Survey Highlights

Bankers responding to the third-quarter survey continued to report widespread drought conditions, although there were some reports of scattered rain. Many ranchers continued to sell off some of their herds, and survey respondents noted that cattle prices remain high. Scattered rain in August in the Northern High Plains, Cross Timbers and Southern New Mexico improved crop conditions. Crop conditions across the other regions were mixed, and the harvest of summer crops has begun in a number of regions.

Farmland values increased slightly in the third quarter and were above year-ago levels. Ranchland and irrigated cropland values increased almost 2 percent over last quarter. Dryland values were only about 1 percent above last quarter’s level.

The great majority of respondents continued to anticipate farmland values will remain unchanged over the next three months. Farm incomes decreased again this quarter. Credit standards continued to tighten in the third quarter, although the vast majority of respondents noted no change in standards.

Demand for agricultural loans continued to decline, as did loan renewals and extensions. Loan repayment rates increased again this quarter. Volumes for most types of loans continued to decrease. The exception was operating loans, which posted increasing demand for the first time since the second quarter 2011.

### Farm Lending Trends

What changes occurred in non-real-estate farm loans at your bank in the past three months compared with a year earlier?

<table>
<thead>
<tr>
<th>Index*</th>
<th>Percent reporting, Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013:Q2</td>
<td>2013:Q3</td>
</tr>
<tr>
<td>Demand for loans</td>
<td>−18.7</td>
</tr>
<tr>
<td>Availability of funds</td>
<td>23.2</td>
</tr>
<tr>
<td>Rate of loan repayment</td>
<td>6.5</td>
</tr>
<tr>
<td>Loan renewals or extensions</td>
<td>−10.2</td>
</tr>
</tbody>
</table>

What changes occurred in the volume of farm loans made by your bank in the past three months compared with a year earlier?

<table>
<thead>
<tr>
<th>Index*</th>
<th>2013:Q2</th>
<th>2013:Q3</th>
<th>Greater</th>
<th>Same</th>
<th>Less</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-real-estate farm loans</td>
<td>−9.4</td>
<td>−0.7</td>
<td>16.9</td>
<td>65.5</td>
<td>17.6</td>
</tr>
<tr>
<td>Feeder cattle loans</td>
<td>−24.4</td>
<td>−14.1</td>
<td>10.2</td>
<td>65.6</td>
<td>24.2</td>
</tr>
<tr>
<td>Dairy loans</td>
<td>−18.6</td>
<td>−13.9</td>
<td>2.0</td>
<td>82.2</td>
<td>15.8</td>
</tr>
<tr>
<td>Crop storage loans</td>
<td>−8.5</td>
<td>−1.9</td>
<td>7.5</td>
<td>83.2</td>
<td>9.4</td>
</tr>
<tr>
<td>Operating loans</td>
<td>−4.5</td>
<td>5.6</td>
<td>18.8</td>
<td>68.1</td>
<td>13.2</td>
</tr>
<tr>
<td>Farm machinery loans</td>
<td>−13.8</td>
<td>−15.2</td>
<td>6.2</td>
<td>72.4</td>
<td>21.4</td>
</tr>
<tr>
<td>Farm real estate loans</td>
<td>−8.2</td>
<td>−11.7</td>
<td>8.3</td>
<td>71.7</td>
<td>20.0</td>
</tr>
</tbody>
</table>

*Survey responses are used to calculate an index for each item by subtracting the percentage of bankers reporting less from the percentage reporting greater. Positive index readings generally indicate an increase, while negative index readings generally indicate a decrease.
Quarterly Comments

District bankers were asked for additional comments concerning agricultural land values and credit conditions. These comments have been edited for publication.

**Region 1 • Northern High Plains**
- After early summer rains, we have returned to drought-like conditions with late summer heat and lack of rain. Irrigated corn and grain sorghum harvests will be better than the last two years. Due to the return of drought-like conditions, the winter wheat crop will have a disappointing start.
- Wheat yields were small due to the May freeze. We had good moisture in early August, so our moisture profile has improved for wheat planting. Feedlot closeouts are still in the red, which is driving a lot of the noncorporate feeders out of business. Summer crops are in excellent shape. We should start harvesting corn within the next three weeks.
- We have had several producers pay back loans in full from insurance proceeds. Crop conditions are mixed depending on where it rained.
- We are still getting some spotty showers that help producers who receive them, but the heat quickly diminishes their effects. Area sale barns are having good runs due to continued drought; the only bright spot is that prices remain high on calves. Not many farmers are planning on planting oats this fall until they see a better weather pattern, and if it does change, most people will plant rye grass later on. Hay prices have been inching up and should continue higher if no more rains come. The corn harvest is all in, and yields show a low of 60 bushels per acre to a high of 120 bushels per acre.
- Rice farmers need water.
- Severe drought conditions persist in most of our market, putting financial stress on producers. Many producers will not be buying feed but will be selling livestock. These same conditions appear to be slowing down agricultural land sales as well.

