Credit Standards, Conditions and Trends
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

Annual percent change

Federal Reserve Projection
Central Tendency

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.

### Average Return on Assets
(Third Quarter)

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<th>2006</th>
<th>2007</th>
<th>2008</th>
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<td>Agricultural Banks</td>
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<td>All Commercial Banks</td>
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<td>Small Commercial Banks</td>
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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

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

Source: Federal Reserve Agricultural Finance Databook
Bankers expected farm capital spending to rise.

**Farm Capital Spending**
(Tenth District)

- **Current quarter-over- previous quarter**
- **Expected three months ahead**

**Diffusion index**

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

Diffusion Index

Average Maturity of Non-Real Estate Loans – U.S. (Right Axis)

Collateral Required Tenth Federal Reserve District (Left Axis)

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

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

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

Value of the Dollar (right axis)
Real Net Exports (left axis)

Source: Bureau of Economic Analysis

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
Will export activity rebound in 2010?

U.S. Agricultural Exports

Billion dollars

Source: USDA
Fewer losses in livestock sectors will support U.S. farm income.

U.S. Livestock Prices and Breakeven Costs

Dollars per hundredweight

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.

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

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

- Minneapolis District
- Kansas City District
- Dallas District

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

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- 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

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.
When will interest rates rise?

Fed Funds Rate and Futures

Percent

- Fed Funds Effective
- Fed Funds Intended
- Fed Funds Futures (Aug. 7, 2009)
- Fed Funds Futures (Oct. 19, 2009)
- Fed Funds Futures (November 30, 2009)
- Fed Funds Futures (Jan 15, 2010)

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

www.kansascityfed.org/omaha