

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

Second Quarter 2005



*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 Laila Assanie, (214) 922-5191.

The Second Quarter Survey of Agricultural Credit Conditions revealed some concerns among the Eleventh District agricultural community. Hot and dry weather adversely affected crop and pasture conditions in some regions of the district. High fuel and fuel-related product prices continued to push up farm operating expenses, further stressing an already strained production environment. Additionally, the possibility of reduced government payments remained a concern among bankers. On a positive note, there were reports of sustained favorable weather and good crop conditions in certain parts of the district.

Discovery of bovine spongiform encephalopathy (BSE) in a Texas cow in late June did not affect this quarter's survey results because most of the respondents had completed the survey prior to the announcement. Despite the discovery, cattle prices remain solid and are benefiting cow-calf ranchers within the district. However, good cattle prices continue to keep ranchers from expanding their stocker and feeder cattle herds.

Here are additional details from the survey:

- Although most respondents (66 percent) predict that farmland values will remain stable through the next three months, bankers in Central Texas, Coastal Texas, and the Trans-Pecos and Edwards Plateau expect farmland values to continue to climb during the same period.

- Ranchland and farmland continue to be bought for recreational use, and more buyers are paying cash for their purchase. Thus, only 11 percent of respondents expect farm real estate loans to be greater, down from 20 percent a year ago.

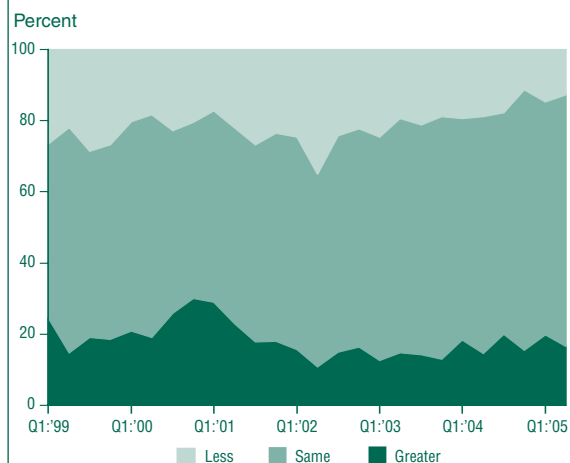
- Good cattle prices are still deterring ranchers from restocking their herds. Hence, 74 percent of lenders anticipate demand for feeder cattle loans to remain stable, up from 66 percent last quarter.

- Credit conditions remain mostly stable. Eighty-two percent of agricultural lenders report that fund availability remains unchanged, while 71 percent report steady loan demand. However, the cost of funds is rising. The average cost of funds was nearly 2.1 percent, up from 1.6 percent last quarter.

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

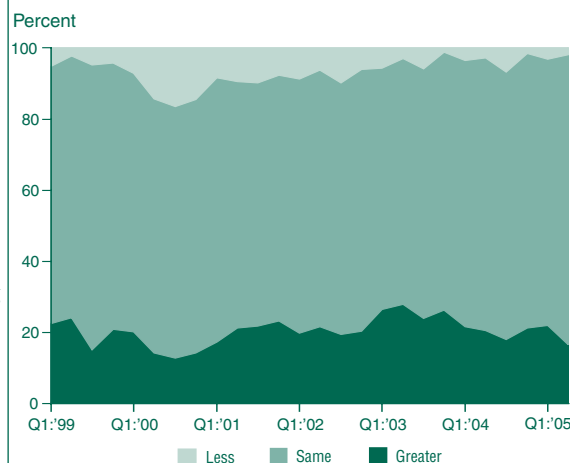
### Demand for Loans

*Seventy-one percent of respondents experience stable loan demand.*



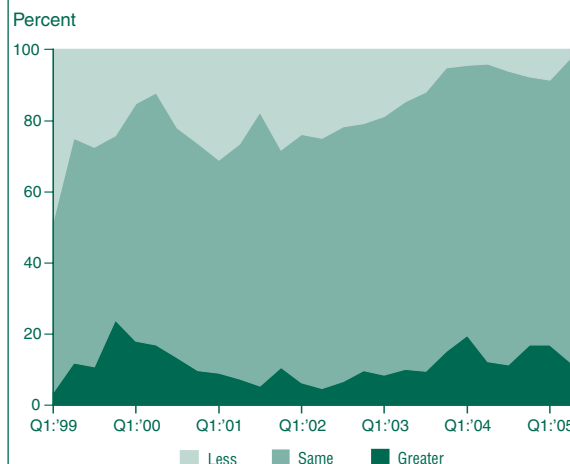
### Funds Available for Additional Lending