**Region 2 • Southern High Plains**
- Lack of water is a very large problem, especially as the drought in our area continues. Irrigated crops, where there is sufficient water, are above average. Dryland is essentially gone. We need a workable farm bill very soon.
- We have had several producers pay back loans in full from insurance proceeds. Crop conditions are mixed depending on where it rained.
- Currently, crop conditions look favorable, but the area is still in a severe drought with very few cattle on pasture. Livestock prices are incredibly high, but very few ranchers have cattle to sell.
- Drought conditions continue to negatively impact income.
- The weather has been dry most of the summer, but we got some rain in early August. Many of our ranchers continue to liquidate their herds.
- Some farmers in our area received a good rain in early August, but it is very dry again now. Beef cattle prices remain very good both for calves and for cull cows. Dairymen are getting better milk prices now and doing somewhat better. Hay yields have been mostly fair, and prices are still pretty high. The pecan crop will be short after a good yield last year.
- We received approximately six inches of rain 60 days ago, but with 100 degree days, we are in need of more rain to sow wheat and replenish lakes and stock tanks as they remain less than 50 percent full.

**Region 3 • Northern Low Plains**
- We do not know of any recent sales of agricultural land. Growing conditions are somewhat better than last year, but dry conditions remain. Hay sales and production are up from last year at this time.
- Stocker and yearling cattle loans will be under closer scrutiny due to last year’s losses and the high price of cattle in relation to board for the spring of 2014. Crop loans are still uncertain with most farmers paying in full but with small profits posted.

**Region 4 • Cross Timbers**
- Eagle Ford production continues to affect our bank, with continually increasing deposits and decreasing large loan demand. Ranchers are paying off loans with newly generated income from Eagle Ford. It is a daily chore to seek out new borrowers for loans.
- We are still getting some spotty showers that help producers who receive them, but the heat quickly diminishes their effects. Area sale barns are having good runs due to continued drought; the only bright spot is that prices remain high on calves. Not many farmers are planning on growing pasture grass. Prices for livestock are still strong, reflecting the short supplies available of cattle, sheep and goats.
Drought conditions continue. Cattle prices remain good.

Current demand for land and housing in the area is very high due to heavy oilfield activity and has driven up land values almost double in the last 12 to 18 months. Some ranches are being bought so that oil companies have a place to house not only equipment and field offices but also personnel.

**Region 12 • Southern New Mexico**

Good rains in July and some in August kept some ranchers from liquidating total herds. Continued rain and winter moisture are still needed. Topsoil erosion is inhibiting regermination of some grass seed.

Summer monsoon rains in the region have resulted in improved conditions on most range-land, with some areas in excellent condition headed into the fall and winter. Replacement stocker cattle remain very expensive and scarce, and considerable uncertainty remains regarding moisture predictions, dampening optimism for purchasing high-value replacements. Hay markets have declined somewhat, with large alfalfa bales selling for around $230 per ton and small bales for $285 to $300 per ton. Demand for other hay forage crops is also down some. Corn harvest is well under way, with steady demand and good prices.

