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Credit Conditions for Rural Businesses
and Farm Households

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Credit Conditions for Rural Businesses and Farm Households



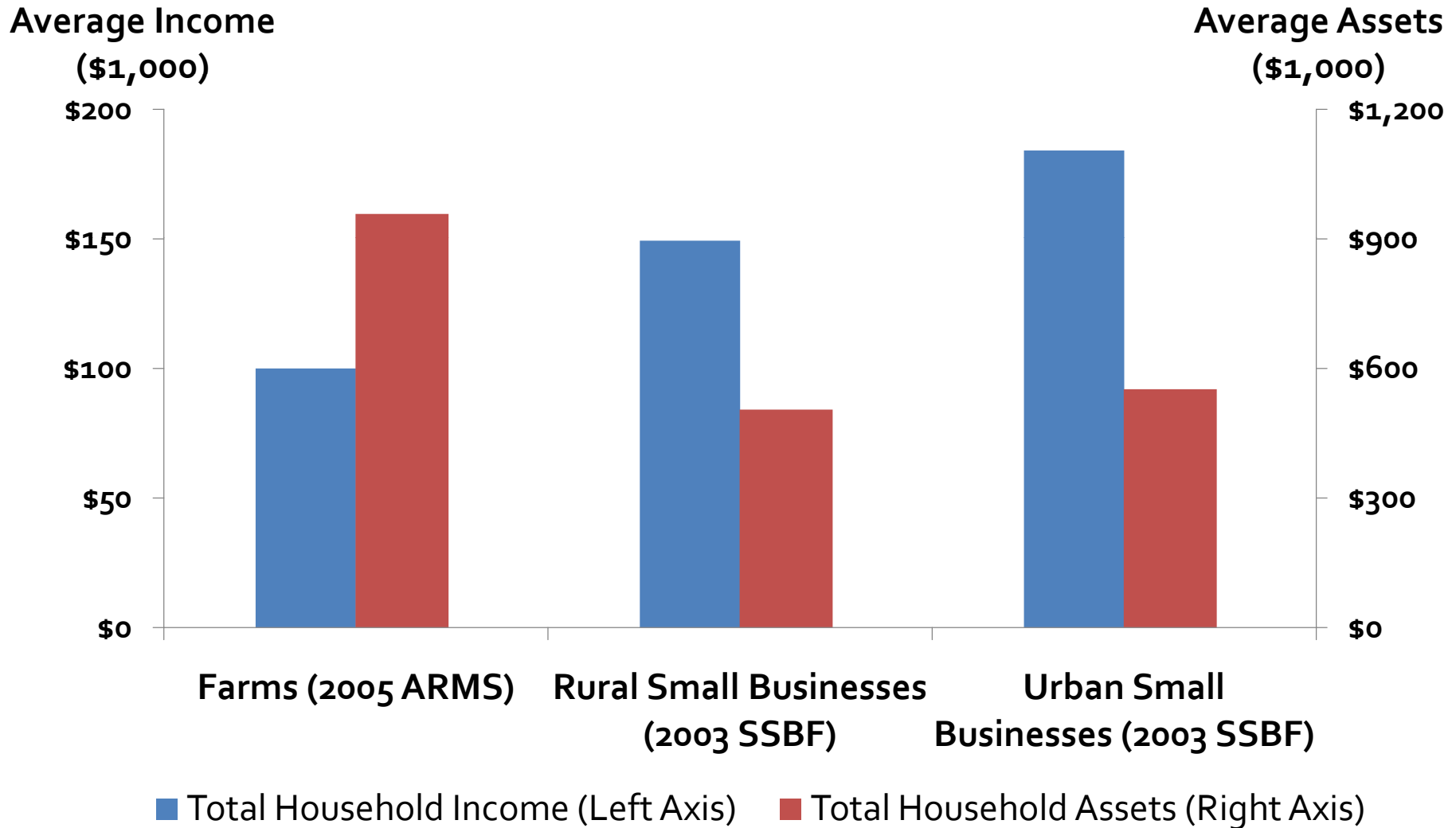
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Federal Reserve Bank of Kansas City or the Federal Reserve System.

