

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

Fourth 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 Fourth Quarter Survey of Agricultural Credit Conditions shows continued weakness in the last part of 1998. Bankers report that agricultural producers continue to have difficulty repaying loans due to last summer's drought and low commodity prices. As farmers and ranchers leave the business, the number of borrowers is declining further, as is total agricultural lending in the Eleventh District. "Poor price prospects for 1998-99 also have many worried," says one respondent. The weak financial condition of producers and uncertainty about the coming year have led some bankers to increase collateral requirements and more closely scrutinize loan applications. (See page 4 for bankers' comments.)

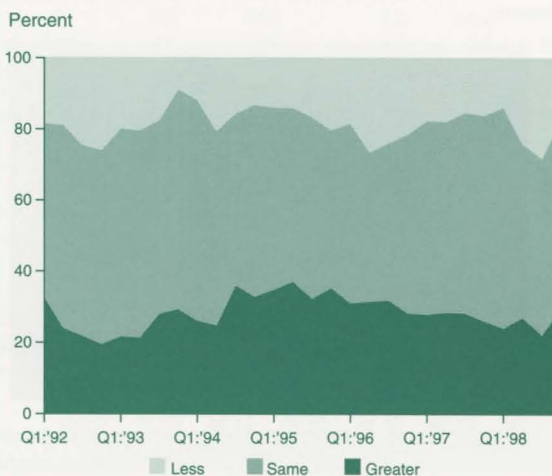
Here are additional details from the survey:

- Over half of responding bankers report declines in the loan repayment rate and increases in loan renewals or extensions compared with a year earlier.
- The average number of farm and ranch borrowers per responding bank has been falling for over a year, from a high of 142 borrowers in the third quarter of 1997 to 86 borrowers in the fourth quarter of 1998.
- Thirty-one percent of responding bankers report increased collateral requirements in the fourth quarter compared with year-earlier requirements. Reports of increased collateral requirements have risen steadily over the past three quarters.
- Land values inched up about 1 percent in the fourth quarter, but only ranchland values ended 1998 above their year-earlier values. For the year, irrigated land values fell 1.8 percent, dryland values fell 0.6 percent and ranchland values rose 8.8 percent.
- Banks' average cost of funds fell 20 basis points in the fourth quarter. The typical interest rates charged on most types of variable rate loans fell by about 44 basis points, while typical fixed rates declined about 34 basis points.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

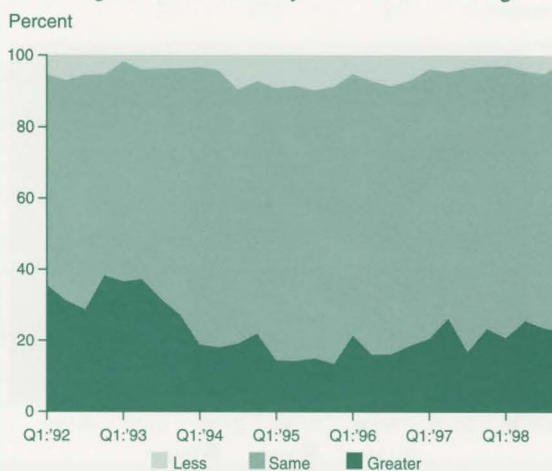
Demand for Loans

Thirty percent of responding banks report an increase in the demand for loans.



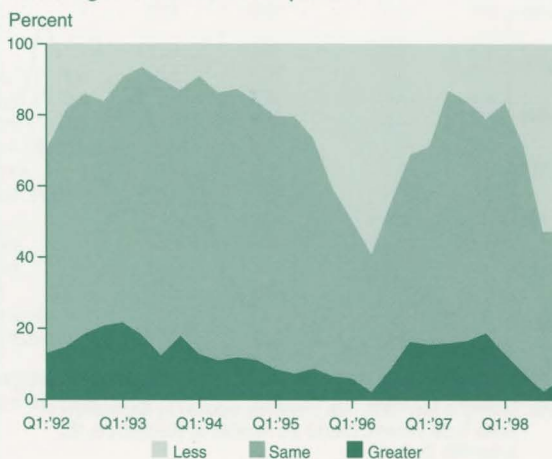
Funds Available for Additional Lending

Seventy-six 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 fourth-quarter respondents, unchanged from the third quarter.

