

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

Second Quarter 2000



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 John Thompson, (214) 922-5191.

The Second Quarter Survey of Agricultural Credit Conditions indicates continued improvement in the Eleventh District. Survey respondents reported that the heavy rainfalls in May and June did much to help allay drought conditions. Bankers reported that cattle prices were high and many farmers expected a bumper crop this year. Some signs of concern are still evident though. While spring rains were welcome, additional moisture is needed to replenish irrigation wells and get crops to harvest. Other concerns are that sagging commodity prices and high gas prices will again cause operating expenses to exceed revenues. (See page 4 for bankers' comments.)

Here are additional details from the survey:

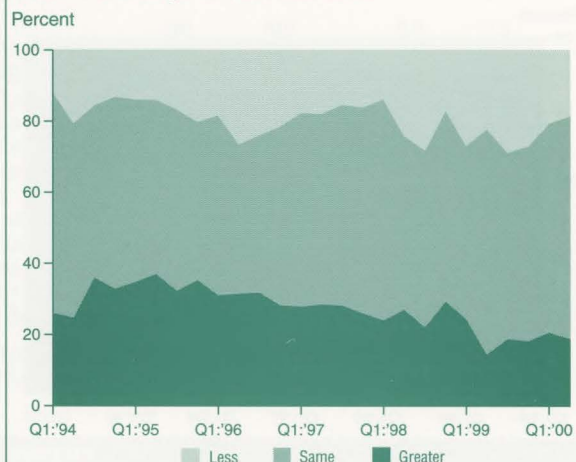
- The loan repayment rate is expected to stay strong in the near future. However, some lenders are reluctant to broker new crop loans because of widespread weakness in cotton and grain prices. Seventeen percent of responding banks reported an increase in the rate of loan repayment compared with last year. This is up from the 12 percent that reported an increase in the second quarter of 1999.
- Land values edged a bit higher than reported in the first quarter, with dryland values climbing 0.7 percent, irrigated land values 1.9 percent and ranchland values 0.4 percent. Sixty-eight percent of responding banks expect land values to remain stable over the next three months.
- The typical fixed interest rate charged on intermediate farm loans (one to seven years) increased by more than 10 basis points, while variable rates on intermediate loans rose by almost 50 basis points.

(continued on page 4)

Agricultural Credit Conditions at Survey Banks in the Eleventh District

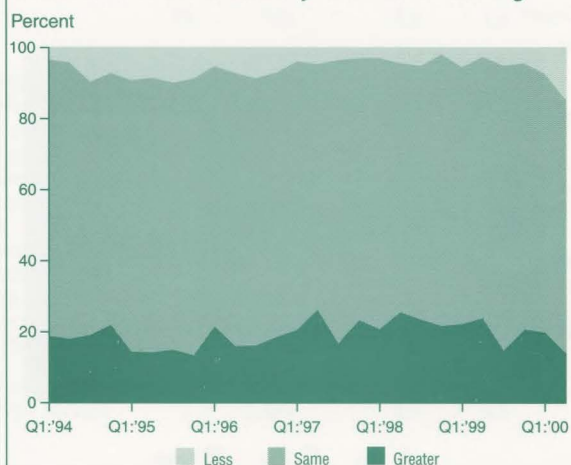
Demand for Loans

Sixty-three percent of responding banks report no change in loan demand.



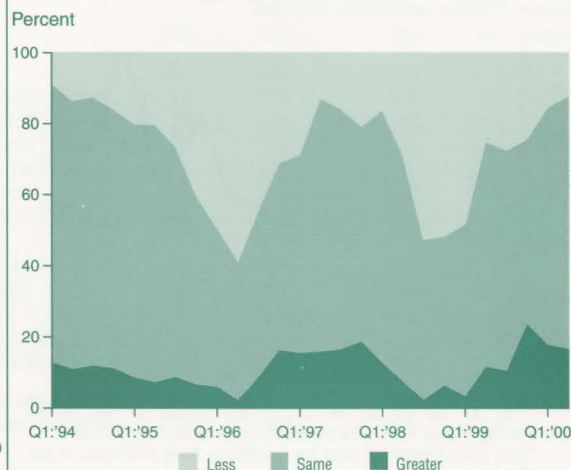
Funds Available for Additional Lending

Fourteen percent of respondents report a decrease in the availability of funds for lending.



