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August 13, 2009

# Credit Standards, Conditions and Trends



The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

# Today's Roadmap

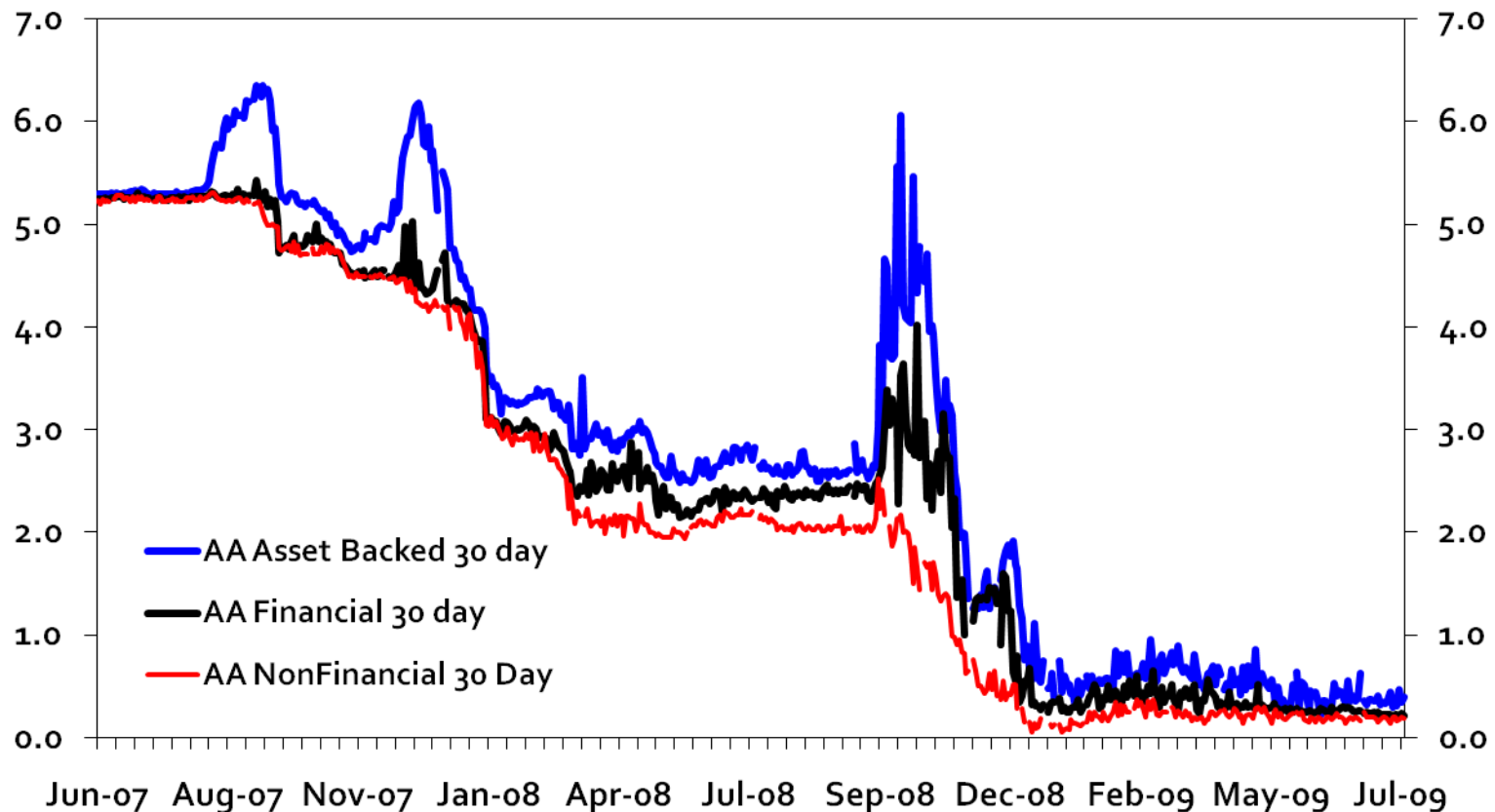
- **Financial crisis eases**
- **Commercial real estate remains a risk**
- **Ag lending remains robust**
- **Several risks to agricultural lending**



