Bankers responding to the third-quarter survey noted very poor agricultural production due to extreme drought conditions. Comments from bankers indicated that the drought has caused widespread crop failure and reduced yields, even for many irrigated crops. Ranchers continued to liquidate their herds as feed costs remained prohibitively high and stock water levels fell further.

Irrigated cropland values continued to rise, while dry cropland and ranchland values held fairly steady from last quarter. Expectations for farmland values remained subdued; 11 percent of bankers anticipate an upward trend in farmland values in the coming quarter, while 16 percent anticipate declines.

Numerous bankers across the district said farmers were using crop insurance payments to pay down loans, leading to higher repayment rates and reduced loan volumes. The demand-for-loans index fell notably from last quarter, reaching its lowest level in the recent past. Loan volumes declined across the various lending types. Particular weakness was seen in farm machinery loan volumes, likely due to less harvesting because of the drought.

Bankers’ comments reflected growing concern that the drought might continue into next year and adversely impact 2012 crop and livestock production.
Loan-to-Density Ratios at Survey Banks

Average desired and actual ratios

<table>
<thead>
<tr>
<th>Percent</th>
<th>Desired ratio</th>
<th>Actual ratio</th>
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<tbody>
<tr>
<td>75%</td>
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<tr>
<td>70%</td>
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<td>35%</td>
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Distribution of Loan-to-Density Ratios

<table>
<thead>
<tr>
<th>Banks reporting (percent)</th>
<th>2010</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td>Less than 41%</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>41% to 50%</td>
<td>10</td>
<td>16</td>
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<tr>
<td>51% to 60%</td>
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<td>61% to 70%</td>
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<tr>
<td>More than 70%</td>
<td>33</td>
<td>28</td>
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Interest Rates

Fixed

<table>
<thead>
<tr>
<th>Average rate (percent)</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feeder cattle</td>
<td>6.92</td>
<td>6.89</td>
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<tr>
<td>Other farm operating</td>
<td>7.03</td>
<td>7.00</td>
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<tr>
<td>Intermediate term</td>
<td>7.03</td>
<td>6.95</td>
</tr>
<tr>
<td>Long-term farm real estate</td>
<td>6.76</td>
<td>6.73</td>
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Variable

<table>
<thead>
<tr>
<th>Average rate (percent)</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feeder cattle</td>
<td>6.05</td>
<td>6.05</td>
</tr>
<tr>
<td>Other farm operating</td>
<td>6.29</td>
<td>6.23</td>
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<tr>
<td>Intermediate term</td>
<td>6.25</td>
<td>6.20</td>
</tr>
<tr>
<td>Long-term farm real estate</td>
<td>5.91</td>
<td>5.96</td>
</tr>
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</table>

Total Agricultural Loans*

Eleventh District agricultural loan volumes edged up in the second quarter.

Millions of dollars (seasonally adjusted)

Loan Renewals or Extensions

The volume of requests for loan renewals or extensions is largely unchanged in the third quarter.

Amount of Collateral Required

More than 90 percent of respondents note no change in collateral requirements.

Anticipated Trend in Farmland Values

A majority of bankers expect farmland values to be stable over the next three months.

*Not based on Agricultural Survey data. Data lagged by one quarter.
SOURCE: Federal Financial Institutions Examination Council, Reports of Condition and Income.
Commodities

As part of the third-quarter Agricultural Survey, Eleventh District bankers were asked to list agricultural commodities produced in their lending region. Cattle was the most widespread response, followed by hay; more than 85 percent of respondents noted a presence of these goods (Chart 1). Cotton and wheat also have a strong presence in the district, as nearly three-quarters of bankers said these crops are grown in their areas. Among the other top responses were corn, sorghum, horses and dairy.

The survey asked Eleventh District bankers to rank the top three commodities produced in their lending region. The ranking has changed slightly from 2009 (see pages 4 and 5). For example, cotton has replaced corn as the second-leading commodity in the district in terms of importance. Poultry has increased in importance, as have hay and soybeans. Sorghum, dairy and potatoes have declined in importance over the past two years, according to survey responses.

Bankers were asked to highlight any changes in the types of agricultural commodities produced in their region. The most significant change was a shift toward cotton and away from grains such as corn and sorghum. Several respondents cited higher cotton prices as the driver for this change. Bankers in the Northern Low Plains noted a decrease in peanuts acreage, and sesame is a new crop for Coastal Texas.

The survey also asked how recent movements in commodity prices have impacted agricultural and credit conditions, including the types of commodities grown. Numerous bankers said that high commodity prices helped producers meet their financial obligations despite higher input costs and severe drought conditions. Several respondents stated that the high prices resulted in strong crop insurance guarantees, which will be a major source of income for many farmers this year. High cotton prices led to an increase in cotton acreage, and this was true to a lesser extent for corn.

The following pages display a graphical representation, by region, of the data gathered in this commodities survey, along with the comments received.

Drought

As part of this quarter’s commodity survey, respondents were asked about the impact of the current drought on agricultural and credit conditions in their region. Most agricultural producers have been severely affected. Dryland production has been poor or even nonexistent in many areas. Irrigated crops have required increased irrigation and are producing lower yields. The livestock industry has been hit hard; poor grazing conditions have forced many ranchers to sell off part or all of their herds. The drought has affected farm income for agricultural producers, causing a greater reliance on crop insurance. There were scattered reports of reduced agricultural loan demand.

The comments received from survey respondents on the impact of the drought in their lending region start on page 8.
Agricultural Commodity Ranking in the Eleventh District
(as reported by responding banks, third quarter 2009 and 2011)*

NOTE: “Other” includes pecans, milo, timber, fish and turf grass.

