FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

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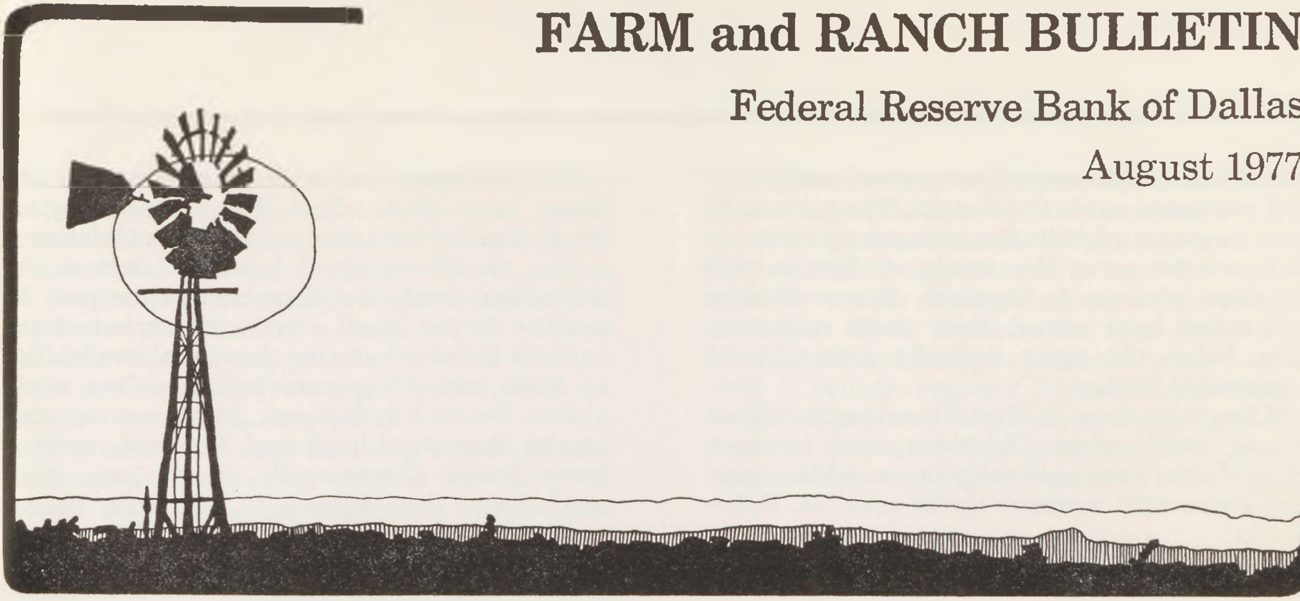


DISTRICT BANKS INCREASE CORRESPONDENT BORROWING AND NONBANK PARTICIPATIONS

Rural banks are turning more to correspondent banks and nonbank credit agencies to service the expanding credit needs of farm and ranch borrowers in the Eleventh District. The need for more loanable funds stems partly from rising machinery and production costs and the accelerated growth in size of commercial farms. Lower farm incomes have contributed to a slowdown in deposit growth at many rural banks at the same time that loan demand has increased.

Referrals up

Responses from approximately 185 agribankers surveyed by the Federal Reserve Bank of Dallas in early July indicate that 17 percent of the respondents were making a greater than usual number of referrals to correspondent banks, compared with 11 percent a year before. But 17 percent reported fewer referrals, compared with 16 percent a year before. In the latest survey, 21 percent of the bankers indicated increased participations with nonbank credit agencies while 14 percent reported fewer. In July last year, 7 percent reported increased activity and 13 percent reported less.

In fact, the Small Business Administration (SBA) has been particularly active in cooperating with rural banks since the broadening of its loan program by Congress last year to cover agricultural loans. In West Texas, for example, the SBA has participated with banks in about 320 loans totaling $26 million from December 1976 through June 1977. Moreover, the guaranteed loan program of the Farmers Home Ad-

RURAL REAL ESTATE VALUES, JULY 1, 1977

Eleventh Federal Reserve District

Area	Average per-acre values reported by survey respondents		
	Cropland		
	Dryland	Irrigated	Ranchland
Northern Louisiana	$698	$950	$517
Southern New Mexico	143	884	159
Southeastern Oklahoma ...	364	483	291
Texas	409	672	311
District average	414	722	303
Period	Percent change in District average		
July 1, 1977, from:			
April 1, 1977	2.7	5.4	5.9
July 1, 1976	4.3	10.7	10.6

ministration has especially benefited many cow-calf producers across the District. The guaranteed loan programs of both Government agencies are designed to serve the needs of farmers and ranchers who are in financial distress because adversities have caused their credit ratings to drop below the levels normally acceptable to commercial lenders.