### Rural Real Estate Values—Third Quarter 2013

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>Average value</th>
<th>Percent change in value from</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Third quarter 2013</td>
<td>Previous quarter</td>
<td>Previous year</td>
</tr>
<tr>
<td><strong>Cropland—Dryland</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Texas</td>
<td>108</td>
<td>1,481</td>
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<tr>
<td>1 Northern High Plains</td>
<td>14</td>
<td>709</td>
<td>3.4</td>
</tr>
<tr>
<td>2 Southern High Plains</td>
<td>13</td>
<td>638</td>
<td>−3.1</td>
</tr>
<tr>
<td>3 Northern Low Plains</td>
<td>6</td>
<td>958</td>
<td>4.9</td>
</tr>
<tr>
<td>4 Southern Low Plains</td>
<td>6</td>
<td>917</td>
<td>0.0</td>
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<tr>
<td>5 Cross Timbers</td>
<td>9</td>
<td>1,572</td>
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</tr>
<tr>
<td>6 North Central Texas</td>
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<td>2,256</td>
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<tr>
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<td>1,910</td>
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<td>8 Central Texas</td>
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<tr>
<td>11 Trans-Pecos and Edwards Plateau</td>
<td>10</td>
<td>1,640</td>
<td>6.1</td>
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<tr>
<td>12 Southern New Mexico</td>
<td>3</td>
<td>367</td>
<td>−5.9</td>
</tr>
<tr>
<td>13 Northern Louisiana</td>
<td>8</td>
<td>1,744</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Cropland—Irrigated</strong></td>
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<td></td>
</tr>
<tr>
<td>Texas</td>
<td>81</td>
<td>2,061</td>
<td>1.8</td>
</tr>
<tr>
<td>1 Northern High Plains</td>
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<td>1,900</td>
<td>−4.1</td>
</tr>
<tr>
<td>2 Southern High Plains</td>
<td>13</td>
<td>1,510</td>
<td>5.4</td>
</tr>
<tr>
<td>3 Northern Low Plains</td>
<td>3</td>
<td>1,383</td>
<td>0.0</td>
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<tr>
<td>4 Southern Low Plains</td>
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<tr>
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<td>3,511</td>
<td>1.6</td>
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<td>9 Coastal Texas</td>
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<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>10 South Texas</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
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<tr>
<td>11 Trans-Pecos and Edwards Plateau</td>
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<td>3,017</td>
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<tr>
<td>12 Southern New Mexico</td>
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<td>2,575</td>
<td>11.6</td>
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<tr>
<td>13 Northern Louisiana</td>
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<td>2,700</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>Ranchland</strong></td>
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<td></td>
</tr>
<tr>
<td>Texas</td>
<td>123</td>
<td>1,509</td>
<td>1.8</td>
</tr>
<tr>
<td>1 Northern High Plains</td>
<td>13</td>
<td>531</td>
<td>−1.2</td>
</tr>
<tr>
<td>2 Southern High Plains</td>
<td>8</td>
<td>631</td>
<td>3.3</td>
</tr>
<tr>
<td>3 Northern Low Plains</td>
<td>6</td>
<td>904</td>
<td>2.7</td>
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<tr>
<td>4 Southern Low Plains</td>
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<td>1,075</td>
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<tr>
<td>5 Cross Timbers</td>
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<tr>
<td>6 North Central Texas</td>
<td>18</td>
<td>2,314</td>
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<td>7 East Texas</td>
<td>14</td>
<td>2,607</td>
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<td>8 Central Texas</td>
<td>14</td>
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<td>10 South Texas</td>
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<td>11 Trans-Pecos and Edwards Plateau</td>
<td>15</td>
<td>1,870</td>
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<td>12 Southern New Mexico</td>
<td>5</td>
<td>250</td>
<td>−2.4</td>
</tr>
<tr>
<td>13 Northern Louisiana</td>
<td>7</td>
<td>1,514</td>
<td>3.4</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.
### Interest Rates by Loan Type

<table>
<thead>
<tr>
<th></th>
<th>Feeder cattle</th>
<th>Other farm operating</th>
<th>Intermediate term</th>
<th>Long-term farm real estate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012:Q3</td>
<td>6.56</td>
<td>6.55</td>
<td>6.51</td>
<td>6.23</td>
</tr>
<tr>
<td>Q4</td>
<td>6.37</td>
<td>6.47</td>
<td>6.32</td>
<td>6.19</td>
</tr>
<tr>
<td>2013:Q1</td>
<td>6.43</td>
<td>6.53</td>
<td>6.30</td>
<td>6.12</td>
</tr>
<tr>
<td>Q2</td>
<td>6.21</td>
<td>6.39</td>
<td>6.22</td>
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</tr>
<tr>
<td>Q3</td>
<td>6.16</td>
<td>6.34</td>
<td>6.25</td>
<td>6.04</td>
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<tr>
<td><strong>Variable</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2012:Q3</td>
<td>6.04</td>
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<td>6.05</td>
<td>5.69</td>
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<tr>
<td>Q4</td>
<td>5.83</td>
<td>5.93</td>
<td>5.94</td>
<td>5.62</td>
</tr>
<tr>
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<td>5.87</td>
<td>5.98</td>
<td>5.84</td>
<td>5.57</td>
</tr>
<tr>
<td>Q2</td>
<td>5.81</td>
<td>5.94</td>
<td>5.80</td>
<td>5.47</td>
</tr>
<tr>
<td>Q3</td>
<td>5.71</td>
<td>5.81</td>
<td>5.71</td>
<td>5.47</td>
</tr>
</tbody>
</table>

### Anticipated Farmland Values, Income and Credit Standards

**What trend in farmland values do you expect in your area in the next three months?**

<table>
<thead>
<tr>
<th>Anticipated trend in farmland values</th>
<th>2013:Q2</th>
<th>2013:Q3</th>
<th>▲ Up</th>
<th>Stable</th>
<th>▼ Down</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index*</td>
<td>9.6</td>
<td>10.9</td>
<td>12.9</td>
<td>85.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

