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AGRICULTURAL LENDING in Selected Agriculturally Oriented Alabama Commercial Banks

AGRICULTURAL EXPERIMENT STATION/AUBURN UNIVERSITY
R. DENNIS ROUSE, Director
AUBURN, ALABAMA

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AGRICULTURAL LENDING IN SELECTED AGRICULTURALLY ORIENTED ALABAMA COMMERCIAL BANKS

S. C. BELL
ROBERT J. BRADDOCK

INTRODUCTION

IMPROVED TECHNOLOGY coupled with an increase in production efficiency has caused many changes in the agricultural sector of the economy (1). Utilizing these improvements requires a much larger capital investment and more operating capital than was needed in the past. These increasing costs have made it necessary for most agricultural producers to use an extensive amount of credit. Very few farmers are capable of adequately financing their farming operations without the use of external credit. As this demand for borrowed capital continues to increase for both real estate and non-real estate funds, so will the farmer's dependence on the existing financial institutions as reliable sources of credit.

The leading agricultural lending institutions are commercial banks, Production Credit Associations, Federal Land Bank Associations, The Farmers Home Administration, and life insurance companies. In recent years, all these institutions have experienced an increase in the total dollar volume of agricultural credit.

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[2]Professor and former Graduate Research Assistant, Department of Agricultural Economics and Rural Sociology.

Statement of Problem and Objective

Commercial banks have served as a primary source of agricultural credit for many years. However, this importance has diminished somewhat during recent years as other lenders have gained a larger share of the market. Since banks are still an important source of agricultural funds, the system needs to be analyzed in terms of the role commercial banks are presently performing in supplying capital to the farmer, and more importantly the role these banks will play in the future. The general objective of this study was to examine Alabama banks in terms of their present and future attitudes, policies, and abilities in supplying an increasing agricultural credit need. Specifically the intent of this study was to analyze the changing practices of commercial bankers to meet credit demands of Alabama farmers.

Source of Data and Sample Selection

Primary data were obtained from 34 commercial banks located in three dominant agricultural areas of the State, the Wiregrass, Black Belt, and Tennessee Valley. Personal interviews were conducted with the banks' management during the summer of 1975 to collect data on each banks' financial operations and the attitudes that management held toward agricultural lending.

Additional data were obtained from studies conducted in 1968 at Auburn University and in the Federal Reserve Bank of Atlanta. Data obtained from Alabama bankers in 1968 were used in this study as a base to determine agricultural lending changes that have occurred during the last 7 years.

The Federal Reserve Bank of Atlanta supplied data listing the counties in Alabama that had an agricultural loan volume of at least $5 million in 1973. All of the banks in these counties were contacted by mail concerning their 1974 agricultural loan volume. Banks with greater than $1 million loan volume were contacted later by personal interview. The sample included 13 commercial banks from the Wiregrass area or southern portion of the State, 12 commercial banks from the Tennessee Valley area or northern portion of the State, and 9 commercial banks from the Black Belt area or central portion of the State, figure 1. The sample banks were located in both rural and non-rural areas of Alabama. Also, the twelve banks supplying data in the 1968 credit study conducted by Auburn