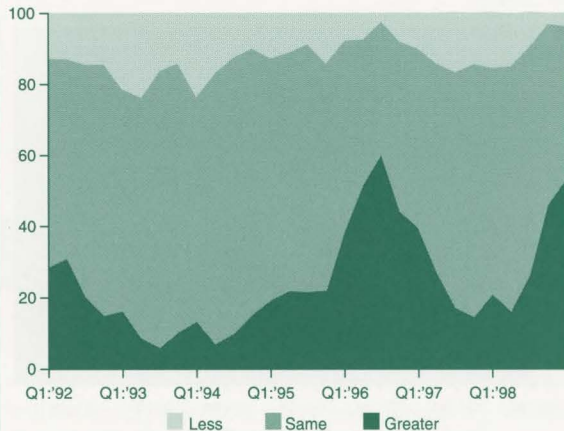


Agricultural Credit Conditions at Survey Banks in the Eleventh District

Renewals or Extensions of Loans

Fifty-three percent of respondents report increases in loan renewals or extensions.

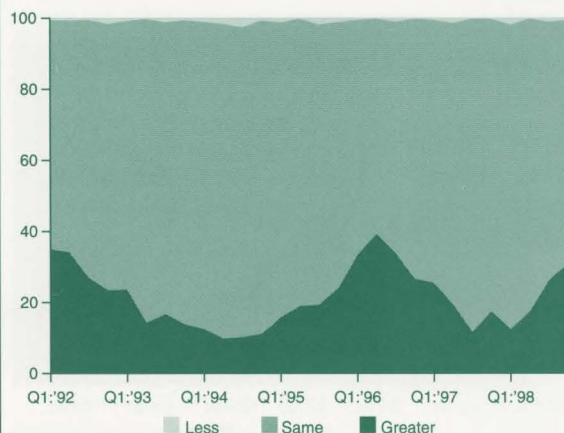
Percent



Amount of Collateral

Thirty-one percent of survey respondents report an increase in collateral requirements.

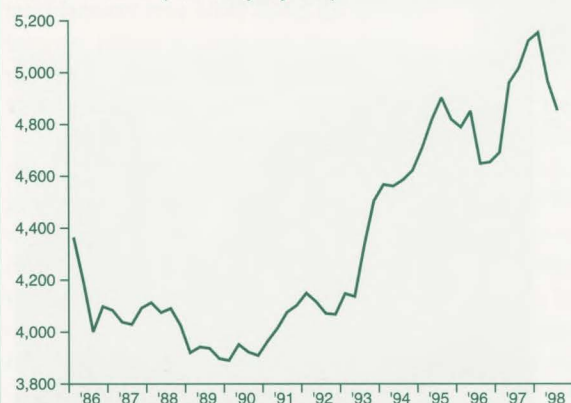
Percent



Total Agricultural Loans at Eleventh District Banks

Lending continues to decline in third quarter 1998.

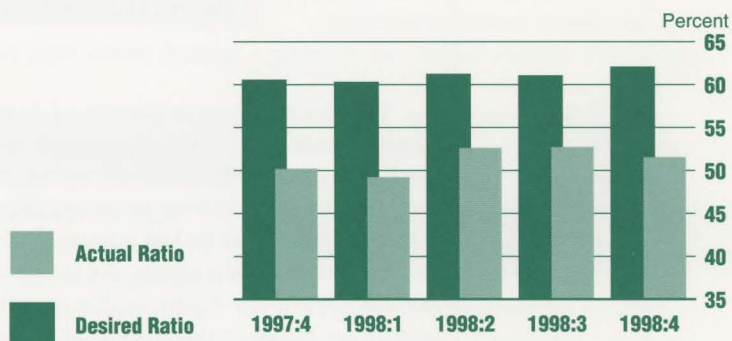
Millions of dollars (seasonally adjusted)



