FEDERAL RESERVE BANK OF KANSAS CITY

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Residential Rent Affordability across U.S. Metropolitan Areas

By Kelly D. Edmiston

Owner-occupied housing has become more affordable in most markets since the housing crisis. In contrast, many renters and their advocates have reported that rental housing has become increasingly unaffordable. National trends seem to support these reports: from 2010 to 2015, growth in median rent outpaced inflation by 0.6 percent per year. Over the same period, rent growth outpaced income growth by 1 percentage point per year.

However, national data on rent affordability may mask important details about local markets. Affordability—and changes in affordability—vary widely across metropolitan statistical areas. Kelly D. Edmiston examines patterns in rent affordability for both low- and middle-income households and across metropolitan areas. He finds that only a few areas have seen significant changes in affordability over the past five years. These areas typically have small populations and an institution or industry that in some sense dominates the area.

The Dispersion of Farmland Values in the Tenth District

By Cortney Cowley

The value of U.S. farmland has varied widely within and across regions over the last 15 years. Although average farmland values have declined modestly over the past couple of years, farmland values in some areas have fallen sharply, while farmland values in other areas have risen. In recent years, unusually high or low prices at farmland sales have become increasingly likely.

Understanding what drives farmland values across regions can provide crucial information about the financial health of farms. Cortney Cowley examines the effects of soil quality, natural amenities, climate, agricultural production, and other location-specific characteristics on farmland values in the Tenth Federal Reserve District. She finds that better soil quality, more precipitation, and larger corn and cattle sales are associated with higher farmland values, while greater distance from urban areas and higher temperatures are associated with lower farmland values.

Enforcement Actions and Bank Loan Contracting

By Raluca A. Roman

Enforcement actions against banks and their management officials are important supervisory instruments that address rule violations, breaches of fiduciary duty, and unsafe or unsound banking practices. But enforcement actions can be costly for banks. Affected banks are sometimes required to pay fines or spend resources to correct violations. In addition, because enforcement actions are publicly announced, they may carry severe reputational costs.

In response, some banks may offer borrowers loans with lower interest rates and more favorable terms to compensate for the reputational damage. However, other banks may raise interest rates and offer more stringent terms to reduce risk. Raluca A. Roman investigates the effects of enforcement actions on bank loan contracting to discover which effect dominates. She finds that loans initiated after enforcement actions have statistically and economically significantly lower interest rates than loans initiated before enforcement actions. In addition, non-price loan terms such as maturity and covenant intensity become more favorable for borrowers after an enforcement action.

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