

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

Third 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 Third Quarter Survey of Agricultural Credit Conditions indicates strain in the agricultural community. As the Eleventh District ends one of the driest summers on record, agricultural bankers express concern about the future viability of some producers. Crop production appears to be hardest hit, although dry conditions have forced livestock liquidations as well. High energy costs are hurting an already difficult production environment, according to bankers, who report that government payments have prevented significant loan repayment problems. (See page 4 for bankers' comments.)

Here are additional details from the survey:

- The average loan-to-deposit ratio for responding banks climbed to 57 in the third quarter, the highest level reported since 1986. The rise reflects both a slight increase in lending and a drop in core deposits, as banks turn to nondeposit funding sources, such as the Federal Home Loan Bank. The increase in the loan-to-deposit ratio is consistent with a trend at all banks in the region. The reported ratio continues to be lower than the average desired ratio of 65 reported for the quarter.

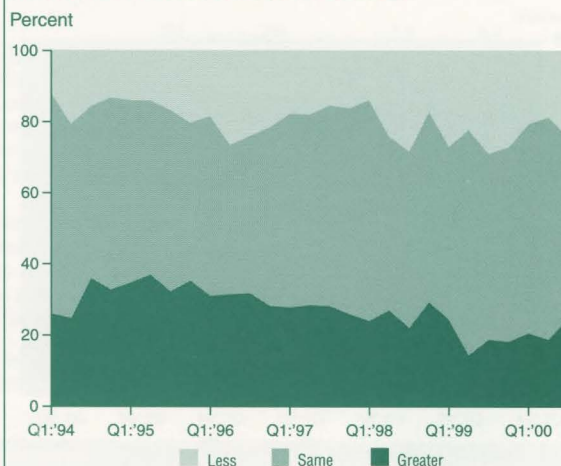
- Twenty-one percent of responding District bankers reported a drop in loan repayment in the third quarter compared with the second quarter. This figure was lower than the 27 percent who reported a decline in the third quarter of 1999. However, some regions reported a larger decline in the rate of loan repayment than that reported a year ago. Bankers in the Northern High Plains reported a 53 percent decline in the rate of loan repayment, and bankers in the Southern Low Plains and the Trans-Pecos and Edwards Plateau regions reported a 45 percent drop.

(continued on page 4)

Agricultural Credit Conditions at Survey Banks in the Eleventh District

Demand for Loans

Twenty-five percent of responding banks indicate an increase in loan demand.



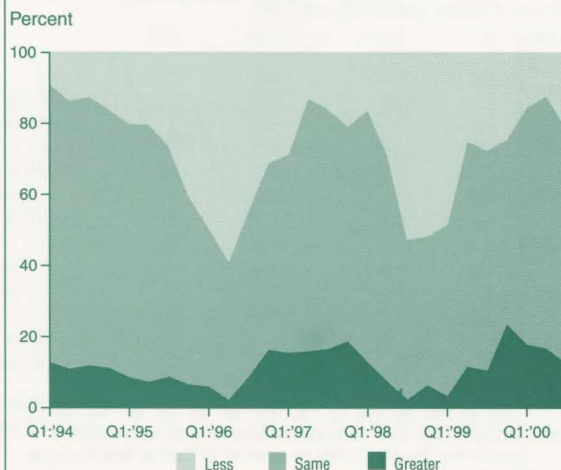
Funds Available for Additional Lending

Seventy-one percent of respondents report no change in funding availability.



Rate of Loan Repayment

Sixty-six percent of respondents report the same rate of loan repayments.

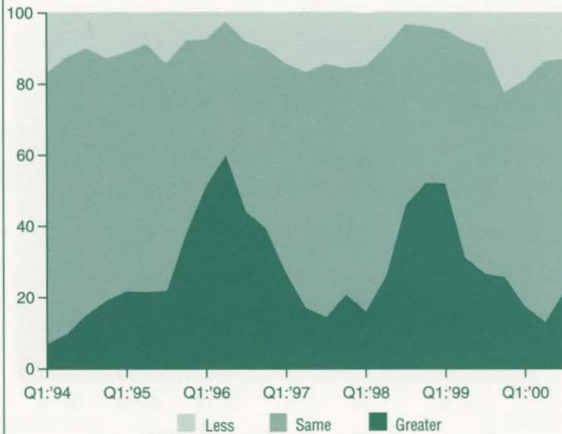


Agricultural Credit Conditions at Survey Banks in the Eleventh District

Renewals or Extensions of Loans

Twenty-two percent of respondents report a greater level of loan renewals or extensions.

