

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

Third Quarter 1998



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 Sheila Dolmas, (214) 922-5191.

The Third Quarter Survey of Agricultural Credit Conditions shows a continued decline from the second quarter. While still recovering from the financial effects of the '96 drought, Eleventh District agricultural producers were hit with both a severe drought and low commodity prices. Producers' costs of irrigation and feed increased, while commodity prices were reduced by above-average yields in other parts of the world. Slack demand from Asian countries also contributed to the price declines. In addition, many District farmers who switched from cotton to corn were hurt by the aflatoxin contamination of corn crops, which brought on even lower prices for the damaged corn. Cattle operations suffered from a shortage of hay, and cotton growers saw yields sink far below those of the past two years. (See page 4 for more bankers' comments.)

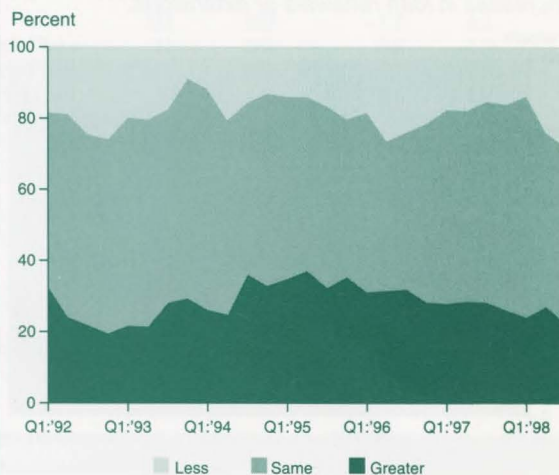
Here are additional details from the survey:

- The rate of loan repayment fell for over half of responding bankers. This decline was prevalent throughout the District. Similarly, 46 percent of respondents reported increased loan renewals or extensions.
- The demand for loans in the third quarter was less for 28 percent of respondents, as the number of farm and ranch borrowers per responding bank continued to drop from as many as 142 a year ago to an average of 96 in the third quarter.
- Thirty-two percent of respondents expect farmland values to decrease in the fourth quarter, compared with just 2 percent expecting a decrease a year earlier.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

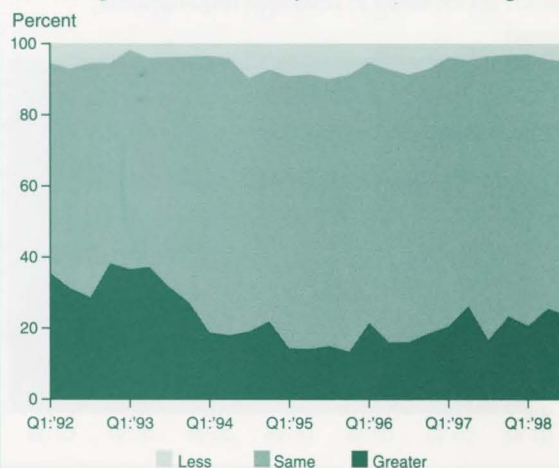
Demand for Loans

Twenty-eight percent of responding banks report a decrease in the demand for loans.



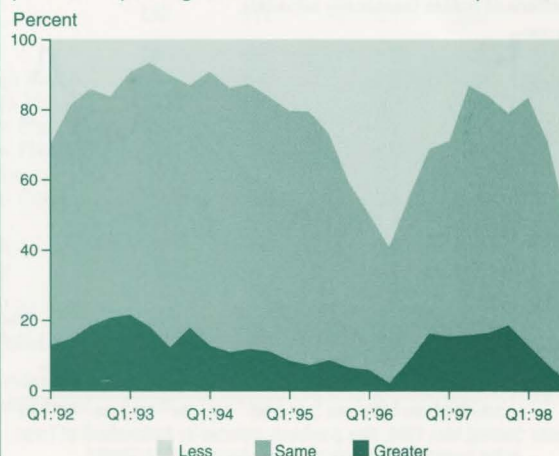
Funds Available for Additional Lending

Seventy-one percent of respondents report no change in the availability of funds for lending.



Rate of Loan Repayment

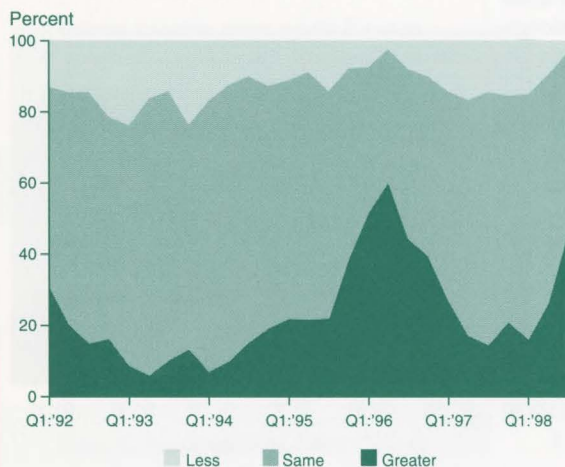
The rate of loan repayment decreases for 52 percent of third-quarter respondents, compared with 29 percent reporting decreases in the second quarter.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

