AGRICULTURAL BANKS IN THE SOUTHEAST AND NATION: A STUDY IN CONTRASTS

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With public attention increasingly focused on the farm financial crisis, it seems fitting to examine in some depth the financial positions and lending experiences of agricultural banks. We will briefly present our perceptions of the farm situation and why conditions have deteriorated in the farm sector over the past decade. An overall look at national and regional farm debt follows with emphasis on the share extended by commercial banks. Following a look at the general banking environment, we then turn to a comprehensive examination of the situation in the Southeast defined here as the states partially or totally included in the Sixth Federal Reserve District (Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee).[1]

The financial distress which plagues large segments of the farm sector and is apparently having a profound impact on financial institutions lending to agriculture has its roots in the economic gyrations of the 1970s. Accelerating inflation and a worldwide shortfall in agricultural production in the early 1970s triggered sharp price increases for many farm commodities. A decline in the value of the dollar reduced effective prices of United States agricultural exports compared to most competing products, enabling farmers to enlarge sales and expand world market share. Farm real estate surged in value as farmers' demands were stimulated by increased income expectations. Nonfarm investors began purchasing farmland, believing that it served as a safe haven against inflation.

But in the late 1970s and the early 1980s, the expectations of a favorable future for agriculture had begun to diminish as economic conditions changed. Escalation in farm production costs began to surpass commodity price increases as inflation became pervasive in the general economy. Also, in the Southeast, a cycle of drought years began in 1977 which cut output and income. Emergency credit from government agencies contributed to soaring debt loads throughout the agricultural economy of the area. Also, in 1979, in conjunction with the monetary authority's strengthened efforts to fight inflation, interest rates began a dramatic run-up to historically high levels from which they have been slow to decline. In late 1985, interest expense on indebtedness secured by farm real estate remained at more than double 1977's average levels, while the comprehensive index of prices paid by farmers was up 63 percent over the same period.

During the 1980s, as not only the United States but most international economies slipped into recession, demand for agricultural products, and particularly export demand, fell substantially and farm income plummented. Farmland prices began declining from their peaks in 1981 and 1982 when it became apparent that sharply reduced earning potential could not support such high price levels (Wilson and Sullivan). With a reduced cash flow and declining equities, some indebted farmers found themselves unable to meet scheduled payments on debts; they increasingly became unable to roll over existing principal and interest balances. In some areas, the situation was exacerbated by recurring droughts, freezes, and floods which lowered crop yields and sharply increased per unit costs of production.

FARM DEBT

For almost a generation after the traumatic years of the 1930s, farmers considered debt

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[1] Hereafter, the term Southeast refers to the Sixth Federal Reserve District.

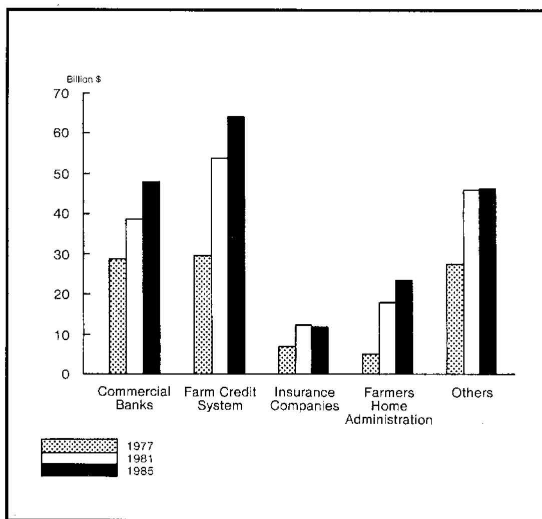

Figure 1. U. S. Farm Debt by Lender, 1977, 1981, and 1985.

from the cautious perspective that emerged from the memories of foreclosures and economic ruination that accompanied the depression. By the 1970s, however, a largely new group of farmers and changing economic conditions made debt seem both attractive and less risky. Rising net returns, farm expansion, increased use of expensive non-farm produced inputs, negative real interest rates, eager lenders, and droughts led to a surge in farm debt. From the beginning of 1976 to the peak reached in January 1983, total farm debt (excluding farm households) in the United States rose 139 percent. However, farm debt declined by 2 percent from 1983 to 1985, leaving farmers with debts outstanding of $199 billion at the beginning of 1985.

