

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

Third 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](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 indicated that Eleventh District bankers anticipate slightly improved financial conditions in coming months. The improved outlook was attributed to favorable summer growing conditions and the passage of the 2002 Security and Rural Investment Act. However, some bankers are worried about the lingering effects of the 2001 crop shortfall. Passage of the farm bill may have a positive effect on land values, as near-term revenue prospects for some producers have improved. Competition from alternative land use continues to bid up land values as well. Seventeen percent of bankers expect an increase in land values over the next three months, up from only 7 percent a year ago. (See page 4 for bankers' comments.)

Here are additional details from the survey:

- Nineteen percent of bankers reported greater loan availability in third quarter 2002 than the previous year, down slightly from 22 percent in third quarter 2001. Fifteen percent of respondents experienced increased loan demand over a year ago, reversing a downward trend, which began in fourth quarter 2001.

- Bankers report that there has been no easing of lending standards, as collateral requirements have remained relatively unchanged from a year ago. Eighty percent of respondents reported the same collateral requirement compared with a year earlier, up slightly from 77 percent in third quarter 2001.

- Banks' cost of funds declined another 18 basis points this quarter to an average rate of 2.4 percent. The cost of funds rate began its decline in first quarter 2001 and is currently the lowest in more than 20 years.

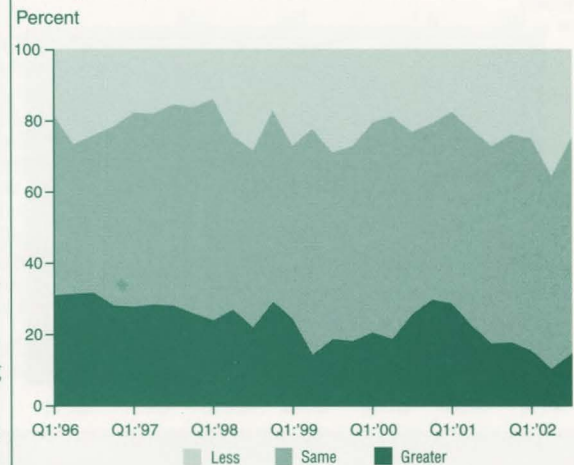
- The percentage of bankers expecting increased loan volume over the next three months rose in all categories except farm machinery. Twelve percent of respondents expect farm real estate loans to grow in the fourth quarter, up from 9 percent who expected an increase for the third quarter; 10 percent expect feeder cattle loans to increase, up from 5 percent last quarter.

- Data show that the number of agricultural borrowers has dropped 15 percent over last quarter.

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

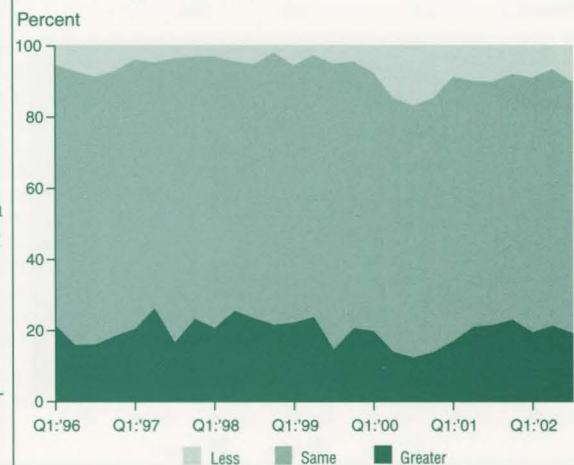
### Demand for Loans

Twenty-four percent of those surveyed experience lower loan demand.