*Funds available for lending remain the same, 82 percent of respondents report.*



### Rate of Loan Repayment

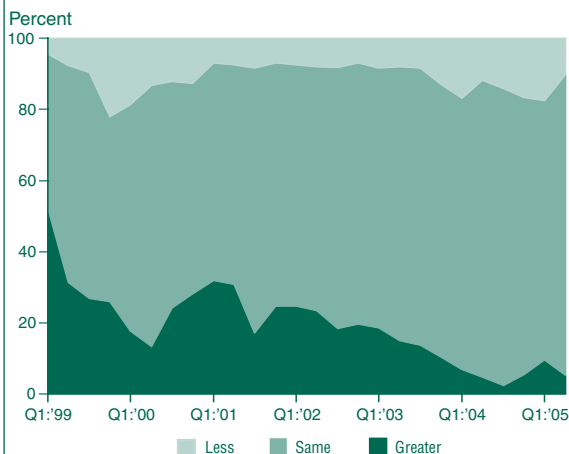
*Loan repayment rates hold steady, say 86 percent of bankers.*



# Agricultural Credit Conditions at Survey Banks in the Eleventh District

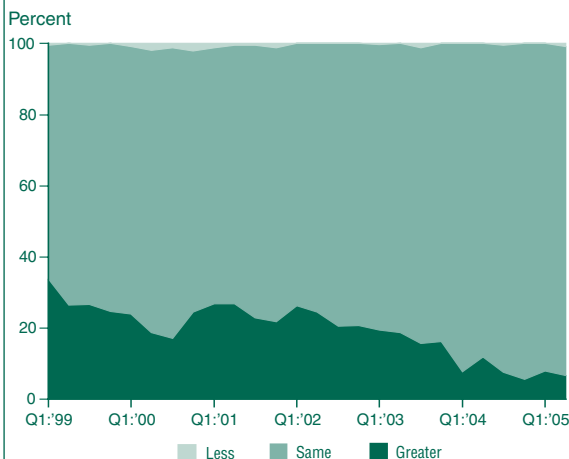
## Renewals or Extensions of Loans

Eighty-five percent of bankers cite the same level of loan renewals or extensions.



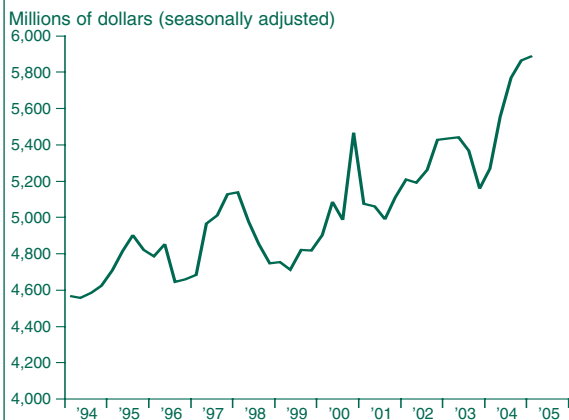
## Amount of Collateral

Collateral requirements are unchanged, say 93 percent of bankers.



## Total Agricultural Loans at Eleventh District Banks

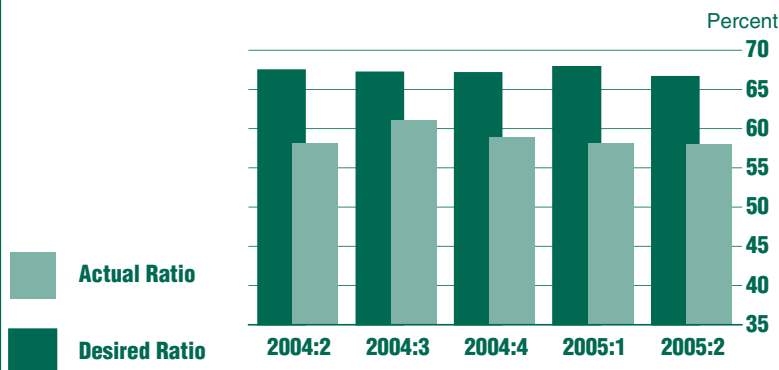
Agriculture lending continues to grow, albeit slowly, in second quarter 2005.



