

Brian C. Briggeman

Economist

Federal Reserve Bank of Kansas City – Omaha Branch

[www.kansascityfed.org/omaha](http://www.kansascityfed.org/omaha)

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# Credit Conditions for Rural Businesses and Farm Households



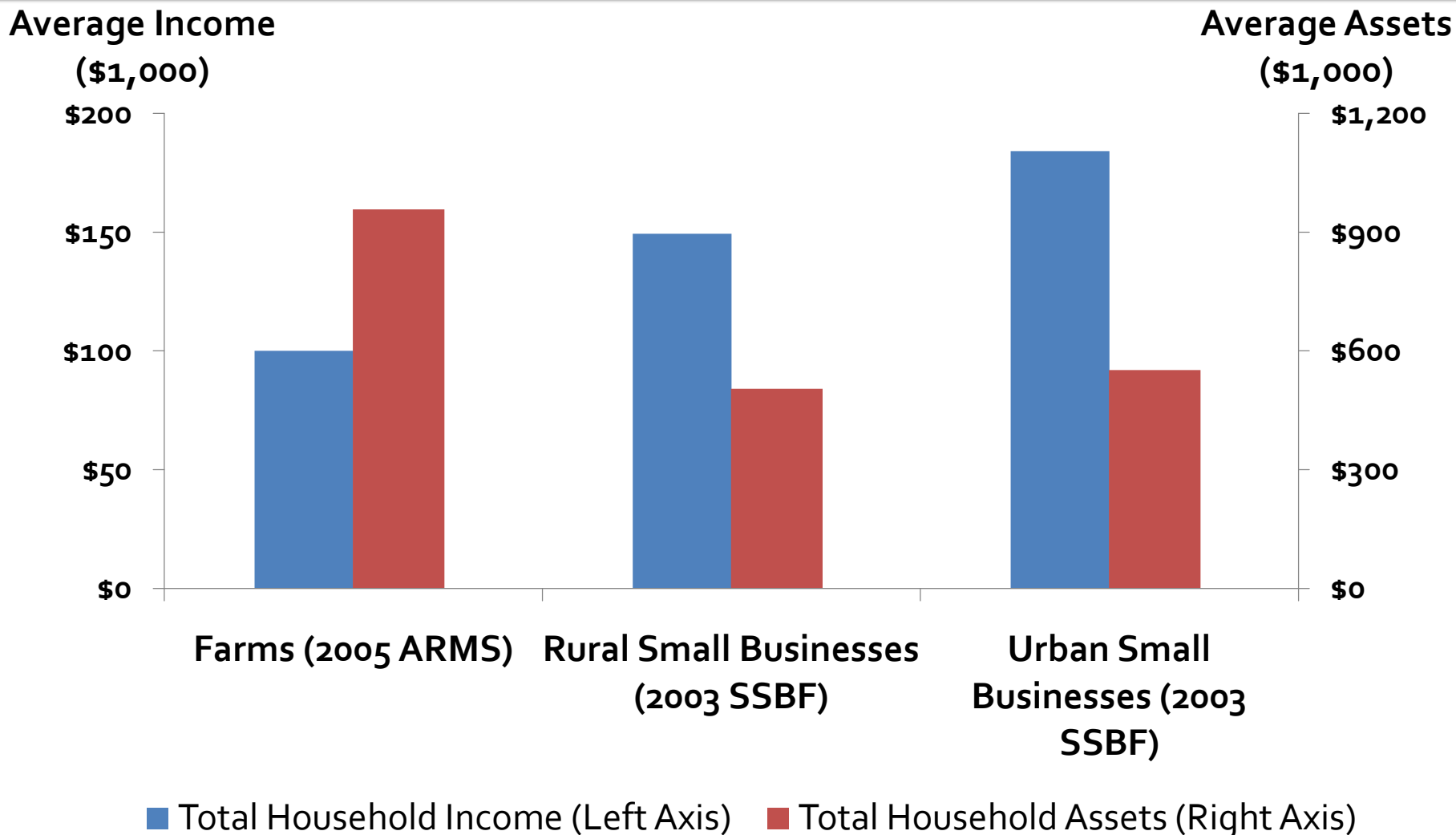
The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

