

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.

Third Quarter 2007

The third quarter survey indicated further improvement in Eleventh District agricultural conditions. A higher share of bankers reported rising loan repayment rates compared with the previous quarter. Above-average rainfall spurred pasture growth and boosted yields of corn and wheat. However, the excessive precipitation resulted in yield losses in Central and Coastal Texas. Bankers said warm weather over the next few weeks will bolster prospects for the cotton harvest. Cattle and crop prices remained mostly favorable and are helping farm incomes, but respondents said rising land rents and high fertilizer, seed and fuel costs are pressuring margins.

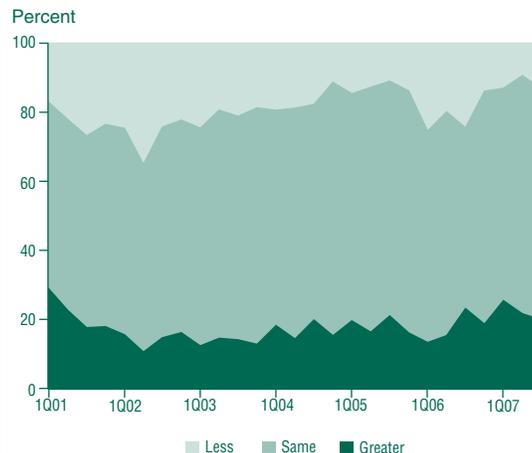
Here are additional details from the survey:

- Favorable weather has improved the outlook for 2007, increasing the rate of loan repayment and reducing the need for loan renewals and extensions. Fifteen percent of bankers reported higher repayment rates, up from 8.5 percent last quarter. Twelve percent of bankers cited a decline in renewals or extensions, up from 9.2 percent last quarter.
- Good growing conditions have boosted grain yields, and storage facilities are unable to keep up with grain volumes. Eighteen percent of survey respondents said demand for crop storage loans was up, compared with 4.6 percent a year ago.
- Demand for farm machinery loans climbed during the third quarter. Twenty-four percent of bankers reported greater loan volumes, compared with 14 percent last quarter.
- While sales of farmland for recreational purposes remain high, respondents said price increases are moderating and higher-priced lots are taking longer to sell.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

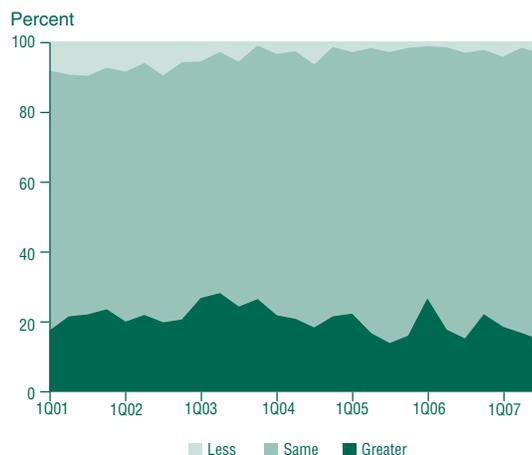
Demand for Loans

Twenty percent of bankers report higher demand for loans.



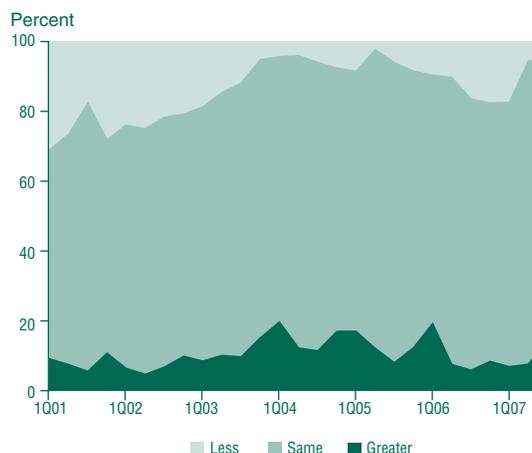
Funds Available for Additional Lending

Eighty-two percent of respondents indicate no change in funding availability.



Rate of Loan Repayment

Fifteen percent of bankers cite higher loan repayment rates.

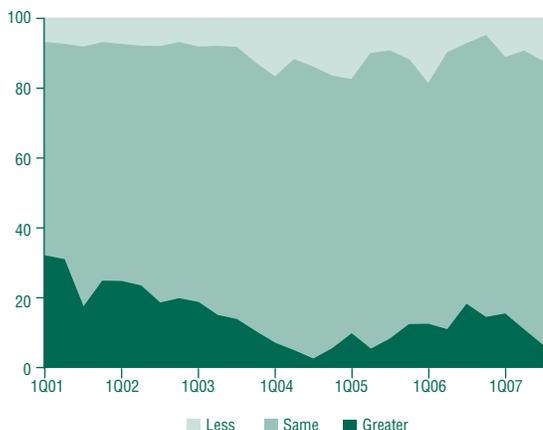


Agricultural Credit Conditions at Survey Banks in the Eleventh District

Renewals or Extensions of Loans

Twelve percent of reporters state that loan renewals and extension requests have declined.