* Data for Region 10—South Texas have not been reported due to insufficient responses.
**Question:**
Over the past two years, have there been changes in the types of agricultural commodities grown in your region? If so, please explain.

**Region 1—Northern High Plains**
We have seen more cotton acres at the expense of all summer crops, but modest sorghum.
More cotton is grown due to better prices. Cotton acreage has increased significantly. With strong grain prices, there has been an increased interest in corn and sorghum. However, we expect to see more cotton in the coming years because our irrigation water is being depleted.
There is more cotton and less corn grown.

**Region 2—Southern High Plains**
More cotton is being grown due to strong prices. High grain prices driven by ethanol demand increased grain acres, with an offsetting reduction in cotton acres until the 2011 crop year. In late 2010, cotton prices increased, which made planting cotton more attractive than grains again. Also, the lack of preplanting moisture in 2011 increased cotton acreage because cotton requires less water to grow than grains (sorghum, corn, etc.).
More corn is grown due to high prices. There are no real significant changes in gross acres. There has been a battle for acres between cotton and corn on the ground with the best water. This year’s spike in cotton prices (which lagged the rise in grain prices by a couple of years) solidified cotton as the crop of choice in West Texas. The trend is toward more cotton as it requires less irrigation, which is important given continuing declines in the local aquifer.

**Region 3—Northern Low Plains**
There has been a significant shift from peanuts to cotton. Also, we have seen an introduction of potatoes into the area. An increase in deer herds has made it hard to grow hay and peanuts and has hurt our cotton growers.
Peanuts acreage has decreased due to increasing wild hog numbers. Cattle numbers are down due to drought. Farmers planned to increase cotton acreage due to pricing, but the drought forced major adjustments.
We probably have less cotton grown than in the past, but with high cotton prices, this may change if it ever rains again.

**Region 4—Southern Low Plains**
In general, farmers are getting away from early wheat planting for pasture and have gone to planting wheat behind stripped cotton.

**Region 5—Cross Timbers**
There is more cotton grown due to government programs. Cattle herds are shrinking due to drought. Peanuts acreage has begun to increase again, and cotton is becoming important. There has been a large increase in cotton acreage and a decrease in corn acreage. Wheat and cattle continue to be the significant products.

**Region 6—North Central Texas**
Cotton has become a major crop again. With the continued drought conditions, hay production has decreased drastically along with a reduction in local cattle inventory from herd liquidation.
There is slightly more cotton planted. Corn acres have been reduced, and cotton acres have increased.

**Region 7—East Texas**
The types of agricultural commodities grown in this region have pretty much remained the same.

**Region 8—Central Texas**
Land is being taken out of production for recreational use. There has been an increase in cotton acreage over the past two years, primarily driven by prices. There are less row crops grown and more hay production. More vegetables are being grown now. More cotton has been grown due to the high price of cotton. Seed rice acreage has more than doubled in the last two years. Rice now accounts for at least one-third of acreage. Sesame acreage grows each year but remains a minor commodity. Cotton acres are going to be affected by drought.

**Region 9—Coastal Texas**
Sesame has been a new crop introduced over the past three years. It seems to be drought tolerant and resists heat well, but it has a late harvest. We are starting to see a few more small grains being planted, such as sunflower, sesame and wheat.
There has been an increase in cotton production and a decrease in rice production.

**Region 10—Central Louisiana**
Sweet potato acres are increasing each year. There are still a few large cattle operations in place. We’ve seen significant increases in corn and soybeans over cotton due to market difference, expense of growing and overall profitability. There has been an increase in cotton acreage and a decrease in rice acreage.

**Region 11—Trans-Pecos and Edwards Plateau**
More producers are going to pecans. Predators have reduced the number of sheep and goats drastically. More people are moving to cattle because of predators. There has been a decrease in cattle numbers due to cost and dry range conditions.

**Region 12—Southern New Mexico**
There is less corn produced due to water decline.

**Region 13—Northern Louisiana**
Cotton production has been reduced. Corn acreage has decreased, and wheat acreage has increased.
Sweet potatoes have increased in acres and in importance since the opening of ConAgra’s sweet potato processing plant. Cotton has had somewhat of a comeback this year, but most of the farmable acres are in corn, with cotton and soybeans vying for second place.
Sweet potato acres are increasing each year. There are still a few large cattle operations in place. We’ve seen significant increases in corn and soybeans over cotton due to market difference, expense of growing and overall profitability.
There has been an increase in cotton acreage and a decrease in rice acreage.

**Question:**
How have recent movements in commodity prices impacted agricultural and credit conditions in your region, including the types of agricultural commodities grown? Please explain.

**Region 1—Northern High Plains**
The good prices have not benefited farmers since they had no or low yields this year. Not many farmers have grain in storage.
Prices have remained high, which allows producers to meet financial obligations even with high input costs. This is especially true with the beef cattle market.
Commodity prices are the driver behind the shift from sorghum to cotton.
If it weren’t for the high cotton lint, cottonseed and cattle prices, this drought would be much more devastating than it already is.
Prices have helped to a large degree on what would otherwise be a disaster of biblical proportions.
The rise in commodity prices has increased demand for loans to produce grains. Cattle expenses have increased significantly with the cost of feed and have made for a volatile environment for cattle profits.
Price increases were very beneficial last year and will help this year; however, profits will be less this year because of less production or lesser quality and higher inputs, such
as natural gas to run water wells. Increased commodity prices have benefited the cattle and grain industry. Due to drought conditions, many cattle have had to go to market two to three months early, and yet producers are still receiving a good price. Dryland producers will generally not be able to take advantage of the better grain prices because they will not have a commodity to sell. On some multi-peril insurance, the increase in price has raised the product price.