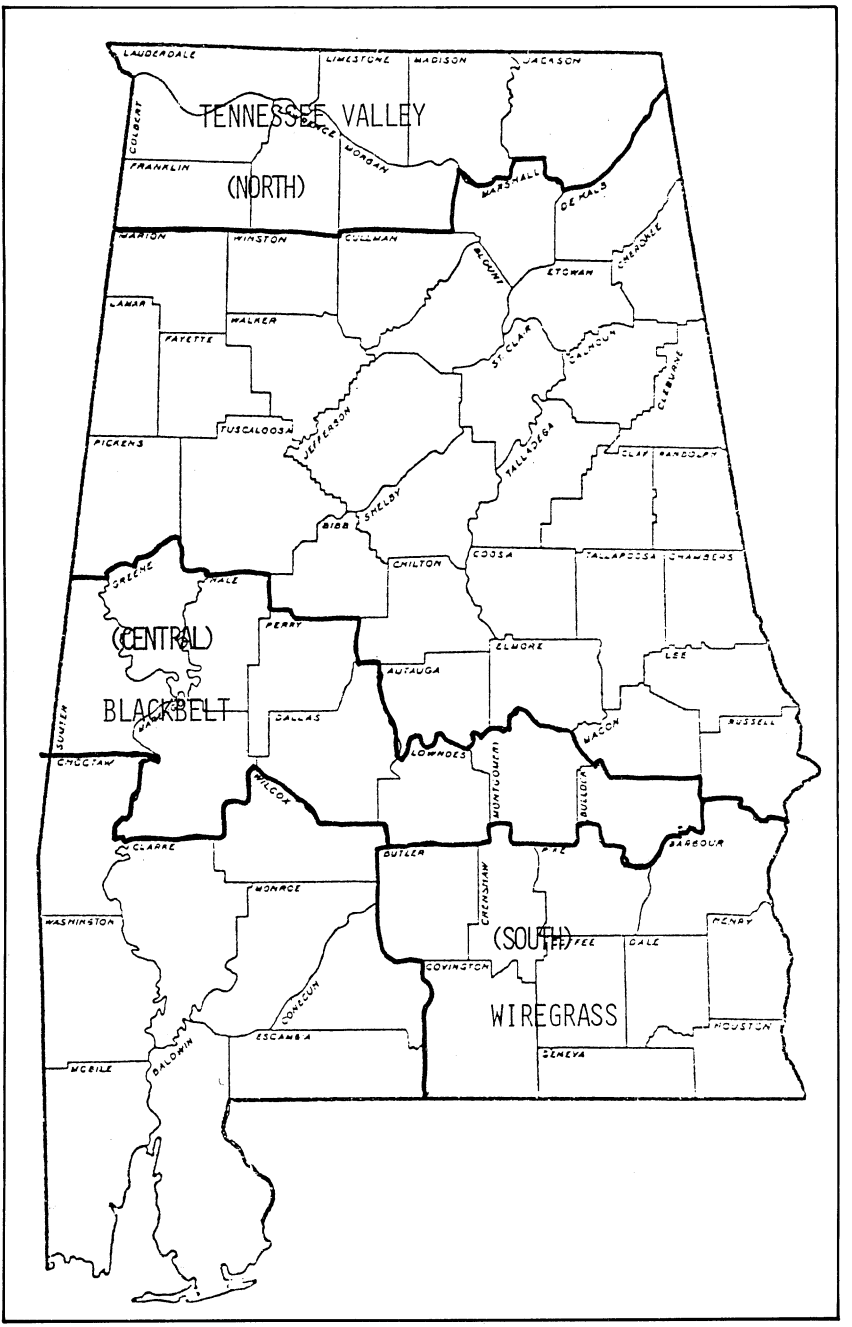

FIG. 1. Three survey areas, Wiregrass, Black Belt, and Tennessee Valley.

University were interviewed again to determine changes that have taken place during the last 7 years.

COMMERCIAL BANK INVOLVEMENT IN ALABAMA AGRICULTURE

Modern farming techniques necessitate large capital expenditures in both real estate and non real estate areas. These large credit requirements are being supplied partially by the commercial banking institutions of Alabama.

Agricultural Credit Volume Since 1970

There has been a large increase in the volume of agricultural credit since 1970, both in the commercial banking institutions and the other farm lending agencies. In the commercial banks sampled, agricultural loan volume increased an average of 89 percent from 1970 to 1975. Increased production costs by farmers, increase in acreage per farm, and the decline of merchant dealer credit were cited by bankers as reasons for this increase. Of the 33 responding bankers, 30 indicated an increase in farm loan dollar volume since 1970, table 1. Two bankers indicated a decrease in dollar volume, while the remaining banks indicated there was no change. The two banks indicating a decrease cited industry activity and a restrictive bank loan policy as reasons for the decreased volume.

TABLE 1. PERCENT CHANGE IN FARM LOAN VOLUME IN 34 ALABAMA COMMERCIAL BANKS BY REGION FROM 1970 TO 1975[1]

Change	Number of banks by region			
	South	North	Central	Total
	Number			
Decrease	1	0	1	2
No change	1	0	0	1
Increase percent				
0-49	4	5	4	13
50-99	3	2	1	6
100-149	2	1	3	6
150-199	0	1	0	1
over 199	2	2	0	4

[1]33 of the 34 respondent banks.

Agricultural Lending in Alabama, 1975

In the banks studied, real estate loans outstanding totaled $23.4 million as of June, 1975, table 2. The average volume of

TABLE 2. FARM REAL ESTATE LOANS OUTSTANDING IN 34 ALABAMA COMMERCIAL BANKS BY REGION, JUNE, 1975

Region	Volume of real estate loans	
	Total	Average
	Dollars	
South	11,237,640	936,470
North	9,830,551	819,212
Central	2,334,185	259,354
Total	23,402,376	709,859

farm real estate credit in the sample banks was nearly $710,000 per bank. The southern region had the largest farm real estate loan volume of approximately $937,000 per bank, while the central region indicated the smallest farm real estate loan volume of almost $260,000 per bank. Four of the nine banks in the central region did not have farm real estate loans outstanding as of June, 1975. Remaining banks in this region had a farm real estate volume substantially lower than the $710,000 average for the sample.

Farm real estate lending activities have declined in importance to Alabama commercial banks (4). Two factors are primarily responsible for this decline. First, bankers no longer desire to tie money up for the long period of time required for a real estate loan. Second, bankers believe that profits increase with the more rapid turnover of loanable funds. These facts point to a continued decrease in the role of Alabama commercial banks in the farm real estate lending area.

The void created by the exit of commercial banks from making farm real estate loans has been filled primarily by individuals, Federal Land Bank Association (FLBA), and insurance companies (10). The remaining agencies provide farm real estate credit, but to a lesser extent.

Non-real estate farm loans comprise the major portion of agricultural loans by banks. Non-real estate farm loans for the sample banks totaled $83.8 million as of June, 1975, table 3. The average non-real estate farm loan per bank was over $2.5 million.

Non-real estate loans are usually operating loans or production loans. Commercial banks are currently the volume leaders in non-real estate farm loans. Production Credit Associations and the Farmers Home Administration also specialize in short-term farm lending. Production Credit Associations are

gaining on commercial banking institutions in extending short term credit. The current trend of the Farmers Home Administration seems to be in the direction of housing loans instead of farm production loans.

TABLE 3. NON-REAL ESTATE FARM LOANS IN 34 ALABAMA COMMERCIAL BANKS BY REGION, 1975

Region	Farm non-real estate loans	
	Total	Average
	Dollars	
South	27,124,724	2,260,393
North	27,050,510	2,254,208
Central	29,607,749	3,289,750
Total	83,782,983	2,464,205

Merchant Dealer Credit

Farm oriented businesses also play an indirect role in supplying non-real estate agricultural credit. The merchant dealer is one of the primary sources from which the farmer purchases agricultural supplies. Credit for these supplies has been used quite extensively by the farmer. During 1974 there was a substantial reduction in merchant dealer credit throughout the State. Many farmers needing short term merchant dealer credit during the farming season could not get it. Interviewed bankers indicated the reduction in merchant dealer credit had a significant effect on their loan volume. Responses from commercial bankers indicated short term credit increased almost 15 percent in 1974. South Alabama commercial banks experienced the largest increase in short term credit volume with 9 of the 25 responding bankers indicating an increase. Three bankers reported the agricultural loan volume increased over 30 percent as a result of the merchant dealer credit reduction.