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.

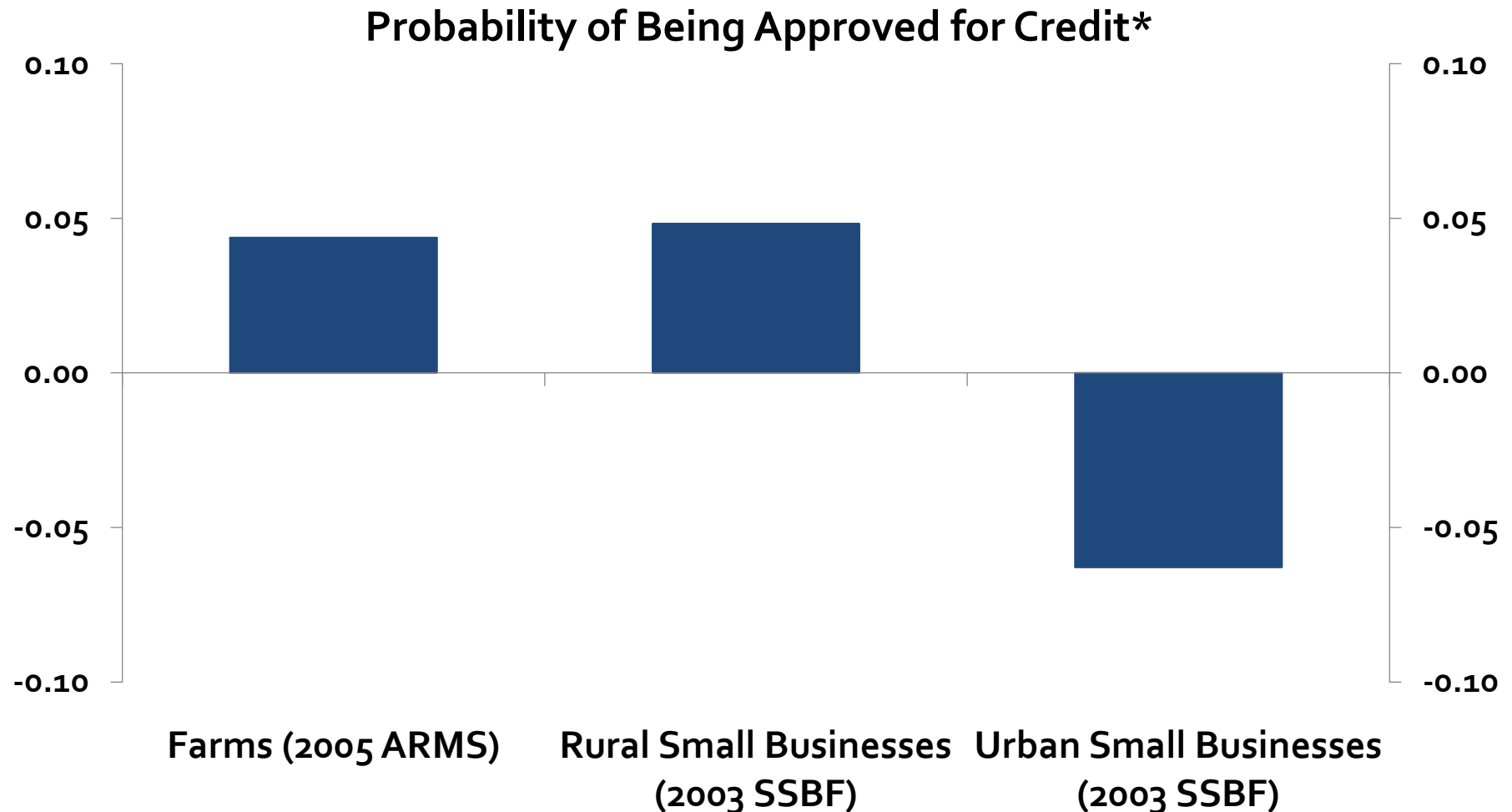


Source: 2005 Agricultural Resource Management Survey (USDA) and 2003 Survey of Small Business Finances (Federal Reserve Board of Governors). Calculations by author.