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)				
	2004			2005	
	July 1	Oct. 1	Jan. 1	April 1	July 1
Less than 41%	21	17	19	24	23
41% to 50%	17	13	17	12	13
51% to 60%	15	20	18	15	19
61% to 70%	20	14	16	21	16
More than 70%	28	36	30	28	29

## INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				
	2004			2005	
	July 1	Oct. 1	Jan. 1	April 1	July 1
Feeder cattle	7.17	7.36	7.59	7.75	8.07
Other farm operating	7.22	7.41	7.60	7.97	8.29
Intermediate term	7.25	7.51	7.67	7.85	8.16
Long-term farm real estate	7.09	6.91	7.00	7.37	7.56

## INTEREST RATE—VARIABLE

Ratio	Average Rate (Percent)				
	2004			2005	
	July 1	Oct. 1	Jan. 1	April 1	July 1
Feeder cattle	6.17	6.58	7.12	7.25	7.83
Other farm operating	6.50	6.75	7.22	7.50	8.06
Intermediate term	6.43	6.67	7.10	7.41	7.89
Long-term farm real estate	6.20	6.27	6.59	6.94	7.42

# Rural Real Estate Values

July 1, 2005

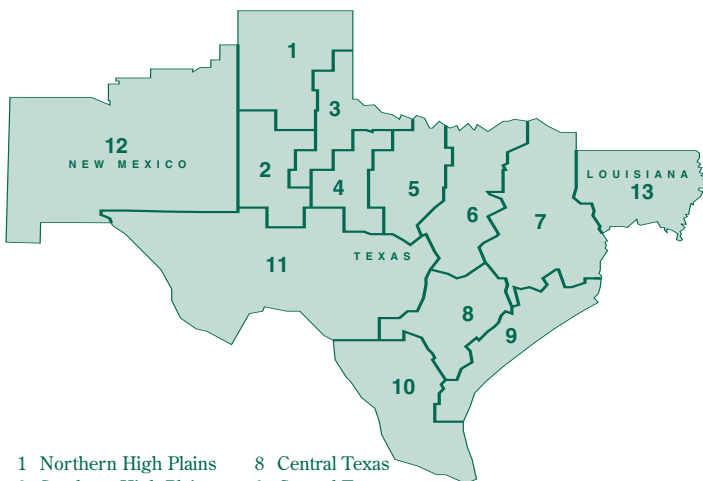
<sup>1</sup> Number of banks reporting land values.

<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.

## 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> Second Quarter 2005	Average Value <sup>2</sup> 2005	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	157	809	2.0	8.8
TEXAS	141	811	1.9	9.2
Northern High Plains	20	323	3.1	5.4
Southern High Plains	23	395	-0.8	2.8
Northern Low Plains	8	382	1.3	9.4
Southern Low Plains	11	493	1.4	6.1
Cross Timbers	14	787	4.7	10.8
North Central Texas	19	1,404	3.3	12.4
East Texas	8	888	2.0	15.0
Central Texas	19	1,464	1.9	7.0
Coastal Texas	7	938	-4.7	-5.4
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	11	726	2.9	20.7
Northern Louisiana	8	851	3.3	4.3
Southern New Mexico	8	283	-3.7	5.2

## CROPLAND—IRRIGATED

Region	Banks <sup>1</sup> Second Quarter 2005	Average Value <sup>2</sup> 2005	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	111	935	3.8	12.6
TEXAS	94	858	3.0	12.1
Northern High Plains	19	645	5.3	11.5
Southern High Plains	22	785	1.9	7.3
Northern Low Plains	8	663	2.4	21.7
Southern Low Plains	6	742	0.3	0.9
Cross Timbers	7	1,299	0.9	6.7
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	4	1,125	3.9	15.1
Central Texas	10	1,964	2.4	0.9
Coastal Texas	4	1,152	5.3	27.1
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	11	1,434	0.2	31.1
Northern Louisiana	8	1,072	4.9	1.5
Southern New Mexico	9	1,653	8.0	18.5

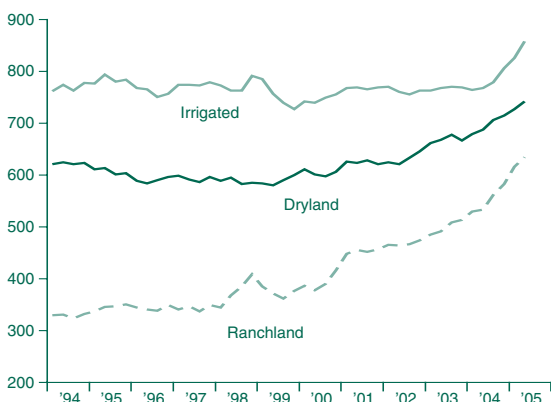
## RANCHLAND

Region	Banks <sup>1</sup> Second Quarter 2005	Average Value <sup>2</sup> 2005	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	179	693	3.1	20.1
TEXAS	162	866	3.6	25.7
Northern High Plains	21	235	-0.2	5.7
Southern High Plains	20	217	1.5	-3.6
Northern Low Plains	8	270	3.1	20.1
Southern Low Plains	10	432	2.5	8.8
Cross Timbers	16	902	1.7	13.6
North Central Texas	22	1,480	-1.9	15.5
East Texas	19	1,079	5.2	13.4
Central Texas	22	1,956	3.0	10.5
Coastal Texas	6	984	0.8	6.1
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	17	826	7.5	50.8
Northern Louisiana	7	781	2.2	5.3
Southern New Mexico	10	194	-2.3	-23.5

## Eleventh District Real Land Values

Dryland, irrigated land and ranchland values continue to increase in second quarter 2005.