Total Agricultural Loans

Total agricultural loan volume is composed of both farm real estate and non-farm real estate loans. There was found to be little variation among regions as to the toal agricultural loan volume per bank. The total agricultural loan volume per bank varied from 3.5 million for the banks in the central region to 3.0 million for the banks in the northern region.

The major reason bankers stated agricultural loans were declining relative to total loans was because of alternative investments, table 4. The second most reported answer was that increased competition from the Production Credit Associations, Farmers Home Administration, Federal Land Banks, and other commercial banks caused these banks to reduce their role in agricultural lending. Bankers also reported agricultural loan requests exceeding legal lending limits had very little to do with reductions in agricultural lending.

TABLE 4. REASONS FOR THE DECLINING IMPORTANCE OF AGRICULTURAL LENDING IN SELECTED ALABAMA COMMERCIAL BANKS[1]

Reason	Rank			
	1	2	3	4
	Number			
Better alternative investment	11	2	0	0
Increase competition from other lenders	2	7	2	0
Lack of personnel to administer loan	0	2	7	1
Loan requests exceed limits	0	0	1	9

[1]15 of 34 respondent banks

Farm Credit Demand

Bankers and farmers alike readily predict increasing agricultural credit needs in Alabama. These increasing needs could create a financial strain for all agricultural lenders. With per farm borrower requirements high and increasing at a rapid pace, many commercial banks are reviewing their attitudes and policies with respect to agricultural finance.

When asked to compare agricultural credit demand of the first 6 months of 1974 with 1975, 76 percent of the bankers reported an increase, while 18 percent reported there was no change in the agricultural loan demand, table 5. Only two bankers of the 34 responding indicated a decrease in agricultural loan demand during this period.

The increasing demand for farm credit has resulted from a variety of factors, with most of them related to the cost of agricultural production. Responding bankers indicated that credit requirements per farmer had increased 182 percent since 1968. Bankers estimated a continuing increase in the loan requirement per farm borrower. This further increase is expected to be caused primarily by increasing input prices and farmland values.

TABLE 5. CHANGES IN VOLUME OF AGRICULTURAL LOAN DEMAND, 1974 COMPARED TO 1975, IN SELECTED ALABAMA COMMERCIALBANKS BY REGION. 1975

Response	Region			
	South	North	Central	Total
	Number			
Substantial increase	4	4	4	12
Some increase	5	5	4	14
No change	3	2	1	6
Some decrease	1	1	0	2
Substantial decrease	0	0	0	0

Number of Farm Loans

The number of loans extended to Alabama farmers by commercial bankers has gradually declined. In the sample of the leading agricultural banks in Alabama, 48 percent of the bankers indicated a decrease in the number of agricultural loans since 1970, table 6. Reduction in farm units was the dominant reason given to explain this decrease. The secondary reason was the increasing involvement of other lending agencies, particularly the Production Credit Association. In spite of a decline in farm units, 45 percent of the banks reported an increase in the number of loans since 1970, while the remaining 7 percent indicated their banks had maintained about the same number of agricultural loans in 1975 as they did in 1970. The bankers who reported an increase in number of farm loans attributed this increase to the increased number of part time farmers and a decline in merchant dealer credit.

The largest decrease with respect to the number of agricultural loans occurred in the selected banks in north Alabama

TABLE 6. PERCENT CHANGES IN THE NUMBER OF FARM LOANS IN SELECTED ALABAMA COMMERCIAL BANKS BY REGION SINCE 1970[1]

Percent change	Region							
	South		North		Central		Total	
	Inc.	Dec.	Inc	Dec.	Inc.	Dec.	Inc.	Dec.
				Number				
0-24	5	5	0	4	3	1	8	10
25-49	1	1	1	4	1	1	3	6
50-74	1	0	1	0	0	0	2	0
75-99	0	0	0	0	0	0	0	0
over 100	0	0	1	0	1	0	2	0

[1]31 of 34 banks responding.

with 50 percent of these bankers indicating a decrease. Reasons explaining the large decrease in the number of farm loans stemmed from the reduced number of farmers in the area, a decline in government programs, particularly cotton, and aggressive type of lending displayed by other lenders.

Loan Demand—Supply of Funds

The ratio of total loan demand to total supply of funds is a very important consideration for both the banker and the potential borrower. If the demand for loans is close to supply of funds, bankers usually analyze each loan closer. Alabama agricultural bankers generally do not have the problem of loan demands exceeding available funds.

When requested to describe the bank's total loan demand to total supply of funds, 59 percent of the 34 responding commercial bankers reported their loan demand was in good balance with their financial resources. Seventeen percent reported their bank had less demand for loans than supply of funds. Twelve percent of the reporting bankers reported all loans were handled from bank resources, but at a higher loan deposit ratio than desired. Only 4 of the 34 sample bankers reported that the loan demand exceeded the supply of funds. Therefore, the agricultural banks sampled for this study generally had sufficient amounts of available capital for farm and non-farm loans. Any reported credit shortage in the farm loan area of these banks generally would not be caused by a lack of loanable funds, but by other factors such as risk associated with agriculture, the farmer himself, or the general attitude of the bank toward agricultural lending.

Loan-Deposit Ratio

The ratio of loans to deposits, commonly referred to as loan-deposit, is of major importance to the banker. The ratio is primarily an indicator of loan activity within a banking institution and is valuable in formulating bank loan policy. A high loan-deposit ratio indicates a large percentage of the bank's total deposits have been extended in loans. If a high loan-deposit ratio exists, and there is an unusually large amount of deposits withdrawn from the bank, the bank could find itself without enough funds to carry on day-to-day banking activities. For this reason a high loan-deposit ratio is discouraged

TABLE 7. LOAN-DEPOSIT RATIOS IN SELECTED ALABAMA COMMERCIAL BANKS BY REGION, JUNE 1975

Loan-deposit ratio[a]	Region			
	South	North	Central	Total
Percent	*Number*			
20-39	2	1	0	3
40-59	6	4	8	18
60-79	3	3	5	11
over 80	2	0	0	2

[a]Ratio of outstanding loans to deposits.

by the Federal Reserve System (11). A low loan-deposit ratio indicates the bank is probably conservative in its loan policies. This conservative attitude costs the bank in terms of potential loan customers and revenue. Loan-deposit ratios of the sampled banks are presented, according to region, in table 7.

