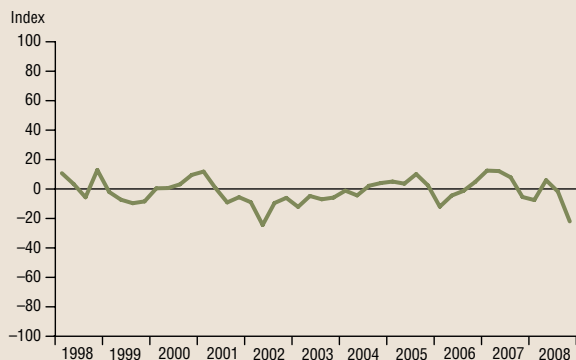


AGRICULTURAL SURVEY

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

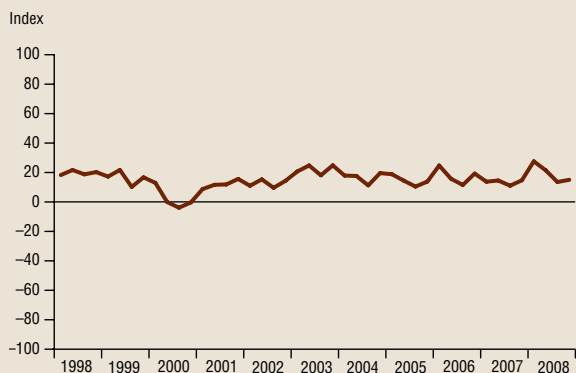
Demand for Loans

Loan demand fell this quarter partly as a result of the dry spell.



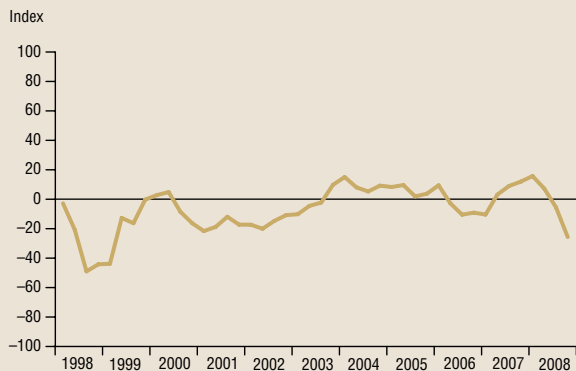
Funds Available for Additional Lending

Funds availability has improved slightly this quarter.



Rate of Loan Repayment

Bankers report that dry weather, low prices and below-average crop yields have reduced loan repayment rates.



Survey responses are used to calculate an index for each question by subtracting the percentage reporting a decrease from the percentage reporting an increase. When all respondents report increased activity, an index will register 100. An index will register -100 when all respondents report a decrease. An index will be zero when the number of respondents reporting an increase or decrease is equal.

FEDERAL RESERVE BANK OF DALLAS

Fourth Quarter 2008

The fourth quarter survey indicated that the ongoing dry spell and sagging commodity prices intensified challenges for the Eleventh District agricultural community. The livestock industry appeared to be the hardest hit. Bankers said that some ranchers were unable to break even because poor pasture conditions and short hay supplies markedly increased supplemental feeding costs, forcing some cattle producers to cull their herds at a time when cattle prices have plummeted.

Below-average crop yields and low commodity prices made it difficult for some farmers to recoup high input costs. Overall prospects for production were bleak, and a few bankers noted that without a drop in feed, fertilizer and irrigation costs or improvement in moisture conditions, producers would face a tough 2009.

Consistent with overall weakness, a higher percentage of bankers reported falling loan demand, waning loan repayment rates, and rising requests for loan renewals and extensions compared with last quarter. Respondents exhibited some reticence when asked about expanding the volume of loans to farmers and ranchers. Only 56 percent of bankers desired such an increase, down from 72 percent a year earlier. Although there are still funds available for lending, the amount of collateral required has increased.

Farm Lending Trends and Forecasts

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

	2008:Q4			
	Index	Greater	Same	Less
Demand for loans	-21.93	16.86	44.35	38.79
Availability of funds	15.09	20.40	74.30	5.31
Rate of loan repayment	-26.19	3.02	67.76	29.21
Loan renewals or extensions	17.06	23.56	69.94	6.50
Collateral required	19.46	19.46	80.54	0

How do you expect the volume of farm loans made by your bank during the next three months to compare with the volume of loans made during the same months a year ago?

