

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

Fourth Quarter 2001

The Fourth Quarter Survey of Agricultural Credit Conditions manifested continued challenges in the Eleventh District agricultural sector. Operating margins remain lackluster, and producers continue their reliance on government payments to get by. However, some farmers' fourth quarter yields were just high enough to disqualify them from insurance payments. One banker reported several liquidations and bankruptcies in his region and said more could be coming. Reduced cattle numbers contributed to a decline in livestock operating loans, but one banker said there had been a dramatic increase in real estate loan demand since Sept. 11. (See page 4 for bankers' comments.)

Here are additional details from the survey:

- Fewer bankers reported increases in loan demand. Only 18 percent said there was greater demand for loans this year than a year earlier, down from 30 percent last year.
- Interest rates are universally lower. Fixed rates on feeder cattle, intermediate farm, long-term real estate and other farm operating loans are all more than 200 basis points below last year's rates. The decline has increased funding availability. Twenty-three percent of respondents reported increased funds for lending this year over a year earlier, up from 14 percent last year.
- The rate of loan repayment appears to have increased. Eleven percent of respondents reported higher loan repayment rates, up from 5 percent last quarter. Over 20 percent of the respondents in the Southern High Plains and Coastal Texas regions reported increased loan repayments over last year.

• Respondents widely believe loan volume during first quarter 2002 will decline compared with a year earlier. They expect feeder cattle, dairy, operating, farm machinery and real estate loan volumes to decrease from last year's levels. The average number of farm and ranch borrowers per bank dipped to 107 in the fourth quarter, down from 118 in the last quarter of 2000.



Quarterly Survey of
Agricultural Credit

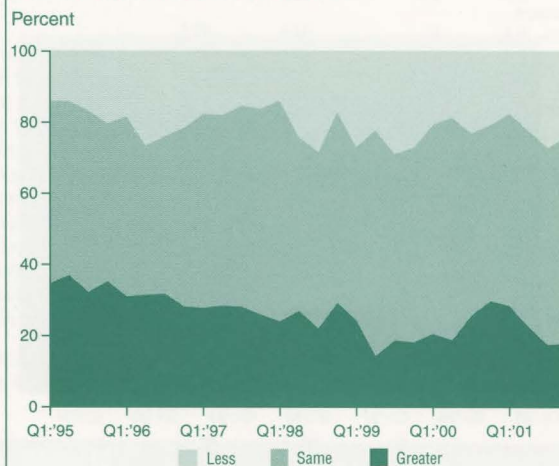
Conditions is compiled from a survey of Eleventh District agricultural bankers. This publication is prepared by the Federal Reserve Bank of Dallas and is available without charge by writing to the Research Department, Federal Reserve Bank of Dallas, P.O. Box 655906, Dallas, TX 75265-5906, or by telephoning (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.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

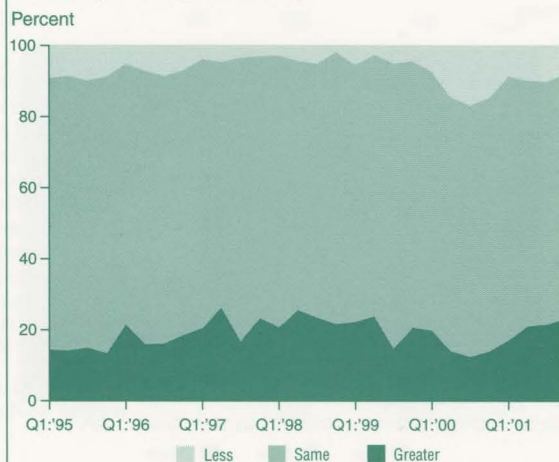
Demand for Loans

Twenty-four percent of respondents indicate reduced loan demand.



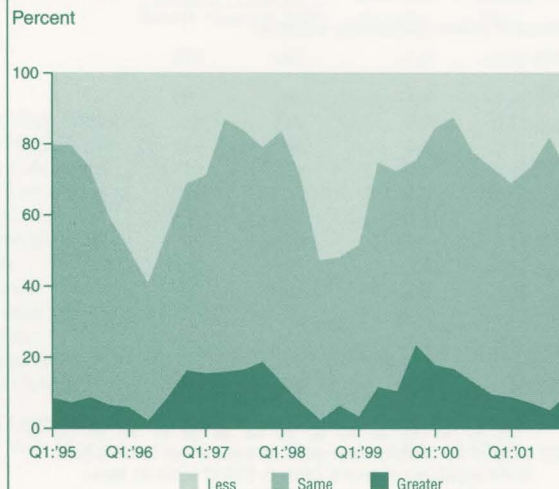
Funds Available for Additional Lending

Eight percent of bankers experience declining funding availability.



