

# Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District



*Quarterly Survey of Agricultural Credit*

*Conditions* is compiled from a survey of Eleventh District agricultural bankers. This publication is prepared by the Federal Reserve Bank of Dallas and is available without charge by writing to the Research Department, Federal Reserve Bank of Dallas, P.O. Box 655906, Dallas, TX 75265-5906, or by telephoning (214) 922-5254. It is available on the web at [www.dallasfed.org](http://www.dallasfed.org).

For questions regarding information in the release, contact Laila Assanie, (214) 922-5191.

## Third Quarter 2008

The third quarter survey found continued apprehension about farming and ranching conditions in the Eleventh District agricultural community. A slightly higher share of bankers cited declining loan repayment rates, rising requests for loan renewals and extensions, and an increase in collateral levels compared with last quarter. Operating margins remained lackluster, and a few bankers expressed concern that high fuel, fertilizer and feed costs would affect producers' credit risk.

On the production side, Hurricanes Ike and Gustav flooded parts of Coastal Texas and Northern Louisiana, causing widespread crop damage and livestock losses in the affected areas. Despite good late-summer and early-fall rains that boosted crop yields in some areas—especially in the Texas Plains—the dry spell lingered in Central Texas, hurting livestock and crop production.

Additional highlights from the survey:

- Farmland values rose at a slower pace and sales activity weakened. About 15 percent of bankers expected farmland values to decline in the third quarter, compared with 5 percent in the previous two. Additionally, 97 percent of respondents foresee flat or weaker demand for farm real estate loans, up from 87 percent in second quarter 2008.

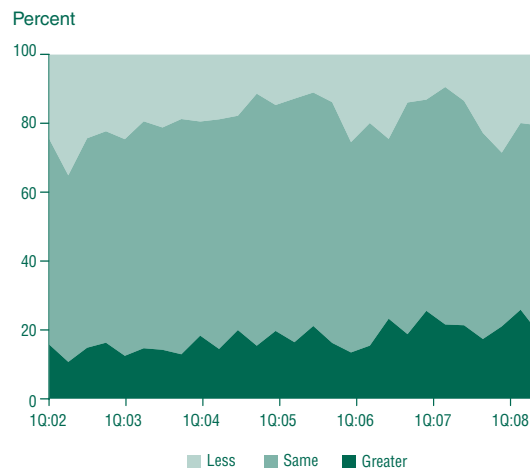
- Overall loan demand was mixed during the quarter. Income from oil and gas leases on farmland reduced loan demand in mineral-rich regions, while crop and livestock damage resulting from the drought and hurricanes spurred lending activity in others.

- High fuel, fertilizer and feed costs have compelled farmers to limit purchases of farm equipment and ranchers to curtail herd expansion. More than 90 percent of responding bankers anticipate steady or lower demand for feeder cattle and farm machinery loans over the next three months.

