KBA
Kansas Bankers Association

Date: August 12, 2020

To: 2020 Special Committee on Economic Recovery

From: Alex Orel, SVP-Government Relations

Kansas Bankers Association

Re: Impact of COVID-19 on Business

Madam Chair and Members of the Committee:

I am Alex Orel appearing on behalf of the Kansas Bankers Association (KBA), which was organized in 1887 and whose membership includes 99% of the 220 banks and savings & loans headquartered in Kansas. Our membership also includes 19 out-of-state commercial banks operating in Kansas. The Kansas banking industry employs more than 14,700 Kansans that provide financial services across the state. Our organizational mission statement is: ***"Together we support our member banks and bankers with leadership, advocacy and education to benefit the communities and customers they serve."***

I am here today to speak to the impact the pandemic and associated shutdowns and restrictions have had on the businesses that are financially served by the banking industry. While we do not have an economist on staff, I think I can provide relevant information by reviewing what we have been hearing from our KBA-member banks and the challenges they see for their customers and the communities they serve.

- Kansas currently ranks 6th nationally in new Chapter 12 farm bankruptcies with filings increasing nationally 23% from the previous year-to-year data provided by American Farm Bureau. This marks the 5th consecutive year of increased farm bankruptcy filings.'

- We have been communicating regularly with bank CEOs from across Kansas and have heard that the range of ag producers with negative cash flows now will range from 15% to 40%.

- The Paycheck Protection Program has served its purpose of providing short-term financial aid to many small businesses in Kansas as $5 billion was deployed to 53,000 businesses which has helped preserve more than 500,000 jobs. However, that program does not address the long-term financial needs of business borrowers. PPP was also not conducive for the majority of many ag producers.

- Kansas City Federal Reserve President Esther George stated back in May that the restaurant and hospitality sector may take up to 3-5 years to fully recover.

- Downtown storefronts designated as "non-essential" were shuttered while their larger competitors continued to operate as they offered services deemed "essential" or had an internet presence. Many of these businesses will not re-open.

- Commercial real estate values have become volatile with many small businesses shuttered and the expectation that remote working habits will cause a glut in the market for office space.

