

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

First Quarter 1999



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. It is available on the web at <www.dallasfed.org>.

For questions regarding information in the release, contact Sheila Dolmas, (214) 922-5191.

The First Quarter Survey of Agricultural Credit Conditions showed very little improvement in agricultural lending conditions. Bankers continued to report a lower rate of loan repayment and more loan renewals and extensions, but also noted a slight improvement in cattle-operation costs with recent rains. (See page 4 for bankers' comments.) In the Southern High Plains, a banker commented, "Due to the drought and low commodity prices, carryovers this year have been on the increase. We will see more farm sales in our area than we have seen in many years, which will cause machinery and real estate prices to fall. Without exceptional yields, an unexpected commodity price increase or government intervention, operating loans will not pay out again next year, further compounding this agriculture problem." The Southern High Plains and a few other areas have already seen slight land price declines, but overall, Eleventh District land values rose over the past six months.

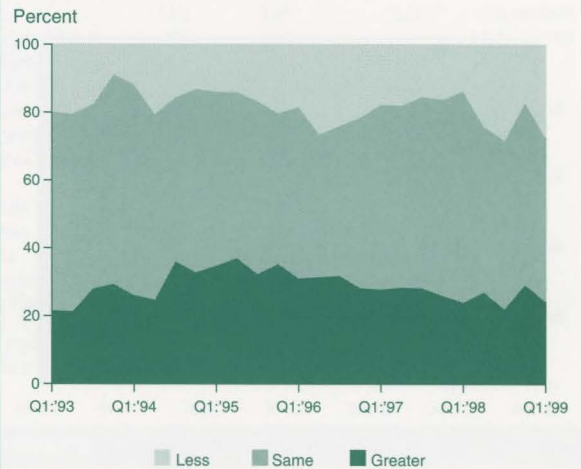
Here are additional details from the survey:

- Over half the responding bankers in the Northern and Southern High Plains, Southern Low Plains, Coastal Texas, New Mexico and Louisiana report first-quarter declines in the loan-repayment rate, compared with the same period a year earlier.
- The average number of farm and ranch borrowers per responding bank, which fell from a high of 142 in the third quarter of 1997 to 85 last quarter, increased slightly to 93.
- Continuing a year-long trend, 35 percent of responding bankers report increased collateral requirements in the first quarter, compared with a year earlier.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

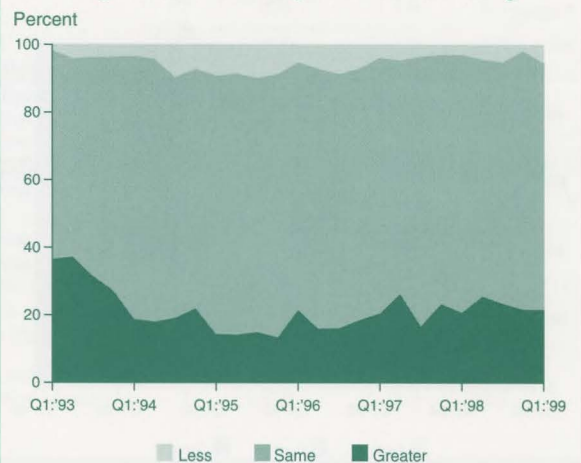
Demand for Loans

Twenty-seven percent of responding banks report a decrease in loan demand.



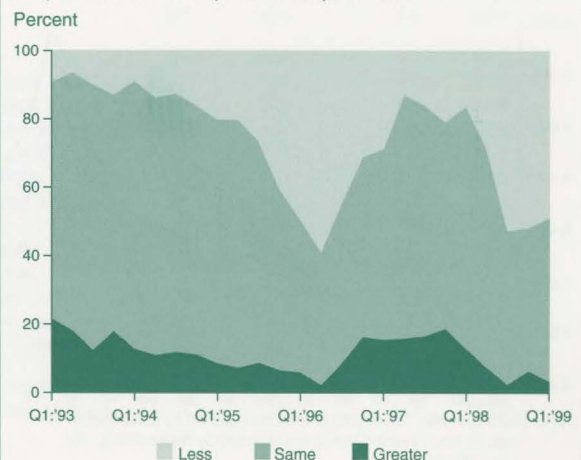
Funds Available for Additional Lending

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



Rate of Loan Repayment

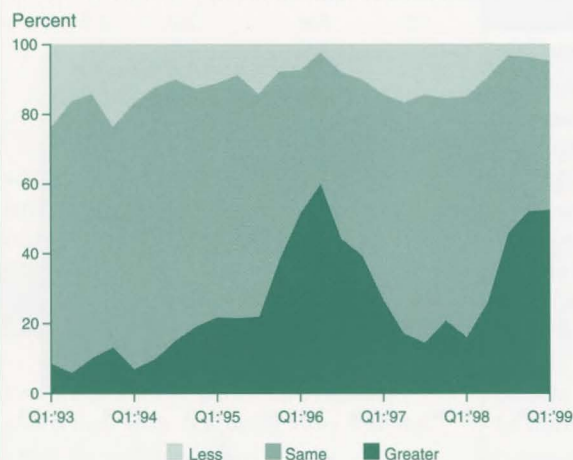
The rate of loan repayment decreases for 49 percent of first-quarter respondents.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