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



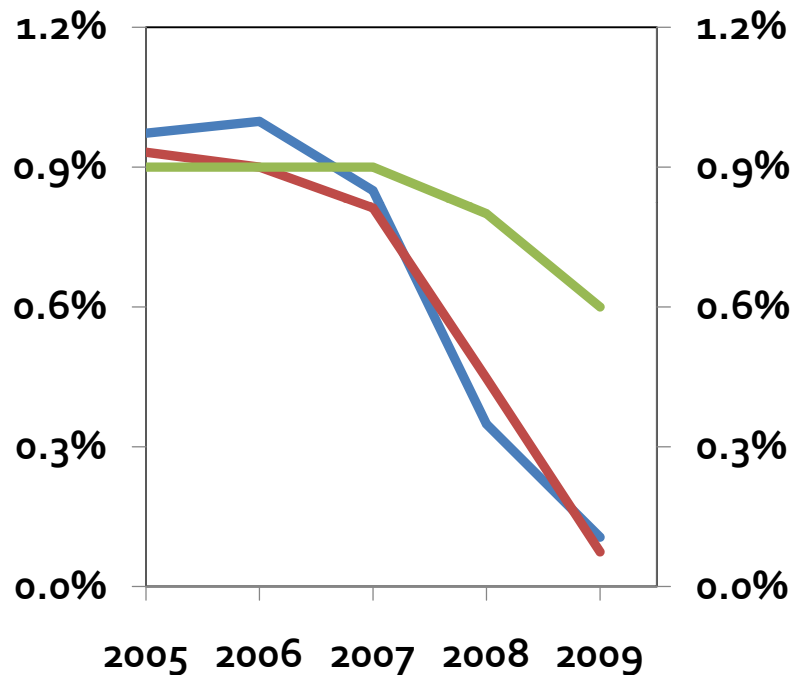
Source: 2005 ARMS (USDA) and 2003 SSBF (Federal Reserve Board of Governors). Calculations by author.

*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.

