

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



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 Laila Assanie, (214) 922-5191.

First Quarter 2006

The First Quarter Survey revealed that the ongoing dry spell spurred challenges for agricultural producers in the Eleventh District. The drought sparked wildfires that scorched hundreds of thousands of acres of pastureland and wiped out thousands of livestock in the Texas Panhandle. Poor pasture conditions and short hay supplies fueled supplemental feeding costs, compelling some cattle producers to cull their livestock.

Farmers in several regions prepped land for spring crops; however, additional rain was needed before planting could take place. Additionally, low crop prices and high fuel-related input costs further strained the production environment. On the plus side, cash receipts from the 2005 bumper cotton harvest allowed producers to pay down their debt, improving their creditworthiness. Recent rains helped overall moisture conditions somewhat in the Northern Low Plains, North Central Texas and East Texas regions, and cattle prices remained favorable.

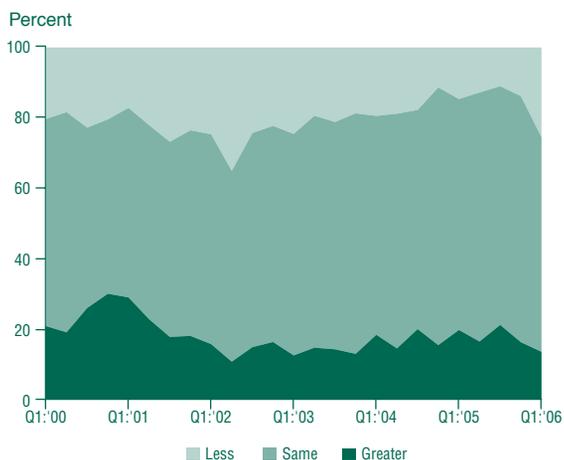
Here are additional details from the survey:

- Farmland values increased in most regions, although at a slower pace compared with last quarter. Bankers commented that values are being pushed up by demand for land for nonagricultural purposes, such as natural gas exploration, recreation and investment.
- Bankers foresee making fewer farm real estate loans over the next three months, partly due to less land being sold for agricultural use. Seventeen percent of respondents anticipate a decline in the volume of farm real estate loans, up from 10 percent of respondents last year.
- Twenty-one percent of respondents anticipate making fewer operating loans in the next three months, compared with 11 percent a year ago. Some bankers link this expected decline to drought conditions that are discouraging farmers from planting and to high cash receipts from the record cotton harvest that have helped farmers pay off their debts.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

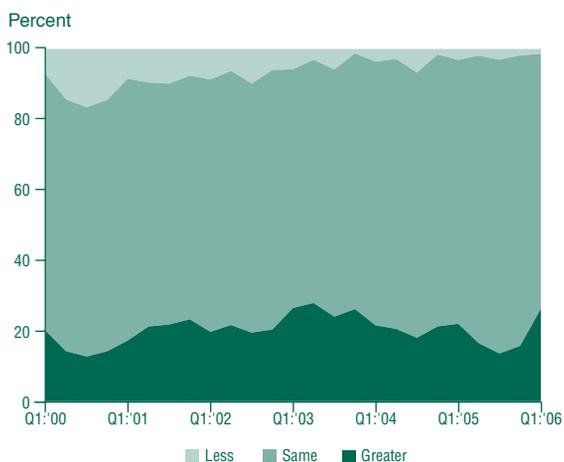
Demand for Loans

Demand for loans decreased, report 26 percent of bankers.



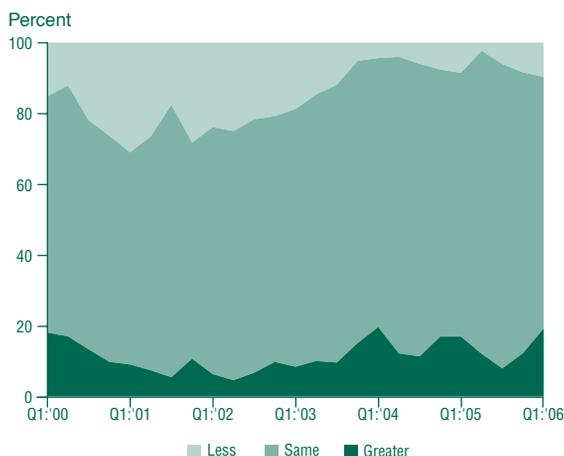
Funds Available for Additional Lending

Lower loan demand increased availability of funds, say 26 percent of respondents.



