

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.

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Fourth Quarter 2006

Eleventh District agricultural lenders report moderate improvement in conditions in fourth quarter 2006. Although loan repayment and fund availability increased slightly, indicating better liquidity, some bankers expressed caution over the future cash flow situation of dryland farmers in the district. On the production side, while good rains in December helped allay drought conditions in many regions, additional moisture was needed in some others. Dryland crop production was well below 2005 levels, and rising feed prices, along with lower cattle prices, continued to hurt ranchers. Some bankers anticipate that the high price of corn resulting from increased demand for ethanol could lead to credit problems for cow/calf operators and dairy farmers next year. By contrast, farmers are optimistic that higher grain and corn prices will yield better farm income in 2007.

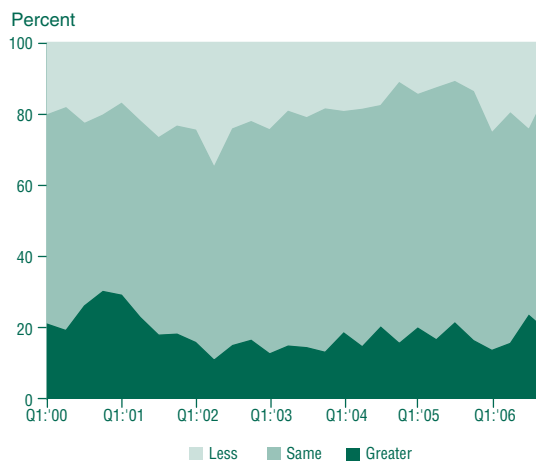
Here are additional details from the survey:

- Bankers indicate that 1031 tax-deferred land exchanges and renewed interest in recreational use and energy sources such as natural gas and wind have continued to push up the price of farmland. The price of dryland, irrigated land and ranchland rose 2.5 percent, 2.4 percent and 3 percent, respectively, in the fourth quarter.
- Lackluster crop yields, coupled with higher production costs, have lowered farmers' cash flow, contributing to bankers' expectations of an increase in loan volume. Twenty percent of bankers anticipate making more non-real estate farm loans during the next three months, compared with 15 percent a year ago. In addition, 23 percent of bankers foresee greater demand for operating loans, up from 19 percent in fourth quarter 2005.
- Lack of good-quality wheat pastures for grazing and rising supplemental feed costs have lowered the demand for feeder cattle loans. As a result, 26 percent of respondents expect to make fewer feeder cattle loans over the next three months, up from 21 percent expressing a similar sentiment last quarter.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

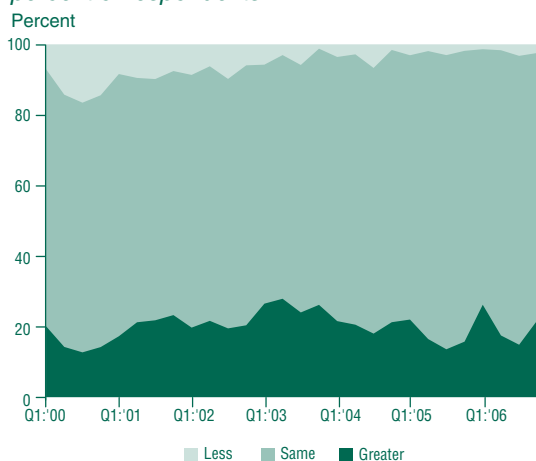
Demand for Loans

Sixty-seven percent of bankers report steady demand for loans.



