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# 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.

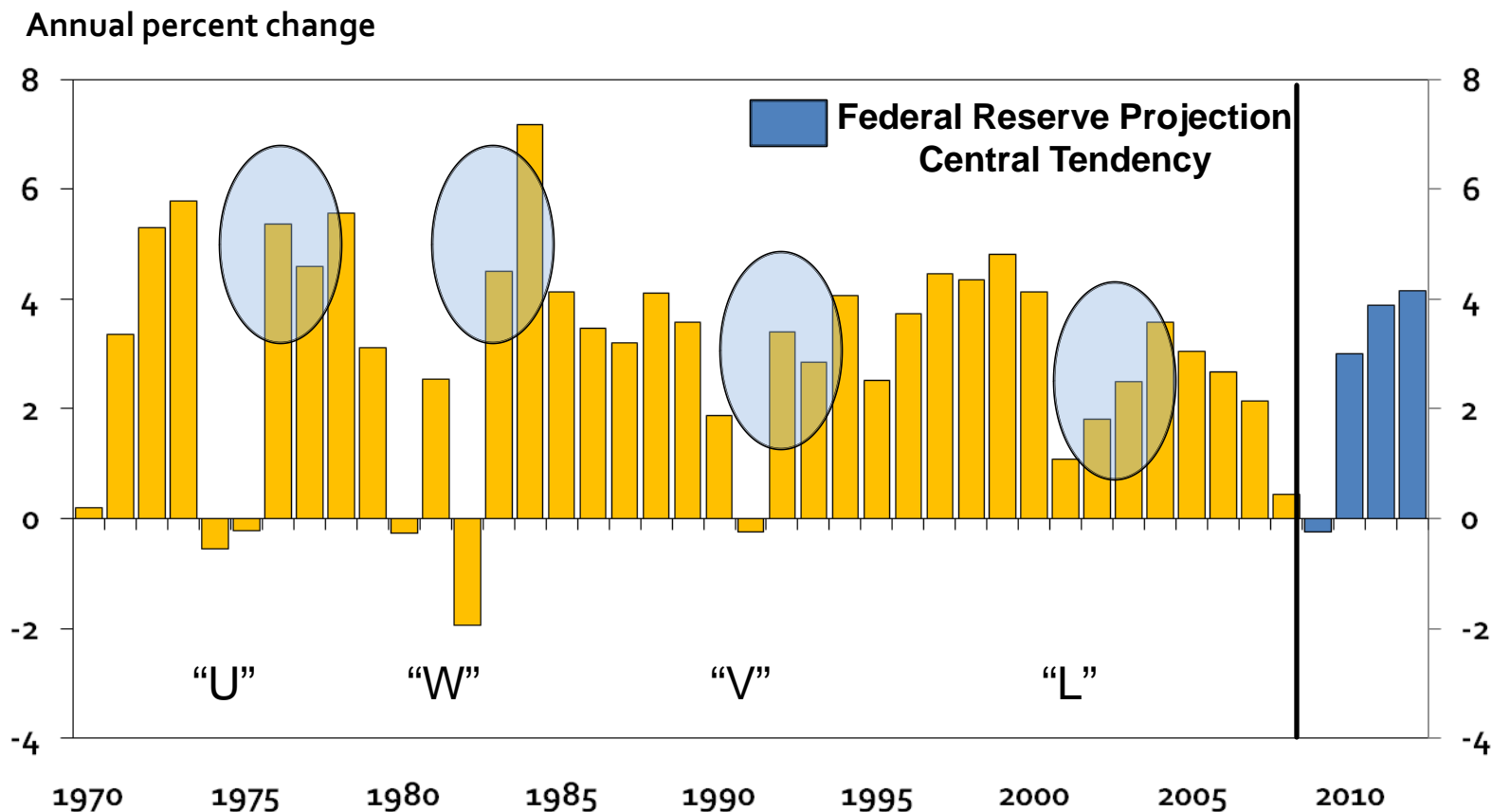
# Today's Roadmap

- **The recovery is underway, but risks remain.**
- **Ag lending remains robust.**
- **Risks to agricultural lending.**



