

# THE *Nebraska* ECONOMIST

*Economic information for the Cornhusker State*



SPECIAL EDITION

FEDERAL RESERVE BANK OF KANSAS CITY - OMAHA BRANCH

## *Nebraska Banks Outperform National Peers*

*by Rick Lay, Assistant Vice President, and Todd Hirsch, Manager, Examinations and Inspections*

### EXECUTIVE SUMMARY

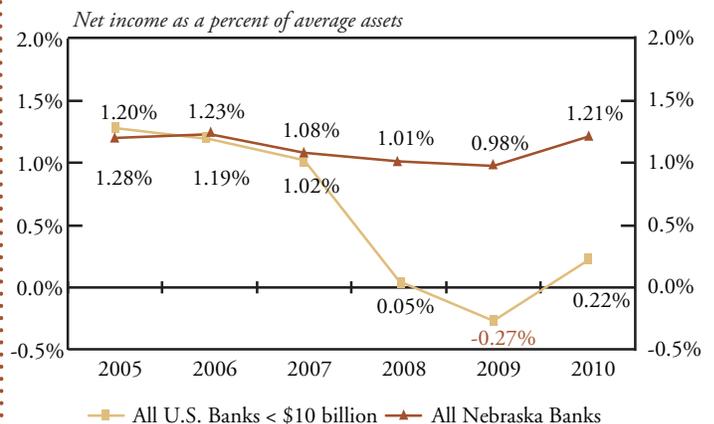
Since 2008, a booming farm economy and less exposure to weak real estate markets shaped profits at Nebraska banks. Compared to similar-sized national peers, Nebraska banks have more loans to the agricultural sector. In addition, Nebraska bank loan portfolios were less concentrated in troubled housing and commercial real estate markets. With this combination, earnings at Nebraska banks were more than four times higher than banks nationwide in 2010.

The outlook for Nebraska's banks remains promising. Fueled by a robust economy and low unemployment rates, problem assets are poised to remain low at Nebraska banks. In addition, Nebraska banks have strong capital positions. Going forward, stronger agricultural, real estate and labor markets in Nebraska should solidify loan demand and strengthen loan portfolios. Yet, surging farmland values and volatile commodity prices raise concerns about a farm real estate market correction if prices swoon.

### BANK EARNINGS

Nebraska banks posted stronger earnings and were more financially resilient during the recession and recent recovery. While profits at Nebraska banks softened during the recession, net income as a percent of assets held near 1 percent (Chart 1). For 2010, earnings edged up to pre-recession levels of 1.21 percent and remained well above the earnings at banks nationwide. Nationally, improved earnings were derived largely from lower provisions to cover losses from problem assets.

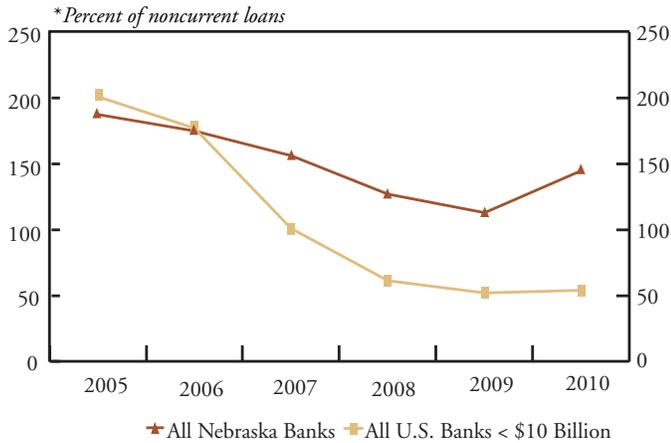
Chart 1  
U.S. and Nebraska Bank Earnings



Source: Reports of Condition and Income

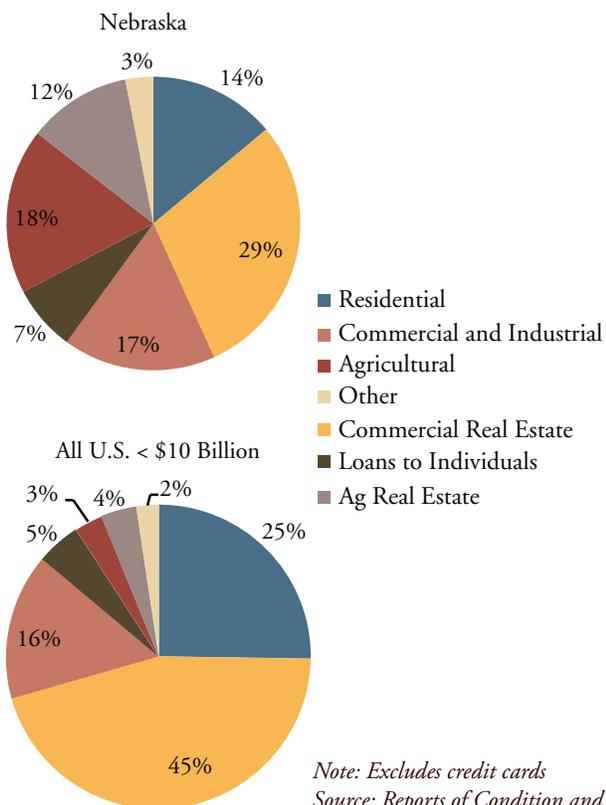


**Chart 2:**  
Allowance for Loan & Lease Losses at U.S.  
and Nebraska Banks



\* Noncurrent are loans 90+ days past due + nonaccrual loans  
 Source: Reports of Condition and Income

**Chart 3:**  
Loan Portfolios at U.S. & Nebraska Banks



## LOAN LOSSES AND LOAN PORTFOLIOS

Stronger earnings at Nebraska banks were fueled by fewer problem assets. Capital provisions to the allowance for loan and lease losses (ALLL) were lower for Nebraska banks when compared to their national peers. Since 2006, due to fewer problem loans, the ALLL coverage of loans that are not current at Nebraska banks has remained above 100 percent, more than double national levels (Chart 2). The ALLL as a percent of noncurrent loans strengthened further in 2010 with stronger banking conditions in Nebraska.

Profits at Nebraska banks were driven by their loan portfolios. Nebraska banks had more loans to a booming farm economy than their national peers (Chart 3). Almost a third of the loans at a Nebraska bank are agriculture loans, compared to roughly 7 percent of loans nationally. In addition, Nebraska banks had much less exposure to housing and commercial real estate markets. Residential loans comprised less than 15 percent of Nebraska bank loans, compared to a quarter of the loans at banks nationwide. Commercial real estate loans accounted for less than a third of Nebraska bank loans, compared to almost half of the loans nationwide. Moreover, stronger housing and commercial real estate markets in Nebraska lifted Nebraska's bank performance.

Led by a booming farm economy, the outlook for Nebraska banks is promising. Rising commodity prices and stronger farm incomes, which have strengthened activity on Main Street, spurred a rise in capital spending and record farmland values recently. However, risks do remain. Softer farm incomes or a correction in farmland values are a risk in volatile commodity markets. With agriculture accounting for nearly a third of total lending at Nebraska banks, an economic downturn in agriculture could weaken loan performance at many agricultural banks, especially in Nebraska's rural communities.