FEDERAL RESERVE BANK OF DALLAS

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

First Quarter 2008

The first quarter 2008 survey suggested cautious optimism in the Eleventh District agricultural community. Respondents from several regions indicated that dry conditions adversely affected planted crops and hampered pasture growth. Rising fuel, feed and fertilizer costs strained operating margins. Some bankers reported a rise in 2008 lines of credit and in demand for operating loans because of these cost increases. The farm bill impasse is causing uncertainty among agricultural stakeholders, and volatility in commodity prices is making it difficult for producers to forward price their 2008 production. Among positives, respondents noted that lower interest rates are helping offset some of the increased financial strain. Additionally, bankers in the Plains and North Central Texas regions reported that favorable crop yields and high commodity prices boosted 2007 farm revenues, which has improved loan repayment rates and reduced overall loan demand.

Additional highlights from the survey:

• Higher grain prices have substantially increased feed costs, reducing the number of calves being put on feedlots and lowering demand for feeder-cattle loans. Twenty-nine percent of respondents anticipate making fewer feeder cattle loans in the next three months, up from 16.4 percent last quarter.

• Farmland values have continued to rise, albeit at a slowing pace. While demand for farmland for investment and recreational use continues to drive up prices, some respondents say that demand for agricultural real estate has softened and farmland is taking longer to sell. Twenty-six percent of respondents anticipate making fewer farm real estate loans, up from 15.4 percent a year ago.

• High steel prices and increased input costs are deterring producers from investing in new farm equipment. Consequently, 17.9 percent of respondents expect to make fewer farm machinery loans over the next three months compared with 5.2 percent last quarter.

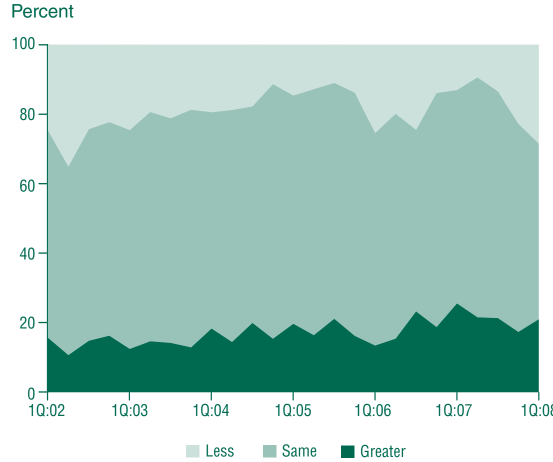
Quarterly Survey of Agricultural Credit Conditions is compiled from a survey of Eleventh District agricultural bankers. This publication is prepared by the Federal Reserve Bank of Dallas and is available without charge by writing to the Research Department, Federal Reserve Bank of Dallas, P.O. Box 655906, 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.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

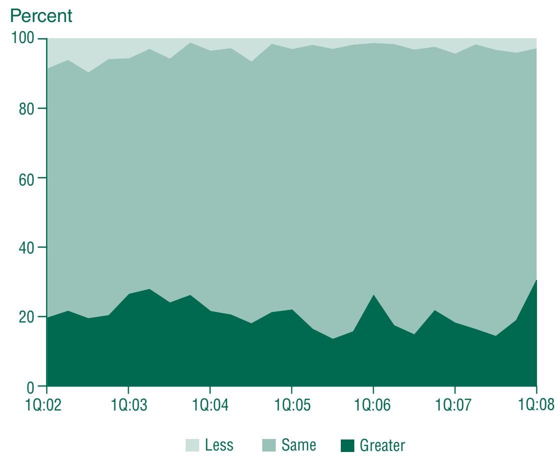
Demand for Loans

Twenty-eight percent of bankers report lower demand for loans.