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

Loan-Deposit Ratios at Survey Banks

Average actual and desired ratios



DISTRIBUTION OF LOAN-DEPOSIT RATIOS

| Ratio | Banks Reporting (Percent) | | | | 1999 Jan. 1 |
|---------------|---------------------------|--------|--------|--------|----------------|
| | 1998 | | | | |
| | Jan. 1 | Apr. 1 | Jul. 1 | Oct. 1 | |
| Less than 41% | 30 | 33 | 27 | 24 | 24 |
| 41% to 50% | 16 | 16 | 16 | 22 | 17 |
| 51% to 60% | 26 | 22 | 25 | 18 | 28 |
| 61% to 70% | 20 | 21 | 21 | 20 | 21 |
| More than 70% | 9 | 9 | 13 | 16 | 10 |

INTEREST RATES — FIXED

| Ratio | Average Rate (Percent) | | | | |
|----------------------------|------------------------|--------|--------|--------|--------|
| | 1998 | | | | 1999 |
| | Jan. 1 | Apr. 1 | Jul. 1 | Oct. 1 | Jan. 1 |
| Feeder cattle | 10.50 | 10.47 | 10.41 | 10.31 | 9.96 |
| Other farm operating | 10.60 | 10.52 | 10.52 | 10.37 | 10.10 |
| Intermediate term | 10.36 | 10.44 | 10.15 | 10.23 | 9.90 |
| Long-term farm real estate | 9.72 | 9.66 | 9.56 | 9.63 | 9.24 |

INTEREST RATES — VARIABLE

| Ratio | Average Rate (Percent) | | | | |
|----------------------------|------------------------|--------|--------|--------|--------|
| | 1998 | | | | 1999 |
| | Jan. 1 | Apr. 1 | Jul. 1 | Oct. 1 | Jan. 1 |
| Feeder cattle | 10.45 | 10.45 | 10.39 | 10.21 | 9.80 |
| Other farm operating | 10.54 | 10.52 | 10.53 | 10.31 | 9.94 |
| Intermediate term | 10.33 | 10.42 | 10.28 | 10.24 | 9.74 |
| Long-term farm real estate | 9.85 | 9.79 | 9.80 | 9.68 | 9.19 |

Rural Real Estate Values

January 1, 1999

¹ Number of banks reporting land values.

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

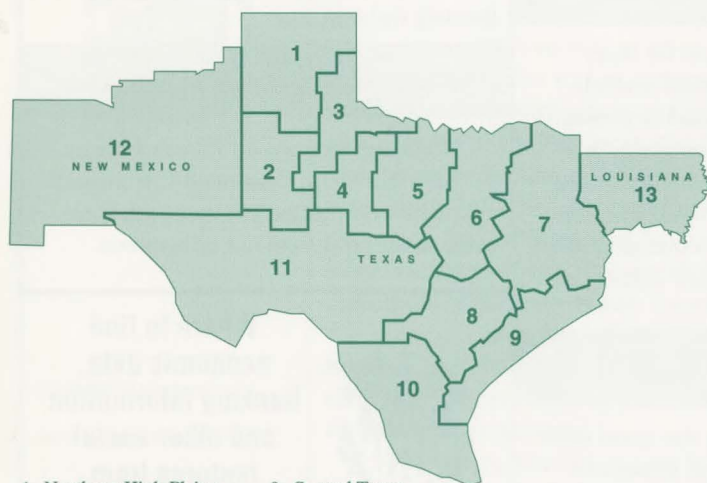
³ Not adjusted for inflation.

