

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

Second Quarter 2001



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 reflects ongoing financial strains in Eleventh District agricultural regions. Depressed commodity prices and delayed government payments have punished cash flows, threatening some producers' ability to repay debt. The percentage of bankers reporting increased referrals to other banks (relative to a year earlier) rose for the sixth straight quarter, which supports one contact's observation that some banks are starting to refuse loans to clientele. (See page 4 for bankers' comments.)

Here are additional details from the survey:

- More bankers reported declining loan repayments; 26 percent of respondents noted a drop in the rate of loan repayment, compared with 17 percent who reported a decline at this time last year. Collateral standards have also stiffened compared with last year. Twenty-seven percent of respondents said collateral requirements were greater now, up from 19 percent in second quarter 2000.

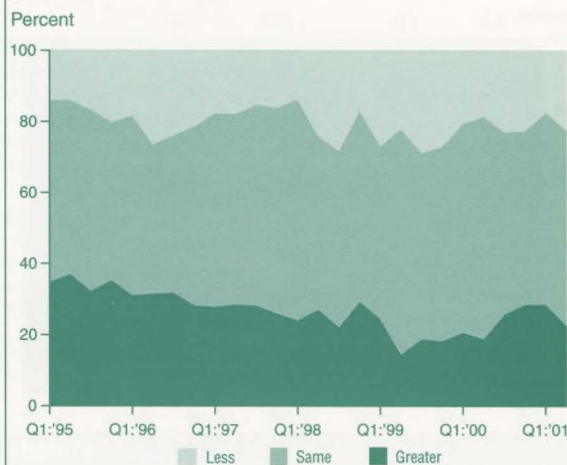
- Loan demand (relative to a year earlier) is up slightly from last year but down from the first quarter. Twenty-three percent of responding banks noted an increase in demand for loans, compared with 19 percent last year and 29 percent in the first quarter. Funding levels have increased; 21 percent of those surveyed indicated greater availability of funds relative to a year earlier, up from 14 percent last year.

- Reduced loan demand, increased funding availability and declining cost of funds (below 4 percent) have decreased interest rates available to farmers and ranchers. All fixed and variable loan rates for feeder cattle, intermediate-term farm projects, long-term farm real estate and other farm operating loans were below 10 percent in the second quarter.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

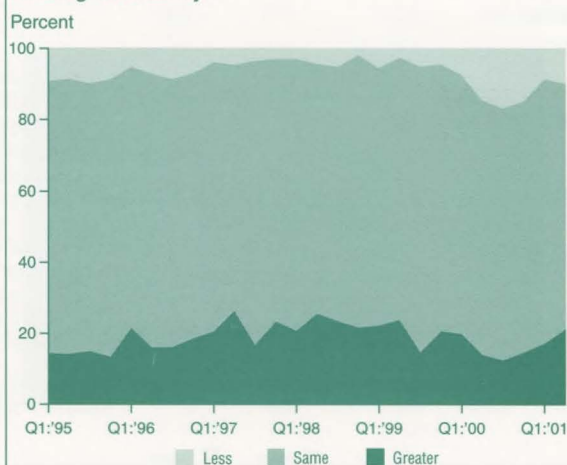
Demand for Loans

Twenty-three percent of bankers indicate greater loan demand.



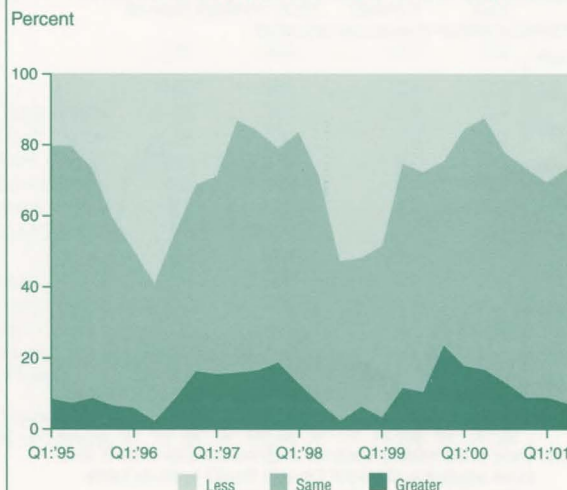
Funds Available for Additional Lending

Ten percent of those surveyed report less funding availability.



