

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

Third Quarter 1994

## Agricultural Lending Up Despite Weak Cattle Prices

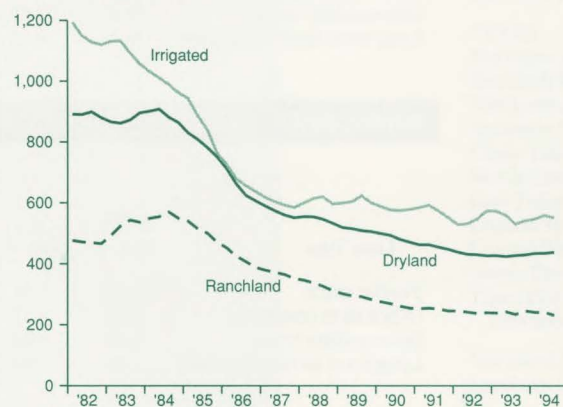
Results of the Dallas Fed's quarterly survey of agricultural credit conditions indicate that the upward trend in agricultural lending continued during the third quarter. More than one-third of the bankers surveyed reported an increase in loan demand during that period. Agricultural loans reported by commercial banks in the Eleventh District of the Federal Reserve System already had reached a record \$4.6 billion at the end of the second quarter, and that figure should increase through the rest of the year.

Bankers reporting an increase in loan demand in the third quarter outnumbered those reporting a decline by more than two to one. Looking ahead to the fourth quarter, responding bankers expected an

(Continued on page 4)

### District Land Values

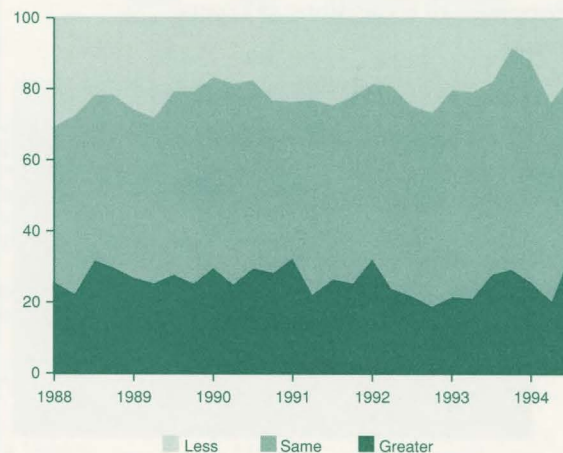
1987 dollars per acre



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

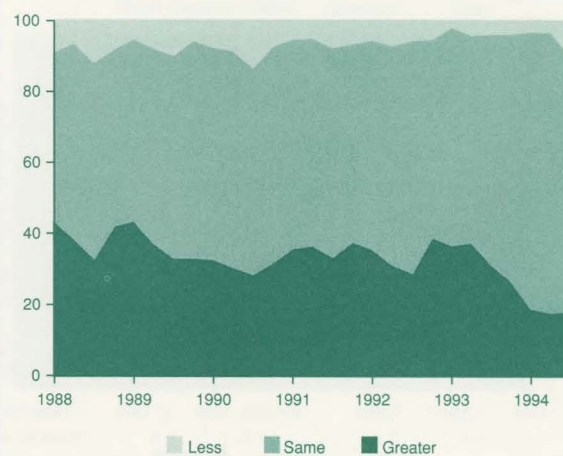
### Demand for Loans

Percent



### Funds Available for Additional Lending

Percent



### Quarterly Survey of Agricultural Credit

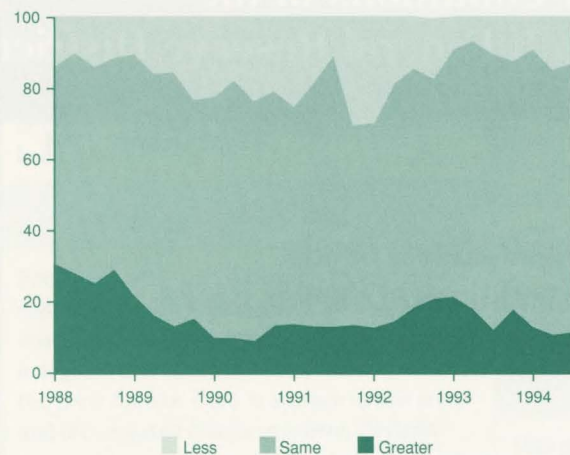
Conditions is compiled from a survey of Eleventh District agricultural bankers. This publication is prepared by the Federal Reserve Bank of Dallas and is available without charge by writing to the Research Department, Federal Reserve Bank of Dallas, P.O. Box 655906, Dallas, TX 75265-5906, or by telephoning (214) 922-5254.