The mean loan-deposit ratio for all Alabama commercial banks in June, 1975 was 67 percent, while the mean of the agriculturally oriented sample was 56 percent, 11 percent less. This low loan-deposit ratio indicates the leading agricultural banks in Alabama were conservative in the total lending area, of which agriculture is a part. Low loan-deposit ratios can be increased by increasing the amount of loans, providing there is sufficient demand.

Of the 32 banks responding to the probable direction of the loan-deposit ratio, 69 percent indicated existing bank policy called for maintaining the present loan-deposit ratio, table 8. Fourteen of the 22 banks desiring to maintain current loan-deposit ratios had ratios within the 40 and 59 percent range,

TABLE 8. LOAN-DEPOSIT RATIO EXPECTATIONS IN SELECTED ALABAMA COMMERCIAL BANKS BY REGION, 1975[1]

Loan-deposit ratio	Region							
	South		North		Central		Total[2]	
	Inc.	Main.	Inc.	Main.	Inc.	Main.	Inc.	Main.
Percent	*Number*							
20-39	1	1	1	0	0	0	2	1
40-59	2	4	2	6	0	4	4	14
60-79	1	1	1	2	1	4	3	7
over 80	0	0	0	0	0	0	0	0

[1]31 of 34 banks responding.
[2]1 bank in the southern region with over an 80 percent loan-deposit ratio indicated a decrease in loan-deposit ratio expectations.

and only seven had loan-deposit ratios equal to or greater than the 67 percent state average. These results imply a continuation of low loan-deposit ratios for the majority of the large volume agricultural credit commercial banks, and therefore a continuation of conservative lending policies. There was a slight indication of a more liberal loan policy in the sample because 29 percent of these banks desired to increase the loan-deposit ratio.

FARM LOAN PRACTICES OF ALABAMA BANKS

Just as the financial and structural aspects of Alabama agriculture have changed, so have the farm loan characteristics of commercial banks. Commercial banks have grown substantially in all areas including total assets, deposits, and loans. Farm loan characteristics of the sample commercial banks were analyzed in terms of the effect on agricultural credit acquisition by the potential farm borrower.

Legal Loan Limits

Large agricultural loans can create problems for small rural banks because the loan could exceed the legal loan limit of the bank (6). Even if the loan is less than the bank's legal loan limit, it still could tie up a large percentage of the bank's loanable funds thus costing the bank in terms of potential loan customers. Five of the 34 sample bankers or almost 15 percent, reported that they had made agricultural loans that required participation with a correspondent bank because the loans exceeded the legal loan limit of the bank.

By using correspondent banks, commercial bankers were better able to meet the requirements of farm loans exceeding or approaching the legal lending limit of the bank; thus smaller banks could adequately handle large loan requests, both in the agricultural and nonagricultural sectors. Twelve of 34 sampled banks, or 35 percent reported correspondent banks were utilized in handling many agricultural loans, even some of those that could have been handled without creating any legal loan limit problems.

The largest number of bankers using correspondent banks was reported in the southern region with 54 percent and central regions with 44 percent of the regions' banks reporting correspondent activities. The northern region used corre-

spondent banking in only 1 of 12 sample banks. None of the northern bankers reported any farm loans exceeding the legal loan limit.

Interest Rates

Alabama commercial bankers are restricted by law to a maximum of 8 percent simple interest on loans less than $25,000. Many bankers admitted their reduced volume of agricultural lending was caused partially by the interest rate ceiling. Variable interest rates for bank loans as used by the Production Credit Association and Federal Land Bank Associations might encourage commercial bankers to be more interested in agricultural lending.

Farm Loan Application Rejections

Perhaps the most difficult decision made by bankers concerns the acceptance or rejection of loan applications. Because of rising farm input prices and fluctuating market prices, applications for farm loans are usually examined more critically than nonfarm loan applications.

The number of farm loan rejections in Alabama commercial banks showed very little change from 1974 to 1975, table 9. Of the 34 sample banks, 17 were able to estimate the number of rejected farm loans. In 1974, farm loan rejections totaled 417, with 52 percent coming from the Central region.

The southern and northern agricultural regions accounted for 17 percent and 31 percent, respectively, of the total number of rejected farm loans in 1974. In 1975, total farm loan rejections decreased to 394 with the central region accounting for 49 percent, the southern region 12 percent, and the northern

TABLE 9. TOTAL AND AVERAGE FARM LOAN REJECTIONS BY SEVENTEEN SELECTED ALABAMA COMMERCIAL BANKS BY REGIONS, 1974 AND 1975

Region	Bankers responding		Total farm loan rejections		Average farm loan rejections	
	1974	1975	1974	1975	1974	1975
			Number			
South	4	5	72	46	18	9
North	6	6	128	153	21	25
Central	7	6	217	195	31	32
All regions	17	17	417	394	24	23

region 39 percent. The reason the central region had a larger percentage of rejected farm loans was probably due to the banks' loan policy. Many central Alabama bankers remarked that current agricultural loan policy was one of maintaining present agricultural customers because low beef cattle prices had caused extension of loans to beef cattle farmers. The lowest farm loan rejection rate was found in the southern region. The lower number of rejections in the southern region compared to the central region could have resulted from an overall more liberal loan policy caused by the nature of agricultural production, row-crops in the southern region, and beef cattle in the central region. During this period, row-crop prices received were higher than usual because of good soybean prices and government supported peanut prices.