**What change occurred in farm income for farmers and ranchers in your area in the past three months compared with a year earlier?†**

| Farm income                           | –14.6   | –4.1    | 17.8  | 60.3   | 21.9  |

**What change occurred in credit standards for agricultural loans at your bank in the past three months compared with a year earlier?†**

<table>
<thead>
<tr>
<th>Credit standards</th>
<th>2013:Q2</th>
<th>2013:Q3</th>
<th>▲ Tightened</th>
<th>Same</th>
<th>▼ Loosened</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index†</td>
<td>6.5</td>
<td>4.7</td>
<td>6.1</td>
<td>92.6</td>
<td>1.4</td>
</tr>
</tbody>
</table>

*See note on bottom of page 1.
†Added to survey in second quarter 2011.
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, with more than 85 percent of respondents reporting production of these commodities in their region. A great majority of bankers also noted that wheat and cotton are grown in their area. Production of corn and sorghum were also listed by more than half of the respondents.

The survey asked Eleventh District bankers to rank the top three commodities produced in their lending region. Rankings have changed slightly from 2011. While cattle held the number one spot, corn is now the second-leading commodity in the district in terms of importance, replacing 2011’s second-ranked cotton. Sorghum has increased in importance, as has dairy. Poultry and soybeans have decreased 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. Most notable was a shift from cotton to grains, particularly corn. Higher grain prices were cited as the driver of this change. Respondents also noted a decrease in cattle numbers, largely due to continued drought conditions. Bankers in the North Central Texas region reported that more sunflowers are being grown.

The survey also asked how recent movements in commodity prices have impacted agricultural and credit conditions, including the types of commodities grown. Higher commodity prices were reported as benefiting producers. However, respondents stated that expenses have followed prices, and while impacts on credit varied from region to region, credit conditions were largely not impacted. An increase in corn prices, in particular, increased the corn acres planted this year.

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 agriculture producers have been severely affected. The livestock industry has been hit hard; poor grazing conditions and the high cost of feed have caused ranchers to decrease inventory or liquidate their herds. Drought has increased the costs of production on both dryland and irrigated cropland as well as reduced crop yields. Several bankers noted that farmers are reliant on crop insurance to cover expenses. There were scattered reports of decreased loan demand.

Eleventh District Agricultural Commodities, 2013

(percent of respondents reporting production of commodities in their area)
Agricultural Commodity Ranking in the Eleventh District
(as reported by responding banks, third quarter 2013 and 2011)*

NOTE: “Other” includes pecans, rye/barley and sesame.

*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
- Water management has been one of the largest factors in crop planning. Two years ago, many of our customers went to less water-reliant crops instead of corn, mostly cotton. Commodity prices this year drove most of them back to corn.
- Less wheat has been grown due to drought.
- Formerly, peanuts were a major crop in our area. Because of damage caused by feral hogs, farmers abandoned peanuts five years ago. Due to the necessity of rotation, peanuts are making a small comeback. If the harvest is successful, more will be planted in the future.
- Additional cotton and sorghum acres have been planted as the water table has dropped.

Region 2 • Southern High Plains
- Cotton is still the No. 1 crop, but later moisture this year has allowed producers to plant more grains.
- Some more grain was planted in 2013 due to the prices.
- Corn acres have been reduced, replaced by cotton and wheat, as a result of the drought and decreasing irrigation supplies. Some farms have reduced the amount of total planted acres due to the drought and irrigation supplies.
- With irrigation water diminishing due to heavy usage and continuing drought conditions, producers have cut back on cotton in some cases and planted grains due to the price.
- Coarse grains have been increasing in popularity due to markets and new water management practices.
- Repeated failures of nonirrigated crops have forced the majority of farmers in the region to plant a secondary crop in an attempt to recapture lost cash flow from the primary crop. We have seen a number of producers replanting guar, haygrazer and sunflowers as secondary crops, mostly on failed cotton acres.

Region 3 • Northern Low Plains
- A small acreage of corn is being grown under irrigation.
- Water issues have caused producers to plant fewer irrigated acres or go to a half circle of cotton or peanuts and reserve a half circle for wheat. Reduced cattle numbers because of drought are giving way to more dryland acres in cotton, peanuts, wheat and milo, which are eligible for crop insurance coverage. Hay is being sold instead of used on the farm.
- We have less of all types of commodities due to extended drought.

Region 4 • Southern Low Plains
- Farmers have started planting corn on their irrigated land by splitting circles half corn and half cotton. Corn has become a very likeable rotation with cotton, grossing larger sums per acre than other rotational crops such as wheat or milo.
- We continue to have primarily dryland cotton in our area, wheat for grazing and grain, and haygrazer for cattle feed.