Rate of Loan Repayment

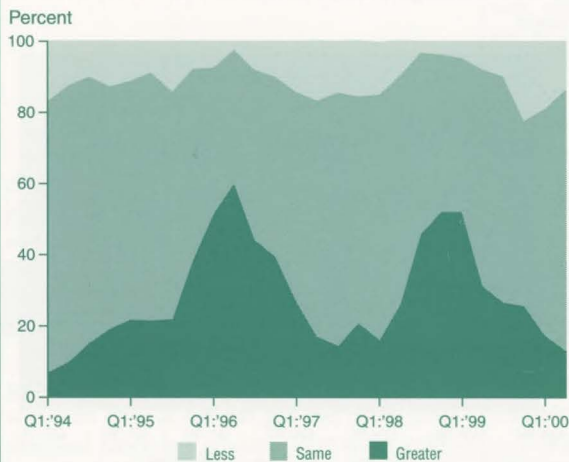
Loan repayment rates increase for 17 percent of second-quarter respondents.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

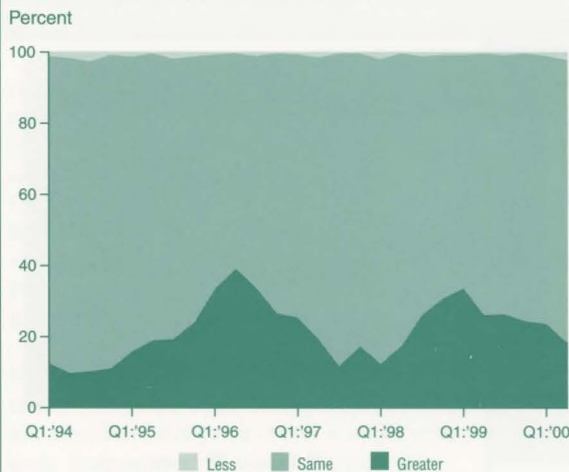
Renewals or Extensions of Loans

Thirteen percent of respondents report a decline in loan renewals or extensions.



Amount of Collateral

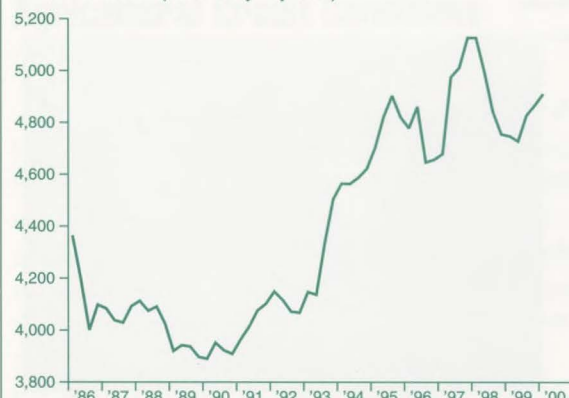
The amount of collateral required increases for 19 percent of banks.



Total Agricultural Loans at Eleventh District Banks

Agricultural lending increases in the first quarter of 2000.

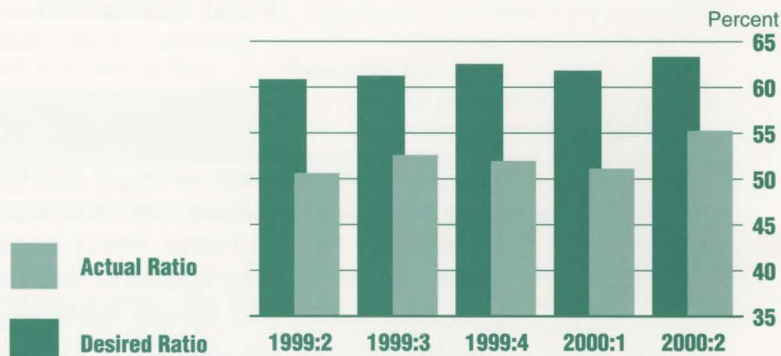
Millions of dollars (seasonally adjusted)



