

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

Third 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](http://www.dallasfed.org).

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

The Third Quarter Survey of Agricultural Credit Conditions revealed a decline in the percentage of bankers experiencing increased year-over-year loan demand. Only 18 percent of respondents realized increased loan demand, compared with 26 percent in the third quarter of 2000. Bankers say many farmer clients are already highly leveraged, and minimal cash flow and liquidity among producers are making it difficult to approve new loans. Consequently, government payments, bankers say, are as imperative to survival as ever. (See page 4 for bankers' comments.)

Here are additional details from the survey:

- While the price of farmland now being used in housing development and recreation continues to be bid up, the value of land used exclusively for agriculture has declined for two to three quarters in a row. This result is no surprise, because persistently low commodity prices, weather-induced production hang-ups and heavy debt loads have combined to diminish cash flow and reduce return on land assets. Only 7 percent of respondents expect an upward trend in farmland prices in the next three months, down from 16 percent who thought so last year.

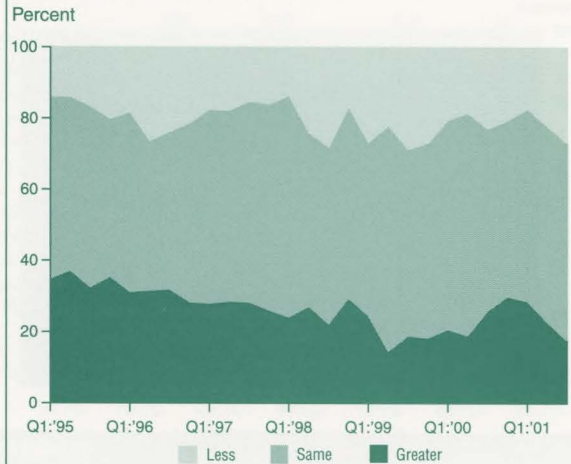
- Funding availability was better in the third quarter as 22 percent of respondents cited increased loanable funds relative to a year earlier. This figure was up from the 13 percent recorded last year. Virtually none of the banks refused or reduced farm loans during the third quarter on the basis of a funding shortage.

- Interest rates charged by banks are down universally. Additionally, the average cost of funds for bankers registered 3.6 percent, down from 4.2 percent last year. The average number of farm and ranch borrowers for each bank is down from 121 last year to a current level of 108.

## Agricultural Credit Conditions at Survey Banks in the Eleventh District

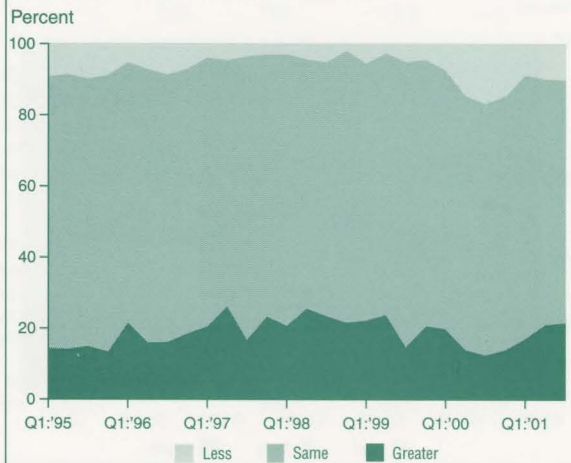
### Demand for Loans

Eighteen percent of those surveyed see increased loan demand.