# The financial market crisis has eased.

## Commercial Paper Rates

Percent

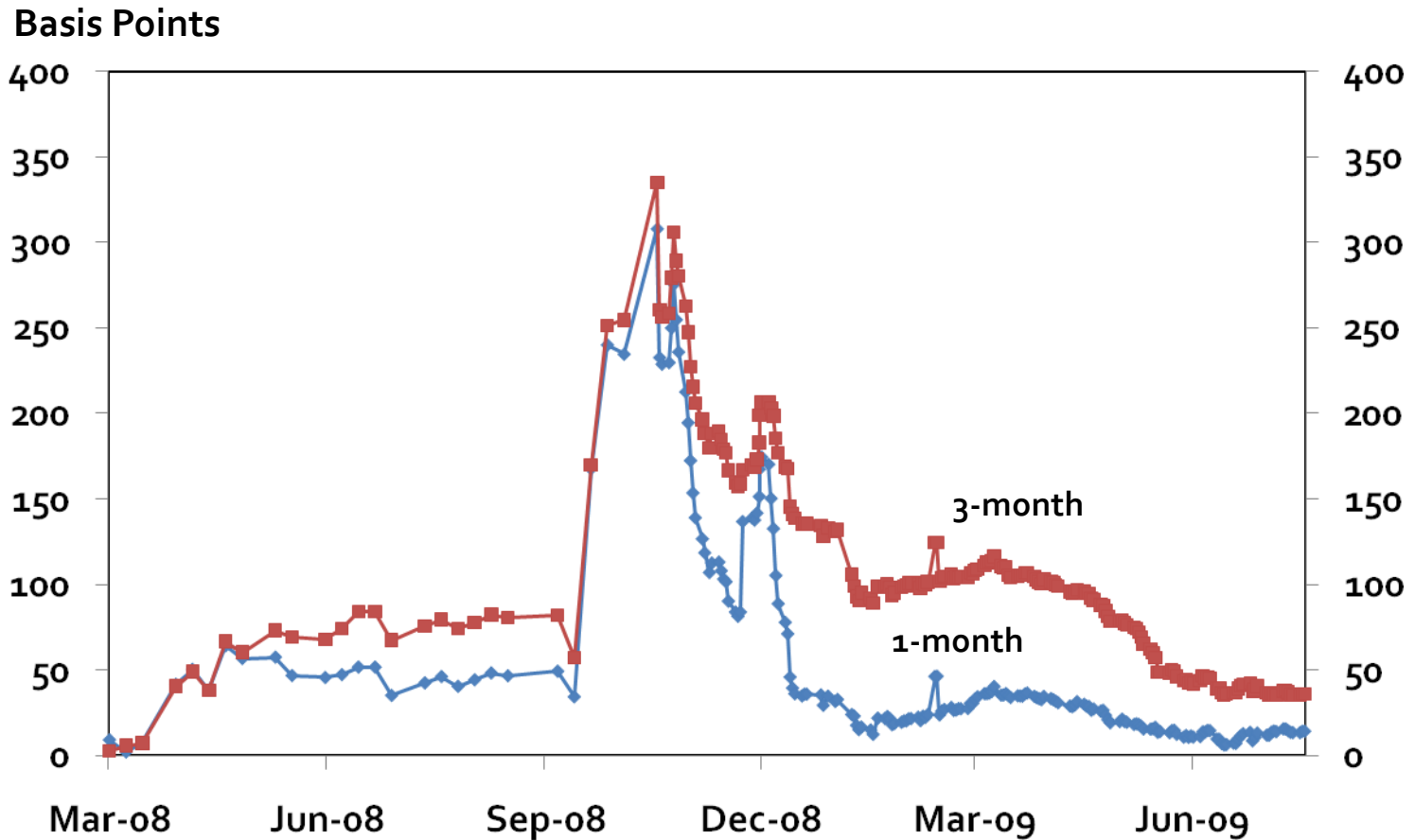


Source: Federal Reserve Board of Governors



# Spreads still remain elevated.

## LIBOR-OIS Spread

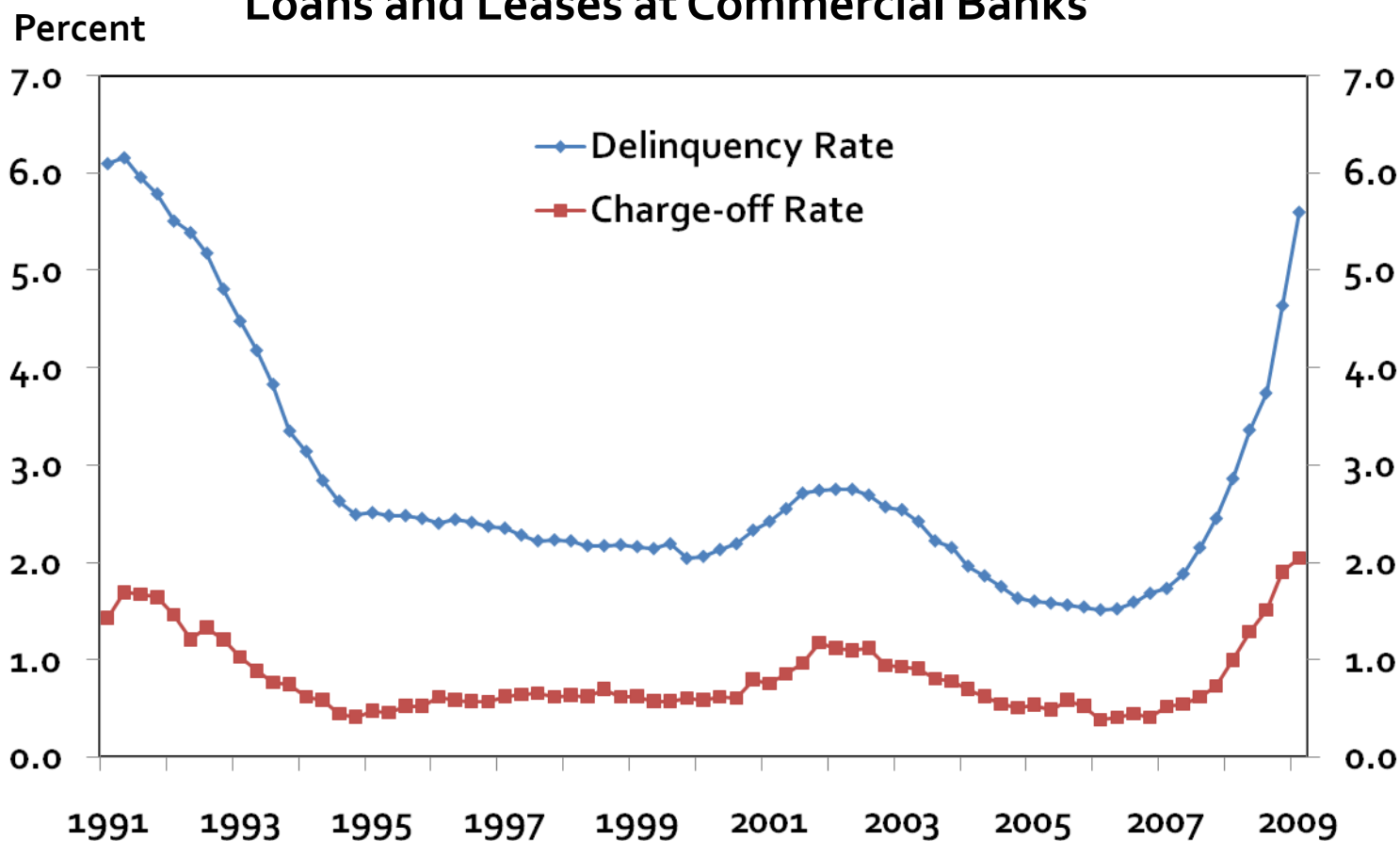


Source: Federal Reserve Board of Governors



# Loan delinquency rates and charge-offs surge.

## Charge-off and Delinquency Rates on Loans and Leases at Commercial Banks

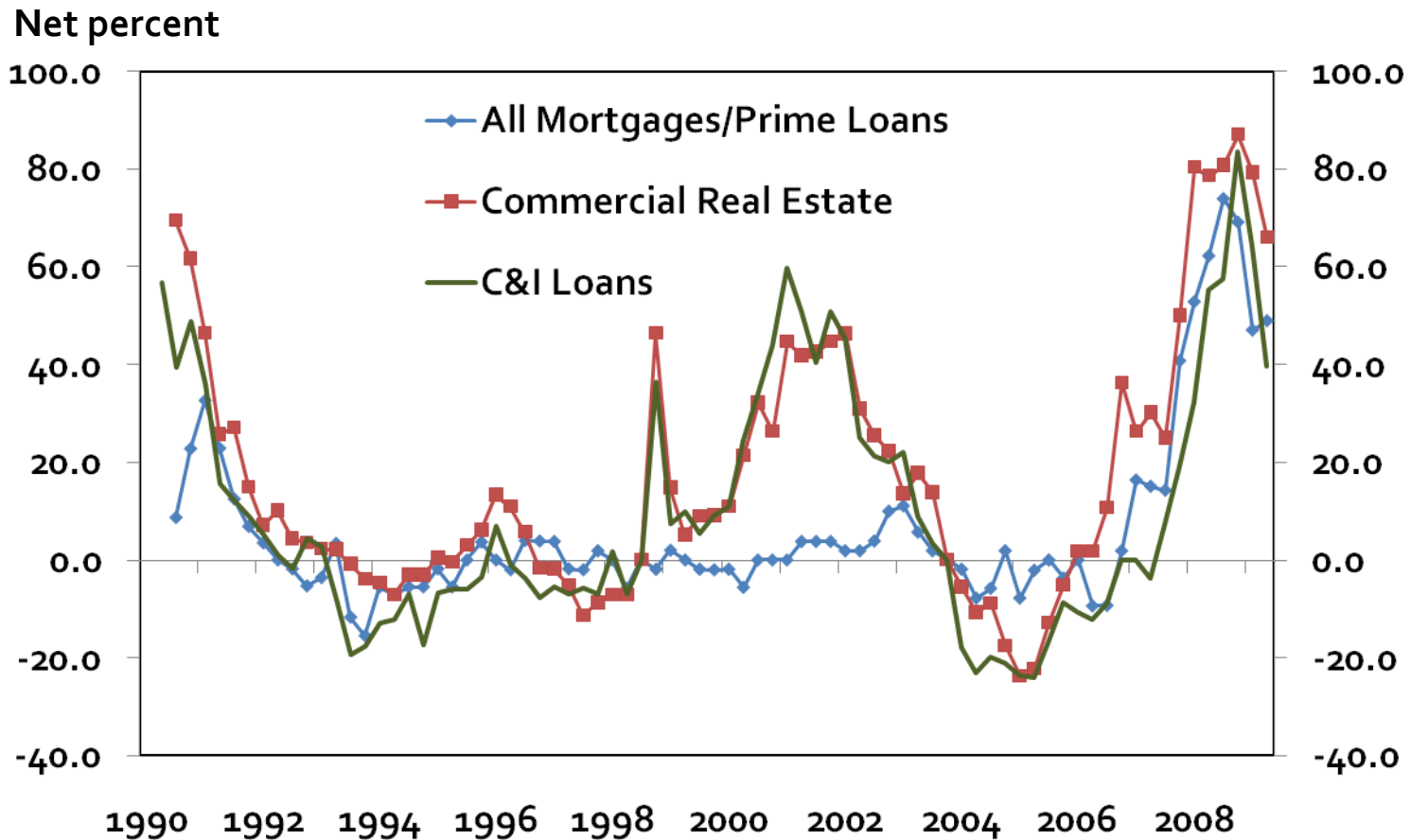


Source: Federal Reserve Board of Governors