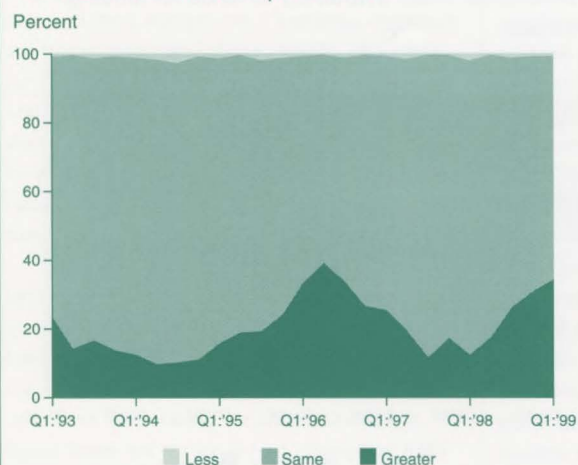
Renewals or Extensions of Loans

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



Amount of Collateral

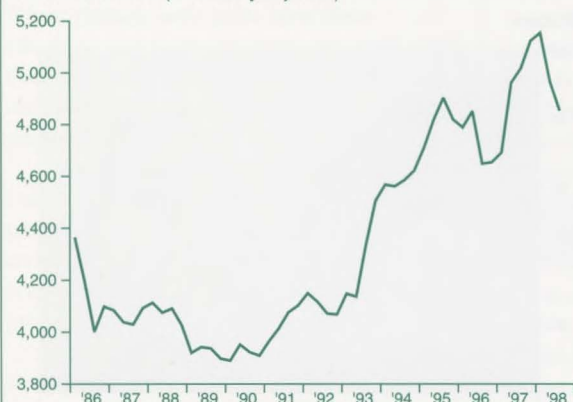
Thirty-five percent of respondents report an increase in collateral requirements.



Total Agricultural Loans at Eleventh District Banks

Lending continues to decline in fourth quarter 1998.

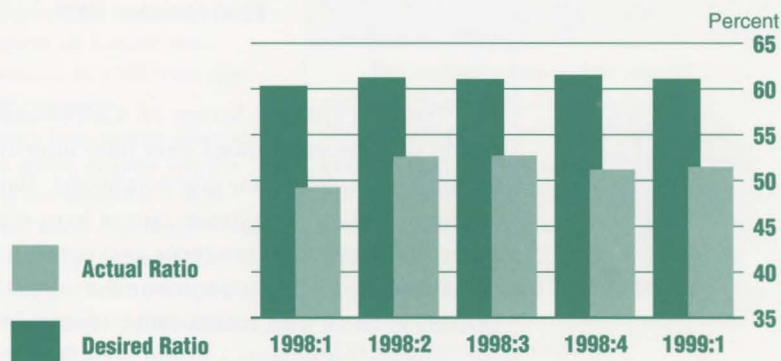
Millions of dollars (seasonally adjusted)



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)				
	1998			1999	
	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1
Less than 41%	33	27	24	26	27
41% to 50%	16	16	22	16	19
51% to 60%	22	25	18	27	26
61% to 70%	21	21	20	20	13
More than 70%	9	13	16	11	16

INTEREST RATES—FIXED

Ratio	Average Rate (Percent)				
	1998			1999	
	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1
Feeder cattle	10.47	10.41	10.31	9.94	9.91
Other farm operating	10.52	10.52	10.37	10.08	9.99
Intermediate term	10.44	10.15	10.23	9.88	9.74
Long-term farm real estate	9.66	9.56	9.63	9.29	9.17

INTEREST RATES—VARIABLE

Ratio	Average Rate (Percent)				
	1998			1999	
	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1
Feeder cattle	10.45	10.39	10.21	9.78	9.75
Other farm operating	10.52	10.53	10.31	9.92	9.94
Intermediate term	10.42	10.28	10.24	9.73	9.73
Long-term farm real estate	9.79	9.80	9.68	9.19	9.15

Rural Real Estate Values

April 1, 1999

¹ Number of banks reporting land values.

