

**As part of this quarter's commodity survey, respondents were asked about the impact of the current drought on growing and credit conditions in their region. Most agricultural producers appear to be severely affected. Dryland production has been poor for crops such as cotton, wheat, corn and hay. Irrigated crops have required increased irrigation, driving up the cost of production and squeezing margins. The livestock industry has been hit hard as well. Poor grazing conditions have necessitated costly supplemental feeding, forcing many ranchers to sell off parts or all of their herds. The drought has affected cash flow for agricultural producers, and several bankers note an increase in carryover debt and a greater reliance on crop insurance. While recent rains have improved growing conditions in many regions, several parts of the district are still suffering from the drought's lingering effects, which have dampened the outlook.**

**Below are the comments we received from survey respondents on the impact of the drought on their lending region.**

## Question:

**How has the drought impacted growing and credit conditions in your region? Please explain.**

### Region 1—Northern High Plains

Rainfall has been scarce in this region, but it has been received at the right time. We need rain now to finish planting wheat, as we have very little subsoil moisture. The fall crops are looking good.

Dryland and irrigated crop receipts have been below normal.

Dryland acres are considered to be in poor condition since they cannot be irrigated due to the expenses associated with growing a crop. Credit conditions are weakening in tandem with drought conditions.

We are mostly irrigated in this area, and farmers are not set up to do anything differently.

Our area has been impacted indirectly but has not suffered from the drought conditions like Central and South Texas have.

Most areas have received some rain. The grass is short to average for this time of year. The milo crop is late, but it looks good. Wheat planting is delayed due to lack of moisture.

We are seeing lower yields as a result of the drought.

### Region 2—Southern High Plains

Crop conditions are not desirable, and

operating expenses are higher due to the drought.

Losses due to the drought mean crop insurance proceeds allow ag customers to pay down their loans sooner than expected. In addition, less is borrowed for the remainder of the year.

We had rain starting in late May through July, so the drought has not been a big problem in our area.

The drought has had a mixed result. The areas that lost their cotton crops as a result of the drought may be better off in the long run due to insurance payments. Irrigated crops are good.

Irrigated cotton looks good and is beginning to open. Dryland cotton is virtually nonexistent. Low cattle prices, combined with the high cost of grains over the last 12 months, have been devastating for ranchers.

Moisture is always a concern in this area. It has been a dry year, and this will impact both the dryland cotton and grain yields. Crop yields will be short of original projections, which were based on prior averages.

### Region 3—Northern Low Plains

The drought has been extreme. Dryland cotton crops are poor, which will probably stress cash flows. Wheat planting conditions are better because of current moisture levels.

As expected, there is a "wait and see" attitude. The lack of water and grass can mean cattle sales. Less wheat may be planted, and hay production is down.

Rains have been intermittent. We have some crops in good condition and some that have been plowed up for insurance checks.

Hall County has escaped any drought for the growing season.

### Region 4—Southern Low Plains

The drought has lowered crop yields, but it has had a minimal impact on lending conditions.

Dryland production has been affected by the drought.

We are expecting poor cotton crop yields. Cattle prices are very cheap as ranchers are selling off herds because of high supplemental costs.

Wheat production was considerably less this year.

Crop yields have been lower this year, causing greater reliance on crop insurance. However, growers' APHs (Actual Production Histories) are higher, resulting in higher insurance guaranties. This ends up making them more creditworthy customers. New cotton varieties appear to be more drought-

tolerant, allowing yields to be astronomical on wet years and better than average on dry years.

The lack of surface water has caused liquidation of some cattle herds. The wheat crop outlook is dismal at this point due to lack of moisture.

The drought has left farmers with carryover debt from the previous year. It is harder for them to make a living due to the drought.

The drought has squeezed cattle producers. Input costs (i.e., seed) for cotton production are making it very difficult for dryland cotton producers.

### Region 5—Cross Timbers

We have had near-average rainfall. Hay sales have been much higher than usual.

The drought has impacted both hay and wheat production. Some cattle have been sold due to lack of water. Credit conditions have not changed.

The drought has led to high feed costs, and it has hurt commodity selling prices.

Hay production has been significantly impacted. Ranchers' cash flow has been negatively impacted because of the necessity for supplemental feeding. We had more wheat plowed up this year than anyone can remember. Crop insurance saved some people.

The 2008-09 wheat crop was a disaster. Many farmers were left with large operating deficits due to high input costs as well as low prices and low crop yields. It will take years to recoup.

We have always had droughts, some more severe than others. The dry conditions make ranchers cut back on cows and increase expenditures on hay and feed. But the drought also increased the price of hay for hay growers.

There has been forced liquidation of some cattle herds. There is no hay for winter feeding, and the wheat pastures are too poor for winter grazing.

### Region 6—North Central Texas

The drought has had an extreme impact on summer crops, hay and cattle production.

Overall crop yields have been low; corn, cotton, milo and hay crops all had poor results.

The drought has been disastrous for crops. We're all hoping for strong insurance payments. Cattle prices are down as hay will be limited and expensive. We are seeing a lot of selloff.

It has been too dry to sow the wheat crop.

Cattle ranchers have had to feed cattle this summer due to the drought, as there

has been little to no grass for grazing. They have depleted their winter hay supply.