Region 2—Southern High Plains
Cotton has been the biggest gainer due to price. Even though corn, wheat and sorghum prices are much improved, the risk-reward is greater with cotton. Higher prices have impacted the amount crop insurance is paying on this year’s losses. With crop insurance the major source of income for 2011, these higher prices will allow operating loans and term debt obligations to be paid as required. Many producers in the northern part of our trade area planted more corn due to the high price; however, due to the drought, about 30 percent of the crop failed from lack of irrigation available. The increase in commodity prices as a positive has been mitigated by drought conditions and high input costs. Higher cotton prices have been extremely helpful for our crop producers. Although our crop will be off two-thirds from normal, high cotton prices resulted in exceptionally strong insurance guarantees. Consequently, our cotton producers will do fine. The dryland growers will do best, and irrigated growers will more or less break even for the most part. High grain prices have been tough on the cattle sector. Fortunately, beef prices have been boosted by strong export demand.

Region 3—Northern Low Plains
Historically high cotton prices in 2010 shifted virtually all row crop production to cotton. More cotton was planted because of the projected price at planting time. Crop insurance and the drought have combined to produce a major shift to cotton. Cattle producers are selling out due to the cost of various types of hay.

Region 4—Southern Low Plains
Commodity prices have affected the way landlords and renters are structuring leases. The current prices are allowing farmers to show profitability for the first time in many years. Livestock prices are up, creating an incentive for ranchers to sell. Agricultural lending in the area will be down, and those who have operating lines of credit are going to have difficulty repaying their loans. The volatility of commodity prices is incredible. We have dryland farmers in this area who cannot market their crops until they are produced, so selling prices are hard to predict. It is difficult for our customers to make gross income projections in this environment. Recent movements in commodity prices have led to more cotton and less wheat acreage. Due to the spike last year in cotton prices, the acreage in our county reserved for cotton dramatically increased. Although a large amount of acres were planted, the severe drought hampered any plans of harvesting a crop for this growing season. Cotton insurance was very good this year due to the high price that was locked in last spring. The good yields that have been made in the last few years helped the guarantees go up.

Region 5—Cross Timbers
Feed is more expensive. Our area is not as dependent on cash crops as some regions, so we don’t benefit from the higher prices as much. Commodity prices have put additional stress on livestock producers. Increases in cotton prices prompted an increase in acreage in our area. Increases in hay and feed prices may make it cost prohibitive for farmers to winter any livestock. Higher prices have resulted in paper farming looking good. However, when low yields due to drought are taken into consideration, the realistic outlook is not nearly as good.

Region 6—North Central Texas
Feed prices have gone up during a drought when demand for feed is much higher than normal. This is detrimental to cattle producers. Row crop farmers could have benefited greatly from higher prices but did not have any significant quantity of crops to sell. Corn, cotton, milo and cattle prices are all high. Thus, crop insurance payments have been very good, which supports credit for the coming crop year for our customers. The higher prices have allowed our producers to survive the severe weather conditions that they have had to endure. There was more dryland corn planted in this area in the past few years due to the high price of corn. Cattle prices have remained good even with large numbers being sold. Most loans are paying down due to ranchers having to sell cattle because of lack of available grazing.

Region 7—East Texas
Cattle producers cannot feasibly purchase feed and hay at the prices being quoted to sustain cattle herds.

Region 8—Central Texas
Cattle prices are up, which is good for everyone who has sold out or reduced their herd. The lack of rainfall has dictated the ag industry, and it will be hard to take advantage of a strong market in any commodity with no rainfall. Cotton prices have prompted more acres to be planted. Some corn acres were converted to sweet corn acreage as produce. Green beans and other vegetables have also been attracting acres as their prices have increased. More cotton and corn are being grown due to higher prices.

Half the normal yields on corn this year were mitigated by double the normal price. Higher cotton, rice and cattle prices will allow producers to show a profit in our area. Guaranteed revenue from revenue protection crop insurance was the highest ever in 2011, so those with disastrous yields will live to fight again. The cost of diesel and commercial feeds has impacted what little profitability the cattlemen may have had.

Region 9—Coastal Texas
High prices at the time insurance rates were set are the only reason our farmers are coming out financially this year. Unfortunately, there is no substantial insurance for the ranchers and vendors. With the high commodity prices, it has become a much more risky game with the same amount of return for our customers. The substantial increase in grain prices helped farmers, but if they did not irrigate, yields were affected and in some cases there was total crop loss. It appears more cotton was grown due to the prices, although milo and sorghum prices were at an all-time high. The strong prices have resulted in more dollars than last year in spite of reduced yields.

Region 11—Trans-Pecos and Edwards Plateau
The cost of corn and hay has increased operating costs for those staying in the cattle business. We have seen a decline in loan demand due to the higher prices, as more farmers are self-financing. High commodity prices have given our producers the ability to pay off during these dry times. If not for the drought conditions, predicted high prices and low inventories of goats, sheep and cattle would tempt people to go back into ranching. But feed prices and the range conditions will stall that movement. Price movements have caused more cotton to be grown and less grain. The higher prices received allowed producers to service debt and pay loans down. Credit conditions at this time are good. High commodity prices led to reduced loan demand. Operating costs are constantly increasing.
causing a direct impact on producers’ bottom line.