Region 5 • West Central Texas
- Cotton acreage has been reduced due to the price difference between cotton and grain. Beef cattle numbers have been reduced due to liquidation during recent and ongoing droughts.
- Cow-calf operations and milk production are still the main agricultural productions in the area along with hay production for these operations.
- More sunflowers have been planted, which is unusual for this area. Cotton has been the main commodity for many years and remains so.
- Crop insurance has increased the planted acres of corn and wheat. This has taken some acres that used to be grazed by cattle.
- Cotton acres were certainly down this year, because of the price relative to grain prices.
- Many farmers have moved to less-volatile crops such as sunflowers and milo, away from corn and cotton. The cattle operations have changed from stockers to cow-calf.
- Sunflowers were added in 2013.
- Reduced soybeans and cotton were replaced by sunflowers.

Region 6 • North Central Texas
- Cotton acreage has decreased by about 30 percent because of price. Acreage was made up in corn and milo.
- Our area is producing less dairy and more poultry.
- Dairy is on the decease.

Region 7 • East Texas
- Changes in acreage planted have been among the three basic crops of cotton, sorghum and corn.
- Our area had strong cow-calf operations but is changing to horses, hay, wild flowers and bees for agriculture exemption for real estate taxes.
- We have two new vineyards that opened in the area.

Region 8 • Central Texas
- There has been a shift from cotton to grain, mainly corn, due to commodity pricing. Looking to 2014, the cycle will be shifting back to cotton.
- There has been a significant decline in rice production due to the continued drought and lack of irrigation water.

Region 9 • Coastal Texas
- A few people grew peanuts when the price was better, but no farmers planted any this year.
- Our customers with irrigation are growing more corn for grain and silage.

Region 10 • Panhandle
- We have less of all types of commodities due to drought.
- There has been a decrease in cotton acres and an increase in grain acres.

Region 11 • Trans-Pecos and Edwards Plateau
- We have decreasing numbers of sheep, particularly wooled sheep. Wooled sheep are being replaced by or bred into hair sheep to lower labor costs and increase efficiency; hair sheep require no shearing, have greater natural resistance to parasites and have increased average offspring due to faster growth and re-breeding.
- The drought has greatly affected cattle numbers. Most ranchers have cut numbers to help control feed costs. Lack of rain has also reduced available hay and grains for feeding.

Region 12 • Southern New Mexico
- We have seen a big increase in alfalfa production. Many ranchers are selling off their cattle currently and letting their land heal. The little rain we have received helped a lot.
- Very little has been grown due to drought. Some stands of alfalfa that were still viable two years ago are now past the point of being revived, but it is anticipated that they will be re-established when moisture permits.
- Dairies have not been able to maintain a profit margin and have been forced to close their operations permanently.

Region 13 • Northern Louisiana
- We have more corn, soybeans and wheat, with less cotton.
- There is less cotton due to margin of return, input risk and price.
- Over the past several years, there has been a movement away from cotton to corn. Very few acres of cotton remain in the area. Soybeans are getting more popular as the price of corn falls and the price of soybeans remains high and stable. Corn remains the major crop in the area.

Region 14 • Mississippi Delta
- We have more cotton, soybeans and wheat, with less cotton.
- There is less cotton due to margin of return, input risk and price.
- Over the past several years, there has been a movement away from cotton to corn. Very few acres of cotton remain in the area. Soybeans are getting more popular as the price of corn falls and the price of soybeans remains high and stable. Corn remains the major crop in the area.

Region 15 • Red River
- There has been a decrease in cotton acres and an increase in grain acres.
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
- Grain prices are not down drastically and are still good enough for farmers to make a little money. Cow-calf operations are OK, but feedlot cattle are taking losses.
- Commodity prices have driven most of the farmers back to corn from cotton this year.
- There have not been any significant price movements within this year’s growing season.
- Recent movements have not yet impacted the types of commodities grown.
- Conservation Reserve Program land continues to be brought back into production with additional wells being developed for irrigation purposes. While corn prices are somewhat lower, very few producers have contracted at this time, and crops look good, considering our dry conditions.
- There has not been much change this crop production cycle, but we could see plan changes for next year.
- Corn prices have dropped for the first time in three years but will still cover expenses. Cattle prices have climbed, but cattle play a less significant role in our lending area.