# The U.S. economy is projected to rebound in 2010.

## Real GDP Growth

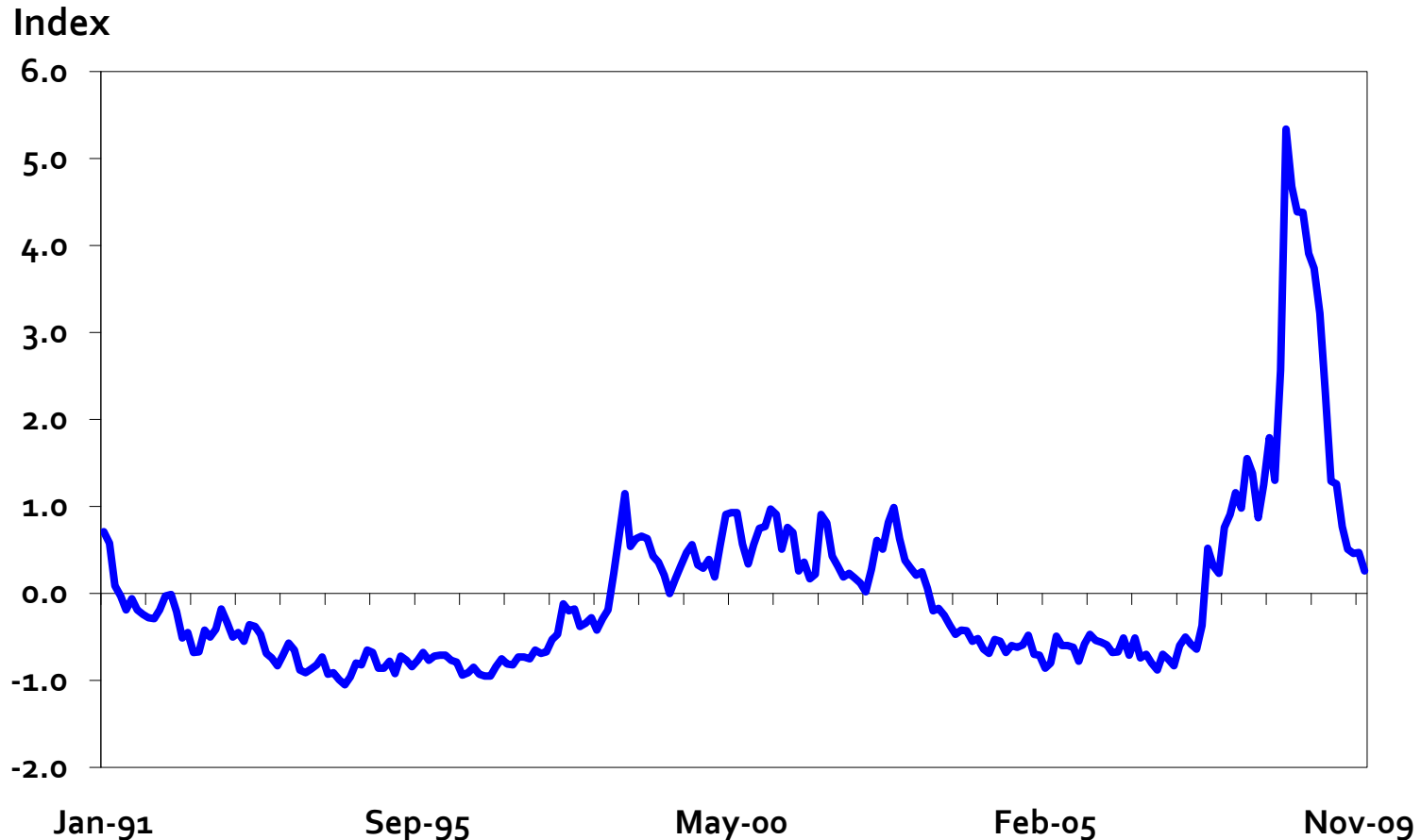


Source: Bureau of Economic Analysis Federal Reserve Board of Governors



# *The financial market crisis has eased.*

## Financial Stress Index

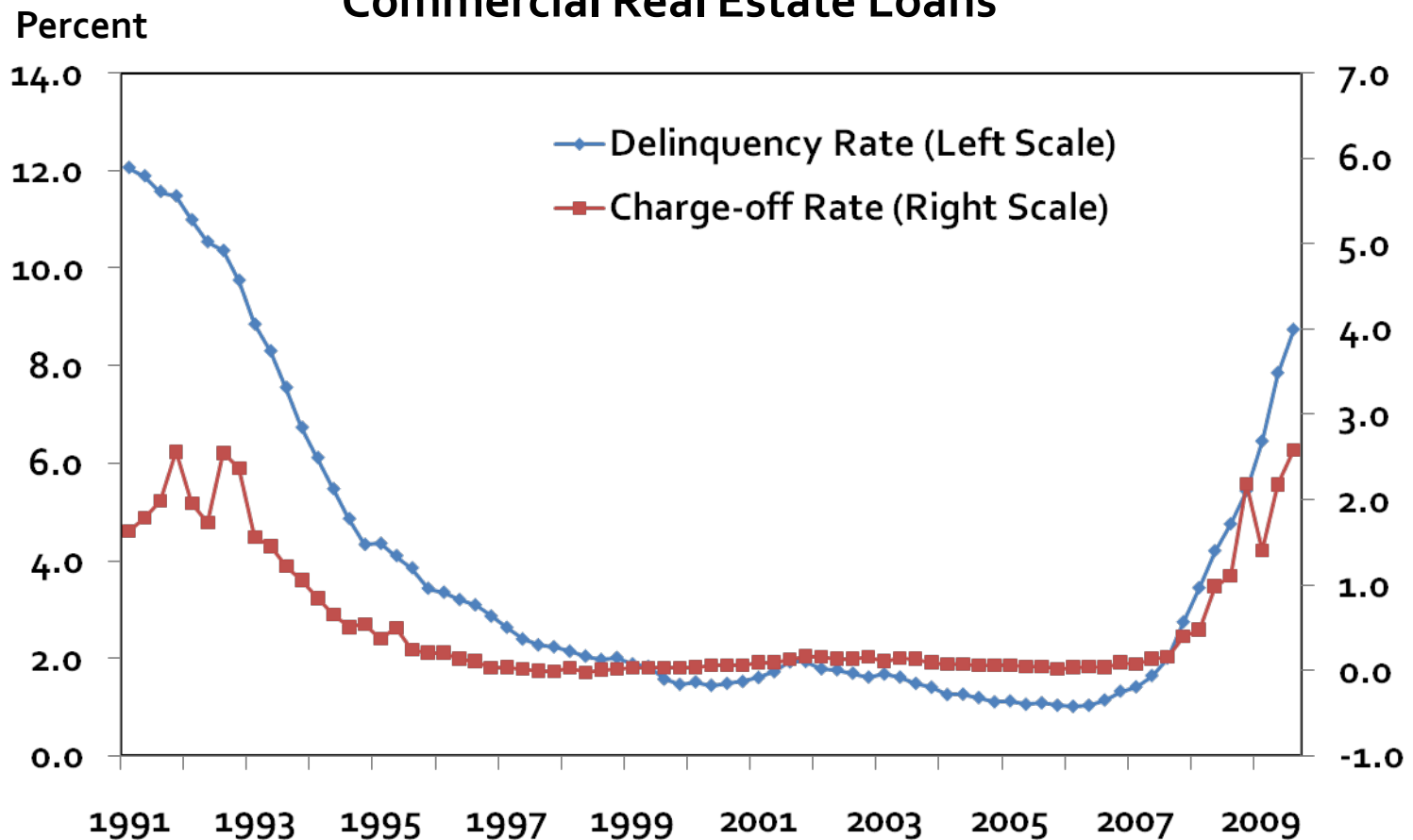


Source: Federal Reserve Bank of Kansas City



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

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



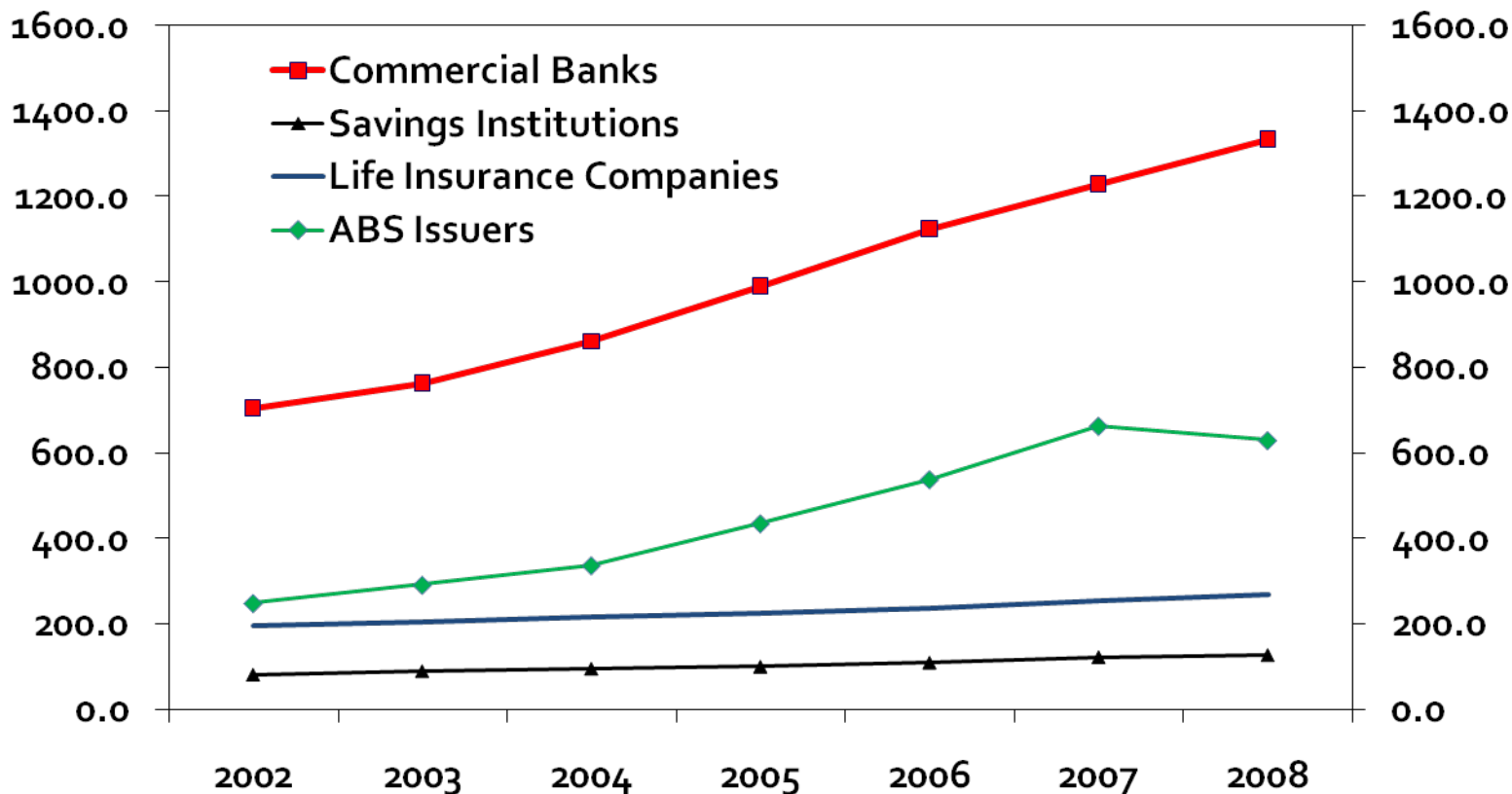
Source: Federal Reserve Board of Governors



# 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

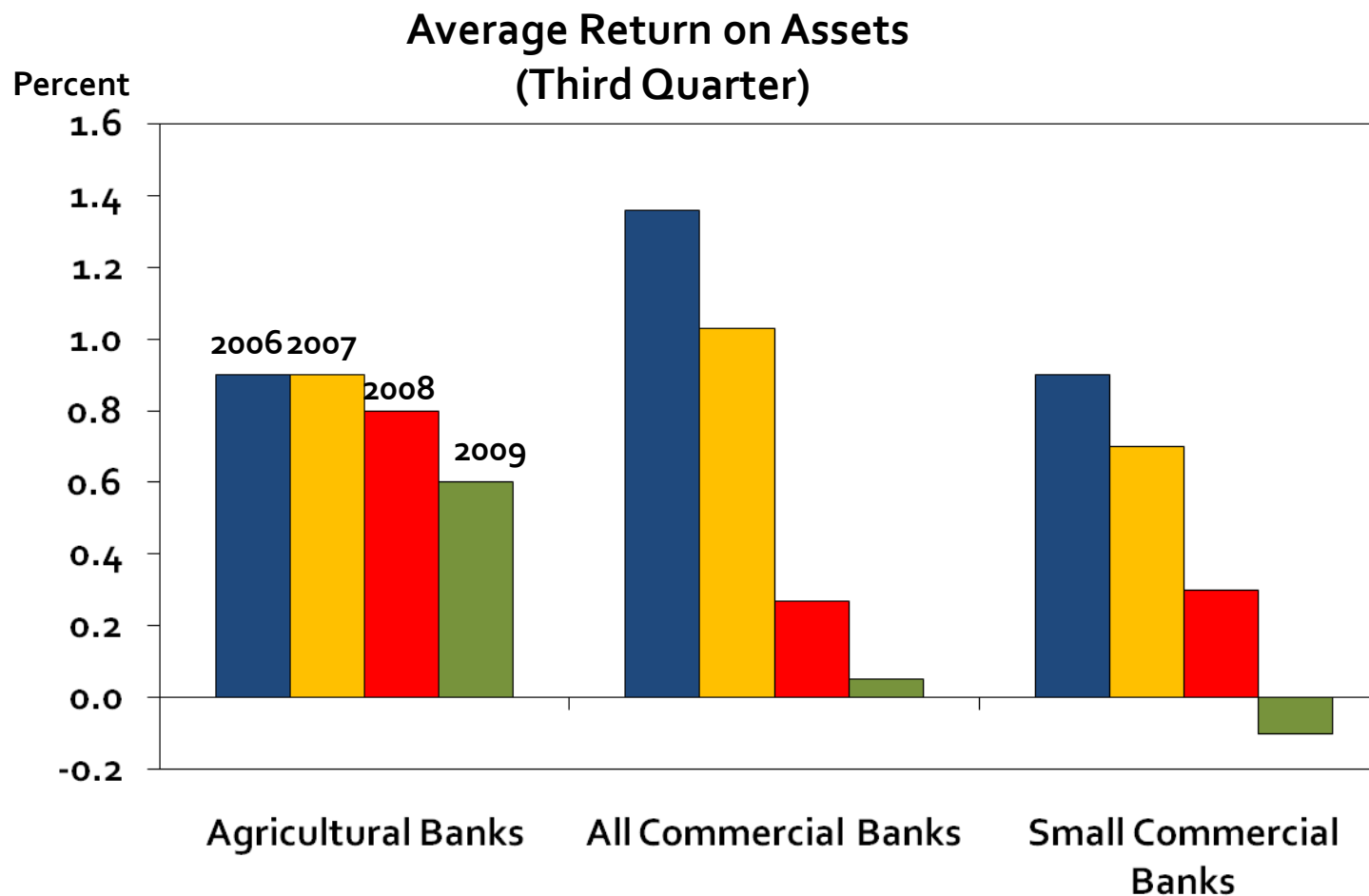


# Today's Roadmap

- **The recovery is underway, but risks remain.**
- **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

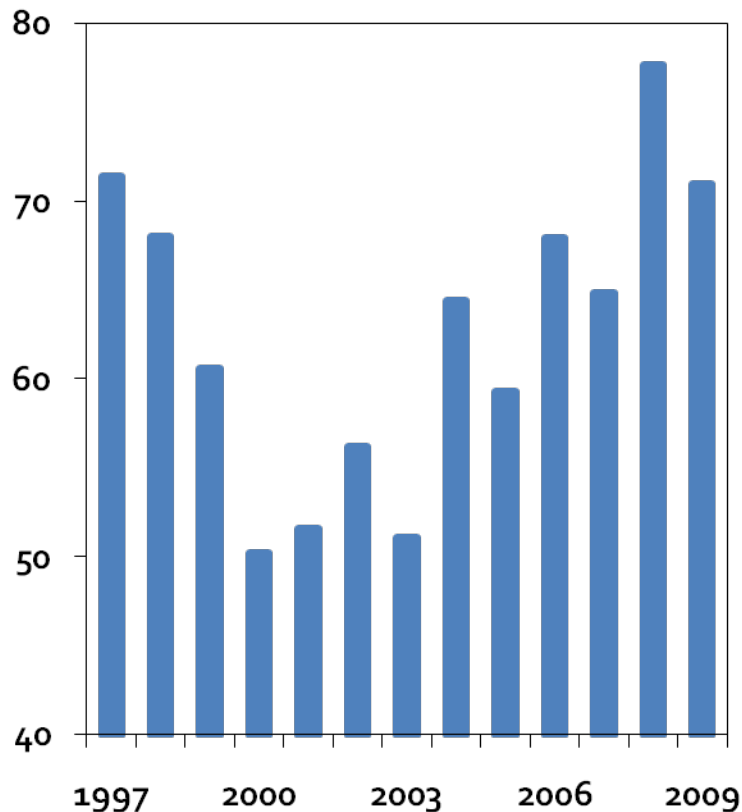




# Non-real estate loans are edged down in both number and volume.

## Total Volume of Non-Real Estate Loans to Farmers

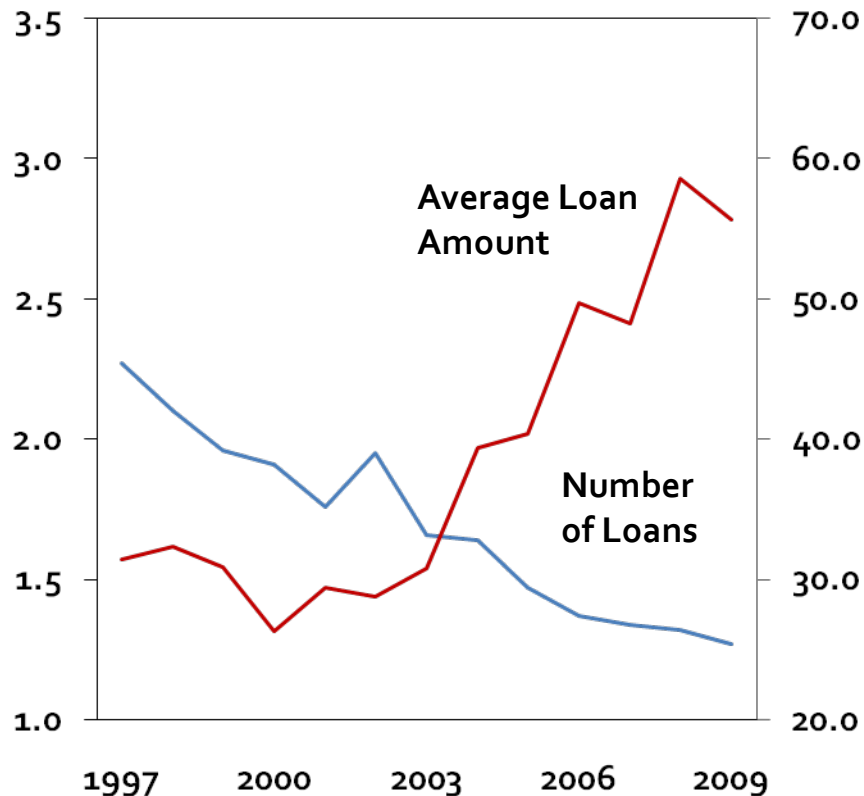
Billions of Dollars



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

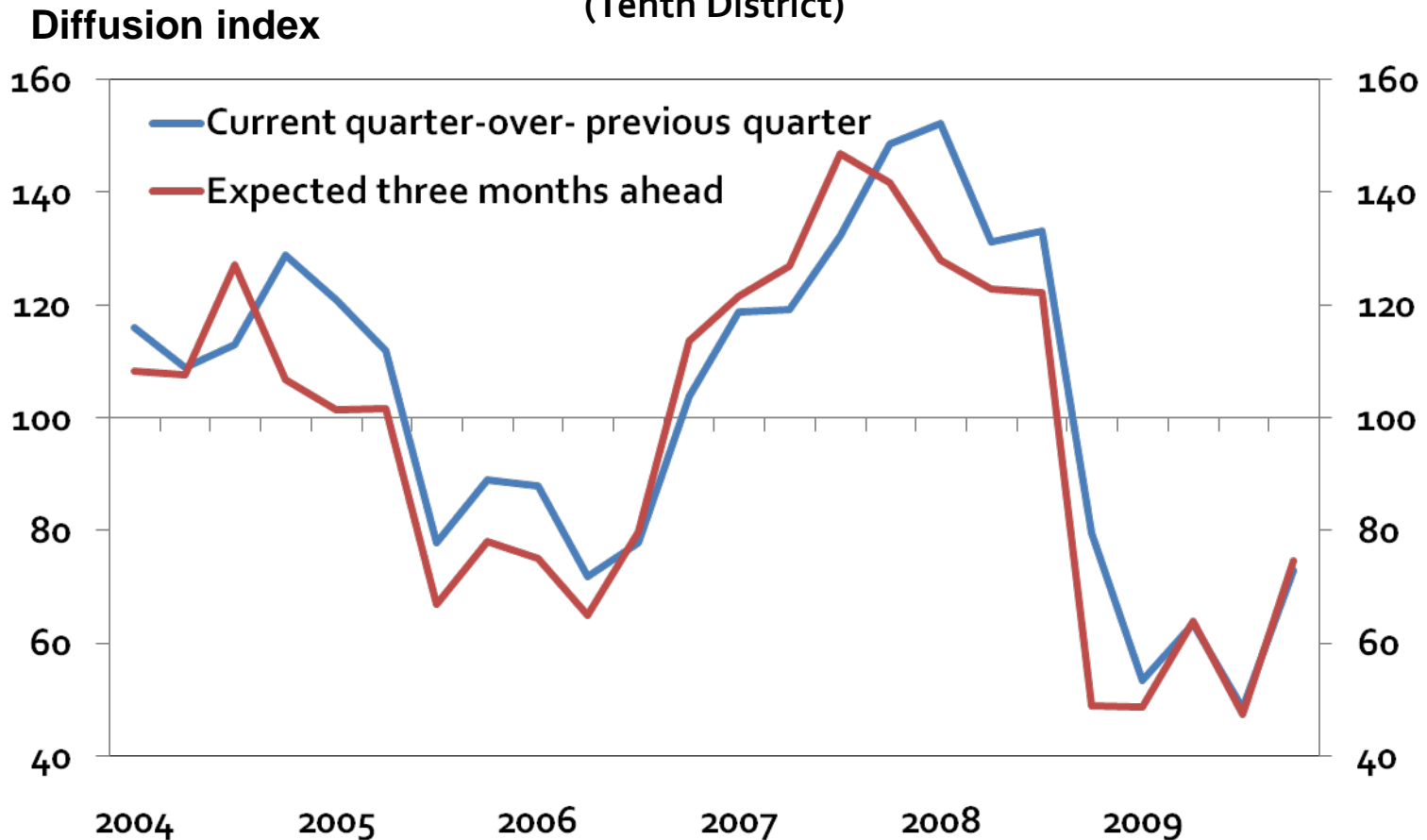
Millions of Loans

Thousands of Dollars



# Bankers expected farm capital spending to rise.

## Farm Capital Spending (Tenth District)



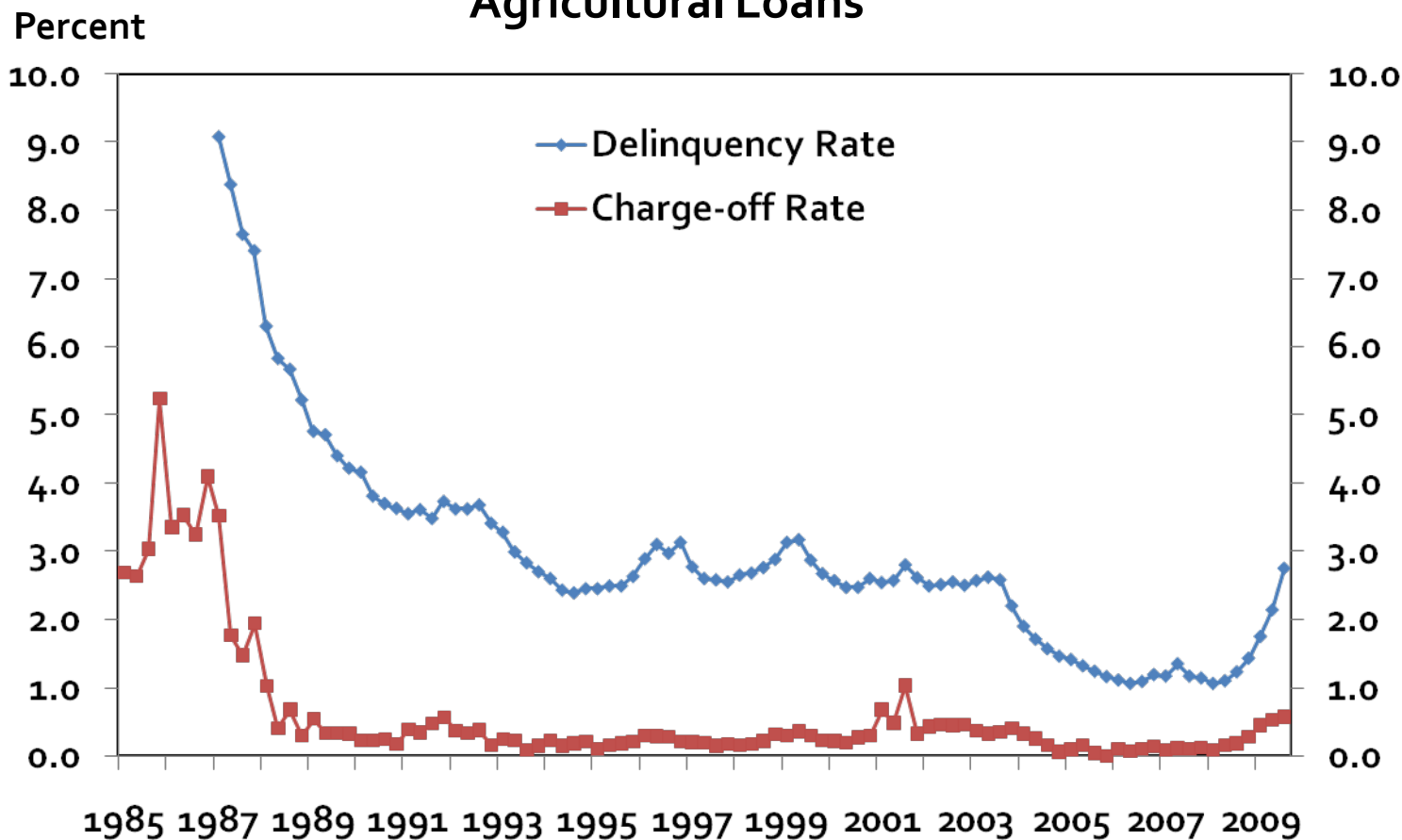
Source: FRBKC Agricultural Credit Survey

Note: 2009:Q4 data are preliminary with 90 percent of typical respondents reporting