# Fewer banks are tightening credit standards.

## Banks Reporting Tighter Credit Standards



Source: Federal Reserve Board of Governors



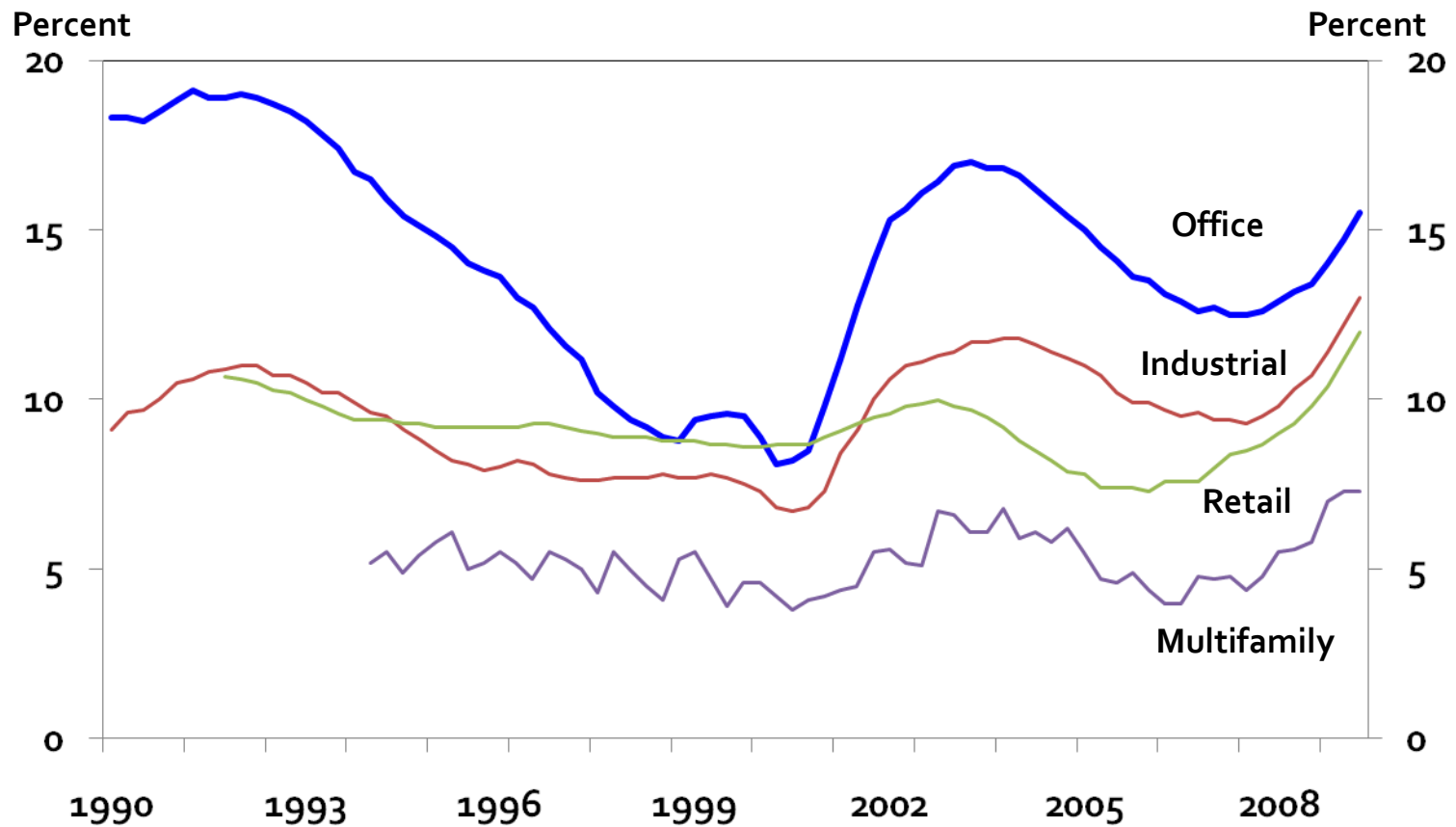
# Today's Roadmap

- **Financial crisis eases**
- **Commercial real estate remains a risk**



# Commercial vacancy rates are on the rise.

## U.S. Commercial Real Estate Vacancy Rates



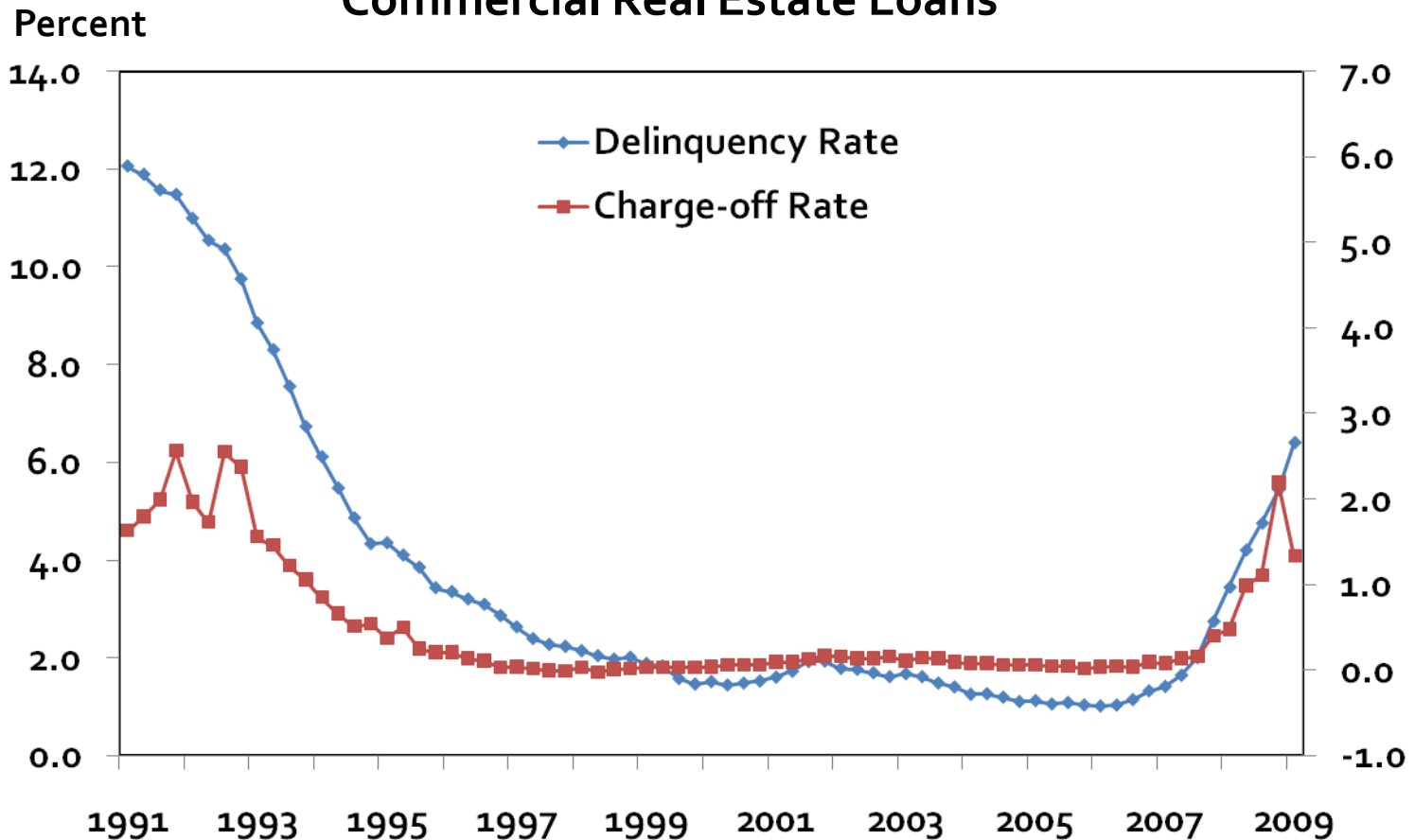
Source: Torto-Wheaton Research





# *Delinquency rates rise on commercial real estate loans.*

## Charge-off and Delinquency Rates on Commercial Real Estate Loans



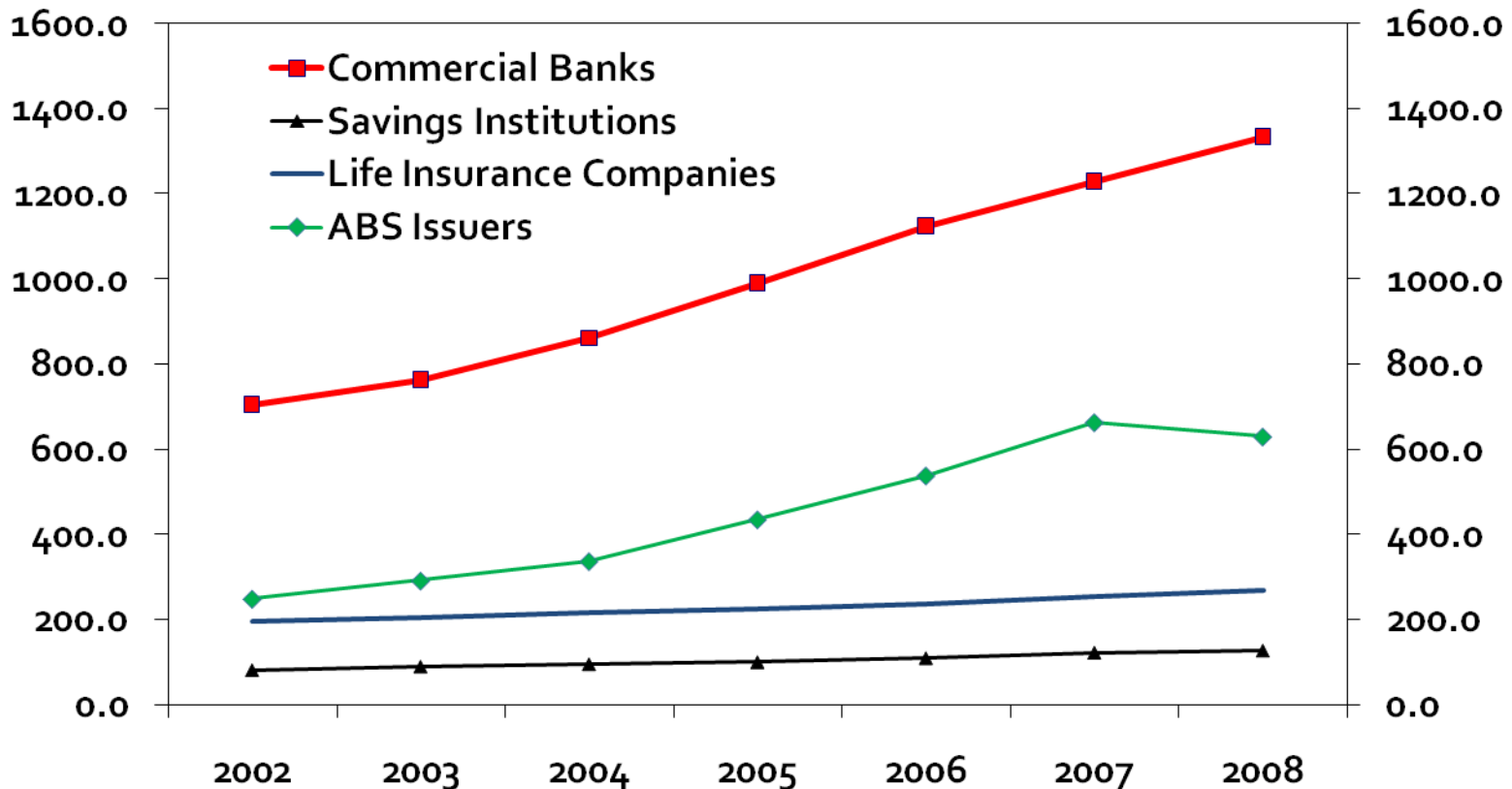
Source: Federal Reserve Board of Governors