2000 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

Although producers are under budget, severe wet weather is having an adverse impact on cotton, reducing crop potential. Inversely, the cooler and wet weather does have the corn crop off to an excellent start. High calf and stocker cattle prices are resulting in poor swap for replacements, increasing risks, limiting ownership and significantly reducing prospects for stocker cattle owner profits in 2005. High feeder cattle prices are also resulting in feed-yard placements having limited profit potential.

## Region 2—Southern High Plains

The cotton crop is one to two weeks later than normal. Some areas have been hailed out in the past two to three weeks, with some replanted and established. Overall, moisture conditions remain good.

## Region 3—Northern Low Plains

The cost of fuel and fuel-related products (such as fertilizer), as well as the impact of increased fuel prices on the cost of supplies and parts, has strained cash flow projections. Commodity prices are down from last year, with the exception of cattle.

Most of the cotton and peanuts are planted on irrigated land. Dryland cotton and peanuts are being planted. Moisture conditions are sufficient at this time.

Cotton, peanuts and forage crops are off to a good start. The biggest concerns are still government payments, operating costs and commodity prices. Everyone is still pleased with cattle prices and range conditions.

Most ranchland sales have been driven by recreational use or by investors. Many of these sales have been at two or three times the agricultural value.

## Region 5—Cross Timbers

The cash rent reported on ranchland consists of \$7.50 for livestock grazing and \$5 for dove, quail, hog and deer hunting. The cash rent reported for irrigated cropland with hunting is \$100: \$75 for crop production and \$25 for goose hunting on land that will produce peanuts. For irrigated land without the hunting available, the cash lease would only be around \$75 per acre.

The wheat crop is good, and so are cattle prices. We have gotten much-needed rain in the last two weeks.

Cattle and goat prices are good and steady. Land being sold is mainly for recreational purposes, and coastal hay remains the primary crop. Lots of hay is available.

## Region 6—North Central Texas

Hopefully, we have seen fuel prices peak and they will continue to level off or decrease toward fall. It would be nice if borders are not opened to imports of Canadian cattle. We received 2 to 3 inches of rain the week of May 23–30, which will help our second cutting of hay; our first cutting was terrible.

With the recent rains, crops look good, although some are showing signs of stress. It will be a wait-and-see game. Costs continue to be a major concern. Storage and outlets to sell grain are becoming a factor for producers, and cattle prices remain at an all-time high, which is great for cow-calf ranchers. Stocker ranchers are paying an all-time high to restock. This could be a major problem if prices go down very fast.

Agricultural land values are on the rise due to natural gas leases in Hill County. Prices remain good for all livestock.

## Region 7—East Texas

Land values are very high. Some tracts that are 20 acres or less are getting \$4,000 an acre.

## Region 8—Central Texas

Ranchland values have drastically increased due to purchases for recreational uses.

Buyers are becoming very selective. Land sales on bigger tracts are slowing down. The local realtors report that average- to marginal-sized land tracts are taking

longer to sell. However, small recreational tracts are still desirable.

Operating expenses are up due to fuel and fertilizer prices. With the current grain prices, projections look like farmers will break even at best.

We are seeing more ranchland and farmland being converted to wildlife management. This is also a trend related to buying land merely for investment purposes, as evidenced by the shortened average life of real estate loans in our bank.

We are beginning to suffer from severe drought conditions. Some producers are selling portions of their herds and paying down debt before conditions get even worse. Land values continue to rise; it seems like there is no limit, which is scary. Most buyers coming to this area have just retired and are paying cash for the property.

## Region 11—Trans-Pecos and Edwards Plateau

There are more buyers than sellers for land, and they are mostly nonagricultural individuals. The cattlemen would like to expand herd levels back up to predrought levels, but cow and heifer prices are limiting their ability to do so. We are getting some spotty rain in the Big Bend. Pastures look good where the rain has fallen, but there are dry areas that are sorely in need of moisture. We have a big demand for ranches, but no sellers.

West Texas is in need of rain. Increasing fuel prices continue to be a major concern. The attacks against farm subsidy payments are a concern, especially for cotton producers.

## Region 12—Southern New Mexico

Range conditions are very good. Herd numbers are still down, but heifer retention is up. Cattle prices are good, and already some ranchers are forward contracting for September-through-December sales.

We have had a bumper wheat harvest, which may increase the sales of dryland.