# Loan delinquency rates and charge-offs edge up.

## Charge-off and Delinquency Rates on Agricultural Loans

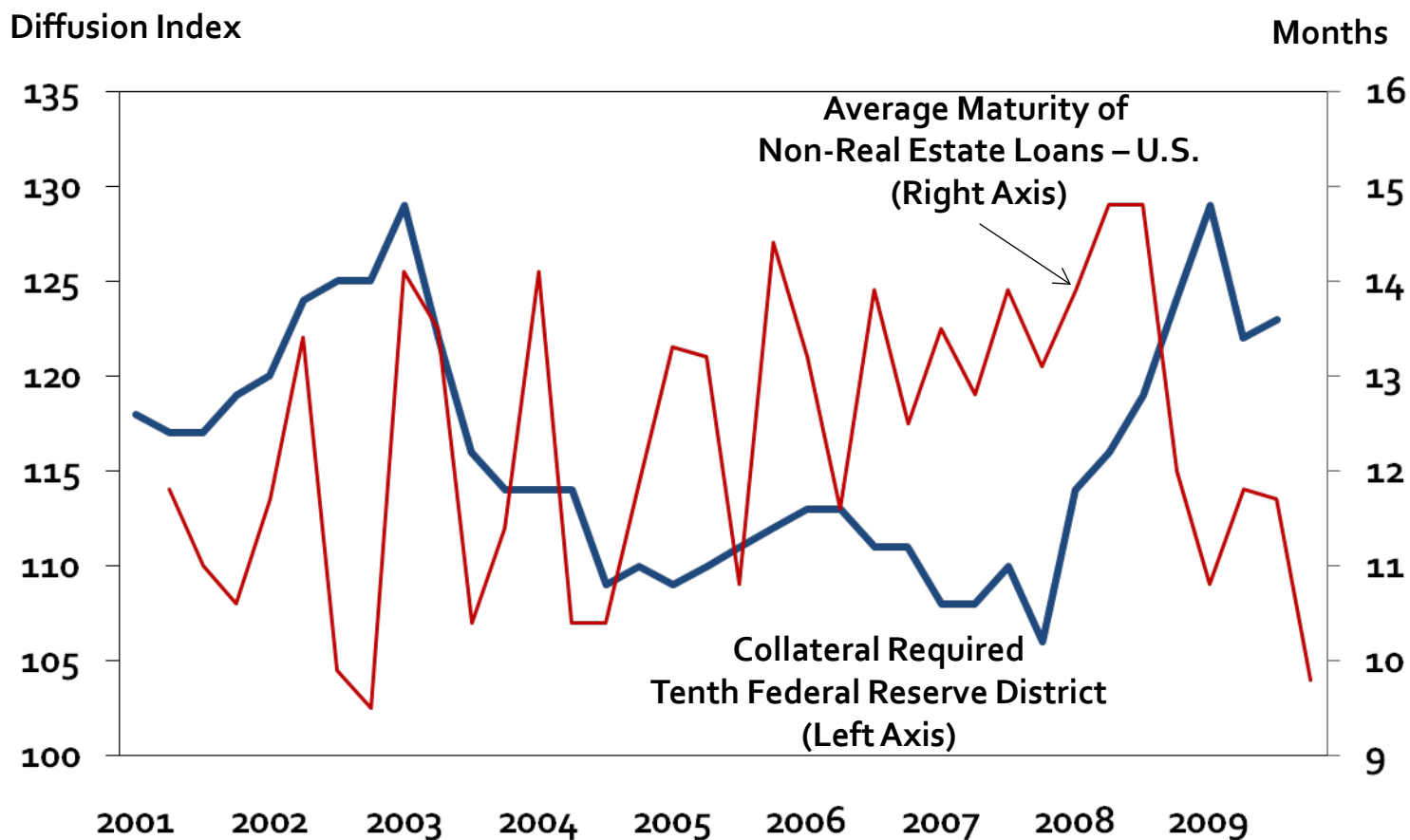


Source: Federal Reserve Board of Governors



# 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



# Credit Risks In Agriculture

- Profits – will demand and profits rebound if the recovery is sluggish?



# High unemployment rates could dampen the recovery.

## U.S. Unemployment Rate

Percent



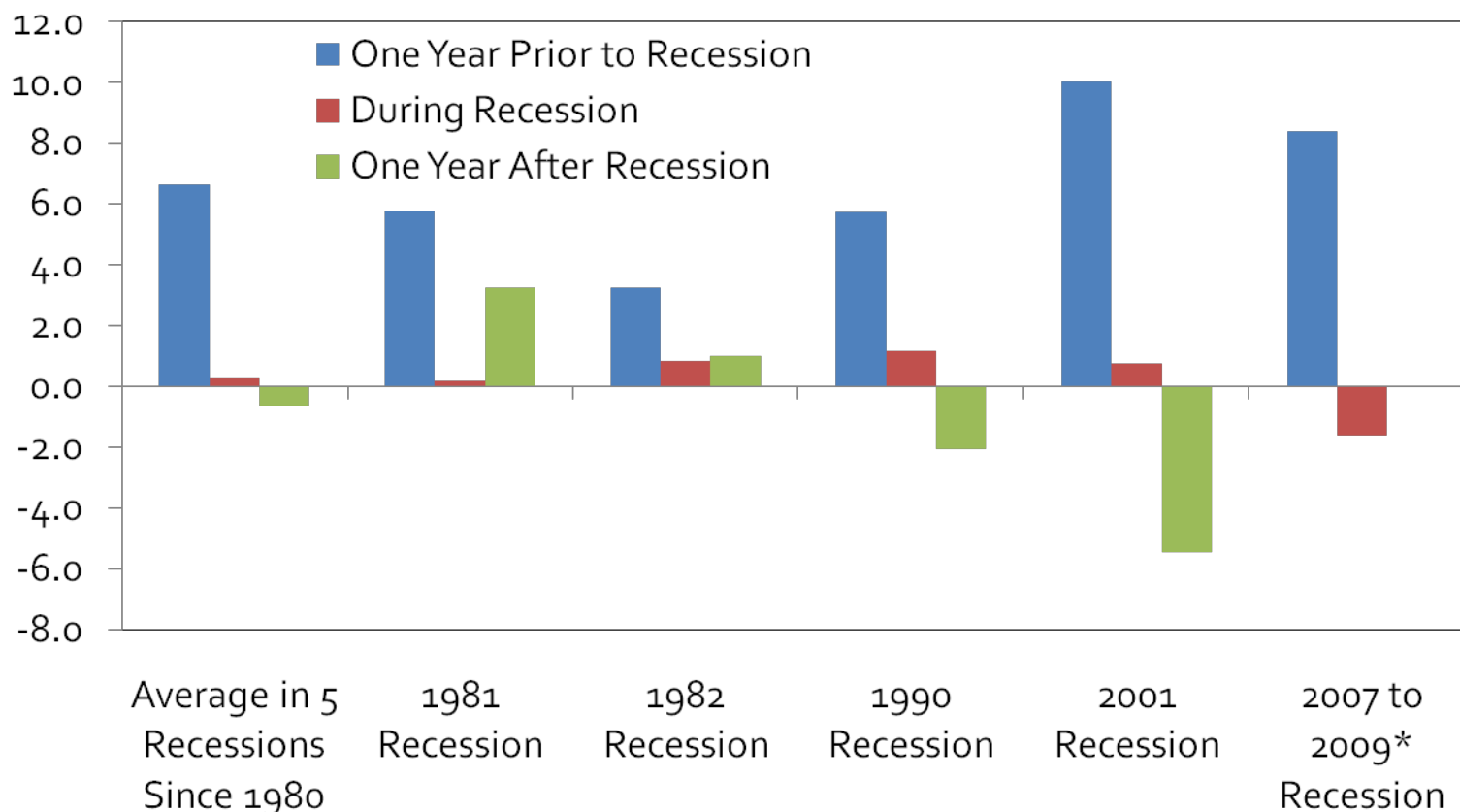
Source: Bureau of Economic Analysis



# Meat and milk spending tends to decline in jobless recoveries.

## U.S. Per Capita Expenditures on Beef, Pork, Poultry, and Milk Products

Percent change



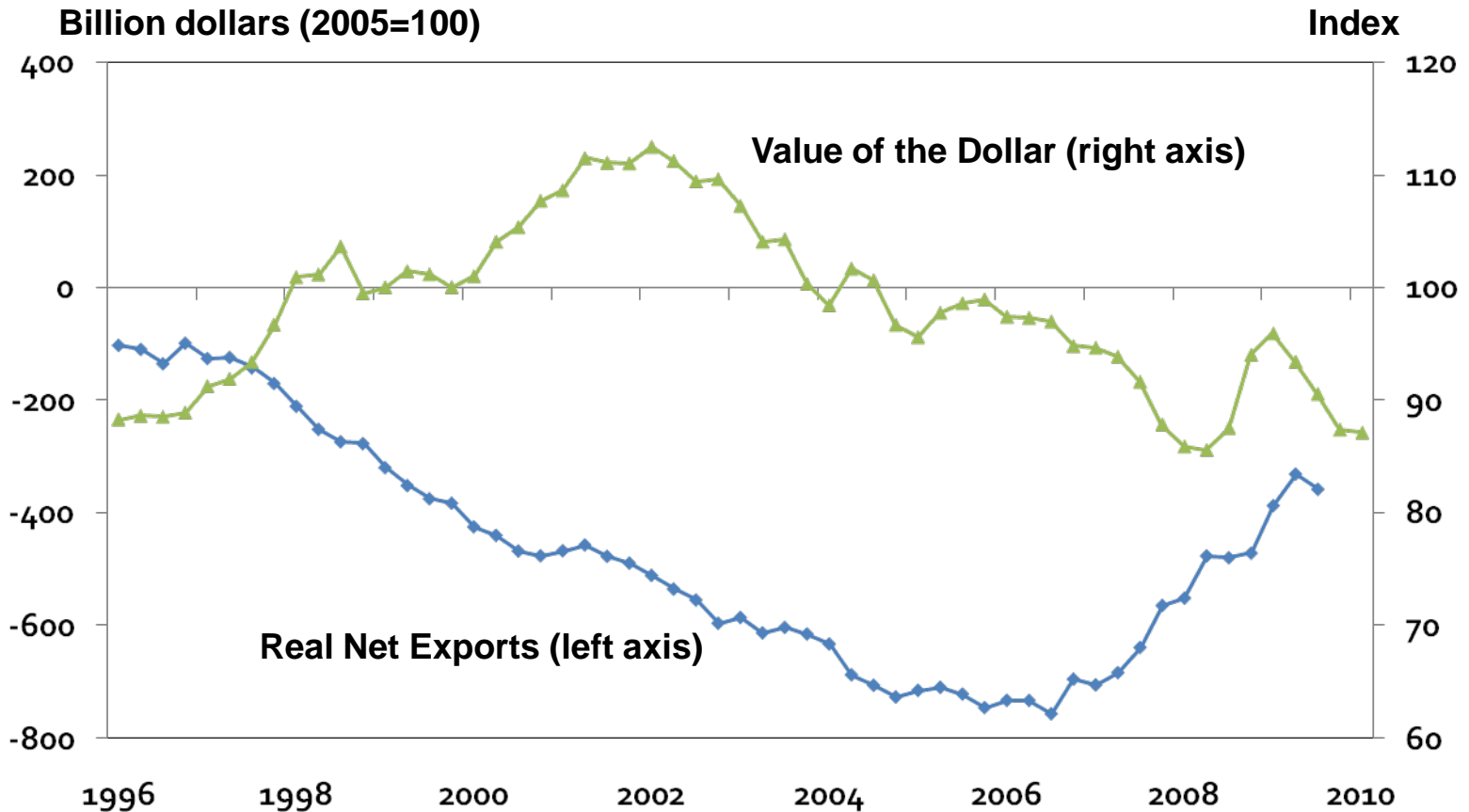
Calculations based on Bureau of Economic Analysis data

\* The National Bureau of Economic Research indicates the recession started in Dec. 2007. At the time of publication, the end of the recession has yet to be specified.