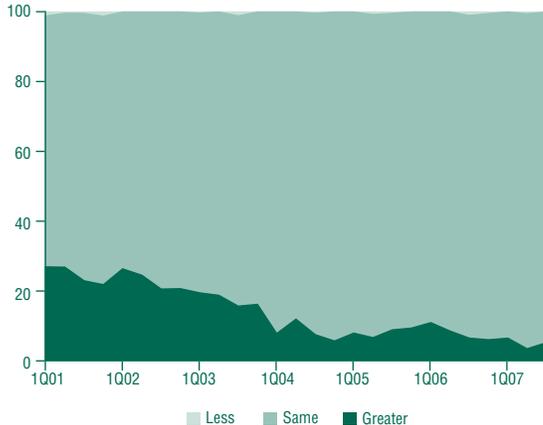
Percent



Amount of Collateral

Ninety-five percent of bankers indicate no change in collateral levels.

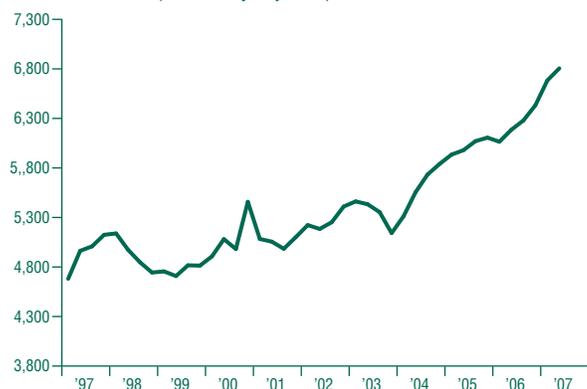
Percent



Total Agricultural Loans

Agricultural loan volume continues to expand in the Eleventh District.

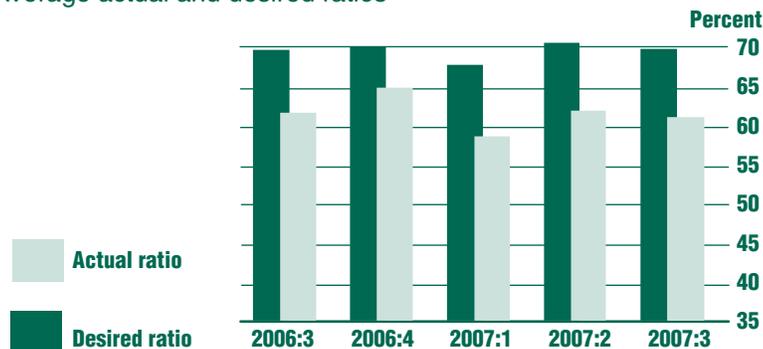
Millions of dollars (seasonally adjusted)



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-to-Deposit Ratios at Survey Banks

Average actual and desired ratios



Distribution of Loan-to-Deposit Ratios

Banks Reporting (Percent)

	2006	2007			
	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1
Less than 41%	18	18	22	17	17
41% to 50%	9	15	11	12	14
51% to 60%	22	16	20	13	17
61% to 70%	18	17	21	28	23
More than 70%	33	33	26	30	30

Interest Rate—Fixed

Average Rate (Percent)

	2006	2007			
	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1
Feeder cattle	9.61	9.45	9.44	9.39	9.34
Other farm operating	9.68	9.61	9.68	9.54	9.54
Intermediate term	9.36	9.31	9.27	9.13	9.23
Long-term farm real estate	8.53	8.71	8.55	8.52	8.49

Interest Rate—Variable

Average Rate (Percent)

	2006	2007			
	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1
Feeder cattle	9.47	9.46	9.35	9.42	9.20
Other farm operating	9.55	9.59	9.63	9.57	9.40
Intermediate term	9.48	9.41	9.37	9.14	9.21
Long-term farm real estate	8.73	9.20	8.85	8.66	8.60

THIRD QUARTER 2007

List commodities grown in your lending area and rank the top three in order of importance.

Commodities

Texas is a leader in U.S. agricultural production. The state ranks second only to California in agricultural output, accounting for just over 7 percent of the nation's total.¹ It is third among U.S. states in agricultural exports, generating about 5.5 percent of the country's total—\$3.8 billion in revenues in 2006.²

Texas produces a rich mix of agricultural crops and products (*Chart 1*). However, cattle and cotton are the dominant commodities, generating more than half the state's agricultural revenues, over \$9.4 billion (*Chart 2*).

In the third quarter 2005 *Survey of Agricultural Credit Conditions*, we published a list of the most important agricultural commodities in each lending area as reported by participant banks. As a follow-up, we recently asked Eleventh District bankers to rank the top three commodities produced in their lending region. The ranking has changed slightly

from 2005, but cattle, cotton and corn are still the leading three commodities.