For questions regarding information in the release, contact Kelly George, (214) 922-5175, or Michelle Thomas, (214) 922-5178.

# Agricultural Credit Conditions at Survey Banks In the Eleventh District

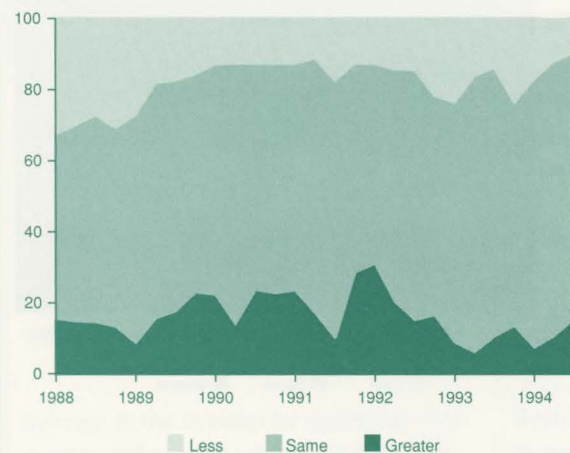
## Rate of Loan Repayment

Percent



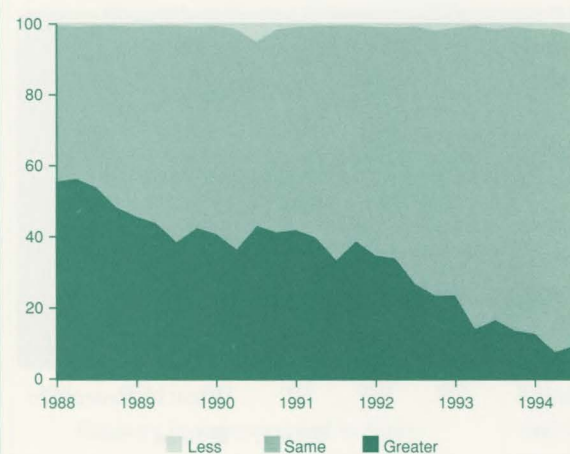
## Renewals or Extensions of Loans

Percent



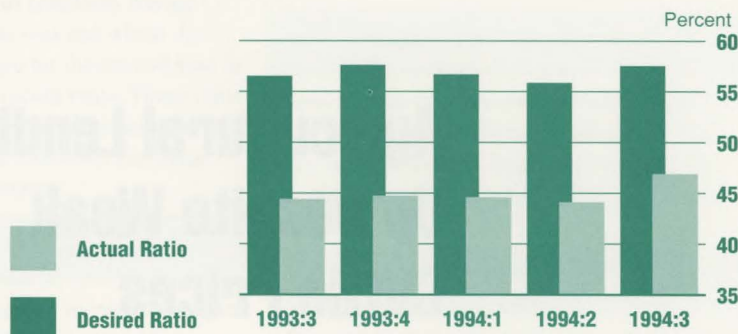
## Amount of Collateral

Percent



## Loan-Deposit Ratios at Survey Banks

Average Actual and Desired Ratios



## DISTRIBUTION OF LOAN-DEPOSIT RATIOS

Ratio	Banks Reporting (Percent)				
	1993	1994			
	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1
Less than 41%	46	45	47	48	41
41% to 50%	21	21	20	18	18
51% to 60%	16	17	18	17	16
61% to 70%	9	8	10	13	14
More than 70%	8	9	6	5	12

## INTEREST RATES—FIXED

Loan Type	Average Rate (Percent)				
	1993	1994			
	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1
Feeder cattle	9.12	9.06	9.16	9.63	10.05
Other farm operating	9.37	9.32	9.34	9.81	10.11
Intermediate term	9.46	9.42	9.40	9.74	10.07
Long-term farm real estate	9.34	9.21	9.24	9.67	10.14

## INTEREST RATES—VARIABLE

Loan Type	Average Rate (Percent)				
	1993	1994			
	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1
Feeder cattle	7.94	7.94	8.58	9.62	8.17
Other farm operating	8.20	8.17	8.80	9.68	8.18
Intermediate term	8.06	8.08	8.73	9.62	8.14
Long-term farm real estate	7.96	7.99	8.61	9.48	8.10



# Rural Real Estate Values

October 1, 1994

<sup>1</sup> Number of banks reporting land values.

