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

Source: Federal Reserve Board of Governors
Spreads still remain elevated.
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

Net percent

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.
Today’s Roadmap

- Financial crisis eases
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- 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

Millions of Loans

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

Source: Federal Reserve Agricultural Finance Databook
Interest rates remain low.

Average Interest Rates
(Tenth Federal Reserve District)

Source: Federal Reserve Bank of Kansas City
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

Source: Federal Reserve Bank of Kansas City
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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

CALIFORNIA MILK COSTS AND PRICES RECEIVED

Source: USDA
Will crop margins remain above 2006 levels?

Crop Net Returns above Variable Costs

Dollars per acre

- Corn
- Soybeans
- Wheat

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)

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

The Fed has expanded its balance sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars

- Short-term Lending to Financial Firms
- Rescue Operations
- Operations Focused on Broader Credit Conditions
- Other Assets
- Treasury Portfolio

Source: Federal Reserve Board of Governors
What is the future path of interest rates?

Fed Funds Rate

Source: Federal Reserve Board of Governors and CME Group
For More Information

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha