

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 2007

The fourth quarter survey saw continued optimism in the Eleventh District agricultural sector. Above-average rainfall and favorable growing conditions in the fall significantly improved crop yields in most parts of the district. A near-record cotton crop coupled with high agricultural commodity prices boosted farm incomes in 2007. Bankers reported that this boom was not only enabling producers to pay off their debts but also encouraging them to invest in new farm equipment.

While the overall mood in the district's agricultural community was positive, many respondents cited concerns that rising production costs were squeezing margins, growth of the wheat crop was poor, and the impasse on the farm bill had left them estimating the 2008 production payment structure.

Here are additional highlights from the survey:

- Farmland values continue to increase, albeit at a slower pace. Bankers said the sale of agricultural land for recreational use continues to drive up prices. Dryland, irrigated land and rangeland values rose 4.8 percent, 3.7 percent and 2.5 percent, respectively.
- Excellent crop yields and high prices have bolstered Eleventh District farm incomes, decreasing demand for loans, improving loan repayment rates and increasing cash deposits.

Nineteen percent of bankers reported higher loan repayment rates, up from 8.3 percent in fourth quarter 2006. Twenty-two percent of respondents cited slow demand for loans, compared with 13.9 percent a year ago.

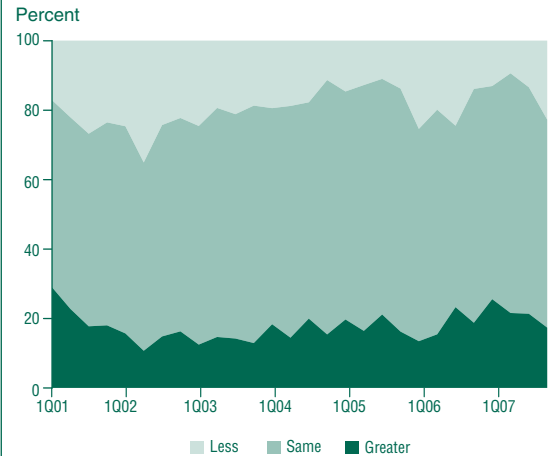
• Farmers are using profits from the recent favorable harvest to purchase new farm machinery. Twenty-one percent of bankers expect greater demand for farm machinery loans in the next three months, up from 9.2 percent a year earlier.

• Interest rates for most agricultural loans declined for the third consecutive quarter.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

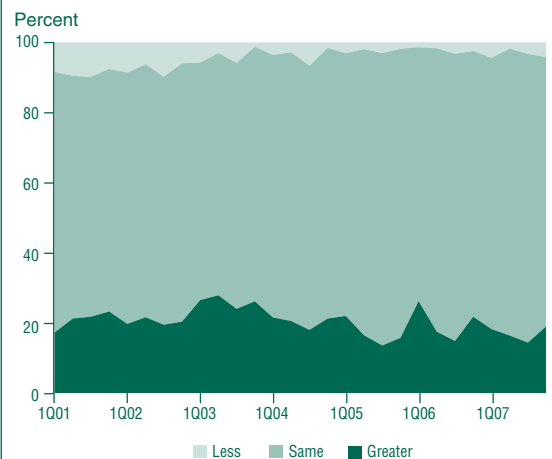
Demand for Loans

Twenty-two percent of bankers cite slower demand for loans.



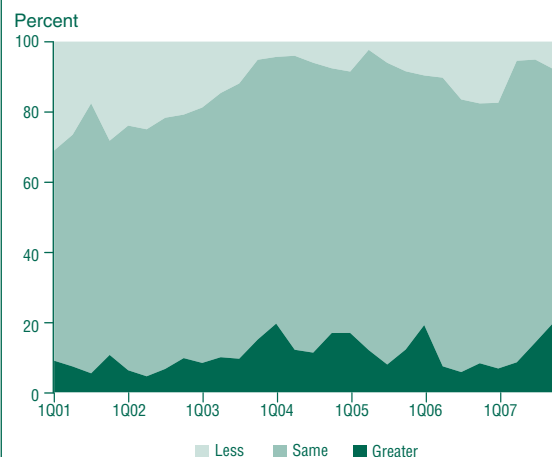
Funds Available for Additional Lending

Funds availability remains steady, say 77 percent of respondents.



Rate of Loan Repayment

Nineteen percent of bankers indicate higher loan repayment rates.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

Renewals or Extensions of Loans

Thirteen percent of respondents report fewer requests for loan renewals and extensions.