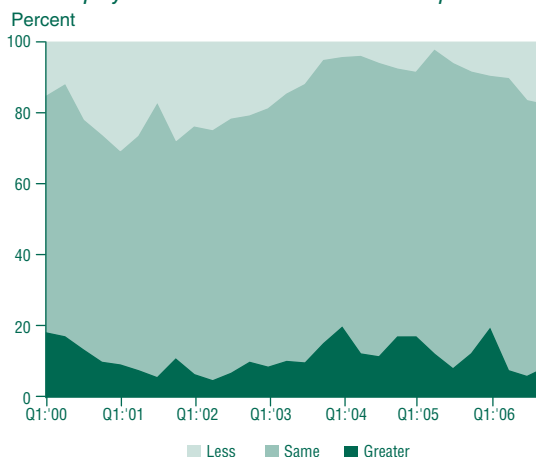
Funds Available for Additional Lending

Funds available for lending have increased, say 22 percent of respondents.



Rate of Loan Repayment

Eight percent of respondents say the incidence of loan repayment increased in the fourth quarter.

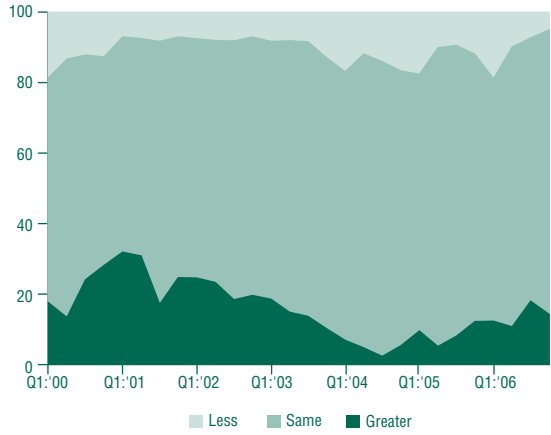


Agricultural Credit Conditions at Survey Banks in the Eleventh District

Renewals or Extensions of Loans

Despite reports of lackluster crop yields, 81 percent of bankers indicate no change in renewals or extensions.

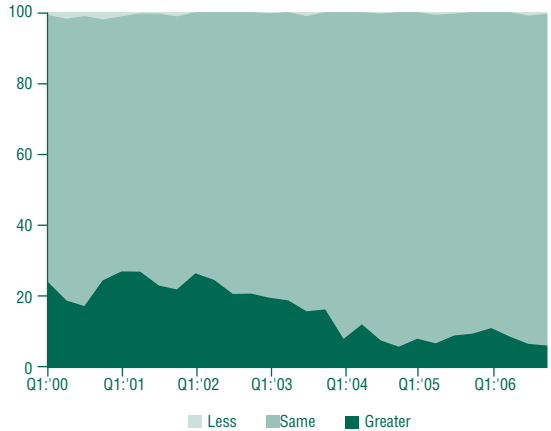
Percent



Amount of Collateral

Ninety-four percent of bankers report that collateral requirements remain the same.

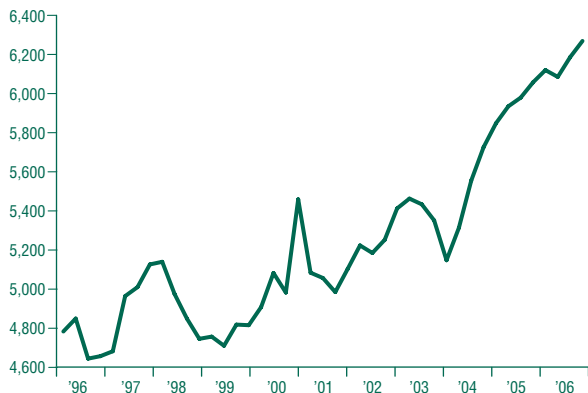
Percent



Total Agricultural Loans at Eleventh District Banks

Loan volume rises for the second consecutive quarter.