	2008:Q4			
	Index	Greater	Same	Less
Non-real estate farm loans	-28.03	9.84	52.29	37.87
Feeder cattle loans	-42.32	4.72	48.24	47.04
Dairy loans	-12.99	5.50	73.62	20.88
Crop storage loans	-17.56	5.86	70.72	23.42
Operating loans	3.14	25.50	52.14	22.36
Farm machinery loans	-30.75	9.56	50.12	40.31
Farm real estate loans	-41.20	2.40	54.00	43.60



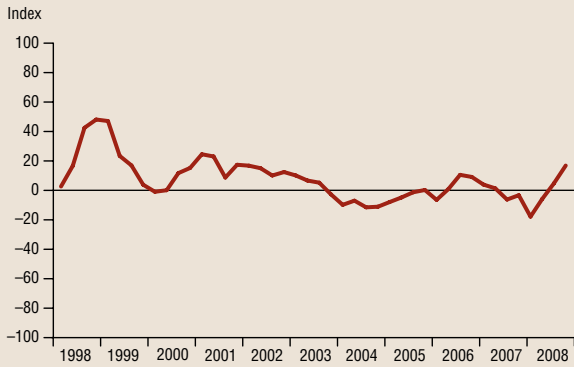
Quarterly Survey of Agricultural Credit Conditions

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 Public Affairs Department, Federal Reserve Bank of Dallas, P.O. Box 655906, Dallas, TX 75265-5906, or by calling 214-922-5254. It is available on the web at www.dallasfed.org.

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

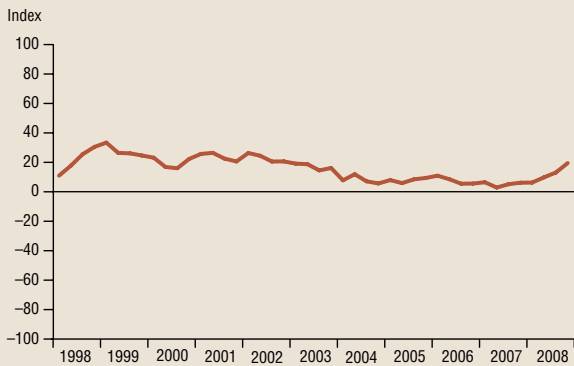
Renewals or Extensions of Loans

Consistent with the fall in loan repayment rates, loan renewals and extensions have increased.



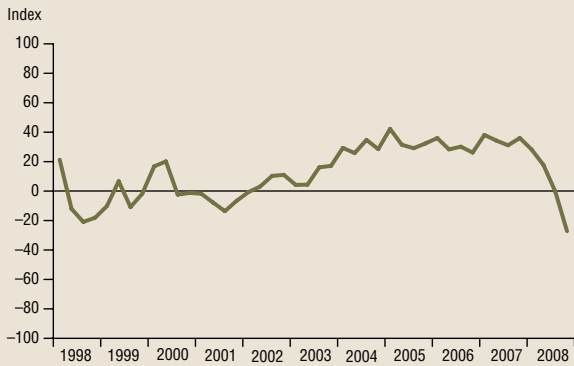
Amount of Collateral

The collateral index has risen noticeably in 2008.



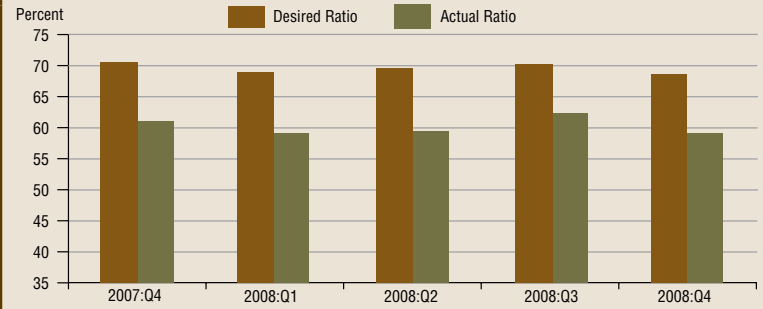
Anticipated Trend in Farm Land Values

Only 3 percent of respondents expect farmland values to increase over the next three months.