Rate of Loan Repayment

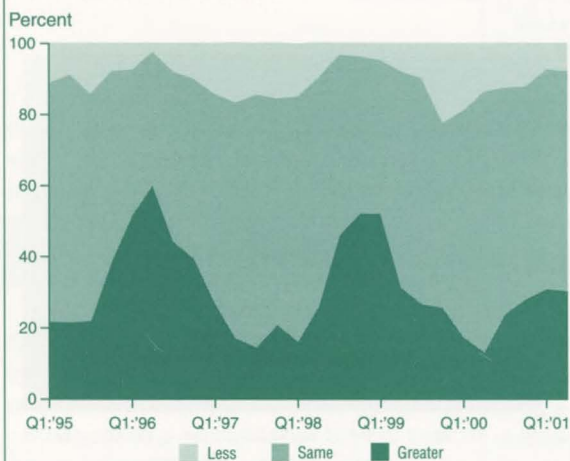
Twenty-six percent of respondents say loan repayment rates declined, up from 12 percent last year.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

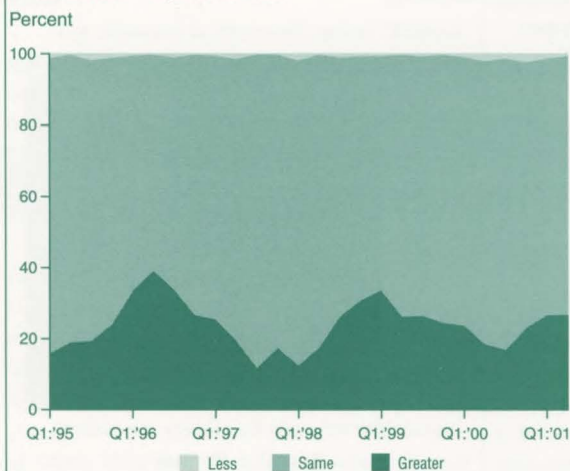
Renewals or Extensions of Loans

Thirty percent report greater levels of renewals and extensions.



Amount of Collateral

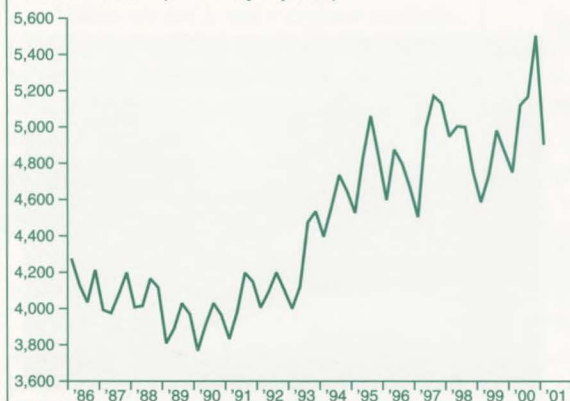
Seventy-three percent indicate no change in collateral requirements.



Total Agricultural Loans at Eleventh District Banks

Agricultural loans fall in the first quarter of 2001.

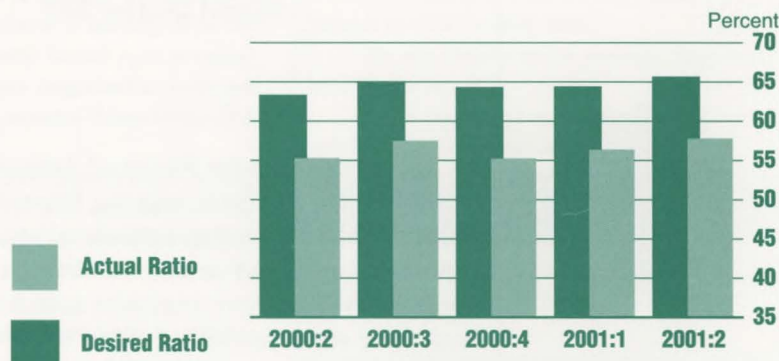
Millions of dollars (seasonally adjusted)



Note: Some of the volatility observed in agricultural loan levels is due to the acquisition of several Eleventh District banks by banks headquartered in other Reserve Districts.

Loan-Deposit Ratios at Survey Banks

Average actual and desired ratios



DISTRIBUTION OF LOAN - DEPOSIT RATIOS

Ratio	Banks Reporting (Percent)				
	2000		2001		
	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1
Less than 41%	23	20	20	21	18
41% to 50%	15	17	19	16	15
51% to 60%	29	25	26	21	24
61% to 70%	15	16	19	19	16
More than 70%	18	23	17	23	28

INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				
	2000		2001		
	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1
Feeder cattle	10.98	10.99	11.03	10.29	9.65
Other farm operating	10.84	11.04	11.05	10.36	9.65
Intermediate term	10.66	10.79	10.79	10.14	9.51
Long-term farm real estate	10.16	10.14	10.16	9.53	9.04

INTEREST RATE—VARIABLE

Ratio	Average Rate (Percent)				
	2000		2001		
	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1
Feeder cattle	11.09	11.05	10.80	9.97	8.83
Other farm operating	11.13	11.20	10.83	10.14	9.07
Intermediate term	11.00	10.93	10.59	9.93	8.95
Long-term farm real estate	10.56	10.38	10.02	9.32	8.53

Rural Real Estate Values

July 1, 2001

¹ Number of banks reporting land values.