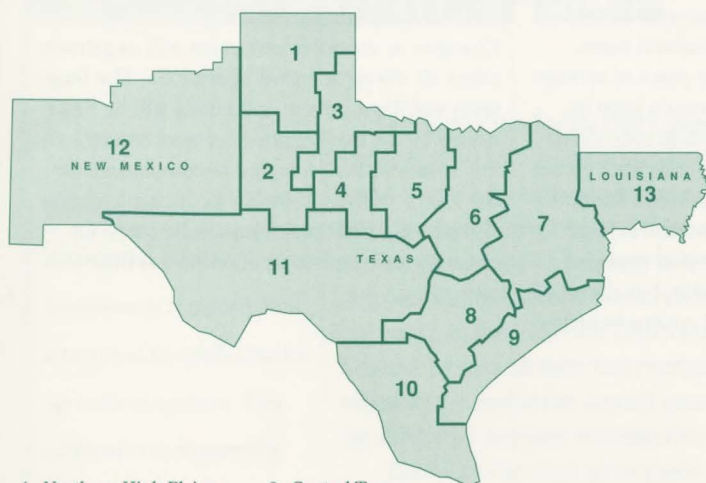
<sup>2</sup> Nominal dollars per acre.

n.r.—Not reported.

NOTE: Regional land values based on a small number of reporting banks should be used with caution.

All figures are preliminary.

## 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

## CROPLAND—DRYLAND

Region	Banks <sup>1</sup> Third-Quarter 1994	Average Value <sup>2</sup> Third-Quarter 1994	Percent Changes in Values from	
			Previous Quarter	Previous Year
DISTRICT	156	563	.6	4.6
TEXAS	148	553	.2	3.8
Northern High Plains	17	294	2.9	7.9
Southern High Plains	16	348	-.4	-1.6
Northern Low Plains	11	280	-2.4	-4.8
Southern Low Plains	15	398	.1	-3.0
Cross Timbers	14	409	1.2	-5.3
North Central Texas	22	681	-.1	2.1
East Texas	8	686	-.4	7.5
Central Texas	19	934	-.2	3.0
Coastal Texas	5	853	3.7	14.4
South Texas	7	655	-2.5	11.9
Trans-Pecos and Edwards Plateau	14	544	-2.5	-1.8
Northern Louisiana	5	721	4.4	12.5
Southern New Mexico	3	233	.9	1.9

## CROPLAND—IRRIGATED

Region	Banks <sup>1</sup> Third-Quarter 1994	Average Value <sup>2</sup> Third-Quarter 1994	Percent Changes in Values from	
			Previous Quarter	Previous Year
DISTRICT	101	709	-1.3	6.2
TEXAS	92	634	-3.0	1.0
Northern High Plains	17	515	.8	2.4
Southern High Plains	16	599	1.4	3.9
Northern Low Plains	8	413	-2.2	-4.6
Southern Low Plains	9	603	1.4	-.5
Cross Timbers	6	630	-5.9	-4.1
North Central Texas	n.r	n.r	n.r.	n.r.
East Texas	4	942	3.2	.3
Central Texas	9	1240	-1.8	4.0
Coastal Texas	n.r	n.r	n.r.	n.r.
South Texas	8	991	-5.7	7.3
Trans-Pecos and Edwards Plateau	12	815	-8.3	10.8
Northern Louisiana	5	927	1.6	7.5
Southern New Mexico	4	1371	6.5	n.r.

## RANCHLAND

Region	Banks <sup>1</sup> Third-Quarter 1994	Average Value <sup>2</sup> Third-Quarter 1994	Percent Changes in Values from	
			Previous Quarter	Previous Year
DISTRICT	156	297	-4.3	.8
TEXAS	150	366	-1.5	3.4
Northern High Plains	16	180	4.4	14.4
Southern High Plains	14	134	-.4	10.0
Northern Low Plains	11	149	-.4	-5.7
Southern Low Plains	13	225	.8	-1.3
Cross Timbers	15	352	3.8	0
North Central Texas	22	598	.3	2.2
East Texas	13	707	.6	6.5
Central Texas	19	846	-.1	5.8
Coastal Texas	3	447	-12.2	-6.8
South Texas	8	418	-5.1	6.5
Trans-Pecos and Edwards Plateau	16	302	-1.6	2.4
Northern Louisiana	3	465	3.4	18.1
Southern New Mexico	n.r	n.r	n.r.	n.r.