# Can stronger global economies and a weaker dollar spur further improvements in the trade balance?

## Real Net Exports of Goods and Services Value of the Dollar



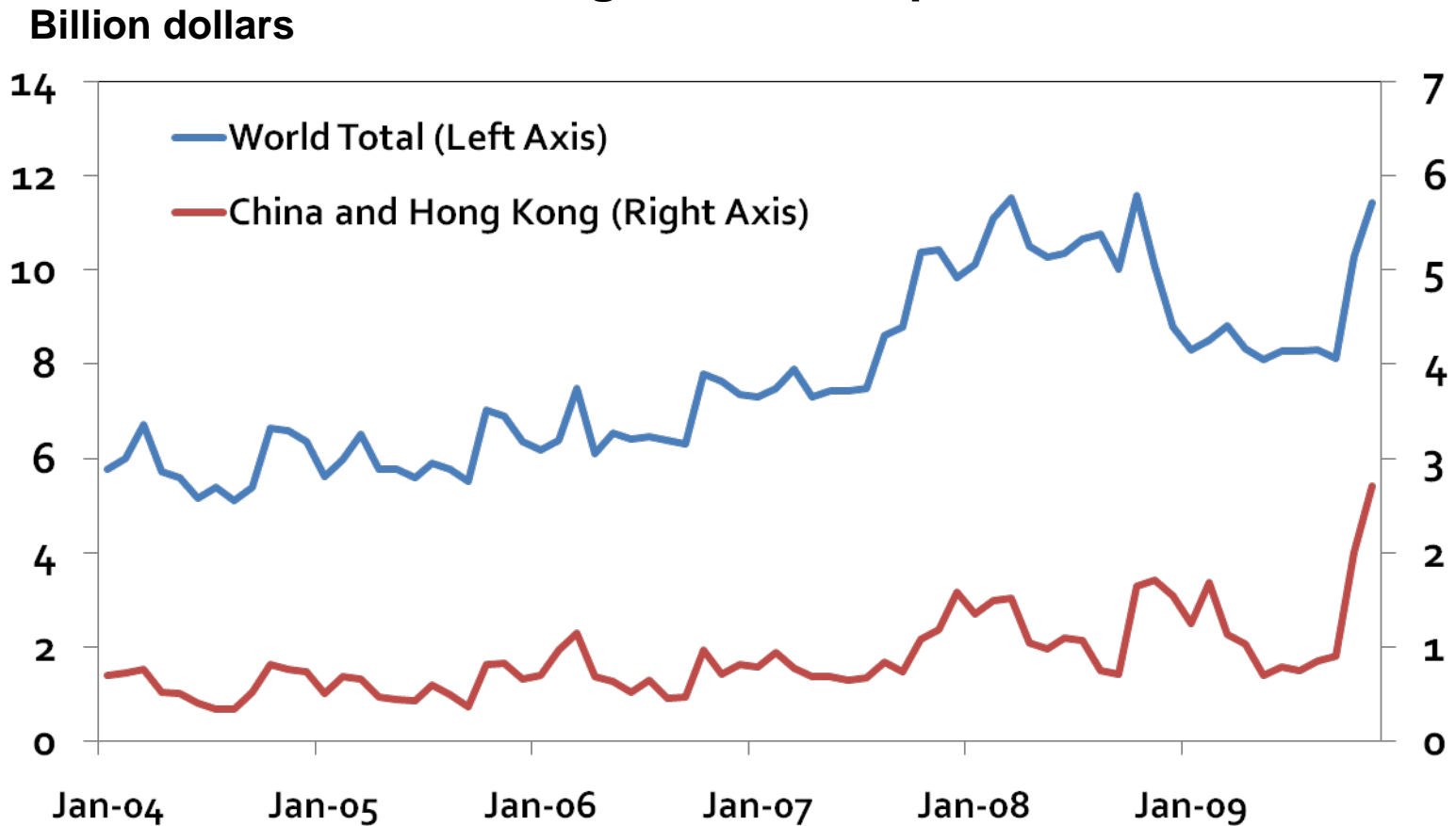
Source: Bureau of Economic Analysis





# Will export activity rebound in 2010?

## U.S. Agricultural Exports

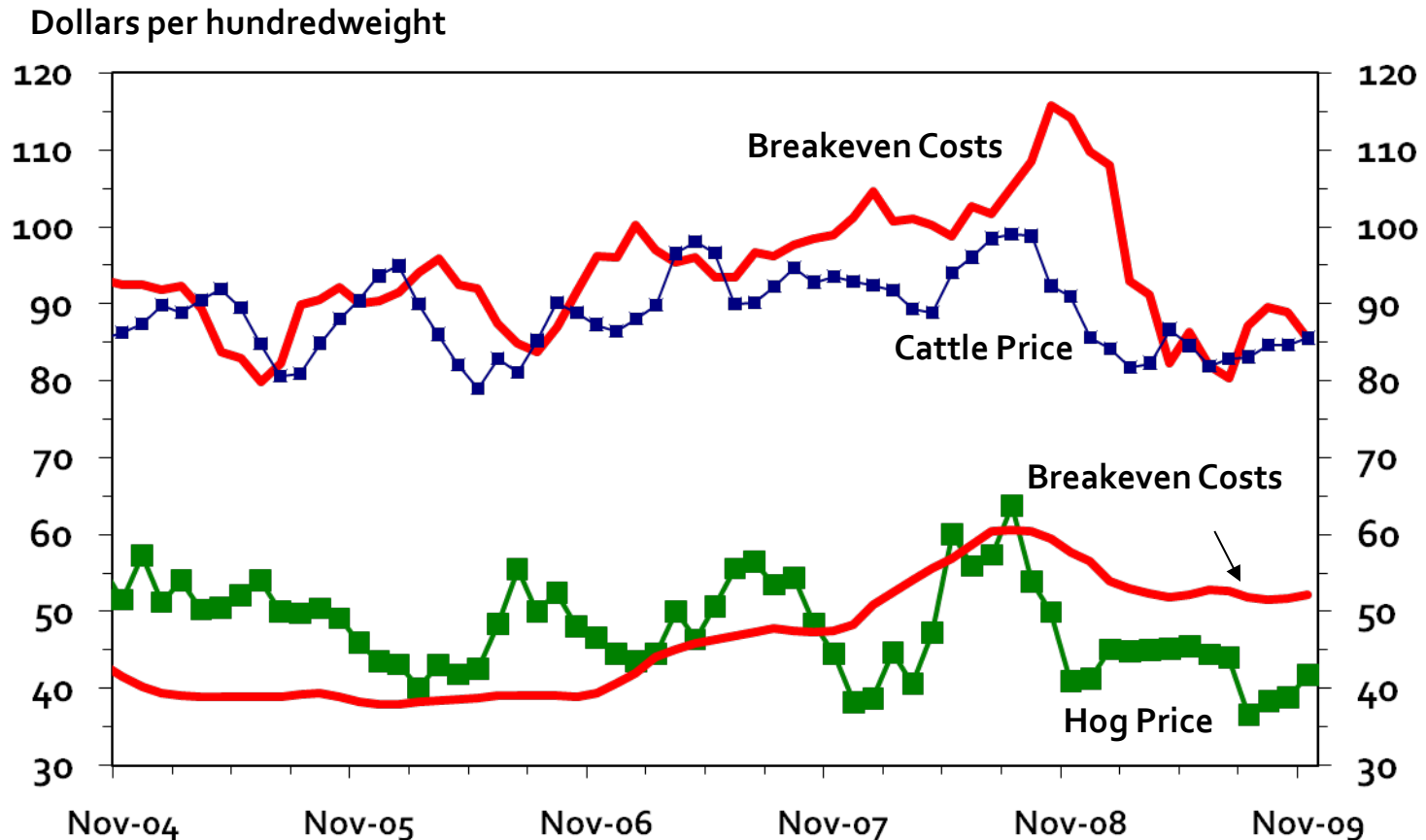


Source: USDA



# Fewer losses in livestock sectors will support U.S. farm income.

## U.S. Livestock Prices and Breakeven Costs



Source: USDA and Iowa State University



# Credit Risks In Agriculture

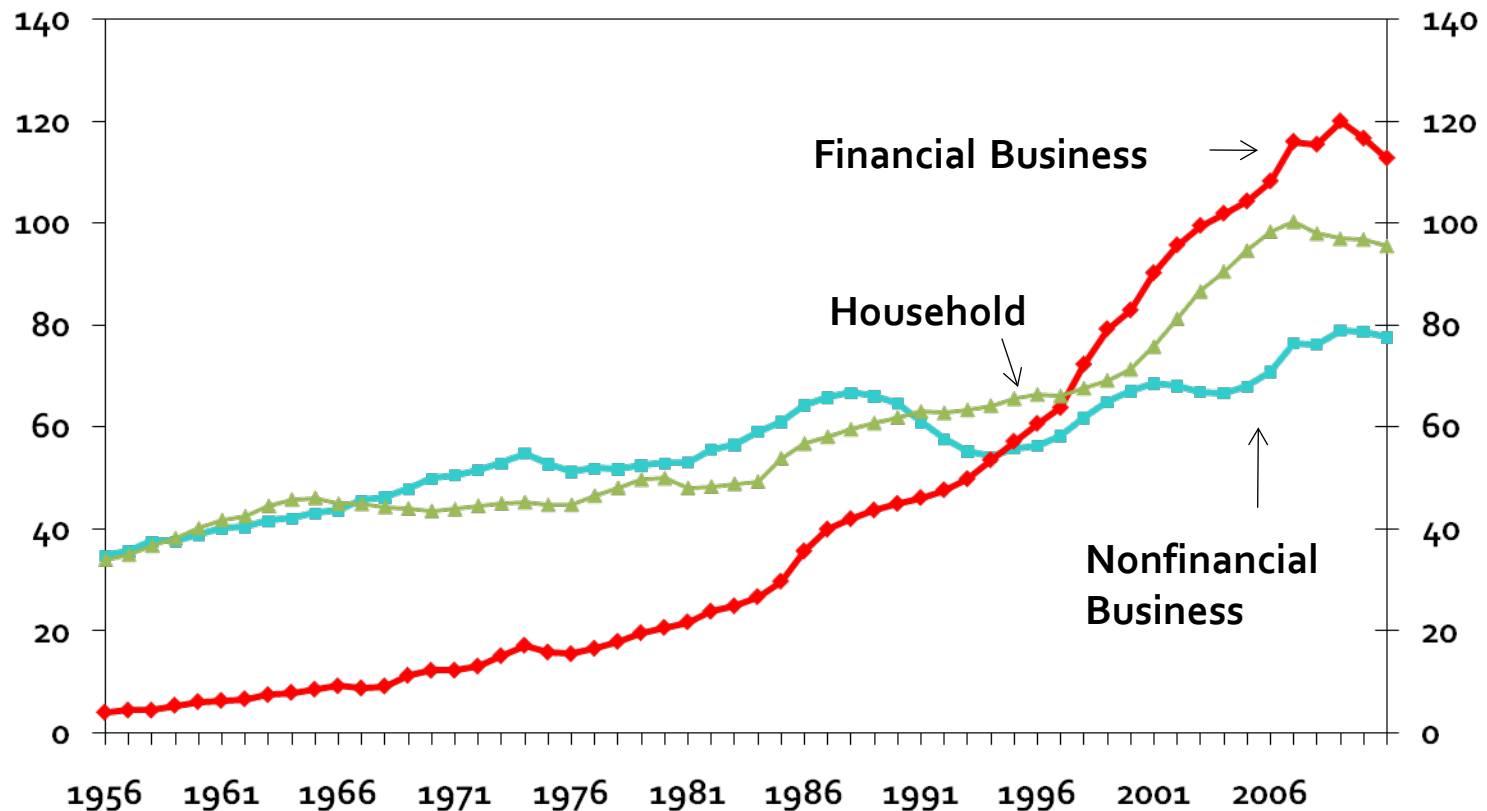
- Profits – will demand and profits rebound if the recovery is sluggish?
- Leverage – will farmers limit debt growth?



