

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

Second Quarter 2002



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 manifested some improvement in Eleventh District farming and ranching, but the overall production environment is still difficult. For instance, passage of the Farm Security and Rural Investment Act temporarily assuaged producers and bankers, but benefits from the new law are not expected to be immediately forthcoming. And although strong June and July rains fell on grateful producers, the moisture was too late for some crops and too strong for others. (See page 4 for bankers' comments.)

Here are additional details from the survey:

- Thirty-five percent of respondents experienced declining loan demand in the second quarter over a year ago, up considerably from the 24.7 percent who said so in the first quarter of 2002. Anticipated government payments from the new legislation may have dampened producer demand for loan money. Several regions reported steep increases in the number of bankers sustaining loan volume declines.

- The average variable rate on agricultural loans has declined an average of 172 basis points over the past year. Banks' costs of funds have dropped 133 basis points over the same period.

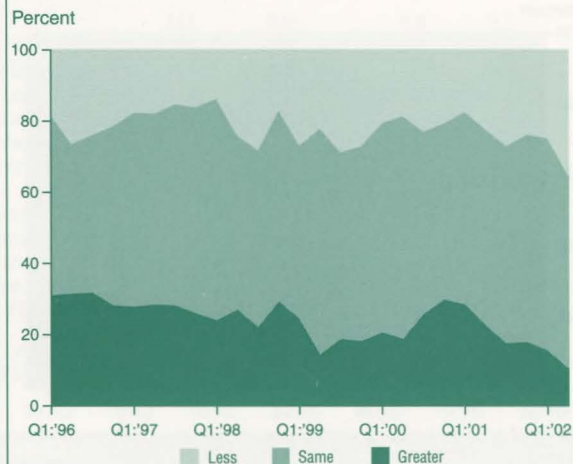
- Only 2.8 percent of bankers indicated a desire to decrease the volume of loans available to farmers and ranchers, down from 8.3 percent last quarter. Prospects for improved liquidity from the legislation may have helped reduce some lenders' risk aversion to agricultural loans.

- The average number of farm and ranch borrowers for District banks increased slightly over last year. The percentage of banks' total loan portfolio going to agriculture has declined from 27.8 percent last year to 24 percent currently.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

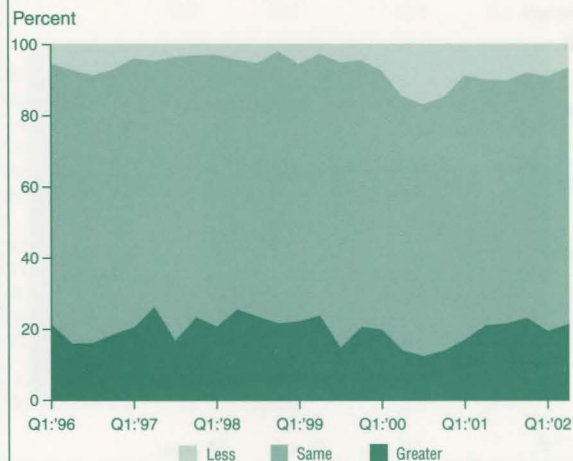
Demand for Loans

Thirty-five percent of bankers cite lower loan demand.



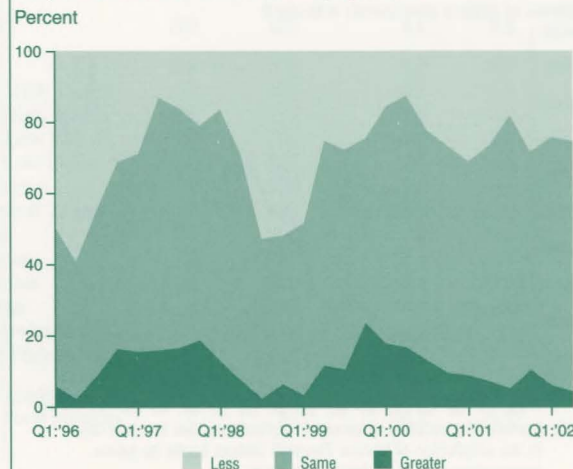
Funds Available for Additional Lending

Twenty-two percent of respondents indicate a rise in funding availability.



Rate of Loan Repayment

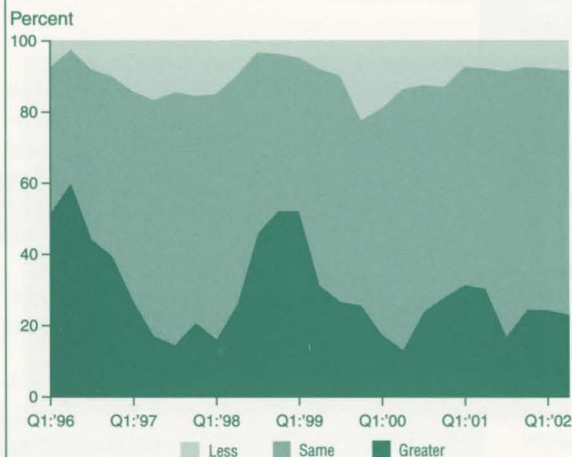
Twenty-five percent of survey respondents see less loan repayment.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

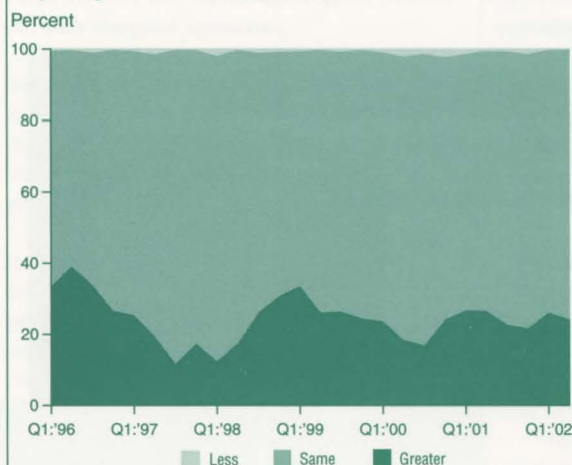
Renewals or Extensions of Loans

Eight percent experience fewer renewals and extensions.



Amount of Collateral

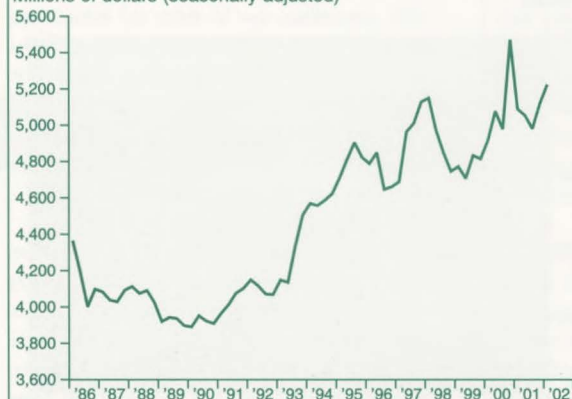
Twenty-four percent of bankers require greater collateral levels.



Total Agricultural Loans at Eleventh District Banks

Total loan volume in the sector increases 2.1 percent in the first quarter of 2002.

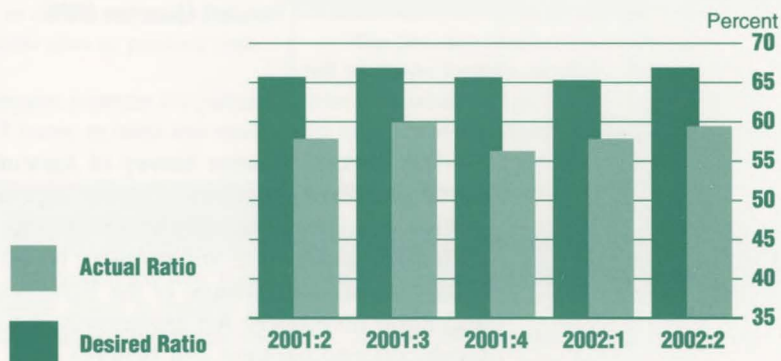
Millions of dollars (seasonally adjusted)



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)				
	2001		2002		
	July 1	Oct. 1	Jan. 1	April 1	July 1
Less than 41%	18	14	21	20	19
41% to 50%	15	12	15	17	12
51% to 60%	24	24	21	16	20
61% to 70%	16	26	21	22	20
More than 70%	28	23	22	26	30

INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				
	2001		2002		
	July 1	Oct. 1	Jan. 1	April 1	July 1
Feeder cattle	9.65	9.15	8.32	8.23	8.14
Other farm operating	9.65	9.16	8.38	8.30	8.19
Intermediate term	9.51	9.18	8.45	8.23	8.24
Long-term farm real estate	9.04	8.52	7.98	7.99	7.82

INTEREST RATE—VARIABLE

Ratio	Average Rate (Percent)				
	2001		2002		
	July 1	Oct. 1	Jan. 1	April 1	July 1
Feeder cattle	8.83	8.26	7.29	7.23	7.20
Other farm operating	9.08	8.48	7.43	7.34	7.19
Intermediate term	8.96	8.37	7.27	7.29	7.19
Long-term farm real estate	8.53	7.94	7.00	7.08	6.95

Rural Real Estate Values

July 1, 2002

¹ Number of banks reporting land values.

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

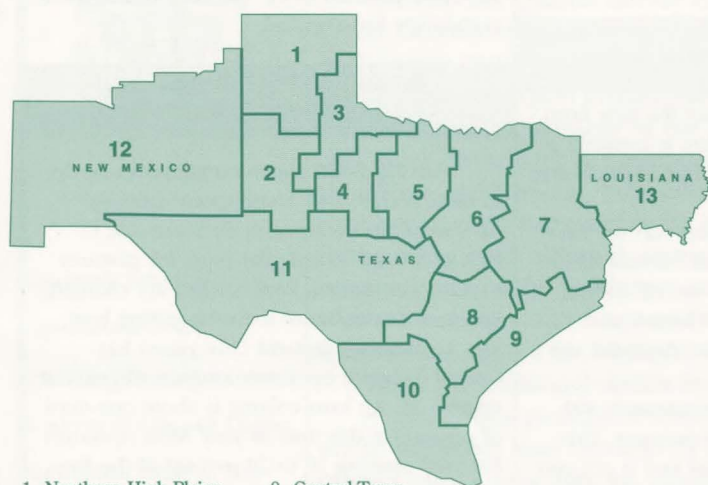
³ Not adjusted for inflation.

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 | |

CROPLAND—DRYLAND

Region	Banks ¹ Second Quarter 2002	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	151	621	0.8	0.5
TEXAS	141	618	0.8	0.3
Northern High Plains	18	283	-0.4	1.9
Southern High Plains	21	356	-1.8	2.7
Northern Low Plains	12	330	0.4	-2.1
Southern Low Plains	12	413	0.8	1.5
Cross Timbers	11	600	-0.6	0.0
North Central Texas	17	902	0.8	-6.8
East Texas	9	782	1.9	11.9
Central Texas	19	1,007	3.0	1.6
Coastal Texas	9	838	-1.3	2.1
South Texas	4	618	0.7	0.6
Trans-Pecos and Edwards Plateau	9	551	4.3	-6.9
Northern Louisiana	7	705	0.6	3.7
Southern New Mexico	3	250	-0.4	-3.2

CROPLAND—IRRIGATED

Region	Banks ¹ Second Quarter 2002	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	102	744	-0.9	0.7
TEXAS	88	692	-1.6	-2.1
Northern High Plains	18	545	-4.9	-5.5
Southern High Plains	20	673	-1.5	2.7
Northern Low Plains	11	523	0.2	-0.6
Southern Low Plains	8	650	-1.2	-4.1
Cross Timbers	n.r.	n.r.	n.r.	n.r.
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	5	921	-0.8	18.0
Central Texas	10	1,591	1.0	7.7
Coastal Texas	3	716	-0.5	-13.7
South Texas	3	874	2.6	5.8
Trans-Pecos and Edwards Plateau	7	996	1.5	22.1
Northern Louisiana	7	908	1.1	2.1
Southern New Mexico	7	1,205	2.6	19.7

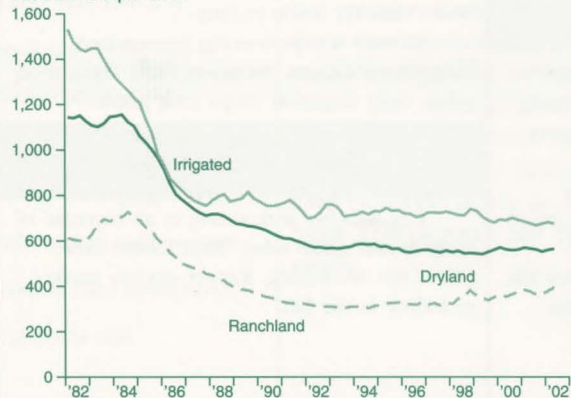
RANCHLAND

Region	Banks ¹ Second Quarter 2002	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	170	435	4.4	5.8
TEXAS	156	552	4.8	6.7
Northern High Plains	17	191	-0.7	0.3
Southern High Plains	18	172	1.8	11.0
Northern Low Plains	12	204	-0.3	1.1
Southern Low Plains	10	327	1.6	19.5
Cross Timbers	14	656	1.2	2.4
North Central Texas	17	895	5.9	-2.6
East Texas	19	905	2.4	7.5
Central Texas	22	1,087	3.1	2.4
Coastal Texas	9	849	2.2	23.3
South Texas	4	697	11.3	4.8
Trans-Pecos and Edwards Plateau	14	468	5.2	10.9
Northern Louisiana	7	689	-8.9	-8.4
Southern New Mexico	7	97	-0.2	-5.9

Eleventh District Real Land Values

Ranchland and dryland values increase 4.4 percent and 0.8 percent, respectively. Irrigated land values drop 0.9 percent.

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

Land values contain a certain degree of uncertainty due to the recent transactions concerning water rights.

