The Farm Credit dilemma

What is the current agricultural credit situation faced by Pennsylvania agricultural producers and what effect has it had and is it having on the agricultural credit availability for the short-term and future?

It is obvious to everyone associated with agriculture that the industry is suffering through poor economic times.

Current prices for most commodities are at low levels with most near loan level. These conditions are likely to continue until the world economy recovers and the U.S. resolves its large budget deficits.

Favorable actions affecting these values are needed to have a more normal currency value relationship and in effect "weaken" the U.S. dollar. This, of course, would have a positive effect on ag exports.

Also a major factor affecting the ag economy has been the rewriting of national farm program legislation in 1985.

The depressed agricultural economic condition has had a direct effect on the cost and availability of ag credit. It has also had an effect on the source of credit. Table 1 provides a breakdown of farm loans by source for real estate and non-real estate for the U.S. and Pennsylvania. The information was obtained from Farm Credit Reports compiled by the Economic Research Service, USDA, as of January 1, 1985.

The alarming figure in Table 1 is that nearly one-third of the crop operating loans in Pennsylvania are financed by individuals and others. This indicates that a large number of Pennsylvania crop loans are an open account with suppliers. This situation is not unique to Pennsylvania. As the chart indicates, nationwide 18 percent of the non-real estate debt is held by this category.

The main credit burden facing ag producers in Pennsylvania and the U.S. is the large number who are highly leveraged. According to Neil Harl, Professor of Economics at Iowa State University, farmers with a debt to asset ratio of greater than 70 percent are in the most trouble. In other words, for every $10 of assets, these farmers owe more than $7.00 in debts. At this level it would take an 8 percent return on all assets just to pay the interest bill. Table 2 gives an overview of the debt to asset ratio.

Professor Harl states that farms with ratios greater than 40 percent are facing financial problems and most are losing net worth. With a 40 percent ratio, it takes a return of 4.5 percent to pay interest costs.

As ag producers become more highly leveraged they face the problem of higher interest costs and also the problem of where they will be able to obtain credit. More and more producers are failing to meet financial standards and collateral requirements to remain customers of private lenders.

At one time, Production Credit Association (PCA) was the major ag production loan lender in Pennsylvania. As Table 1 shows, now they account for only 25 percent of all non-real estate farm loans. Since PCA is a cooperative, it must balance its losses with adjusted income from interest rates and collateral requirements of existing borrowers who are members of the cooperative. PCA identifies the majority of their problem loans as customers who did not own any land, and whose collateral was based on depreciated and devalued farm machinery.

Federal Land Bank (FLB) has 8,293 borrowers in this state and has 40 percent of the ag real estate in this area mortgaged. As of September 1, 1985 it had acquired 21 properties by foreclosure at a value of $2.4 million dollars. FLB officials state that the number of part-time and dairy farmers in Pennsylvania adds to the stability of their loan portfolio.

The new programs offered by FmHA do not appear to be providing much relief for existing borrowers in easing their debt loads. National statistics released as of August 31 by FmHA show that only 14,138 farmers have qualified for the set aside program. They also state that over 100,000 borrowers who are presently with FmHA have applied.

FmHA had approved only 342 applicants for the set aside program in Pennsylvania.

Apparently the program requirements are such that is requirements are such that it is applicable to only a very limited number of FmHA officials say that many producers have such a large or long-term debt load that even the setaside will not show a positive cash flow over a period of time.

Also most private lenders appear reluctant to participate in the 10 percent writeoff loan guarantee program. As of the end of the year, no one had made use of this guarantee program. Overall it appears that private lenders are reluctant to use any of the loan

(Turn to Page A39)

TABLE 1

Source	U. S. (Million Dollars)	% (Rounded to Nearest %)	Pennsylvania (Thousand Dollars)	% (Rounded to Nearest %)
Non-Real Estate				
Banks	39,742	39	362,000	28
PCA	17,925	18	333,000	25
FLB	875	1	17,000	1
FmHA	15,651	16	171,000	13
CCC	8,719	8	14,000	1
Individuals & Others	18,000	18	415,000	32
TOTAL	100,912		1,312,000	
Real Estate				
Banks	10,177	9	385,000	22
FLB	49,103	44	664,000	40
Life Insurance Co.	12,444	11	31,000	2
FmHA	10,013	9	179,000	10
Individuals & Others	29,900	27	428,000	26
TOTAL	111,637		1,667,000	
GRAND TOTAL	212,549		2,979,000	

TABLE 2

BANK FARM CUSTOMER'S DEBT TO ASSET RATIO
REGION

Debt to Asset Ratio	North-east	Corn Belt	South	Plains	West	U.S.	●FMBAS
	(% of Bank Customers)						
Under 40%	39	42	31	37	37	39	64
41-60%	30	28	27	30	34	29	19
61-80%	19	18	20	19	19	19	7
81% and Over	12	12	22	13	10	12	9

Based on American Bankers Association Survey in Mid-1984.
● Based on PFA Farm Management Services Analysis of its clients as of January 1, 1985.

KEN CLUGSTON 665-6775
VERNON SEIBEL 665-2782

CRAFT-BILT CONSTRUCTION INC.

FARM-HOME BUILDING
R.D.#2 MANHEIM, PA.
PH: 665-4372

BUILDING & REMODELING FOR—
DAIRY
SWINE
BEEF
RESIDENTAL
POLE BUILDINGS
STORAGE

DUSSINGER'S QUALITY STOVES

SEVERN
The Coalbrookdale Company
Excellence in Iron Castings since 1709

Presenting the World's Finest Coal/Wood Stoves.

2533 Old Phila Pk., Rt 340, Smoketown, PA
Tues., Thurs., & Fri 10-8, Wed & Sat. 10-5
(717) 397-7539

Unique Fireplace Doors

Large Quantities of Sawdust Available
10 cents per cubic foot
loaded on your truck
KONDOR LUMBER CO.
York, PA
717-755-6841

Coming...
CUSTOMER APPRECIATION DAYS
at
KEY-AID DISTRIBUTORS
225 Wood Corner Rd.
Lititz, Pa. 17543
Watch Next Week's Issue For Details

PAUL B. Zimmerman INC.

CHECK NEXT WEEKS ISSUE FOR YEAR END INVENTORY SALE

PAUL B. ZIMMERMAN, INC.
Hardware • Farm Supplies
Custom Manufacturing
Crane Service
295 Woodcorner Rd
Lititz, PA 17543
1 Mile West of Ephrata
Phone 717-738-1121

E.J. PARKER TOBACCO CO.
WE WANT YOUR TOBACCO!!

Mr. Farmer, we will start receiving 609 Tobacco Monday, December 16, at noon after the auction is over. We are located the same place we were last year on Rt. 222, 1 mile north of Quarryville beside train overpass. We will be paying top prices. You do not need a contract but we will be writing contracts for those who would like one. Bring it to the dependable one. Our weights & grading are fair, just ask your neighbor. Any questions call

717-786-7888

Looking forward to seeing you,

Ron Bowen,
E.J. Parker Tobacco Co.