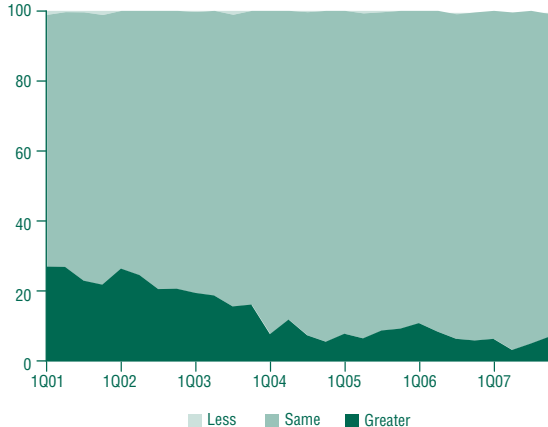
Percent



Amount of Collateral

Collateral levels remain unchanged, say 92 percent of respondents.

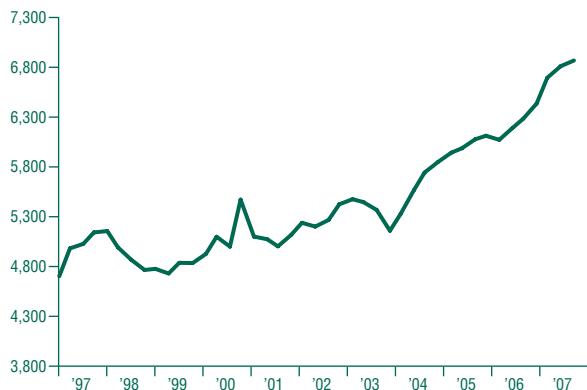
Percent



Total Agricultural Loans

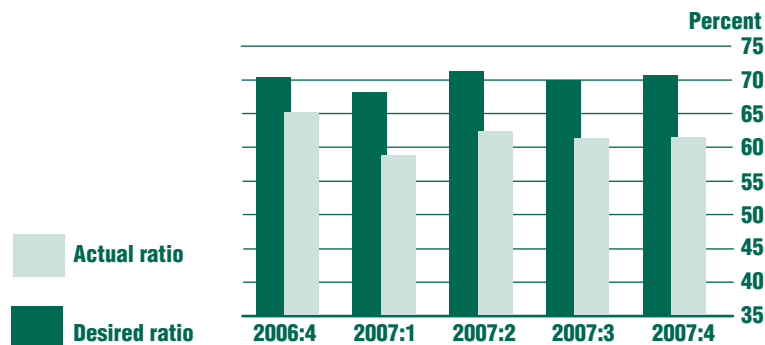
Agricultural loan volumes continue to rise in the Eleventh District.

Millions of dollars (seasonally adjusted)



Loan-to-Deposit Ratios at Survey Banks

Average actual and desired ratios



Distribution of Loan-to-Deposit Ratios

	Banks Reporting (Percent)				2008 Jan. 1
	2007				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Less than 41%	18	22	17	17	18
41% to 50%	15	11	12	14	12
51% to 60%	16	20	13	17	17
61% to 70%	17	21	28	23	27
More than 70%	33	26	30	30	26

Interest Rate—Fixed

	Average Rate (Percent)				2008 Jan. 1
	2007				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Feeder cattle	9.45	9.44	9.39	9.35	8.91
Other farm operating	9.61	9.68	9.54	9.55	9.02
Intermediate term	9.31	9.27	9.13	9.24	8.64
Long-term farm real estate	8.71	8.55	8.52	8.49	8.03

Interest Rate—Variable

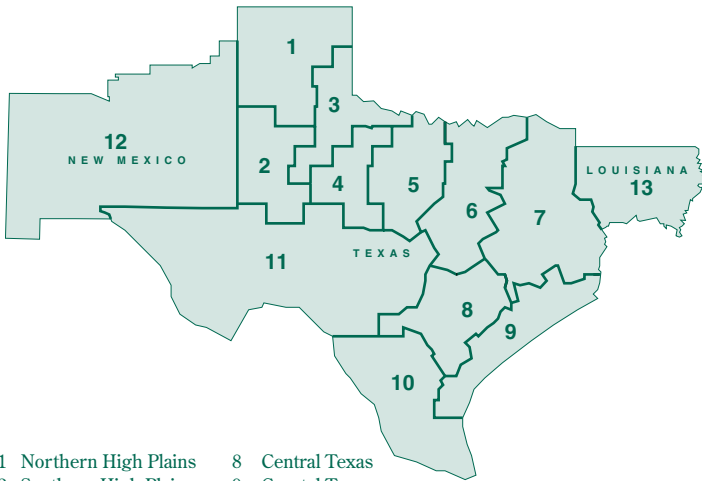
	Average Rate (Percent)				2008 Jan. 1
	2007				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Feeder cattle	9.46	9.35	9.42	9.22	8.80
Other farm operating	9.59	9.63	9.57	9.41	8.86
Intermediate term	9.41	9.37	9.14	9.23	8.62
Long-term farm real estate	9.20	8.85	8.66	8.61	8.13