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

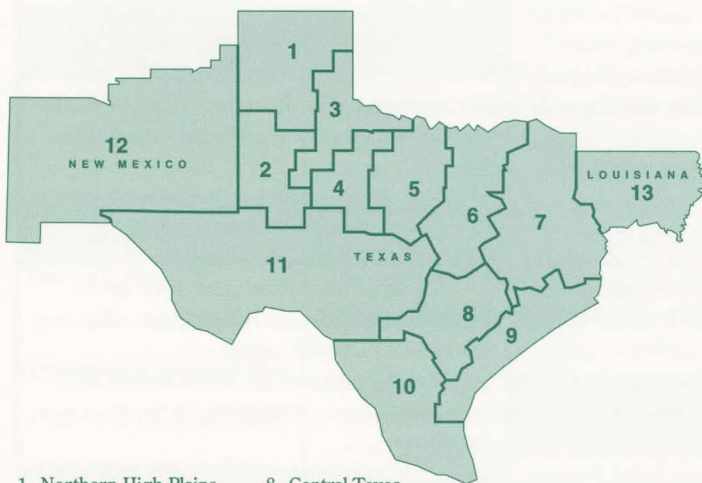
³ Not adjusted for inflation.

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 | |

CROPLAND—DRYLAND

Region	Banks ¹ Second Quarter 2001	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	163	625	0.9	4.1
TEXAS	150	624	0.6	3.9
Northern High Plains	18	271	-1.5	-7.3
Southern High Plains	20	348	1.8	5.1
Northern Low Plains	12	347	2.6	12.2
Southern Low Plains	14	411	1.6	2.4
Cross Timbers	12	586	1.7	1.3
North Central Texas	20	985	0.3	7.7
East Texas	5	660	4.8	-0.2
Central Texas	20	1,046	-4.4	-5.9
Coastal Texas	12	850	-1.5	7.9
South Texas	8	648	9.6	29.2
Trans-Pecos and Edwards Plateau	9	595	-0.1	7.7
Northern Louisiana	9	684	4.0	6.7
Southern New Mexico	4	255	0.8	0.7

CROPLAND—IRRIGATED

Region	Banks ¹ Second Quarter 2001	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	107	771	-1.1	4.5
TEXAS	95	743	-2.0	7.8
Northern High Plains	17	587	-0.7	2.8
Southern High Plains	18	666	1.1	-0.8
Northern Low Plains	9	533	1.6	15.5
Southern Low Plains	11	689	4.5	1.6
Cross Timbers	4	928	3.0	21.5
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	3	750	-2.6	0.7
Central Texas	10	1,511	-8.9	-12.5
Coastal Texas	6	1,088	-11.1	24.3
South Texas	7	937	6.6	20.5
Trans-Pecos and Edwards Plateau	8	935	-10.1	33.1
Northern Louisiana	8	903	3.8	8.5
Southern New Mexico	4	991	3.7	-16.0

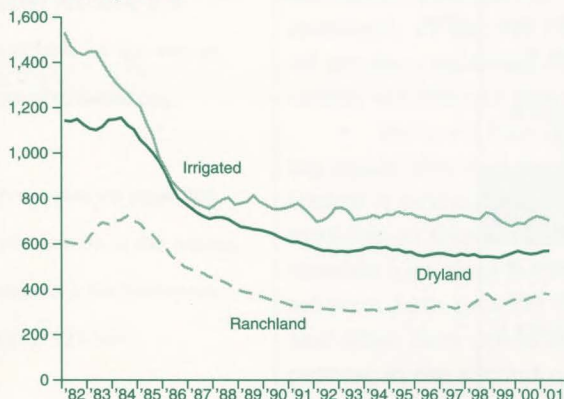
RANCHLAND

Region	Banks ¹ Second Quarter 2001	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	176	415	-0.5	9.9
TEXAS	163	520	-0.4	11.3
Northern High Plains	17	191	-1.0	2.8
Southern High Plains	16	156	7.4	6.2
Northern Low Plains	12	213	6.7	10.9
Southern Low Plains	13	276	-0.5	-10.9
Cross Timbers	13	622	4.0	13.8
North Central Texas	22	898	-1.5	8.7
East Texas	12	859	11.3	5.7
Central Texas	19	1,102	0.8	9.0
Coastal Texas	11	704	-1.0	16.7
South Texas	8	667	-3.4	18.5
Trans-Pecos and Edwards Plateau	20	422	-6.6	12.8
Northern Louisiana	8	713	-7.4	28.1
Southern New Mexico	5	108	-1.6	-7.9

Eleventh District Real Land Values

Dryland values tick up slightly, while irrigated land and ranchland decline.