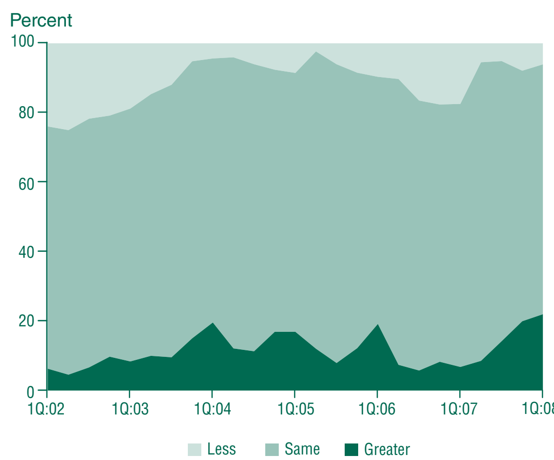
Funds Available for Additional Lending

Funds available for lending have increased, say 31 percent of respondents.



Rate of Loan Repayment

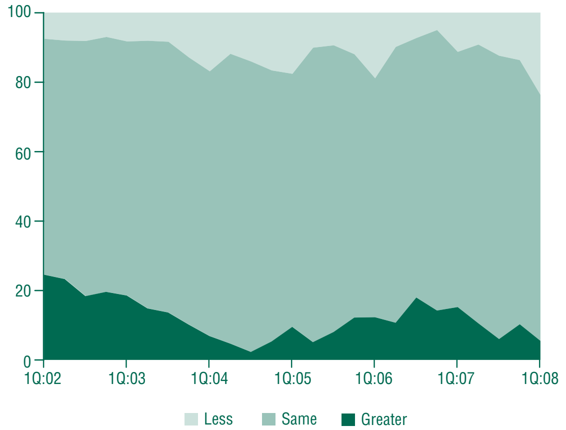
Twenty-two percent of bankers cite higher loan repayment rates.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

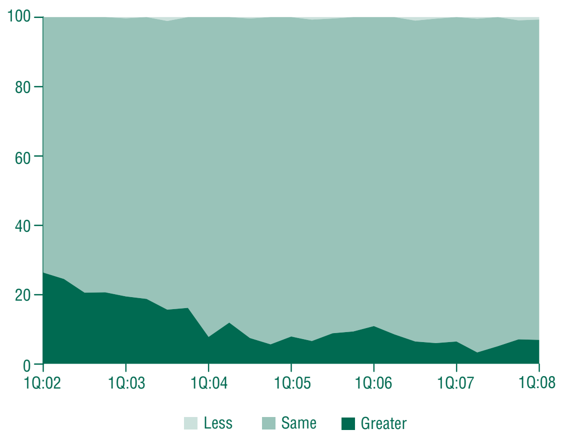
Renewals or Extensions of Loans

Twenty-four percent of reporters state that loan renewal and extension requests have declined.



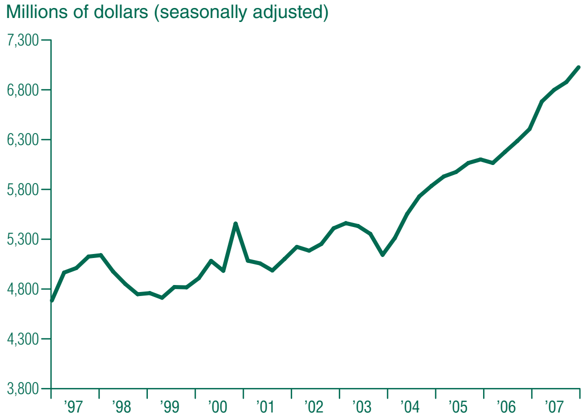
Amount of Collateral

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



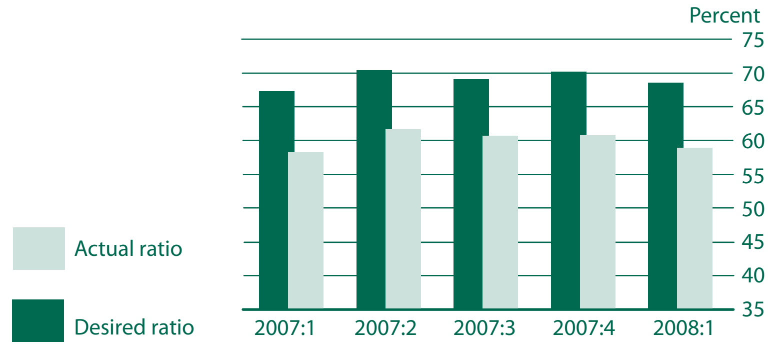
Total Agricultural Loans

Agricultural loan volumes continued to rise at Eleventh District banks.