The breakdown of farm debt by lending source since 1976 reveals interesting differences in behavior among individual lenders, Figure 1. In that period, the $35 billion dollar increase in farm loans outstanding posted by the Farm Credit System was the largest of any lending group. Commercial banks experienced the second largest dollar increase at $22 billion. Although the Farmers Home Administration had the smallest increases in loans outstanding of any other lending group except insurance companies, the percentage growth during this period was dramatic, with an average annual increase of 20 percent.

Despite the large increase in commercial bank loans to farmers during the past decade, by 1985 banks' share of national farm debt was 4 percent less than in the mid-1970s, Table 1. In fact, two lending sources gaining greater shares of the market at the expense of the remaining three were the FmHA, with a share growing from 5 percent to 12 percent, and the Farm Credit System, with a 3 percent gain to 33 percent. In summary, 70 percent of the nation's farm debt was held by these lenders (FmHA, FCS, and commercial banks), up from 64 percent in 1975.

The widespread financial distress affecting the agricultural sector has no doubt precipitated much of the change in the behavior of farm lenders in the past few years. For example, farm loans at commercial banks actually rose by 10 percent from third quarter 1982 to third quarter 1985, running total debt of farm banks up to $47 billion. During the same time, both the Farm Credit System and insurance companies experienced slight declines in loans outstanding while the Farmers Home Administration increased its outstandings by 8 percent. The category entitled "others," which includes agricultural loans made by individuals and businesses, declined by 7 percent ($3.4 billion) during the last 2 years.

Additional insights come from dividing loans outstanding into farm real estate and non-real estate categories based on collateral serving as security. Of the change in non-real estate farm debt since 1975, commercial bank loans have increased almost $19 billion or approximately as much as the Farm Credit System and Farmers Home Administration combined. On the other hand, bank farm real estate loans outstanding showed the smallest increase at less than $4 billion. By contrast, debt secured by real estate at the FCS increased by approximately $31 billion during the same time. For commercial banks, this relative change made a larger proportion of the loan portfolio dependent on a favorable cash flow for eventual repayment.

Although United States farm debt held by commercial banks increased in absolute terms when expressed as a percentage of total farm debt, it fell steadily from 1976 to 1981-82

TABLE 1. SHARE OF THE NATIONAL FARM DEBT, FARM CREDIT INSTITUTIONS, UNITED STATES, 1975 AND 1985

Source	1975	1985
	percent	
Commercial banks	29	25
Farm Credit System	30	33
Insurance companies	7	6
Farmers Home Administration	5	12
Others	29	24
Total	100	100

Source: USDA, ERS and supplemental information provided by discussion with ERS personnel.

before rebounding to 25 percent of the total in 1985, Figure 2. Examination of quarterly changes in farm debt outstanding at commercial banks reveals the year over year rate of growth increased substantially beginning in the third quarter of 1982 and continued upward for the next 8 quarters at a pace of 6 to 8 percent above year-before levels. However, the growth in the rate faltered in the fourth quarter of 1984, turned negative in 1985, and continued to deteriorate through the third quarter of last year.

Although strong participants in total farm lending, commercial banks have typically held smaller positions in farm real estate debt. They held approximately 13 percent of the national total in the third quarter of 1985 compared with 58 percent for the Farm Credit System. Even so, the share for banks reflects a continuous quarterly increase since the fourth quarter of 1982, when banks held about 11 percent of outstandings. Since 1982, commercial banks have apparently substituted for some of the lenders who have been withdrawing from the farm real estate credit market.

By contrast, banks held 46 percent of total non-real estate farm debt as of the third quarter of 1985, a slight drop from 1984, although a still higher proportion than in the previous 3 years. However, in 1985, the growth rate turned negative and became increasingly so as the year progressed. Increased write-offs of bad loans were no doubt part of the explanation for this decline in loans outstanding. In addition, bankers were either curtailing short-term or non-real estate loans to farmers or they were requiring borrowers to put up real estate as collateral for loans formerly included in the non-real estate category. The latter might also explain why farm real estate debt has continued to grow at banks during the period when short-term or non-real estate debt began to decline.