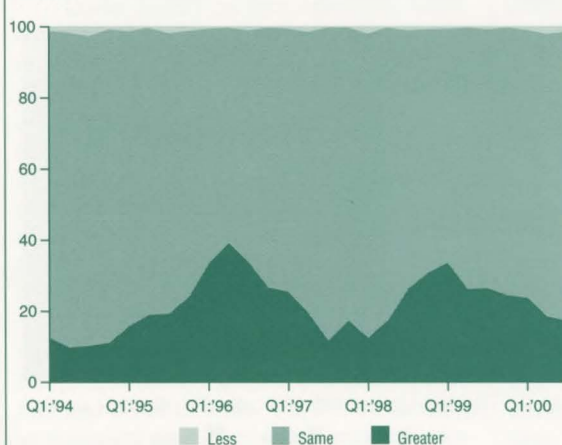
Percent



Amount of Collateral

Seventeen percent of respondents indicate an increase in collateral requirements.

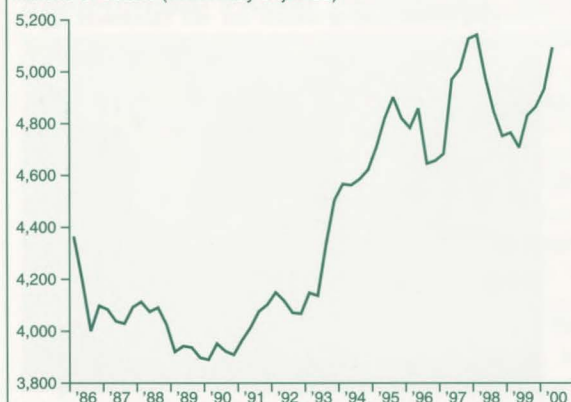
Percent



Total Agricultural Loans at Eleventh District Banks

Agricultural lending continued to grow rapidly in the second quarter of 2000.

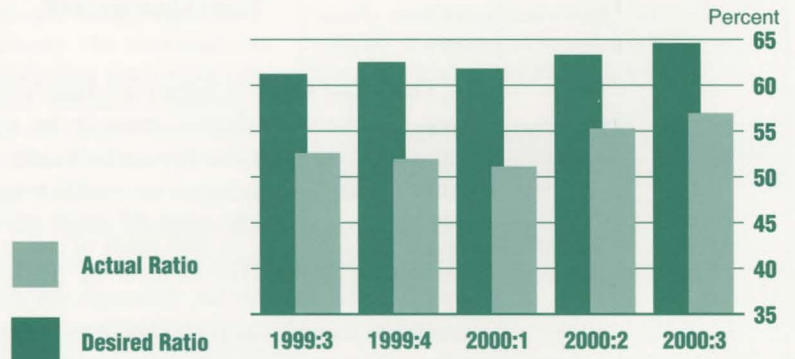
Millions of dollars (seasonally adjusted)



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 Oct. 1	2000 Jan. 1	2000 Apr. 1	2000 Jul. 1	2000 Oct. 1
Less than 41%	26	24	30	23	20
41% to 50%	22	20	19	15	17
51% to 60%	21	26	25	29	26
61% to 70%	14	17	12	15	17
More than 70%	17	13	14	18	21

INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				
	1999 Oct. 1	2000 Jan. 1	2000 Apr. 1	2000 Jul. 1	2000 Oct. 1
Feeder cattle	10.16	10.39	10.56	10.98	10.94
Other farm operating	10.19	10.46	10.61	10.84	11.00
Intermediate term	10.10	10.13	10.51	10.66	10.76
Long-term farm real estate	9.50	9.59	9.86	10.16	10.14

INTEREST RATE—VARIABLE

Ratio	Average Rate (Percent)				
	1999 Oct. 1	2000 Jan. 1	2000 Apr. 1	2000 Jul. 1	2000 Oct. 1
Feeder cattle	10.06	10.20	10.59	11.09	11.06
Other farm operating	10.17	10.30	10.67	11.13	11.19
Intermediate term	10.01	10.08	10.53	11.00	10.91
Long-term farm real estate	9.47	9.63	10.07	10.56	10.31

Rural Real Estate Values

October 1, 2000

¹ Number of banks reporting land values.