Region 2 • Southern High Plains
- Commodity price changes have not made much difference because we have had little to no crop for the last three years.
- Prices have caused a slight increase in grains planted for 2013.
- Fewer crop acres have been planted. Commodities requiring more water to grow—such as corn, potatoes and peanuts—have been replaced with crops requiring less water to grow—such as cotton, wheat, sunflowers and sorghum.
- Grain prices at the end of 2012 and the beginning of 2013 have caused more producers to grow grains because they could contract the commodity.
- As coarse grain markets went up, there was a lot of substitution from cotton. Also, as underground water has dwindled, farmers have switched to half circles of irrigated grains to increase economic returns and have put the other half circle in dryland cotton. Because of drought, the cotton was reliant on insurance, which produced better returns than full circles of cotton would have.
- Planting intentions are established by the customer primarily based on contracted prices
- Prices have been good for our main commodities of cotton, peanuts, cattle and wheat. Because of high corn prices, we have seen more grain sorghum and corn grown. However, the increased costs of seed, fertilizer and other inputs have offset the higher prices. Cash flow projections would have been negative for a good percentage of producers if government payments had not been extended.
- Because of drought conditions and insurance indemnities tied to commodity prices that have dropped off for wheat, farmers’ guaranteed incomes have dropped, making it harder to obtain operating loans.
- We have not noticed much change due to commodity prices because we do not have many choices as to what crops work here.

Region 3 • Northern Low Plains
- A small number of producers have attempted to grow irrigated corn because the spring price was relatively high. Historically, corn has not been successful due to the large amount of water required to produce a high-yielding crop. With the decline of grain prices, we anticipate that this will not be an ongoing crop for this county.
- Higher cattle prices have somewhat affected credit conditions in our region.
- Prices have been good for our main commodities of cotton, peanuts, cattle and wheat. Because of high corn prices, we have seen more grain sorghum and corn grown. However, the increased costs of seed, fertilizer and other inputs have offset the higher prices. Cash flow projections would have been negative for a good percentage of producers if government payments had not been extended.
- Because of drought conditions and insurance indemnities tied to commodity prices that have dropped off for wheat, farmers’ guaranteed incomes have dropped, making it harder to obtain operating loans.
- We have not noticed much change due to commodity prices because we do not have many choices as to what crops work here.

Region 4 • Southern Low Plains
- Higher cotton prices have increased the acreage going to cotton each year, and the increased cattle prices have increased the volume of stocker cattle in the area as well as the amount of wheat acres.
- For the most part, commodity prices have been favorable to us.

Region 5 • Cross Timbers
- Commodity price changes have not affected our credit decisions. Many farmers have changed their crop production to reap the benefits of increased prices. However, expenses have followed suit with this increase, which has offset larger increases in net income.
- Drought conditions have caused wheat prices to be a non-issue as few farmers were able to harvest.

Region 6 • North Central Texas
- Cattle prices are strong, so credit conditions have not been impacted too severely by the drought.

Region 7 • East Texas
- Due to higher commodity prices, lending needs have expanded throughout our communities, causing an increase in overall demand for agricultural financing.
- Crop loans have been basically unchanged the last few years. More equity up front is needed for cattle loans, both stocker and cow-calf loans, because of the cost of cattle.
- Dairy operators have had to adjust their feed mixture to use less corn, which sometimes results in a lower quality feed and lower yields.
- Cattle prices have improved the profitability for many producers who are still in the business.
- Growers have shown increased losses in productions, reflecting negative cash flow; therefore, financial institutions are unable to extend credit to agricultural borrowers.
- Higher prices have helped producers, but we have not seen an increase in lending generally.
- Varying drought conditions have caused those without grass to sell and those with grass to grow.
During this drought, unlike others, prices remain attractive as ranchers sell offspring. However, operational expenses are also at record levels, making for thin margins.

Cattle, sheep and goat prices remain good. Even with higher feed costs due to drought, producers have been able to reduce debt.

Improvement in prices for hair sheep, coupled with their efficiency over wooled sheep, has increased their numbers. Goat numbers in general remain good, although prices have come down some. Strong cattle prices have driven producers to keep cattle numbers up in spite of drought conditions. General rains in the past one-and-a-half months have led to improved pasture conditions.

Less grain is being grown because of seed price and soil conditions. The shortage of animal units has also pushed up the cost of replacement units.

Production and harvesting expenditures for raising a crop cause significantly more money to flow through the local economy than failed crops and receipt of crop insurance as revenue.

Winter wheat has been a huge failure for the past three years. This not only negatively affects crop revenues but also winter wheat pastures for cattle grazing.

Drought has a direct effect on the borrower’s cash flow not only for the specific year but also on the borrower’s average performance. The bank’s projections are based on historical averages. Additionally, insurance guarantees are directly impacted by the borrower’s cash flow and historical performance using historical yields and, as a result, affect the borrower’s loan-to-value ratio. The effect of a drought reaches beyond the specific year.

No dryland wheat has been grown, reducing winter pasture for cattle and grain production. Drought has also reduced yields on other farm production.