## Agricultural Credit Conditions at Survey Banks in the Eleventh District

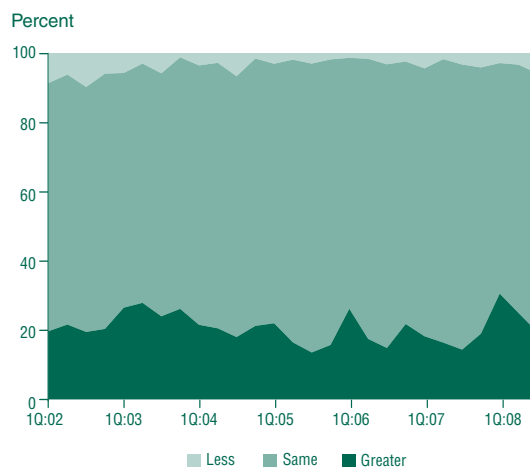
### Demand for Loans

*Nineteen percent of bankers cite an uptick in loan demand.*



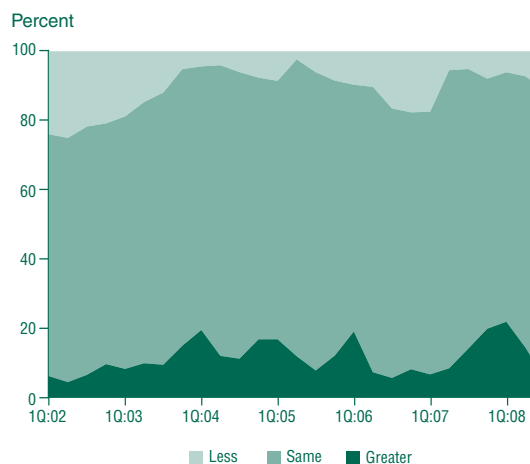
### Funds Available for Additional Lending

*Funds availability remains steady, say 75 percent of respondents.*



### Rate of Loan Repayment

*Eleven percent of banks report lower loan repayment rates.*

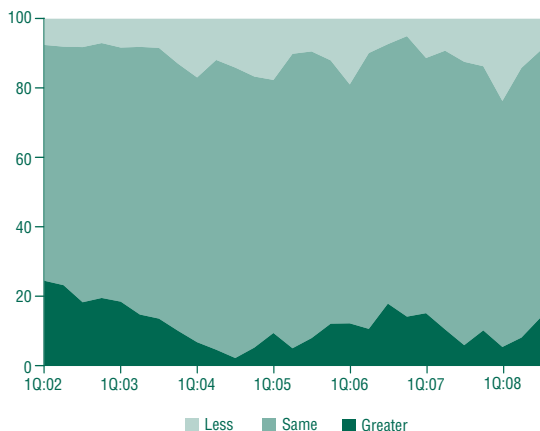


## Agricultural Credit Conditions at Survey Banks in the Eleventh District

### Renewals or Extensions of Loans

Loan renewals and extension requests have increased as indicated by 14 percent of reporters.

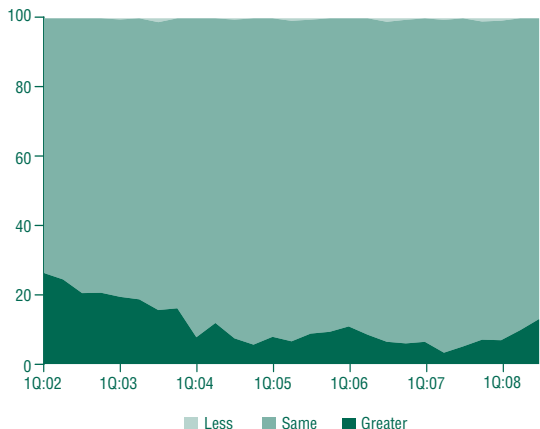
Percent



### Amount of Collateral

Thirteen percent of respondents note an increase in collateral requirements.