Along with those in West Texas, banks in East Texas, southeastern Oklahoma, and southern New Mexico have noticeably increased loan participations with nonbank credit agencies. Referrals to correspondent banks were highest in the Texas High Plains, East Texas timber region, South Texas Plains, and southeastern Oklahoma.

The overall supply of loanable funds at the respondent banks has decreased in the past 12 months. In the latest survey, 22 percent of the bankers indicated greater than usual availability of funds and 15 percent indicated less availability. But in July last year, 25 percent reported greater than usual funds and 7 percent reported fewer funds. Consequently, loans have risen much faster than deposits at the survey banks.

AGRICULTURAL CREDIT CONDITIONS AT SURVEY BANKS

Eleventh Federal Reserve District

		Percent of respondents				
		1976		1977		
Item	Compared with usual	July 1	Oct. 1	Jan. 1	April 1	July 1
Demand for loans	Greater	40	47	35	40	52
	Less	6	7	14	7	5
Availability of funds	Greater	25	24	34	34	22
	Less	7	14	15	12	15
Renewals or extensions	Greater	20	27	33	35	31
	Less	6	5	8	5	4
Amount of collateral required	Greater	28	33	25	30	38
	Less	1	0	1	0	1
Number of referrals to:						
Correspondent banks	Greater	11	18	14	10	17
	Less	16	19	16	18	17
Nonbank credit agencies	Greater	7	10	15	22	21
	Less	13	17	12	13	14
Loan-deposit ratios						
Less than 40%		9	5	9	9	5
41% to 50%		23	16	20	18	12
51% to 60%		24	29	27	25	28
61% to 70%		26	28	32	38	30
More than 70%		18	22	12	10	26

	Average reported rates (Percent)				
	1976		1977		
	July 1	Oct. 1	Jan. 1	April 1	July 1
Interest rates					
Feeder cattle loans	9.33	9.33	9.27	9.30	9.28
Other farm operating loans	9.29	9.31	9.28	9.25	9.24
Intermediate-term farm loans	9.40	9.41	9.37	9.37	9.40
Farm real estate loans	9.36	9.35	9.31	9.32	9.33

The ratio of loans to deposits averaged 62 percent, or 4 percentage points more than a year earlier. Loan-deposit ratios exceeded 60 percent at 56 percent of the banks, compared with 44 percent of the banks in July 1976. Moreover, data from a selected group of Texas banks heavily engaged in agricultural lending indicate loans in June were up 19 percent from a year earlier while deposits were up only 11 percent.

The reliance of rural banks on outside sources of funds to service loan demand will likely increase further in the foreseeable future. The guaranteed loan program of the SBA could account for a substantial share of this growth. The upper limit on the size of farm or ranch that can qualify for this program has been raised from gross sales of $275,000 per farm to $1 million. Borrowing from correspondent banks is also expected to increase. And too, qualified member banks also have the alternative of seasonal borrowing at the discount window of the Federal Reserve Bank.

Renewals increase

Reduced incomes due to low grain and cattle prices and higher costs of production have caused a slowdown in loan payments and an increase in renewals. Of the bankers reporting, 31 percent indicated more than the usual number of renewals, compared with 20 percent a year before. Renewals have been greatest in the major wheat-producing areas. Conversely, renewals have generally declined since July 1976 in cotton and soybean areas, such as northern Louisiana.

The agricultural land market reflects the variations in prices for different crops and the rising costs of production. In areas where cotton and soybeans are the major crops—the southern High Plains, the Blacklands, Northeast Texas, and northern Louisiana—average land values reported by bankers have posted the largest increases. By contrast, intensive grain-producing areas had much lower gains. Rising pumping costs have had some effect on irrigated land values in West Texas.

Although ranch income has been limited by a prolonged cost-price squeeze, ranchland values averaged somewhat higher in the past 12 months. However, acquisitions of land for recreation and for country homesites near urban areas accounted for some of the appreciation in land that is suitable for cattle grazing. Increased expectations for higher cattle prices in the near future may have partly influenced ranchland values. As of July 1, bankers reported that values of dryland cropland, irrigated cropland, and ranchland had risen 4.3 percent, 10.7 percent, and 10.6 percent, respectively, over a year earlier.