Region 12—Southern New Mexico

High feed prices are hurting our cattle producers. Everyone planted cotton this past year due to last year’s spike in price. Very few people will gain advantage from this, however, due to failed production as a result of the drought.

More cotton was planted this year due mainly to the price. With the drought factor this year, the prices available may keep some farmers in business.

Corn and soybean prices continue to offset some of the yield loss due to drought.

***

Region 13 – Northern Louisiana

Some farmers are planting cotton this year due to the higher price.

Due to price movements, corn acreage will decrease while soybeans and wheat acreage will increase.

More cotton was planted this year due mainly to the price. With the drought factor this year, the prices available may keep some farmers in business.

Cotton is the major crop here, and the acreage is usually 60 percent dryland and 40 percent irrigated. We have no dryland crop this year, and our irrigated yields are expected to be around half of what they usually are. Producers chased the high prices and spent way more than the crop can return. There are going to be a lot of people in tough situations, with some potentially going out of business.

Our summer and winter pastures for cow herds are gone, and liquidation is happening left and right. Cattle prices are good; otherwise, this would be a disaster, too. We expect to have much weaker financial statements and tighter credit requirements going into next year.

The winter wheat crop was a disaster on dryland farms, and yields declined on irrigated fields. The corn crop is expected to show much lower yields than normal years, as is the soybean crop, but to a lesser degree. Summer pastures for cattle were almost nonexistent. Cow operations have no grass or dryland wheat for the winter, and hay to support these cows is difficult and expensive to find. Profitability for all farm and ranch operations will be difficult.

The impact of the drought will result in lower yields, greater expenses for production and equipment maintenance and a significant depletion of our irrigation water.

The drought has been very damaging. Dryland crops are mostly nonexistent, and cattle herds have been reduced or sold off. Irrigated crops are stressed.

The drought has led to reduced income from crop sales and cash flow. We have seen a reduction or abandonment of irrigated crops due to water not going as far. The multiperil insurance appears to be able to keep the majority of producers in business for another year. Wheat pasture cattle are not being brought for fall and winter grazing due to the inability to plant wheat. Some reduction or liquidation of cow herds has been noted due to lack of pasture.

Question:

Has the drought impacted agricultural and credit conditions in your region? Please explain.

Region 2—Southern High Plains

Producers lost all dryland cotton and are awaiting crop insurance to pay losses. Peanuts and other crops are stressed. Ranchers are cutting back their labor forces.

Operators are reliant on the financial soundness of crop insurance companies. Absent crop insurance, the drought’s widespread effect would adversely impact producers, consumers and ultimately the economy.

This is the worst corn crop we can recall. Our production will likely be around 45 percent of normal.

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Region 3—Northern Low Plains

Seventy percent or more of the livestock has been liquidated. There are zero dryland crops. Irrigated crops will have yields down 50 percent and have 150 percent of the input costs. Credit lines have not funded, and interest rates are down. Most producers have little hope for fall wheat.

There are no dryland crops for harvest; very few fields had anything come up. Pastures are all dormant. The irrigated cotton yields will be impacted. Area producers have reduced or sold all of their cattle, and the stocker operations were not able to purchase any livestock for grazing. Further impact is being felt on area businesses because of the reduced need of harvest help, and area farmers are cutting back their labor forces.

The drought has caused problems we are only starting to see. We may not have any element of agricultural production unaffected. Borrowers are also suffering under the stress of the drought. Production costs are up, and production is down.

Cattle have been sold. Hay production is virtually zero. All dryland cotton has been abandoned; some irrigated cotton has been let go due to wells going dry. Credit conditions are unknown at this point since most agriculture debt will be maturing or coming due in the near future.

Sixty to seventy percent of cow herds have been liquidated. A very high percentage of stock ponds are dry. Many wheat fields have not been plowed since the wheat was harvested in late...
May. We usually start planting wheat for grazing in early September, but at this point, we don’t have a seed bed to plant, so planting wheat will depend on whether or not we receive adequate moisture in time. As for credit, currently we have not seen any major issues, but that could change if the drought hangs on much longer.

The drought has severely impacted the region. Most of the cattle have been liquidated, and no hay or dryland cotton was produced. Irrigated cotton largely failed due to high temperatures and no rain; the irrigation system simply could not deliver enough water.

**Region 5—Cross Timbers**

The drought has impacted the majority of our customers. Fortunately, the historically high cattle prices have helped ease the potential problems associated with this plugging drought.

Livestock herds are being reduced or sold off. There was no hay grown, which has forced producers to purchase hay from other parts of the nation if they want to maintain their livestock. As far as credit conditions, borrowers are reducing debt ahead of schedule due to the high prices of livestock.

People are selling off their herds due to water and no grazing. We have fewer ag loans than in the past.

The drought has caused many producers to reduce herd numbers, largely due to the additional expense of purchasing hay and feed that under normal conditions they would be able to produce themselves.

With cattle herds being liquidated and stocker purchases being put on hold, loan volume and demand is being significantly reduced. Operating notes are not being used as under normal conditions because farmers cannot prepare land for planting and fertilizing.

We have been hit hard by the drought. Ranchers who have not sold out have seen feed costs skyrocket. Crops are devastated. Irrigation expenses are huge, and the yields will be down due to the excessive heat and dry conditions.

The impact of the drought on credit conditions will be seen in the next operating cycle.

Many cattle raisers have had to sell most or all of their herds due to the lack of grass, hay and water. Very few people have been able to cut hay this summer. A small percentage of farmers have gotten one cutting of hay that was about 25 percent of normal yields, and if there is no rain within the next few weeks, winter grass may not be available.