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

CROPLAND—DRYLAND

| Region | Banks ¹ | Average Value ² Fourth-Quarter 1998 | Percent Changes ³ in Values from | |
|---------------------------------|--------------------|---|--|---------------|
| | | | Previous Quarter | Previous Year |
| DISTRICT | 113 | 569 | 1.0 | -0.6 |
| TEXAS | 108 | 565 | 1.2 | -0.6 |
| Northern High Plains | 12 | 284 | 1.7 | 3.1 |
| Southern High Plains | 17 | 347 | 3.4 | 1.1 |
| Northern Low Plains | 7 | 312 | 0.7 | 0.4 |
| Southern Low Plains | 14 | 415 | 0.9 | -0.7 |
| Cross Timbers | 9 | 515 | -0.3 | -6.0 |
| North Central Texas | 18 | 869 | 0.5 | -0.6 |
| East Texas | n.r. | n.r. | n.r. | n.r. |
| Central Texas | 12 | 1,120 | 8.4 | 29.6 |
| Coastal Texas | 3 | 709 | -1.8 | -14.6 |
| South Texas | 5 | 474 | 0.5 | -1.4 |
| Trans-Pecos and Edwards Plateau | 9 | 538 | -0.9 | -2.2 |
| Northern Louisiana | 3 | 645 | -1.3 | -3.0 |
| Southern New Mexico | n.r. | n.r. | n.r. | n.r. |

CROPLAND—IRRIGATED

| Region | Banks ¹ | Average Value ² Fourth-Quarter 1998 | Percent Changes ³ in Values from | |
|---------------------------------|--------------------|---|--|---------------|
| | | | Previous Quarter | Previous Year |
| DISTRICT | 74 | 735 | 0.7 | -1.8 |
| TEXAS | 68 | 713 | 4.2 | 3.2 |
| Northern High Plains | 12 | 576 | 5.6 | -4.4 |
| Southern High Plains | 16 | 650 | 0.5 | -0.7 |
| Northern Low Plains | 5 | 407 | -7.9 | -4.0 |
| Southern Low Plains | 10 | 667 | 3.6 | -0.2 |
| Cross Timbers | 4 | 753 | 1.6 | -0.1 |
| North Central Texas | n.r. | n.r. | n.r. | n.r. |
| East Texas | n.r. | n.r. | n.r. | n.r. |
| Central Texas | 6 | 1,739 | 5.1 | 8.4 |
| Coastal Texas | n.r. | n.r. | n.r. | n.r. |
| South Texas | 4 | 688 | 2.5 | -7.2 |
| Trans-Pecos and Edwards Plateau | 8 | 1,264 | 0.7 | 43.5 |
| Northern Louisiana | 3 | 830 | -2.0 | -8.7 |
| Southern New Mexico | 3 | 920 | -18.9 | -27.1 |

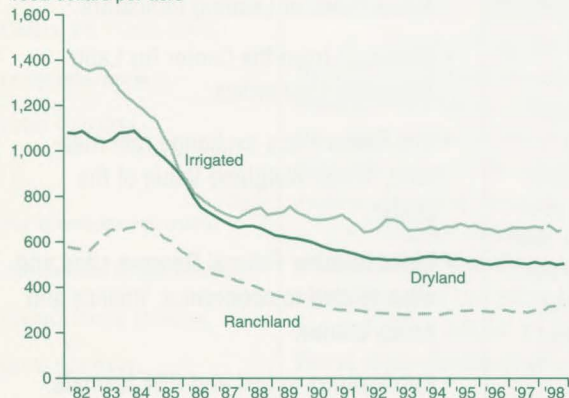
RANCHLAND

| Region | Banks ¹ | Average Value ² Fourth-Quarter 1998 | Percent Changes ³ in Values from | |
|---------------------------------|--------------------|---|--|---------------|
| | | | Previous Quarter | Previous Year |
| DISTRICT | 120 | 365 | 1.3 | 8.8 |
| TEXAS | 113 | 447 | 1.7 | 6.6 |
| Northern High Plains | 12 | 178 | 5.7 | 10.1 |
| Southern High Plains | 13 | 138 | 0.4 | -0.5 |
| Northern Low Plains | 7 | 167 | 4.1 | 10.2 |
| Southern Low Plains | 13 | 257 | 1.3 | 10.8 |
| Cross Timbers | 10 | 448 | 0.9 | -5.7 |
| North Central Texas | 19 | 778 | 1.5 | -0.4 |
| East Texas | 6 | 620 | -4.6 | -16.7 |
| Central Texas | 13 | 1,151 | 15.0 | 32.6 |
| Coastal Texas | 3 | 552 | -10.1 | -9.8 |
| South Texas | 5 | 460 | -2.3 | 5.5 |
| Trans-Pecos and Edwards Plateau | 12 | 403 | 0.9 | 9.7 |
| Northern Louisiana | n.r. | n.r. | n.r. | n.r. |
| Southern New Mexico | 5 | 126 | -2.8 | 40.8 |