# Deleveraging could contribute to a sluggish recovery as consumers save more and spend less.

## Domestic Debt Outstanding

Percent of GDP

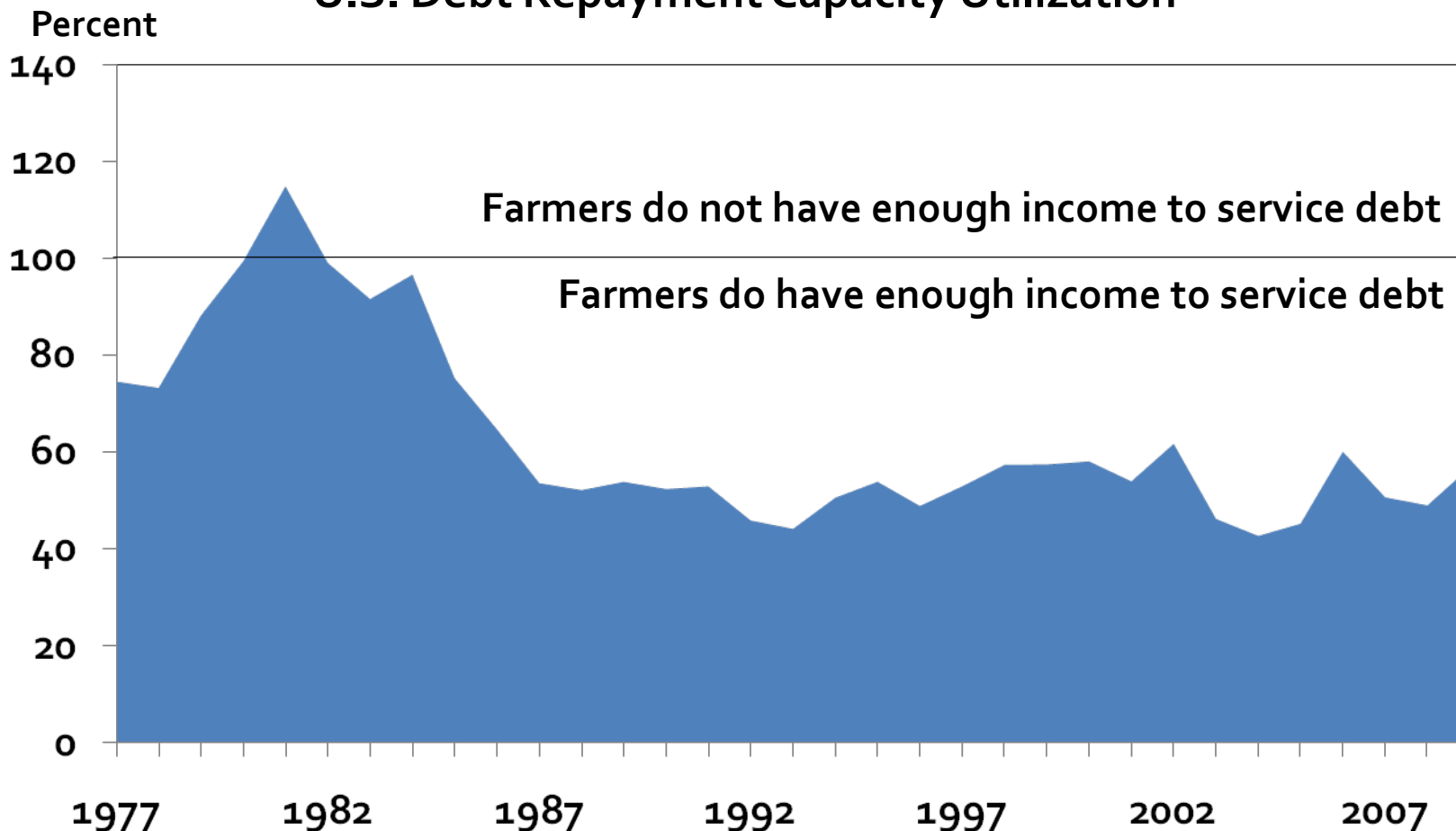


Source: Federal Reserve Board of Governors



*In general, farmers are financially sound.*

## U.S. Debt Repayment Capacity Utilization



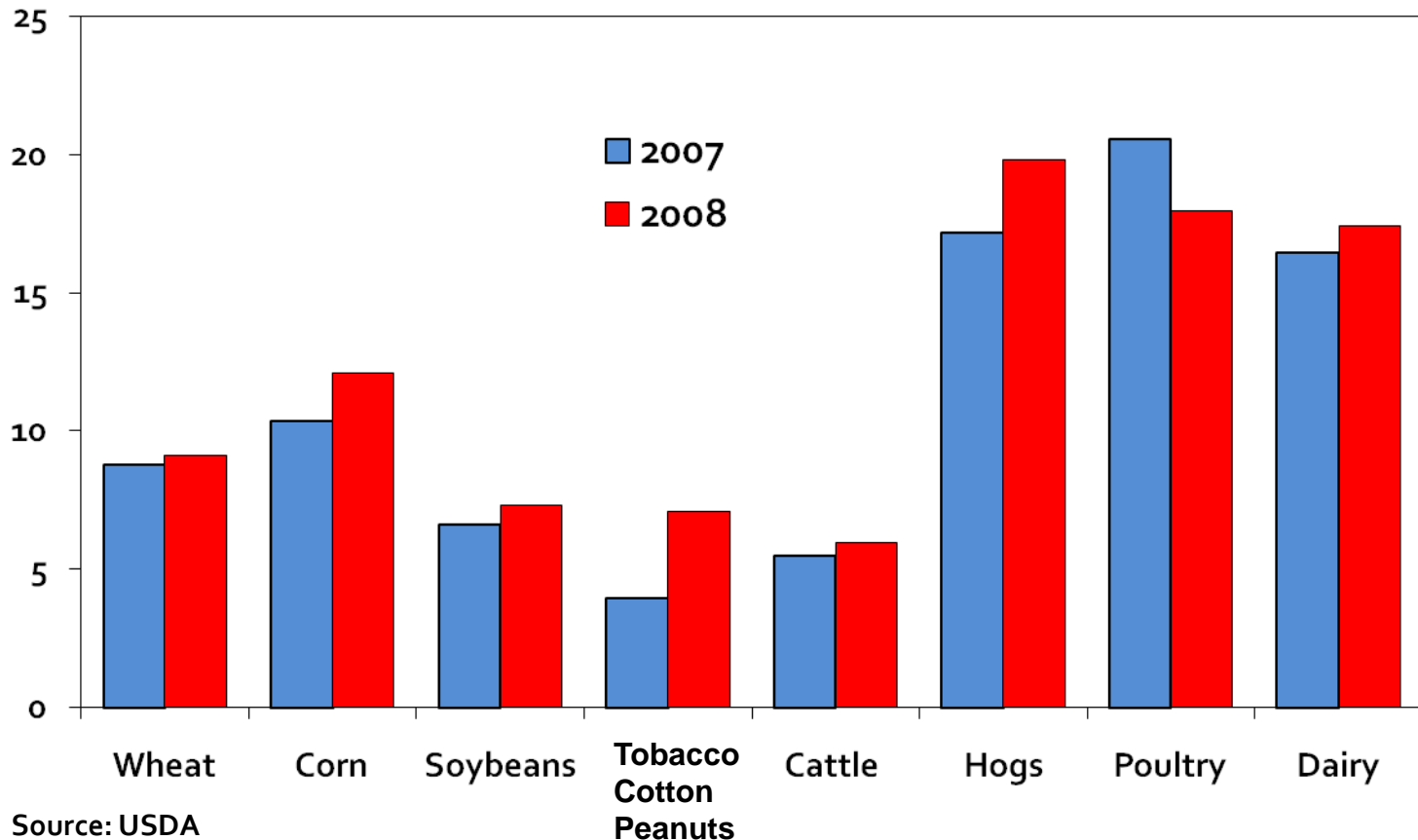
Source: USDA



# *Livestock sectors are more highly leveraged.*

## Debt-to-Asset Ratio by Farm Production Sector

Debt-to-Asset Ratio



Source: USDA



# Credit Risks In Agriculture

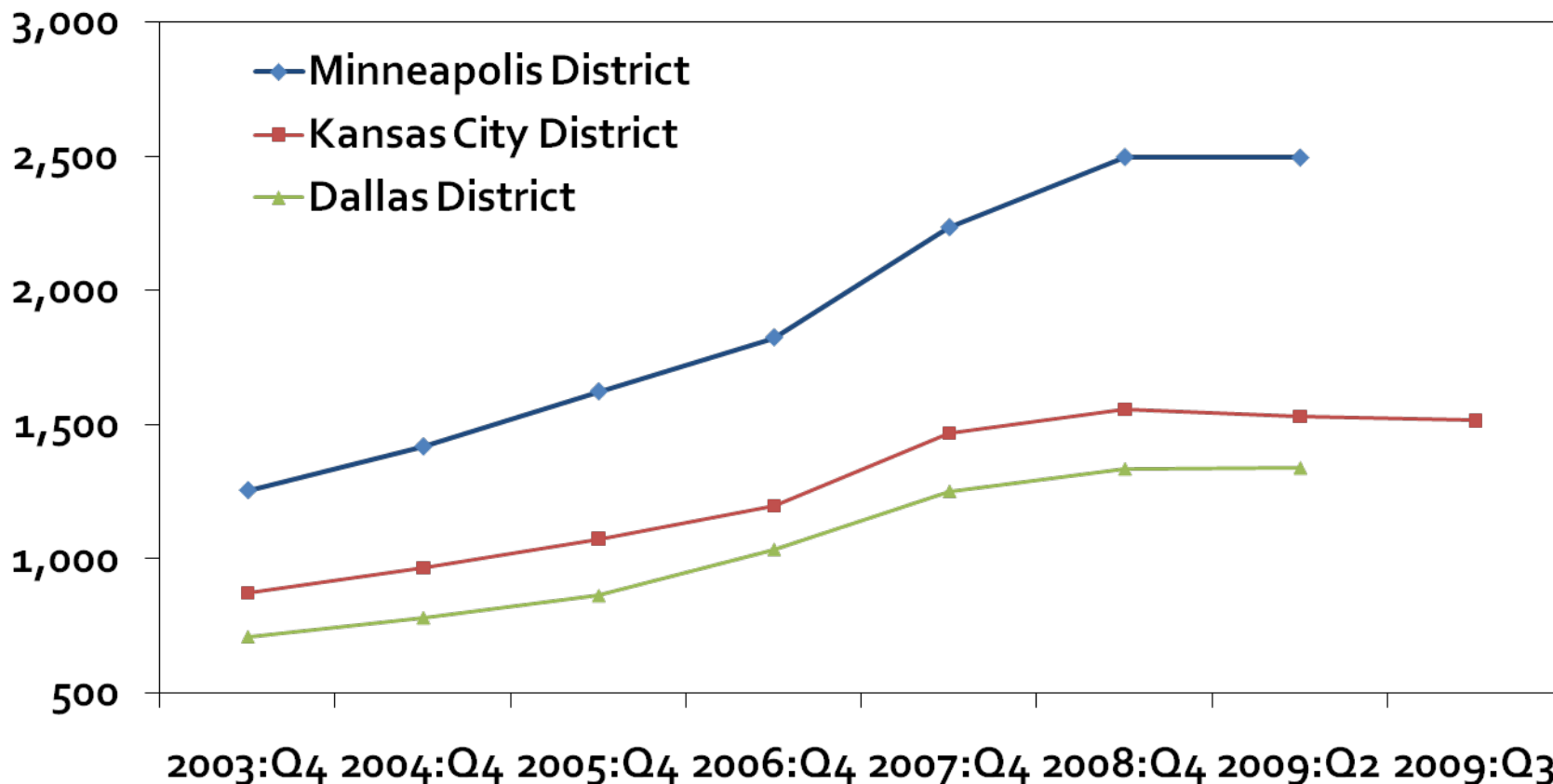
- Profits – will demand and profits rebound if the recovery is sluggish?
- Leverage – will farmers limit debt growth?
- Collateral – will farmland values hold?



# After topping in 2009, what direction will farmland values follow?

## Cropland Values in Federal Reserve Districts

Dollars per acre