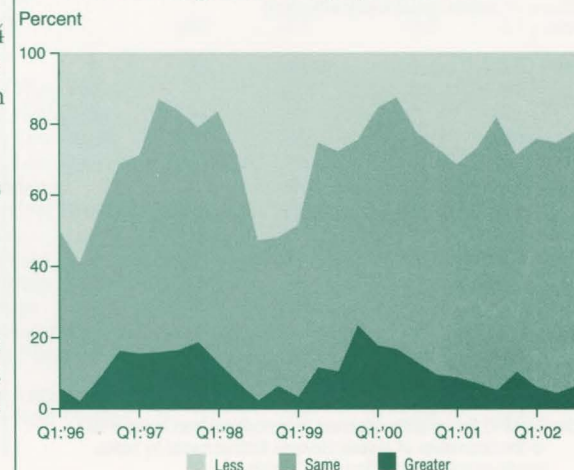
### Funds Available for Additional Lending

Ten percent of bankers cite less funding availability.



### Rate of Loan Repayment

Seventy-two percent of respondents indicate no change in loan repayment rates.

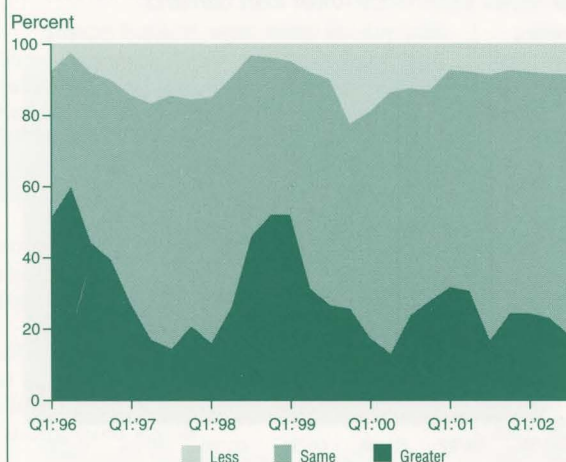




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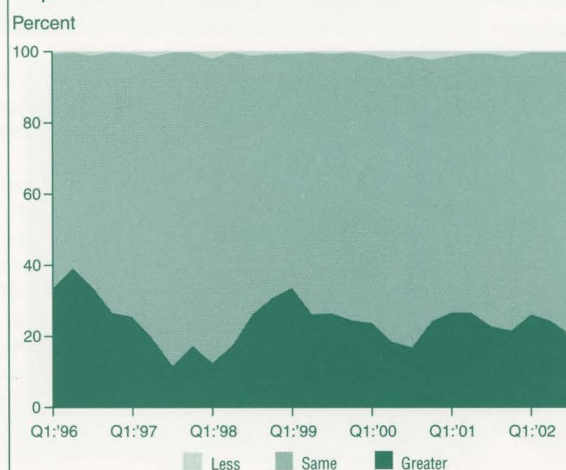
## Renewals or Extensions of Loans

Eighteen percent of bankers cite increased renewals and extensions.



## Amount of Collateral

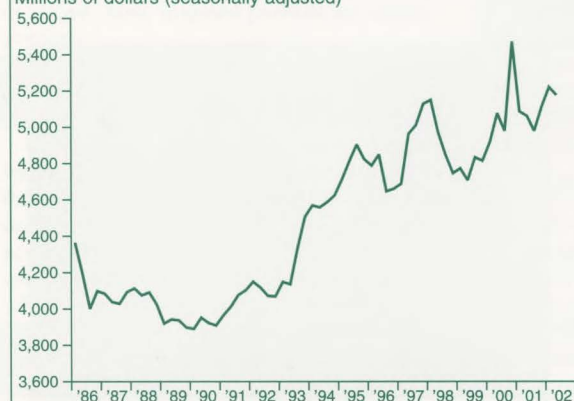
Eighty percent of respondents require the same levels of collateral.



## Total Agricultural Loans at Eleventh District Banks

Total loan volume in the agricultural sector slips in the second quarter of 2002.