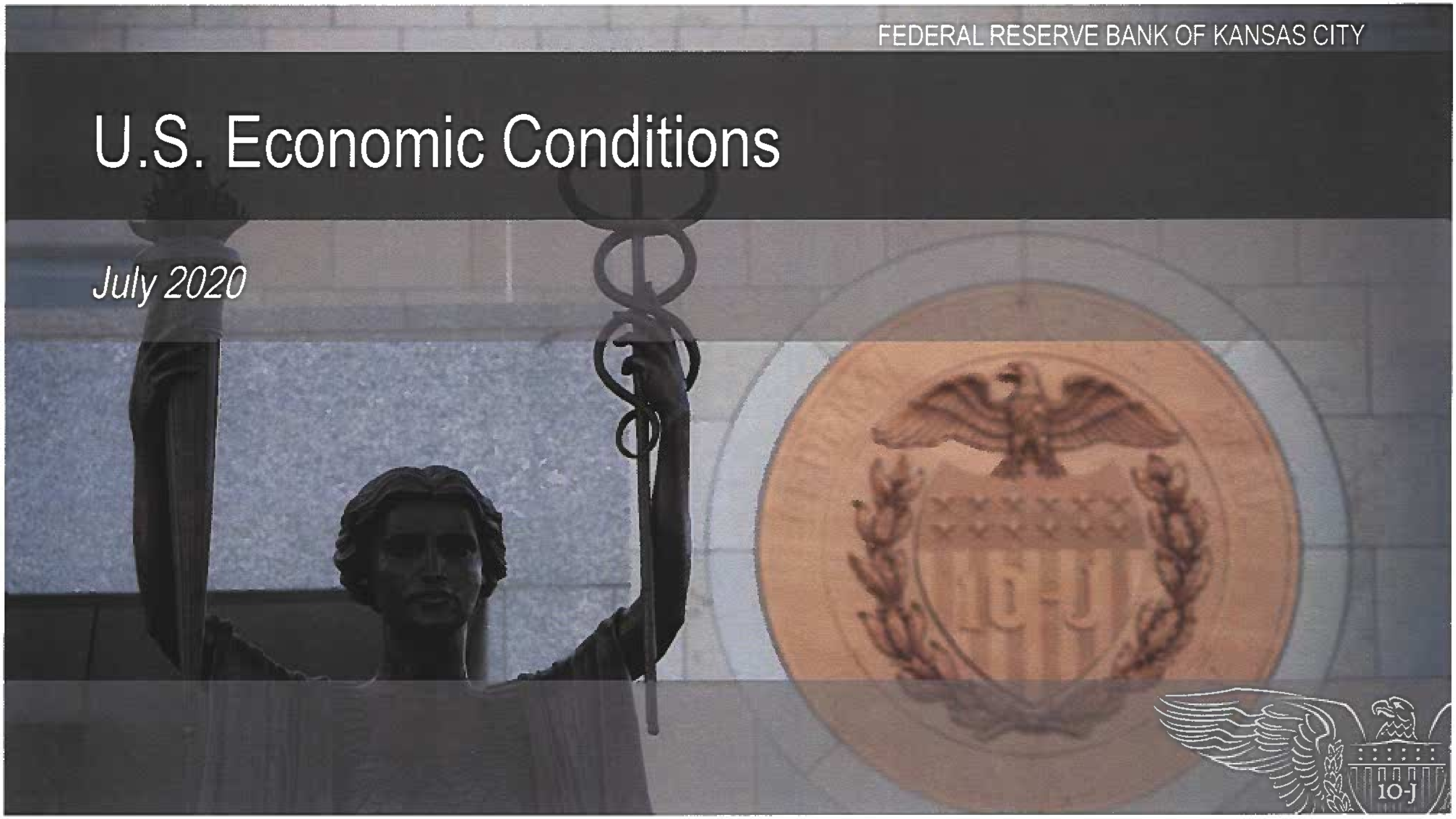
- The aviation industry is struggling as people continue not to travel due to health precautions and/or fear that they will be quarantined after they return.

- The tourism industry and local convention & visitors bureaus are doing everything they can to survive as large gatherings, conferences and sports events are being cancelled.

On May 12th, Federal Reserve Board Chairman Jay Powell was quoted, "There is a sense, growing sense I think, that the recovery may come more slowly than we would like." Chairman Powell also stated, "The loss of thousands of small and medium-sized businesses across the country would destroy the life's work and family legacy of many business and community leaders and limit the strength of the recovery when it comes. These businesses are a principal source of job creation—something we will sorely need as people seek to return to work. A prolonged recession and weak recovery could also discourage business investment and expansion, further limiting the resurgence of jobs as well as the growth of capital stock and the pace of technological advancement. The result could be an extended period of low productivity growth and stagnant incomes."

The Federal Reserve Bank of Kansas City is an amazing resource that we rely on for data for economic activity. We would encourage the members of this committee to look at the attachments of this testimony produced by the Fed and to also sign up for their alerts on their website www.kansascityfed.org . You can receive information and data on agriculture, manufacturing, energy, housing and so much more.

There is no doubt that the uncertainty caused by the pandemic has changed behaviors. The pandemic has chosen winners and it has chosen losers. We are here to let this committee know that the banking industry has capital available and stands ready to assist business customers. That said, bankers across the state tell us that there are not many businesses today that are in a position to take on more debt. The SPARK Committee's advancement of a business grant idea is very appealing to these businesses and the banking industry also stands ready to assist in deploying those dollars to customers.