Rate of Loan Repayment

Sixty-one percent of respondents indicate no change in loan repayment rate.



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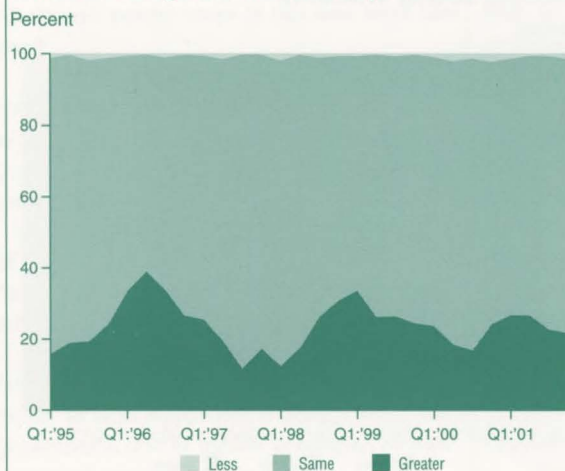
Renewals or Extensions of Loans

Twenty-five percent of respondents see increased renewals and extensions.



Amount of Collateral

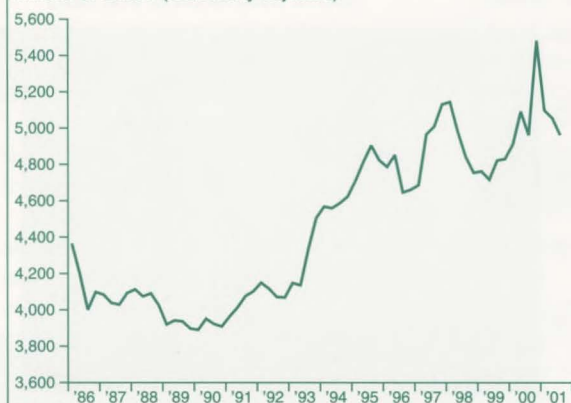
Seventy-seven percent of agricultural bankers made no changes to collateral requirements.



Total Agricultural Loans at Eleventh District Banks

Loan volume declines for the third quarter in a row.

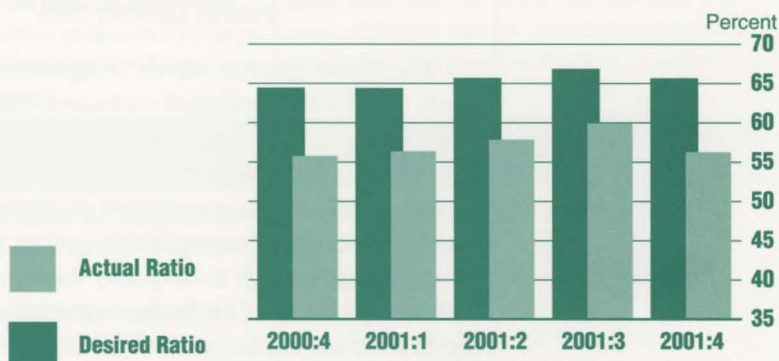
Millions of dollars (seasonally adjusted)



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)				2002 Jan. 1
	2001				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Less than 41%	19	21	18	14	21
41% to 50%	19	16	15	12	15
51% to 60%	26	21	24	24	21
61% to 70%	19	19	16	26	21
More than 70%	17	23	28	23	22

INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				
	2001				2002
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	Jan. 1
Feeder cattle	11.00	10.29	9.65	9.15	8.32
Other farm operating	11.03	10.36	9.65	9.16	8.38
Intermediate term	10.77	10.14	9.51	9.18	8.45
Long-term farm real estate	10.15	9.53	9.04	8.52	7.98

INTEREST RATE—VARIABLE

Ratio	Average Rate (Percent)				2002 Jan. 2
	2001				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Feeder cattle	10.77	9.98	8.83	8.26	7.29
Other farm operating	10.83	10.15	9.08	8.48	7.43
Intermediate term	10.55	9.93	8.96	8.37	7.27
Long-term farm real estate	10.00	9.32	8.53	7.94	7.00

Rural Real Estate Values

January 1, 2002

¹ Number of banks reporting land values.