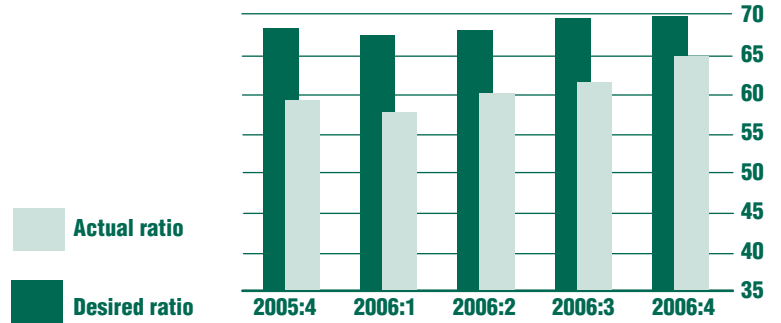
Millions of dollars (seasonally adjusted)



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-to-Deposit Ratios

Ratio	Banks Reporting (Percent)				2007 Jan. 1
	2006				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Less than 41%	20	25	16	18	18
41% to 50%	15	11	14	9	15
51% to 60%	21	21	27	22	16
61% to 70%	14	15	13	18	17
More than 70%	30	28	30	33	33

Interest Rate—Fixed

	Average Rate (Percent)				2007 Jan. 1
	2006				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Feeder cattle	8.86	8.96	9.37	9.61	9.45
Other farm operating	8.85	9.15	9.57	9.68	9.61
Intermediate term	8.72	8.84	9.19	9.36	9.31
Long-term farm real estate	8.11	8.19	8.12	8.53	8.71

Interest Rate—Variable

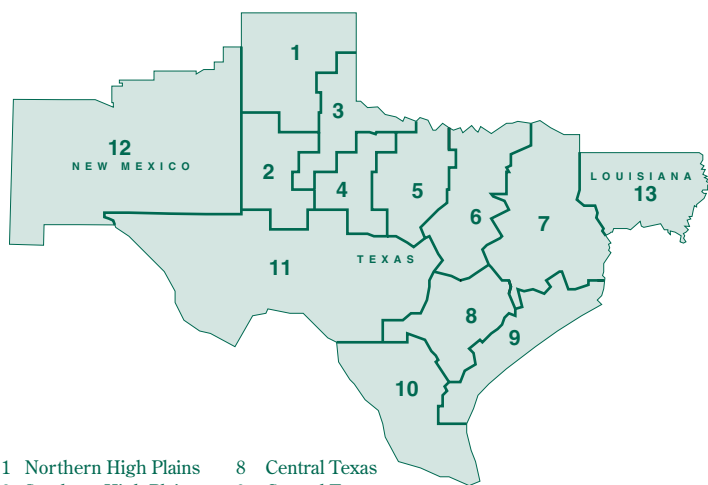
	Average Rate (Percent)				2007 Jan. 1
	2006				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Feeder cattle	8.26	8.53	9.10	9.47	9.46
Other farm operating	8.37	8.84	9.32	9.55	9.59
Intermediate term	8.20	8.62	9.18	9.48	9.41
Long-term farm real estate	7.79	7.96	8.66	8.73	9.20

Rural Real Estate Values

January 1, 2007

- 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.

Eleventh Federal Reserve District

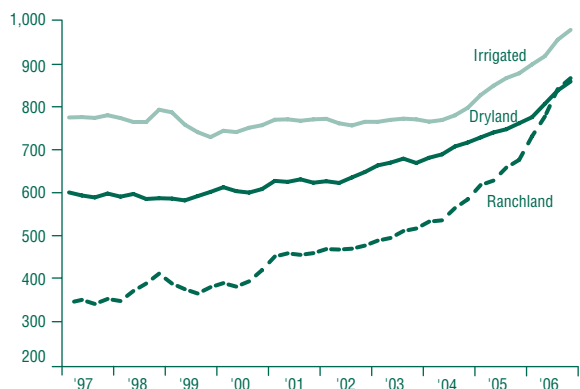


- 1 Northern High Plains
- 2 Southern High Plains
- 3 Northern Low Plains
- 4 Southern Low Plains
- 5 Cross Timbers
- 6 North Central Texas
- 7 East Texas
- 8 Central Texas
- 9 Coastal Texas
- 10 South Texas
- 11 Trans-Pecos and Edwards Plateau
- 12 Southern New Mexico
- 13 Northern Louisiana

Eleventh District Real Land Values

The average price of rangeland surpassed that of dryland in the fourth quarter of 2006.