Source: Federal Reserve Banks of Kansas City, Minneapolis, and Dallas





# Credit Risks In Agriculture

- Profits – will demand and profits rebound if the recovery is sluggish?
- Leverage – will farmers limit debt growth?
- Collateral – will farmland values hold?
- Counterparties – how do producers identify, document, and manage counterparty risk?



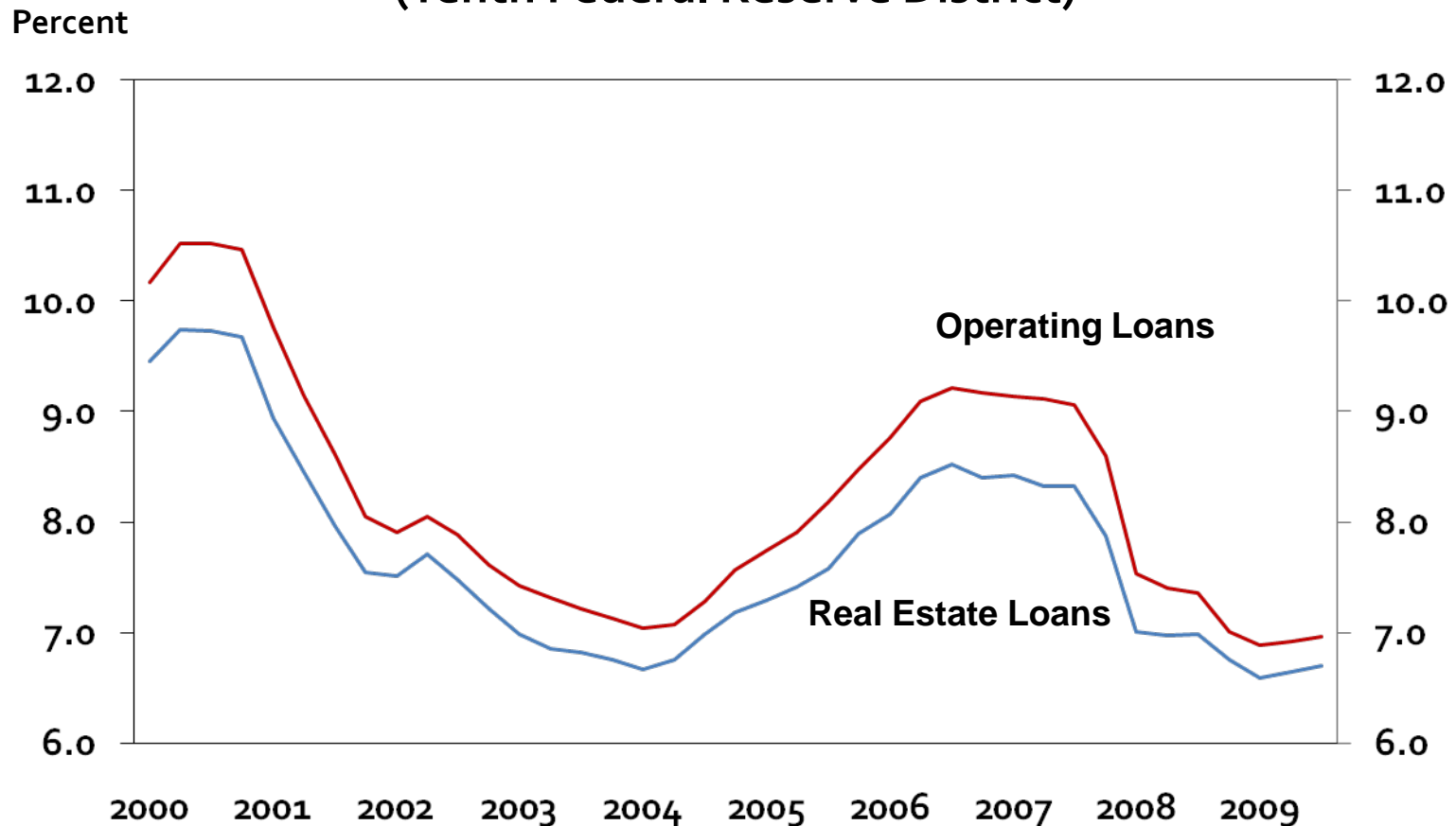
# Credit Risks In Agriculture

- Profits – will demand and profits rebound if the recovery is sluggish?
- Leverage – will farmers limit debt growth?
- Collateral – will farmland values hold?
- Counterparties – how do producers identify, document, and manage counterparty risk?
- Interest rates – when and how high will interest rates rise during the recovery?