Crop insurance has leveled some of the valleys that resulted from poor crop yields. We are making more loans for feed (e.g., hay).

The drought has caused crop yields to be very poor. Many cattle producers have had to sell off part of their herds, and some have had to completely liquidate.

Prior to the rain, which started Sept. 17, dry conditions were forcing herd reductions and restricting wheat planting.

There has been a slight decrease in crop income. Pastures are holding up well, and hay production is good.

The drought, along with a late freeze, hurt crop yields. This caused an increase in carryover debt.

## Region 7—East Texas

We have not been in a drought in our region.

East Texas has had adequate moisture, so the drought has not had an impact in our area.

Credit conditions have not been affected, but cattle and hay operations have been hurt by the dry weather.

## Region 8—Central Texas

The 2009 growing season did not exist because of the lack of rain. Credit conditions remain the same.

Having drought conditions for more than two years has impacted crop yields and herd counts. Agriculture production is not profitable right now.

Dryland farmers are farming only for insurance proceeds. Irrigated land farmers are having to irrigate a lot more, which results in lower net income due to increased production costs. Our area has been put on water rationing.

Everything has been impacted. No rain means no hay or grass for cattle. Cattle prices are also down.

Crops have not produced for the last two years. Custom farm workers are suffering the most. There has been no income for two years from baling hay, plowing, dozer work, etc.

Many people just didn't plant this time. Many ranchers have sold portions of their livestock, and some have sold out completely.

Hay prices are higher. Farmers are selling cattle because of the lack of grass.

Dryland farmers have had reduced income available for debt service; therefore, their ability to qualify for additional funding has been reduced because of longer carryover debt. This is true for some of our cattle

ranchers as well.

The drought has severely reduced production of all dryland crops and caused customers to sell cattle.

Corn, milo and cotton yields were off by 75 percent. There have been many crop insurance claims. Breeding stock numbers are down significantly.

Some producers are liquidating and paying off their loans. There was very little forage production this year.

Things have been much tighter for cotton producers.

The drought has reduced nonirrigated crop yields, making it hard to produce hay.

There has been an increase in the sale of small calves and overall herd liquidation. Rice has not been impacted, unless the water supply is halted. Corn has had terrible yields.

## Region 9—Coastal Texas

Lower-than-normal crop yields coupled with lower prices for commodities have had a negative impact. Lower input costs have offset this somewhat, but not enough.

Overhead expenses have increased and some customers have liquidated their herds.

Most of the crops that were planted this year failed due to the drought. Crop insurance and government payments allowed our farmers to pay out operating loans. We did not turn down any farmers due to drought conditions.

Everyone is watching expenses very closely because of the drought and current credit conditions. Ag producers, as well as our bank, are looking for a way to mitigate risks more than usual.

Yields are down, and feed expenses for cattle have increased.

Dryland yields are very low. Carryover debt is expected. We could see another wave of farmers shifted to the Farm Service Agency (FSA) guaranty loan program. We could have a possible water shortage for rice acreage in 2010 due to LCRA (Lower Colorado River Authority) cutting off the water supply.

We anticipate a challenging loan renewal season this October–December as there will be greater carryover from 2009 primarily due to depressed crop yields and prices.

## Region 10—South Texas

Cattle numbers have been reduced, while feed expenses have increased. Farmers are growing crops that are restricted to irrigated land, which causes increased pumping costs.

## Region 11—Trans-Pecos and Edwards Plateau

Conditions have caused reduced crop

yields and the liquidation of livestock.

The region has received good to fair rainfall and has not been impacted as badly as other regions in the district. Most ranches have good grass going into the winter.

Our area has had fairly good rains during July and August; however, it is starting to get dry.

Growing conditions have deteriorated, but recent rains have improved the outlook slightly. Credit conditions remain tight.

In this region (Kimble County and the adjoining counties), some timely summer rains have helped us avoid the disaster occurring in other parts of the state. Certainly, though, the drought and high feed prices have made already difficult circumstances worse.

The spring and summer drought resulted in poor pasture conditions and a poor sorghum crop.

Crop production is well below the norm. Cattle liquidation sales have occurred. Irrigation wells are drying up.

Herd sizes are being reduced.

The drought has raised feed costs and reduced herd numbers.

## Region 12—Southern New Mexico

The drought is currently impacting ranchers' cash flow. Higher feed costs and lower cattle weights are resulting in lower gross revenue for ranchers.

The drought has caused losses in wheat production, which means less Crop Revenue Coverage (CRC) payments and lower cash receipts from the sale of wheat. This has cost farmers 30 to 70 percent in potential revenue.

We've had an average to above-average year in rainfall.

There is less river water, which results in much higher pumping costs.

The drought has really hurt dryland producers over the past two years. Irrigated producers have also seen reduced yields. Cattle numbers have been mostly unaffected.

## Region 13—Northern Louisiana

We had extreme heat in June and July and no rain.

Many producers are facing tighter cash flows due to weather conditions—both the hurricane and the drought.

We have suffered reduced yields due to dry conditions. This area went almost three months without rainfall. Now, extremely wet conditions are threatening the cotton and soybean harvests. More rain is in the immediate forecast, which will most likely further reduce yields.

Corn yields are reduced.