# Today's Roadmap

- **Comparing rural businesses and farm households before the 'Great Recession'**
- **Lending to businesses during the recession**
- **Monitoring credit conditions**



# While small business households earned more income, farm households had more assets.

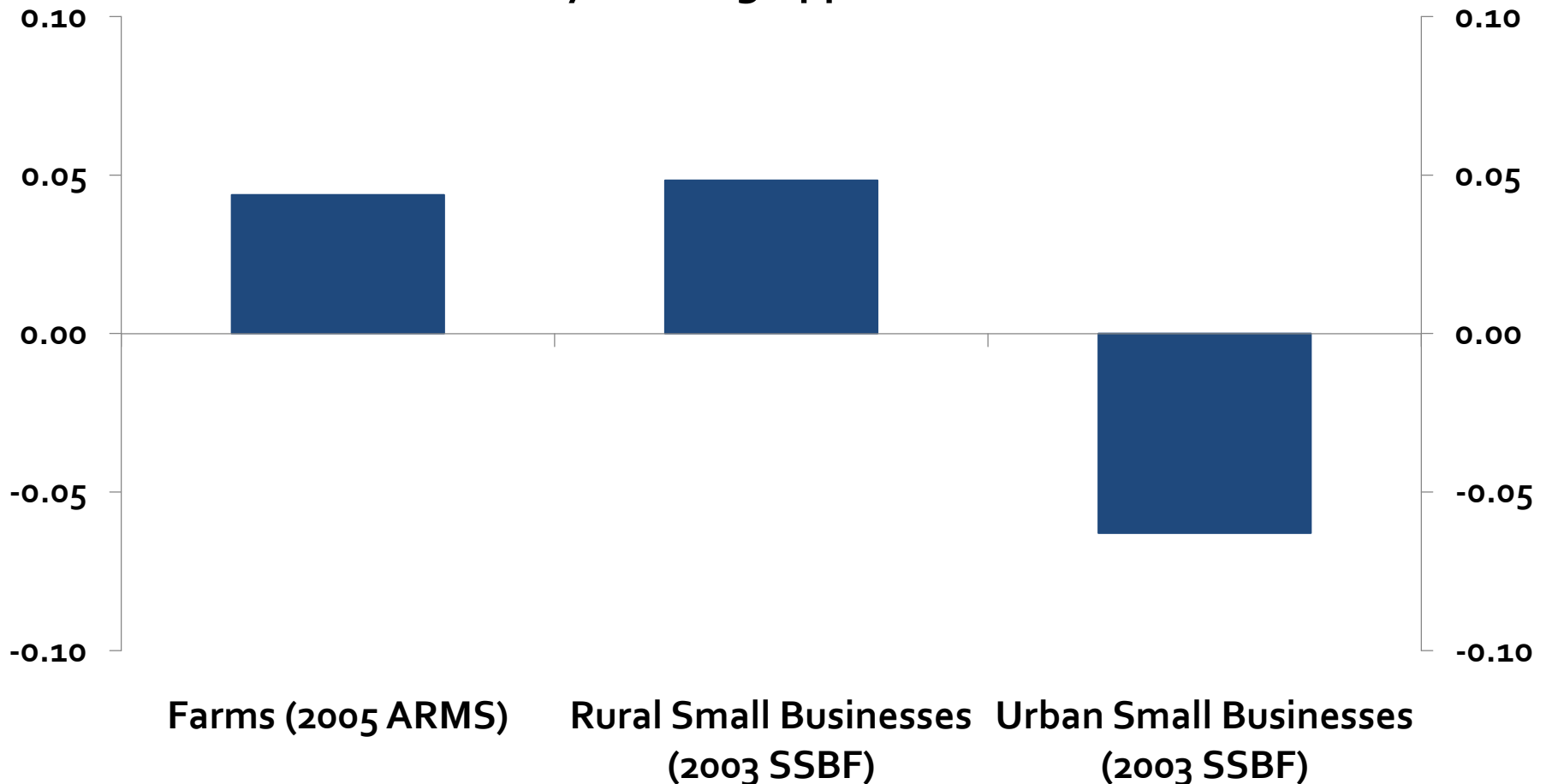


Source: 2005 Agricultural Resource Management Survey (USDA) and 2003 Survey of Small Business Finances (Federal Reserve Board of Governors). Calculations by author.