Farm Debt—The Southeast

Farm credit in the Southeast differs from that of much of the nation in that bank lending plays a smaller role, while the Farm Credit System has been the major source of loanable funds to southeastern agriculture. The Production Credit Associations and Federal Land Bank Associations hold nearly half of the total farm debt extended by major lending institutions, Figure 3. The proportion for these Farm Credit System lenders has declined slightly since 1983 while the share of credit

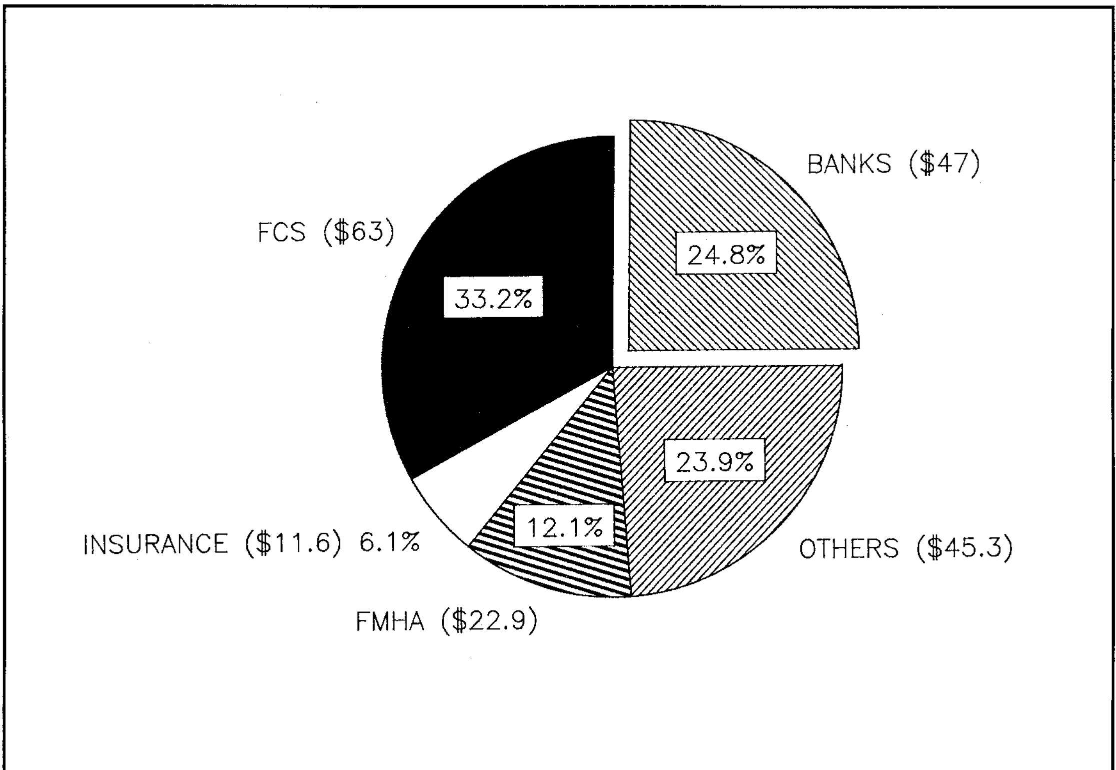

Figure 2. Farm Debt by Lending Source, Percent and Billions of Dollars, United States, 1985.

