Credit Conditions for Rural Businesses and Farm Households
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.

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

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

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

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

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha