. That is, the majority of transfers of farm tracts are designed to add to the acreage of existing units—not to establish complete farming operations. In the year ended in March, 59 percent of farmland transfers expanded acreages already owned or leased.

That represented a small increase over the years ended in March 1973 and March 1974 and indicated the trend to larger commercial farms is continuing. More than a third of the transferred tracts were, in fact, parts of other farm units being divided and consolidated into larger farms.

Because most purchases of land added to existing farms, the purchasers in two-thirds of all land transactions were farmers. Most of these were owner-operators, but some were tenant farmers. Nonfarmers, including local and absentee buyers, accounted for the remaining third.

From the standpoint of farm acreage purchased in the year ended in March, owner-operators were the principal buyers, having purchased 61 percent of the acreage. The next largest group was absentee nonfarmers, who bought 20 percent of the acreage. The remaining acreage was divided about equally between tenant farmers and local nonfarmers.

On the seller's side of the market, distribution of tracts transferred was basically unchanged from recent years. Active farmers sold 39 percent of all the tracts, retired farmers 16 percent, and administrators of estates 19 percent. Nonfarmers, meanwhile, sold about 26 percent of the tracts.

Even with a dramatic 74-percent increase in average U.S. farmland prices since 1971, the market for farmland has changed little. The relative composition of the buyer's market and the seller's market has been essentially unchanged in the past four years.

Prepared by Carl G. Anderson, Jr.