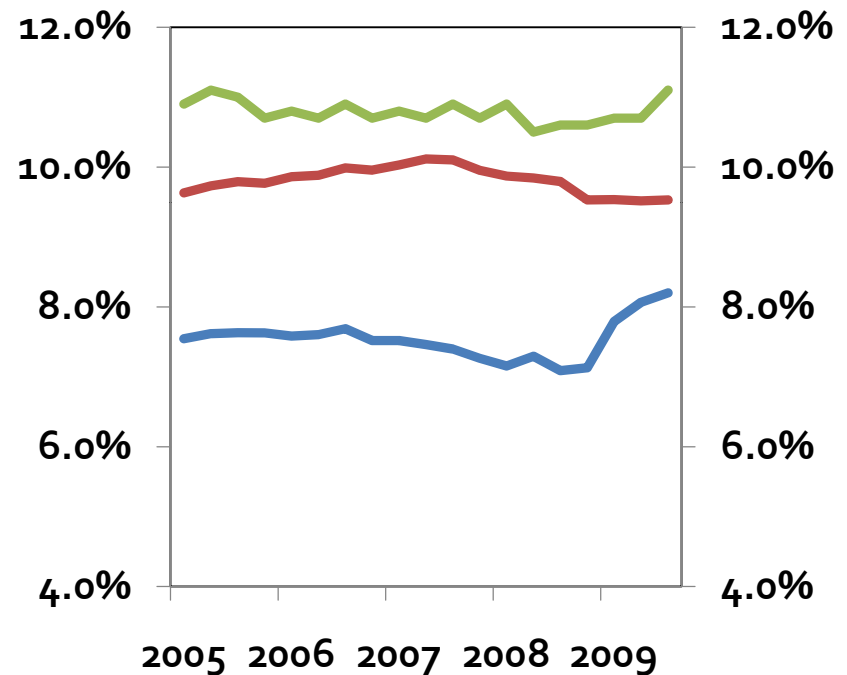
Return on Assets



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

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

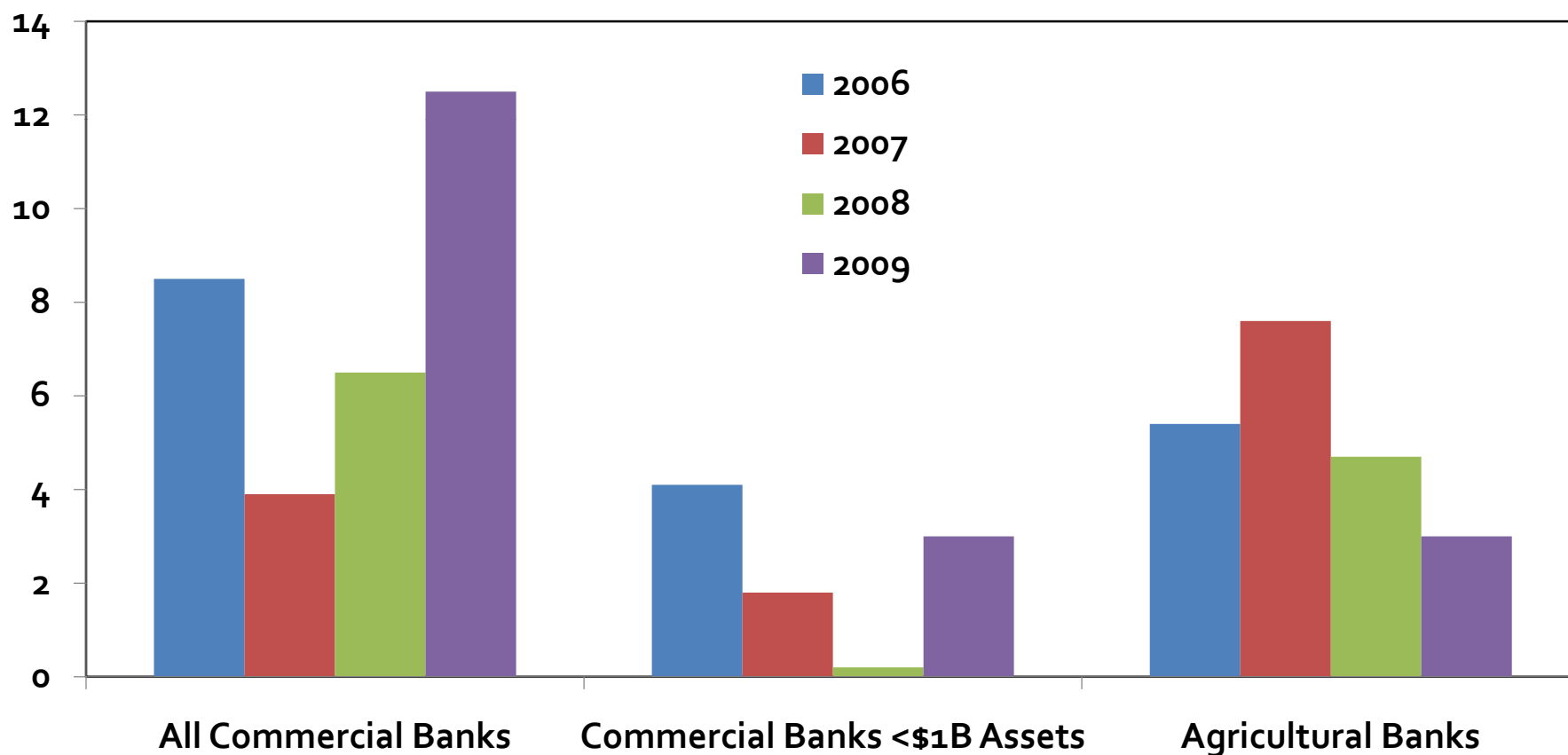
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For many banks, the financial crisis contributed to a significant rise in deposits.