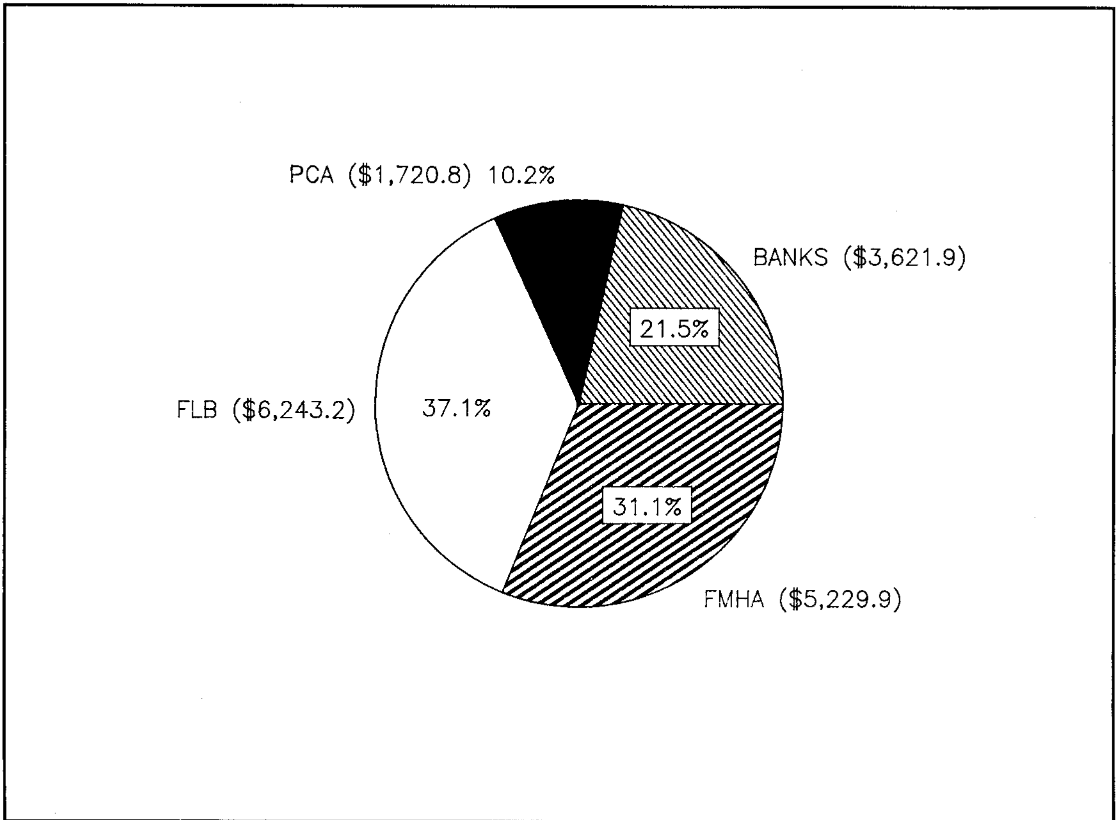

Figure 3. Farm Debt of Institutional Lenders in the Southeast, Percent and Millions of Dollars, 1985.

extended by the FmHA has expanded. The latter, which lends government funds, has had a significantly increased role in southeastern farm lending in recent years. Reversing a long-standing trend in the region, commercial bank loans outstanding to agriculture actually increased as a percentage of total lending from second quarter 1984 to second quarter 1985.

As of mid-1985, farm loans of commercial banks accounted for 22 percent of the loans outstanding for the four institutional lending sources in the Southeast and approximately 15 percent of total southeastern farm debt. The Farmers Home Administration, on the other hand, held 21 percent of total farm loans but 31 percent of institutional loans. In the Southeast, institutional farm debt outstanding declined 5 percent from mid-1984 to mid-1985. The substantive part of the change in debt outstanding occurred in the Farm Credit System, since FmHA lending actually increased while actual bank lending held rather stable.

The importance of commercial banks as a source of agricultural credit is far from uniform among the southeastern states. The distribution of bank farm loans within the Sixth District states since 1976 shows that Tennessee banks have accounted for the largest total volume of loans throughout most of the period, Table 2. However, total farm cash receipts for Tennessee rank near the bottom of the states within the region. Florida receipts are about 2.5 times greater than Tennessee and yet Florida stockholders banks had less than half as much as the Tennessee agricultural loan volume throughout most of the period. Loan growth was most rapid in Florida and Louisiana, however, where agricultural production tended to be more profitable throughout most of the last decade. Georgia bank loans have sustained only moderate net growth since 1976, and Alabama total bank loan volume in 1985 was actually lower than in 1976. Both the latter states have been unusually hard-hit by droughts and declining prices for soybeans and grains, major sources of crop income.

Although southeastern banks have traditionally concentrated on short-term or nonreal estate farm lending, the proportion of farm real estate loans increased in the late 1970s. For example, fourth quarter loans out-

standing at all banks grew rapidly from 1976 until reaching a peak in fourth quarter 1979 at $1.5 billion. Loan volume then proceeded to fall until the end of 1982, when total outstandings had declined by $101 million, or 7 percent. Since 1982, bank farm real estate loans outstanding have increased moderately, although there was little change from 1984 to 1985 and total farm loans of commercial banks in the District declined during the past year (Keplinger et al.)

