

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

Second Quarter 2003



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 D'Ann Petersen, (214) 922-5190.

The Second Quarter Survey of Agricultural Credit Conditions revealed some improvement in the Eleventh District's agricultural environment. Loan repayment rates and fund availability both rose, potentially indicating improved liquidity. However, many bankers expressed caution because of farmers' ongoing confusion over farm program participation. In particular, uncertainty about the timing of program payments makes it difficult for bankers to assess overall loan risk. Higher natural gas prices and concerns about water rights continue to negatively affect production. (See page 4 for bankers' comments.)

Here are additional details from the survey:

- Loan demand is up relative to last year. Fifteen percent of responding banks noted a greater demand for loans, compared with 11 percent a year ago. In addition, the number of bankers who reported increased availability of funds rose 5.6 percentage points.

- The incidence of loan repayment continues to rise. Over 10 percent of respondents reported an increased rate of repayment, double the 5 percent of a year earlier. Thirty-two percent of bankers in the Southern Low Plains and 20 percent of bankers in South Texas reported higher loan repayment rates relative to a year ago.

- Nineteen percent of respondents reported increased collateral requirements, down from 24 percent a year ago and 26 percent in the first quarter of 2002. This suggests that lending criteria are less stringent than in recent quarters.

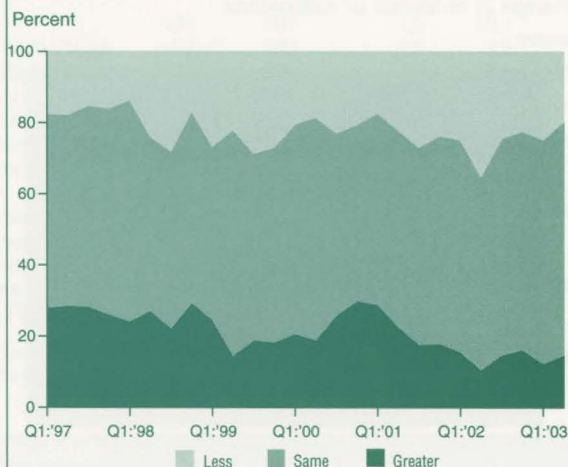
- Favorable grazing conditions and strong cattle markets have contributed to bankers' expectations of increased volume for feeder cattle loans. Fourteen percent of bankers reported that they expect the volume of feeder cattle loans to increase during the next three months, compared with 5 percent a year ago.

- Banks' cost of funds declined another 21 basis points in the second quarter, to an average of 1.9 percent. This is the first time in 18 years that the rate has fallen below 2 percent. Respondents reported stable loan-to-deposit ratios.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

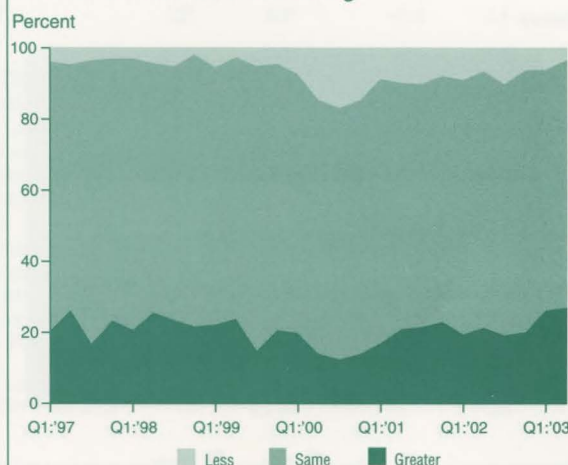
Demand for Loans

Fifteen percent of bankers report an increase in loan demand.