# Commercial banks hold a lot of commercial mortgage debt.

## Commercial Mortgage Debt Outstanding by Type of Institution

Billion dollars



Source: Federal Reserve Board of Governors

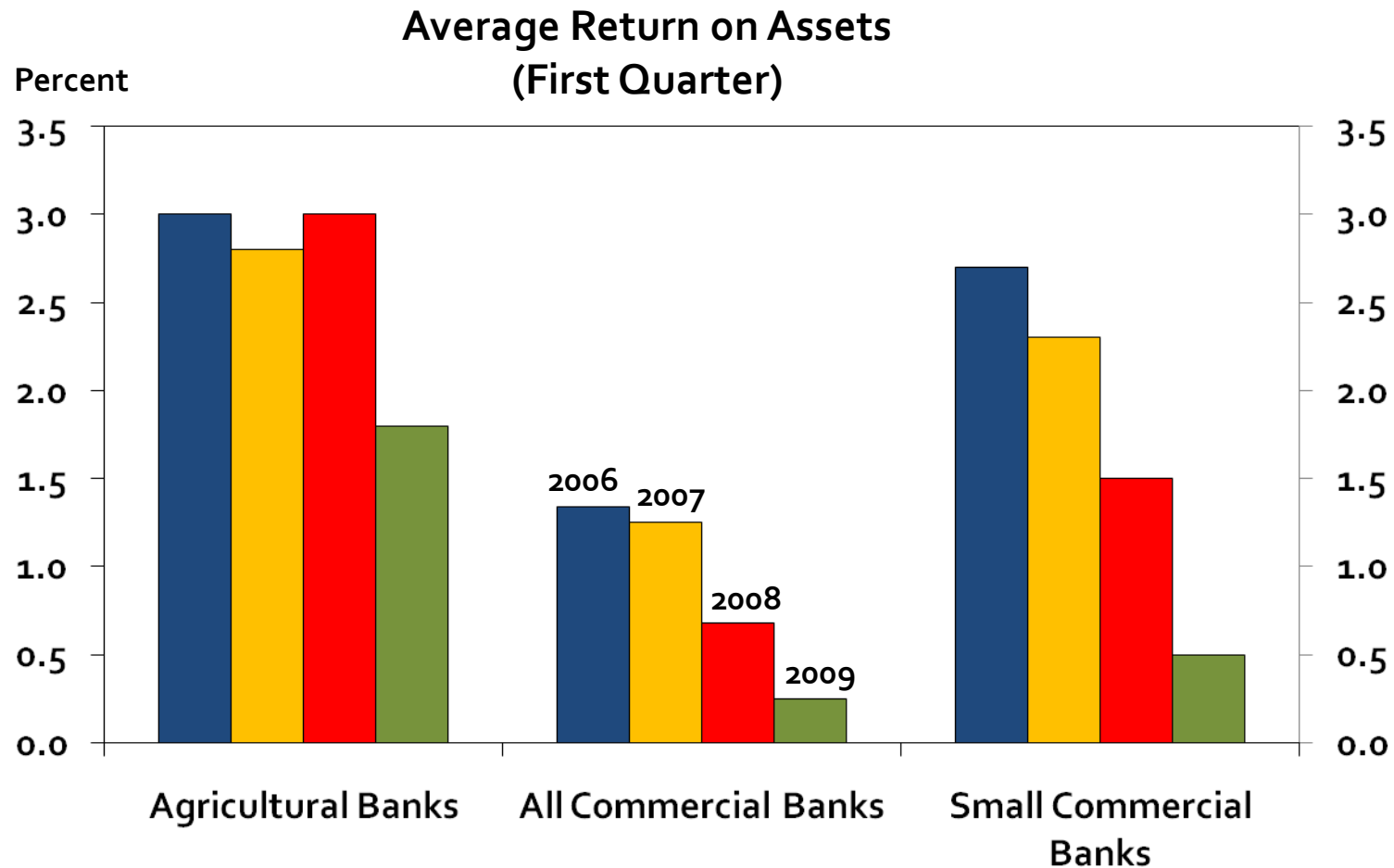


# Today's Roadmap

- **Financial crisis eases**
- **Commercial real estate remains a risk**
- **Ag lending remains robust**



# Agricultural bank returns are still strong.



Source: Board of Governors of the Federal Reserve and FDIC

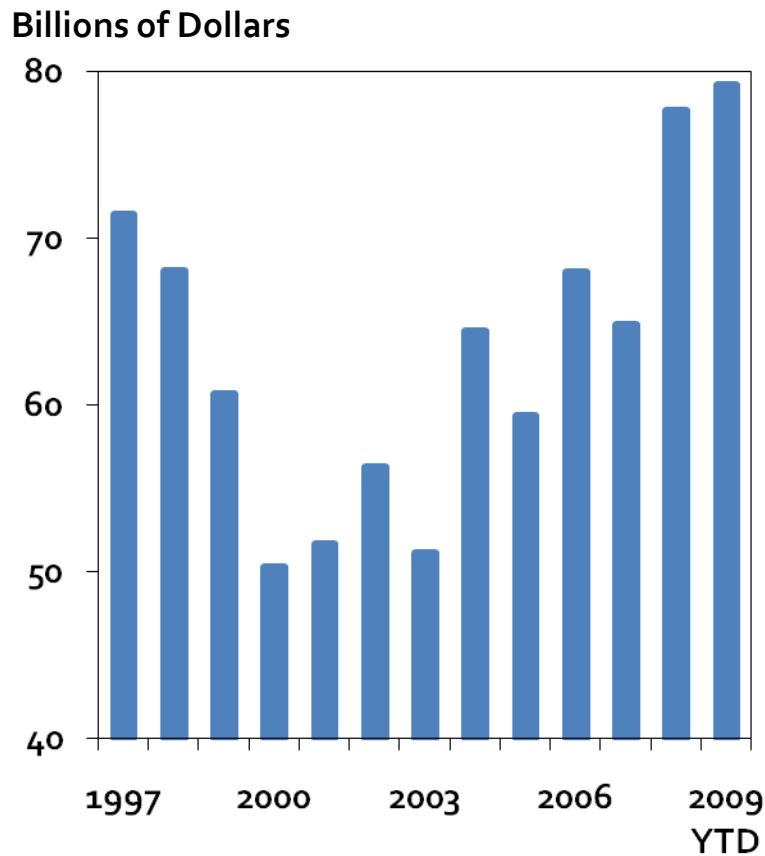
Agricultural banks are banks with agricultural loans accounting for 14% or more of their loan portfolio.