Rural Real Estate Values

January 1, 2008

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

Eleventh Federal Reserve District

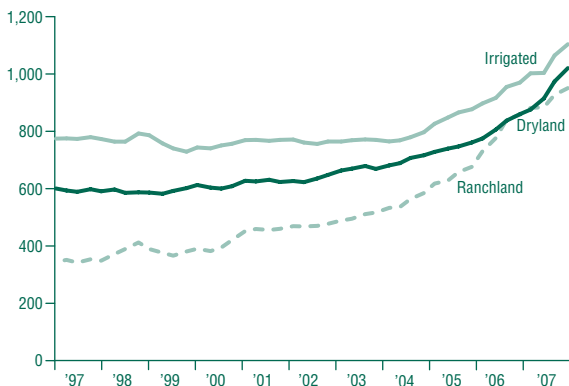


- 1 Northern High Plains
- 2 Southern High Plains
- 3 Northern Low Plains
- 4 Southern Low Plains
- 5 Cross Timbers
- 6 North Central Texas
- 7 East Texas
- 8 Central Texas
- 9 Coastal Texas
- 10 South Texas
- 11 Trans-Pecos and Edwards Plateau
- 12 Southern New Mexico
- 13 Northern Louisiana

Eleventh District Real Land Values

Increases in farmland values continue to be driven largely by recreational use.

2000 dollars per acre



CROPLAND—DRYLAND

Region	Banks ¹ Fourth Quarter 2007	Average Value ²	Percent Change ³ in Value from	
			Previous Quarter	Previous Year
DISTRICT	124	1,224	4.8	21.8
TEXAS	114	1,225	4.4	20.9
Northern High Plains	17	398	1.4	8.8
Southern High Plains	16	450	2.0	8.9
Northern Low Plains	8	485	4.4	14.8
Southern Low Plains	10	640	2.2	14.4
Cross Timbers	12	1,037	4.5	15.0
North Central Texas	15	2,335	10.6	44.3
East Texas	7	1,537	6.7	27.9
Central Texas	14	2,375	5.4	20.7
Coastal Texas	6	1,244	-2.4	10.9
South Texas	n.a.	n.a.	n.a.	n.a.
Trans-Pecos and Edwards Plateau	7	1,133	4.2	8.9
Southern New Mexico	5	366	3.6	16.6
Northern Louisiana	5	1,313	9.9	33.6

CROPLAND—IRRIGATED

Region	Banks ¹ Fourth Quarter 2007	Average Value ²	Percent Change ³ in Value from	
			Previous Quarter	Previous Year
DISTRICT	84	1,324	3.7	16.7
TEXAS	73	1,208	3.2	13.2
Northern High Plains	15	1,001	6.1	27.5
Southern High Plains	16	902	2.8	7.2
Northern Low Plains	7	848	2.3	9.7
Southern Low Plains	8	857	3.2	19.1
Cross Timbers	4	1,992	6.5	16.3
North Central Texas	n.a.	n.a.	n.a.	n.a.
East Texas	3	2,095	2.5	28.3
Central Texas	8	2,733	4.3	11.5
Coastal Texas	4	1,634	4.7	31.4
South Texas	n.a.	n.a.	n.a.	n.a.
Trans-Pecos and Edwards Plateau	6	1,970	10.5	10.0
Southern New Mexico	7	2,346	4.9	31.1
Northern Louisiana	4	1,666	9.4	43.6

RANCHLAND

Region	Banks ¹ Fourth Quarter 2007	Average Value ²	Percent Change ³ in Value from	
			Previous Quarter	Previous Year
DISTRICT	134	1,139	2.5	13.6
TEXAS	124	1,434	2.8	13.5
Northern High Plains	17	330	3.6	13.9
Southern High Plains	11	352	4.9	21.8
Northern Low Plains	8	470	6.6	24.9
Southern Low Plains	10	666	-2.3	14.5
Cross Timbers	13	1,535	3.0	27.0
North Central Texas	17	2,278	8.5	26.4
East Texas	13	2,111	4.6	39.3
Central Texas	16	3,257	6.7	22.2
Coastal Texas	6	1,165	1.6	5.8
South Texas	n.a.	n.a.	n.a.	n.a.
Trans-Pecos and Edwards Plateau	11	1,474	5.5	16.0
Southern New Mexico	7	297	-1.0	14.7
Northern Louisiana	3	944	0.7	30.6

Fourth Quarter 2007 Comments

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

Region 1—Northern High Plains

Extremely dry conditions have negatively impacted crop and grazing conditions.