When yields were down, and cotton has been 100 percent abandoned. High wheat prices and cotton insurance helped make things bearable.

The wheat harvest was decent despite the lack of moisture. We had some rains in our immediate area that enabled farmers to have close to average yields. Since we had virtually no rain this summer, this year’s crop is in jeopardy as farmers have not been able to get their land ready for planting. Cow inventories are being sold off due to no grazing and stock tanks drying up. Ranchers will not be making stakeer cattle purchases until we have rain.

**Region 4—Southern Low Plains**

We have suffered a loss in cotton and wheat. When there are no crops to harvest and sell, there will be a reduction in jobs in the agricultural business arena. Cattle are being sold off in such large numbers that a genetic pool of breeding that has taken generations to develop is being lost.

There have been many wildfires in the area due to the drought. This has caused a lack of feed for all livestock. With no water or grass to feed the livestock, ranchers are selling off their herds. Since there has been no rain in the area, local farmers are not planting crops. Even the farmers that typically irrigate are being limited due to water rationing in the area.

Without rain, wheat crops cannot be planted in September and grown through the winter for harvest in May. Without any wheat for grazing, stocker cattle operators cannot borrow to purchase weaned calves to be sold as feeder cattle in May and June. Cow/calf operators have been forced to sell all or portions of their breeding herd as well as baby calves as pairs due to the lack of water in stock tanks. When this occurs, term loans to purchase the breeding herd are prepaid.

The biggest effect of the drought is going to be large income tax problems for our producers. They have been carrying over their cotton crops for several years, and this year with the good insurance payments, they are going to have to sell two crops in one tax year. In addition, the cattle producers have sold a lot of cows, most of which are already depreciated out. This will likely cause some tax gains if they cannot replace in the next couple of years.

Repayment capacity has been limited; however, demand has also been limited.

2011 has been a devastating year for agriculture in our area due to the severe drought. Our summer crops never emerged, and large amounts of livestock have been sold due to the almost nonexistent rainfall for the last 10 months.

We have had no wheat production and very little cotton production. Cattle are being sold, and feed costs have increased.

Cow herds have been liquidated to some extent due to drought and wildfires. At least 50 percent of our local cow herd has been sold. Another month of dry weather and we think another 25 percent could be sold.

**Region 6—North Central Texas**

Liquidation of cattle herds and lack of hay have caused the average expense of maintaining a cow to become very high. Reduced crop yields have lowered income, and there is very little investment in capital items such as equipment. Credit quality has obviously deteriorated.

Crop yields were low, but high commodity prices in all categories along with strong crop insurance payments will support loan repayment.

Many of our cattle loans have been paid down from sales as a result of the dry conditions. We have had very limited requests for feed and hay loans, as borrowers have chosen to liquidate in lieu of feeding their herds.

The drought has had a tremendous impact, not only to ag producers but also the closely associated businesses such as gins, graineries, crop dusters and farm and ranch suppliers. These businesses do not receive subsidies or insurance. Cattle producers are selling their herds, which means future replacements may be extremely expensive.

Many operators have sold part or all of their livestock. Hay is being trucked in at a high cost.

Most of our customers have had to scale back their operation due to the lack of grass, hay and feed. The drought has also impacted our businesses that serve the agricultural community.

Cattle herds are being reduced or liquidated due to the shortage of grass and the high price of hay or feed. Stock tank water is drying up, and some ranchers have to haul water to cattle, which can be even more expensive and harder than supplying hay or feed. Surprisingly, cattle prices are holding steady.

Pastures have very little grass for grazing, and no hay crop due to lack of rainfall. Producers are having to sell calves early and are selling cows in large numbers. Some have sold all livestock. Hay is at a premium and is hard to find. Most producers have to feed due to lack of grass.

There are lower numbers of cattle. The market remains elevated despite the livestock sell-off, defying historical and economic tendencies. The drought has caused reduced herd sizes, higher costs of feed and hay and reduced yields on crops. Credit conditions remain the same.

The crops were very poor.

**Region 7—East Texas**

Livestock has been liquidated, and hay production is less than 50 percent of normal.

The drought has not impacted credit conditions, but people are selling cows due to lack of hay.

The drought has greatly affected hay, cotton and grain production.

Producers are struggling greatly, with most selling out or giving up. Hay is at an all-time premium.

The drought has impacted all of our ag
producers severely. Cattle and hay producers are devastated. Cattle producers have had to substantially reduce their herds or are being forced to sell out entirely due to lack of available forage, high feed prices and lack of water. Poultry growers are getting reduced flock numbers and more downtime due to commercial poultry production cutbacks.

There are fewer cattle in the area than we historically have. Hay production is nonexistent.

The drought has affected agriculture in every way you can imagine. Being in cattle country, we have no grass and little to no water. There has been no effect on credit conditions.

**Region 8—Central Texas**

The drought is not good, short term or long term. The good row crop producers had crop insurance, which will help, but ranchers who have sold out may not come back. Most are at the age that this is the end of their cattle operations. For young operators, land is still $6,000 to $10,000 per acre; it is hard to make the numbers work. If replacement cattle go too high in price, it will be impossible for the numbers to work even if ranchers can rent land instead of owning it.

Cow numbers are down. Pasture and range conditions are as bad as they have been in 50 years. The cattle market holding to some degree has helped, but tough decisions have to be made. The sale barns will be hurting next year, with fewer calves to market due to greatly reduced cow numbers. There is no hay available, and improved pastures will be two years in recovery when it starts raining again.