# Farms and rural small businesses had a higher probability of receiving credit than urban small businesses.

Probability of Being Approved for Credit\*



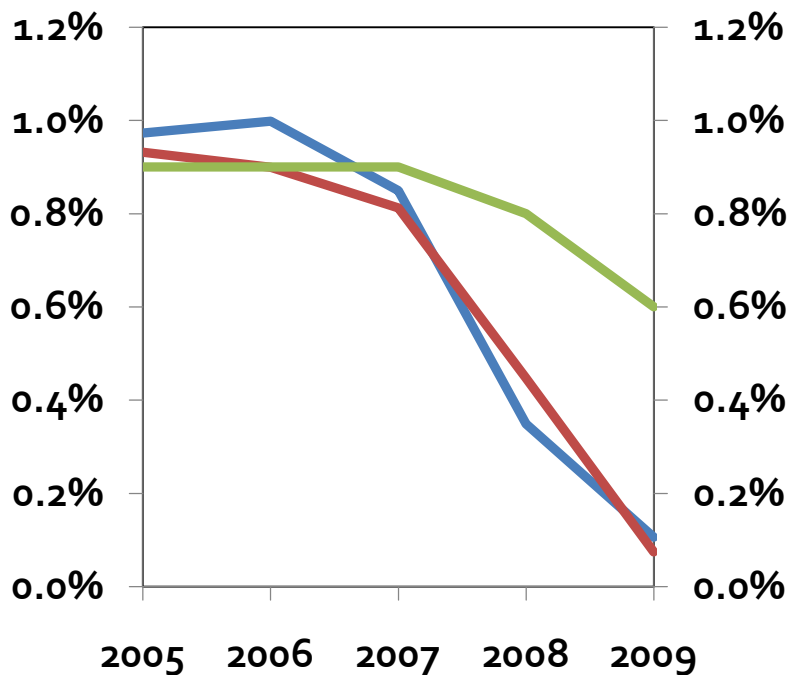
Source: 2005 ARMS (USDA) and 2003 SSBF (Federal Reserve Board of Governors). Calculations by author.

\*Marginal effect of being approved for credit: RHS = income, assets, debt-to-asset ratio, age, work tenure, college degree.