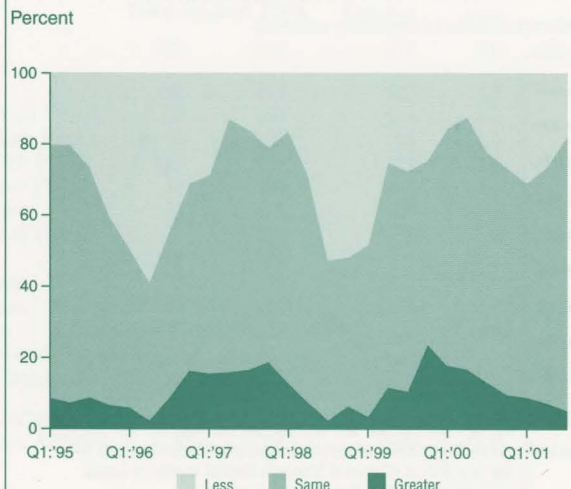
### Funds Available for Additional Lending

Twenty-two percent of bankers have increased funding availability.



### Rate of Loan Repayment

Five percent of respondents experience an increased loan repayment rate.

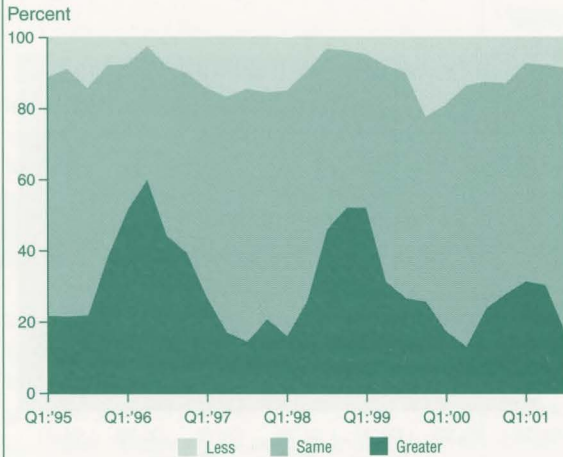




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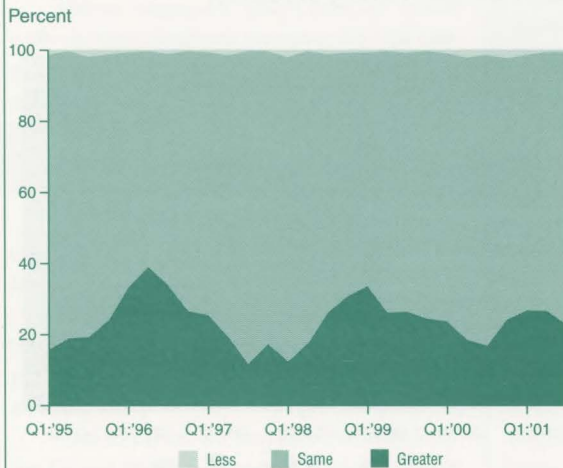
### Renewals or Extensions of Loans

Seventeen percent of bankers see increased renewals and extensions.



### Amount of Collateral

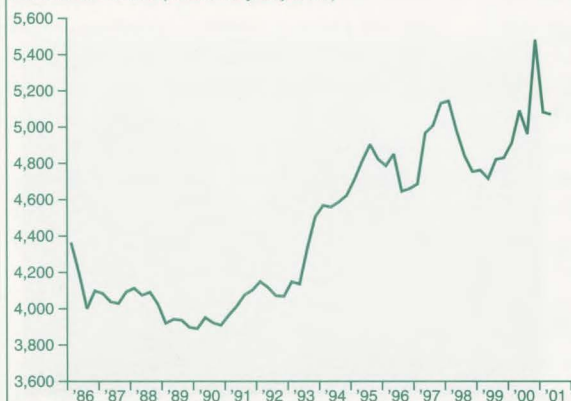
Seventy-seven percent report no changes to collateral requirements.



### Total Agricultural Loans at Eleventh District Banks

Loan volume declines for the second quarter in a row.