FEDERAL RESERVE BANK OF KANSAS CITY
U.S. Economic Conditions
July 2020

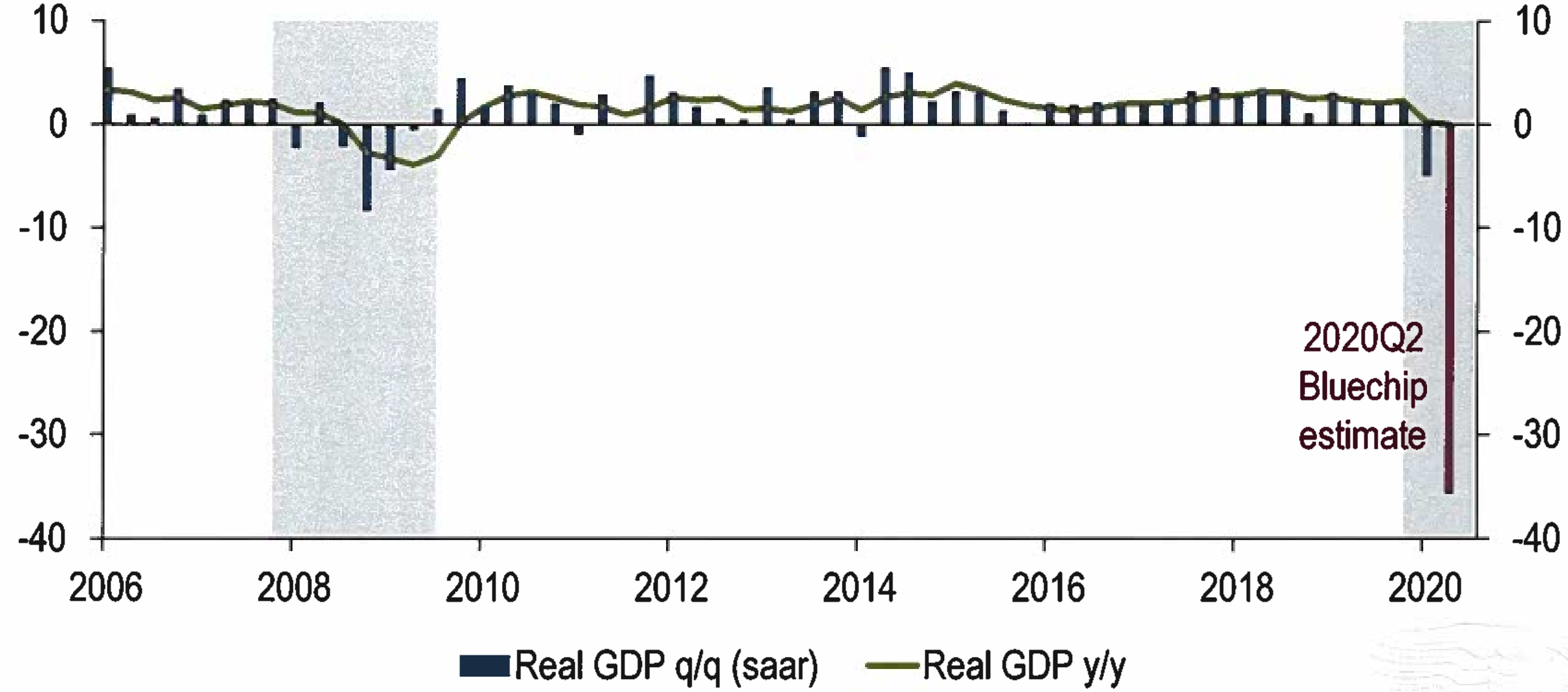
Outlook themes

- Multiple indicators suggest that economic activity bottomed out in April, with more recent measures showing a pick-up in activity.

- However, activity has not fully rebounded and likely will not for quite some time.

- Fed and fiscal policy action appear to have helped reduce financial stress, but measures of stress remain elevated.

