The State of Banking in Kansas

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Plan of talk

--Key features of banking in Kansas
--Current financial condition of Kansas banks and thrifts
--Availability of credit to Kansas businesses and households
--Implications of financial crisis for Kansas banks and thrifts
Key features of Kansas banking

--Commercial banks, thrifts, and credit unions all play important roles in Kansas

--Number of banks and thrifts based in Kansas has fallen sharply over last 20 years, but number of banking offices has risen due to spread of branching
Assets by Type of Banking Institution
June 2009

Percent of total assets

Commercial Banks

Thrists
Credit Union

U.S.

Based in KS
Banking Institutions vs. Banking Offices in Kansas

Total offices (left axis)

Banks and thrifts (right axis)

Banking Institutions vs. Banking Offices in Kansas


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Total offices (left axis)

Banks and thrifts (right axis)
Key features of Kansas banking (cont.)

--Small banks and thrifts are still much more important in Kansas than the nation

--Out-of-state banks are more important in Kansas than 20 years ago, but less important than in nation as a whole
Deposits in Branches of Out-of-State Banks and Thrifts
Midyear

Percent of total

Interstate branching law goes into effect

Share of deposits in branches of Missouri banks and thrifts in June 2008 = 17%
Key features of Kansas banking (cont.)

--As in rest of U.S., services that used to be provided only by banks and thrifts are now also provided by non-bank financial institutions and securities markets
Sources of Consumer Credit in U.S.
Current financial condition of Kansas banks and thrifts

--Average profitability has declined sharply at banks based in Kansas, but so far not as much as in the nation as a whole
--Average profitability has declined less at the state’s thrifts but started from a lower base
--Caveat: as always, statewide averages can disguise differences across areas and institutions
Return on Assets at Thrifts, Kansas vs. U.S.
Current financial condition of Kansas banks and thrifts (cont.)

--Increased loan delinquencies are responsible for most of the decline in profitability in Kansas, just as elsewhere

--The biggest cloud on the horizon for Kansas banks is commercial real estate
Availability of credit to Kansas businesses and households

--Throughout the U.S., banks have become more reluctant to lend due to mounting loan problems and liquidity concerns

--This reluctance to lend has contributed to a slowdown in bank lending, both nationwide and at banks and thrifts based in Kansas
Business Loan Growth at Banks and Thrifts
June over June*

Percent

2007
2008
2009

* Adjusted for mergers

U.S.
Based in KS
Availability of credit to Kansas businesses and households (cont.)

--Since midyear, bank lending to businesses has continued to fall nationwide

--However, banks are not tightening credit standards as much as before, and weaker loan demand may account for some of the recent decline in lending
Total Business Loans Outstanding at U.S. Banks

Business loans fell further in the third quarter
Net Percentage of U.S. Banks
Tightening Credit Standards on Business Loans

Banks are still tightening, but not as much

Note: shaded areas are recessions
Availability of credit to Kansas businesses and households (cont.)

--Good news: Kansas businesses and households aren’t as dependent on out-of-state banks and thus aren’t affected as much by problems at those banks.

--Bad news: Kansas businesses and households will be significantly affected by any further decline in lending by in-state banks.
Availability of credit to Kansas businesses and households (cont.)

--Less credit has also been available from non-bank lenders and securities markets

--There are some tentative signs that credit from these sources may be increasing due to an easing in financial stress and programs such as TALF
Kansas City Financial Stress Index

Previous Peak
October 1998

October 2008
Implications of financial crisis for future of Kansas banking

--The high rate of bank failures nationwide will impose direct costs on Kansas banks and thrifts

--All banks and thrifts will have to chip in to recapitalize the deposit insurance fund, whether or not they behaved prudently
Bank and Thrift Failures*

* Includes open-bank assistance

- S&L and commercial real estate crises
- Ag and energy slump

* Includes open-bank assistance
Deposit Insurance Fund Reserve Ratio

Percent of insured deposits

Deposit Insurance Fund Reserve Ratio
Implications of financial crisis for future of Kansas banking (cont.)

--A bigger concern for Kansas banks is that the concentration of assets in banks considered “too big to fail” will put smaller banks at a competitive disadvantage

--As a result, Kansas banks (and their customers) have a key stake in banking reforms that level the playing field
Percent of Banking Assets Held by Top Four BHCs
Midyear

Year | Percentage
-----|--------------
2005 | 35
2006 | 35
2007 | 38
2008 | 39
2009 | 45
Conclusions

--Kansas banks and thrifts have suffered a marked decline in profits and have cut back lending in response
--Until now, they have outperformed banks and thrifts nationwide, but commercial real estate loans are a concern
--Going forward, Kansas will be best served by a banking industry in which small and large banks both play important roles