Lower production has been offset by insurance proceeds and higher prices obtained for commodities.

If not for crop insurance, there would be a reduction of farmers in this area by greater than 75 percent. The drought is causing substantial reductions in crop insurance payouts. Continued drought threatens continued viability.

Drought has caused cow herd liquidations, greatly reduced grain production yields the past two years and increased costs of production.

In 2011, crop insurance kept a floor under farmer’s incomes. Farming practices were adjusted the last two years to lower exposure to less rainfall.

We lost most of our dryland cotton this year. We lost grapes to an early freeze, and we need a late freeze for remaining crops because we are about two full weeks behind our usual growing season due to late planting.

Insurance continues to help offset the bulk of expenses but not all of them. More farmers than not have lost equity over the last three years. Another year or two of no moisture would start to have a real impact. Insurance yields are lower, and losses will continue to deepen if we don’t get rain. Additionally, cotton gins have taken a much worse hit in our area. Our county is 90 percent dryland acreage, and no cotton crop has meant no gin work, and the gins don’t have revenue insurance like the producers.

Drought has almost eliminated any cattle loan requests.

Our bank’s farm operating loan volume has decreased over the past two years. Crop failures early in the growing season have generated a
not improve much last year, so the stocking rate was still below optimum, reducing cash flow. Pasture leases have to be paid to retain land with limited benefits. Pasture conditions are starting to improve, but the high cost to restock has put up a caution sign.

Farmers have had to rely on crop insurance to stay in business.

Drought has affected the wheat crop, but insurance helps. We have had a major liquidation of the cow herd and no cotton for two years.

### Region 4 • Southern Low Plains

- Credit conditions have remained about the same because commodity prices have been at record high levels.
- We have had cattle liquidated, and most people have not bought replacement cattle. Small to no cotton crops hurt farm-related businesses.

### Region 5 • Cross Timbers

- The drought has negatively affected the production of crops in the past. Crop production in 2012 and 2013 was normal, given the limited rainfall.
- Drought forced a reduction in herd size and has reduced production income. Drought conditions have reduced wheat and haygrazer planting and the amount of forage or grain produced, which further limits herd size. Fewer customers are requesting funds to buy livestock. Those who have debt are struggling to cover operating expenses with reduced income.
- Drought has caused a cutback on cattle numbers.
- Producers have reduced their cattle inventories, often significantly. Operating costs have increased as a result of limited wheat grazing and hay production.
- Lack of grass has reduced forage and, in turn, cattle numbers; consequently we have fewer cattle loans.

### Region 6 • North Central Texas

- Cattle inventories have decreased with a lack of satisfactory pasture conditions and water supplies.
- We have had more rain than most areas, so the effects of drought have not been too bad.
- Crop insurance and Supplemental Revenue Assistance Payments program payments have helped producers and lenders greatly. Hay is very expensive. Cattle herds were reduced and now replacement cattle are very expensive.
- Drought has been rough on our producers. The farmers who are strongest financially and most committed are left and are outstanding customers due to their strong financial positions and management skills.

- Drought has reduced cattle inventory and caused a shortage of locally grown feed.
- The drought has certainly had a negative impact. Pasture conditions still aren’t good. Hay is expensive to buy, and yields have been way below average.
- Hay production is extremely short this year. Ranchers are starting to sell cattle offspring at a lighter weight. Milo yields were much lower than expected due to drought.
- Drought has led to fewer cattle and higher input prices for feed and hay. Producers are fortunate cattle prices were high during the recent droughts. Historically, droughts lead to lower cattle prices due to high numbers of cattle sold. Some estimates put the local cattle numbers at 30 to 50 percent less than a few years ago.
- This year our farmers were able to take advantage of higher grain and cattle prices that were a result of last summer’s drought in the Midwest. Area farmers had decent wheat and corn crops thanks to some timely rains in our area.
- Drought has had very little effect on local farmers.

### Region 7 • East Texas

- The price of hay has increased in dry conditions, causing other expenses to increase as well.
- Row crops were not affected as much as anticipated due to good insurance coverage on borrowers’ behalf. Cattle numbers have been steady for the past 24 months, with only a few complete selloffs reported. Stocker cattle programs have suffered the most. Gains were late as a result of late spring rains. Death losses were much higher than normal due to extended heat last fall. More equity is needed in stocker programs due to the high cost of cattle on the front end.
- The drought severely impacted the livelihood of our dairy operators.
- Many cattle producers have decided to go out of business due to drought conditions.
- Drought has caused less production and increased feed costs.
- The drought has caused increased feed and hay prices, thus causing very tight profit margins on our agricultural producers.
- Drought has caused most of our cattle operators to sell out.
- Some people have had to disperse a part of their cattle herds, and the drought has drastically cut hay production. Customers are not interested in borrowing money on cattle until rains increase grass production.
- Drought has reduced cattle numbers, but there have been no impacts on credit conditions.
Commodities and Drought