Small commercial banks are banks with less than \$500 million in assets

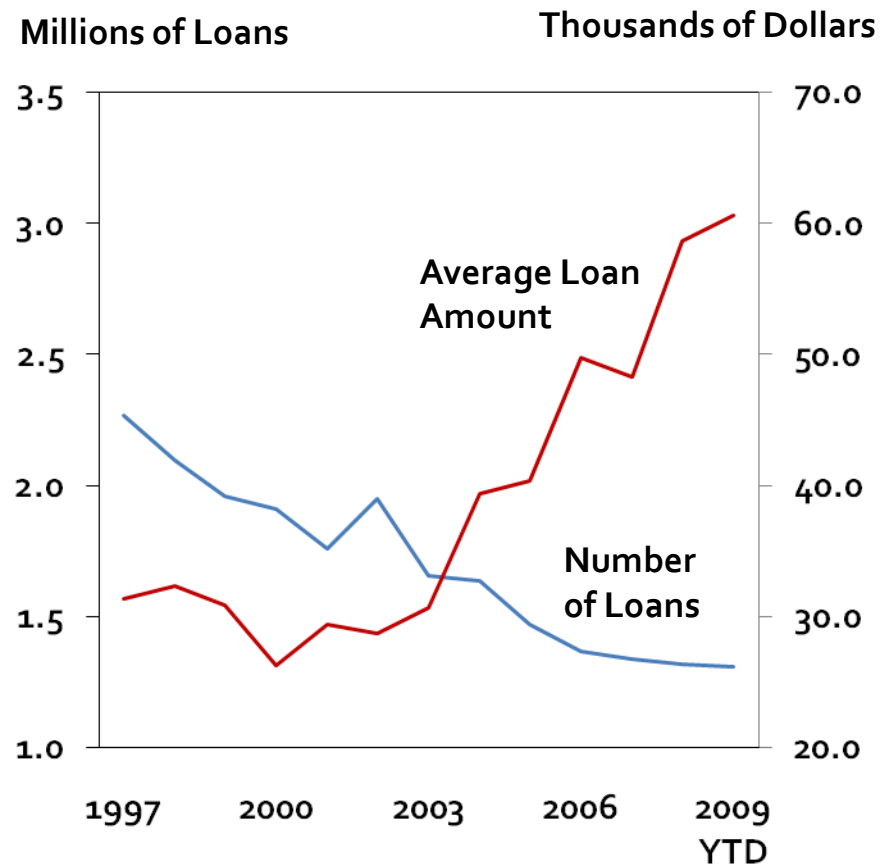


# Non-real estate loans are rising due to an increase in average loan amounts.

**Total Volume of Non-Real Estate Loans to Farmers – First Quarter**

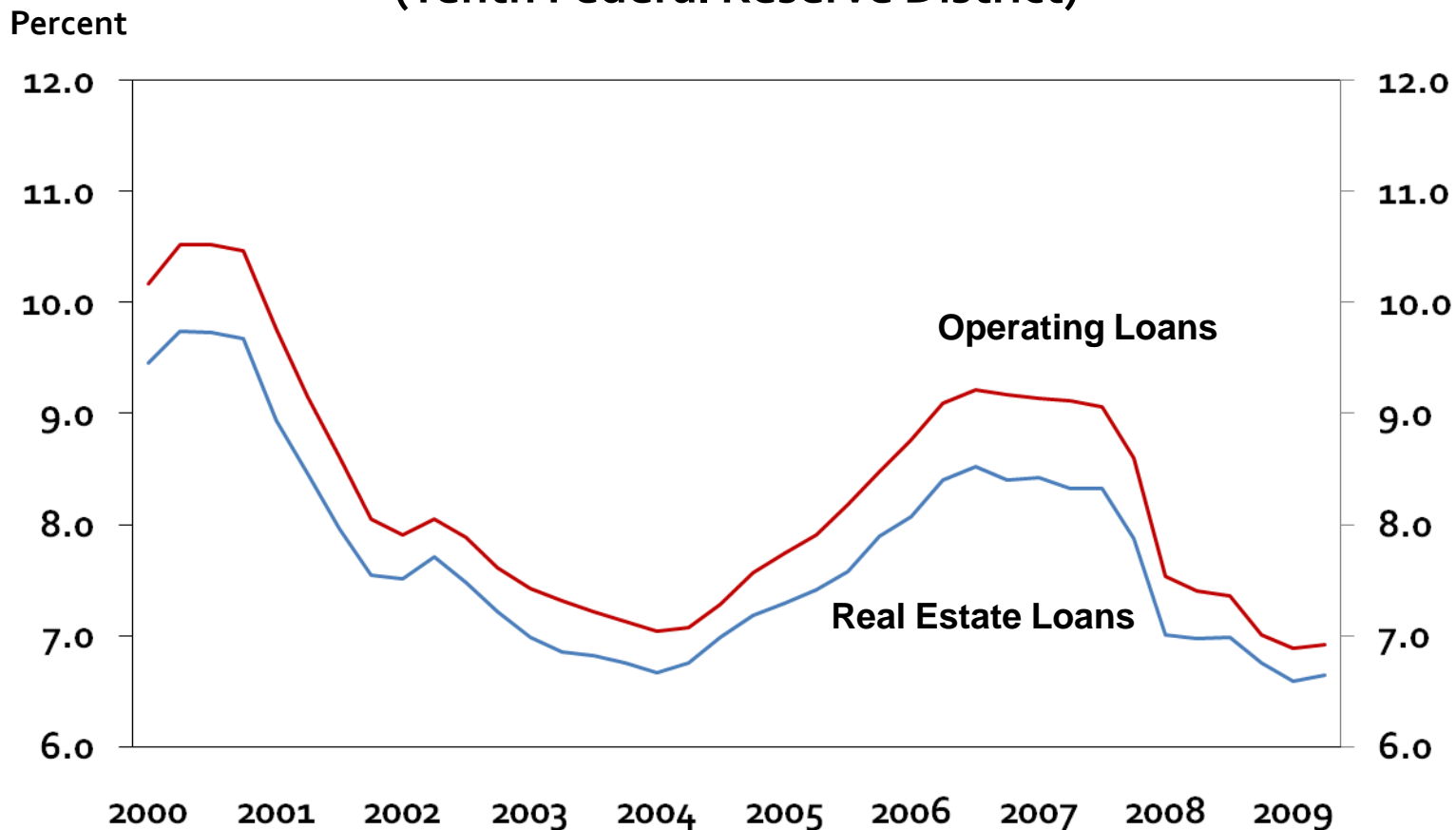


**Non-Real Estate Loans to Farmers (Number and Average Amount)**



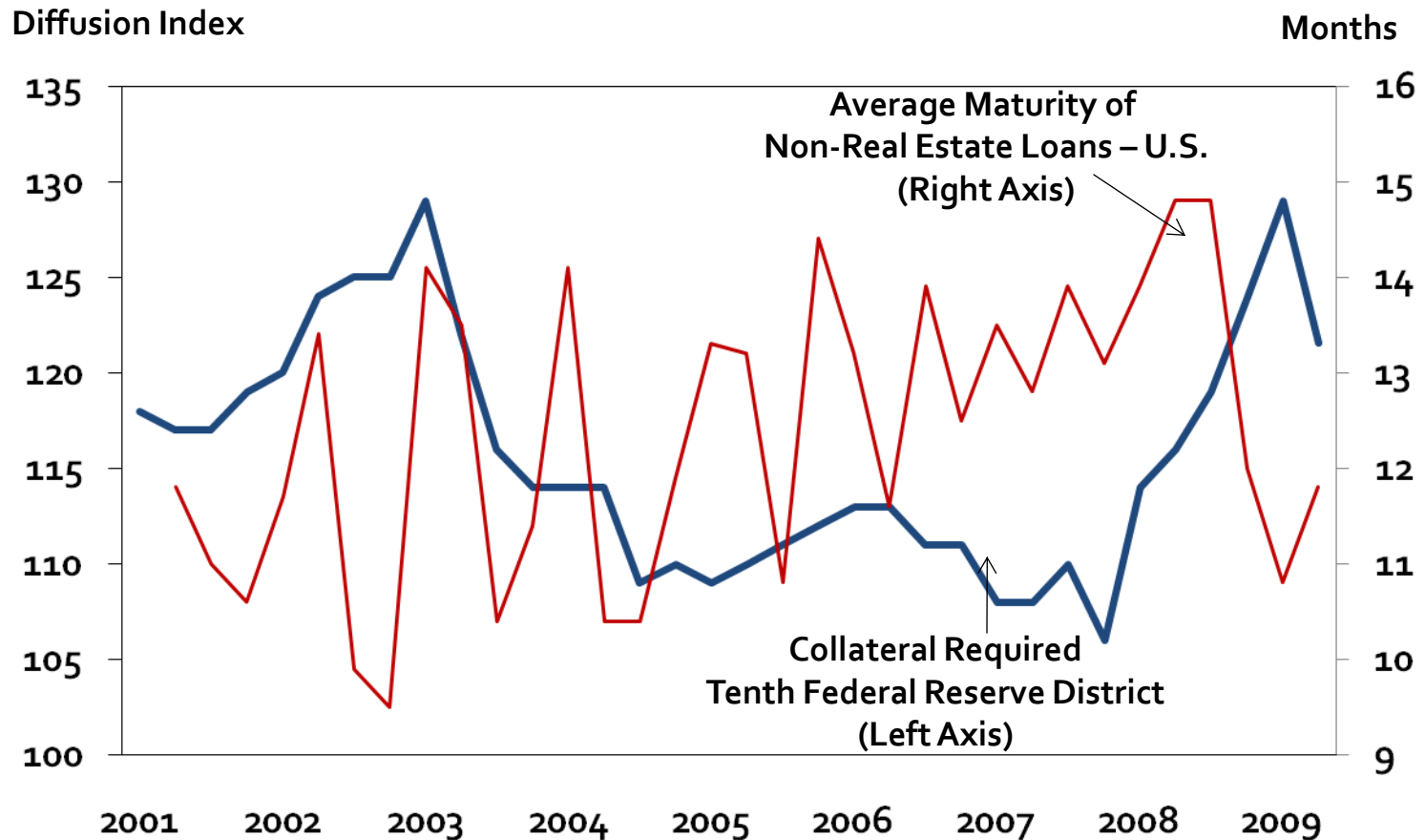
# Interest rates remain low.