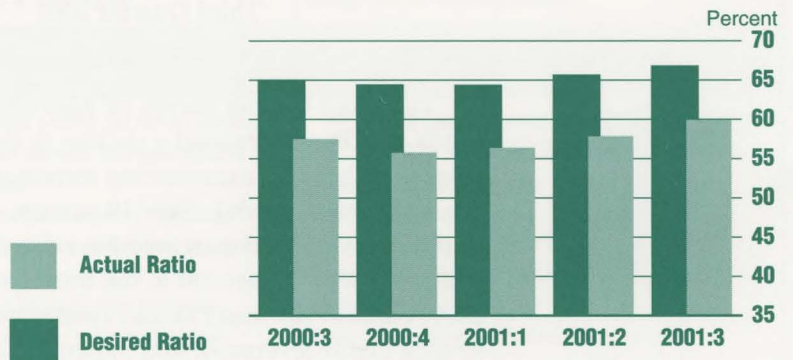
Millions of dollars (seasonally adjusted)



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 Oct. 1	2001 Jan. 1	2001 Apr. 1	2001 Jul. 1	2001 Oct. 1
Less than 41%	20	19	21	18	14
41% to 50%	17	19	16	15	12
51% to 60%	25	26	21	24	24
61% to 70%	16	19	19	16	26
More than 70%	23	17	23	28	23

### INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				
	2000 Oct. 1	2001 Jan. 1	2001 Apr. 1	2001 Jul. 1	2001 Oct. 1
Feeder cattle	10.99	11.00	10.29	9.65	9.15
Other farm operating	11.04	11.03	10.36	9.65	9.16
Intermediate term	10.79	10.77	10.14	9.51	9.18
Long-term farm real estate	10.14	10.15	9.53	9.04	8.52

### INTEREST RATE—VARIABLE

Ratio	Average Rate (Percent)				
	2000 Oct. 1	2001 Jan. 1	2001 Apr. 1	2001 Jul. 1	2001 Oct. 1
Feeder cattle	11.05	10.77	9.98	8.83	8.26
Other farm operating	11.20	10.83	10.15	9.08	8.48
Intermediate term	10.93	10.55	9.93	8.96	8.37
Long-term farm real estate	10.38	10.00	9.32	8.53	7.94

# Rural Real Estate Values

October 1, 2001

<sup>1</sup> Number of banks reporting land values.

<sup>2</sup> Prices are dollars per acre, not adjusted for inflation.

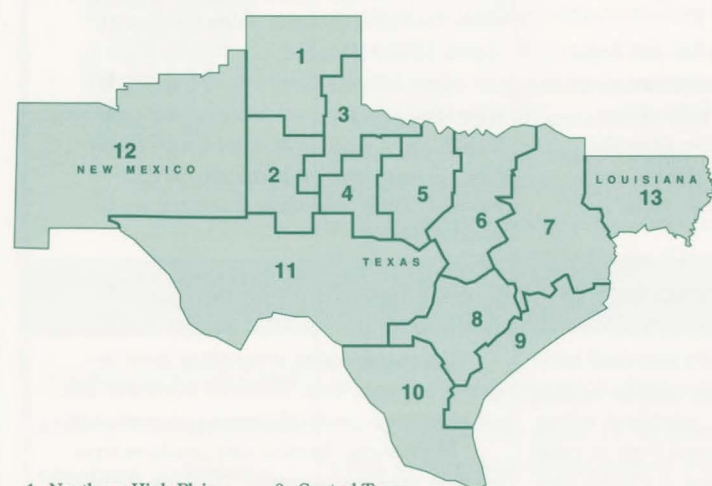
<sup>3</sup> Not adjusted for inflation.