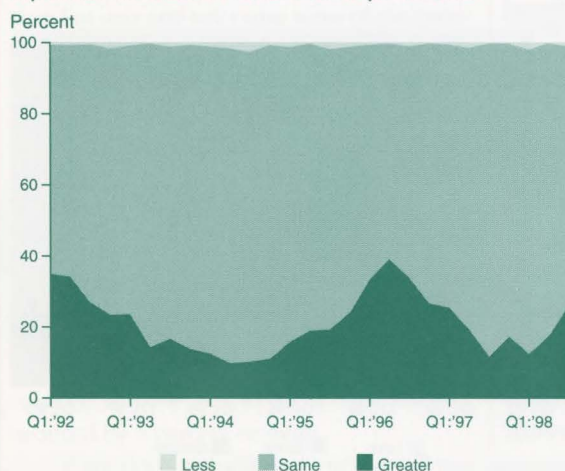
Renewals or Extensions of Loans

Forty-six percent of respondents report increases in loan renewals or extensions.



Amount of Collateral

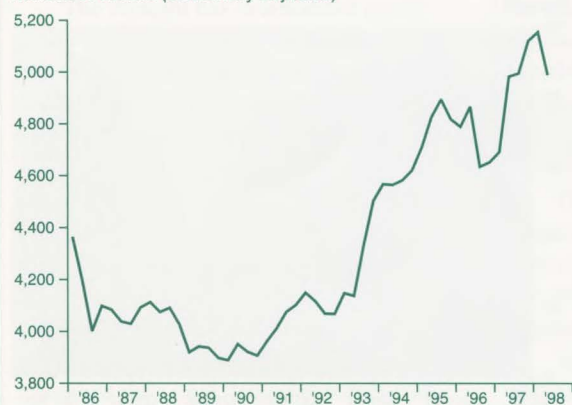
Twenty-six percent of survey respondents report an increase in collateral requirements.



Total Agricultural Loans at Eleventh District Banks

Agricultural lending dips in second quarter of 1998.

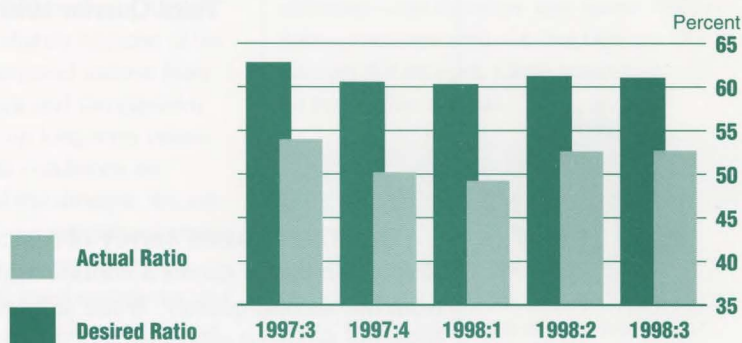
Millions of dollars (seasonally adjusted)



Note: Starting May 1998, data previously reported by NationsBank of Texas in the Eleventh District are now reported in the Fifth District.

Loan-Deposit Ratios at Survey Banks

Average actual and desired ratios



DISTRIBUTION OF LOAN-DEPOSIT RATIOS

Ratio	Banks Reporting (Percent)				
	1997 Oct. 1	1998 Jan. 1	1998 Apr. 1	1998 Jul. 1	1998 Oct. 1
Less than 41%	21	30	33	27	24
41% to 50%	18	16	16	16	22
51% to 60%	20	26	22	25	18
61% to 70%	25	20	21	21	20
More than 70%	15	9	9	13	16

INTEREST RATES—FIXED

Ratio	Average Rate (Percent)				
	1997 Oct. 1	1998 Jan. 1	1998 Apr. 1	1998 Jul. 1	1998 Oct. 1
Feeder cattle	10.47	10.50	10.47	10.41	10.31
Other farm operating	10.56	10.60	10.52	10.52	10.37
Intermediate term	10.39	10.36	10.44	10.15	10.23
Long-term farm real estate	9.71	9.72	9.66	9.56	9.63

INTEREST RATES—VARIABLE

Ratio	Average Rate (Percent)				
	1997 Oct. 1	1998 Jan. 1	1998 Apr. 1	1998 Jul. 1	1998 Oct. 1
Feeder cattle	10.69	10.45	10.45	10.39	10.21
Other farm operating	10.71	10.54	10.52	10.53	10.31
Intermediate term	10.38	10.33	10.42	10.28	10.24
Long-term farm real estate	9.88	9.85	9.79	9.80	9.68