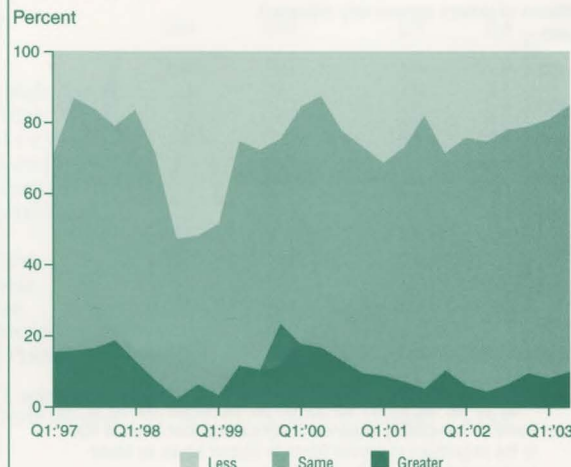
Funds Available for Additional Lending

Twenty-seven percent of bankers cite an increase in the funds available for lending.



Rate of Loan Repayment

Ten percent of respondents see greater loan repayment.

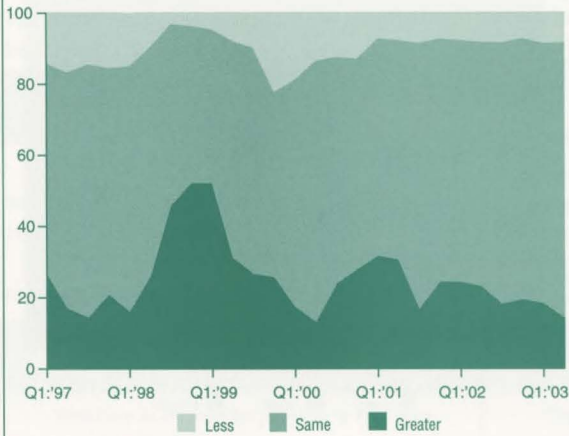


Agricultural Credit Conditions at Survey Banks in the Eleventh District

Renewals or Extensions of Loans

Seventy-three percent of respondents report no change in renewals or extensions.

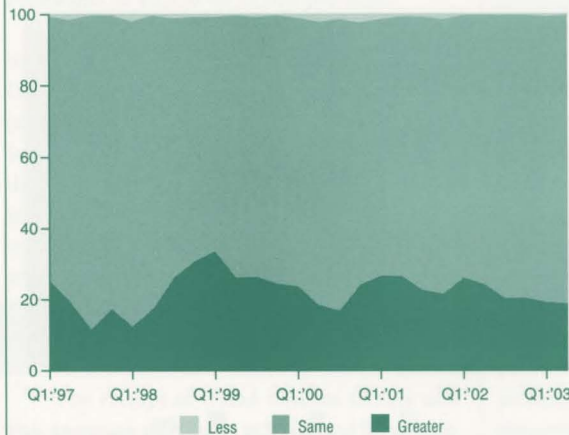
Percent



Amount of Collateral

Eighty-one percent of bankers report no change in collateral requirement levels.

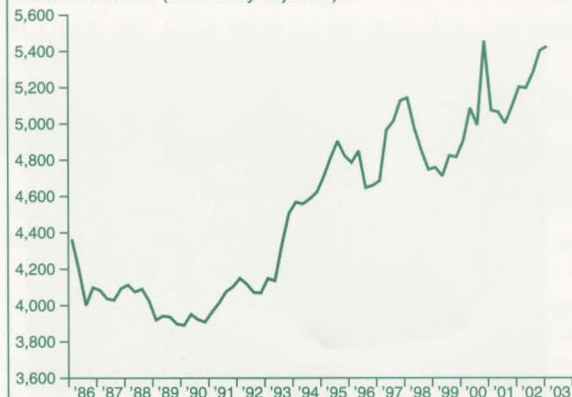
Percent



Total Agricultural Loans at Eleventh District Banks

Total loan volume continues to rise in the first quarter of 2003.