# Third-Quarter Comments

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

## Region 1— Northern High Plains

Feed yard cattle are still losing money and will continue to do so until cheaper feeder cattle start being sold. Grass cattle have had excellent gains this summer, which will help offset the price decline. Corn is average in this area, and the irrigated milo is excellent. Dryland milo will be well below average because of our dry summer. Wheat has nearly all been planted and, with sufficient moisture, an excellent wheat pasture is expected.

## Region 5 — Cross Timbers

Soil moisture is adequate, while peanuts, pecans and forage crops are fair to good.

## Region 7 — East Texas

This area needs rain for pastures now and to start winter pastures. Early hay production was good, so there should be an adequate supply. The deterioration in cattle prices is hurting area producers and causing concern.

## Region 8 — Central Texas

This area is in excellent condition, having received ample rain for oats and wheat. In addition, a hay shortage for the second year in a row was averted by recent rains. These rains were sufficient to replenish stock tanks in parts of the trade area. However, declining cattle prices are of concern.

## Region 9 — Coastal Texas

This region is experiencing increased competition from area banks for agricultural loans. This demand comes after four years of average to above-average crop years, which have increased available credit. Excellent crop yields on corn, milo, cotton and soybeans have resulted in substantial improvement in the financial condition of agricultural borrowers. Pricing of corn and milo earlier in the year provided farmers with not only good yields, but also good prices. The use of futures and options benefited

some farmers, while others who waited until the harvest to market their crops received substantially lower prices. Livestock producers have seen much of their previous year's profits eradicated by lower prices. Rainfall throughout the Gulf Coast Region has created above-average weights for cow and calf producers, which has partially offset the price decline. Livestock producers with reduced profits and high leverage are prone to credit problems when using cash to manage their debt.

## Region 10 — South Texas

Several large ranches are currently for sale in this region. Many sellers are willing to divide the plots. As a result, large ranches used for beef production their entire history could be divided.

## Region 11 — Trans-Pecos and Edwards Plateau

Changes in incentive programs will negatively affect all sheep and goat operations. The long-term viability of these operations will be determined by the market prices of wool and mohair and how well they rebound to compensate for the lost incentives. Volatility in the lamb market and packing plant problems create cause for concern, and future operations are at their mercy.

# Agricultural Lending Up Despite Weak Cattle Prices

(Continued from page 1)

increase in the demand for operating, crop storage and nonreal estate farm loans but expect continued weakness in the demand for feeder cattle and dairy loans.

Survey results reflect the recent weakness in the cattle industry; 28 percent of the responding bankers expect a fourth-quarter decline in feeder cattle loans. Last spring, cattle prices declined abruptly when heavy supplies of cattle flooded the market. Weakness in the cattle industry was especially apparent in the Panhandle, an area that accounts for more than 70 percent of Texas' cattle feedlots and grows extensive feed crops. Bankers there reported lower loan repayment rates and more renewals or extensions of loans.

Bankers have responded to this weakness in the cattle industry by raising

the interest rates on loans to ranchers by more than they have raised rates on other types of farm loans. Since January 1994, as market interest rates have risen, fixed rates on short-term farm operating loans have increased 79 basis points. Fixed rates on feeder cattle loans, however, have climbed 99 basis points. (One hundred basis points equals one percentage point.) Variable loan rates for feeder cattle loans also have increased more than for other types of agricultural loans. Part of these increases reflects the greater perceived risk assumed by banks making these loans.

Banks' cost of funds have risen less than the rates charged on loans have increased. This increased spread indicates that bank profits from agricultural lending should escalate.

Average dry crop land values increased for the seventh consecutive quarter, while irrigated crop land and ranchland values declined in the third quarter. Over the next several years, land values could change as Congress renews, reduces or eliminates the Conservation Reserve Program. Currently, 4.1 million acres of Texas land (about 12 percent of total arable land) are enrolled in this program, mostly in the plains region. Neither bankers nor land owners know what Congress will decide concerning this program. Bankers are concerned that elimination of the program could reduce the value of land that serves as collateral for long-term farm loans. Farmers and ranchers use real estate to back more than 25 percent of agricultural loans in this Federal Reserve District.