Loan-to-Deposit Ratios at Survey Banks

Average actual and desired ratios



Distribution of Loan-to-Deposit Ratios

	Banks Reporting (Percent)				
	2007			2008	
	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1
Less than 41%	22	17	17	18	24
41% to 50%	11	12	14	12	12
51% to 60%	20	13	17	17	18
61% to 70%	21	28	23	28	22
More than 70%	26	30	30	25	24

Interest Rate—Fixed

	Average Rate (Percent)				
	2007			2008	
	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1
Feeder cattle	9.44	9.39	9.35	8.91	7.78
Other farm operating	9.68	9.54	9.55	9.05	7.96
Intermediate term	9.27	9.13	9.24	8.66	7.74
Long-term farm real estate	8.55	8.52	8.49	7.92	7.24

Interest Rate—Variable

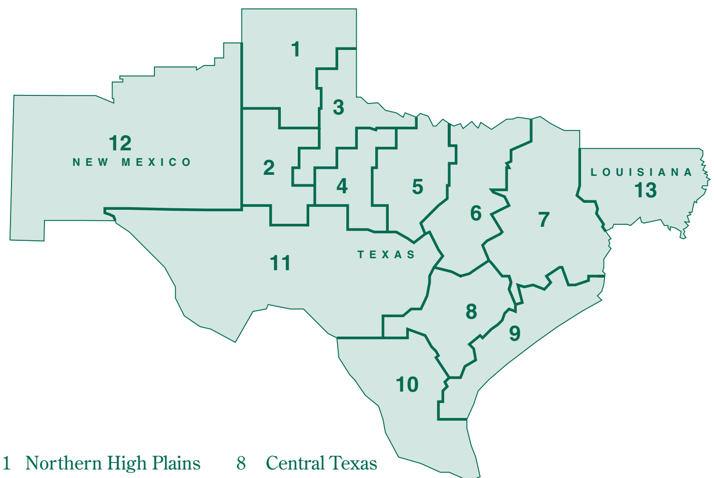
	Average Rate (Percent)				
	2007			2008	
	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1
Feeder cattle	9.35	9.42	9.22	8.67	7.20
Other farm operating	9.63	9.57	9.41	8.73	7.41
Intermediate term	9.37	9.14	9.23	8.48	7.32
Long-term farm real estate	8.85	8.66	8.61	7.93	6.66

Rural Real Estate Values

April 1, 2008

[1] Number of banks reporting land values.
[2] Prices are dollars per acre, not adjusted for inflation.
[3] Not adjusted for inflation.
[4] Increase in the percent change from 2007 to 2008 reflects new reporters in 2008.
n.a.—Not published due to insufficient responses but included in totals for Texas and district.

Eleventh Federal Reserve District

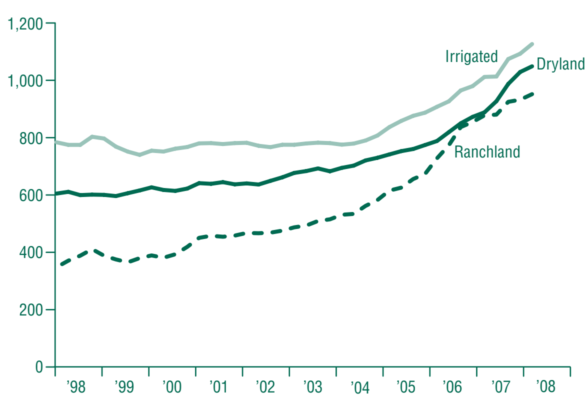


1 Northern High Plains
2 Southern High Plains
3 Northern Low Plains
4 Southern Low Plains
5 Cross Timbers
6 North Central Texas
7 East Texas
8 Central Texas
9 Coastal Texas
10 South Texas
11 Trans-Pecos and Edwards Plateau
12 Southern New Mexico
13 Northern Louisiana

Eleventh District Real Land Values

Farmland values edged up in first quarter 2008.