Domestic Bank Deposits (Second Quarter)

Percent change from year ago



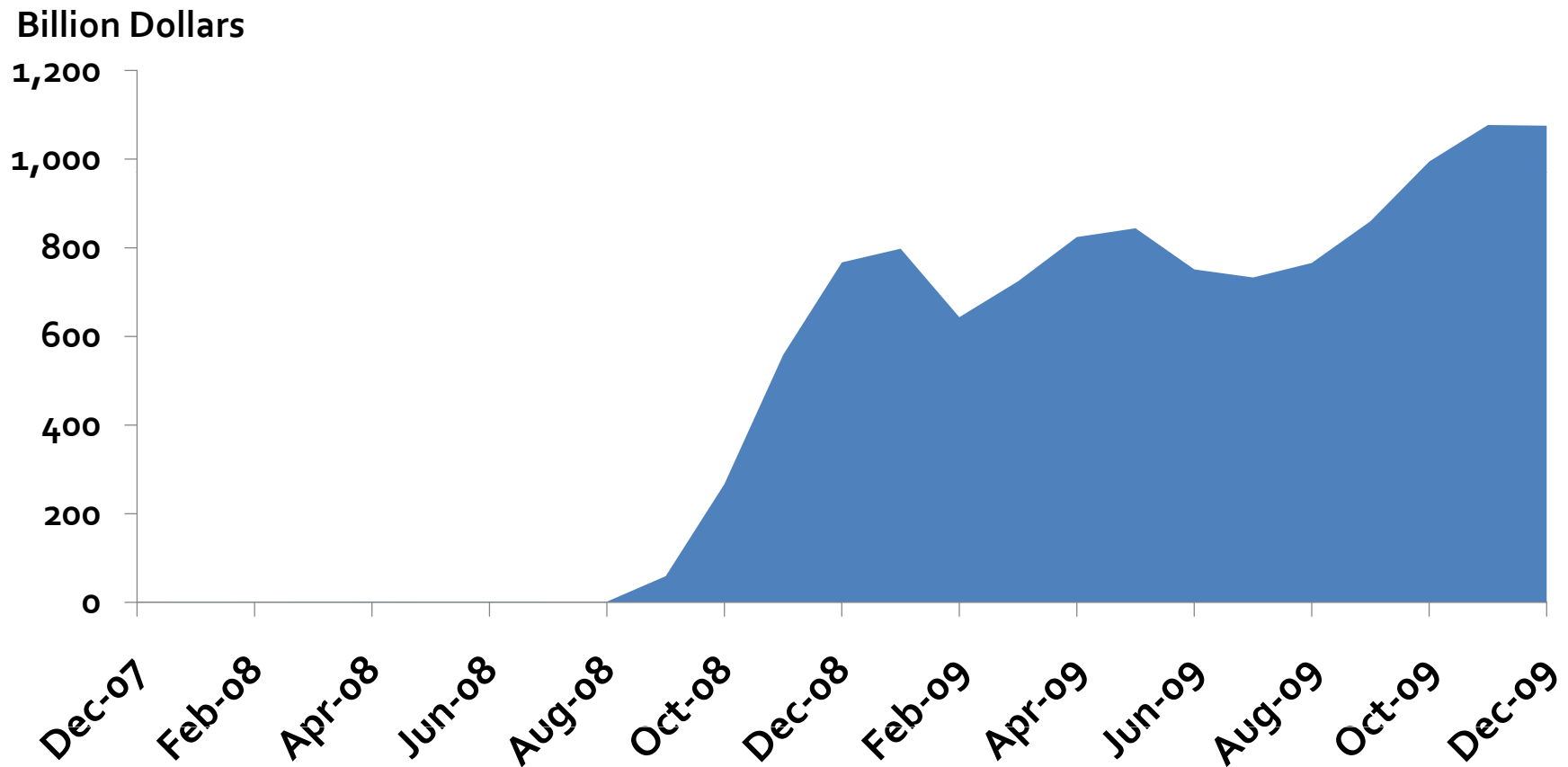
Source: FDIC

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