Region 8 • Central Texas
- Average production yields over the past few years have fallen, primarily due to the drought. This has impacted credit to marginal producers because of increased credit risk due to lower insurance coverage.
- The remaining cow-calf operators have sold down or out, with fewer operators able to continue to buy hay year after year for feeding. Row crop operators collected insurance and hope for a good year in the future.
- We have had to make more loan extensions due to the drought and plan for longer term payouts on cattle. We have also made more agriculture operating loans to help people out in the drought.
- The drought has made the decision to exit agriculture easier for many older producers, giving rise to more leasable land for other producers. The problem is there is very little to no forage on these acres, and given these conditions, no one has an interest.

Region 9 • Coastal Texas
- Our loan volume has declined because of the drought.
- On average over the past two years, our region received needed rains at critical times to ensure average to above average crops. Further west, down the Texas coast, more severe drought has impacted yields for all row crops.
- The drought has significantly impacted rice production in our area. Many producers have not been able to plant a crop for two consecutive years due to lack of irrigation water. This has caused a shift to other commodities where soil conditions are suitable, and some acres have been idled.
- The drought has reduced yields on cotton and sorghum crops; however, crop insurance has covered most cash flow shortfalls and little or no carryover is expected on production loans. Poor pasture conditions have resulted in increased feed expenses for cattle operations, which in some cases will result in longer-than-anticipated repayment terms on cow-calf operations.
- Feeding expenses have increased because of the drought.

Region 10 • Trans-Pecos and Edwards Plateau
- The availability of permitted water is tight due to the restrictions of the Edwards Aquifer Authority.
- Ranchers have less income after selling cows off in 2011. Stocker operators also took losses in 2011 and 2012, which have hurt their balance sheets.
- From a credit standpoint, the drought has taken many ranchers out of production, thereby lessening the need for credit on their part. From an agricultural standpoint, the drought has been devastating because many operators have had to sell many of their foundation livestock, and it typically takes several years of continuous feeding, working and handling of new livestock to acclimate them to the protocol of the particular producer. Furthermore, without grass, these new cattle cannot even be purchased at this time. It will take a year or two of good rains to return much of the pastureland to optimum condition.
- Our customers have been forced to sell down their sheep, goat and cattle breeding stock.
- The majority of ranchers reduced herd size or exited the livestock market, which resulted in agriculture loan decline. In recent months, we have seen signs of expansion; however, loan demand remains soft. There has been no impact on credit availability during the drought.
- Pastures are in better condition than last year. Spring rains and rain in July have helped pasture conditions, but they are still suffering from drought. Stock tanks remain low, and the hay crop was below average. Livestock numbers are still down due to dry conditions, and feed costs remain high. Loan demand is down due to dry conditions.
- Due to drought continuation, numbers of cattle and sheep, particularly, have been cut back by an estimated average of 30 to 50 percent over the last several years. Loan balances are down in general due to selloffs, though credit is readily available for restocking. The drought has increased overall feed budgets, but feed costs remain lower for more-efficient hair sheep than for woolled sheep.
- Drought has caused limited grazing, higher livestock market prices and high restocking costs.

Region 12 • Southern New Mexico
- Herd numbers have been cut in half and in some cases eliminated to ease feeding pressures.
- Many ranchers are selling off their cattle or not holding on to them as long as they would like after a purchase. They need more time to let their land heal due to the lack of rain. The drought affects our credit decision process; we know that agricultural losses are very low, but we still have to figure in the additional risk due to the lack of rain.
- Production of all commodities has significantly decreased due to drought. Credit conditions are stable due to good management of operators.
- Cattle prices stayed high, so the impact was not as great as it could have been. Farmers were highly dependent on the insurance payments, and our average irrigation decline at the pump was probably 30 percent in the last three years.
- Drought caused a significant decline in cattle inventory.
- Ranches have been so dry that herds have been reduced and replacement heifers not kept. Some ground is being left out of crops because of limited water availability.
- Drought continues to force small operators and those with significant debt to shut down their operations.

Region 13 • Northern Louisiana
- We have had very few effects from drought, because most of the crops in our area are irrigated. However, irrigation costs have risen.
- Drought conditions have increased our need to look at varieties of crops grown, maturity stages and ability to harvest.
- This has been a good year for growing row crops. Irrigation did not start until late in the season, and because of rainfall across the region, the nonirrigated crops are holding their own against the irrigated crops. It was not until August that irrigation became a necessity. This year’s crop was not as expensive as last year’s.