2000 dollars per acre



CROPLAND—DRYLAND

Region	Banks[1]	Average Value[2] First Quarter 2008	Percent Change[3] in Value from Previous Quarter	Percent Change[3] in Value from Previous Year
DISTRICT	141	1,252	2.0	21.1
TEXAS	129	1,252	1.7	20.2
Northern High Plains	22	424	3.9	13.2
Southern High Plains	15	477	2.7	15.1
Northern Low Plains	8	538	6.9	25.8
Southern Low Plains	11	693	3.4	21.4
Cross Timbers	13	1,230	8.8	35.9[4]
North Central Texas	16	2,112	–3.1	26.6
East Texas	9	1,625	6.0	29.5
Central Texas	17	2,335	0.3	18.2
Coastal Texas	7	1,496	7.0	24.0
South Texas	3	1,413	–0.7	–11.7
Trans-Pecos and Edwards Plateau	8	1,141	–0.5	8.1
Southern New Mexico	6	380	7.0	17.7
Northern Louisiana	6	1,358	4.8	32.1

CROPLAND—IRRIGATED

Region	Banks[1]	Average Value[2] First Quarter 2008	Percent Change[3] in Value from Previous Quarter	Percent Change[3] in Value from Previous Year
DISTRICT	98	1,350	3.2	14.0
TEXAS	85	1,273	3.9	15.2
Northern High Plains	19	1,074	5.7	29.0
Southern High Plains	15	956	4.1	13.7
Northern Low Plains	6	897	3.4	13.9
Southern Low Plains	8	989	7.7	34.0[4]
Cross Timbers	7	2,057	2.1	23.1
North Central Texas	n.a.	n.a.	n.a.	n.a.
East Texas	3	1,703	–9.0	–6.5
Central Texas	12	2,780	2.6	11.9
Coastal Texas	4	1,654	2.3	23.5
South Texas	3	1,512	1.2	–14.0
Trans-Pecos and Edwards Plateau	6	2,101	5.2	20.1
Southern New Mexico	8	1,995	–1.4	2.7
Northern Louisiana	5	1,679	4.7	31.7

RANCHLAND

Region	Banks[1]	Average Value[2] First Quarter 2008	Percent Change[3] in Value from Previous Quarter	Percent Change[3] in Value from Previous Year
DISTRICT	147	1,153	2.1	10.8
TEXAS	136	1,452	2.2	11.1
Northern High Plains	21	348	3.0	17.0
Southern High Plains	9	350	–0.3	17.4
Northern Low Plains	8	621	15.4	61.4[4]
Southern Low Plains	11	652	–4.3	7.1
Cross Timbers	13	1,680	4.2	30.8
North Central Texas	18	2,281	1.2	23.8
East Texas	16	2,037	–0.6	21.7
Central Texas	19	3,176	0.5	17.7
Coastal Texas	6	1,475	10.0	34.2[4]
South Texas	3	1,842	10.0	–5.9
Trans-Pecos and Edwards Plateau	12	1,373	–1.6	5.7
Southern New Mexico	7	300	1.1	6.2
Northern Louisiana	4	886	–3.7	14.4

First Quarter 2008 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

We're well into our second straight quarter of extremely dry conditions. Input costs (fuel and fertilizer) have climbed drastically. Forward pricing of commodities has been extremely difficult because of the volatility in the futures market.

While sales of water rights have bolstered land values at present, the future value of surface rights (for agricultural purposes) is uncertain.

The past four years have yielded the most successful crop production in the history for our area. Producers' balance sheets are healthy. However, with the ongoing drought-like conditions and rising input and crude oil costs, our customers are in for a wild ride. Operating without a farm bill makes it even more risky. Producers cannot forward price their upcoming production because of the current market conditions in commodity prices. Banks have cut off funds to middlemen, merchants and processors, affecting their ability to hedge the upcoming crop year's production. The unpredictable weather and cash flows could erase the previous four years' gains.

Land values continue to increase due to grain prices and investors entering the market.