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

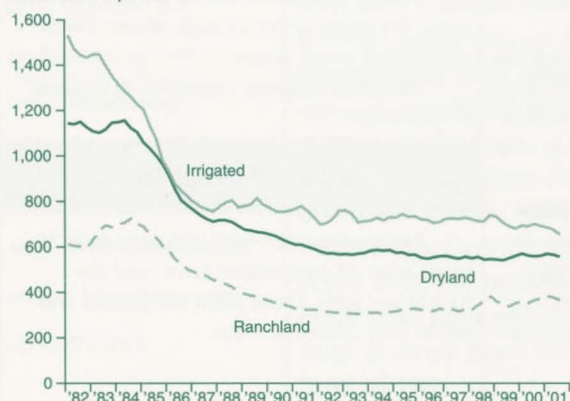


- 1 Northern High Plains
- 2 Southern High Plains
- 3 Northern Low Plains
- 4 Southern Low Plains
- 5 Cross Timbers
- 6 North Central Texas
- 7 East Texas
- 8 Central Texas
- 9 Coastal Texas
- 10 South Texas
- 11 Trans-Pecos and Edwards Plateau
- 12 Southern New Mexico
- 13 Northern Louisiana

## Eleventh District Real Land Values

Land values decline for all three types of agricultural land.

1992 dollars per acre



## CROPLAND—DRYLAND

Region	Banks <sup>1</sup> Third Quarter 2001	Average Value <sup>2</sup>	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	166	611	-1.0	2.0
TEXAS	153	610	-0.9	1.6
Northern High Plains	21	282	1.7	-4.6
Southern High Plains	17	337	-2.6	2.9
Northern Low Plains	12	340	1.0	8.7
Southern Low Plains	12	409	0.4	4.1
Cross Timbers	14	620	3.4	8.6
North Central Texas	22	969	0.1	2.6
East Texas	11	742	6.2	18.1
Central Texas	17	934	-5.7	-15.7
Coastal Texas	12	737	-10.2	-8.0
South Texas	3	654	6.5	29.0
Trans-Pecos and Edwards Plateau	12	543	-8.2	n.r.
Northern Louisiana	9	665	-2.3	7.3
Southern New Mexico	4	262	1.5	4.4

## CROPLAND—IRRIGATED

Region	Banks <sup>1</sup> Third Quarter 2001	Average Value <sup>2</sup>	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	109	718	-2.9	-4.4
TEXAS	94	693	-1.9	-2.0
Northern High Plains	18	571	-1.0	-6.9
Southern High Plains	16	638	-2.6	-2.6
Northern Low Plains	10	540	2.5	9.1
Southern Low Plains	10	662	-2.3	4.2
Cross Timbers	4	996	3.0	22.6
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	5	795	1.8	-1.7
Central Texas	9	1,480	0.2	-17.8
Coastal Texas	6	733	-11.6	-12.4
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	12	734	-10.0	-1.7
Northern Louisiana	8	876	-1.6	5.7
Southern New Mexico	7	906	-10.0	-21.6

## RANCHLAND

Region	Banks <sup>1</sup> Third Quarter 2001	Average Value <sup>2</sup>	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	188	401	-2.5	2.6
TEXAS	168	506	-2.3	4.2
Northern High Plains	20	188	-1.4	-2.7
Southern High Plains	12	155	0.5	14.9
Northern Low Plains	12	197	-2.6	3.8
Southern Low Plains	11	286	4.6	-2.7
Cross Timbers	15	657	2.6	20.2
North Central Texas	23	928	1.0	7.3
East Texas	18	871	3.4	10.1
Central Texas	22	980	-7.7	-3.8
Coastal Texas	12	627	-8.9	0.6
South Texas	3	668	0.5	14.0
Trans-Pecos and Edwards Plateau	20	401	-5.1	-2.4
Northern Louisiana	11	682	-9.2	13.5
Southern New Mexico	9	98	-5.0	-17.2



# 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

Diversifying into cattle has helped. You cannot continue betting the farm on a particular crop unless you have it presold. You have to do your homework to see if what you are going to grow is feasible.

Most operations do not produce cash flow without government subsidies. If water rights are sold and underground water is shipped to metropolitan areas, current livestock watering facilities will become inoperable.

Unless commodity prices increase dramatically or price supports increase, we will lose more than 50 percent of all farmers in the area. This will, in turn, ruin the local economy.

## Region 2—Southern High Plains

Overall outlook for the 2001 crop is poor unless we get an FSA disaster payment for farmers who lost crops from hail and drought.