As with total farm loans, a variety of trends are evident among individual states. Farm real estate lending by banks in Alabama, Georgia, and Tennessee peaked in 1979, and the volume has generally declined since then. Florida and Mississippi banks, on the other hand, have increased farm real estate loans since 1975. Louisiana bank loan volume also rose through most of the period, but outstandings have declined during the past two years.

Banking Environment

Prior to concentrating attention on the relatively small agricultural segment of the banking industry, let us briefly examine financial conditions of banks in general. Commercial bank profitability followed a downward trend from 1979 to 1984. This decline is evident from measures of return on assets (ROA) and return on equity (ROE). The ROA for the nation's banks averaged 0.79 percent in 1980 and declined steadily to 0.66 percent in 1984. Similarly, ROE fell from 13.7 percent to 10.9 percent in that period. This drop in profitability was especially acute for smaller banks. The average ROA and ROE for banks with less than $25 million in total assets dropped by 50 percent from 1980 to 1984 (Wall). This deteriorating performance has been especially disconcerting for bank investors as their average ROE of 6.7 percent in 1984 was less than returns on Treasury bills, a virtually riskless investment. These paltry returns suggest that small banks are generally under great pressures to improve their performance (Wall).

Southeastern banks, by comparison, are generally more profitable than those elsewhere in the nation. As measured by ROE and ROA, these banks have generally enjoyed higher returns than their national counterparts. Again, it is at the smaller banks that profitability has declined most rapidly. For banks with $25 million in assets or less, the average ROE fell 36 percent between 1980 and 1984 compared with only a 7 percent decline for all banks in the Southeast.

Within the region serviced by the Sixth Federal Reserve District, Georgia banks have consistently earned higher returns than banks in most other states, although, except for Louisiana, differences among states were not large. An unusually low ROE for Louisiana banks in 1984 undoubtedly reflects depressed conditions in the dominant oil economy. By contrast, when the oil economy was more healthy in 1982, Louisiana banks realized the highest ROE among the District states.

In summary, southeastern banks have generally higher returns than do the banks of the nation. Yet, small banks, both in the nation and region, are experiencing relatively low returns. The possible reason for these low returns are that small rural banks are more heavily involved in unprofitable agricultural lending and small banks may also be having disproportionately large problems with deregulation effects on their costs of deposits. In addition, studies on economies of scale in banking suggest that smaller banks can not achieve the degree of efficiency of

TABLE 2. FARMS LOANS BY COMMERCIAL BANKS IN SIXTH FEDERAL RESERVE DISTRICT AND BY STATES, SECOND QUARTER OF EACH YEAR, 1976-1985

Year	State						District
	Ala	Fla	Ga	La	Miss	Tenn	
	millions of dollars						
1976	403.5	257.4	611.9	339.8	433.0	528.6	2,574.3
1977	474.1	295.1	692.9	398.5	493.5	621.5	2,975.6
1978	481.6	305.9	648.8	462.2	513.1	666.5	3,078.1
1979	507.5	322.7	727.6	465.8	540.3	713.5	3,277.4
1980	486.7	292.3	704.0	488.5	541.8	700.4	3,212.9
1981	482.2	306.8	685.1	530.2	562.2	707.7	3,274.2
1982	457.8	317.9	676.3	576.3	610.2	713.8	3,352.3
1983	446.5	314.5	676.3	598.2	603.8	714.4	3,353.8
1984	421.4	409.5	693.3	650.7	729.5	737.3	3,641.7
1985	392.9	490.1	689.0	622.4	717.5	710.0	3,621.9

Source: Federal Reserve Bank of Atlanta.

their larger counterparts and therefore have higher costs per unit of measure (Wall).

Agricultural Banks—The Nation

To this point, the discussion of bank lending has covered the farm loans of banks regardless of how limited or how much of their lending business is accounted for by agriculture. A better look at the impact of agricultural difficulties on banking can be had by examining the much smaller group of banks for which farm loans comprise a significant volume of business. In the nation there are approximately 5,000 banks with a farm-to-total loan ratio at or above 17 percent, the group that is subsequently designated as agricultural banks. Many of these banks are relatively small rural institutions. In fact, while agricultural banks comprise almost 30 percent of the total number of banks, they hold less than 6 percent of total bank assets. Nevertheless, these agricultural banks hold about half of all bank farm loans (Bryan et al.).