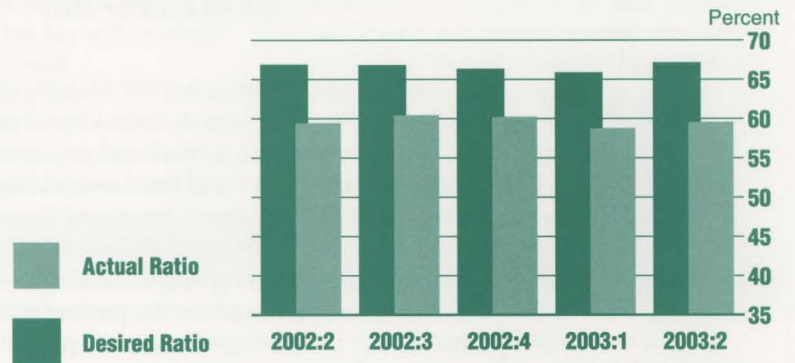
Millions of dollars (seasonally adjusted)



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		2003		
	July 1	Oct. 1	Jan. 1	April 1	July 1
Less than 41%	19	16	14	19	20
41% to 50%	12	14	17	16	15
51% to 60%	20	17	18	18	13
61% to 70%	20	20	21	18	21
More than 70%	30	33	30	29	31

INTEREST RATE—FIXED

Loan Type	Average Rate (Percent)				
	2002		2003		
	July 1	Oct. 1	Jan. 1	April 1	July 1
Feeder cattle	8.14	8.08	7.62	7.59	7.63
Other farm operating	8.19	8.08	7.67	7.64	7.53
Intermediate term	8.24	8.10	7.73	7.68	7.61
Long-term farm real estate	7.82	7.79	7.51	7.50	7.22

INTEREST RATE—VARIABLE

Loan Type	Average Rate (Percent)				
	2002		2003		
	July 1	Oct. 1	Jan. 1	April 1	July 1
Feeder cattle	7.20	7.03	6.71	6.68	6.60
Other farm operating	7.19	7.13	6.87	6.86	6.67
Intermediate term	7.19	7.10	6.83	6.87	6.65
Long-term farm real estate	6.95	6.77	6.57	6.48	6.35

Rural Real Estate Values

July 1, 2003

¹ Number of banks reporting land values.

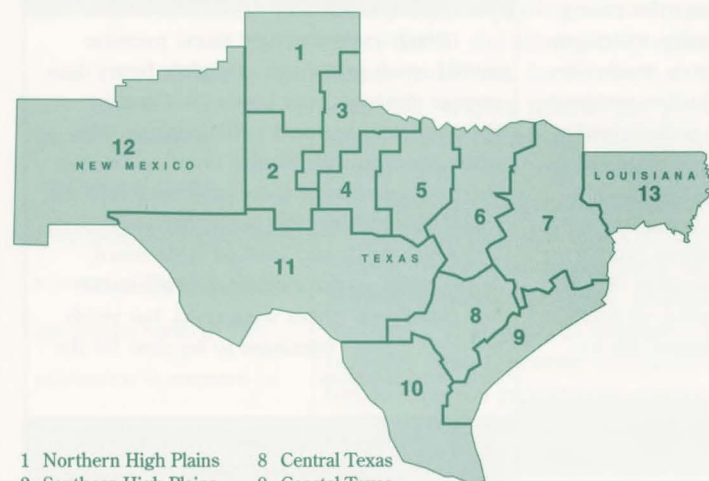
² Prices are dollars per acre, not adjusted for inflation.

³ Not adjusted for inflation.

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

NOTE: 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 since first quarter 2001. Historic tables containing these data can be found at www.dallasfed.org/hm/data/about.html.

Eleventh Federal Reserve District

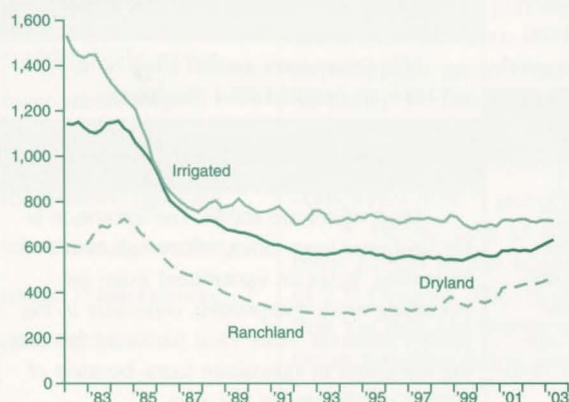


- | | |
|------------------------|------------------------------------|
| 1 Northern High Plains | 8 Central Texas |
| 2 Southern High Plains | 9 Coastal Texas |
| 3 Northern Low Plains | 10 South Texas |
| 4 Southern Low Plains | 11 Trans-Pecos and Edwards Plateau |
| 5 Cross Timbers | 12 Southern New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