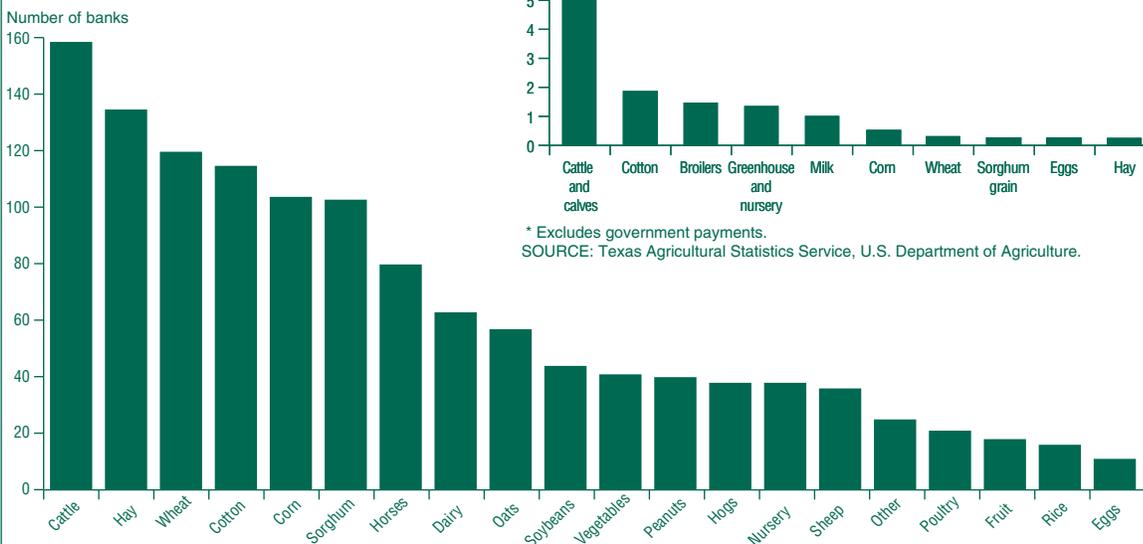
The survey also asked Eleventh District bankers to highlight any changes in the diversity of crops grown in their lending area. The most significant changes include the growing importance of corn, wheat and grain sorghum as cash crops and the expansion of the dairy, wildlife and equine industries in the District. Additionally, peanut production has moved out of the Northern High Plains, Cross Timbers and Central Texas regions to West Texas, and grapes have been introduced into the mix of crops grown in the Trans-Pecos and Edwards Plateau region. Bankers cited the increased use of farmland for recreation, modifications in farm laws, high grain prices and soaring input costs as reasons for the switch.

The following pages display a graphical representation by region of the data gathered in this commodities survey, along with the comments we received.

¹ Bureau of Economic Analysis.

² Economic Research Service, U.S. Department of Agriculture.

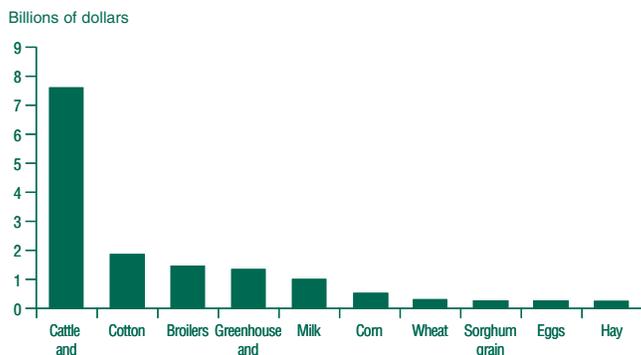
CHART 1
Eleventh District Agricultural Commodities, 2007
(as reported by participating banks)



NOTE: "Other" includes goats, pecans, grapes, sunflowers and crawfish.

SOURCE: Federal Reserve Bank of Dallas.

CHART 2
Texas' Top 10 Agricultural Commodities by Cash Receipts,* 2005



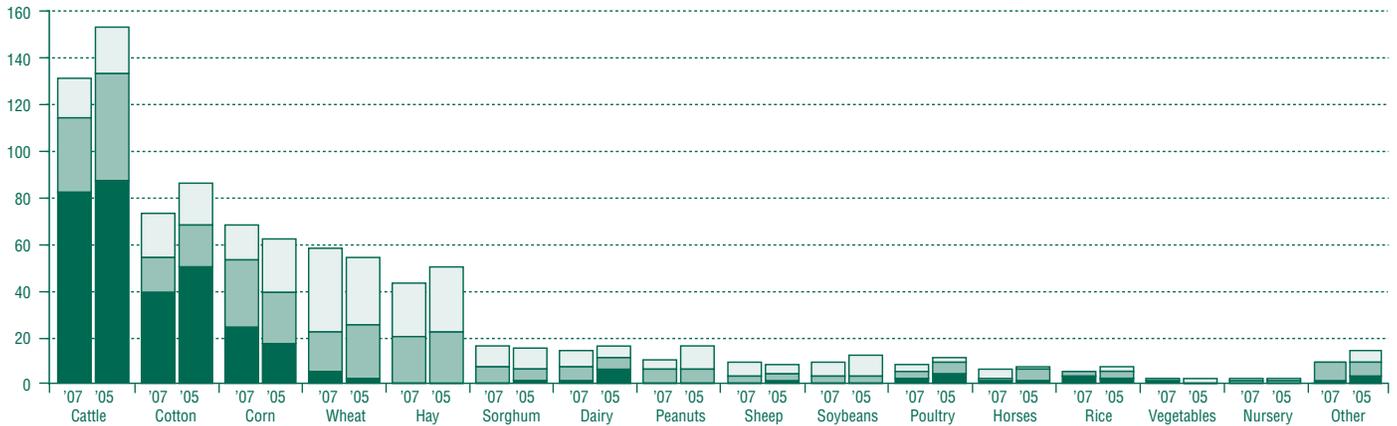
* Excludes government payments.
SOURCE: Texas Agricultural Statistics Service, U.S. Department of Agriculture.

Agricultural Commodity Rankings in the Eleventh District (Reported by Responding Banks, Third Quarter 2005 and 2007)*

Ranked No. 1 Ranked No. 2 Ranked No. 3

All Regions

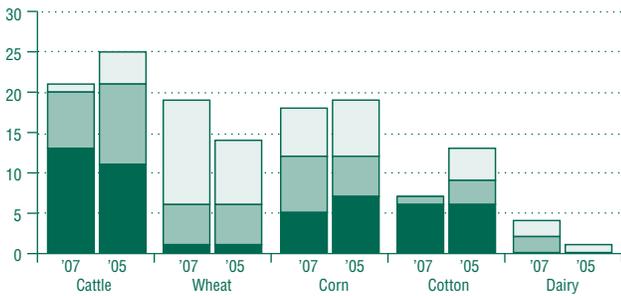
Number of banks



NOTE: "Other" includes goats, pecans and grapes.

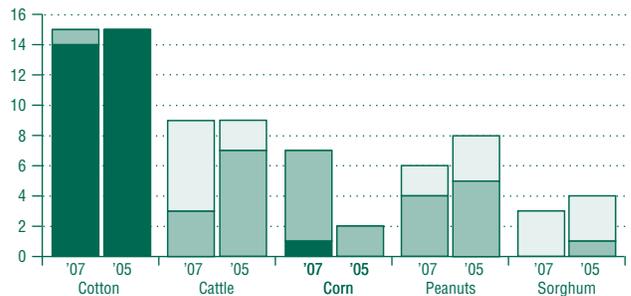
Region 1—Northern High Plains

Number of banks



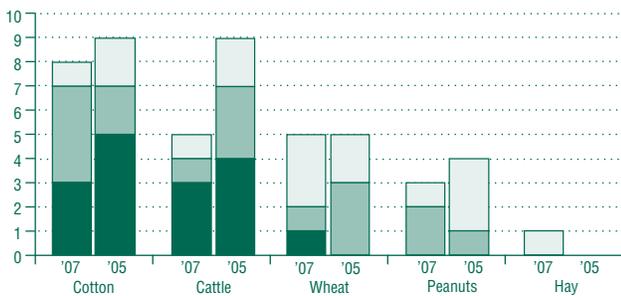
Region 2—Southern High Plains

Number of banks



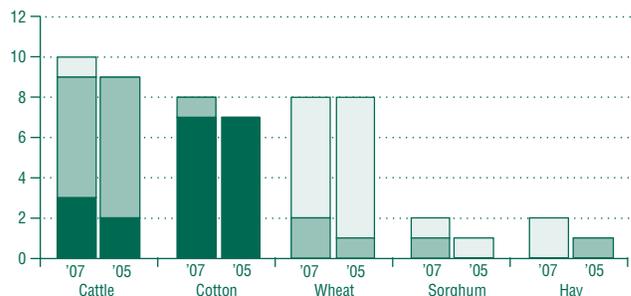
Region 3—Northern Low Plains

Number of banks



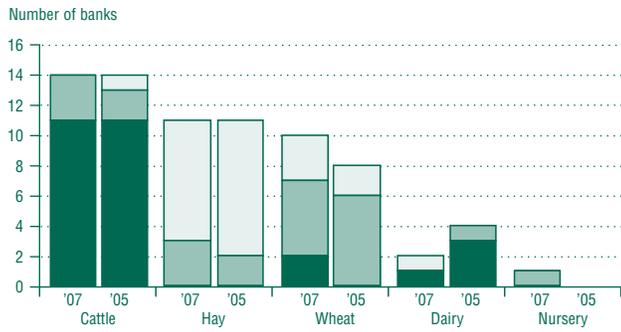
Region 4—Southern Low Plains

Number of banks

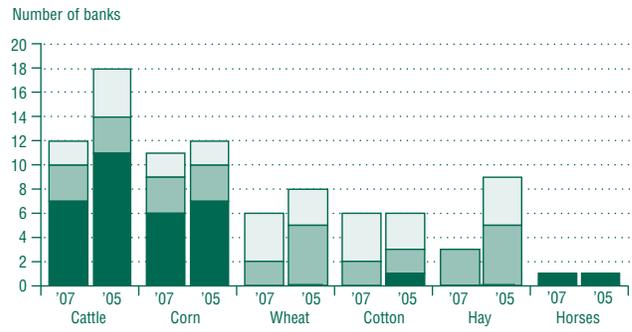


* Data for Region 10—South Texas have not been reported due to insufficient responses.

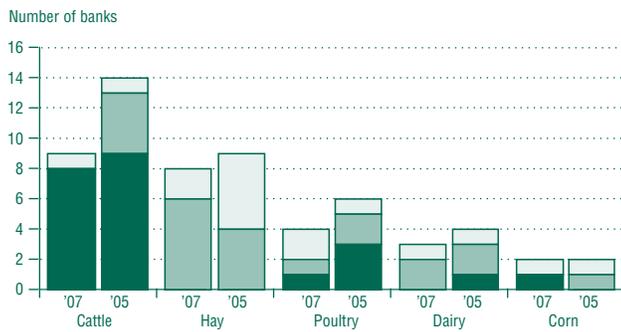
Region 5—Cross Timbers



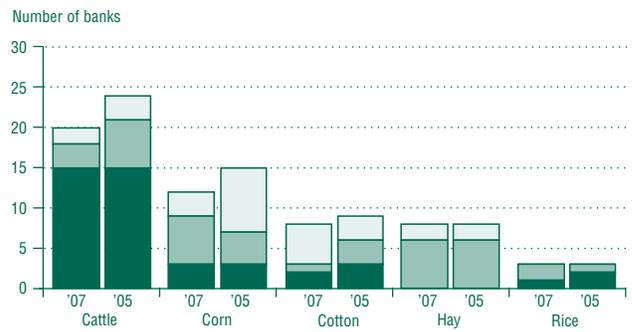
Region 6—North Central Texas



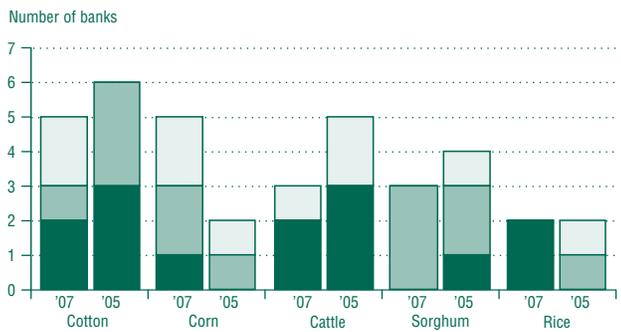
Region 7—East Texas



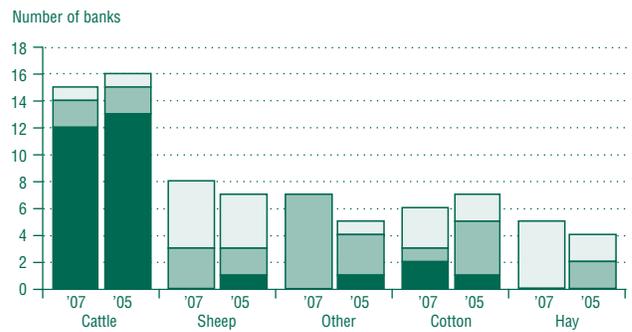
Region 8—Central Texas



Region 9—Coastal Texas

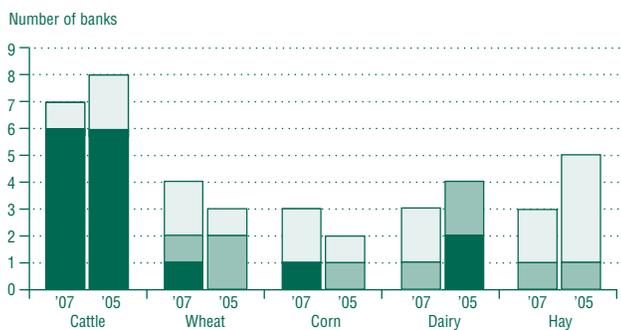


Region 11—Trans-Pecos and Edwards Plateau

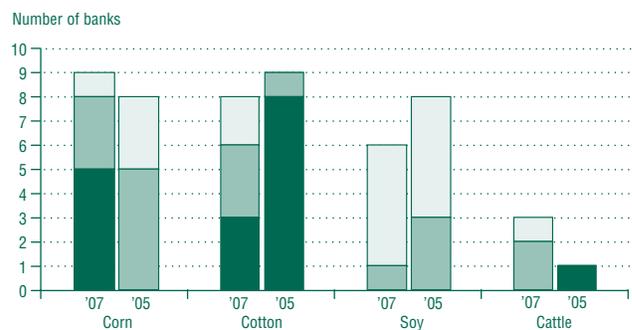


NOTE: "Other" includes goats, pecans and grapes.

Region 12—Southern New Mexico



Region 13—Northern Louisiana



Question:

Has there been a change in the types of agricultural commodities grown in your region? If so, why?

District bankers' responses to the third quarter 2007 commodities survey are printed below. These comments have been edited.

Region 1 Northern High Plains

Farmers began growing cotton two years ago. Dairies are becoming a part of the ag community.

There has been a shift from cotton to corn, sorghum and silage because of high grain and forage prices.

Cotton has come to our area over the past three years, and we now have a gin.

There are more acres of grain and corn due to price increases.

With the increase in grain prices, we have seen many dryland cotton acres shift to milo or wheat.

Cotton has been added in the past two years.

We have seen an increase in dairy due to the construction of the new Hilmar cheese facility. There is a lot of out-of-state interest in relocating to the Texas Panhandle.

Peanuts once were one of the primary crops in this region. Due to price declines and growth in the feral hog population, peanuts have almost disappeared.

More alfalfa is being grown for the dairies.

Cattle production remains constant. Corn acres have increased.

Region 2 Southern High Plains

More corn and sorghum are being planted.

More milo is grown in this region.

We are seeing less cotton and more sorghum.

There has been some movement from cotton to grain crops due to prices and early moisture. In a dry year, it will revert to cotton.

Dairy will soon be No. 1, and it (along with ethanol) is pulling the resurgence of corn in the area.

Dairy has increased.

Region 3 Northern Low Plains

More wheat and sorghum are grown because of variable market conditions.

Cotton acres are declining, and corn and sorghum are increasing.

Grain prices have increased wheat and sorghum acres. There has been a decrease in cotton acres.

Region 4 Southern Low Plains

Due to the increase in sorghum prices and lower production costs, the number of acres being planted has almost doubled compared with previous years.

Windmills for electricity are becoming an important source of revenue for landowners.

There has been a shift from cotton to more wheat and sorghum due to the better grain prices.

Region 5 Cross Timbers

Peanuts have moved to West Texas. Producers have stopped growing peanuts due to the expense. Vegetable production has also declined.

Less cotton and more hay is grown.

Cotton has declined in production.

Wheat is being grown primarily for cattle grazing.

Five to 10 years ago, there was a large decrease in the acres of peanuts grown here.

Region 6 North Central Texas

Less cotton and grain sorghum and more corn are being planted.

Not as much cotton is being grown due to the boll weevil eradication program.

More corn is being grown due to price and production costs.

Cattle operations have increased.

Region 7 East Texas

Cotton was the primary crop for the past 15 years, but chemical and fertilizer costs have increased production costs, affecting profitability.

More corn than wheat is being grown.

Region 8 Central Texas

Because of prices, less cotton and more corn and milo are being planted.

Houston and Austin landowners have switched to raising horses.

Cattle numbers are down due to last year's drought. Egg production is up slightly.

More corn is being planted as a result of the price increases.

There has been less farming (corn, sorghum, rice, cotton) and more ranching (cattle, hay, horses).

More turf grass is being grown due to our proximity to San Antonio. We are seeing fewer peanuts as their production has moved to West Texas.

Rice and cotton acreage are shrinking. Corn and grain sorghum are expanding.

Most property has been purchased for recreation or investment. These properties are being rented to ranchers for cattle or hay production to maintain the owner's ag exemption.

More cotton has been grown in the past three years.

Region 9 Coastal Texas

There has been a shift from cotton to corn and milo due to escalating prices as a result of current biofuels-friendly government policy.

Corn production has increased.

Region 10 South Texas

Wildlife and recreation are replacing conventional agricultural commodities.

Peanut acreage is down sharply due to changes in government programs.

Region 11 Trans-Pecos and Edwards Plateau

Grape vineyards have been installed in McCulloch and the surrounding counties.

Cattle numbers have been increasing as rains have brought the grass back. Producers are cautiously growing herds back toward previous levels.

More farmers are planting corn due to the positive response to ethanol.

The largest commodities had always been peanuts and cattle. As of 2006, no peanuts have been planted. Wine grapes have been planted in the past five years.

Angora goats have decreased in number dramatically, as have sheep, primarily due to difficulties in finding shearers and problems with predators. Meat goat production and hair sheep (for example, Dorper) have increased since no shearing is involved.

Angora goats and Boer Spanish goats have decreased because of predators and labor costs. Grains are replacing some cotton because of high grain prices and the cost of growing cotton.

There has been a change from cotton to feed plants. Sheep numbers are declining, and goat numbers are rising.

Region 12 Southern New Mexico

A considerable amount of farmland has been taken out of production and used for home sites over the past several years.

Cotton production is lower and sorghum (dryland) production is higher due to prices. Hay is lower due to drought conditions.

Ag producers continue to struggle, and very few operations are meeting cash flow successfully. Real estate equity remains strong due to development pressures.

Much less red chile is being grown because there are too many labor-related problems with it.

Lots of silage is being grown for the expanding dairy industry.

Region 13 Northern Louisiana

We are seeing a reduction in cotton due to increases in the cost of fertilizers and other operating costs.

Producers are using Roundup Ready varieties as opposed to conventional ones.

We have seen a big change from cotton to corn.