Any cow investment will have increased feed costs, and with the uncertainty of time of sale, the level of risk involved is much higher. This continues to make it even tougher to finance cattle, whether it be cow/calf or stocker.

We are seeing slower payments, more extensions and additional requests for operating money.

Dryland farming is hard to get financed. Irrigated crops are monitored for water consumption against permitted pumping allotments.

Cattle are being sold, and dryland crops are total losses with insurance claims being made. Pastures are in poor condition, resulting in feeding of hay during the normal grass grazing season. Rice stubble has been baled this year off of many acres in place of normal hay meadows that were only cut once. Calves are being shipped early at lighter weights to reduce strain on mother cows. Well-established customers are adapting. High cattle prices have helped significantly, and repayment goals will be reached.

The drought has been devastating. Of the 88,000 brood cows on farms a few years ago, estimates are that number may be down 50–75 percent. There was no hay crop. Corn and cotton also failed. Most herd sales went to debt reduction. Very few loans were made to purchase feed. Lack of tank water has become a critical issue.

If the drought persists into the winter, this area will only have about a third of the mother cows left. Many producers have sold out totally.

**Region 9—Coastal Texas**

Credit conditions are still favorable, but demand for loans is extremely small. Farmers are financially stable due to crop insurance, but we are worried about ranchers as well as vendors and suppliers to the ag sector.

The drought has substantially decreased yields in all commodities.

There is no hay for cattle, and livestock sales are up due to no feed.

Cattle sales have increased, grain yields are lower, feed expense has increased and we have had water shortages.

**Region 11—Trans-Pecos and Edwards Plateau**

An estimated 60 percent of livestock has been liquidated. Ninety percent or more of corn and cotton has failed.

Record numbers of cattle are being sold. The local auction normally runs 400 to 500 total head of cow and calves. They have been averaging 2,500 total head for the past two months. The ranchers that are hanging on to their cattle are doing so because they believe it will be cheaper to feed the cows than replace them when it starts raining. These ranchers have higher operating costs than they have ever had due to the high price of hay and feed.

We have had almost no rain in the past 11 months. Livestock auctions have been selling over their capacity for the last 10 weeks and continue to have large sales. Wells are now starting to go dry. Hay is being trucked in from Canada, Montana and Missouri and selling for extreme prices. The land is in total disaster stage. However, livestock prices have been good, and customers have been able to pay down on their loans.

As the drought continues, more producers are paying down or completely paying off. Livestock loans have dropped, and our liquidity has increased.

Growing conditions are tougher, with non-irrigated crops not growing at all. While bringing in great money, cattle continue to be sold because of lack of grass to graze and the cost of feed in production. Culled cattle are nearly gone, and some breeding stocks are being sold as well.

Most producers are completely selling out. This will be devastating to the ranching industry in our area because prices will be extremely high to buy back in. Other sources of income or sale of real estate will have to pay back the existing credits because selling breeding herds won’t pay off existing debt, and without raising young, there is no other way to pay out.

The drought has had a devastating impact on livestock numbers in our area, as most producers have had to liquidate some or all of their herds of cattle and/or sheep and goats. Many of these herds are foundation herds and have taken generations to develop. Water shortages due to the drought have stopped all hay production in our area, necessitating the bringing in of any hay needed by those still planning to feed through the winter months ahead, and thus raising the price of that hay.

Ranchers have been forced to sell sheep and cattle because of lack of water and feed. Drought has caused many producers to sell cattle inventory. Hay was not produced for feeding or a cash crop. Land payments, equipment payments and living expenses will continue, but there is limited income available. We have seen large-scale livestock sell-offs due to drought, wildfires and lack of grazing. This caused a downturn in market prices. Livestock numbers have been reduced, and feed costs are constantly rising. This has a direct impact on the producers’ bottom line.

**Region 12—Southern New Mexico**

Yields on alfalfa hay are down 30 percent due to extremely dry conditions.

We are more cautious, and we’re looking for more capital.

The situation is dire. Production is way down, and as a result, most credits will have carryover operating losses at the end of the cycle. Beef cattle herds are being liquidated due to range conditions.

**Region 13—Northern Louisiana**

Crop yields in some areas are reduced.

The drought has had a severe impact on yields for irrigated and nonirrigated corn and early soybeans. Farmers have spent more money to irrigate this year than any in the recent past, as they are irrigating about twice as much as previous years. Dryland crops have had much lower yields than in the recent past, while irrigated crops have produced average and above.

The drought caused unavoidable yield loss on nonirrigated crops. Due to increases in fuel costs, irrigated operations were much more expensive than budgeted.

Nonirrigated grain crops suffered yield losses or complete failures.
### Rural Real Estate Values—Third Quarter 2011

#### Cropland—Dryland

<table>
<thead>
<tr>
<th>District</th>
<th>Banks¹</th>
<th>Average value²</th>
<th>Percent change³ in value from Previous quarter</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third quarter 2011</td>
<td></td>
<td>1,374</td>
<td>0.8%</td>
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</tr>
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<td>115</td>
<td>1,398</td>
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<td>526</td>
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<td>3.5%</td>
</tr>
<tr>
<td>2 Southern High Plains</td>
<td>12</td>
<td>588</td>
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</tr>
<tr>
<td>3 Northern Low Plains</td>
<td>7</td>
<td>800</td>
<td>0.9%</td>
<td>19.4%</td>
</tr>
<tr>
<td>4 Southern Low Plains</td>
<td>8</td>
<td>800</td>
<td>0.7%</td>
<td>–1.6%</td>
</tr>
<tr>
<td>5 Cross Timbers</td>
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<td>1,364</td>
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<tr>
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<td>2.5%</td>
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<td>1.4%</td>
<td>0.6%</td>
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<tr>
<td>9 Coastal Texas</td>
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</tr>
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<td>1,597</td>
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<td>n.a.</td>
</tr>
<tr>
<td>12 Southern New Mexico</td>
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<td>344</td>
<td>–1.7%</td>
<td>–19.1%</td>
</tr>
<tr>
<td>13 Northern Louisiana</td>
<td>7</td>
<td>1,679</td>
<td>–2.0%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

¹ Number of banks reporting land values.
² Prices are dollars per acre, not adjusted for inflation.
³ Not adjusted for inflation and calculated using responses only from those banks reporting in both the past and current quarter.

n.a.—Not published due to insufficient responses but included in totals for Texas and district.