There was no dominating reason causing loan officers to reject farm loans. The number of responses corresponding to various reasons explaining loan rejections were as follows:

Reasons why loan applications were rejected	*Number of responses*
Bad credit rating	14
Excessive debts	14
Unsatisfactory management	14
Unsatisfactory security	13
Term of loan requested too long	7

Farm Loan Collectability

An important phase of banking involves collecting on outstanding loans. It is sometimes the most difficult phase of banking. Because of the fluctuations and sometimes unstable nature of agriculture, repayment problems occur.

In the sample of highly agricultural commercial banks, bankers reported the overall collectability of farm loans had not been a major problem during 1975. The main factor reported causing repayment problems was low cattle prices. Bankers from all regions of the State experienced loan repayment problems with cattle producers because of the low cattle prices. Bankers remarked that loan renewals were increased over 1974 because of the depressed cattle market.

FINANCIAL INFORMATION REQUIRED FROM FARMERS

Farm lending is a specialized field, requiring detailed farm financial data to enable the lender to analyze an agricultural loan application. Three of the most useful tools to a banker in the loan decision making process are loan applications, net worth statements, and operating statements from farmers. The extent of use of these forms in the selected banks is shown in table 10.

Only six of 34 bankers used loan applications designed especially for farmers, while 15 bankers used standard application forms. Thirteen bankers indicated that written loan applications were not used by the bank for agricultural borrowers. The main reason was the close personal relationship the majority of bankers had with farm customers. These bankers felt that since they knew the farmer and the condition of his operation, loan forms were not necessary.

Because of the differences between farm and nonfarm businesses, 44 percent of the sampled bankers had specialized net worth statements designed especially for the farmer. Seventeen of the 34 bankers had farmers complete standard net worth statements, while only 2 did not require net worth statements.

Sixty-seven percent of the sampled bankers required farmers to complete either an operating statement designed for the farmer or standard operating statements. Eleven bankers did not require an operating statement.

Lending forms are important to bankers and if forms designed especially for the farmer were used, less loans requiring foreclosure would probably result. As agricultural credit requirements increase, specialized lending forms will become more of a necessity for the banker.

TABLE 10. FARM LENDING FORM USAGE IN 34 SELECTED ALABAMA COMMERCIAL BANKS, 1975

Item	Loan applications	Net worth statements	Operating statements
		Number of banks	
Forms designed especially for farmers	6	15	8
Standard forms	15	17	15
No forms	13	2	11

Agricultural Specialists in Alabama Commercial Banks

The agricultural specialist is a bank lending expert whose formal education should be in finance with experience in agriculture (8). An effective agricultural specialist must have working knowledge of both banking and farming.

Although prevalent in other more agriculturally oriented states, the agricultural specialist is not used very extensively in Alabama's commercial banking system. Only 7 of the 34 banks that were agriculturally oriented employed a full-time agricultural loan specialist, while 6 employed a loan officer who spent part time in the agricultural loan area.

As need for agricultural credit increases in importance in Alabama, possibly commercial bankers will become more actively involved in agricultural lending. Both the commercial banker and the farmer should profit from the employment of agricultural specialists.

HOLDING COMPANY INFLUENCE IN AGRICULTURAL LENDING

The multibank holding company concept is relatively new in Alabama (7). In the sixth Federal Reserve district composed of Florida, Georgia, Alabama, and portions of Mississippi, Louisiana, and Tennessee, only Florida, Tennessee, and Alabama have allowed formation of holding companies. In 1975, 10 of the selected commercial banks had joined a holding company: South region 3, North region 3, and Central region 4.

All the banks reported having been contacted about joining with one of the seven Alabama holding companies. Opinions of bankers about the holding companies depended entirely on whether the responding bank was a holding company member. Banks in holding companies approved of them; banks not in holding companies apparently disapproved. According to holding company members, the advantages of the holding company came from the increased financial position and the greater expertise available in specialized loan and investment areas. Bankers that disapproved of the holding company concept based opinions on the loss of local control and management that was believed to take place. Independent bankers disapproved because they resented being controlled by a group of people located in another area of the

State. They felt these people would not know the needs and problems of local people. Also nonholding company bankers believed holding company development had reduced competition in the Alabama banking industry.

The most distinguishing characteristic of the holding company is the large amount of financial resources. The way in which holding companies use this large financial resource is important to both farm and nonfarm businesses (3). The financial measurements of total deposits, total loans and discounts, and total farm loans were utilized in comparing selected nonholding company banks with selected holding company banks in table 11.

Twenty-nine percent of the selected banks were members of a holding company. The large financial nature of holding company members was quite evident in this sample. The 10 holding company banks accounted for total deposits of $1.4 billion, 260 percent larger than the total deposits figure of $539.2 million held by the 24 nonholding company banks. The average total deposits for all holding company and nonholding company selected banks were $142.2 million and $22.9 million respectively.

Total loans and discounts for the ten sampled holding company banks were $920.1 million, while the 24 nonholding company banks totaled $284.2 million. The average total loans and discounts for the holding company banks was $92 million per bank. Nonholding company banks total loans and discounts per bank were substantially less at $11.8 million per bank.