# Bank profit margins have fallen, and capital levels have risen.

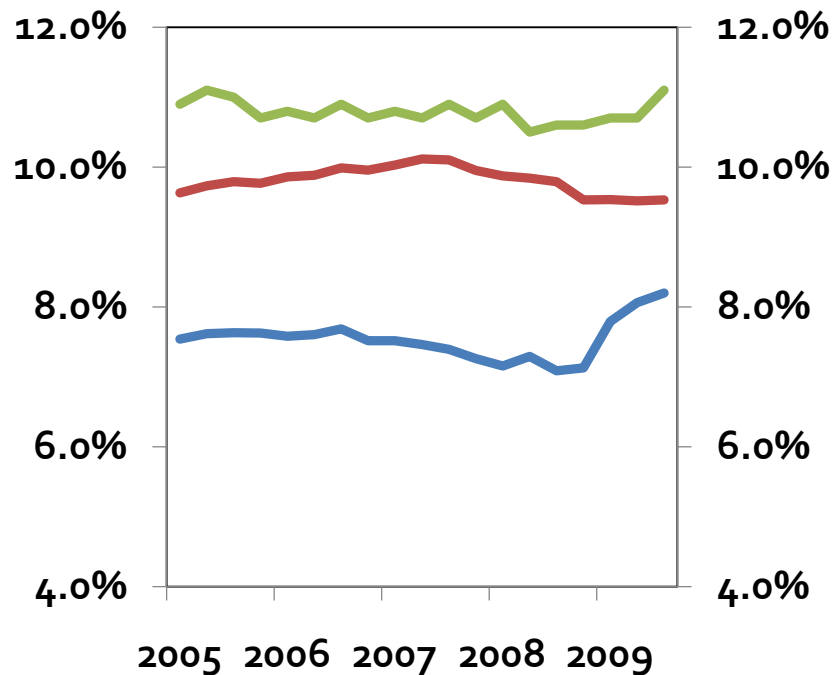
## Return on Assets



- All Commercial Banks
- Commercial Bank < \$1B Assets
- Agricultural Banks

Source: FDIC and Agricultural Finance Databook

## Tier 1 Capital Ratio



- All Commercial Banks
- Commercial Bank < \$1B Assets
- Agricultural Banks

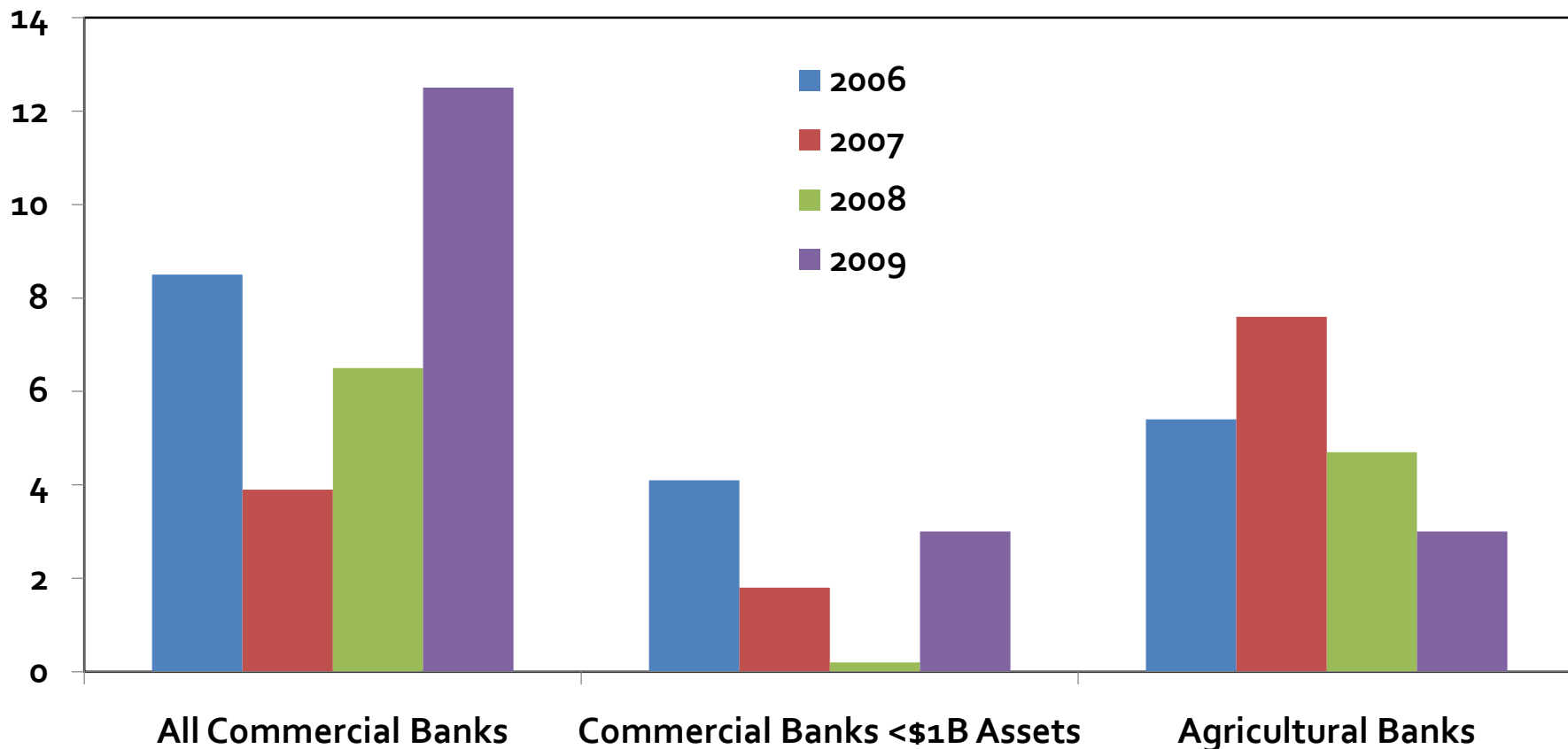
Source: FDIC and Agricultural Finance Databook