Rate of Loan Repayment

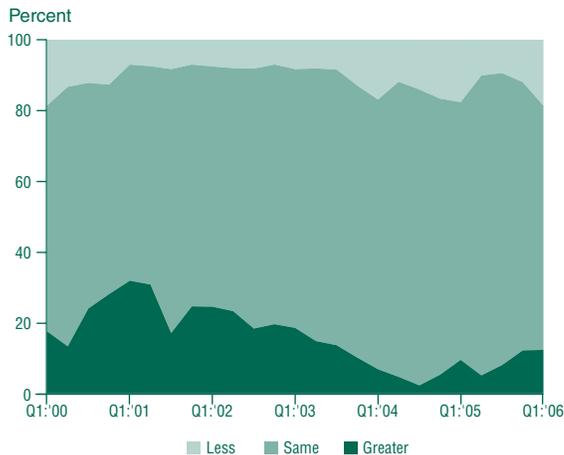
Excellent cotton crop yields boosted the rate of loan repayment. Thus, 19 percent of bankers reported higher repayment rates.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

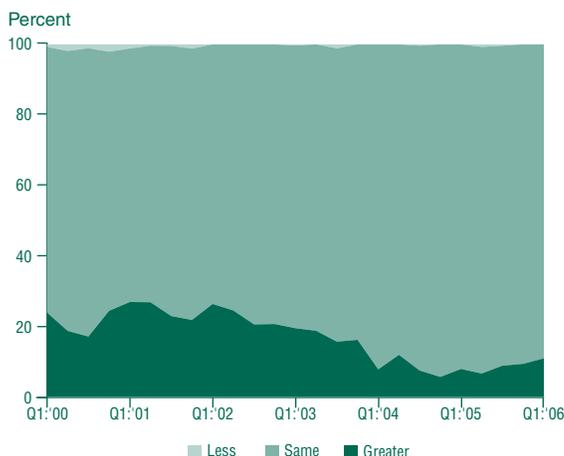
Renewals or Extensions of Loans

The bountiful cotton harvest of 2005 reduced demand for loan renewals and extensions; 19 percent of bankers say renewals and extensions are down.



Amount of Collateral

Collateral requirements remain mostly unchanged, report 89 percent of bankers.



Total Agricultural Loans at Eleventh District Banks

Agricultural lending continues to grow in the District.

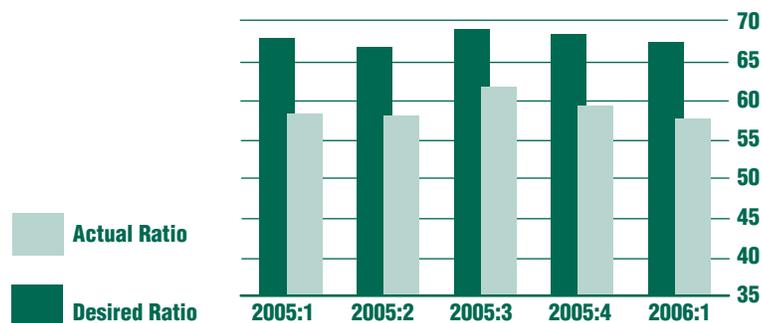
Millions of dollars (seasonally adjusted)



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)				
	2005			2006	
	April 1	July 1	Oct. 1	Jan. 1	Apr. 1
Less than 41%	24	23	18	20	25
41% to 50%	12	13	16	15	12
51% to 60%	15	19	14	21	21
61% to 70%	21	16	15	14	15
More than 70%	28	29	37	30	29

INTEREST RATE—FIXED

	Average Rate (Percent)				
	2005			2006	
	April 1	July 1	Oct. 1	Jan. 1	Apr. 1
Feeder cattle	7.75	8.07	8.41	8.86	8.96
Other farm operating	7.97	8.29	8.53	8.85	9.15
Intermediate term	7.85	8.16	8.36	8.72	8.84
Long-term farm real estate	7.37	7.56	7.97	8.11	8.19