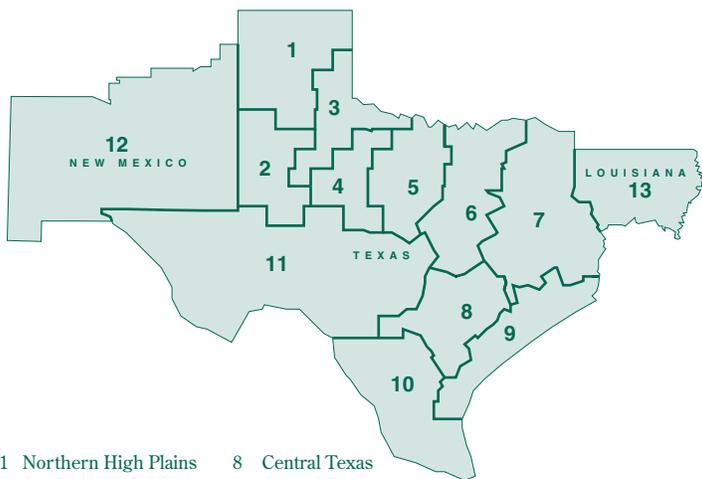
Corn has replaced cotton as king over the past few years. Cattle operations have been growing during the past 10 years. Groups 3 & 4 soybeans have revived the soybean market.

Rural Real Estate Values

October 1, 2007

- ¹ Number of banks reporting land values.
- ² Prices are dollars per acre, not adjusted for inflation.
- ³ Not adjusted for inflation.
- ⁴ Bankers in East Texas have been reporting significant increases in land values.
- n.a.—Not published due to insufficient responses but included in totals for Texas and district.

Eleventh Federal Reserve District

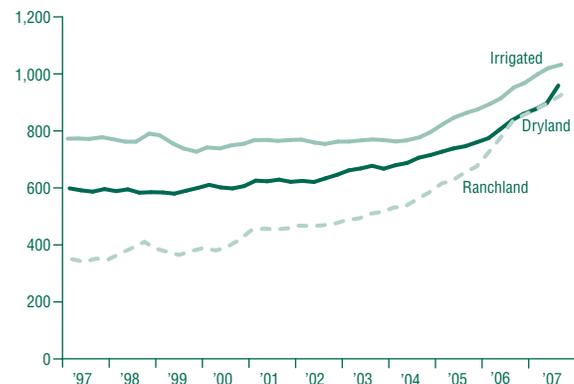


- 1 Northern High Plains
- 8 Central Texas
- 2 Southern High Plains
- 9 Coastal Texas
- 3 Northern Low Plains
- 10 South Texas
- 4 Southern Low Plains
- 11 Trans-Pecos and Edwards Plateau
- 5 Cross Timbers
- 12 Southern New Mexico
- 6 North Central Texas
- 13 Northern Louisiana
- 7 East Texas

Eleventh District Real Land Values

Farmland values continue to rise in third quarter 2007.

2000 dollars per acre



CROPLAND—DRYLAND

Region	Banks ¹ Third Quarter 2007	Average Value ²	Percent Change ³ in Value from	
			Previous Quarter	Previous Year
DISTRICT	128	1,146	4.8	17.7
TEXAS	115	1,157	5.2	17.3
Northern High Plains	22	387	1.1	7.8
Southern High Plains	16	443	2.3	6.9
Northern Low Plains	7	449	5.8	5.4
Southern Low Plains	10	634	3.2	16.8
Cross Timbers	11	988	3.2	14.7
North Central Texas	14	2,036	10.8	27.2
East Texas	5	1,345	0.1	14.8
Central Texas	15	2,202	7.3	13.2
Coastal Texas	7	1,284	1.8	26.8
South Texas	n.a.	n.a.	n.a.	n.a.
Trans-Pecos and Edwards Plateau	6	1,107	7.8	7.3
Southern New Mexico	5	318	4.9	-7.2
Northern Louisiana	8	1,117	0.5	24.0

CROPLAND—IRRIGATED

Region	Banks ¹ Third Quarter 2007	Average Value ²	Percent Change ³ in Value from	
			Previous Quarter	Previous Year
DISTRICT	92	1,238	2.3	11.3
TEXAS	78	1,161	1.6	13.0
Northern High Plains	20	902	2.3	20.8
Southern High Plains	16	857	0.2	2.4
Northern Low Plains	6	820	1.7	11.2
Southern Low Plains	7	821	3.4	13.5
Cross Timbers	4	1,851	3.6	12.8
North Central Texas	n.a.	n.a.	n.a.	n.a.
East Texas	3	1,989	2.3	32.6 ⁴
Central Texas	10	2,526	2.1	2.0
Coastal Texas	4	1,506	4.8	28.9
South Texas	n.a.	n.a.	n.a.	n.a.
Trans-Pecos and Edwards Plateau	5	1,709	4.2	-5.2
Southern New Mexico	7	1,942	6.2	0.2
Northern Louisiana	7	1,387	4.2	22.8

RANCHLAND

Region	Banks ¹ Third Quarter 2007	Average Value ²	Percent Change ³ in Value from	
			Previous Quarter	Previous Year
DISTRICT	141	1,110	3.4	13.5
TEXAS	126	1,393	3.6	13.0
Northern High Plains	19	311	1.5	11.6
Southern High Plains	13	335	8.4	17.6
Northern Low Plains	7	447	8.1	22.3
Southern Low Plains	10	726	6.5	30.9
Cross Timbers	13	1,502	6.7	31.7
North Central Texas	15	2,049	5.7	18.3
East Texas	13	1,967	5.7	43.0 ⁴
Central Texas	16	2,973	5.7	13.4
Coastal Texas	6	1,154	4.2	8.4
South Texas	n.a.	n.a.	n.a.	n.a.
Trans-Pecos and Edwards Plateau	12	1,343	2.4	7.5
Southern New Mexico	8	297	0.9	20.6
Northern Louisiana	7	947	12.0	27.0

Third Quarter 2007 Comments

District bankers were asked for additional comments concerning agricultural land values or credit conditions. These comments have been edited.