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

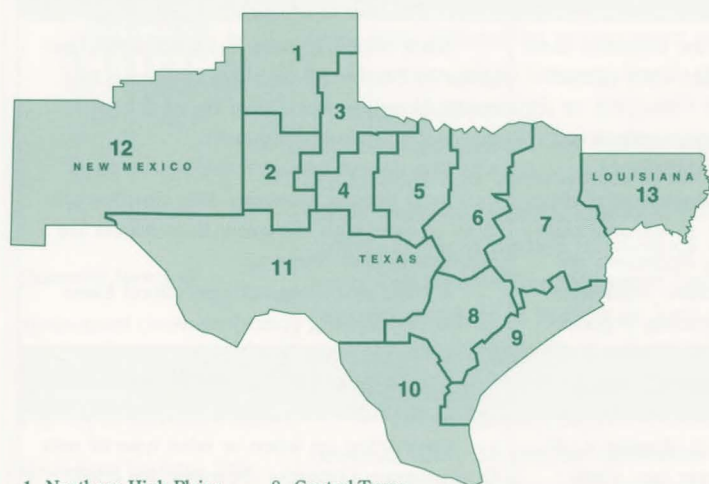
³ Not adjusted for inflation.

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

NOTES: 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

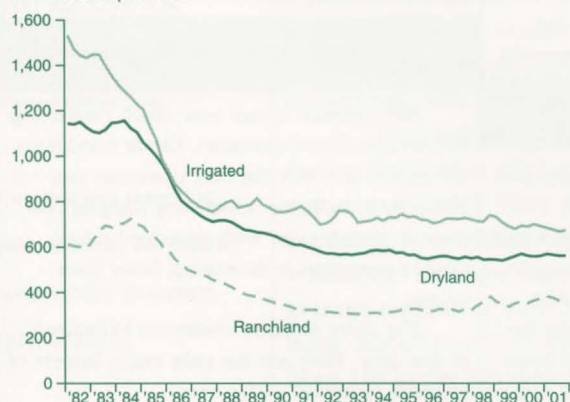


- | | |
|------------------------|------------------------------------|
| 1 Northern High Plains | 8 Central Texas |
| 2 Southern High Plains | 9 Coastal Texas |
| 3 Northern Low Plains | 10 South Texas |
| 4 Southern Low Plains | 11 Trans-Pecos and Edwards Plateau |
| 5 Cross Timbers | 12 Southern New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

Eleventh District Real Land Values

Quarter-over-quarter dryland and irrigated land values increase, but ranchland values decline.

1992 dollars per acre



CROPLAND—DRYLAND

Region	Banks ¹ Fourth Quarter 2001	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	140	617	0.1	2.0
TEXAS	129	616	0	1.6
Northern High Plains	20	286	1.7	3.3
Southern High Plains	17	359	2.8	5.4
Northern Low Plains	10	328	-3.3	4.0
Southern Low Plains	16	410	-0.3	4.5
Cross Timbers	8	622	1.3	10.8
North Central Texas	19	936	-2.4	-1.6
East Texas	9	760	3.9	18.6
Central Texas	13	927	-3.6	-13.0
Coastal Texas	6	864	6.0	0.4
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	10	504	-4.1	-13.8
Northern Louisiana	8	679	0.8	6.6
Southern New Mexico	3	257	-0.4	2.0

CROPLAND—IRRIGATED

Region	Banks ¹ Fourth Quarter 2001	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	95	740	0.9	-0.9
TEXAS	84	695	-0.7	-2.1
Northern High Plains	19	584	0.2	-2.9
Southern High Plains	16	676	2.0	2.8
Northern Low Plains	9	533	-1.2	6.5
Southern Low Plains	11	664	-0.8	3.0
Cross Timbers	n.r.	n.r.	n.r.	n.r.
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	5	869	6.4	4.6
Central Texas	9	1,579	2.1	-6.6
Coastal Texas	3	647	-10.1	-23.7
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	9	885	10.2	4.7
Northern Louisiana	7	873	-0.9	2.6
Southern New Mexico	4	1,133	12.1	6.2

RANCHLAND

Region	Banks ¹ Fourth Quarter 2001	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	159	392	-1.6	-2.6
TEXAS	147	495	-1.4	-1.3
Northern High Plains	18	192	1.0	0.5
Southern High Plains	14	160	0.9	18.7
Northern Low Plains	10	199	-2.3	6.2
Southern Low Plains	15	315	4.5	13.9
Cross Timbers	11	645	0.4	15.2
North Central Texas	18	829	-5.0	-6.5
East Texas	22	846	-2.4	10.1
Central Texas	14	999	-1.1	-5.3
Coastal Texas	6	799	10.9	18.4
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	18	408	0.9	-6.5
Northern Louisiana	7	807	11.3	7.9
Southern New Mexico	5	90	-6.6	-20.0

Fourth-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

Some agriculture producers had a good year, but low commodity prices continue to hurt profitability and cash flow.