Eleventh District Real Land Values

Dryland and ranchland values increased 1.8 percent and 1.3 percent, respectively. Irrigated land values edged down 0.4 percent.

1992 dollars per acre



CROPLAND—DRYLAND

Region	Banks ¹ Second Quarter 2003	Average Value ² Second Quarter 2003	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	184	708	1.8	10.0
TEXAS	165	707	1.5	10.1
Northern High Plains	21	293	1.5	3.5
Southern High Plains	19	389	3.8	7.5
Northern Low Plains	14	345	4.6	5.4
Southern Low Plains	15	441	2.5	7.7
Cross Timbers	16	603	0	2.5
North Central Texas	21	1,109	0	15.7
East Texas	11	842	4.3	7.5
Central Texas	22	1,233	1.3	9.7
Coastal Texas	10	1,002	-0.2	12.0
South Texas	5	725	3.0	20.5
Trans-Pecos and Edwards Plateau	11	581	0.8	-0.1
Northern Louisiana	14	778	5.6	10.2
Southern New Mexico	5	242	-1.1	-4.3

CROPLAND—IRRIGATED

Region	Banks ¹ Second Quarter 2003	Average Value ² Second Quarter 2003	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	127	800	-0.4	1.6
TEXAS	105	743	-0.8	1.8
Northern High Plains	19	532	-4.4	-9.8
Southern High Plains	19	704	-1.8	3.4
Northern Low Plains	12	583	5.5	12.9
Southern Low Plains	13	751	2.7	15.9
Cross Timbers	4	1,059	4.6	18.9
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	5	886	-0.3	-3.2
Central Texas	13	1,820	4.8	2.0
Coastal Texas	5	835	4.9	14.5
South Texas	5	897	1.8	7.4
Trans-Pecos and Edwards Plateau	9	1,299	-3.0	3.7
Northern Louisiana	14	1,079	7.4	17.8
Southern New Mexico	8	1,267	-0.1	-3.9

RANCHLAND

Region	Banks ¹ Second Quarter 2003	Average Value ² Second Quarter 2003	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	194	518	1.3	7.4
TEXAS	172	621	1.5	10.9
Northern High Plains	18	201	1.9	5.1
Southern High Plains	15	192	3.2	9.1
Northern Low Plains	14	229	6.1	13.5
Southern Low Plains	13	362	1.3	15.5
Cross Timbers	16	626	-4.0	-5.2
North Central Texas	22	1,089	-1.2	14.7
East Texas	19	938	1.4	5.4
Central Texas	24	1,547	0.5	19.9
Coastal Texas	10	966	1.0	23.8
South Texas	5	747	1.7	11.1
Trans-Pecos and Edwards Plateau	16	506	3.8	8.7
Northern Louisiana	13	762	10.9	13.0
Southern New Mexico	9	217	-0.6	-15.0

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

Excellent moisture. There's not much of a wheat crop but an excellent start to the corn crop. Grass pastures are in excellent condition. Natural gas prices and U.S. farm programs make profitability for irrigated farms difficult.

Region 2—Southern High Plains

Weather is currently playing a big part in our region. Several areas will have to be replanted, and costs will increase. Secluded areas of irrigated land that have abundant underground water have sold for premiums of \$1,259 to \$1,500 per acre. Cattle feeders have experienced outstanding results this year, with strong beef prices. Dairy operators are pressured by low milk prices; highly leveraged operations are distressed. The South Plains will experience high cotton abandonment because of late May and early June storms and seedling diseases. But dryland acreage has benefited from improved moisture, so the crop outlook is mixed as of early June.