# Interest rates remain low.

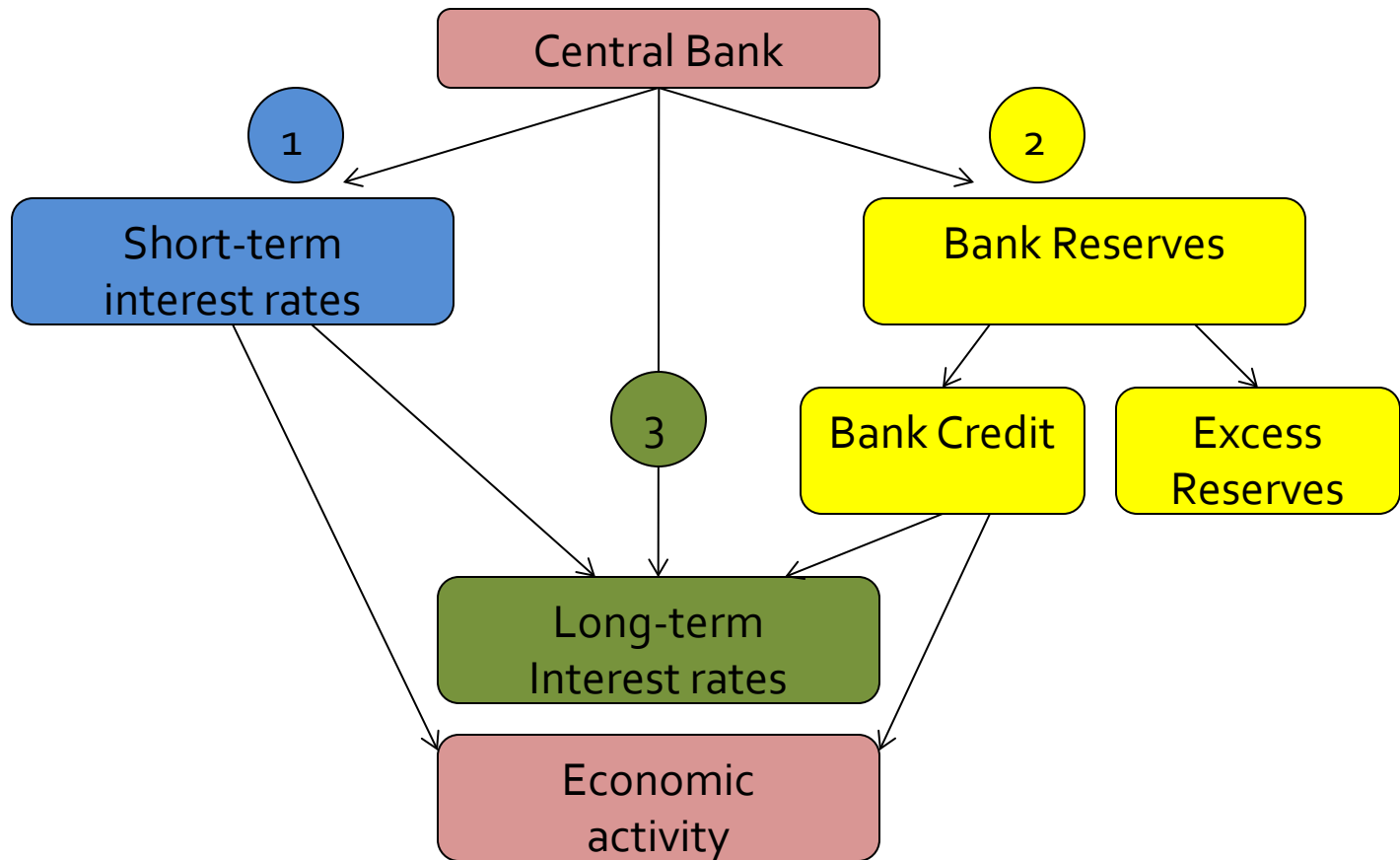
## Average Interest Rates (Tenth Federal Reserve District)



Source: Federal Reserve Bank of Kansas City



# Monetary Policy Transmission Mechanisms



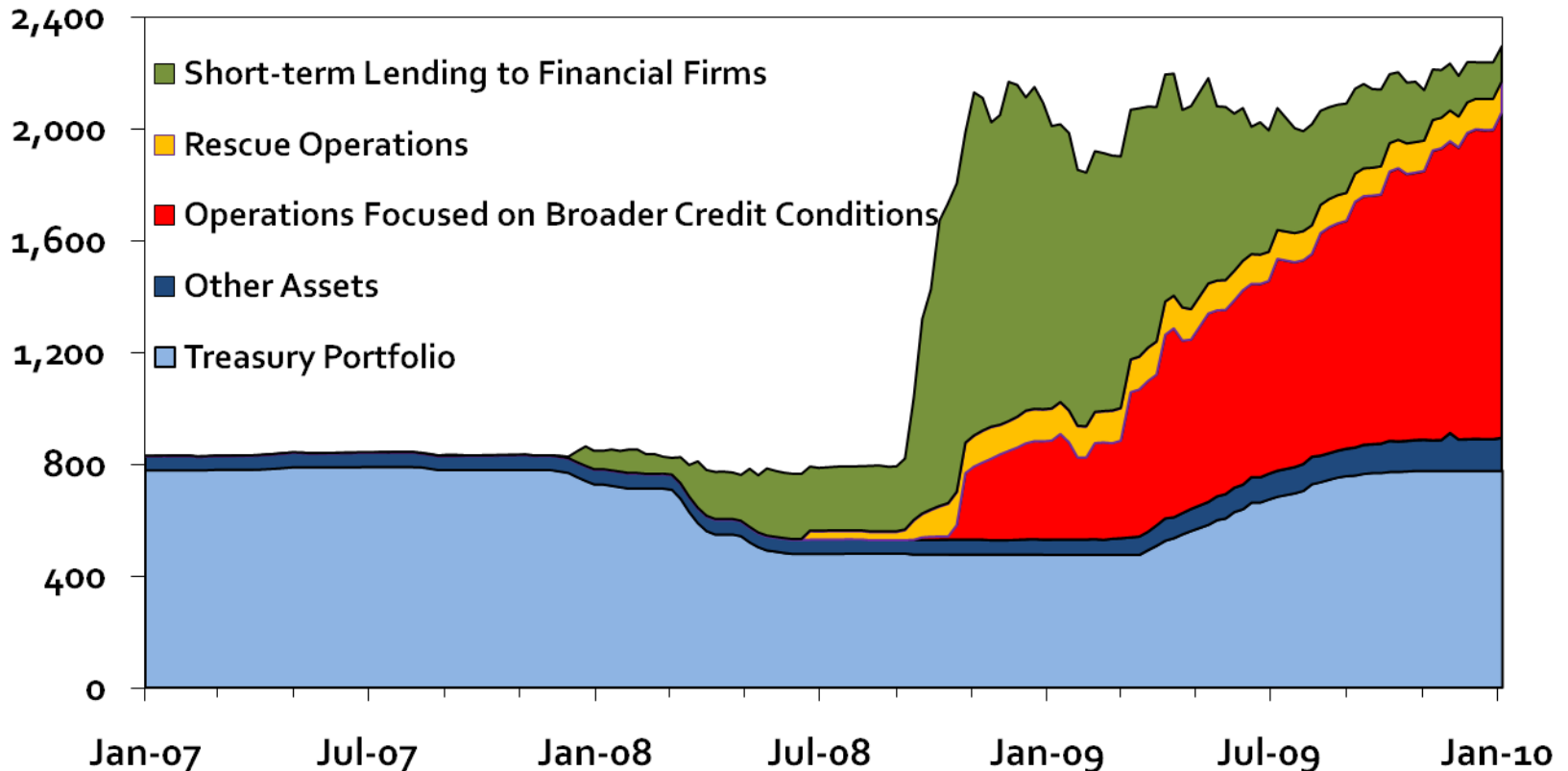
Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"  
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



# To combat the financial crisis and recession, the Federal Reserve has expanded its balance sheet.

## Federal Reserve Balance Sheet: Assets

Billion Dollars

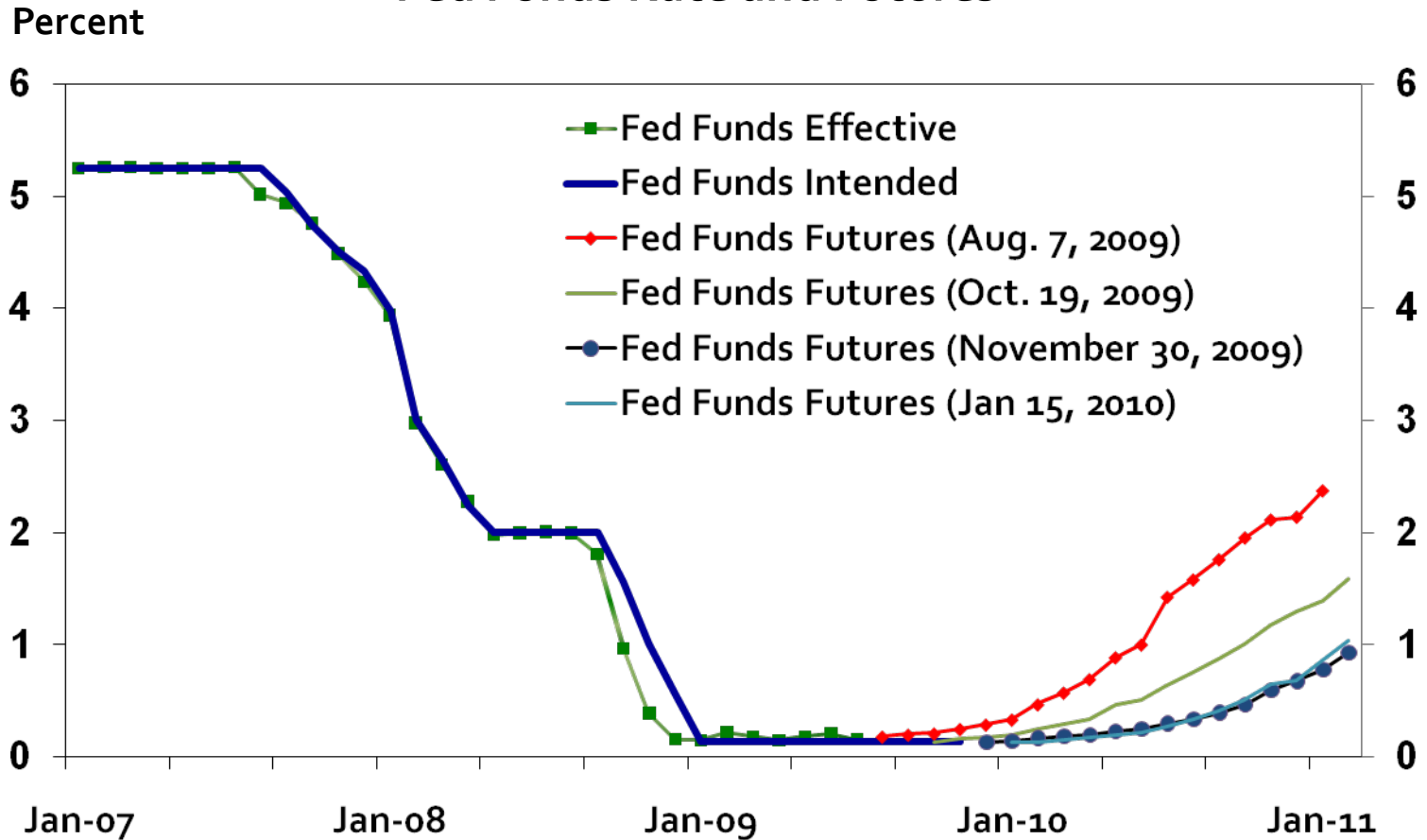


Source: Federal Reserve Board of Governors



# When will interest rates rise?

## Fed Funds Rate and Futures



Source: Federal Reserve Board of Governors and CME Group



# Conclusions

- **The recovery is underway, but risks remain, especially in commercial real estate.**
- **Ag banks are performing better than their peers, but risks are rising.**
- **Banks are providing credit to agriculture, but standards are tighter with higher risks.**
- **Macroeconomic forces could drive ag markets and lending in the year ahead.**



# For More Information

Federal Reserve Bank of Kansas City –  
Omaha Branch

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