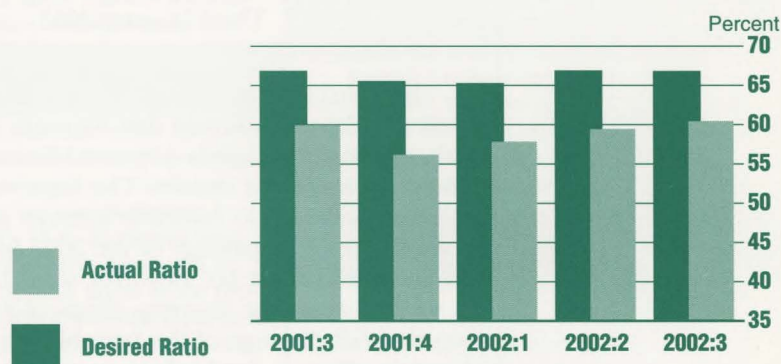
Millions of dollars (seasonally adjusted)



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 Oct. 1	2002 Jan. 1	2002 April 1	2002 July 1	2002 Oct. 1
Less than 41%	14	22	20	19	16
41% to 50%	12	15	17	12	14
51% to 60%	24	21	16	20	17
61% to 70%	26	21	22	20	20
More than 70%	23	22	26	30	33

## INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				
	2001 Oct. 1	2002 Jan. 1	2002 April 1	2002 July 1	2002 Oct. 1
Feeder cattle	9.15	8.31	8.23	8.14	8.08
Other farm operating	9.16	8.37	8.30	8.19	8.08
Intermediate term	9.18	8.45	8.23	8.24	8.10
Long-term farm real estate	8.52	7.98	7.99	7.82	7.79

## INTEREST RATE—VARIABLE

Ratio	Average Rate (Percent)				
	2001 Oct. 1	2002 Jan. 1	2002 April 1	2002 July 1	2002 Oct. 1
Feeder cattle	8.26	7.29	7.23	7.20	7.03
Other farm operating	8.48	7.43	7.34	7.19	7.13
Intermediate term	8.37	7.27	7.29	7.19	7.10
Long-term farm real estate	7.94	7.00	7.08	6.95	6.77

## Rural Real Estate Values

October 1, 2002

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

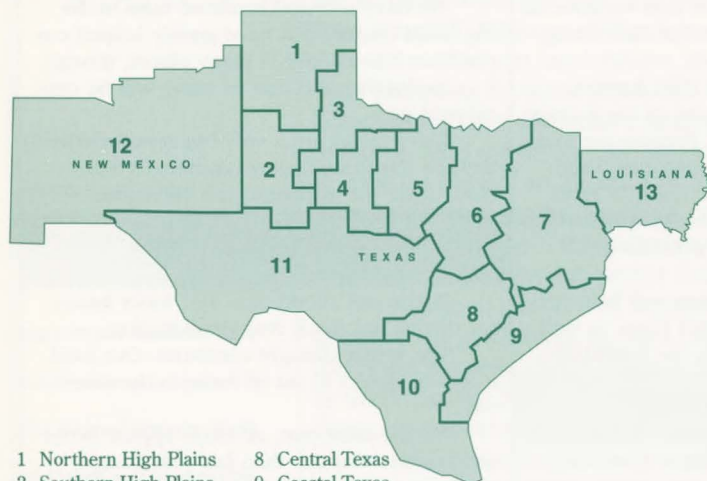
<sup>2</sup> Prices are dollars per acre, not adjusted for inflation.

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

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

NOTE: In recent years we have seen some agricultural land values driven up as a result of urban expansion and land conversion to recreational use. These inflated values were sometimes omitted to reduce volatility in reporting regions. Eventually the number omitted grew so large as to threaten the reliability of the data series. Therefore, we are reinstating all reported land values. This revision includes data reported from first quarter 2001 through second quarter 2002. Historic tables containing these data can be found at <http://www.dallasfed.org/htm/data/about.html>.

## 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 <sup>1</sup> Third Quarter 2002	Average Value <sup>2</sup>	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	177	653	1.4	1.1
TEXAS	161	653	1.6	0.8
Northern High Plains	18	280	-0.9	-0.1
Southern High Plains	23	364	0.6	4.3
Northern Low Plains	14	324	-0.9	-4.2
Southern Low Plains	14	413	1.0	0.5
Cross Timbers	16	582	-1.1	-5.2
North Central Texas	25	970	1.2	-3.9
East Texas	9	798	1.9	0.9
Central Texas	18	1,162	3.4	10.5
Coastal Texas	9	961	7.4	5.4
South Texas	6	579	-3.8	-8.4
Trans-Pecos and Edwards Plateau	9	578	-0.6	2.9
Northern Louisiana	13	700	-0.8	3.9
Southern New Mexico	3	256	1.1	-1.0