# For many banks, the financial crisis contributed to a significant rise in deposits.

## Domestic Bank Deposits (Second Quarter)

Percent change from year ago



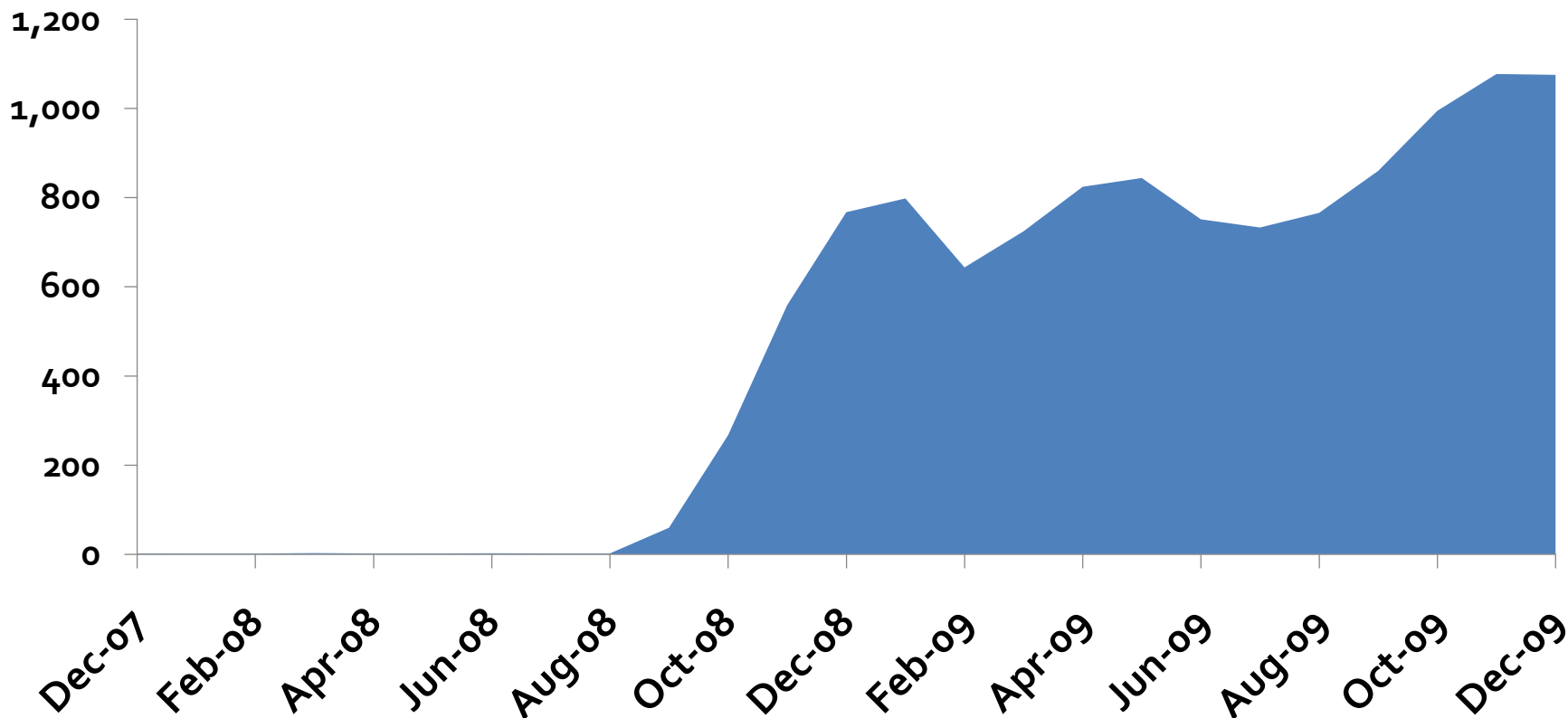
Source: FDIC



# With the Federal Reserve combating the financial crisis and recession, bank excess reserves surged.

## Excess Reserves of Depository Institutions

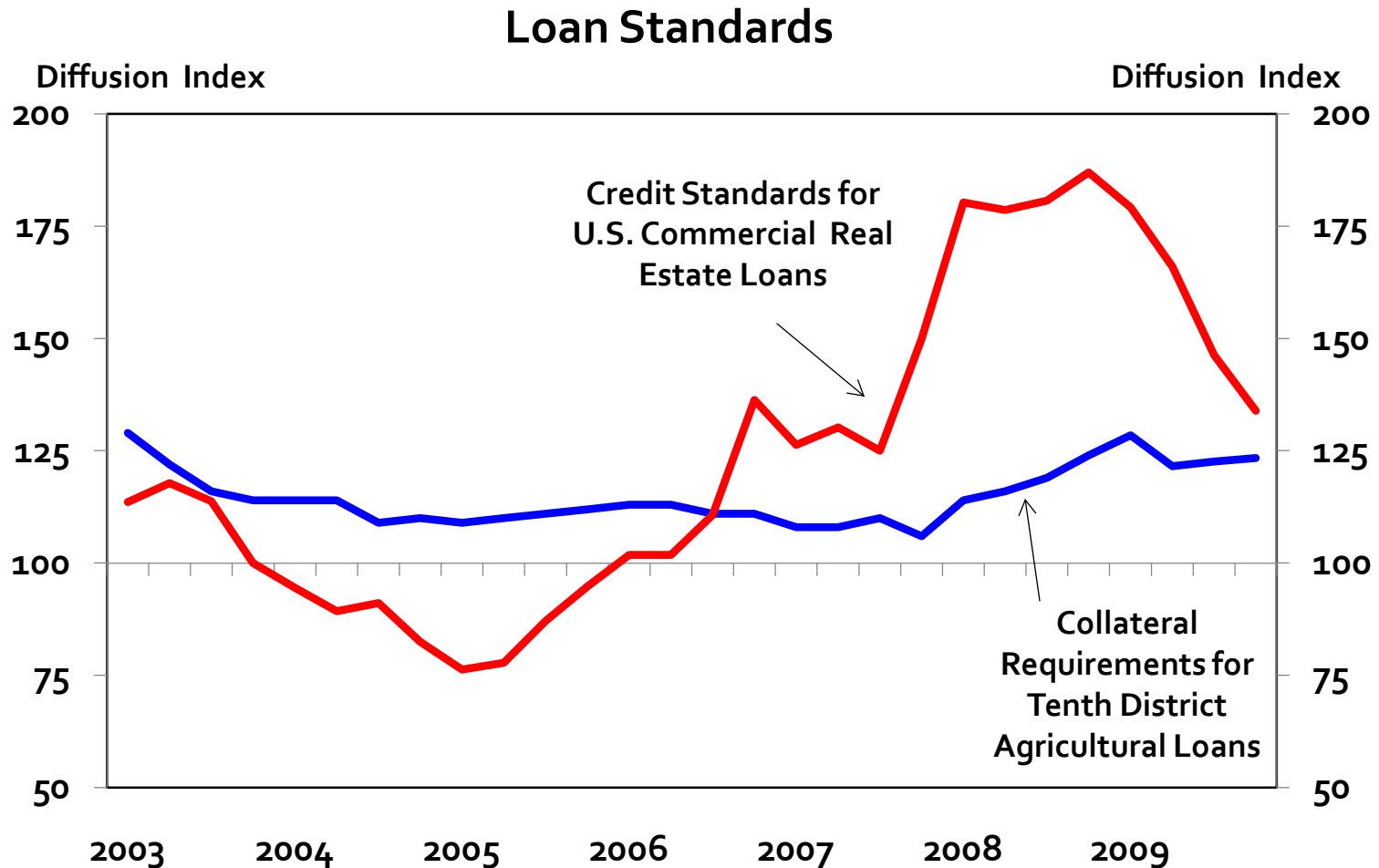
Billion Dollars



Source: Federal Reserve Board of Governors