[New competitors are offering] much lower rates; therefore, they will, in time, put most small agricultural banks out of business.

Region 2—Southern High Plains

Crops have been harvested, and much of the cotton crop yield was better than expected. Overall peanut crops in this area were also good.

The drought continues, and herd men continue to reduce the number of cattle due to lack of grazing plants. Operating loan requests continue to decline due to the reduced cattle numbers.

Low deposit rates are causing movement of funds to other investments, so the deposit declines are keeping loan-to-deposit ratios relatively steady.

Dryland farming and irrigated cotton farming are extremely tough at this time. Equity in farm equipment is disappearing from depreciation due to market conditions as well as several years of carryover debt.

Cotton producers are in limbo because of lack of crop, low prices, uncertainty in government programs and uncertainty over a new farm program.

Cash flow is break-even at best.

Region 3—Northern Low Plains

Moisture conditions are excellent at this time. Dryland crops are well below average. Irrigated crops are average.

Generally speaking, insurance payments are the best crop in our area. Most cotton farmers are beginning to look for alternative crops because of prices.

Region 4—Southern Low Plains

Dryland cotton farmers will probably not pay out completely. Poor cotton prices and

yields just above insurance coverage are hurting these borrowers. Recent winter moisture will help wheat, pasture grazing and row crop outlook.

Cotton farmers made just enough production to exceed [insurance] coverage. We need disaster payments or we may revisit the early '80s.

It is imperative a 2002 farm bill is put in place or it will be difficult to continue row crop lending in dryland conditions.

The wet winter has brought good wheat with early grazing. Cotton prospects look good since the underground moisture will carry into the spring planting season.

Region 5—Cross Timbers

Agricultural land values are impacted more by their recreational value than their agricultural production value.

All real estate agents report only slow land sales and some weekend lookers.

Since Sept. 11 and the stock market drop, we have seen less of the 200- to 400-acre places sold, so per-acre values have decreased approximately 10 percent. Moisture conditions have improved, and wheat grazing is good.

Region 6—North Central Texas

Overall income from sale of grain is off 10 to 15 percent from one year ago. Cattle income has remained steady and has been the bright spot for our customers.

The big question is about the government payments program. If the additional payments are reduced, with no offsetting changes in the program, all our crop farmers will have large unpaid carryover [debt] for 2002.

The value per acre of ranchland and farmland varies greatly. We have had only one agricultural sale, of 200 acres at about \$800 per acre. However, the land was not put on the open market and was not an arm's length transaction. We think that the land would have sold for at least \$1,000 per acre on the open market. The agricultural real estate market is very limited. Few properties have been offered for sale. Most land is retained in family ownership.

Region 7—East Texas

Excessive rain impacted cotton yields and grade.

Commodity prices do not warrant the real estate values because production cannot provide a cash flow that would allow for debt service. The cattle market continues to be the stable agriculture market. It has allowed some row crop farmers an avenue to diversity and a

way to remain liquid enough to continue with food and fiber production.

The number of loans is going to be determined by what Pilgrim's Pride requires of their growers concerning "tunnel ventilation." Also, we have heard that Farm Service Agency is reluctant to guarantee any loans until they see what Pilgrim's Pride is going to do about this subject.

This requirement of Pilgrim's Pride could cause some growers to sell out. However, the large additional cost for "tunnel ventilation" could affect the price for the farm as well as the demand.

Region 8—Central Texas

Since Sept. 11, there has been some hesitation by borrowers on big-ticket items. Recently, however, borrowers are back to normal and considering big deals.

The peanut harvest is the best in years. Quality is lacking, however. Hay supplies are at an all-time high. Absentee landowners are still driving land prices up.

A large percentage of agricultural loans are for rice-farming operations.

Region 9—Coastal Texas

Depending on when or what type of new farm program Congress approves, we could see agricultural real estate prices negatively impacted. Also, the big issue now is the corporate versus family farm, in terms of the amount of program payments they are receiving.

Region 11—Trans-Pecos and Edwards Plateau

Underground transferable water allotment has high value in this area at this time. The average is approximately \$1,300 per acre-foot.

We have been fixing our variable loans at 8.25 percent.

Our bank primarily handles more real estate loans than agricultural loans.

Region 12—New Mexico

We continue to see new ranch ownership by nonagricultural investors. Credit conditions are stable, but only the best operators can continue in business. Operating margins continue to shrink even with improved prices. Cost of operation is increasing faster than prices.

The dairy industry continues to expand in this area. They are the only major buyers of irrigated farmland at this time.