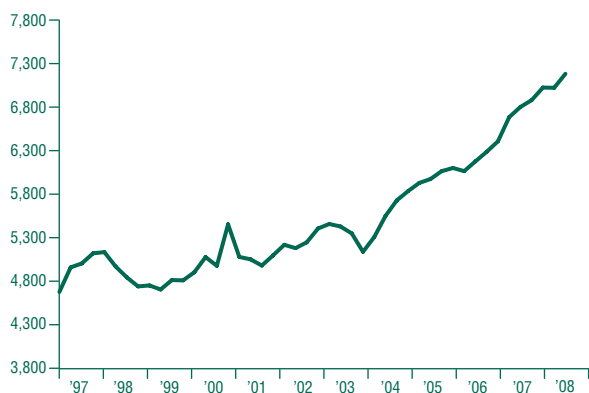
Percent



### Total Agricultural Loans

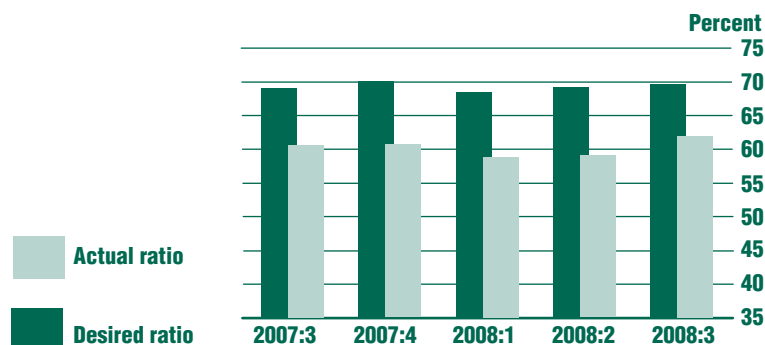
Agricultural loan volumes expand, after declining slightly in the first quarter.

Millions of dollars (seasonally adjusted)



### Loan-to-Deposit Ratios at Survey Banks

Average actual and desired ratios



### Distribution of Loan-to-Deposit Ratios

	Banks Reporting (Percent)				
	2007 Oct. 1	2008			
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Less than 41%	17	18	24	24	16
41% to 50%	14	12	12	10	12
51% to 60%	17	17	18	15	15
61% to 70%	23	28	22	18	25
More than 70%	30	25	24	32	33

### Interest Rate—Fixed

	Average Rate (Percent)				
	2007 Oct. 1	2008			
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Feeder cattle	9.35	8.91	7.78	7.52	7.42
Other farm operating	9.55	9.05	7.96	7.81	7.56
Intermediate term	9.24	8.66	7.74	7.63	7.49
Long-term farm real estate	8.49	7.92	7.24	7.20	6.87

### Interest Rate—Variable

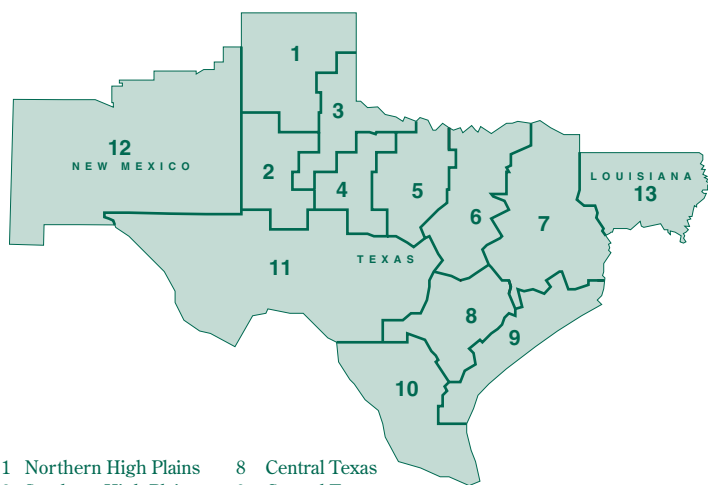
	Average Rate (Percent)				
	2007 Oct. 1	2008			
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Feeder cattle	9.22	8.67	7.20	6.96	6.78
Other farm operating	9.41	8.73	7.41	7.09	6.91
Intermediate term	9.23	8.48	7.32	6.91	6.99
Long-term farm real estate	8.61	7.93	6.66	6.54	6.63

## Rural Real Estate Values

October 1, 2008

- <sup>1</sup> Number of banks reporting land values.
- <sup>2</sup> Prices are dollars per acre, not adjusted for inflation.
- <sup>3</sup> Not adjusted for inflation.
- <sup>4</sup> Increase in the percent change from 2007 to 2008 reflects new reporters in 2008.
- <sup>5</sup> Large percentage change reflects increase in reported land values in the region.
- n.a.—Not published due to insufficient responses but included in totals for Texas and district.