## CROPLAND—IRRIGATED

Region	Banks <sup>1</sup> Third Quarter 2002	Average Value <sup>2</sup>	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	121	778	-1.3	-1.1
TEXAS	101	715	-2.0	-1.9
Northern High Plains	17	582	-1.3	-1.8
Southern High Plains	22	687	0.8	3.6
Northern Low Plains	12	523	1.3	-3.1
Southern Low Plains	11	643	-0.8	-3.9
Cross Timbers	6	861	-3.3	-9.0
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	4	857	-6.4	5.0
Central Texas	8	1,981	11.1	26.9
Coastal Texas	4	650	-10.8	-9.6
South Texas	5	789	-5.5	-13.3
Trans-Pecos and Edwards Plateau	10	1,173	-6.3	-0.5
Northern Louisiana	13	923	0.8	4.7
Southern New Mexico	7	1,347	2.2	1.8

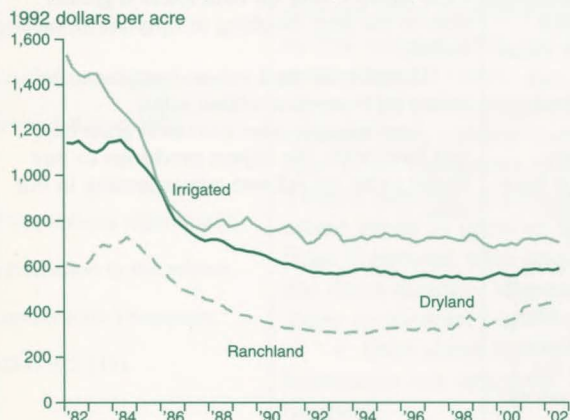
## RANCHLAND

Region	Banks <sup>1</sup> Third Quarter 2002	Average Value <sup>2</sup>	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	192	477	-1.0	2.7
TEXAS	175	561	0.1	4.0
Northern High Plains	17	191	0.2	0.4
Southern High Plains	18	181	2.5	14.2
Northern Low Plains	14	199	-1.4	-2.3
Southern Low Plains	12	318	1.6	5.5
Cross Timbers	17	661	0.2	3.0
North Central Texas	26	958	0.9	2.1
East Texas	17	874	-1.8	-0.7
Central Texas	20	1,340	3.8	8.3
Coastal Texas	10	808	3.6	5.9
South Texas	5	664	-1.3	8.3
Trans-Pecos and Edwards Plateau	19	459	-1.4	1.6
Northern Louisiana	10	622	-7.9	-15.1
Southern New Mexico	7	236	-7.8	-4.4

## Eleventh District Real Land Values

Dryland values increase 1.4 percent.

Irrigated land and ranchland values decline 1.3 percent and 1 percent, respectively.





# 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

Most producers need an additional government payment this year. Quite a few producers have had to request additional operating funds to carry them through harvest.

Sustained drought conditions adversely affect value. Commodity prices are low. There is concern over water rights and the potential effect of nonagricultural commercial use of underground supply.

Abundant rainfall should provide adequate wheat pasture; plus, the cattle market is gaining strength. It could be a positive first and second quarter for 2003.

## Region 2—Southern High Plains

General lending practices have not varied from last year. Growth and increased volume are seen in cattle lending. Bank margins have improved from a year ago.

Irrigated cotton and peanut yields will surpass expectations. The dryland cotton crop will be disappointing. Conditions are stable, with few forced liquidations. Little land is available for purchase or rent. Prospects for federal disaster assistance appear to be improving. This would greatly assist many growers still trying to overcome the poor 2001 crop. Cattle markets have stabilized.

## Region 3—Northern Low Plains

Land values are generally supported by the increase in recreational owners. We could see changes in real estate after the farm bill is finalized.