2000 dollars per acre



CROPLAND—DRYLAND

Region	Banks ¹ Fourth Quarter 2006	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	125	998	2.5	15.7
TEXAS	116	1,012	2.6	17.0
Northern High Plains	19	362	0.9	8.7
Southern High Plains	14	404	-2.4	-6.1
Northern Low Plains	7	450	5.8	13.2
Southern Low Plains	11	535	-1.5	4.7
Cross Timbers	12	880	2.2	13.0
North Central Texas	17	1,647	2.9	8.3
East Texas	5	1,115	-4.9	22.3
Central Texas	17	2,040	4.8	27.6
Coastal Texas	8	1,088	7.4	4.0
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	5	1,150	11.4	51.2
Northern Louisiana	4	905	0.5	1.2
Southern New Mexico	5	349	1.7	3.8

CROPLAND—IRRIGATED

Region	Banks ¹ Fourth Quarter 2006	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	81	1,139	2.4	14.4
TEXAS	70	1,049	2.0	14.9
Northern High Plains	17	755	1.2	9.5
Southern High Plains	14	828	-1.0	2.5
Northern Low Plains	6	769	4.3	19.3
Southern Low Plains	7	690	-4.6	-8.1
Cross Timbers	3	1,658	1.0	19.5
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	3	1,556	3.7	52.0
Central Texas	10	2,513	1.5	16.0
Coastal Texas	4	1,215	3.9	1.3
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	4	1,971	9.3	17.5
Northern Louisiana	4	1,160	2.7	6.0
Southern New Mexico	7	2,020	4.2	16.2

RANGELAND

Region	Banks ¹ Fourth Quarter 2006	Average Value ²	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	145	1,007	3.0	31.6
TEXAS	133	1,272	3.1	34.1
Northern High Plains	19	286	2.8	7.8
Southern High Plains	12	303	6.3	30.2
Northern Low Plains	8	380	4.0	21.0
Southern Low Plains	10	552	-0.5	10.6
Cross Timbers	13	1,180	3.4	20.5
North Central Texas	19	1,817	4.9	13.5
East Texas	12	1,433	4.1	18.2
Central Texas	20	2,713	3.5	29.1
Coastal Texas	7	1,139	6.9	20.4
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	11	1,290	3.2	36.4
Northern Louisiana	4	752	0.9	-7.6
Southern New Mexico	8	250	1.7	-5.4

Fourth 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

The outcome for farming in 2007 looks more favorable than it did in 2006, based on increased grain prices.

We need moisture as the dryland wheat crop is beginning to struggle. Land cash rents have increased due to higher commodity prices.

Overall, farm results for 2006 were much better than projected earlier in the year. Cotton production was well above projected yields. 2007 prospects look promising because of significant increases in grain prices, which are being driven to a large extent by the use of corn to produce ethanol. Banks have already started contracting the 2007 grain crop.

Region 2—Southern High Plains

Drought conditions took out 90 percent of our dryland crops, which will impact loans for 2007.

With the 2006 crop year over, most of the irrigated farmers will pay out while the dryland farmers are facing a carryover of their 2006 crop year debt. A disaster payment is needed for the dryland farmers. Prospects for the 2007 crop year appear better with the recent rains and snow.

Escalating corn prices are having a negative impact on feeder cattle and dairy customers, which could result in some credit issues for the year.

Region 3—Northern Low Plains

We received good rains last week, which should cause the wheat to react and provide grazing for cattle.

Rangeland is being sold for recreational purposes. It is then sometimes leased for grazing. No ranchland is being sold to agricultural operators because the prices are too high to raise cattle successfully.