Loan-to-Deposit Ratios at Survey Banks

Average actual and desired ratios



Distribution of Loan-to-Deposit Ratios

	Banks Reporting (percent)				2009 Jan. 1
	2008				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Less than 41%	18	24	24	16	21
41% to 50%	12	12	10	12	12
51% to 60%	17	18	15	15	20
61% to 70%	28	22	18	25	19
More than 70%	25	24	32	33	29

Interest Rates

Fixed

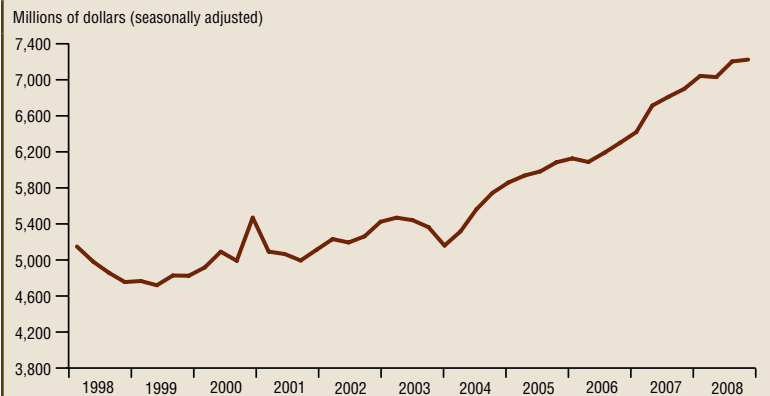
	Average Rate (percent)				2009 Jan. 1
	2008				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Feeder cattle	8.91	7.78	7.52	7.42	6.86
Other farm operating	9.05	7.96	7.81	7.56	6.90
Intermediate term	8.66	7.74	7.63	7.49	7.23
Long-term farm real estate	7.92	7.24	7.20	6.87	6.77

Variable

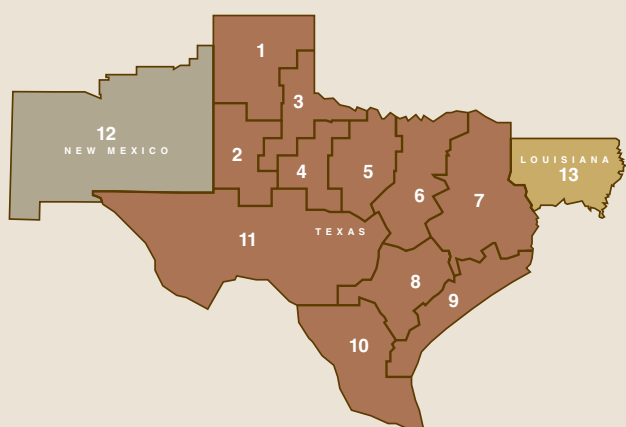
Feeder cattle	8.67	7.20	6.96	6.78	6.29
Other farm operating	8.73	7.41	7.09	6.91	6.40
Intermediate term	8.48	7.32	6.91	6.99	6.57
Long-term farm real estate	7.93	6.66	6.54	6.63	6.24

Total Agricultural Loans

Agricultural loan volumes expanded slightly during third quarter 2008.



Eleventh Federal Reserve District



Rural Real Estate Values—December 2008

Cropland—Dryland

District	Banks ¹	Average Value ²	Percent Change ³ in Value from	
			Previous Quarter	Previous Year
	133	1,319	0.4	7.4
Texas	122	1,327	0	7.8
1 Northern High Plains	18	454	-0.1	11.4
2 Southern High Plains	17	495	-0.1	6.8
3 Northern Low Plains	10	580	2.3	15.2
4 Southern Low Plains	11	810	-3.2	20.9
5 Cross Timbers	11	1,236	-2.9	9.4
6 North Central Texas	14	2,265	-1.1	3.9
7 East Texas	6	1,593	2.4	3.9
8 Central Texas	17	2,644	0.4	13.6
9 Coastal Texas	8	1,495	-4.6	7.0
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	9	1,119	1.9	-2.4
12 Southern New Mexico	6	480	11.7	34.9 ⁴
13 Northern Louisiana	5	1,326	5.0	2.3