INTEREST RATE—VARIABLE

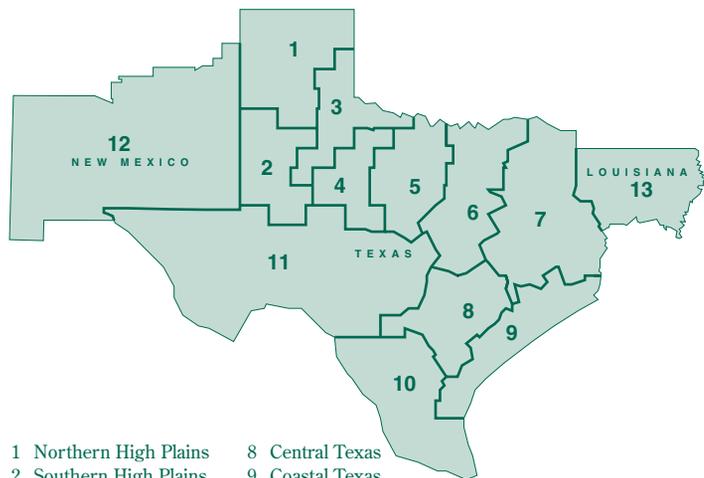
	Average Rate (Percent)				
	2005			2006	
	April 1	July 1	Oct. 1	Jan. 1	Apr. 1
Feeder cattle	7.25	7.83	8.19	8.27	8.53
Other farm operating	7.50	8.06	8.33	8.37	8.84
Intermediate term	7.41	7.89	8.18	8.20	8.62
Long-term farm real estate	6.94	7.42	7.81	7.79	7.96

Rural Real Estate Values

April 1, 2006

- ¹ Number of banks reporting land values.
- ² Prices are dollars per acre, not adjusted for inflation.
- ³ Not adjusted for inflation.
- ⁴ The rise in land values in Southern New Mexico was partly due to an increase in number of reporters.
- n.r. — Not reported due to insufficient responses.

Eleventh Federal Reserve District



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

CROPLAND—DRYLAND

	Banks ¹ First Quarter 2006	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	135	876	1.1	10.4
TEXAS	124	879	1.2	10.5
Northern High Plains	20	336	0.9	7.0
Southern High Plains	18	441	2.4	10.6
Northern Low Plains	8	395	-0.9	4.6
Southern Low Plains	10	526	3.0	8.1
Cross Timbers	10	784	0.7	4.3
North Central Texas	17	1,560	1.3	14.8
East Texas	8	940	3.1	8.0
Central Texas	15	1,650	3.2	14.8
Coastal Texas	8	1,013	-3.2	3.0
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	10	767	0.9	8.7
Northern Louisiana	6	900	0.6	9.1
Southern New Mexico	5	365	7.1	24.3 ⁴

CROPLAND—IRRIGATED

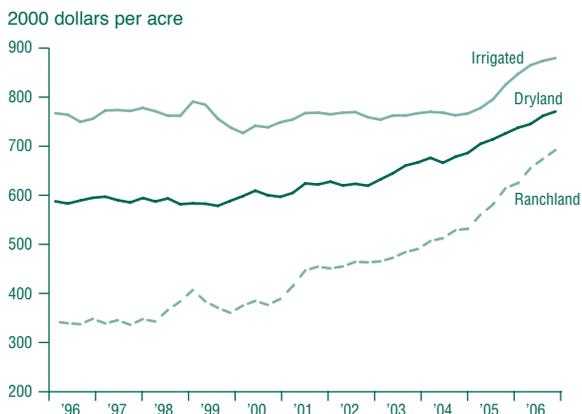
	Banks ¹ First Quarter 2006	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	94	999	0.6	10.9
TEXAS	80	906	0.1	8.7
Northern High Plains	19	674	0	10.0
Southern High Plains	16	824	2.0	6.9
Northern Low Plains	7	624	-3.2	-3.6
Southern Low Plains	5	764	1.8	3.3
Cross Timbers	4	1,392	0.4	8.2
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	4	1,028	0.5	-5.1
Central Texas	9	2,261	4.4	17.9
Coastal Texas	5	1,211	1.0	10.6
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	9	1,682	0.2	17.4
Northern Louisiana	6	1,084	-0.9	6.1
Southern New Mexico	8	1,805	1.4	18.0 ⁴

RANCHLAND

	Banks ¹ First Quarter 2006	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	155	787	2.7	17.2
TEXAS	140	976	2.9	16.7
Northern High Plains	20	274	3.2	16.5
Southern High Plains	11	222	-4.5	4.2
Northern Low Plains	8	324	3.1	23.7
Southern Low Plains	9	517	3.6	22.8
Cross Timbers	13	971	-0.8	9.4
North Central Texas	19	1,602	1.0	6.2
East Texas	20	1,259	3.8	22.7
Central Texas	18	2,118	0.8	11.6
Coastal Texas	7	925	-2.2	-5.2
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	15	1,031	9.0	34.1
Northern Louisiana	6	832	2.2	8.9
Southern New Mexico	9	296	9.6	49.2 ⁴

Eleventh District Real Land Values

Dryland, irrigated land and ranchland values edged up in first quarter 2006.



First 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

High energy and input costs, as well as the lack of moisture, continue to be a concern for farm producers in 2006. It appears that cattle prices are in the beginning of a downward price slope that is causing stocker and feed-yard cattle equities to evaporate.