Region 1—Northern High Plains

The 2007 wheat crop turned out to be a bumper crop, with excellent yields and high prices positively impacting farmers' cash flows. Corn and sorghum silage yields are above average this fall.

Grain prices continue to hold land prices higher. Additionally, recreational hunting on rangeland has driven values higher.

The wheat crop is amazing, with great prices.

Rangeland is being sold for nonagricultural purposes due to high prices.

The abundant summer moisture has producers expecting good yields for corn, milo and cotton. Corn prices remain at record levels due to demand for ethanol. Several ethanol plants are being built in the High Plains. Land prices in dairy areas such as Muleshoe and Dalhart are at record levels. Overall, the remainder of the year looks promising except for feeder cattle because margins remain thin.

Region 2—Southern High Plains

Farmers have shut off irrigation wells because rainfall has been good. We need a warm September and a late freeze for the cotton crop to mature. This could be our third-best cotton crop ever.

The warm weather over the past month has matured the crop nearing harvest stage. With the seasonal moisture, the cotton crop looks excellent. A favorable fall season will result in another bumper cotton harvest.

Cotton and peanuts are in good shape. We need plenty of sunshine and warm days to complete this crop year.

Region 3—Northern Low Plains

With good maturing weather, the cotton crop will be well above average. Grazing is well above average for cattle.

Region 4—Southern Low Plains

The cotton crops look excellent. The majority of new landowners are from large cities or out of state, causing land values to

increase at a rapid pace. Cropland values are lower than rangeland values. In some areas, land values have doubled in the past two years. The market has not slowed, but land available for sale is limited.

Buyers from outside the service area are buying land for recreational use and driving producers out.

Region 5—Cross Timbers

Rainfall conditions are much better than a year ago.

Most ag buyers have been forced out of the market due to the high land prices being paid by recreational buyers.

Recent above-average rainfall has August and September looking like spring, with green grass and full lakes and stock tanks.

Region 6—North Central Texas

The cost to grow corn has increased by 20 to 25 percent over the past two years as a result of seed, fuel and fertilizer costs.

Land is very hard to find, and what is available is very expensive.

We are having a good year in Williamson County. Corn yields are some of the best we have ever had. Grain storage is limited, due to the volume of grain and availability of storage. There are fewer harvest workers this year, as they are behind schedule in the Valley, delaying their normal movement north. Hay is in abundance. Some producers are trying to ship hay out of state but are limited by shipping costs. Pastures are still lush, with plentiful grass going into the fall months.

We have had a very good corn crop. Cattlemen are making lots of hay.

Region 7—East Texas

Row crops are evolving in a diversified industry, with various grain products being used not only for food and fiber, but also as a renewable energy source. This could be a positive change for the current credit available and also for land values and commodities values.

Region 8—Central Texas

Rural land loans are about the same. There are fewer listings on the market, causing somewhat of a slowdown. High-end-priced land is staying on the market longer. Cattle prices remain good. Volume at local auction barns is picking up. The drier weather has helped farmers. The corn harvest is about 50 percent completed.

The first rice crop yielded a 15 percent

average decrease. The corn yield is very good. Milo was a disaster due to the rain. Cotton prospects are also poor due to excessive rain.

Generally, credit conditions are very good; however, a watchful eye must be cast upon the real estate market, given the sub-prime debacle.

Region 9—Coastal Texas

A promising crop yield potential has turned into only average yields and quality losses along the Texas Gulf Coast due to excessive rainfall during the harvest season. Input prices (fertilizer, chemicals, land rent) have advanced across the board, making it a breakeven proposition going into the 2008 crop year.

Region 11—Trans-Pecos and Edwards Plateau

Ag land sales continue to go mostly to nonagricultural producers. The good rains have continued. Although low, beef prices are still way above average.

High fuel costs and increased operating expenses have kept demand for operating credit steady. Fortunately, cattle, sheep and goat prices remain strong, and range conditions in the Texas Hill Country are better than most folks can remember. Real estate sales seem to have slowed somewhat.

There has been some increase in stocker cattle loans due to an exceptional year.

Region 12—Southern New Mexico

Increased grain prices have led to a spike in prices of irrigated and dryland farms. Investors purchasing ranches for recreational purposes have caused ranch prices to skyrocket.

Agriculture will slowly decline in this area. Input costs are rising, while prices remain the same. Competition from Mexican-grown products has continued to increase. Irrigated land is significantly more valuable when it is closer to population centers.

The market has not had enough sales to really measure.

Region 13—Northern Louisiana

This year's corn and early soybean yields were excellent. The drought in midsummer did not hurt most yields, but it did make some bankers very nervous. The cotton harvest is just now starting and has the potential for an above-average crop yield. Irrigation is vital to the crop's ability to survive.