Growing financial distress in the farm sector is having a major impact on farm banks through the growing volume of delinquencies and uncollectible loans. In 1984, net charge-offs of loans at agricultural banks equaled 1.2 percent of loans outstanding at year-end, about triple the percentage 3 years earlier and roughly 6 times the levels recorded at agricultural banks in the 1970s, Table 3 (Benjamin). In the first half of 1985, net charge-offs at agricultural banks were equal to 0.72 percent of loans outstanding, nearly double the rate of charge-offs a year earlier. By September 30, 1985, delinquent loans at agricultural banks had risen to 7 percent of their total loans.

Delinquencies at banks may be divided into two kinds: (1) non-performing loans composed of loans not accruing interest (nonaccrual loans) and delinquent loans past due 90 days or more still accruing interest and (2) loans past due 30 to 89 days and still accruing interest. Nonaccrual farm production loans were estimated at 5.6 percent of the total volume of such loans at the end of September 1985. Total non-performing loans rose to 7.5 percent of farm production loans in the third quarter of 1985. In all, 9.2 percent of farm production loans were delinquent at the end of the third quarter, compared to a 5.0 percent delinquency rate at the same time in 1983.[2]

TABLE 3. NET CHARGE-OFFS ON LOANS AND LEASES AS A PERCENTAGE OF TOTAL LOANS AT AGRICULTURAL BANKS, SELECTED STATES IN SIXTH FEDERAL RESERVE DISTRICT AND UNITED STATES, 1976-1984[a]

Year	State[b]					
	Ala	Ga	La	Miss	Tenn	U. S.
	pct.					
1976	.49	.41	.35	.35	.29	.24
1977	.40	.39	.21	.34	.35	.20
1978	.37	.42	.24	.38	.38	.21
1979	.42	.41	.39	.29	.41	.21
1980	.55	.54	.24	.46	.57	.32
1981	1.12	.73	.67	.69	.95	.43
1982	.85	.82	.87	.84	1.15	.69
1983	2.07	1.20	1.29	.99	1.66	.93
1984	1.11	1.14	.87	1.08	1.45	1.22

[a]Net charge-offs are losses charged to the allowance for loan and lease losses less recoveries credited to the allowance.

[b]Florida is not included because of the very small number of agricultural banks in the state.

Source: Melichar, (Table E. 7, p. 61).

Net charge-offs of farm production loans at commercial banks through the first three quarters of 1985 were up to $300 million, or 63 percent, from the same period in 1984. More than half the charge-offs were accounted for by banks in Iowa, California, Nebraska, and Missouri. The net charge-offs of farm production loans in all of 1984 totaled $900 million, approximately 2 percent of the total portfolio of these banks. Banks in California reported the highest rate of charge-offs (about 6 percent), but most of these loans were at large banks with diversified portfolios.

As one might expect with rising delinquencies and charge-offs, earnings at agricultural banks have fallen in recent years. In the 1970s, net ROE at farm banks typically ranged from 13 to 16 percent, but by 1984 it had fallen to 9 percent, Table 4. ROE was well below the comparable rate of 12 percent for small non-agricultural banks in 1984. Similarly, a growing number of agricultural banks have been reporting negative earnings. Nationwide, 12 percent of such banks reported negative earnings in 1984 compared with less than 2 percent in the 1970s.

These intensifying problems constitute abrupt changes from typical experiences of ag-

[2] "Farm Financial Experience and Agricultural Banking Experience, Banking Data through the Third Quarter, 1985," Emanuel Melichar. Statement before the Conference on Agricultural Finance, National Governors' Association, Chicago, Illinois; January 21, 1986.