1992 dollars per acre



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

Loan volume is decreasing because high fuel costs have forced farmers to switch from irrigated corn to less risky crops that don't need as much irrigation.

Diversifying into cattle has helped. You can no longer simply grow a crop because that's what you have always done.

Snow and spring rains made a wheat crop possible. Livestock continues to be profitable.

The situation is extremely grave. Without government help, there will be at least 50 percent fewer farmers next year. Land and equipment values will fall drastically.

Region 2—Southern High Plains

Southwest Texas has been in a drought for nearly eight years, causing producers to cut cow herds by 50 to 66 percent. This has reduced the need for operating funds. Some land is being turned back to owners due to low cattle numbers, but not a lot.

Hailstorms destroyed over 500,000 acres of crops. Most farmers collected insurance and replanted in milo.

I have seen more requests from borrowers seeking new lenders because their current lender cannot or does not wish to handle them anymore.

Unless we see a major increase in cotton prices or a new USDA farm program that will benefit cotton producers, this area will revert back to the 1980s, with massive foreclosures and bankruptcies.

Region 3—Northern Low Plains

High natural gas and petroleum costs could be our highest risk at this time.

Growing conditions for our crops are good. We have adequate moisture. The biggest problem is going to be generating sufficient cash flow to repay debt.

Region 4—Southern Low Plains

We have noticed a trend toward only a few farmers under the age of 58. Young farmers have obtained employment outside the farm to help with cash flow. It is not possible for a young farmer to get started in farming without outside help. This is a major concern for the bank because as farmers begin to retire, there will be no one to take their place.

The last three years have wreaked havoc on our towns. Everyone is leaving. Now we also have to deal with Karnal bunt [a fungal disease of wheat that originated in India and has been found in isolated Texas wheat fields since 1997].

The delay in 2000 farm disaster payments was disastrous for the 2001 operating season. In June a lot of producers are still waiting for disaster money that should have been here in March.

The wheat harvest has been excellent. Prices are below \$3 though, which is sad.

Wheat yields were lower than normal on irrigated land due to armyworm infestations.

If our farmers have mediocre production with the low cotton prices, we have an instant disaster.

Region 5—Cross Timbers

Most of the wheat crop was baled, but very little was harvested. We need rain at this time.

Region 6—North Central Texas

The crunch will be from now until harvest. If there is any reduction in production, prices or government payments, we will see a real credit-quality problem by year-end.

The prevented planting insurance income will not be sufficient for most farmers to meet all their debt obligations.

Pastures are dry. Blacklands are in better shape for now but will need rain soon.

An unusually large grasshopper population is beginning to be a real problem.

No land is being sold for agricultural purposes. All land sales are for development at highly inflated prices.

Agricultural land is priced well in excess of the potential return on the investment.

Region 7—East Texas

The farm credit system is getting most of the new poultry loans in our area due to low fixed rates. The dairy business in our county is about gone.

Beef prices are high. Rainfall has been adequate and timely. Fuel, fertilizer and freight costs are up significantly, as well as electricity costs.

A lot of land is going into the wetlands program. Only one sale has gone to a farmer in the last year, and it was a distressed sale.

Region 8—Central Texas

Prices this year may cut the number of farmers in half for next year.

The rice crop is above average. Price outlook is dismal.

Family farms and ranches are being sold one by one for recreational purposes.

Region 9—Coastal Texas

Acreage is still declining as older farmers retire without any new producers coming on-line.

Region 10—South Texas

The majority of ranchland sales are to recreational buyers and not ranchers. The demand exceeds the supply.

Hot, dry weather has really beaten the crops back. Sugar production for the year was excellent.

Region 11—Trans-Pecos and Edwards Plateau

Our area has a wide variance of land value per acre.

We are in a five-year drought. Stock farmers and ranchers have trouble even paying the interest.

Region 12—New Mexico

Pasture conditions are better than in 2000. Prices are stable. It should be a good year with normal moisture. Government and environmental issues continue to be a concern.