Region 3—Northern Low Plains

The receipt of USDA disaster money and FSA program payments is expected to reduce loan demand in the next quarter. We are near the deadline for planting cotton, but some fields are still too wet to plow. Cotton has come up and died because of high winds and cold weather. Peanut growers are off to a good start. Cattle prices are still good. Producers are waiting for USDA disaster payments.

Region 4—Southern Low Plains

We have received good planting rains for the first time in about five years. Our area lakes are still in need of major runoff. Overall, we are not seeing any large changes in our loans. Repayment has been satisfactory considering our current economic times. Most of the wheat crop is out. However, cotton may be expensive since some farmers may have to plant again. Beef cattle enterprises are experiencing

very favorable economics, with better grazing availability and strong markets. Dairy enterprises are suffering from continued low milk prices. Raw crop prospects are mixed. Peanuts are doing well.

Region 5—Cross Timbers

The area has received four to six inches of rain in the past three weeks. However, lakes remain at approximately 50 percent of normal levels, so more runoff water is needed. Hay-grazer is late, but hay will be ample because of recent rainfall. Tracts are getting smaller due to land sales for recreational uses, which reduces the demand for farming and ranching inputs. Small tracts make agriculture operations less efficient.

Region 6—North Central Texas

The cattle market appears to be strong and improving. Row crop farming operations are caught in a squeeze between production cost and price received. Production prospects are good but not adequate at today's market prices. Most farm borrowers have requested additional loan funds to cover higher input costs. The unknown variable is the amount they will receive from government programs. It is difficult to use government disaster programs as collateral or a source of repayment for loans when the programs are so poorly administered.

Region 7—East Texas

Agricultural land values are high compared with income generated from agricultural products. Production costs continue to escalate, while prices are below value. Cash flows do not adequately cover cost of production. That results in greater credit risk and less available credit to the producer. Milk prices are at a four-year low. The milk income loss contracts (MILC) program is saving most milk producers. The feed-to-milk ratio is 2.4, well below the 3 percent profit margin needed. Beef prices are steady. Feed prices are stable. The poultry business is good.

Region 8—Central Texas

Agricultural loan values are steady to strong. Heavy fall and winter rains in 2002 replenished deep subsoil moisture, but the late spring and early summer were very dry. The crop worst hit by this dry pattern was corn. Early to midsummer has brought some rains—very timely for the grain sorghum crop and rangelands.

Water rights and their sale have driven irrigated farmland to new highs. Demand for crop and operating loans is down due to long-time farmers leaving the business. Most farmland is being planted to grassland. Peanuts are no longer being planted.

Region 9—Coastal Texas

Drought conditions will likely once again cause farm borrowers to experience negative cash flows. Competition from farm credit system lenders is a problem because they don't pay income taxes on their real-estate-secured loans. Yet community banks pay 34 cents of every \$1 of net income in taxes. The rice crop is later than usual because of the wet spring. Many farms struggle with low prices and unclear government programs.

Region 10—South Texas

Timely rains and light insect pressure should result in average to slightly better than average yields for most Lower Rio Grande Valley cotton, corn and grain sorghum. The water situation with Mexico is still a concern, but small amounts of water have been released, which should help. The onion harvest is over, and while yields and acreage were down, prices made up the difference. Watermelon and cantaloupe prices were good, but yields were off. Signup continues to be slow for the new farm program.

Region 11—Trans-Pecos and Edwards Plateau

Availability of water continues to be a cause for concern. Recent rains have helped prospects for a good year, but follow-up will be needed before restocking can be considered. Many ranchers are concentrating on maximizing hunting income and not counting as heavily on income from cattle, sheep and goats.

Region 12—Southern New Mexico

Milk prices have caused dairy farmers to cut back on irrigated land purchases.

Region 13—Northern Louisiana

Land values are stable. The exception is for land near large cities, where values are increasing. Rates on agricultural loans are becoming more competitive, especially in the poultry business. More local banks are becoming interested in agriculture loans because of poultry predictions in this area.