#### Cropland—Irrigated

<table>
<thead>
<tr>
<th>District</th>
<th>Banks¹</th>
<th>Average value²</th>
<th>Percent change³ in value from Previous quarter</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third quarter 2011</td>
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<tr>
<td>Texas</td>
<td>84</td>
<td>1,596</td>
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<tr>
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<td>1,341</td>
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<td>19</td>
<td>1,221</td>
<td>–6.5%</td>
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<td>3 Northern Low Plains</td>
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<td>1,475</td>
<td>–7.8%</td>
<td>12.3%</td>
</tr>
<tr>
<td>4 Southern Low Plains</td>
<td>6</td>
<td>1,267</td>
<td>–7.8%</td>
<td>7.8%</td>
</tr>
<tr>
<td>5 Cross Timbers</td>
<td>6</td>
<td>2,742</td>
<td>13.7%</td>
<td>7.8%</td>
</tr>
<tr>
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<td>3</td>
<td>2,500</td>
<td>–13.5%</td>
<td>–6.7%</td>
</tr>
<tr>
<td>7 East Texas</td>
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<td>2,083</td>
<td>4.2%</td>
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<tr>
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<td>7</td>
<td>2,164</td>
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<tr>
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<tr>
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<td>8</td>
<td>3,413</td>
<td>2.5%</td>
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</tr>
<tr>
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<td>2,375</td>
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</tr>
<tr>
<td>13 Northern Louisiana</td>
<td>6</td>
<td>2,304</td>
<td>4.5%</td>
<td>12.1%</td>
</tr>
</tbody>
</table>

#### Ranchland

<table>
<thead>
<tr>
<th>District</th>
<th>Banks¹</th>
<th>Average value²</th>
<th>Percent change³ in value from Previous year</th>
<th>Previous year</th>
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<tbody>
<tr>
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<td>–0.5%</td>
</tr>
<tr>
<td>3 Northern Low Plains</td>
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</tr>
<tr>
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<tr>
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<tr>
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<td>7 East Texas</td>
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<tr>
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<tr>
<td>9 Coastal Texas</td>
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<td>0.0%</td>
<td>–9.1%</td>
</tr>
<tr>
<td>10 South Texas</td>
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<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
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<td>15</td>
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<tr>
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<td>250</td>
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</tr>
<tr>
<td>13 Northern Louisiana</td>
<td>4</td>
<td>1,288</td>
<td>10.7%</td>
<td>11.7%</td>
</tr>
</tbody>
</table>

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³ Not adjusted for inflation and calculated using responses only from those banks reporting in both the past and current quarter.

n.a.—Not published due to insufficient responses but included in totals for Texas and district.

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**Real Cash Rents**

Dryland and ranchland cash rents edge up, while a greater increase is seen for irrigated land cash rents.

- **Dryland** and **ranchland cash rents** edge up, while a greater increase is seen for **irrigated land cash rents**.

- **2005 dollars per acre per year**
  - **Irrigated**
  - **Dryland**
  - **Ranchland**

---

**Real Land Values**

Irrigated land values continue to rise as dryland and ranchland values hold fairly steady.

- **Irrigated**
- **Dryland**
- **Ranchland**

- **2005 dollars per acre**
  - **Irrigated**
  - **Dryland**
  - **Ranchland**

---

**Number of banks reporting land values:**

1. **Texas**
2. **Northern High Plains**
3. **Southern High Plains**
4. **Northern Low Plains**
5. **Southern Low Plains**
6. **Cross Timbers**
7. **North Central Texas**
8. **East Texas**
9. **Central Texas**
10. **Coastal Texas**
11. **Trans-Pecos and Edwards Plateau**
12. **Southern New Mexico**
13. **Northern Louisiana**
14. **South Texas**
15. **Trans-Pecos and Edwards Plateau**
16. **Southern New Mexico**
17. **Northern Louisiana**
District bankers were asked for additional comments concerning agricultural land values and credit conditions. These comments have been edited.

**Region 1—Northern High Plains**

Drought and heat are resulting in a significant amount of failed irrigated crops. Remaining 2011 crops will yield well below average. Lack of soil moisture is diminishing prospects for wheat plantings and 2012 crops. This year is the worst irrigated crop in 50 years in the Texas Panhandle. This year will be the poorest production year we have ever had. There are no dryland crops. Irrigated yields will be down significantly. Forty percent of irrigated corn acres have been either abandoned or baled for hay. Fortunately, commodity prices are high, which will keep most of the farmers in business a little while longer. Land values will decline due to low moisture levels, placing unprecedented pressure on irrigation wells. Many water wells declined significantly in volume, and some have gone dry.

Dryland cotton failed and farmers have received insurance checks. They paid down loans, which we don’t usually see until December or January. Overall, we had net loan reductions this past quarter.