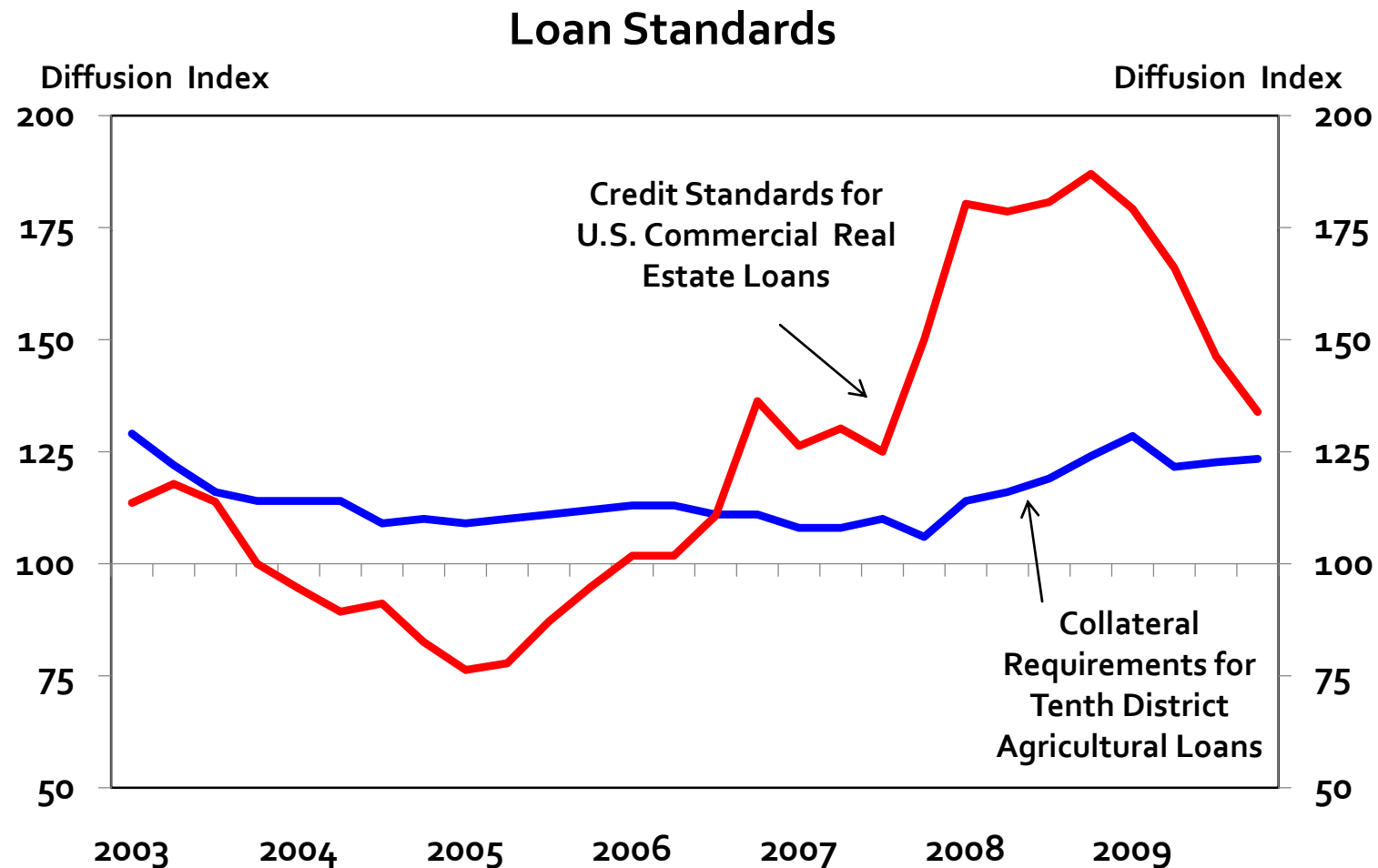
Excess Reserves of Depository Institutions



Source: Federal Reserve Board of Governors



Today, fewer lenders are tightening loan standards.