Mother cow numbers continue to decrease due to the drought. Some estimates place the number at 20 percent of normal stocking rates.

Cotton prices are horrible. Nevertheless, the United States continues to import cheaper cotton from other countries. We will have more farmers going out of business this year than ever before.

Drought conditions have hurt yields significantly. Prices of commodities are down. If these conditions continue, it won't be long before farming and ranching are damaged beyond repair. Banking is limited in what we can offer as support.

The farm economy in West Texas is extremely depressed. Unless we receive a new farm bill for 2002, there could be a very large number of foreclosures and bankruptcies.

The agricultural situation is very frail today.

It appears the current farm bill may not make it through Congress. Look for severe and widespread problems. Fraud will be on the increase.

## Region 3—Northern Low Plains

Conditions have been extremely dry in July and August. Recent rains have helped grass and possibly some peanuts and cotton. Dryland cotton and peanuts will be short again this year.

Commodity prices are too low in relationship to operating expense. Row crop farming in the rolling plains area is marginal at best. The cattle business is still good.

## Region 4—Southern Low Plains

Until agricultural prices on farm products are more stable, the market for agricultural land will remain low.

Most cattlemen have had to sell large numbers of cows because range has no grass. Tanks and lakes are in very poor shape.

Things are not all bad, but from the standpoint of agriculture, it's not too rosy.

The high value of the U.S. dollar is a challenge for cotton exports.

## Region 5—Cross Timbers

Most of our customers are part-time farmers and ranchers and maintain outside income.

Over the last few years, ranchland values have been significantly impacted both in value and cash rent due to the influx of Dallas-Fort Worth metroplex hunters. With the downturn in the economy, we expect these values to drop.

## Region 6—North Central Texas

[Milo and corn] prices have improved since 2000. Cattle prices remain high. These factors are keeping agricultural land values steady. We have had four or five farms purchased by farmers from the high plains of Texas due to excessive irrigation costs.

Strong calf prices have helped cow/calf producers reduce term and long-term debt. Soil moisture is good for winter wheat producers. Overall, the local farm economy is in good shape.

Good grain crop in 2001. The cotton crop will possibly be a total loss due to recent rains in excess of 10 to 12 inches. Insurance companies are currently evaluating whether they will zero out all cotton.

Upward pressure on land values continues due to our location, which is commutable to the Dallas-Fort Worth metroplex. Smaller tracts sold recently are used primarily for home sites and not for agricultural production.

## Region 7—East Texas

Excessive rainfall has badly impacted the cotton harvest. Yields and grades will be bad.

Land values have increased due to the large volume of oil and gas activity in the county.

Cropland values will have to decline for production to justify cost. Credit conditions remain fairly stable, with cattle operation being the strongest market.

## Region 8—Central Texas

Recent rains provide optimism for ranchers.

Leasable and sellable water rights have pushed several property sales prices well above \$2,000 per acre.

Very difficult. Most farmers are highly leveraged and have minimal liquidity, making it difficult to underwrite farm loans at this time. Nonperforming loans are on the increase. Cattle and dairy loans remain in good standing.

## Region 9—Coastal Texas

Improved equity is resulting from reduced leverage/debt. Reduced borrower interest rates have positively impacted profitability.

Most of our farmers and ranchers have become very conservative. They are farming less and borrowing less money.

## Region 11—Trans-Pecos and Edwards Plateau

Conditions are very dry, and the decrease in livestock prices is putting pressure on our producers.

Given current cotton prices, we feel the best a producer can expect to do is cover loan costs. This will not cover operating cost.

## Region 12—New Mexico

Pasture conditions are satisfactory but not great. It's going to be a tough winter. Feeder prices have come down.

The dairy industry continues to expand in this area.

## Region 13—Louisiana

Some properties with approximately 30 to 40 acres of pastureland have sold for \$3,000 per acre. These sales are limited and are in very desirable areas.