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

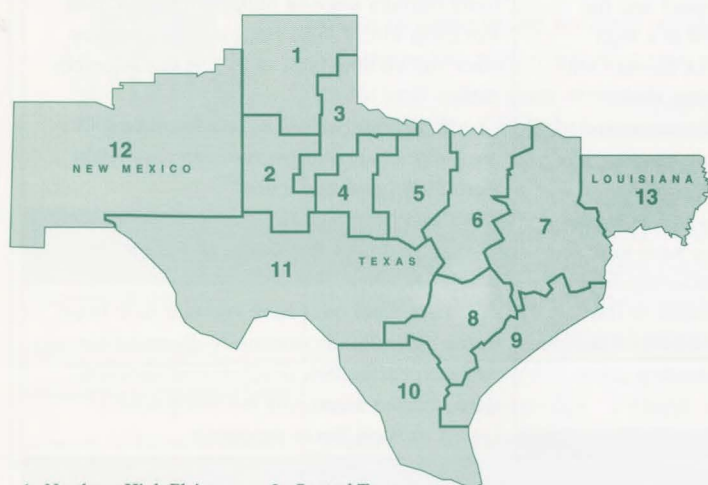
³ Not adjusted for inflation.

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
- 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 First-Quarter 1999	Average Value ² 1999	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	124	597	2.3	5.5
TEXAS	116	599	3.0	6.6
Northern High Plains	15	303	5.1	11.7
Southern High Plains	18	335	-1.4	0.2
Northern Low Plains	7	313	1.1	-0.7
Southern Low Plains	12	392	-3.1	-5.5
Cross Timbers	6	549	3.7	-2.4
North Central Texas	19	921	0.0	4.7
East Texas	7	639	14.8	11.8
Central Texas	9	1,164	4.6	28.6
Coastal Texas	5	785	6.2	-2.1
South Texas	7	471	-0.4	5.3
Trans-Pecos and Edwards Plateau	11	525	-4.3	-3.0
Northern Louisiana	5	614	-3.4	-6.3
Southern New Mexico	n.r.	n.r.	n.r.	n.r.

CROPLAND—IRRIGATED

Region	Banks ¹ First-Quarter 1999	Average Value ² 1999	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	82	804	1.0	8.1
TEXAS	70	718	1.0	7.2
Northern High Plains	15	560	2.1	-2.6
Southern High Plains	18	662	2.1	0.1
Northern Low Plains	4	417	0.4	-10.7
Southern Low Plains	7	671	-0.7	2.1
Cross Timbers	4	788	5.8	2.7
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	n.r.	n.r.	n.r.	n.r.
Central Texas	n.r.	n.r.	n.r.	n.r.
Coastal Texas	n.r.	n.r.	n.r.	n.r.
South Texas	6	716	2.4	10.9
Trans-Pecos and Edwards Plateau	9	915	-31.1	2.0
Northern Louisiana	5	793	-4.0	-10.3
Southern New Mexico	7	1,650	1.7	16.2

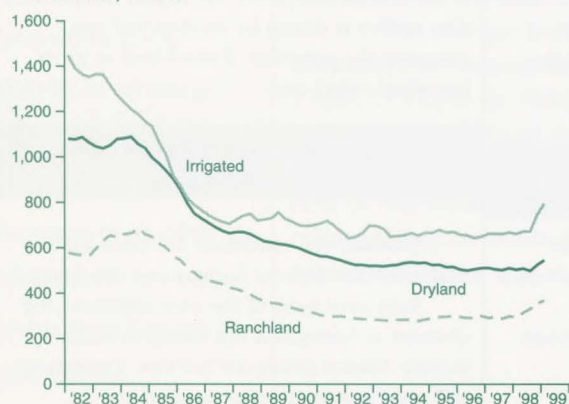
RANCHLAND

Region	Banks ¹ First-Quarter 1999	Average Value ² 1999	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	127	416	3.1	25.5
TEXAS	115	464	2.5	11.2
Northern High Plains	14	195	7.5	24.0
Southern High Plains	15	131	-2.8	-5.5
Northern Low Plains	7	169	2.3	12.6
Southern Low Plains	11	275	3.0	16.1
Cross Timbers	6	465	1.3	-2.6
North Central Texas	20	825	-0.7	6.3
East Texas	9	690	7.2	-4.6
Central Texas	8	1,296	8.3	57.3
Coastal Texas	4	523	-7.2	-17.4
South Texas	7	474	0.9	9.0
Trans-Pecos and Edwards Plateau	14	399	1.7	7.6
Northern Louisiana	5	484	7.5	14.6
Southern New Mexico	7	275	6.3	237.2

Real Eleventh District Land Values

Land values increase in the first quarter of 1999.