Extreme drought. Low prices. Loss in cattle equities extreme. Looks tough.

Region 2—Southern High Plains

The area has good crop starts for cotton and peanuts. Some cotton crops have suffered hail damage. Replant plans are uncertain. Farm bill may not be enough to save producers with marginal operations.

Farm bill passage has boosted optimism, but a crop still needs to be harvested. Recent storms destroyed about 75,000 acres that will likely be replanted in something other than cotton. Overall moisture is good, and the young crops look good.

Recent passage of the Farm Security and Rural Investment Act of 2002 has been very favorable for our row-crop customers. Peanut producers will especially benefit. Cattle feeders have experienced severe losses on recent closeouts of up to \$100 per head.

Region 3—Northern Low Plains

Dryland cotton and peanuts are being planted in hope that we will have enough moisture to sprout the seed and have sufficient rains.

The new farm bill appears to be an improvement for most of our customers. Our area needs two things to be in an ideal situation: better prices and more rain.

Region 4—Southern Low Plains

The drought is killing our ag economy. Surface moisture conditions have improved, which allowed the cotton crop to get off to a good start. Cattle prices continue to decline, squeezing margins for ranchers. The new farm bill looks very promising for row-crop farmers on a long-term basis; however, the bill does not provide immediately needed short-term help.

A large number of ranchland acres were sold last year to out-of-country buyers to be used strictly for hunting. Some land is being fenced with 8-foot fences at \$15,000/mile.

Region 5—Cross Timbers

Good spring rains. Cattle prices are good. Most wheat has been grazed or baled.

New farm bill will keep most farmers in business. Prospects for building equity remain bleak. Karnal bunt in our county makes wheat grazing the only viable plan to produce cash flows.

We've had adequate moisture for pastures but still need runoff water, as lakes and stock tanks are low.

Region 6—North Central Texas

It is not clear what impact the new farm bill will have on income. There is certainly a feeling of apprehension among borrowers and lenders.

Central Texas crop farmers will see average yields of about 60 percent because of the very dry spring. Cattle prices are off \$50 to \$100 per head from last fall. Farmers and lenders are both very negative about the current farm economy.

The asking price of approximately 400 acres north of town is \$1,050 per acre. This tract is mainly farm/ranch land and is not considered recreational or influenced by metropolitan buyers.

Region 7—East Texas

Pilgrim's is expanding its broiler operation, creating an increase in loan demand.

The new farm bill should provide some relief. Real estate prices for production acreage are excessive when compared with production income. Market prices for commodities do not support cost of production.

Got another good 2–3 inches of rain. Should be able to get a second cutting of hay. Calf prices are down about 10–15 cents.

Region 8—Central Texas

Most acreage sales are to recreational buyers or developers. Drought is dramatically affecting farmers and ranchers in Southwest Texas.

Drought, increased expenses, lower prices and less government help are a recipe for disaster. If these things continue, the hobby ranchers will be the only cattlemen left.

Water rights have almost doubled the price of irrigated farms.

Region 9—Coastal Texas

Commercial banks are having a difficult time maintaining market share on high-quality ag loans, namely ag real estate loans.

The farm economy remains very depressed. All related agricultural businesses are struggling, including air service, and equipment and fertilizer suppliers.

Region 10—South Texas

The hot, dry weather has really taken a toll on crops. Quite a bit of the dryland grain, corn and cotton will go unharvested and end up as an insurance claim. We are beginning to see some softness in the market for land used exclusively for cropland.

Region 11—Trans-Pecos and Edwards Plateau

The Big Bend region continues to be dry in most places, with some spotty rainfalls. Cow numbers continue to decrease due to lack of foliage. It will take years for pastures to return to normal. Few ranches are changing hands, with the future focus on raising beef.

Continuous drought (10+ years) has caused livestock operators to drastically shrink operations. Ag loan volume is about one-third of normal for this time of year. Most operators are only carrying 10 to 20 percent of the livestock they would normally like to have.

Availability of water will be a critical factor in the next several years.

Region 12—New Mexico

Very dry. Doesn't look good. Some additional herd liquidation has begun. Herd size is 40 to 50 percent of normal. Non-ag buyers have purchased several area ranches, which will be subdivided. It's the beginning of the end for ranching, as we know it.

Severe drought with some spotted rain. Ranchers are beginning to wean calves early and cull older cows. Local irrigation district is out of water, with only 16 percent of usual water delivery made to date.

County is experiencing tremendous drought conditions. Frequent cattle liquidation sales. Only irrigation crops look good.

Region 13—Louisiana

Dry weather is resulting in an increase of early feeder cattle sales. Thus feeder cattle prices are decreasing. Expect stocker market to follow in the fall.