Note: Starting in May 1998, data previously reported by NationsBank of Texas in the Eleventh District are reported by Bank of America 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 | | 2000 | | |
| | Jul. 1 | Oct. 1 | Jan. 1 | Apr. 1 | Jul. 1 |
| Less than 41% | 25 | 26 | 24 | 30 | 23 |
| 41% to 50% | 31 | 22 | 20 | 19 | 15 |
| 51% to 60% | 19 | 21 | 26 | 25 | 29 |
| 61% to 70% | 11 | 14 | 17 | 12 | 15 |
| More than 70% | 13 | 17 | 13 | 14 | 18 |

INTEREST RATE—FIXED

| Ratio | Average Rate (Percent) | | | | |
|----------------------------|------------------------|--------|--------|--------|--------|
| | 1999 | | 2000 | | |
| | Jul. 1 | Oct. 1 | Jan. 1 | Apr. 1 | Jul. 1 |
| Feeder cattle | 9.99 | 10.16 | 10.39 | 10.56 | 10.98 |
| Other farm operating | 9.98 | 10.19 | 10.46 | 10.61 | 10.84 |
| Intermediate term | 9.82 | 10.10 | 10.13 | 10.51 | 10.66 |
| Long-term farm real estate | 9.28 | 9.50 | 9.59 | 9.86 | 10.16 |

INTEREST RATE—VARIABLE

| Ratio | Average Rate (Percent) | | | | |
|----------------------------|------------------------|--------|--------|--------|--------|
| | 1999 | | 2000 | | |
| | Jul. 1 | Oct. 1 | Jan. 1 | Apr. 1 | Jul. 1 |
| Feeder cattle | 9.65 | 10.06 | 10.20 | 10.59 | 11.09 |
| Other farm operating | 9.84 | 10.17 | 10.30 | 10.67 | 11.13 |
| Intermediate term | 9.71 | 10.01 | 10.08 | 10.53 | 11.00 |
| Long-term farm real estate | 9.17 | 9.47 | 9.63 | 10.07 | 10.56 |

Rural Real Estate Values

July 1, 2000

¹ Number of banks reporting land values.

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

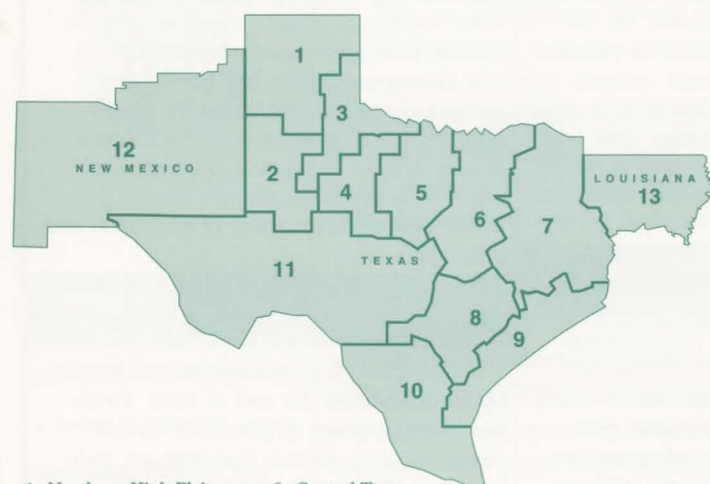
³ Not adjusted for inflation.

n.r.—Not reported due to insufficient responses.

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

All figures are preliminary.

Eleventh Federal Reserve District

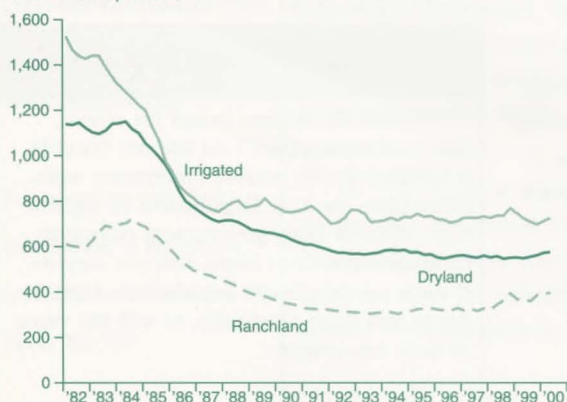


- | | |
|------------------------|------------------------------------|
| 1 Northern High Plains | 8 Central Texas |
| 2 Southern High Plains | 9 Coastal Texas |
| 3 Northern Low Plains | 10 South Texas |
| 4 Southern Low Plains | 11 Trans-Pecos and Edwards Plateau |
| 5 Cross Timbers | 12 Southern New Mexico |
| 6 North Central Texas | 13 Northern Louisiana |
| 7 East Texas | |

Eleventh District Real Land Values

Land values continue to rise in the second quarter of 2000.