The nonholding company banks in this study contended that holding companies did not desire to be involved in agriculture. The 10 holding company banks and the 23 nonholding company banks reported agricultural loans totaling $54.0 and 53.1 million, respectively. On a per bank basis, holding companies loaned $5.4 million to agricultural borrowers, while nonholding company banks loaned $2.3 million per bank. This difference probably came as a result of the large financial resources of the holding company organization. By calculating the total loan volume to total agricultural loan volume ratio, the role holding companies play in agricultural lending can be better analyzed. The selected banks, on the average, had 20 percent of their total loan volume in agricultural loans. Holding company banks had on the average only

TABLE 11. COMPARISON OF SELECTED HOLDING COMPANY BANKS AND NONHOLDING COMPANY BANKS IN TERMS OF THE TOTALS AND MEANS OF DEPOSITS, LOANS AND DISCOUNTS, AND FARM LOANS AND DISCOUNTS BY REGION, 10 HOLDING COMPANY BANKS AND 24 NON HOLDING COMPANY BANKS, ALABAMA, JUNE 1975

Item	Region							
	South		North		Central		Total	
	Holding company	Non-holding company	Holding company	Non-holding company	Holding company	Non-holding company	Holding company	Non-holding company
	Million		*Million*		*Million*		*Million*	
Total deposits	$517.3	$181.0	$534.7	$240.9	369.8	$121.1	$1,421.9	$543.0
Mean total deposits	172.4	18.1	178.2	26.7	92.4	24.2	142.1	22.8
Total loans and discounts	342.0	84.1	321.2	123.7	256.7	76.3	920.0	284.2
Mean loans and discounts	114.0	8.4	107.0	13.7	64.1	15.2	92.0	11.8
Farm loans and discounts	19.1	19.2[1]	20.5	16.3	14.3	17.6	54.0	53.1[2]
Mean farm loans and discounts	6.3	2.1	6.8	1.8	3.5	3.5	5.4	2.3

[1]9 of 10 banks reporting.
[2]33 of 34 banks reporting.

10 percent of their total loan volume in agricultural loans, while the nonholding banks averaged 23 percent.

Apparently, holding companies are not actually seeking agricultural loans (9). Volumewise, holding companies loan a large amount of funds to agriculture, but percentagewise they do not. Holding companies have the potential to have a tremendous financial impact on agriculture (5). The future question concerns to what extent they will use their large financial resources in funding Alabama farmers.

COMPARISON OF TWELVE ALABAMA BANKS, 1968-1975

During the past few years, the Alabama banking industry has experienced substantial financial growth. This growth has occurred in total assets, deposits, and loans throughout the state's banking industry. In 1968, 12 agriculturally oriented banks were analyzed in terms of financial measurements and attitudes toward agricultural lending (2). In 1975, these same banks were requested to update this information so comparisons could be made and changes noted. These banks were also included in the 34 sample banks previously discussed. Four of these banks are located in the southern region, three in the northern region, and five in the central region. Holding companies now control three of these banks: one in the northern region and two in the central region.

Total Assets and Total Deposits

The total asset and total deposit figures are among the most important financial measurements of a bank and greatly influence bank policies. Total assets include cash, securities, and real estate. Total assets in these banks increased substantially in all three regions of Alabama, table 12.

In 1968, total assets of these 12 banks were over $483.7 million, or $40.3 million per bank. In 7 years, this figure increased 115 percent to $1,039 million or $86.6 million per bank.

The total deposit figure of a bank measures the amount of customer cash deposits being held by that bank. Day-to-day banking business is most concerned with the bank's total deposits. Customers drawing cash from a bank directly affect the size of the total deposit figure. Therefore, the most important

TABLE 12. COMPARISON OF TOTAL ASSETS IN TWELVE SELECTED ALABAMA COMMERCIAL BANKS BY REGION, 1968 AND 1975

Region	Total assets		Av. total assets		Percent change in total assets
	1968	1975	1968	1975	1968 to 1975
	Million				*Percent*
South	$ 33.7	$ 72.1	$ 8.4	$ 18.0	114
North	206.5	456.5	68.8	152.1	121
Central	243.5	511.1	48.7	102.2	110
All regions	483.7	1,039.8	40.3	86.6	115

TABLE 13. COMPARISON OF TOTAL DEPOSITS IN TWELVE SELECTED ALABAMA COMMERCIAL BANKS, BY REGION, 1968 AND 1975

Region	Total deposits		Av. total deposits		Percent change in total deposits
	1968	1975	1968	1975	1968 to 1975
	Million				*Percent*
South	$ 30.2	$ 62.6	$ 7.5	$ 15.6	107
North	180.4	382.9	60.1	127.6	112
Central	216.1	428.5	43.2	85.7	98
All regions	426.7	874.1	35.5	72.8	104

use of total deposits is in providing a source for loans. The majority of loans made by Alabama banks is obtained from customer deposits. Total deposits of the 12 banks increased 104 percent from 1968 to 1975, table 13.

Total Loan Volume

As total assets and total deposits increased, so did the total loan volume of the 12 selected banks. Since the majority of commercial bank loans are made from the total deposits of a bank, it is only natural that the loan figure increases. Total loan increases in each bank during the 1968-1975 period are shown in table 14.

During the 1968-1975 period, total loan volume increased 114 percent from $259.4 million recorded in 1968. The largest regional growth occurred in the southern region where the four banks reported a 122 percent but the increase in total loan volume between 1968 and 1975 was not greatly different for the three regions.

TABLE 14. COMPARISON OF TOTAL LOAN VOLUME IN TWELVE SELECTED ALABAMA COMMERCIAL BANKS BY REGION, 1968 AND 1975

Region	Total loans 1968	Av. total loans 1968	Total loans 1975	Av. total loans 1975	Percent change in total loans 1968 to 1975
		Million			*Percent*
South	$ 13.6	$ 3.4	$ 30.2	$ 7.5	122
North	107.8	35.9	233.0	77.7	116
Central	138.0	37.6	292.8	58.6	112
All regions	259.4	27.6	555.9	46.3	114

Agricultural Loans, 1968-1975

Total agricultural loans in the 12 sampled banks made up a substantial part of each bank's loan portfolio. Agricultural loan volumes increased in both the real estate and non-real estate areas. As agricultural loan volume declines in many banks throughout the State, the agriculturally oriented banks continue to supply a substantial amount of funds to the agricultural borrower, table 15.