Recent wildfires eliminated grazing for the cattle that were saved. Cattle prices have dropped slightly. Although it cannot be determined at this time, a slight adverse impact is expected for the local economy in the short term. However, the unfortunate fire disaster may create some demand.

A new cheese factory is projected to open in Dalhart in fall 2007. This will increase the need for dairies in our immediate area.

Recent range fires have devastated a portion of the eastern Texas Panhandle. While livestock losses are estimated to be less than first predicted, the destruction in the affected areas has been catastrophic. The overall economic impact of the fires has not yet been calculated. Mid-March snow and rain have been welcomed, but it may be too little too late for the winter wheat crop. Irrigated-crop producers continue to be less than optimistic for 2006 due to high electricity and natural gas prices.

Region 2—Southern High Plains

It has been very dry; we have not had good precipitation for 151 days.

Loan demand is down because of the excellent cotton crop for 2005, and ag customer deposits are up substantially. Cotton ginning is just now being completed for the 2005 crop.

South Plains cotton producers had a successful season in 2005. As a result, their credit-worthiness has improved. Most will have more cash equity in their operation in 2006, which will help mitigate their credit risk in an operating environment characterized by rising input costs. We need rain badly!

Region 3—Northern Low Plains

The cotton crop was one of the best this area has had. Our area received about 3 inches

of rain, which is the first beneficial moisture we have received in almost six months. Farmers will be able to plow and prepare their land, but additional moisture will be needed before planting.

Overall, we are unstable. We have received some rain and farmers are able to begin soil preparation. Cattle prices remain good for the producers. Land prices continue to escalate.

Region 4—Southern Low Plains

The last two consecutive years have been good for cattle and cotton. Dryland cotton will need timely rains, as there is no underground moisture this season.

Very little real estate is being purchased for agricultural purposes.

Ranchland values are increasing monthly. Farmland sales are the highest in 33 years. Buyers are mainly from out of the county.

Region 5—Cross Timbers

We may end up with a decent year, only because of cattle prices. Wheat prices are very low in relation to the cost of farming—fertilizer and diesel.

Having received only 1.5 inches of rain in the past 150 days, wheat pasture is almost non-existent and stock tanks are getting very low.

Region 6—North Central Texas

The mild winter has helped, and we have had nearly 7 inches of rain in six weeks. I look for cattle prices to further skyrocket if we continue to have these rains this spring. The hay season should be much better than last year.

Highway right-of-way purchases have created Section 1031 tax-deferred exchanges, driving land prices up.

Southern Hill County land values could increase due to natural gas exploration.

Rain is desperately needed, both for soil moisture and runoff for ponds and lakes. Increased production costs and stagnant commodity prices at harvest time paint a very bleak picture for our producers.

Region 7—East Texas

Cattle prices have been strong, and recent rains have lifted local ranchers' spirits.

Region 8—Central Texas

We have not had rain for 255 days. We are experiencing continued drought

conditions. The small rains we've had have not produced any run-off water for ponds. Farmers are just now planting, or they will not plant at all. Hay prices continue to climb, if you can even find hay. Real estate buyers are becoming more selective in what they want.

We are extremely dry in Central Texas. Hay is scarce, and what is coming into the area is expensive. If it does not rain soon, ranchers will spend their entire calf crop income on feed, unless they sell out first. Dryland farmers are waiting on a rain to plant.

We had only one bona fide ag real estate transaction; the others were for investment purposes. The cattle market is still good, and pastures are improving. However, stock water needs replenishing. Loan repayments are good.

Three of our rice farmers will quit farming because of losses in the past two years.

Region 9—Coastal Texas

The coastal region has received spotty rain showers. Soil moisture conditions are fair to poor, with better moisture in the northeastern part of the region. Many farmers have stopped planting until significant rainfall is received. Cull cows and calves are being sold earlier due to dry weather. High input costs and lack of soil moisture will likely make this a tough year for all producers.

Region 11—Trans-Pecos and Edwards Plateau

Land values, which soared for the past five years, have leveled off for the time being. One animal unit is costing around \$12,600, making it virtually impossible for livestock producers to pay for land with just the production off the livestock.

Land values do not reflect agricultural values.

Region 12—Southern New Mexico

It is very, very dry. Ranchers are trying to hold on to their current cattle inventory. It is critical that we receive moisture by midsummer. The fire danger is high. More ranchland is being purchased for subdivision.

We are experiencing severe drought conditions in eastern New Mexico.

Region 13—Northern Louisiana

The new-year crop lending cycle is in full process.