## Average Interest Rates (Tenth Federal Reserve District)



# Collateral requirements have tightened and loan maturities have fallen.

## Collateral Requirements and Loan Maturity on Non-Real Estate Loans

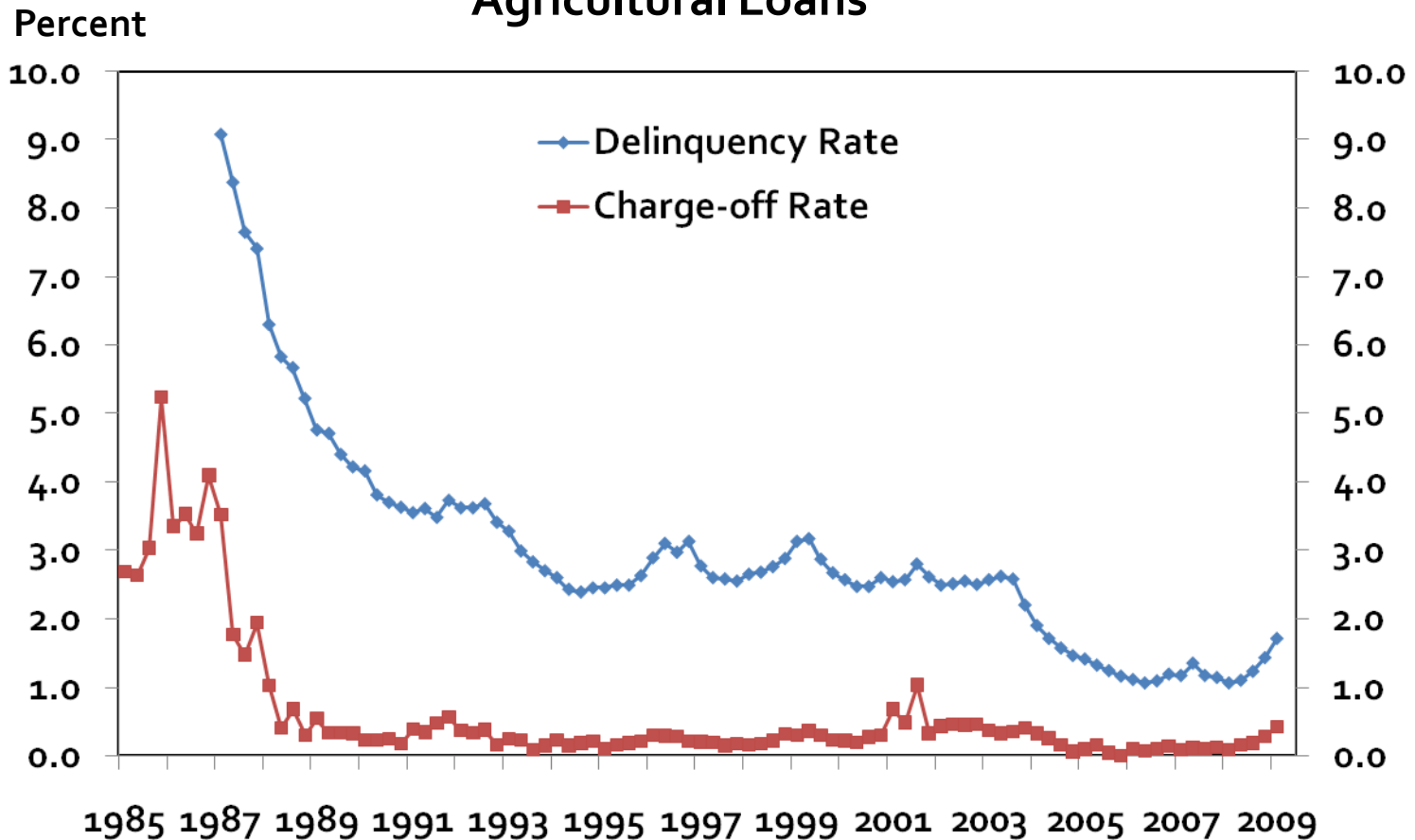


Source: Federal Reserve Bank of Kansas City and Agricultural Finance Databook



# Loan delinquency rates and charge-offs edge up.

## Charge-off and Delinquency Rates on Agricultural Loans



Source: Federal Reserve Board of Governors

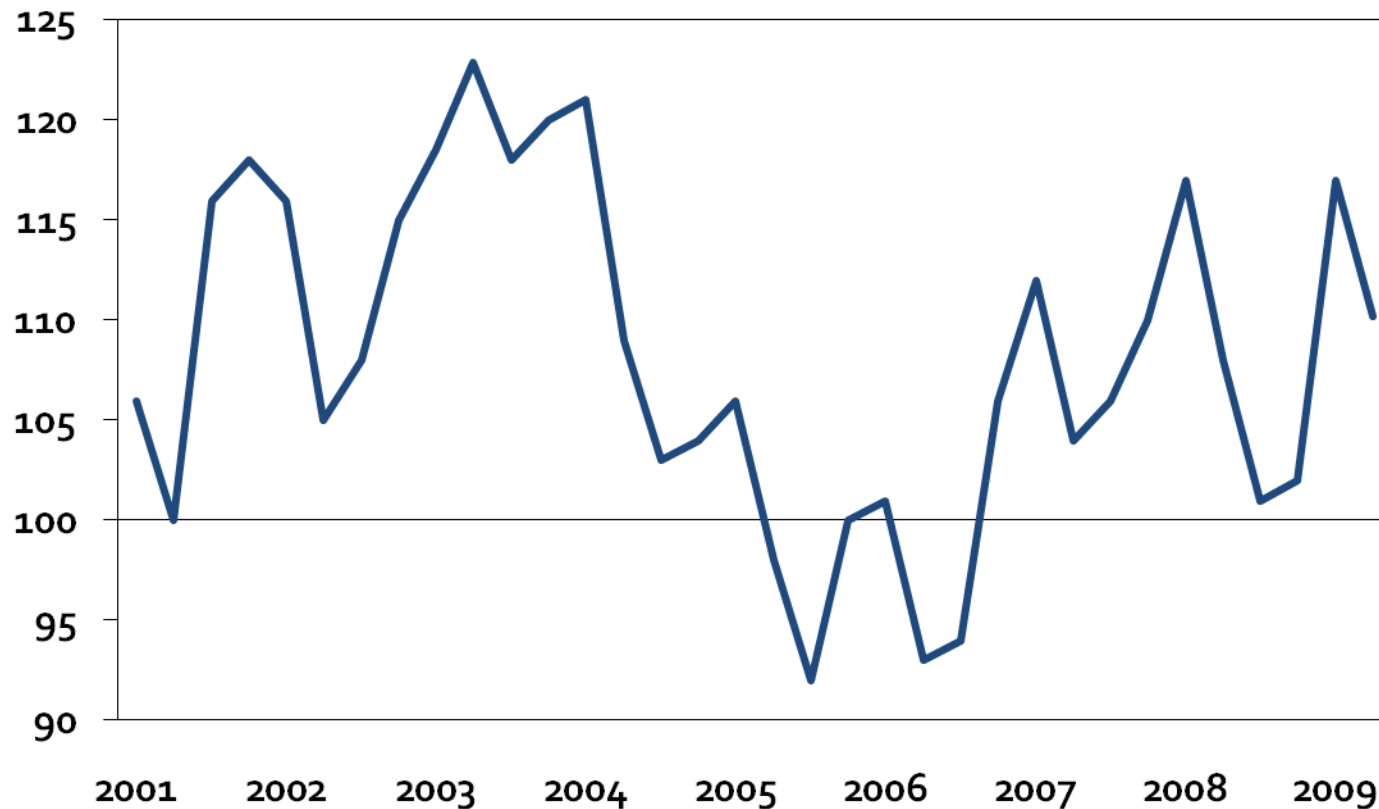




# *Agricultural banks have funds available.*

## Funds Available for Agricultural Loans

Diffusion Index



Source: Federal Reserve Bank of Kansas City



# Today's Roadmap

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- **Several risks to agricultural lending**



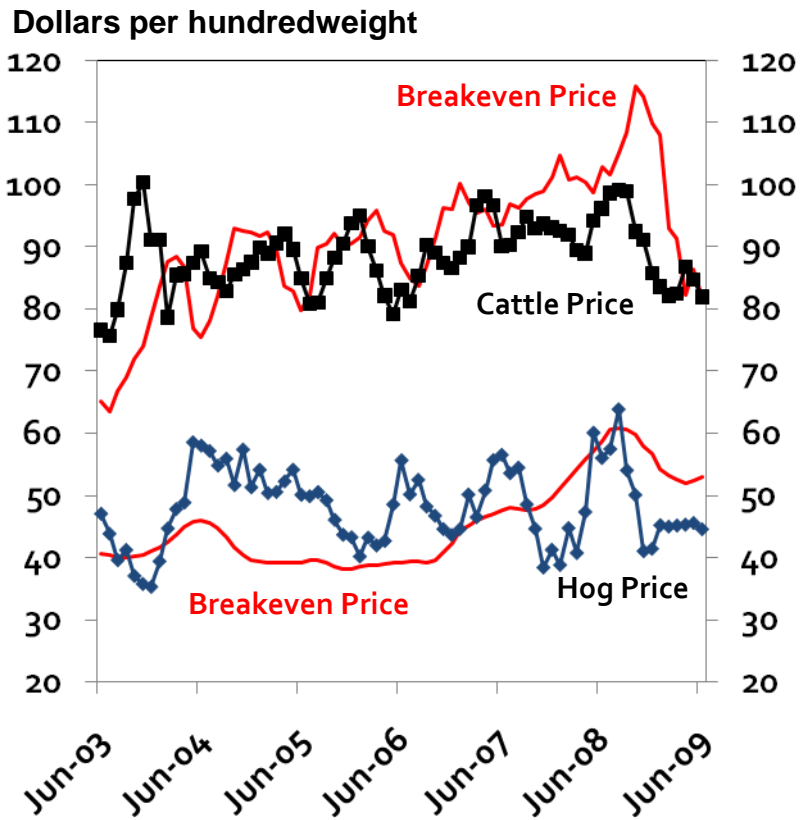
# Credit Risks In Agriculture

- Profit risk – with high and volatile prices and input costs, will crop producers face shrinking margins?



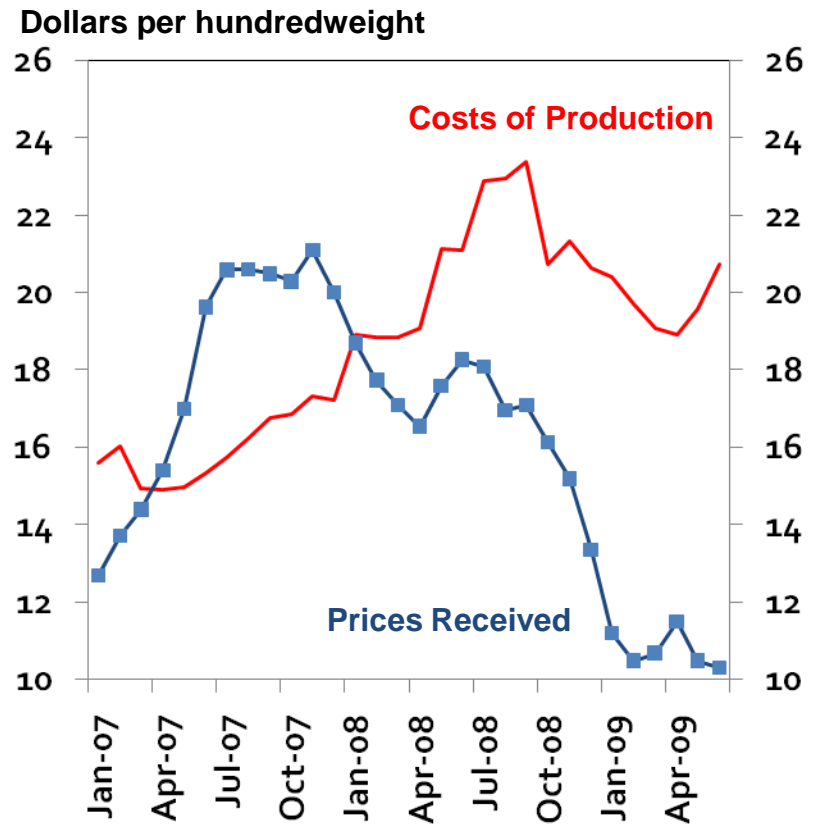
# Livestock, poultry, and dairy producers struggle to post profits