Region 4—Southern Low Plains

Dryland cotton production was very poor. Most of our borrowers had to take crop insurance.

Wind farm growth in our area has increased land values greatly due to current

growth and speculation of future growth. This has limited the availability of real estate for sale in this four-county area. Some land owners are listing their land for sale but retaining "wind rights." This has limited the availability of recreational as well as agricultural production land. We are seeing increased values of smaller farm-acreage sales for weekend farmers.

High fuel prices and dry weather are affecting some operations.

The 2006 cotton harvest is winding down. Last year's crops produced 72,000 bales on 52,000 acres; this year's crop produced 15,000 bales on 52,000 acres. The dryland wheat crop needs moisture.

Region 5—Cross Timbers

The drought has caused a severe hay shortage. High-priced hay, now coupled with skyrocketing grain prices, will put a great burden on dairy and beef cattle producers.

The wheat crops need rain. Cattle prices are lower, but they are still good. Stock ponds are low.

The higher wheat prices have more people looking to cut wheat rather than graze it out. This has lowered our dollar volume on cattle loans.

We have had 100+ days with no moisture. There is very limited wheat pasture, and stock tanks are one-third or less capacity.

Region 6—North Central Texas

Drought conditions continue to linger; thus, winter grazing is less than normal. It is very important that we see replenishing rains prior to the March planting dates.

Hay prices have been high, but the fall moisture has helped as the fall cuttings were nearly as good as the spring's. Gas and diesel prices have been holding steady, and hopefully they won't rise much. The key is going to be rainfall; how much and when it falls will tell us what the cow market will do and what the hay situation will look like.

1031 tax-deferred real estate exchanges keep pushing land prices up. Land prices west of Interstate 35 are so high that land on the east side is more attractive. At least grain prices are up, but we need more water.

We need rain for stocker operations. The price outlook for corn is positive. Farmers are planning on [planting] more corn for 2007. Prices for land continue to increase in Williamson and surrounding counties due to development and new roads.

Drought conditions and declining cattle prices have caused a number of the local producers to not purchase or contract for gain calves this year. Hay is in extremely short supply. Rising grain prices are causing concern also in the cattle market. The futures price on

corn is the only bright spot on the horizon. Several large tracts of land have sold recently to investors for recreation and development.

Region 8—Central Texas

Hay is still in short supply; most round bales are getting \$70-\$80 delivered price. Several producers are considering selling out after the first of the year if conditions don't improve. Pasture conditions are terrible; winter oats and rye are suffering. Real estate sales are stable, although the number of listings is decreasing.

Land values continue to rise due to demand for recreational purposes. 1031 tax-deferred land exchanges are becoming more common, which is helping to fuel higher prices.

Region 9—Coastal Texas

Land values are increasing from investors buying property for long-term gains, rather than for agricultural purposes. Metropolitan growth close to our area is the primary cause of the jump in land values.

Region 11—Trans-Pecos and Edwards Plateau

Most range real estate loans are for 20 years with three- or five-year adjustable rates. Few land sales are being made to ranchers; most are to professionals from out of the area. We need rain.

2006 was a devastating year for the Edwards Plateau in terms of rainfall. Cattle, sheep and goat prices trended down somewhat at year-end but were still fairly good. Ranchland continues to be taken out of production as real estate is being purchased for recreational use.

Region 12—Southern New Mexico

Fall moisture was very good. Land prices have really started to go up due to ranchland acquisition by nonagricultural buyers for speculation and building subdivisions.

Investors are continuing to buy grassland in the area.

Region 13—Northern Louisiana

This past growing season went from extremely dry to extremely wet. Up to 15 inches of rainfall put some harvested cotton modules 1 to 3 feet under water. A good number of sweet potatoes began to rot in the field, with harvesters unable to get the crop out. This year, too much water at one time seemed to cause more problems than too little water did earlier.