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

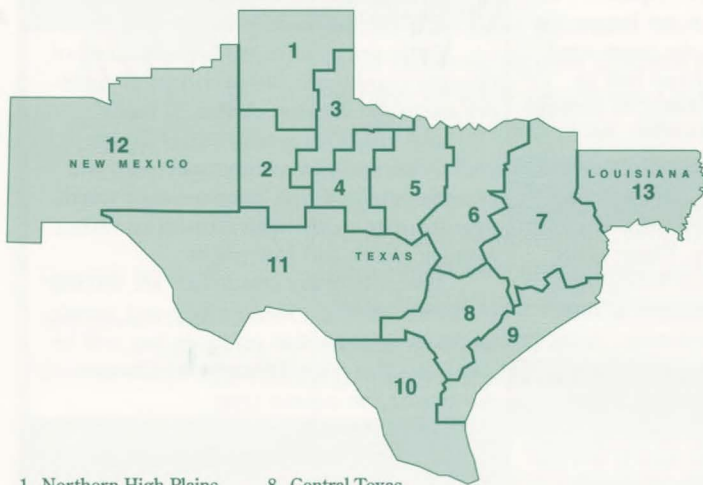
³ Not adjusted for inflation.

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

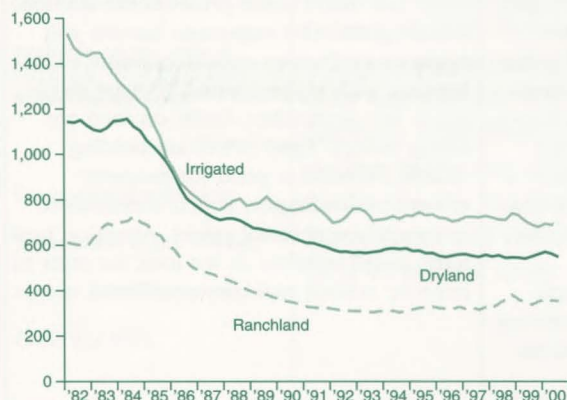


- | | |
|------------------------|------------------------------------|
| 1 Northern High Plains | 8 Central Texas |
| 2 Southern High Plains | 9 Coastal Texas |
| 3 Northern Low Plains | 10 South Texas |
| 4 Southern Low Plains | 11 Trans-Pecos and Edwards Plateau |
| 5 Cross Timbers | 12 Southern New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

Eleventh District Real Land Values

Dryland and ranchland values fall slightly, while irrigated land values rise modestly in the third quarter of 2000.

1992 dollars per acre



CROPLAND—DRYLAND

Region	Banks ¹ Third Quarter 2000	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	109	589	-2.0	1.9
TEXAS	101	589	-2.0	2.7
Northern High Plains	17	293	0.0	1.8
Southern High Plains	15	335	1.2	3.8
Northern Low Plains	7	305	-1.4	-1.8
Southern Low Plains	9	387	-3.5	-2.1
Cross Timbers	8	565	-2.2	0.8
North Central Texas	14	925	1.0	8.9
East Texas	5	619	-6.4	-9.2
Central Texas	9	1,027	-7.4	3.3
Coastal Texas	4	785	-0.3	8.3
South Texas	6	512	2.1	3.9
Trans-Pecos and Edwards Plateau	7	573	0.1	0.6
Northern Louisiana	5	625	-2.5	-6.0
Southern New Mexico	3	252	-0.5	-14.2

CROPLAND—IRRIGATED

Region	Banks ¹ Third Quarter 2000	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	76	753	2.3	4.0
TEXAS	67	702	2.1	4.8
Northern High Plains	16	619	8.4	9.6
Southern High Plains	14	665	-1.0	1.9
Northern Low Plains	7	470	1.9	12.8
Southern Low Plains	5	650	-4.2	0.3
Cross Timbers	3	794	2.9	-3.0
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	3	800	7.5	17.1
Central Texas	6	1,700	-2.0	1.8
Coastal Texas	n.r.	n.r.	n.r.	n.r.
South Texas	6	771	-0.9	6.1
Trans-Pecos and Edwards Plateau	6	726	-0.9	-15.7
Northern Louisiana	5	843	1.2	-0.5
Southern New Mexico	4	1,221	3.5	1.2

RANCHLAND

Region	Banks ¹ Third Quarter 2000	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	110	380	-0.1	7.0
TEXAS	101	468	-0.5	5.5
Northern High Plains	17	189	2.0	12.4
Southern High Plains	9	135	-7.9	-4.6
Northern Low Plains	7	191	-1.0	9.9
Southern Low Plains	8	292	-5.7	23.6
Cross Timbers	8	531	-2.9	5.6
North Central Texas	15	834	0.9	10.6
East Texas	8	824	1.3	5.6
Central Texas	10	987	-2.4	4.4
Coastal Texas	3	569	-4.9	9.9
South Texas	6	570	1.3	16.2
Trans-Pecos and Edwards Plateau	10	385	0.3	-3.5
Northern Louisiana	5	523	-6.1	1.8
Southern New Mexico	4	124	5.7	28.3

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

Low commodity prices and drought will certainly affect the equity of our farm and ranch customers. If not for Farm Service Agency assistance, losses would be devastating. Higher energy cost for 2001 will have a major impact on irrigated crop producers. The whole agricultural sector looks very troubled.