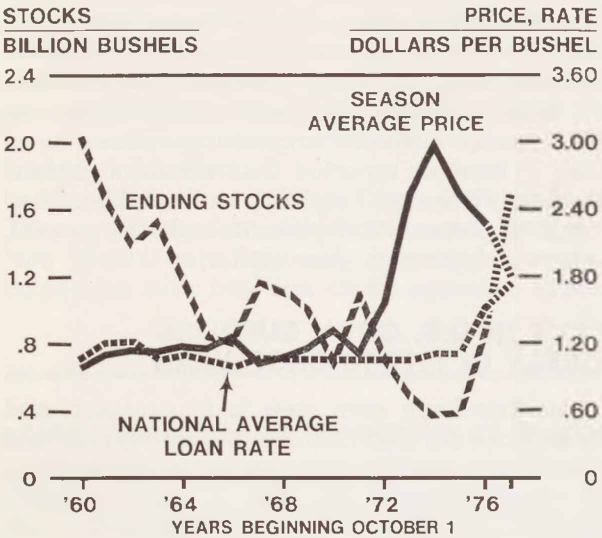
GLUT IN U.S. CORN SUPPLIES LIKELY IN 1977-78 CROP YEAR

Another large corn crop is in prospect, and indications are that changes in corn supplies and prices will probably follow paths similar to those of wheat. The current glut in wheat supplies bulging U.S. storage bins and depressing prices well below costs of production is causing considerable financial distress for many producers. And by the end of the 1977-78 marketing year, corn producers will likely be faced with a similar situation—a burdensome oversupply that is depressing prices.

Corn supplies in the United States have risen substantially since the drought-reduced crop of 1974. Ending stocks on September 30 of the current marketing year are expected to total about 900 million bushels, which would be 2¼ times more than a year earlier and the largest carryover since the 1971-72 season. Back-to-back record corn harvests far exceeding total consumption in the past two years accounted for the lion's share of the buildup in supplies. Moreover, with domestic supplies not reduced by the short U.S. crop in 1974 and with exports not increasing as they did following the disastrous Russian crop in 1975, current supplies in the United States could conceivably be much higher than projected.

The farm price of U.S. corn, pressured by the buildup in stocks and increased feeding of wheat in livestock rations, has fallen sharply. Market prices received by farmers in June averaged $2.09 per bushel of corn, or $0.65 below a year earlier and $1.36 less than the record level in October

CORN STOCKS, PRICES, AND LOAN RATE



1976 preliminary; 1977 projected.
SOURCE: U.S. Department of Agriculture.

1974. Substitution of wheat for corn in livestock feed is accelerating. The wheat surplus has caused prices to fall below the price of corn, making wheat feeding highly profitable. In the 1976-77 marketing year (ended May 31), approximately 100 million bushels of wheat were fed, up nearly a fifth from a year earlier. The amount of wheat used for livestock feed will probably more than double in the 1977-78 season.

The price of corn in June was generally below estimated total costs of production for the major corn-producing areas of the nation. However, the average price was still above estimated variable costs. Because of low prices, farmers are placing large quantities of the grain under the Commodity Credit Corporation nonrecourse loan program, hoping for higher prices. The net quantity of corn under CCC loan through May was 197 million bushels, about 2½ times the amount a year earlier.

Nonrecourse CCC loans offer producers an opportunity, for a specified time period, to obtain cash but hold their crops for later sale. However, when the loan rates are at or above market prices, farmers usually choose not to redeem the loans and let them expire. The CCC then takes ownership of the crops, and—unless loan rates decline or market prices rise—the Government is soon accumulating stockpiles of farm commodities.

The potential for another bumper corn crop and a further buildup in stocks is apparent. Although farmers planted slightly fewer acreages, normal growing conditions could result in a 1977 harvest exceeding 6 billion bushels. Increased grain production and supplies worldwide, particularly in Western Europe and Russia—coupled with a slowdown in feed grain consumption in developed countries with large feed-livestock sectors—will likely reduce U.S. exports in 1977-78 to below current shipments. Total disappearance of corn, therefore, may fall slightly despite an expected increase in livestock feeding in the United States this year. By September 30, 1978, carryover stocks may be as high as 1.6 billion bushels. If realized, that would be at the level of the surpluses in the early 1960's.

The quantity of grain placed under loan, as well as deliveries and forfeitures of 1977-crop loans to the CCC, will likely rise considerably in the next 14 months. The projected increase in stocks could cause corn prices to average about $1.80 per bushel—close to the loan rate established for the 1977 crop. And as in the past when large supplies dominated the market, prices will again become closely linked to the support price.

Along with further depressing farm prices, the large impending corn crop is expected to cause storage problems. Grain bins are already nearly full of feed grain and wheat. Unless part of the existing grain stocks are moved out, a tight storage situation could develop, placing further pressure on farm prices. On the brighter side, however, livestock producers should reap benefits from abundant feed supplies and low grain prices.

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