## CATTLE AND HOG PRICES AND BREAKEVENS



Source: USDA

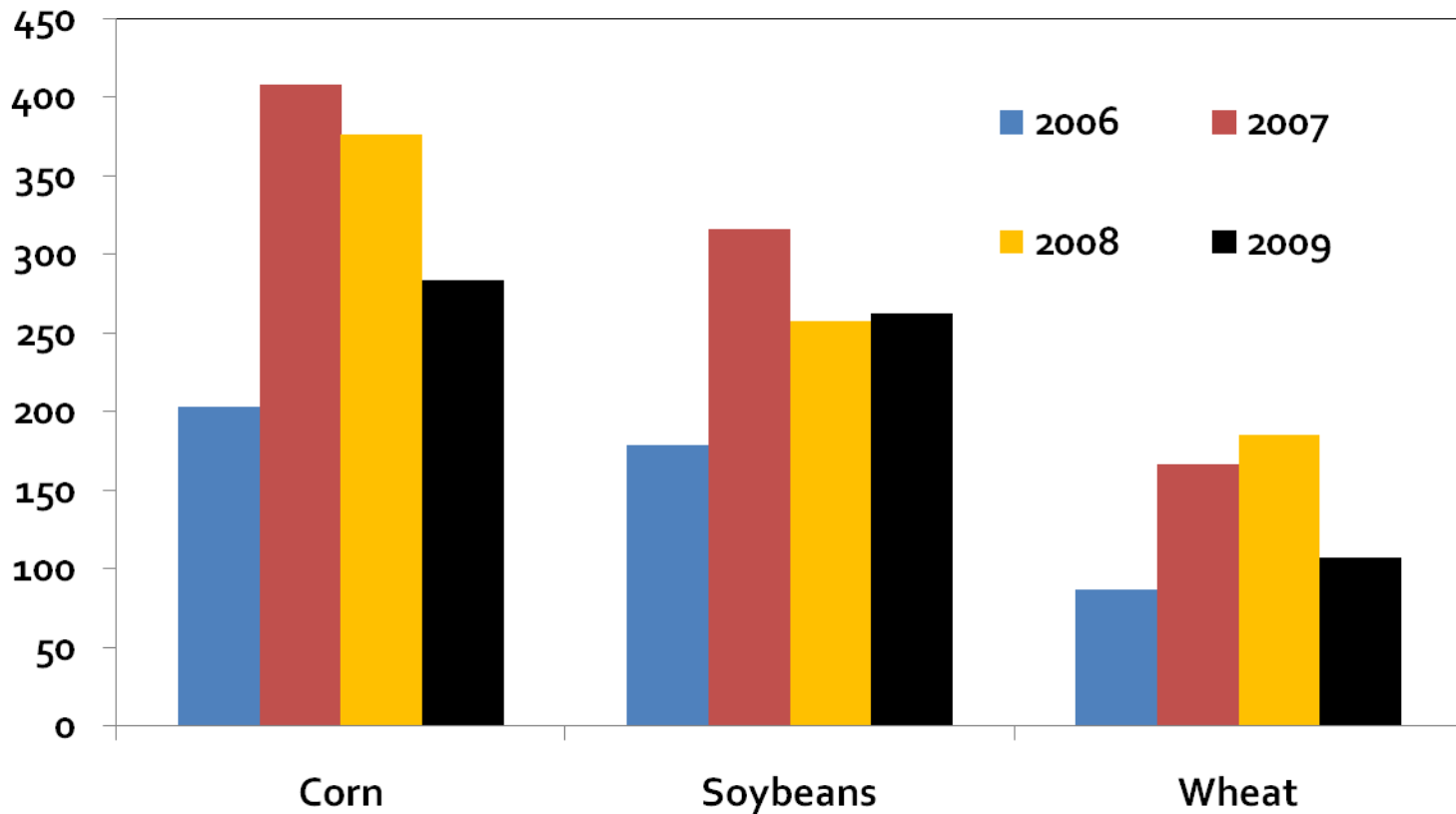
## CALIFORNIA MILK COSTS AND PRICES RECEIVED



# Will crop margins remain above 2006 levels?

## Crop Net Returns above Variable Costs

Dollars per acre



Source: USDA



# Credit Risks In Agriculture

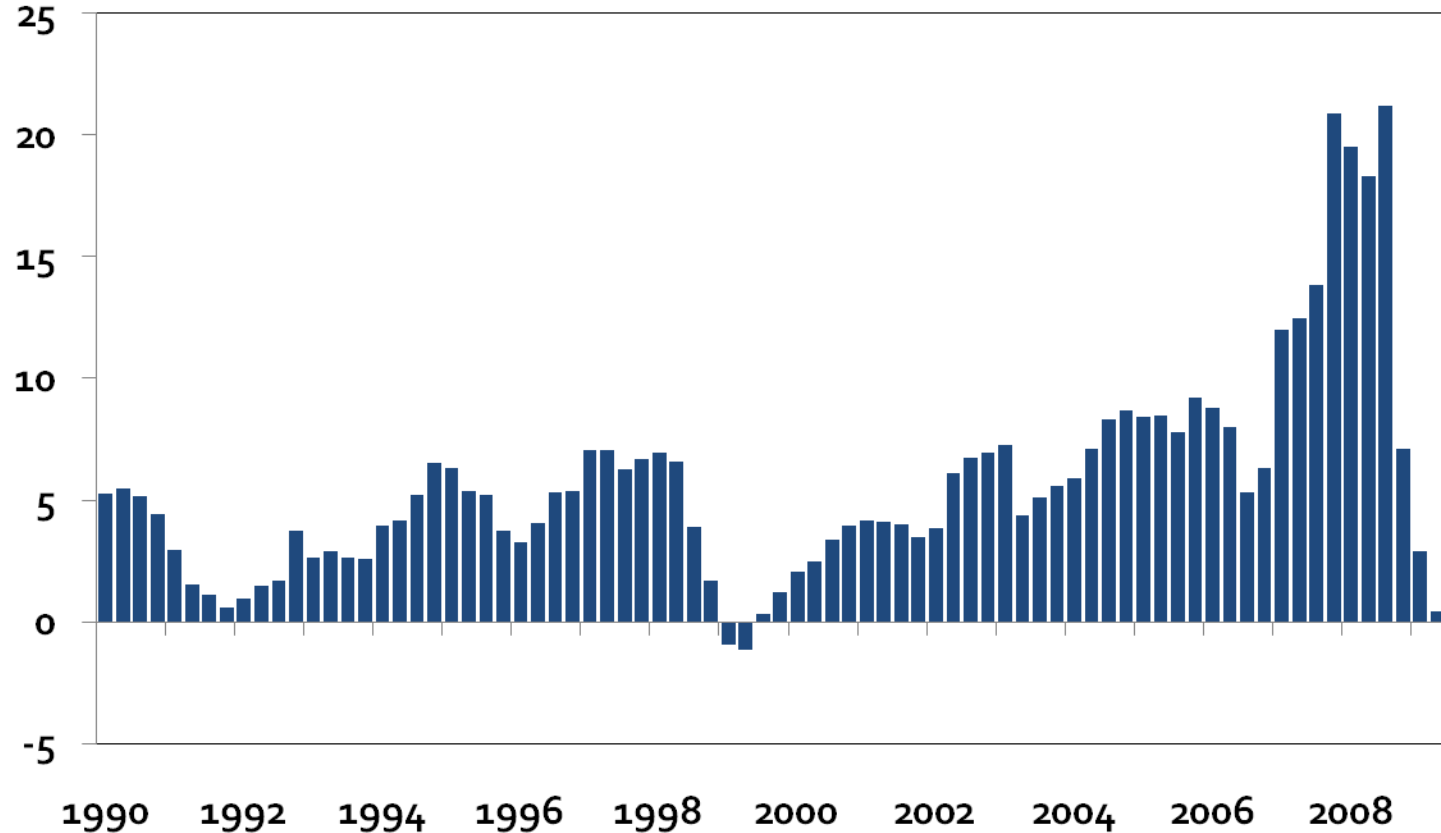
- Profit risk – with high and volatile prices and input costs, will crop producers face shrinking margins?
- Collateral risk – what is the future path of farmland values?



# If margins narrow, what is the future path of farmland values?

## Nonirrigated Farmland Values (Tenth Federal Reserve District)

Dollars per acre



Source: Federal Reserve Bank of Kansas City



# Credit Risks In Agriculture

- Profit risk – with high and volatile prices and input costs, will crop producers face shrinking margins?
- Collateral risk – what is the future path of farmland values?
- Counterparty Risk – how do producers identify, document, and manage counterparty risk?
- Interest rate risk – when and how high will interest rates rise after the recession?