Farm real estate loan volume increased 42 percent in the 12 banks from 1968 to 1975. The largest increase in volume occurred in the southern region were 115 percent more money was loaned for farm real estate purposes in 1975 than in 1968. However, farm real estate loans made in the central region decreased 27 percent during the same period. This decrease can be attributed to an increase in Federal Land Bank involvement in the farm real estate area, plus the unwillingness of central Alabama bankers to tie up bank funds for the long period of time usually required to complete repayments on a real estate loan.

Farm non-real estate loans increased in all regions of the state. In 1968, the 12 selected banks loaned over $20.3 million in non-real estate agricultural loans. In 7 years, this figure increased 79 percent to over $36.5 million.

Agricultural Loan—Total Loan Ratio

One of the best methods of measuring the extent of commercial bank involvement in the agricultural credit area is to compare agricultural loan volume relative to total loan volume.

TABLE 15. COMPARISON OF TOTAL FARM REAL ESTATE, TOTAL FARM NON REAL ESTATE, AND TOTAL AGRICULTURAL LOAN VOLUME IN TWELVE SELECTED ALABAMA COMMERCIAL BANKS, BY REGION, 1968 AND 1975

Region	Total farm real estate loans		Change in farm real estate loans	Total non-real estate loans		Change in non real estate loans	Total agricultural loan volume		Change in total agricultural loan volume
	1968	1975	1968-1975	1968	1975	1968-1975	1968	1975	1968-1975
	Million		*Percent*	*Million*		*Percent*	*Million*		*Percent*
South	$1.6	$ 3.5	115	$ 1.6	$ 2.9	79	$ 3.3	$ 6.6	97
North	3.7	5.4	47	8.6	14.9	72	12.4	20.4	64
Central	2.0	1.5	-27	9.9	18.5	87	11.9	20.0	68
All regions	7.5	10.6	42	20.3	36.5	79	27.8	47.1	69

TABLE 16. COMPARISON OF TOTAL AGRICULTURAL LOAN VOLUME TO TOTAL LOAN VOLUME IN SELECTED ALABAMA COMMERCIAL BANKS, BY REGION, 1968 AND 1975

Region	Agricultural loan to total loan ratio 1968	Agricultural loan to total loan ratio 1975	Change in agricultural loan to total loan ratio
		Percent	
South	24.5	23.2	-5.3
North	28.6	18.6	-35.0
Central	17.6	10.5	-41.0
All regions	22.8	16.8	-26.3

In 1968, approximately 23 percent of the total loan volume of the 12 selected banks was made to agriculture; by 1975, this had decreased to only 17 percent, table 16.

Agricultural loans in these banks made up 26.3 percent less of the total loan volume of 1975 than in 1968. Reasons justifying this declining nature of commercial bank involvement were discussed previously. A continuing decreasing role of the Alabama banker in supplying funds to agriculture could affect the future of Alabama agriculture.

FUTURE AGRICULTURAL LENDING IN ALABAMA COMMERCIAL BANKS

Bankers surveyed in this study were requested to indicate the direction of future loan policy in their banks by ranking future loan alternatives. The alternatives were residential mortgage loans, consumer installment loans, agricultural loans, and commercial industrial loans. In order to determine which loan area these banks as a group plan to emphasize in the future, bankers responses indicating future loan direction were assigned points. Four points were assigned to the loan area of greatest emphasis of each bank, three points to the next most emphasized loan area, two points to the third most emphasized loan area, and one point was assigned to the least emphasized loan area. Points indicating loan emphasis were then multiplied by the total number of banks that ranked the loan possibility. Therefore, the loan area corresponding to the largest number indicates the area of greatest loan possibility.

Total points were as follows:

Loan type	*Points*
Consumer installment	100
Commercial-industrial	91
Agricultural	84
Residential mortgage	52

According to the agriculturally oriented sample, consumer installment loans would be the loan area of greatest future bank emphasis. Following consumer installment loans were commercial-industrial loans, agricultural loans, and residential mortgage loans. If future loan involvement of the most agriculturally oriented banks is not in agricultural loans, then the future emphasis of agricultural loans in the remainder of Alabama's banking industry is probably ranked very low.

Many bankers lack confidence in the agricultural lending field. This is not surprising because of the difference in nature of agricultural production and non-agricultural production. When the sampled bankers were asked to make suggestions that would increase other bankers confidence in agricultural lending, 25 percent of the 28 responses referred to the need for qualified agricultural lenders. Bankers stated that if banks employed someone knowledgeable in agriculture, then agricultural loans could be made with more confidence. A lender with agricultural experience could greatly reduce the risk associated with agricultural loans.

Bankers indicated that if bankers would get out and see the farmer's operation and try to be better informed about agriculture in general, confidence in lending to the farm borrower would improve. It was indicated that these bankers would not necessarily be required to be agriculturally oriented in order to be better informed about the farmer's operation. Bankers also indicated farmers could help increase bankers confidence in agricultural lending by providing adequate farm records to the banker.

The future role of these banks in agricultural lending is very important because presently these banks represent the leading agricultural banks in Alabama. In general, these banks plan to continue lending funds to the agricultural sector. Sixty-two percent of the responses given by the sampled bankers indicated the continuing involvement of their banks

in the agricultural lending area. Seventeen percent of the responses given by the 34 sampled bankers indicated there would be efforts made in their respective banks to make loans more available to agriculture. This would be accomplished by attempts to be better informed about agriculture in general. Bankers admit that if they knew more about agriculture, they would probably provide more funds to the farm borrower. Eleven percent of the responses made by the sampled bankers indicated their banks would be more aggressive in the agricultural lending area. But from the overall discussions with the sampled bankers, agricultural loan policies probably will not change in the near future in the selected banks.

SUMMARY AND CONCLUSIONS

This study was concerned with agricultural lending in the highly agriculturally oriented Alabama banks. Emphasis was placed on bank agricultural loan policies, practices, and overall attitudes toward agricultural lending. In addition, agricultural credit data collected in 1968 were compared to data collected in 1975 from 12 sample banks.