1992 dollars per acre



First-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

Those who have said that the cure for low prices is lower prices have certainly gotten their wish. It is doing away with the estate tax problem, too.

We are anticipating a larger number of farmers to quit this year.

Operations are increasing in size to justify large capital expenditures for replacing irrigation and farm equipment. Operating expenses are being monitored more closely, especially for operators with large debt loads. Dryland and limited irrigation operations must have above-average yields to offset weak commodity prices. Operators with high debt loads must reduce debt and cut living expenses to survive until commodity prices improve.

The 1999 seed milo average contracts have been cut drastically. This will result in increased corn acreage. Soybean acreage has been on the increase, and water requirements for soybeans are less than for corn. Some operators are looking for alternative crops. Sugar beets are no longer an alternative with the closing of the Panhandle's only processor.

Snow and rain have been above normal, and wheat yield prospects look good. Wheat prices will likely remain depressed because of large domestic supplies and reduced exports. Wheat pasture cattle gains have been excellent, and profit prospects are much better than last year. Fed cattle prices will likely not improve, reflecting only breakeven or small profits throughout 1999.

We are experiencing a crisis in the agricultural sector with the decline in commodity prices and, as a result, a substantial increase in carryover debt on our farm operating lines. It is difficult to sustain cash flow at existing projected prices.

Cattle operators are beginning to show some profits after a couple years of depressed prices. We are encouraging our farm customers to use risk management tools, such as

federal and other crop insurance, to manage production. Land prices in our area may be a little softer because of depressed commodity prices.

Region 2—Southern High Plains

Some direct borrowers who had losses in 1998 had to use farmland to refinance their carryover debt, which makes their 1999 cash flow tight. Some FSA borrowers were forced to apply for FSA emergency loans to refinance their carryover. Almost all farmers who collected crop insurance in 1998 were also eligible for disaster payments.

If the emergency loan money does not come through in a timely manner and the disaster payment is not funded at a high percent of eligibility, many FSA farmers will be forced into bankruptcy. Some direct borrowers were forced to sell tractors and cotton strippers and then lease them back.

Loan paydowns and government payments (advance payments of production flexibility contracts) in January have kept first-quarter agricultural loans outstanding below normal. Also, pessimistic forecasts of low commodity prices and unpredictable moisture have kept producers from spending scarce resources early.

Region 4—Southern Low Plains

Rain has improved wheat prospects. Producers couldn't find enough cattle to graze out the projected acreage.

Because of marginal cash flow, farmers are having to rely more on FSA credit than in previous years. Farmers without outside income sources are nonexistent. Many farm operations are riding on the FSA disaster program for survival and continuation.

Region 5—Cross Timbers

Land values have increased due to recreational purchases. The land's production value is well below its recreational value.

Finally, after all the months of drought, we received 5 inches of rain in March. Pastures are looking good.

Region 6—North Central Texas

Recent rains have really changed the area's outlook. Sixty percent of corn is planted and looks good. Farmers are still very concerned about prices. It's not a breakeven situation, and projections are not good.

Most producers have taken as much

insurance as possible to protect their investment. Ag-related businesses are feeling the stress of less income; no one is spending any extra.

Farmers and ranchers are getting politically involved, expressing concern about their future. They are also concerned about NAFTA's impact on the producer and production cost differences from one country to another.

Region 7—East Texas

The needed moisture has arrived. Beef cattle prices are firm, feed prices are low and winter pastures are excellent. However, the basic formula price of milk plummeted from \$16.27 to \$10.27. The price is off 41 percent since the all-time high of \$17.34 in December 1998.

Wheat in the field is looking strong. We are continuing to restructure carryover debt from 1998 operating loans.

Region 8—Central Texas

Beneficial rains have brought new hope to the agricultural community. Demand for replacement heifers, fertilizer and seed has risen. Peanut allotments are being sold or leased to West Texas producers.

Region 10—South Texas

Recreational hunting ranches are in high demand from out-of-area buyers.

The year started with no rain. Some parts now have received considerable rain during the past 30 days. Crop prospects are improved, and cattle prices have responded moderately. More rain is needed for prospects to improve. The depressed oil business is affecting the economy and land prices. Drought fears and low commodity prices persist.

Ranchland prices continue to strengthen—the thicker the brush, the higher the price. The market is driven by recreational use, primarily the potential of ranchland to grow big white-tailed deer.

Region 11—Trans-Pecos and Edwards Plateau

Extreme dry conditions are once again a nightmare for dryland farmers and ranchers.

Rain over most of the area improved the chances of operations not losing as much money. Market prices are too low. Operations still need outside income to survive.