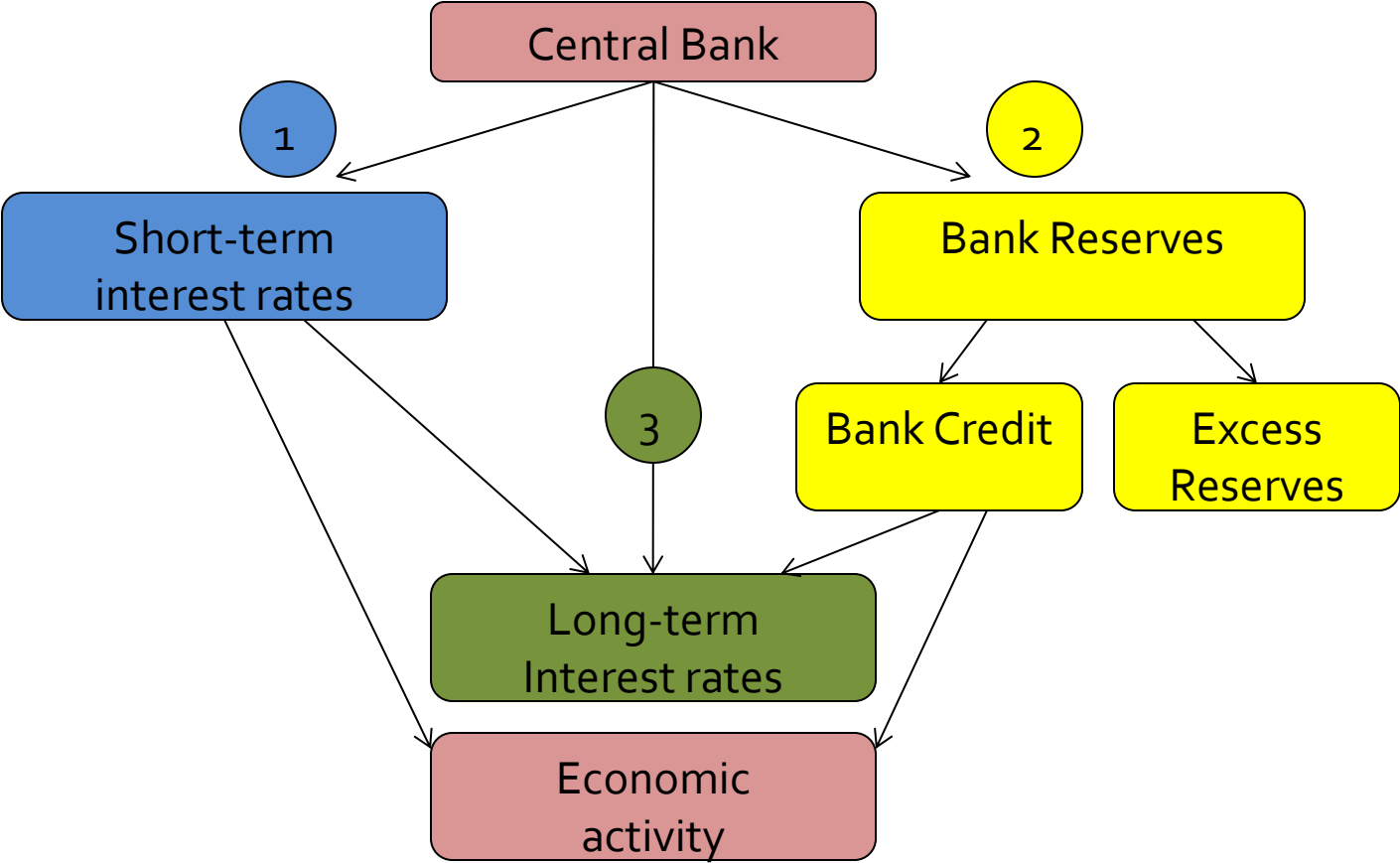


# Credit Risks In Agriculture

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# Monetary Policy Transmission Mechanisms



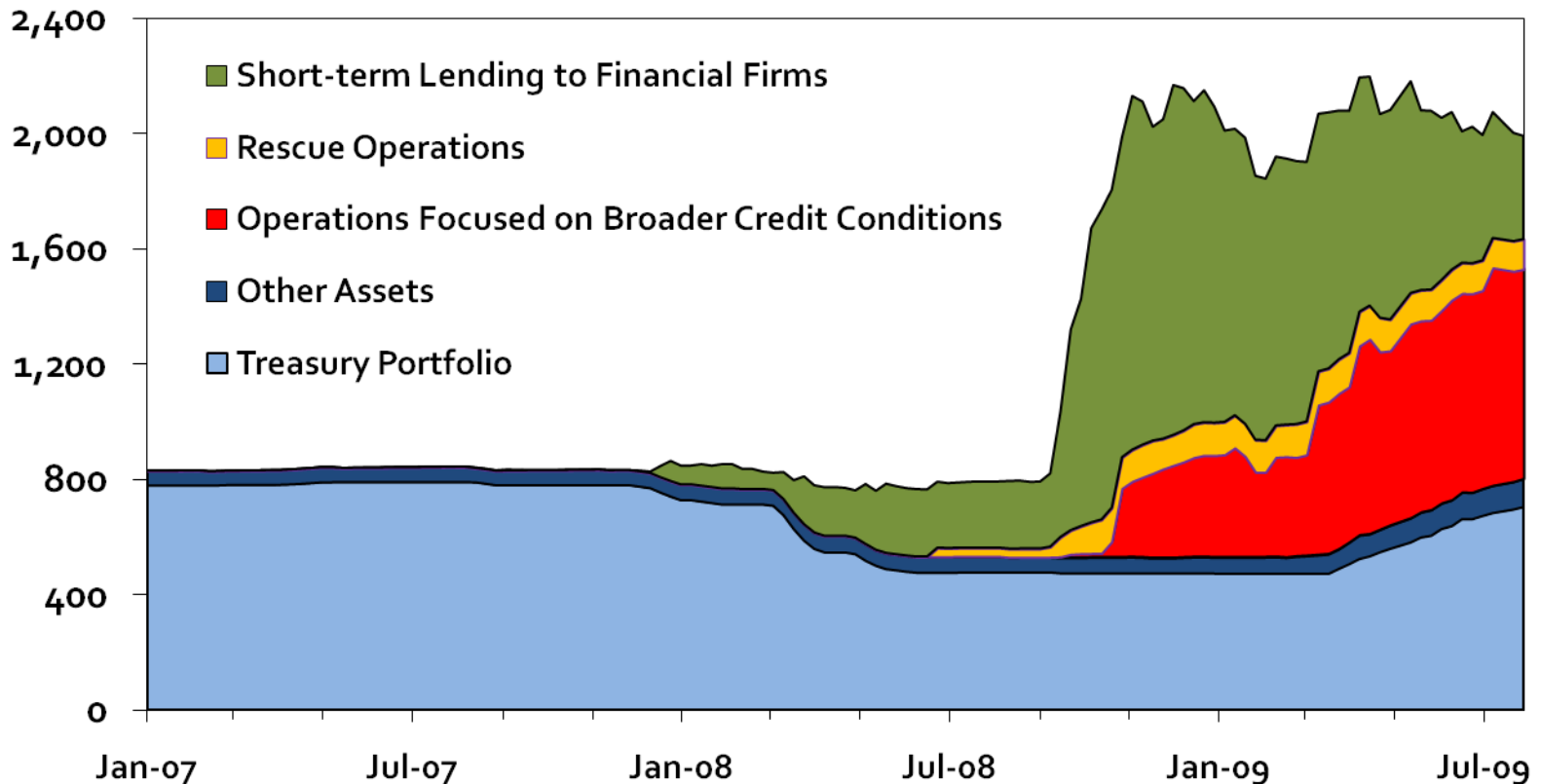
Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"  
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



# The Fed has expanded its balance sheet.

## Federal Reserve Balance Sheet: Assets

Billion Dollars



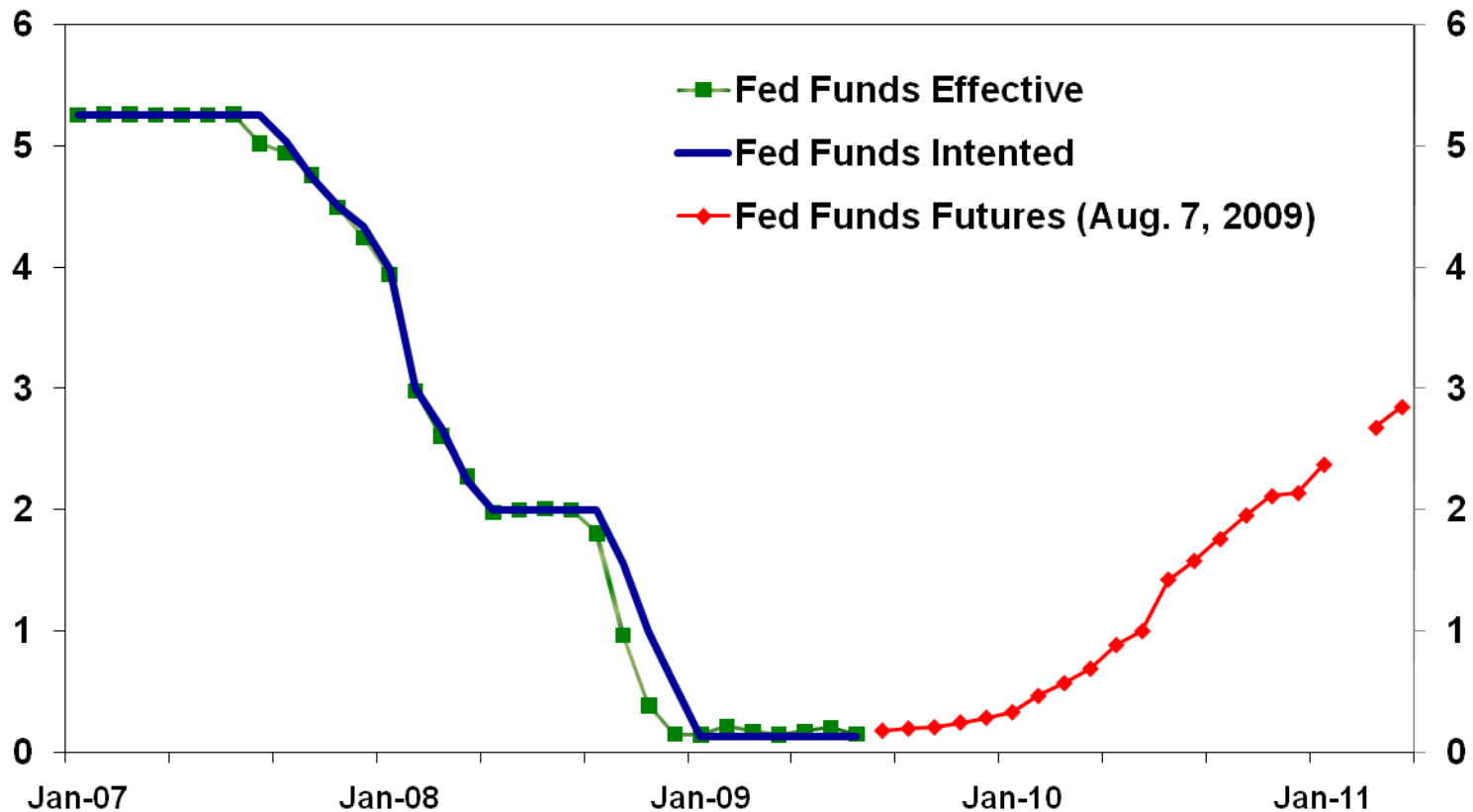
Source: Federal Reserve Board of Governors



# What is the future path of interest rates?

## Fed Funds Rate

Percent



Source: Federal Reserve Board of Governors and CME Group



# For More Information

Federal Reserve Bank of Kansas City –  
Omaha Branch

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