TABLE 4. RATE OF RETURN ON EQUITY AT AGRICULTURAL BANKS, SELECTED STATES IN SIXTH FEDERAL RESERVE DISTRICT AND UNITED STATES, 1976-1984

Year	State[a]					
	Ala	Ga	La	Miss	Tenn	U.S.
	pct.					
1976	12	13	14	13	13	14
1977	13	12	13	12	13	14
1978	13	13	15	14	13	14
1979	15	15	17	16	14	15
1980	15	16	18	16	13	16
1981	13	16	16	15	11	15
1982	12	13	15	14	12	11
1983	8	11	11	13	11	11
1984	10	11	11	9	10	9

[a]Florida is not included because of the very small number of agricultural banks in the state.
Source: Melichar, (Table E. 8, p. 62).

ricultural banks in years past. Normally, agricultural banks have out-performed industry averages with high earnings and capitalization and low levels of problem assets. Beginning in the 1980s, however, farm bank performance slipped notably from its previous good records. The most drastic indicator, the number of failed banks, rose from 14 percent of total bank failures in 1981 to 58 percent of the total in 1985, Table 5. This worrisome trend is perhaps the most vivid indicator that agricultural banks have indeed suffered from financial stress in the farm economy. These predominantly small banks have also experienced elevated costs of funds as a result of their increasingly deregulated environment (Gregorash and Morrison).

Agricultural Banks—The Southeast

Approximately 200 (about 5 percent) of the nation's agricultural banks are located in the Southeast. These banks have farm loans of $1 billion or 4 percent of the national volume of farm loans held by agricultural banks. The relatively small number of establishments which can be counted as agricultural banks in the region plus the relatively small amount of farm debt held by these banks largely relieves the southeastern banking industry from the serious problems experienced in the Midwest and Central Plains where farm banks are concentrated. In addition, highly diversified loan portfolios of southeastern banks, a wider distribution of farm debt among different lenders, a broader agricultural base, and the large numbers of farmers with secondary incomes greatly reduce the prospects for financial distress among agricultural banks in this region.

TABLE 5. TOTAL AND AGRICULTURAL BANK FAILURES AND AGRICULTURAL FAILURE AS A PORTION OF TOTAL FAILURES, UNITED STATES, 1981-85

Year	Total	Agricultural	Agricultural to total
	number		pct.
1981	7	1	14
1982	35	11	31
1983	45	7	16
1984	78	32	41
1985	115	68	58

The distribution of failed agricultural banks by state for 1985 is: Nebraska (13), Texas (3), Iowa (11), Oklahoma (7), Colorado (2), Minnesota (6), Illinois (2), Oregon (2), Kansas (11), Wisconsin (1), Missouri (7), Tennessee (1), California (1), and Wyoming (1).
Source: Melichar.

The less intensive role of southeastern commercial banks in agricultural finance is further indicated by the fact that regional banks hold only 15.5 percent, or $3.6 billion of the District's farm debt compared with approximately 22 percent held by banks nationally. Within the Sixth Federal Reserve District, agricultural banks hold only 30 percent of farm loans outstanding at all commercial banks, while nationally, agricultural banks hold slightly more than 50 percent. On a state-by-state basis across the region, the figure varies widely, from 14 percent in Mississippi to 56 percent in Georgia, Table 6. At all banks classified as agricultural, farm loans compose only one-quarter of total loans outstanding on average and this proportion has held rather stable over time. In fact, the share among states in the region fits within a relatively narrow range from 23 to 28 percent.

The Southeast also has fewer banks with a heavy share of farm loans. In the nation, approximately 42 percent of all agricultural banks have at least half of their loan portfolios in farm loans. Only 5 percent of agricultural banks in the Southeast have 50 percent or more of their portfolios in farm loans. These institutions are all small rural banks with combined total loan portfolios of less than $100 million. They account for only 4 percent of the farm debt owed to all southeastern

TABLE 6. TOTAL NUMBER AND PERCENTAGE OF FARM LOANS OUTSTANDING, FOURTH QUARTER, 1984

State	All banks	Farm banks	Farm to total
	million		pct.
Alabama	389.1	158.9	41
Florida	481.0	114.4	24
Georgia	587.0	330.1	56
Louisiana	584.8	143.8	25
Mississippi	706.0	100.0	14
Tennessee	712.2	205.9	29
District	3,460.3	1,054.1	30

Source: Federal Reserve Bank of Atlanta.

agricultural banks. Thus, compared to the nation as a whole, the concentration of farm loans at agricultural banks in the Southeast is significant.