Cropland—Irrigated

District	Banks	Average Value	Percent Change	Percent Change
	99	1,423	2.2	8.7
Texas	88	1,313	-0.1	7.2
1 Northern High Plains	17	1,084	0.8	6.7
2 Southern High Plains	17	1,008	-3.5	9.7
3 Northern Low Plains	8	1,014	2.8	16.9
4 Southern Low Plains	11	1,255	-3.2	36.7 ⁴
5 Cross Timbers	5	2,224	-1.5	10.4
6 North Central Texas	n.a.	n.a.	n.a.	n.a.
7 East Texas	n.a.	n.a.	n.a.	n.a.
8 Central Texas	12	2,938	-3.7	8.4
9 Coastal Texas	6	1,532	-6.8	-5.2
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	8	2,026	2.8	1.4
12 Southern New Mexico	7	2,392	16.6	18.2
13 Northern Louisiana	4	1,731	2.7	7.9

Ranchland

District	Banks	Average Value	Percent Change	Percent Change
	136	1,118	-2.3	-1.1
Texas	127	1,419	-1.8	-0.1
1 Northern High Plains	17	375	2.0	10.8
2 Southern High Plains	13	475	5.6	35.4 ⁴
3 Northern Low Plains	9	599	2.8	11.3
4 Southern Low Plains	11	863	-0.7	26.6
5 Cross Timbers	12	1,822	-0.8	13.0
6 North Central Texas	16	2,356	-0.5	4.6
7 East Texas	7	1,684	-3.7	-17.8
8 Central Texas	19	3,337	-2.0	5.6
9 Coastal Texas	7	1,323	-1.4	-1.3
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	14	1,230	-5.8	-11.9
12 Southern New Mexico	6	254	-9.9	-14.4
13 Northern Louisiana	3	932	-3.4	1.3

¹ Number of banks reporting land values.

² Prices are dollars per acre, not adjusted for inflation.

³ Not adjusted for inflation.

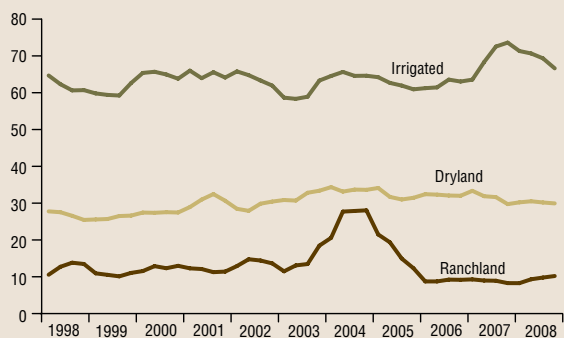
⁴ Increase in the percent change from 2007 to 2008 reflects new reporters in 2008.

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

Cash Rent Values

Irrigated land cash rents continue to decline.

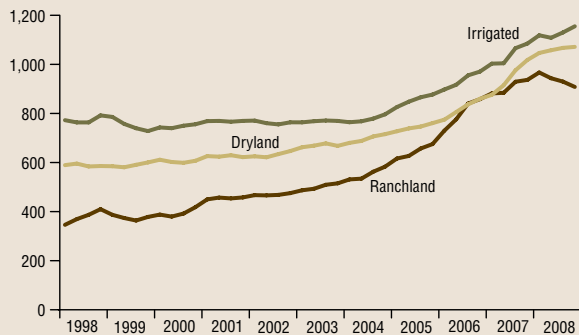
2000 dollars per acre



Real Land Values

Irrigated land values continued to rise in the fourth quarter, while dryland values were flat and ranchland prices fell.

2000 dollars per acre



Quarterly 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 yields were good, but the high cost of irrigation and declining prices make profitability small or nonexistent.

Row crop producers had an excellent 2008. We are in need of moisture. The wheat pasture cattle are doing well.

Region 2—Southern High Plains

The harvest season is wrapping up, with 90 percent of the cotton crop harvested. Yields reported are average to slightly less than the three-year average. Unfavorable weather during the finishing stages of the cotton crop led to lower yields.