# Today, fewer lenders are tightening loan standards.



Source: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City

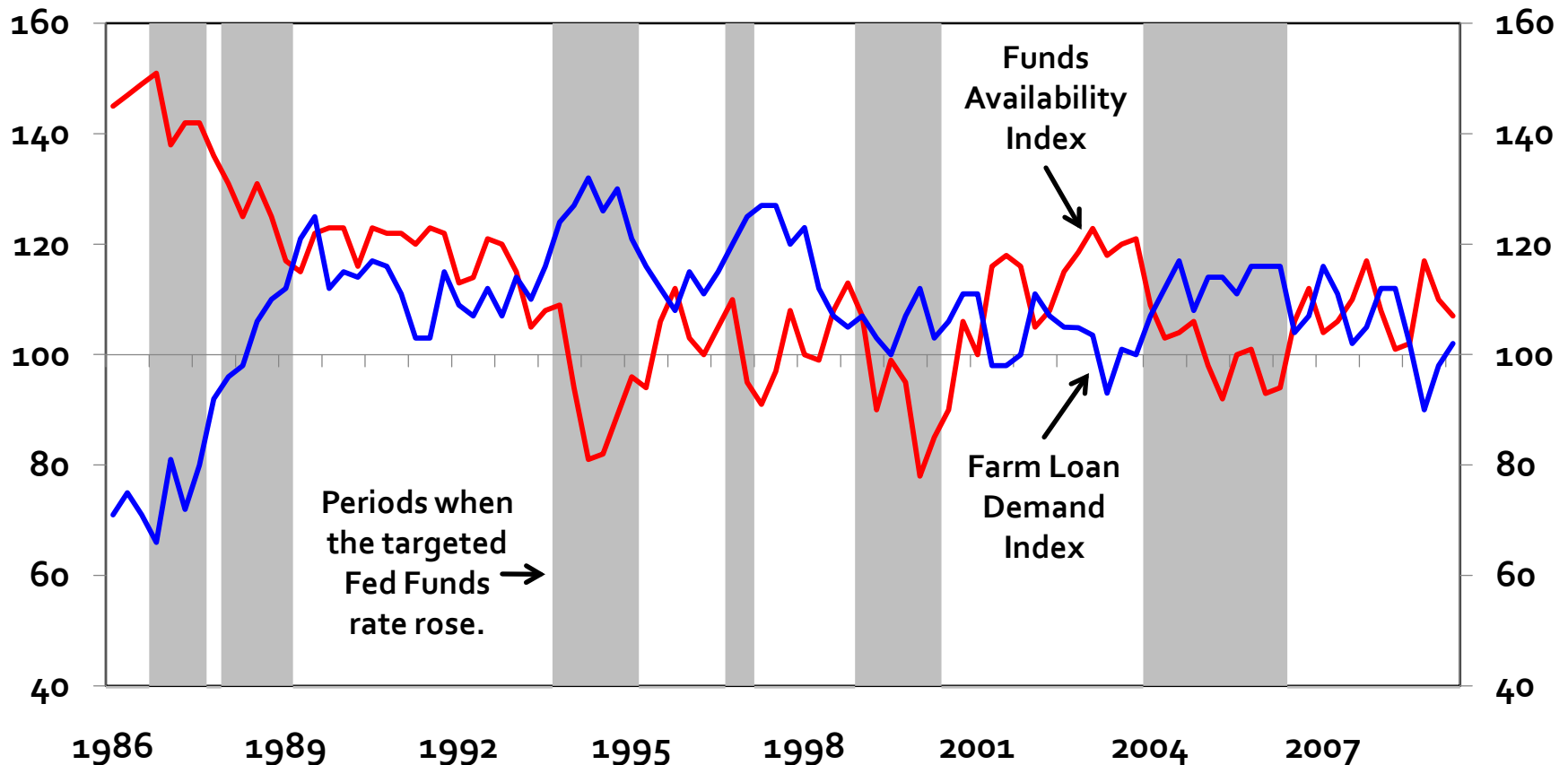
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# Historically, when monetary policy tightens, funds available to meet farm loan demand falls.

## Tenth District Farm Loan Demand and Funds Availability



Source: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City

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# Conclusions

- In general, rural business and farm household credit conditions have fared better than urban counterparts
- But challenges to credit conditions exist (e.g., commercial real estate debt and the U.S. economy deleveraging)
- How will exiting the accommodative monetary policy (U.S. and abroad) impact rural credit conditions?



# For More Information

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