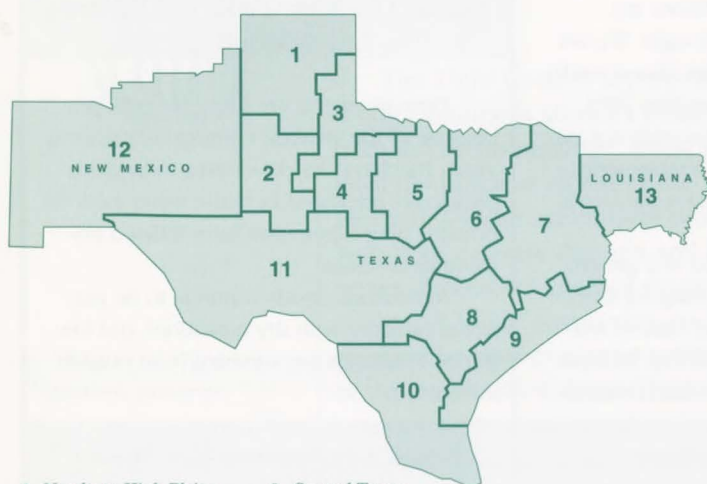
Rural Real Estate Values

October 1, 1998

- ¹ Number of banks reporting land values.
² Prices are dollars per acre, not adjusted for inflation.
³ Not adjusted for inflation.
n.r.—Not reported due to insufficient responses.

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 ¹ Third-Quarter 1998	Average Value ² Third-Quarter 1998	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	130	565	-1.3	0.7
TEXAS	121	558	-1.7	0.2
Northern High Plains	15	269	0.8	-4.2
Southern High Plains	18	333	0.1	-2.6
Northern Low Plains	10	304	-2.6	1.0
Southern Low Plains	12	413	-0.9	-2.6
Cross Timbers	11	507	-7.4	-0.8
North Central Texas	18	917	-1.7	16.1
East Texas	n.r.	n.r.	n.r.	n.r.
Central Texas	11	983	4.9	12.4
Coastal Texas	9	706	-7.3	-12.1
South Texas	6	472	3.7	-5.1
Trans-Pecos and Edwards Plateau	9	567	-0.1	5.8
Northern Louisiana	5	666	0.0	1.0
Southern New Mexico	4	500	36.1	114.3

CROPLAND—IRRIGATED

Region	Banks ¹ Third-Quarter 1998	Average Value ² Third-Quarter 1998	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	89	753	-0.4	1.9
TEXAS	76	681	0.2	0.9
Northern High Plains	15	517	-3.6	-14.0
Southern High Plains	18	631	-2.9	-3.4
Northern Low Plains	6	449	-0.7	8.4
Southern Low Plains	7	657	-0.1	-1.3
Cross Timbers	6	694	-4.3	-8.6
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	n.r.	n.r.	n.r.	n.r.
Central Texas	6	1,627	-10.4	23.5
Coastal Texas	3	705	-3.1	-6.0
South Texas	5	666	2.7	-10.9
Trans-Pecos and Edwards Plateau	8	1,718	24.1	116.9
Northern Louisiana	5	877	0.0	-2.9
Southern New Mexico	8	1,425	-3.1	8.1

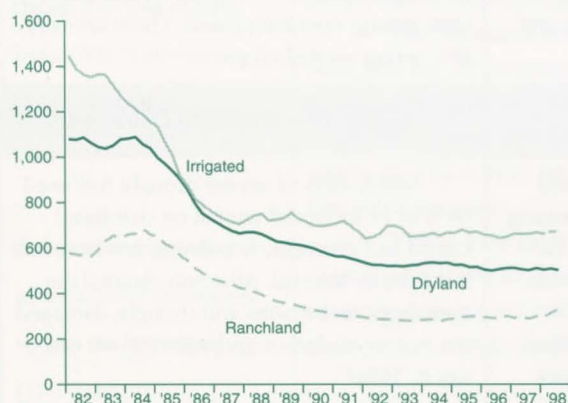
RANCHLAND

Region	Banks ¹ Third-Quarter 1998	Average Value ² Third-Quarter 1998	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	132	371	4.7	15.0
TEXAS	120	437	1.3	8.2
Northern High Plains	12	158	-0.2	-3.0
Southern High Plains	13	138	-0.3	-0.7
Northern Low Plains	10	155	-0.8	5.0
Southern Low Plains	11	256	4.9	9.1
Cross Timbers	12	445	-7.0	1.6
North Central Texas	18	825	-1.3	15.9
East Texas	4	627	-7.3	-15.0
Central Texas	12	960	5.6	10.3
Coastal Texas	8	667	0.4	21.2
South Texas	6	476	5.2	7.6
Trans-Pecos and Edwards Plateau	14	389	2.6	12.0
Northern Louisiana	4	394	-3.6	-13.1
Southern New Mexico	6	92	8.4	-28.2

Real Eleventh District Land Values

Ranchland values increase in third quarter of 1998.

