

May 17, 1965

LIQUIDITY OF AGRICULTURAL BANKS

During recent years, commercial banks as a whole have been increasing their loan volume more rapidly than their deposits have been growing. A small but increasing number of banks appear to have reached the point at which future growth in loans can no longer occur through sales of securities held in the bank's portfolio, but rather must depend on growth of deposits. In view of the expected continued increase in credit needs of agriculture, it is pertinent to inquire into the experience and situation, with regard to this aspect of liquidity, of the banks that are serving the farm sector.

During the four years ended in December 1964, total loans of commercial banks increased by 49 per cent whereas deposits grew by only 34 per cent. As a result, the ratio of loans to deposits increased from 51 to 57 per cent. As shown in Table 1, a similar disparity between loan and deposit growth was experienced in each of nation's major farming regions.

It is interesting to note that even during these years of strong growth in nonfarm business the relative increase in farm loans was almost equal to that of nonfarm loans. In the South and the Plains States, farm loans actually grew faster than the total of other loans.

To isolate the banks serving agriculture, one might proceed either on the basis of total farm loan volume at the bank or on the basis of the relative importance of farm loans at the bank. For instance, 5,392 banks had an outstanding farm loan volume of \$500,000 or more in December 1964. The average loan-deposit ratio at these banks, who were supplying 84 per cent of bank farm credit, was 58 per cent, or a little higher than

the ratio at banks with lower farm loan volume. But if one takes the banks at which farm loans comprise an important share of the business, the loan-deposit ratio at such banks is found to be significantly below the national average. For example, farm loans comprised 25 per cent or more of total loans at 5,997 banks. At these banks, who were supplying 53 per cent of bank farm credit, the average loan-deposit ratio was just 49 per cent. However, it appears that the ratios at banks in this group had increased by about as much since 1960 as they had at other banks.

Table 2 shows that the same story is generally found in each of the nation's farming areas. The banks with farm loan volume of \$500,000 or more had average loan-deposit ratios that equaled or exceeded those of the other banks, but the banks in which farm loans were of the greatest relative importance had substantially lower average ratios.

In Table 3 there is a more detailed look at the distribution of these various groups of banks by size of their loan-deposit ratios. For the United States as a whole, it shows that about one-third of the farm credit was being supplied by banks at which the loan-deposit ratio was 60 per cent or higher. However, it also shows that many agricultural banks still had ratios under 40 per cent, a rather low figure by present standards. About one out of every seven banks with \$500,000 or more of farm loans was in this category, as were over one-fourth of the banks at which farm loans comprised 25 per cent or more of the loan business. In contrast, just one-sixth of the latter group had loan-deposit ratios as high as 60 per cent. Roughly similar relationships were found in such important farming areas as the Corn Belt and the Plains states. Thus while some

agricultural banks are fairly well "loaned-up," a somewhat larger number still have considerable leeway to increase loans through portfolio adjustment.

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Table 1

Changes in Deposits and Loans of Commercial Banks, 1960-1964

Area	Percentage Increase, Dec. 1960 to Dec. 1964							Loan-Deposit	
	Deposits			Loans				Ratio	
	Total	Demand	Time	Total	Farm Loans			1960	1964
					Total	Real estate	Non-real estate		
United States ^{1/}	34	16	74	49	46	60	41	51	57
Northeast	31	11	89	44	31	47	19	55	60
Lake States	37	19	58	49	31	41	27	49	53
Corn Belt	32	13	69	47	33	48	29	48	53
Northern Plains	32	12	95	45	55	122	50	47	51
Appalachian	40	29	70	55	44	48	40	50	55
Southeast	37	28	67	57	63	68	58	45	52
Delta States	37	28	69	59	72	84	62	43	50
Southern Plains	34	16	106	57	71	129	62	46	53
Mountain	35	16	77	59	57	93	54	52	61
Pacific	37	21	59	53	46	69	40	57	64

^{1/} Includes banks in the noncontiguous states and territories.

Table 2

Loan-Deposit Ratios at Commercial Banks,
December 1964

Area	All banks	Banks with farm loans of		Banks at which farm loans are	
		Under \$500,000	\$500,000 and over	Under 25 per cent of total loans	25 per cent or more of total loans
United States ^{1/}	57	56	58	58	49
Northeast	60	60	59	60	60
Lake States	53	52	54	54	49
Corn Belt	53	51	55	54	46
Northern Plains	51	46	53	53	50
Appalachian	55	52	57	56	47
Southeast	52	50	54	52	46
Delta States	50	46	53	50	46
Southern Plains	53	53	54	54	49
Mountain	61	57	61	62	53
Pacific	64	64	63	64	51

^{1/} Includes banks in the noncontiguous states and territories.