1992 dollars per acre



CROPLAND—DRYLAND

| Region | Banks ¹ Second Quarter 2000 | Average Value ² Second Quarter 2000 | Percent Changes ³ in Values from | |
|------------------------------------|---|--|--|------------------|
| | | | Previous Quarter | Previous Year |
| DISTRICT | 109 | 610 | 0.7 | 6.6 |
| TEXAS | 101 | 610 | 0.9 | 7.1 |
| Northern High Plains | 13 | 313 | 4.1 | 7.7 |
| Southern High Plains | 16 | 326 | 0.0 | 0.5 |
| Northern Low Plains | 6 | 314 | 1.0 | 0.8 |
| Southern Low Plains | 9 | 409 | -0.5 | 5.9 |
| Cross Timbers | 8 | 597 | 2.4 | 6.8 |
| North Central Texas | 17 | 918 | 0.1 | 13.7 |
| East Texas | 4 | 658 | 1.4 | -13.0 |
| Central Texas | 10 | 1,179 | 0.1 | 28.0 |
| Coastal Texas | 6 | 785 | 4.4 | 1.9 |
| South Texas | 5 | 493 | -2.4 | 4.3 |
| Trans-Pecos and Edwards Plateau | 7 | 567 | -1.7 | 4.2 |
| Northern Louisiana | 5 | 656 | -0.4 | 1.6 |
| Southern New Mexico | 3 | 252 | -15.5 | 2.4 |

CROPLAND—IRRIGATED

| Region | Banks ¹ Second Quarter 2000 | Average Value ² Second Quarter 2000 | Percent Changes ³ in Values from | |
|------------------------------------|---|--|--|------------------|
| | | | Previous Quarter | Previous Year |
| DISTRICT | 77 | 768 | 1.9 | 1.6 |
| TEXAS | 66 | 693 | 1.8 | 1.4 |
| Northern High Plains | 12 | 569 | 6.1 | -1.4 |
| Southern High Plains | 16 | 673 | 0.4 | 3.2 |
| Northern Low Plains | 6 | 464 | 4.1 | 10.9 |
| Southern Low Plains | 6 | 688 | -0.9 | 6.7 |
| Cross Timbers | 4 | 765 | -2.5 | -4.3 |
| North Central Texas | n.r. | n.r. | n.r. | n.r. |
| East Texas | 3 | 703 | 3.3 | 5.4 |
| Central Texas | 6 | 1,768 | 0.4 | -3.8 |
| Coastal Texas | n.r. | n.r. | n.r. | n.r. |
| South Texas | 4 | 786 | -3.2 | 15.5 |
| Trans-Pecos and Edwards Plateau | 7 | 717 | -8.7 | -18.2 |
| Northern Louisiana | 4 | 830 | 0.3 | -0.4 |
| Southern New Mexico | 7 | 1,485 | 2.9 | 3.8 |

RANCHLAND

| Region | Banks ¹ Second Quarter 2000 | Average Value ² Second Quarter 2000 | Percent Changes ³ in Values from | |
|------------------------------------|---|--|--|------------------|
| | | | Previous Quarter | Previous Year |
| DISTRICT | 116 | 419 | 0.4 | 9.7 |
| TEXAS | 104 | 481 | 0.1 | 11.7 |
| Northern High Plains | 13 | 191 | 4.9 | 8.0 |
| Southern High Plains | 13 | 156 | 5.0 | 11.1 |
| Northern Low Plains | 6 | 201 | 5.1 | 18.5 |
| Southern Low Plains | 8 | 313 | 5.5 | 26.0 |
| Cross Timbers | 8 | 575 | 6.3 | 15.9 |
| North Central Texas | 20 | 832 | 2.4 | 14.2 |
| East Texas | 7 | 819 | 4.2 | 3.0 |
| Central Texas | 9 | 1,054 | 2.1 | 11.8 |
| Coastal Texas | 5 | 633 | 5.6 | 22.8 |
| South Texas | 5 | 575 | 1.4 | 24.8 |
| Trans-Pecos and Edwards Plateau | 10 | 386 | -6.9 | 3.0 |
| Northern Louisiana | 4 | 538 | -3.2 | 5.9 |
| Southern New Mexico | 8 | 240 | 1.9 | -0.4 |

Second-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

Grain prices and the cost of gas for irrigation are of major concern this crop season. The cost of natural gas has more than doubled since last season. That will cause large increases in fertilizer costs for next year. Crops are in good shape for fall production, but prices are below breakeven.