The record drought continues. Complete cow herds are being sold. The producers keeping cattle are paying extremely high feed costs, in turn greatly reducing profits. Fall crops are very poor, and the prospects for any wheat pasture are slim.

**Region 2—Southern High Plains**

Due to drought and fire conditions, ag loans have been paying down through insurance payments for losses. There are hardly any dryland crops left, and ranchers have been unloading cattle since there is no grass. Funds in the form of crop insurance have been received, with a reduction of operating line balances and a total paydown of some loans.

Statewide, drought is the story of 2011. Row crop producers will come out okay because crop insurance coverage is very favorable since it is based on generally high crop prices. Dryland producers are spending hardly anything and borrowing less. Insurance checks are coming in daily, so our loan volumes have been detrimentally impacted. Irrigated growers will fare the worst; yields are way off, about half of their target, and costs to irrigate are way up. The ag infrastructure will be most negatively affected; there is less throughput for gins and elevators and less inputs to be sold. Livestock operators are scrambling for grazing. Feedlot operators are benefiting from a spike in placements of cattle that would otherwise be grazed. Dairies that don’t have feed coverage will have a real challenge from scarce and extremely expensive feedstuffs. Sentiment is growing that the drought could very well continue into next year.

**Region 3—Northern Low Plains**

Drought conditions will further deteriorate the communities that are ag based. Cow herds that have been liquidated will not be replaced, and losses in revenues will drive many older producers into early retirement.

**Region 4—Southern Low Plains**

Due to extreme temperatures and no rain, we have no dryland cotton or milo, our irrigated cotton is not looking very good at this stage and ranchers are selling livestock because they are running out of grass and water. Crop insurance has been a blessing since there is not much input into the crop. High commodity prices have finally let the farmers compete with the recreational buyers. The drought has seemed to stall all interest in ranchland, due to the liquidation of the cow herds and the decreased livestock. Cotton farmers have had huge incomes from the insurance and now are dealing with income tax problems. They have paid their notes off early, and most have cash in the bank to start their wheat crops with.

**Region 5—Cross Timbers**

Extreme drought conditions persist, forcing livestock liquidations. The ranchers trying to hang on are facing extremely high feed and hay costs. There is virtually no hay available within the state.

The drought is having a huge effect in our area. Cattle are being sold due to lack of pasture and no hay. Irrigated crop yields are down significantly, and dryland crops are a total loss.

This has been the worst summer in memory. Crops were very short or a total failure, except irrigated ones, although even those were not good due to the heat. Pastures are burnt up, and recent showers are not enough to bring them back. Many tanks are dry, and lakes are very low.

**Region 6—North Central Texas**

Extreme drought conditions have limited crop and hay production, created poor pasture conditions and dried stock ponds. Cattle herds have been liquidated or reduced. Hay is in very short supply, and prices have increased drastically.

Drought conditions persist and are wearing on people—economically, physically and mentally. Peripheral businesses that rely solely on ag do not get any insurance payments or disaster payments, so they are the ones we worry about.

Exceptional drought continues to persist and intensify. The producers’ demand for operating inputs has been reduced significantly due to the drought. Large numbers of cattle have been liquidated, albeit at unusually high prices. The age of the producers is increasing, leaving an uncertain outcome for the next generation given the high cost of entry to ag and ranching.

**Region 7—East Texas**

Available grazing land is basically nonexistent. One would think any available land would be priced at a premium, but that is not what we have found for this quarter. Extreme drought conditions continue in the region and, as a result, ag loan volumes have diminished. Normal requests for fertilizer for pastures and hay fields never materialized. Row crop expenses were minimal as many crops were declared disasters early in the season. Many cattle producers either dispersed completely or scaled back considerably, reducing the need for feed expenses, and they are buying hay with cattle proceeds. Loan requests for fall stocker cattle are held up waiting on some positive sign of moisture. The drought has significantly impacted loan volume.

**Region 8—Central Texas**

The biggest problem facing ag is the inordinate drought that has cost ranchers and farmers huge revenue loss. Drought conditions continue to worsen, with the lack of stock water becoming the biggest concern. The next biggest problem we face is the recent wildfires that continue to pop up all over the state and threaten people’s lives, homes, ranches and livestock. This fall looks like it will be an all-time low for out and rye plantings if we don’t get some rain.

Rice yields are good, and the price is good. Corn yields are 60 percent of normal, but the price is excellent, resulting in profits. Cotton operations are stressed with the drought and lack of hay, but prices remain high even with heavy culling. Cotton yields are off by a half bale per acre or more, but the price is excellent. Cotton insurance coverage per acre is the highest ever and is paying off.

Drought conditions are critical. Hay is virtually the only source of feed for cattle. Tank water is also very scarce, causing many to sell off herds. Despite all of this, loans are being paid as agreed due to decent prices.

**Region 11—Trans-Pecos and Edwards Plateau**

The drought is having terrible effects on ranching and river-related tourism. No rain has forced farmers and ranchers to sell livestock, which has allowed them to pay down notes.

There will be a greater borrowing need later. Our region has suffered a devastating year, one which began with wildfires that burned up most of the grazing fuel on many ranches in south central Texas and has continued with a drought of historical proportions. Many ranchers have sold all of their livestock, and all have sold down somewhat to try to hold on for one more year.

The sale of livestock due to drought conditions is common in the area. The net result for the bank is a greater rate of loan repayment.

**Region 13—Northern Louisiana**

The corn harvest is complete, soybean and rice harvests are almost complete and the cotton harvest is just beginning. Crops were not hurt as badly as expected by prolonged dry weather.