Real Eleventh District Land Values

Land values increase slightly in the fourth quarter of 1998.

1992 dollars per acre



Fourth-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

They say good judgment comes from experience, and a lot of that experience comes from bad judgment. I guess 1998 will be an experience I won't soon forget.

Region 2—Southern High Plains

Many farmers are drawing their entire 1999 production flexibility contract money to pay out 1998 operating loans, equipment and land payments, which will lower their cash flow ability for 1999 and probably decrease the size of loans they can qualify for in 1999. Some irrigated cropland with extremely good water is selling above average price. A few producers are converting to drip irrigation for cotton production.

Region 4—Southern Low Plains

Because of drought, most of our dryland farmers did not have to spend a lot of money in 1998. With insurance and government payments, many of our farmers have more money in their accounts than they have ever had. Irrigated land farmers may have some carryovers because prices are low and they had to use a lot of water. Cattle producers were hurt because they had to liquidate stock.

Refinancing for farmers and ranchers will be difficult with or without the government disaster aid. Commodity prices and rainfall are more critical to us in 1999 than ever before. If an insurance program is not revamped for farms or even developed for ranchers, financing for agricultural producers will be a thing of the past.

The cost of production continues to increase, and the commodity price remains

the same. This makes it hard to achieve a positive cash flow.

If government disaster aid is not paid until May 1999, farmers, ranchers and bankers will be at odds with each other. Farmers and ranchers need this money to pay off their 1998 loans and equipment payments before the bank can renew their operating lines for 1999.

Region 5—Cross Timbers

We have dry, very poor wheat grazing conditions.

Region 6—North Central Texas

1997-98 was a lean year for local producers. Drought conditions severely limited yields. Poor yields and depressed prices have been the reasons given by a number of producers for quitting farming. Poor price outlooks for 1998-99 also have many worried. The only encouraging news is the prospect of significantly higher cattle prices in 1999.

Region 7—East Texas

Carryover debt will be the norm with a majority of our agricultural customers. We will be very selective about whom we choose to do business with in 1999.

Dairy industry market conditions are excellent. Milk-to-feed ratio is over 4.0. This is the first time in over 10 years that the ratio has been above 3.0. Winter pastures are in fair to good condition. However, because of the drought, hay is in short supply. Beef prices are moderate. The poultry industry is the same as usual, and birds being placed in contract grower farms appear satisfactory.

Region 8—Central Texas

Losses from the flooding are still being calculated. Initial estimates indicate over 15,000 dead cows and calves. Assistance from FEMA, FSA and SBA is slow and requires extensive paperwork. Our bank initiated a disaster loan program (5.5 percent, 7-year term) to replace livestock and machinery and repair flood damage. Hopefully regulators will allow some latitude with these farm and ranch credits in the future as these customers attempt to rebuild.

Region 11—Trans-Pecos and Edwards Plateau

We plan to scrutinize agricultural loan applications extremely closely because agricultural commodity prices are the weakest in years. Only the very strong applicants will be successful in obtaining financing from commercial banks. Most others will obtain financing from the various government agency lenders.

Agricultural credits continue under pressure due to low markets. Producers need to feed under current conditions. Outside income is allowing operations to remain in business, since ranching has become unprofitable.

Region 12—Southern New Mexico

I am very concerned for ranching as we have known it. Continued low margins and increased production costs will force more small producers out of business.



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