Crops are late. With late frost and additional rain, the cotton crop could be average or above. Also, irrigated peanuts are above average.

## Region 4—Southern Low Plains

After the relatively wet summer, pastures have come back with fairly good growth. Rangeland [values] in this area have increased dramatically due to the sale of several large acreages to wealthy out-of-state buyers interested in recreation. Prospects look good for wheat yield, but prices are depressed.

## Region 5—Cross Timbers

Our area has good rains, and most stock tanks are full. Wheat grounds have been pre-

pared and fertilized. Our ranchers and farmers are starting to buy stocker calves. Cattle prices in some areas have gone up by \$15 to \$20. Other areas have had a slight increase in cattle prices.

Ranchland values continue to be affected by proximity to major metropolitan areas.

The new farm bill should help. Also, there would be an increase in wheat prices if we could get out of the karnal bunt quarantine.

We still need runoff water to replenish stock tanks and area lakes. Farmers are waiting for moisture before sowing wheat.

## Region 6—North Central Texas

Overall, crop production yields have been good. Prices for grains are 25 to 35 percent above last year. However, I am convinced when all income for the year is in, farm income will be down 15 to 20 percent from 2001. Also, increases in grain prices will be reflected in lower livestock prices to the producer. I expect slightly lower loan repayments and tighter loan requirements for the coming crop year.

We have completed the 2002 harvest, which is about 60 to 70 percent of the average yield for Williamson County. Farmers are looking forward to the new farm program. Land values continue to increase, a result of more land being developed and new people moving to the area. Demand is very good for small tracts at a premium price.

The increase in corn prices will help the dryland corn farmers in Central Texas as well as farmers of irrigated land in the Panhandle.

## Region 7—East Texas

Farming conditions continue to be difficult due to high production costs and minimal returns on investments. Land values are excessive for production returns.

The cotton crop appears good, and harvest has started.

The dairy industry is very important to Hopkins County, even though the number of dairy farms has fallen from a peak of more than 500 to about 160.

## Region 8—Central Texas

This is a year to forget for the Coastal Bend area. Not considering poor market prices for crops, our production of corn, milo and cotton is 60 to 75 percent less than normal, and grades are poor.

We had rains this summer when they were most needed. Most cattle producers have plenty of hay going into the fall. Only the most efficient producers are making any money right now; the rest are just getting by. September through November is the main selling period for feeder calves in our area. With corn prices steadily increasing and the large number of feeder calves being sold this fall, I look for a substantial decrease in cattle prices.

## Region 9—Coastal Texas

Wharton County is a major agriculture-producing county. Our corn and milo yields were average, but grades were off because of heavy rains prior to harvest. Rice yields were excellent, but there is a limited market and a depressed price. Our cotton crop is mostly excellent; however, recent rains from Hurricane Faye will hurt the grades on most remaining cotton in the fields.

## Region 10—South Texas

Rainfall has been great over the past three months. We have received over 30 inches. Some of the crops did wash, but the benefit has been greater than the loss. We are going into the fall in great shape.

## Region 11—Trans-Pecos and Edwards Plateau

We have received localized rains in the Big Bend country that have greatly helped our pastures. It is still dry in many places, though.

Availability and cost of water will be critical next year.

Dairy prices are a very big concern. The drought has forced many ranchers to liquidate. Cattle are in poor to fair condition.

## Region 12—New Mexico

Real estate subdivision and water issues are driving the ranch real estate market.

The severe drought continues. Our local irrigation district is out of water in the reservoir.

For the most part, all crops appear better and are priced better than last year. Range (cattle) conditions remain very dry, and many cattle are being sold or moved out of the country.

Land values vary. Some irrigated land is sold at industrial prices because of water values.

## Region 13—Louisiana

The local economy depends heavily on agriculture. Pricing and the yield of crops in past years have placed a heavy burden on local farmers. Risk on farm loans is greater than in the past, resulting in fewer crop loans funded.

Agricultural land values continue to be driven by recreation-related sales.

Late summer rains increased grass base and hay yields. We expect producers to buy feeder cattle for fall and winter grazing in our area.