### Eleventh Federal Reserve District

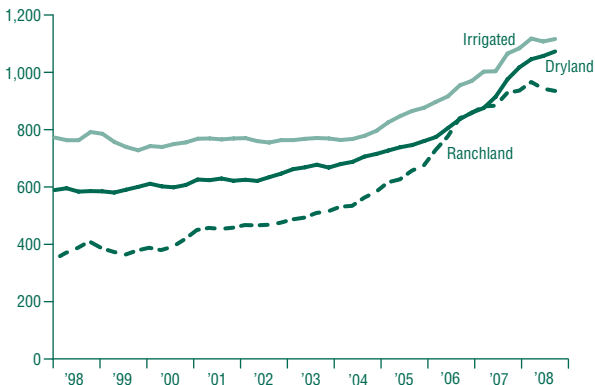


- 1 Northern High Plains
- 2 Southern High Plains
- 3 Northern Low Plains
- 4 Southern Low Plains
- 5 Cross Timbers
- 6 North Central Texas
- 7 East Texas
- 8 Central Texas
- 9 Coastal Texas
- 10 South Texas
- 11 Trans-Pecos and Edwards Plateau
- 12 Southern New Mexico
- 13 Northern Louisiana

### Eleventh District Real Land Values

Ranchland values edge down.

2000 dollars per acre



### CROPLAND—DRYLAND

Region	Banks <sup>1</sup> Third Quarter 2008	Average Value <sup>2</sup>	Percent Change <sup>3</sup> in Value from	
			Previous Quarter	Previous Year
DISTRICT	116	1,310	1.5	12
TEXAS	103	1,327	1.9	12.9
Northern High Plains	16	454	1.3	15.7
Southern High Plains	15	491	-0.3	11.3
Northern Low Plains	7	577	2.6	24.3
Southern Low Plains	6	880	7.0	40.5 <sup>4</sup>
Cross Timbers	12	1,367	2.6	37.8 <sup>4</sup>
North Central Texas	12	2,302	4.6	9.6
East Texas	7	1,524	-2.0	5.7
Central Texas	16	2,569	3.0	14.0
Coastal Texas	5	1,670	3.0	26.5
South Texas	n.a.	n.a.	n.a.	n.a.
Trans-Pecos and Edwards Plateau	5	1,041	-4.6	-4.3
Southern New Mexico	7	405	5.2	14.7
Northern Louisiana	6	1,208	-3.3	1.2

### CROPLAND—IRRIGATED

Region	Banks <sup>1</sup> Third Quarter 2008	Average Value <sup>2</sup>	Percent Change <sup>3</sup> in Value from	
			Previous Quarter	Previous Year
DISTRICT	84	1,363	0.8	6.7
TEXAS	70	1313	0.6	12.1
Northern High Plains	16	1081	0.1	14.5
Southern High Plains	15	1027	0.0	17.1
Northern Low Plains	5	959	1.5	15.8
Southern Low Plains	5	1,334	7.5	60.7 <sup>5</sup>
Cross Timbers	4	2,384	5.9	27.4
North Central Texas	n.a.	n.a.	n.a.	n.a.
East Texas	n.a.	n.a.	n.a.	n.a.
Central Texas	11	2,992	0.7	14.2
Coastal Texas	4	1,885	7.2	20.8
South Texas	n.a.	n.a.	n.a.	n.a.
Trans-Pecos and Edwards Plateau	6	1,920	-3.5	7.7
Southern New Mexico	8	1,746	1.9	-22.0
Northern Louisiana	6	1,678	2.0	10.2

### RANCHLAND

Region	Banks <sup>1</sup> Third Quarter 2008	Average Value <sup>2</sup>	Percent Change <sup>3</sup> in Value from	
			Previous Quarter	Previous Year
DISTRICT	126	1,141	-0.8	2.5
TEXAS	113	1,429	-1.1	2.3
Northern High Plains	17	358	-0.2	12.3
Southern High Plains	14	412	4.3	22.9
Northern Low Plains	7	567	-4.1	22.0
Southern Low Plains	6	879	9.0	28.9
Cross Timbers	12	1,863	2.2	25.0
North Central Texas	14	2,390	2.0	13.8
East Texas	8	1,681	-7.8	-16.7
Central Texas	18	3,370	1.9	10.4
Coastal Texas	4	1,405	-2.9	18.9
South Texas	n.a.	n.a.	n.a.	n.a.
Trans-Pecos and Edwards Plateau	11	1,267	-3.7	-9.4
Southern New Mexico	8	316	2.4	5.3
Northern Louisiana	5	1,014	5.8	8.2

# Third Quarter 2008 Comments

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

## Region 1—Northern High Plains

Corn and other summer crops are looking good, as growing conditions are excellent.