The future appears bleak for agriculture.

Drought conditions are significantly reducing fall wheat planting. Fuel costs and low crop prices make farm profitability marginal.

Credit quality on farm operating loans continues to deteriorate due to the severe drought conditions, depressed commodity prices and the tremendous increase in the natural gas price, which also impacts fertilizer costs. Natural gas is used for irrigation fuel, and we have had corn producers report costs of \$130–\$150 per acre just for irrigation fuel. Drought conditions resulted in much lower yields on wheat, corn, milo and soybeans. The government assistance payments received in early September helped to some extent to offset the low commodity prices, but producers are still faced with increased fuel and fertilizer costs. We will be looking at increased carryovers on these farm operating lines.

Our stocker and feeder cattle operators are making a little money, but those in the

feedlot are losing about \$50 per head. These conditions have been seen many times before. There will be recovery, but I can't say when.

Region 2—Southern High Plains

There is currently a severe drought. Crops are poor to fair. We expect repayment problems on many operational loans.

Conditions are dry, and there is no crop. Livestock numbers and the cotton market are both down. Energy costs have doubled or will shortly. The increased cost of irrigation and dwindling water supply in the aquifer will soon eliminate irrigation. For a number of years the South Plains enjoyed a very low break-even cost compared with the rest of the nation. This is no longer the case. Today we loan about the same total dollars as 10 years ago to about half as many farmers. I expect the trend to continue.

Region 5—Cross Timbers

Conditions are very dry. There is no cotton crop, and livestock are being liquidated. Very little wheat is planted at this time.

Region 6—North Central Texas

Grain and cotton production is not currently profitable when all fixed costs are factored in. If commodity prices don't catch up to loan rates soon, we anticipate some real problems in the agricultural sector.

The 2000 crops have all been harvested. Williamson County had an average to above-average yield on grain. Cotton harvested at three-quarters to a whole bale per acre. Market conditions remain a great concern, and many are holding commodities in hopes of a price increase. I feel that most farmers will meet loan obligations this year, but it will be a close call. Drought conditions have been really hard on cattle operations. Most farmers have been forced into feeding for the summer. Calves have been sold early, and some have culled cows, just trying to hang on for a little longer. We have had a few rains, but not a good general rain. Stock water is very low. Most farmers are going to plant small grains, in hopes of rain and making it through the winter months. Costs continue to increase; there is very little profit margin, if any. Overall conditions are very poor for agriculture—and the banker.

Most of the land sales are to people wanting to get out of big cities, thus driving agricultural real estate values to unrealistic highs.

Region 7—East Texas

The dry weather is starting to take hold, and stock tank water is short. Cattle prices are still strong, even with the drought. Most of our cow and calf producers would like to expand but can't, due to the drought.

East Texas finally received a small amount of rainfall. Some have started haying already. Stock ponds are low, so water is a problem for cattle. Fires have been bad, mostly destroying timberland, not a lot of pasture. Contract calf prices are down for October. Stocker prices have held in spite of the dry weather.

Region 8—Central Texas

Cattle prices have suffered because of drought conditions. We need rain if ranchers are to get another cutting of hay.

Rice crops set record yields in our area. A second government payment will provide profits. It has been another tough year for row crops, with farmers receiving average yields and low prices.

Abnormally dry conditions are forcing cattlemen to begin feeding hay and supplements. It appears that no more hay will be cut, even if it rains. Drought conditions devastated the peanut crop.

Region 9—Coastal Texas

Agricultural land values are affected by the proximity of Houston. The majority of crop land sold is for development.

Region 10—South Texas

A strong demand for recreational ranches continues to drive up prices. Inventory does not last long; it is a seller's market.

The grain sorghum, corn and cotton harvests are complete. With the government's help, it looks like anticipated repayment problems may not materialize. It appears that row crop farmers are going to come out okay. Cattle prices at the auction remain good. The sugarcane harvest will begin soon. Pasture conditions seem to be holding, with some spotted showers helping in late September. Cattle on feed are losing money. Land prices are holding steady. Demand is good for property around urban fringes, which continues to command exceptional prices. Attention now turns to fall weather as we look for rains to improve subsoil moisture conditions.

Agricultural Credit Conditions

(continued from page 1)

- A sharp increase in renewals or extensions was reported in several regions. For example, responding bankers in the Southern New Mexico, Northern High Plains, Southern Low Plains and Trans-Pecos and Edwards Plateau regions reported a 40 percent or greater increase in renewals or extensions in the past three months compared with a year earlier.