Timing of the difficulties is an additional explanation for the reduced effect of the farm credit crisis on southeastern banks. Repetitive droughts, beginning in 1977, created considerable distress in the District's farm sector. As a result of the liberal lending policies of government lending agencies during that period, a substantial amount of the more risky farm debt was apparently shifted from commercial lenders to government lenders, including both the FmHA and the Small Business Administration. As a result, southeastern banks were caught with fewer vulnerable loans when the nation's agricultural economy sank into recession. On the other hand, the abundance and low cost of government credit made available during the late 1970s encouraged significant increases in farm debt in the Southeast. That period of easy credit no doubt compounded the financial distress in the farm community when economic conditions deteriorated in the 1980s.

Banks Potentially Vulnerable to Failure

In spite of the upward surge in the number of banks that failed in 1985, 50 percent more than failed in 1984, the continuing growth in delinquent loan volume across the country suggests that the number of failures could grow still larger in 1986. When the volume of delinquent loans exceeds the total capital of a bank, its chances of failure are greatly increased. For example, more than two-thirds of the 118 commercial banks that failed in 1985 were among the 614 banks that had reported delinquent loans exceeding capital at the beginning of the year.

On September 30, 1985, the number of vulnerable banks had increased to 719, up 100 from 1984's level. The number is likely to have increased even more when year-end data have been tallied. About 43 percent or 309 of last September's total were agricultural banks, indicating that most of the total is comprised of non-agricultural banks. In addition, the major portion of the increase is attributable to Texas and Louisiana, states where problems with energy loans have been growing rapidly. Likewise, in many other states with large numbers of vulnerable banks, farm credit problems were, at most, a minor factor in worsening delinquencies.

Nevertheless, the number of potentially vulnerable agricultural banks has also increased and the rise was most significant in Iowa, Kansas, Minnesota, Missouri, and Nebraska. Only in Wisconsin and Tennessee did the numbers drop noticeably from September 1984.

Potentially vulnerable banks in the Southeast are largely those in the non-agricultural category. Louisiana vulnerable banks increased from 19 to 48 in the year ending September 30 and 44 of those were non-agricultural banks. Florida vulnerable non-agricultural banks increased from 11 to 17 in that period. All other southeastern states registered a decline in the number of vulnerable banks by September 1985.

Special Assistance for Troubled Banks

When banks in the Southeast, or anywhere in the nation, find themselves in difficulties related to inadequate liquidity at a given time, assistance is available to help these institutions overcome temporary inbalances. For example, agricultural banks with liquidity problems may utilize credit available from the Federal Reserve discount window. There are two potential avenues of assistance through the discount window extended credit programs. A seasonal borrowing program allows banks with problems of seasonal liquidity (loan volume is high at the same time deposits are pulled down) to borrow funds for a period as long as 9 months. Small, rural banks are the most likely to experience this seasonal phenomenon and are prime candidates for such a program. In addition, modifications to the seasonal borrowing program in early 1985 permit an increase in the amount of seasonal funds available to qualifying banks by reducing the proportion of the seasonal swing in loan volume which must be provided by the individual bank.

The second program allows the Federal Reserve to provide extended credit where exceptional circumstances inhibit the bank's ability to obtain funds. Such circumstances include sustained deposit drains, impaired access to money market funds, or deterioration in loan repayment performance (Drabenstott and Duncan). It might also be noted that the Federal Intermediate Credit Banks (FICBs) have access to the Federal Reserve discount window. If the FICBs should encounter severe liquity problems under some of the circumstances previously mentioned,

requests for funds could be met through the window.

In summary, let us state the main points regarding agricultural banks in the Southeast: (1) commercial banks hold approximately 15 percent of total farm debt compared with nearly 25 percent held by the nation's banks; (2) southeastern bank farm lending is widely distributed among institutions such that only a few banks have 50 percent or more of their loan portfolios in farm loans compared with roughly 1,700 banks at that level in the nation; (3) agricultural banks in the region are mostly small, rural operations and relatively few have severe problems, and (4) the prospect of farm financial distress having a serious impact on more than a minor portion of the southeastern commercial banks is virtually negligible. However, numbers of vulnerable non-agricultural banks in Louisiana and Florida have increased sharply during the past year.

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