Land costs are still rising, although at a slower pace than the previous 18 months. The corn harvest is starting with above-average yields. Wheat planting is delayed due to increased input costs and insect pressure. Cows are in excellent condition, with good calf weaning weights.

The corn and silage fall harvests have started. Preliminary yields are good, although they are slightly lower than in 2007. Farmers expect a decent year with good commodity prices. The outlook for stocker and feeder cattle continues to be bleak.

Grain prices are high. New dairies are coming into the Panhandle area.

The vast majority of landowners in this county have extensive oil and gas income, eliminating any need for borrowing.

## Region 2—Southern High Plains

Recent rains have made dryland prospects look good. The cotton crop will be dependent on the fall harvest.

## Region 3—Northern Low Plains

Irrigated crops are good. We received good rains recently, as much as 7 inches. But it will take time to know if dryland crops will react and have time to mature.

## Region 5—Cross Timbers

Timely rains in August have greatly improved hay and pasture conditions.

Asking prices for land are still high, and fewer sales are occurring. High feed, fertilizer and fuel costs are squeezing producers, especially dairies.

## Region 6—North Central Texas

The area is in need of rainfall.

## Region 7—East Texas

Land values have retained their asking price, but due to the negative real estate lending events, land is not moving as fast as in the past. Real estate values do not accurately reflect the value of agricultural property. The cost of production continues to rise, but commodity prices have been favorable—resulting in about the same margin of profit.

## Region 8—Central Texas

Ag credits will be difficult this year. The crops from west of Victoria to George West were well below normal, primarily due to the dry summer weather. With less carryover and crops being more expensive for 2009, credit risk for agricultural loans will have a much greater probability of increasing.

Even with two major hurricanes this summer, we still did not receive any rain. Portions of Lavaca, Gonzales and Fayette counties are extremely dry. Tanks are still dry, and grass is nonexistent in some areas. Feeding with hay is being done daily. Cattle prices remain good. The economic news will determine what happens in the next three months.

The dry spring and early summer resulted in below-average corn yields. Rice yields will result in profits, despite the highest input costs in history.

Drought conditions persist in much of our ag territory. The cost of feed, fertilizer and fuel are all higher and putting tremendous pressure on the ag producer. There are not many left who are making a living solely from the farm.

## Region 9—Coastal Texas

We are unable to obtain land values due to Hurricane Ike. Salt water covered most of the land. Renewals and

extensions requests are coming in due to the storm.

## Region 11—Trans-Pecos and Edwards Plateau

High fuel, feed and production costs are keeping pressure on ag producers in the western Hill Country. Fortunately, livestock prices have remained strong. Some areas received some rare July and August rainfall. Overall, however, 2008 does not look like a year to write home about. The real estate market has slowed somewhat, but prices have not fallen.

Recent rains have helped prospects for a good year, but continued rainfall is needed before increases in herd sizes can be implemented. Also, area ranchers are increasingly relying on hunting and oil and gas income to counter livestock industry losses resulting from drought, high fuel prices, predators and feed cost increases that are driven in part by the ethanol industry.

## Region 13—Northern Louisiana

The recent rainfall from Gustav has flooded the area crops in many places. We received as much as 15 to 27 inches. The rice and corn that is still in the field probably will not be harvested and is considered a complete loss. Soybeans that were not mature and harvested may still be salvaged, but area elevators are selective in accepting damaged crops to fill contracts. Cotton that did not have open bolls may still be harvested, while older cotton may not be. Late soybeans and cotton may have an opportunity to be salvaged. At this point, time and weather will tell the rest of the story.