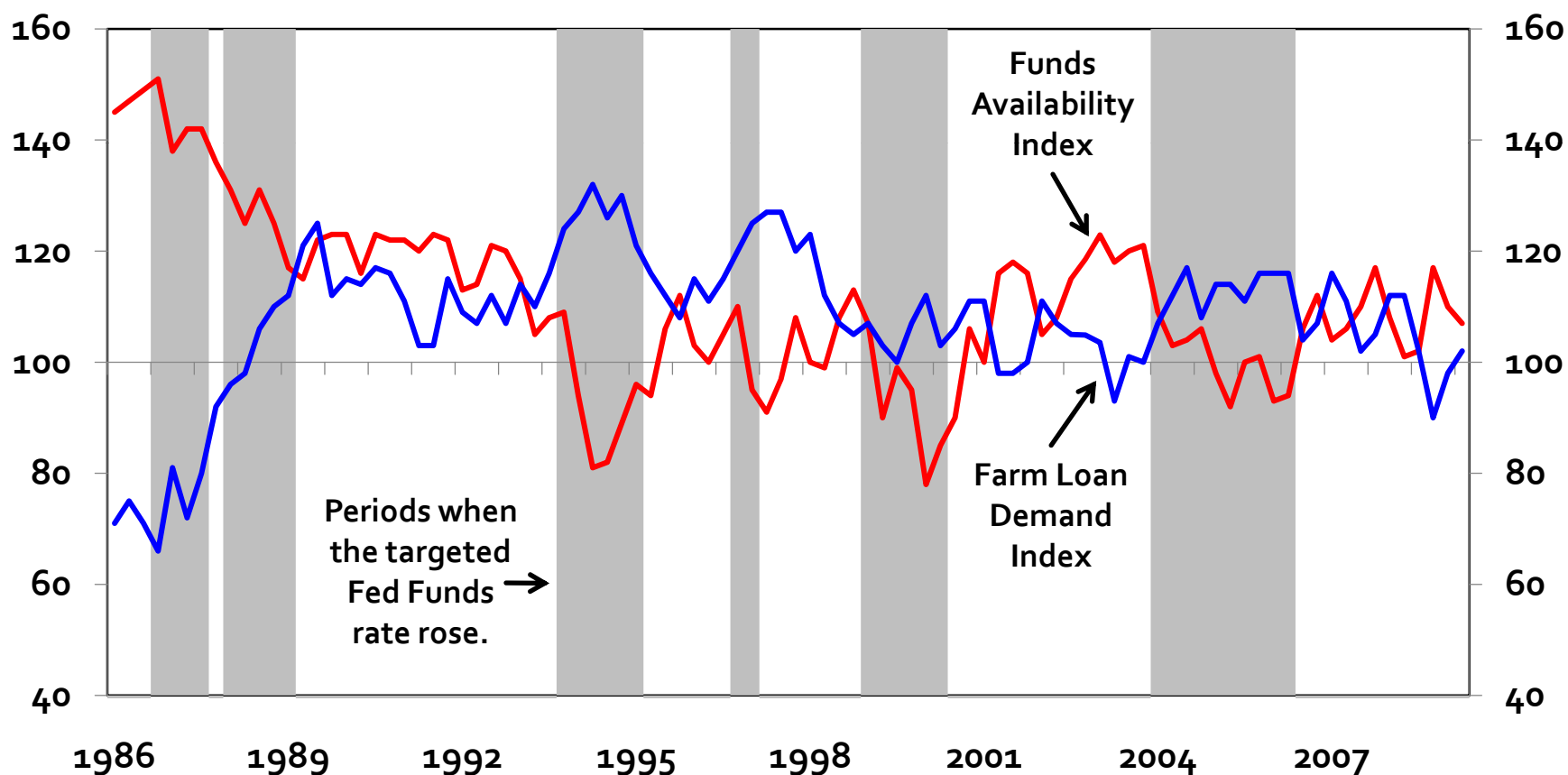
Source: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City

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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?



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