1992 dollars per acre



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

We could not afford poor crops and poor markets at the same time, but we have both. We're going to be asked to substitute credit for income (renewals), and that may not work in most cases.

Region 2—Southern High Plains

Insurance claim checks did not cover the expenses on dryland crops. The expense of irrigated crops is averaging 30 percent higher than last year and will cause some of our better farmers to lose money. We anticipate carryovers to be the worst ever in our area.

The ox is in the ditch. Attracting and maintaining deposits to fund loans is becoming extremely difficult.

Region 4—Southern Low Plains

The farm situation looks bad for all farms and ranches, but the smaller farmers and ranchers without outside income will soon be all gone. Net worth of most will be reduced by 5 percent or more.

If we don't get rain soon, wheat will not be planted. Stockmen are beginning to sell cattle. Crop insurance on cotton and grain sorghum is not enough to pay out '98 operating loans.

The drought has deteriorated equity positions of our livestock customers by 20 percent to 30 percent in some cases. If we don't get rain by October 1, we will be looking at complete herd liquidations.

More than 50 percent of row-crop debtors have carryover from one or all of the previous three years. There have been no new startup farm operations in over five years because of the outlook.

About 20 percent to 30 percent of the cotton crop has been declared a disaster and insurance paid on it. Irrigated cotton and peanuts are in good condition.

Region 5—Cross Timbers

We have adequate moisture to plant small grains, but we need more rain. We can expect a very expensive winter feeding program for our beef cattle. Cash farm income is very low for most farm operators.

Region 6—North Central Texas

Short-term land values should remain constant or decrease slightly because of the drought; however, increased interest from the Austin, Round Rock and Georgetown markets should drive up long-term values.

Agricultural credit conditions are worsening because of the drought. We are encouraging some of our agricultural credits to seek disaster loans for carryover debt.

It appears a large number may not stay in farming. This year is much more serious than 1996. In '96 we didn't have the yields, but we had decent prices.

None of the land located in a growth corridor north of Dallas is selling for farm purposes. It is changing from farm to residential and selling in tracts of 1 to 10 acres. It is getting too expensive to farm or ranch.

Region 7—East Texas

In the past 24 months approximately 10 dairymen have been forced to liquidate. If the Agriculture Department does not offer substantial aid, a minimum of five additional dairies will also have to liquidate. If this liquidation occurs, more than 50 percent of the dairies in this county will be out of existence.

Region 8—Central Texas

We had no rain for five months, and then we averaged 8 inches or more during the past week. This should enable cattle producers to make a late cutting of hay and possibly plant some winter pasture.

Region 9—Coastal Texas

The agricultural economy in this area cannot continue; costs are steadily increasing with commodity prices below those of the late 1950s. Equipment costs are outrageous. The future looks bleak.

Agricultural lending is becoming more and more dependent on guaranteed loans and higher crop insurance.

Region 10—South Texas

The value of ranchland is greatly influenced by recreation (hunting). How can we assess the true agricultural value of the land?

There was no rain during the critical yield period. Yields were poor on grain, cotton and corn. Prices are low because Midwest yields are high and many crops have no storage space. Most corn has aflatoxin—and therefore little market value. Some producers sold out, but others made it through the drought. Cattle markets should be better after the rain.

Region 11—Trans-Pecos and Edwards Plateau

Farm prospects are bleak for next year because of the weakest commodity prices in years. Purchases by out-of-area individuals principally interested in future water sales for nonagricultural purposes have inflated irrigated land values.

Agriculture credits continue to be put under pressure with dry conditions and low prices. Producers are surviving with outside income.

Region 12—Southern New Mexico

Range conditions are still very dry. Calf weights are 50 pounds less than in '97. We are having difficulty selling calves.

Range conditions in southwest New Mexico are the best in six years. Most corn farmers are planning on storing the 1998 crop. The chili crop is in good condition, and yields are normal. Cotton acreage is small, but conditions are good. Ranchers have sufficient forage for livestock.

Commodity prices and cattle prices are extremely low with operating costs going up. Leveraged producers will have a difficult time getting operating funds. There are very few spring seeded crops.

Region 13—Northern Louisiana

Ninety days of severe drought followed by 8 to 11 inches of rainfall on defoliated cotton has everyone wondering just how bad it will be in the end. Aflatoxin claimed the corn crop, and worms and drought damaged the cotton, soybeans and milo. All we can say is "Help!"

Average production has been cut in half.