Commodity prices are at an all-time high. Producers are retiring debt and replacing worn-out equipment. High feeder cattle prices are making profits almost nonexistent. Moisture levels are poor; the outlook for another good wheat crop is not good. Overall, however, the 2008 economic outlook for both farmers and ranchers is fairly good.

Region 2—Southern High Plains

The cotton harvest is 85 percent complete, and it has been very good.

Favorable late summer and fall weather conditions resulted in an excellent cotton crop. Most of the cotton has been harvested. Ginning will take one to three months due to the crop size. Even though the crop income will be substantial, net income for many farmers will be marginal due to increased production costs.

We had another bumper cotton crop. Crop grades are very good. The weather has been good for the harvest.

Region 3—Northern Low Plains

Consumer confidence continues to decline due to decreased buying power.

This has been a record crop for both dry and irrigated cotton. Recent rains should help wheat and winter grazing.

The excellent cotton crop has improved our farmers' bottom lines for 2007. Borrowers are looking at capital purchases like new tractors and sprinkler systems.

Stocker loans have decreased due to high wheat prices. Calf prices have dropped for the same reason, hurting the cow/calf operator. We need rain to make a spring wheat crop.

Region 4—Southern Low Plains

Even though the price of cotton is not as high as producers would like, excellent yields have made up for the shortfall. Hence, loan demand for the first quarter of 2008 is

expected to be much lower. Cattle prices are lower but still strong.

We are harvesting a record cotton crop, and the prices are excellent.

We need the passage of a new farm bill now!

Land is priced above its production value. Recreation usage has eliminated producers' ability to acquire land for income production.

Milo crop production, as well as its price, was above average, allowing our farmers to minimize their operating loan requests for completing their cotton crop. The cotton crop is going to range from 1.5 to 4.25 bales per acre. Farmers are going to be depositors as well as borrowers.

Land values have greatly increased in the last few years due to increased interest in land for recreational use.

Region 5—Cross Timbers

Land prices are still very high, but fewer sales are being made.

We received only 1½ inches of moisture in the past 90 days. The wheat crop is up, but wheat grazing is not taking place. Ranchers are anticipating a seed crop instead of grazing.

Region 6—North Central Texas

The seemingly infinite supply of metropolitan area money that has caused land prices to skyrocket may be coming to an end. There are a great number of for-sale signs visible.

Hay is plentiful and cheap and will probably stay that way unless we have a harsh winter. Cattle prices should stay high because there is still a shortage of beef cows. Farmers' big concern is the price of fuel, gas and diesel.

2007 was a record year, with a bumper crop and record prices for commodities. Farmers are buying and updating equipment, even having to wait for equipment due to demand from all over the country. Requests for operating lines are increasing as much as 30 percent due to increased production costs. If commodity prices should fall, producers may suffer. Some farmers are contracting 2008 corn for \$4 a bushel, but with increased production costs, the profit will not be that great if the yield is average.

Heavy rains have severely reduced corn yields. Land values are increasing sharply. A new power plant is under construction nearby. Continued increases in production costs are making it hard to show a profit in dryland farming. Many long-term farmers are going to be forced out of business.

Crop production costs will increase by 20 to 30 percent.

Region 8—Central Texas

The rural land market is slowing down with fewer listings, and buyers are being selective, especially with more expensive properties. Cattle prices are still below summer levels. Hay is being fed by most producers, and cattle are still in good shape. The winter oats and rye grass are doing better with the recent rains.

Commodity prices are up, but operating costs are up also. Corn yields were good. Cotton and rice yields were below the three-year averages as a result of the wettest July ever. Calf prices are down, but good cow/calf operators are still profiting.

Land values continue to escalate as recreational land use increases. The soil moisture levels are good. Cattle prices are dampened by rising fertilizer costs.

Farmers need to pay land rent and prepare their cropland. We have no farm bill to base our projections on.

Region 9—Coastal Texas

Rising input costs continue to cut into profitability. The pending farm bill has put Gulf Coast farmers and lenders in a position to guess at payment structure for 2008 production and beyond. Proposed adjusted gross income limits could change crop share leases in the future.

Region 11—Trans-Pecos and Edwards Plateau

There have been very few real estate sales for agricultural production. Sales are mostly to out-of-area investors for hunting, investment, etc. We have had good moisture, and the pastures are holding up well.

Livestock prices remain strong, but expenses are up as well. Recreational use of rangeland continues to keep rural land prices strong. Much ranching land has been taken out of production, but strong demand continues for the scenic ranchland of the Texas Hill Country.

Region 12—Southern New Mexico

Nonagricultural investors continue to purchase land. There is no correlation between market value and economic value.

Region 13—Northern Louisiana

Farmland values continue to rise. This increase is driven by the desire to have recreational land, taking more land out of cultivation. The tree population is increasing.