Table 3.--Distribution of Banks, Deposits, and Farm Loans, December 1964

Area and loan-deposit ratio	Number of banks					Total deposits	Total farm loans
	All banks	Banks with farm loans of:		Banks at which farm loans are:			
		Under \$500,000	\$500,000 and over	Under 25 per cent of total loans	25 per cent or more of total loans	Millions of dollars	
United States ^{1/}	13,499	8,107	5,392	7,502	5,997	306,115	9,599
Under 40%	2,705	1,956	749	1,134	1,571	17,646	1,043
40% - 59%	7,490	4,200	3,290	4,127	3,363	150,791	5,163
60% and over	3,304	1,951	1,353	2,241	1,063	137,678	3,393
Northeast	1,678	1,308	370	1,552	126	105,459	713
Under 40%	115	107	8	107	8	1,629	15
40% - 59%	761	620	141	714	47	45,344	284
60% and over	802	581	221	731	71	58,486	414
Lake States	1,648	946	702	811	837	24,251	907
Under 40%	290	221	69	139	151	1,795	97
40% - 59%	1,100	589	511	522	578	18,075	617
60% and over	258	136	122	150	108	4,382	193
Corn Belt	3,287	1,726	1,561	1,473	1,814	56,250	2,212
Under 40%	844	548	296	271	573	5,986	397
40% - 59%	1,919	945	974	927	992	30,640	1,339
60% and over	524	233	291	275	249	19,624	475
Northern Plains	1,351	539	812	171	1,180	7,200	1,304
Under 40%	315	203	112	33	282	1,064	150
40% - 59%	728	251	477	99	629	4,691	830
60% and over	308	85	223	39	269	1,445	324
Appalachian	1,243	787	456	830	413	18,177	705
Under 40%	234	179	55	125	109	1,278	77
40% - 59%	730	440	290	486	244	10,511	404
60% and over	279	168	111	219	60	6,388	224

Table 3.--Distribution of Banks, Deposits, and Farm Loans, December 1964 (Cont'd)

Area and loan-deposit ratio	Number of banks					Total deposits	Total farm loans
	All banks	Banks with farm loans of:		Banks at which farm loans are:			
		Under \$500,000	\$500,000 and over	Under 25 per cent of total loans	25 per cent or more of total loans	Millions of dollars	
Southeast	1,183	931	252	888	295	15,003	412
Under 40%	265	230	35	173	92	1,921	65
40% - 59%	707	530	177	539	168	9,551	283
60% and over	211	171	40	176	35	3,531	65
Delta States	643	379	264	381	262	7,659	382
Under 40%	195	155	40	114	81	1,271	62
40% - 59%	348	166	182	201	147	5,418	254
60% and over	100	58	42	66	34	970	66
Southern Plains	1,531	973	558	793	738	20,112	917
Under 40%	335	241	94	125	210	2,078	132
40% - 59%	780	465	315	406	374	13,764	527
60% and over	416	267	149	262	154	4,271	258
Mountain	567	256	311	283	284	9,924	847
Under 40%	78	43	35	22	56	350	41
40% - 59%	279	102	177	120	159	3,786	331
60% and over	210	111	99	141	69	5,788	475
Pacific	339	244	95	292	47	39,830	1,142
Under 40%	33	28	5	24	9	269	9
40% - 59%	128	82	46	103	25	8,745	294
60% and over	178	134	44	165	13	30,815	840

1/ Includes 29 banks in the noncontiguous states and territories.

States in Geographic Areas

Northeast

Maine
New Hampshire
Vermont
Massachusetts
Rhode Island
Connecticut
New York
New Jersey
Pennsylvania
Delaware
Maryland
District of Columbia

Lake States

Michigan
Wisconsin
Minnesota

Corn Belt

Ohio
Indiana
Illinois
Iowa
Missouri

Northern Plains

North Dakota
South Dakota
Nebraska
Kansas

Appalachian

Virginia
West Virginia
North Carolina
Kentucky
Tennessee

Southeast

South Carolina
Georgia
Florida
Alabama

Delta States

Mississippi
Arkansas
Louisiana

Southern Plains

Oklahoma
Texas

Mountain

Montana
Idaho
Wyoming
Colorado
New Mexico
Arizona
Utah
Nevada

Pacific

Washington
Oregon
California