Region 2—Southern High Plains

We expect more acres to be planted in cotton and fewer in corn, peanuts and soy grain. Rains have helped most farmers get an earlier start. There has been some damage from high temperatures and high winds. Farmers will receive a second production flexibility contract check in September, which will help offset a higher fuel cost of irrigation. Price is still a big factor in the outcome of this crop year.

June rains were excessive in some areas but, overall, were extremely beneficial. With timely additional rain, cotton crop prospects are excellent, but price is still a major concern. It appears now that the expense to produce the crop will again substantially exceed the price received in most cases.

Region 4—Southern Low Plains

We currently have an excellent cotton crop started but will need more rain to carry it to harvest. Although some counties are wet, others sit in a dry area. Irrigation wells are holding but will need rain to recharge before summer ends.

Moisture conditions are excellent, and May and June rains created very little runoff. Most cotton and peanut crops are up. Some seedling disease in cotton has been reported due to damp, cloudy conditions, but hot weather will take care of this.

Region 5—Cross Timbers

Most wheat has been grazed. We are still dry—water is needed for stock ponds. Cattle prices are good.

We had above-normal rain in June after 14 months of record dry weather. This area will produce an average hay crop; however, stock tank water is below normal going into July and August.

Region 6—North Central Texas

Crops look very good. The grain has started to mature and looks to be above average. Prices continue to decrease, which is not good. There is great concern that grain elevators will not have adequate storage for a bumper crop. Although pastures are lush with grass, we still need a good rain to fill tanks with a water supply adequate for the next two or three months of summer. Cattle prices continue to be strong in this area.

Region 7—East Texas

We got the rain, the grass is good, and we are starting the second cutting of hay. Calf prices are still good.

Row crops are very depressed in this area. We are very selective with our crop loans. Cattle prices are good, and we are aggressive in this area. We have had good rains, and the grass is good.

Region 8—Central Texas

Agricultural prospects for the next three years look great for our area. This is a time for ranchers to heal wounds and build reserves. Higher interest rates will not help. Agricultural banks will need to keep rates as low as possible, with or without help from the Fed.

Double government payments saved the day in 1999. Loan deficiency payments kicked in also, turning losses into profits. Some farmers received 60 percent of their income from government programs.

Generous rainfalls and good cattle prices have greatly enhanced the ability of ranchers to repay loans from operational profits. Acre by acre, land is being taken out of agricultural production due to the subdivision of larger tracts of ranchland and farmland.

Region 10—South Texas

The grain sorghum harvest will be just about finished by the end of June. Yields have been average to good, and better along the coast. Cotton and corn are making good progress. It appears that this is going to be one of the earliest cotton crops on record. Some producers are defoliating cotton fields already, at the end of June.

Cattle prices at the auction barns remain strong. Pasture conditions appear to be holding but will need some relief soon. High and dry weather is taking its toll on pastures and grass, but this is good for the cotton harvest.

Land prices appear to be holding steady. Property around urban fringes continues to command exceptional prices, and demand is good.

Major concerns at this point are commodity prices. Low corn and cotton prices could create some repayment problems.

Region 12—Southern New Mexico

Given the current prices for wheat, milo and corn, operations are not feasible if farmers do not receive emergency assistance from the U.S. Department of Agriculture. Without large government payments, most medium-sized farms will not survive. If there are wholesale liquidations, land prices will drop drastically, as will the value of farm equipment.

Agricultural Credit Conditions

(continued from page 1)

- The number of farm and ranch borrowers continued to increase, with banks serving an average of 125 farmers and ranchers during the second quarter, up from 106 in the second quarter of 1999. However, the proportion of agricultural loans to total loan portfolio was down from 30 percent in the second quarter of 1999 to 27 percent in the second quarter of 2000.

- Fourteen percent of survey respondents reported a decline in the availability of funds during the second quarter; this is up sharply from the 2 percent who reported a decline in the second quarter of 1999.