Region 2—Southern High Plains

We need rain; wheat is stressed, and we need moisture for planting cotton. A farm program would certainly be beneficial.

The 2007 cotton crop has finally been ginned and funds received to pay loans. Most farmers have sufficient funds to start the 2008 crop year, resulting in lower loan demand for the first quarter. A good rain is needed before the 2008 crop year can begin in earnest.

Most customers are requesting increases in 2008 crop lines due to the high cost of fuel, fertilizer and seed. Prices for the 2007 cotton crop have been good. Customers are concerned by the lack of a farm bill and the continuing rise in expenses.

Region 3—Northern Low Plains

Deflationary concerns have reduced the demand for real estate of all types. Increasing input costs and the lack of any farm bill have farmers searching for the right combination of crops for a profitable year in 2008. Time is expiring on passage of a farm bill. Farmers need to make decisions for the 2008 crops.

High wheat prices have essentially stopped feeder cattle from being put on wheat pasture. This has decreased cattle loan demand. Rain is needed to make a wheat crop. Increases in input costs will increase requests for farm operating loans. Land price increases seem to be slowing. Most rural real estate buyers are recreational users.

Region 4—Southern Low Plains

The lack of stability in the farm program requires a tight cash flow.

We could not have scripted a better 2007 for agriculture. Better than average crop yields are necessary for 2008 because of increased energy, fuel and fertilizer prices. Steel price increases have affected the price of new machinery.

Region 5—Cross Timbers

We have seen some slowing of land price escalation. Farm real estate requires a slightly longer period to sell.

Recent rain and snow started growth in the pastures. However, moisture is still needed.

Region 6—North Central Texas

Inflated fertilizer and fuel prices are causing farmers to run short of operating capital.

Gas and diesel prices are going to be a problem. We will have to see how the 2008 presidential election pans out.

Input and diesel costs are hard to fathom. Both crop yields and prices had better be good at harvest time.

We have ample moisture, and 90 percent of corn and milo have been planted. A big percentage is already up and doing well. Cotton planting will begin within the next week. Most are planting more grain than cotton; it is estimated that there will be around 20,000 acres of cotton planted in Williamson County. The negative is the additional cost of production: fuel, fertilizer, chemicals. One positive note is that interest costs are going down. Hopefully, favorable weather conditions will produce average to above average crop yields. A large number of producers will continue to forward contract grain.

Input costs for farmers and ranchers have escalated recently, putting pressure on operating margins. Feed, fertilizer and fuel prices have increased dramatically. There is a very limited agricultural real estate market in our area.

Region 7—East Texas

Most crops have been turned to small grain to take advantage of the ethanol prices. I expect prices to hold, but production costs will increase because of energy costs. This has hurt support enterprises such as equipment dealers. We should have adequate moisture for planting and anticipate having good crop yields this year.

Region 8—Central Texas

Demand for real estate is softening, resulting in lower values. Dry weather patterns and high fuel, feed and fertilizer costs are putting some marginal agricultural operations in a cash-flow crunch.

We need more rain. The winter oats and rye grass are doing fair. Hay feeding has picked up in most areas. Most ranchers are worried about the high cost of diesel and fertilizer. Cattle prices have remained steady at area sale barns, with breakevens on fat cattle being pushed higher due to high grain costs. Land prices remain good, though there is a lack of listings of good rural properties.

Commodity prices, as well as seed, fertilizer and fuel costs, are way up. We are seeing the highest costs per acre that we've ever seen. Good used equipment is selling briskly. However, farmers are optimistic.

The price of fuel, fertilizer and feed will cut deeply into profits, hindering farm/ranch expansion opportunities. Lower interest rates will mitigate this situation some. On a positive note, we have had good rains to date.

Region 11—Trans-Pecos and Edwards Plateau

It has been very dry since last fall. The few ranches that sold at year-end went to nonagricultural producers. Oil and gas leases are coming into the area.

Region 12—Southern New Mexico

Conditions in most of New Mexico are very dry. The snow melt looks good for moisture. Farm prices are very good. Livestock prices are going down daily. Dairy remains stable.

Land values in our area have increased due to high corn and wheat prices.