In 1975 total farm loans averaged $3.2 million per sample bank, $.7 million for farm real estate loans, and approximately $2.5 million for non-real estate loans. Bankers indicated farm real estate loans were avoided as much as possible because of their long term nature.

During 1975 the sampled banks experienced a 15 percent increase in non-real estate loans because merchant dealers did not permit farm customers their usual level of purchasing farm supplies by credit. The bankers estimated the Production Credit Association and Farmers Home Administration likewise had increased volume of business due to the reduced role of the merchant dealer.

Holding companies controlled 29 percent of the agriculturally oriented selected banks, and accounted for over 50 percent of their total agricultural loan volume. When the total agricultural loan-to-total loan ratio was calculated, holding company selected banks were found to devote less of their total loan volume to agriculture than the nonholding company.

The sample banks experienced little problems in supplying enough funds to meet the agricultural loan demand. Only 12

percent of the sample reported total loans exceeding the available supply of funds.

The average loan deposit ratio for the sample banks was lower than the State average indicating conservative lending policies by the agriculturally oriented banks. This conservative attitude is detrimental to the potential farm borrower.

Agricultural loans exceeding the legal loan limit of the sample banks posed no problems in making agricultural loans. Five bankers reported agricultural loan requests exceeding the legal loan limit of the bank. All of these loans were granted with the aid of a correspondent bank.

Interest rate in the sample banks for agricultural loans less than $25,000 was 8 percent. This constant interest rate, enforced by the State, has influenced some bankers to stop making agricultural loans, and others to reduce number of loans in this area. The collectibility of farm loans posed no major problems during 1974 and 1975 in the sample banks, although farm loan renewals were numerous in sample banks funding cattle loans.

The main problem experienced by sample bankers in agricultural lending was increasing input prices. Secondary problems were the lack of good farm management practices on farms, poor record keeping, low cattle prices, and the State usury law.

Bankers generally have problems in their ability to analyze farm loan requests. Very few sample bankers indicated utilizing any special forms designed for farm borrowers. Specially designed loan applications, net worth statements, and operating statements were not widely used by the sample bankers. Agricultural specialists, although common in some states, are practically non existent in the sample banks. Only 20 percent of the most agriculturally oriented banks employed a full-time agricultural specialist.

In comparing agricultural financial data gathered in 1968 with data gathered in 1975 from 12 commercial banks, total agricultural loan volume increased 62 percent, with non-real estate loans increased 65 percent, and farm real estate loans increased 42 percent. Although total volume of agricultural loans increased, as a percentage of total loan volume, agricultural loans decreased 26 percent. This decrease verifies the declining importance of agricultural loans to other loans for Alabama commercial banks.

The basic conclusion arising from this study was that the conservative lending attitude existing among the sample banks reduced the chances of the potential farm borrower in acquiring necessary capital. The banks have the financial resources to loan more money to agriculture, but the conservative loan policies are restricting the loans in this area.

Future loan emphasis of the sample banks will probably not be in the agricultural area. Bankers indicated consumer installment and commercial-industrial loans will be the loan areas of greatest future emphasis.

Farm loan practices, policies, and attitudes among bankers were found to vary according to the degree of bankers' involvement in agricultural lending. Banks displaying a high degree of agricultural lending involvement displayed a more organized agricultural loan policy than the lesser involved banks. The banks loaning a large volume of funds to agriculture usually employed an agricultural specialist. An agricultural specialist would greatly improve the ability of a bank to profitably loan funds to the farm borrower.

Impressions from the selected bankers indicated the continuing decline of agricultural lending in Alabama commercial banks. If this trend continues, more pressure for agricultural loans will be placed on other leaders, particularly the Production Credit Associations and Federal Land Banks.

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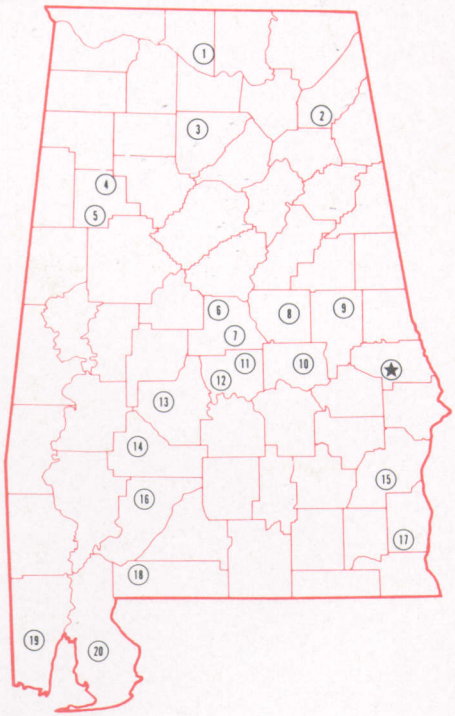

Research Unit Identification

★ Main Agricultural Experiment Station, Auburn.

1. Tennessee Valley Substation, Belle Mina.
2. Sand Mountain Substation, Crossville.
3. North Alabama Horticulture Substation, Cullman.
4. Upper Coastal Plain Substation, Winfield.
5. Forestry Unit, Fayette County.
6. Thorsby Foundation Seed Stocks Farm, Thorsby.
7. Chilton Area Horticulture Substation, Clanton.
8. Forestry Unit, Coosa County.
9. Piedmont Substation, Camp Hill.
10. Plant Breeding Unit, Tallassee.
11. Forestry Unit, Autauga County.
12. Prattville Experiment Field, Prattville.
13. Black Belt Substation, Marion Junction.
14. Lower Coastal Plain Substation, Camden.
15. Forestry Unit, Barbour County.
16. Monroeville Experiment Field, Monroeville.
17. Wiregrass Substation, Headland.
18. Brewton Experiment Field, Brewton.
19. Ornamental Horticulture Field Station, Spring Hill.
20. Gulf Coast Substation, Fairhope.