The 2008 crop yields were down. It is extremely dry. The prognosis is not too good.

Drought conditions have increased supplemental livestock feeding and are hampering the wheat crop. All the uncertainty in the agricultural section is making cash flow projections for 2009 difficult.

Region 3—Northern Low Plains

Our cotton harvest is completed. We need rain for the winter wheat.

Bond yields make it unattractive to extend agricultural credit based on the associated risk.

Region 5—Cross Timbers

The livestock loan repayment rate is slower because of the downward trend in sales price. Cattle are being grazed to higher weights.

We have had very dry conditions in the general area since August. There is little or no winter grazing available from wheat or oats. The real estate market is very slow now.

It has been 90 days since we had moisture. The wheat came up, but it is now dying because of the drought. Cattle prices are causing ranchers to break even, at best, with losses increasing.

Region 6—North Central Texas

The only good news we have had in the past six months is that fuel prices are

coming down. Everything seems to depend on how long this recession will last.

Lower input costs or higher grain prices are needed. The need for rain is getting critical. Hay supplies are running out, causing prices to go up.

It is very dry in Central Texas. Many ranchers are running out of water, and their winter grazing is limited. It will not be profitable for them to feed much longer. Cattle prices are extremely depressed. Although the price of oil has decreased significantly, fertilizer prices are still extremely high. With current prices, the future is not very bright for our row crop farmers.

The area is in need of rainfall. Feed costs remain high. Cattle prices are weaker.

Local cattle prices are declining as a result of seasonal demand and the faltering economy. We are unsure how prices will fare in the spring, when demand for cattle peaks.

Region 7—East Texas

Agriculture in East Texas continues to show signs of weakening because prices don't compare with production costs. Less land is dedicated to crop production or livestock. Land prices will not allow for expansion as the cost cannot be supported by the production income.

Region 8—Central Texas

Our biggest concern is the ongoing drought, which is causing water shortages, little hay and no grass. The only bright spot is that grain prices have come down. Cattle prices continue to fall. Cattle liquidation will continue to increase if we do not get winter rains soon.

2008 was the most expensive year ever for crop inputs. Operations lost money. Rice was very profitable. Corn and cotton crops were break-even at best. Costs are falling for fertilizer and fuel. Hay costs are high. It has been dry for the past seven months. We need rain.

It seems that the ag community is at a standstill. Cattle prices are down, we have extreme drought conditions, farm equipment dealers have stagnant inventories and ag real estate is not selling.

The speculative hedge fund position, primarily in cotton in March, has put many cotton merchants out of business, impacting all commodity financing in this area.

Region 9—Coastal Texas

Operating and equipment loans were paid off from production income in the 2008 crop year. Farmers are still operating on their own money and are putting off land preparation due to the dry weather, increased fertilizer costs and the reduced crop forecast for 2009.

Region 11—Trans-Pecos and Edwards Plateau

Real estate sales have slowed, but that is caused by a lack of land for sale. There are still plenty of new agricultural buyers available. Grass is holding, but we could use some moisture.

A large variation in irrigated farmland values exists due to transferable water rights in the Edwards Aquifer.

Land prices have not dropped, but there have not been any real estate sales either.

Livestock prices continue to come down, while feed prices remain high.

Terrribly dry conditions have most Edwards Plateau ranchers culling their herds and getting rid of older, weaker animals. The prospect of heavier-than-normal supplemental feeding has some operators facing 2009 very warily. Out here in rural West Texas, banks still have money to lend, and customers are committed to paying it back. Hard times and drought are really nothing new to many of these ag customers. They just need some rain and decent cattle, sheep and goat prices.

Late rains had helped pasture conditions, but continued drought and high feed costs will likely cause decreases in herd sizes. Area ranchers have been relying on oil or gas income to counter losses sustained in the livestock industry, but as prices continue to fall, chances for expansion in herd sizes are decreasing. Predation is also a concern that is driving some ranchers out of the ranch business.

Region 12—Southern New Mexico

Lower livestock (cattle) prices are having a significant impact on producers. Ranch real estate values continue to increase, influenced primarily by nonagricultural and foreign investors.