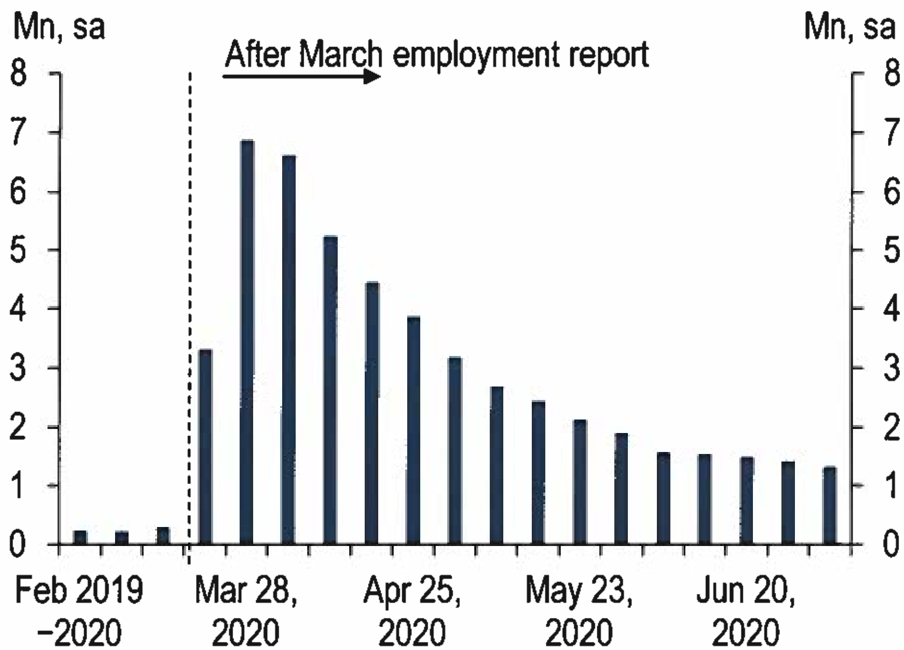
U.S. GDP declining at an unprecedented pace



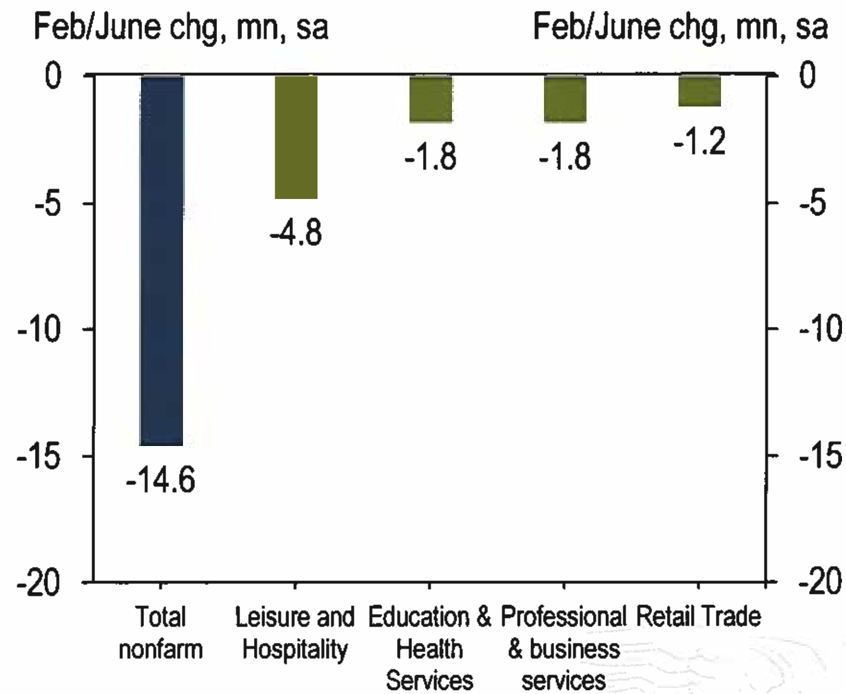
Sources: BEA, NBER, Wolters Kluwer, Haver Analytics
Note: Grey bars represent recession shading

Job losses continue, but at a slower pace relative to March

Unemployment Insurance Initial Claims

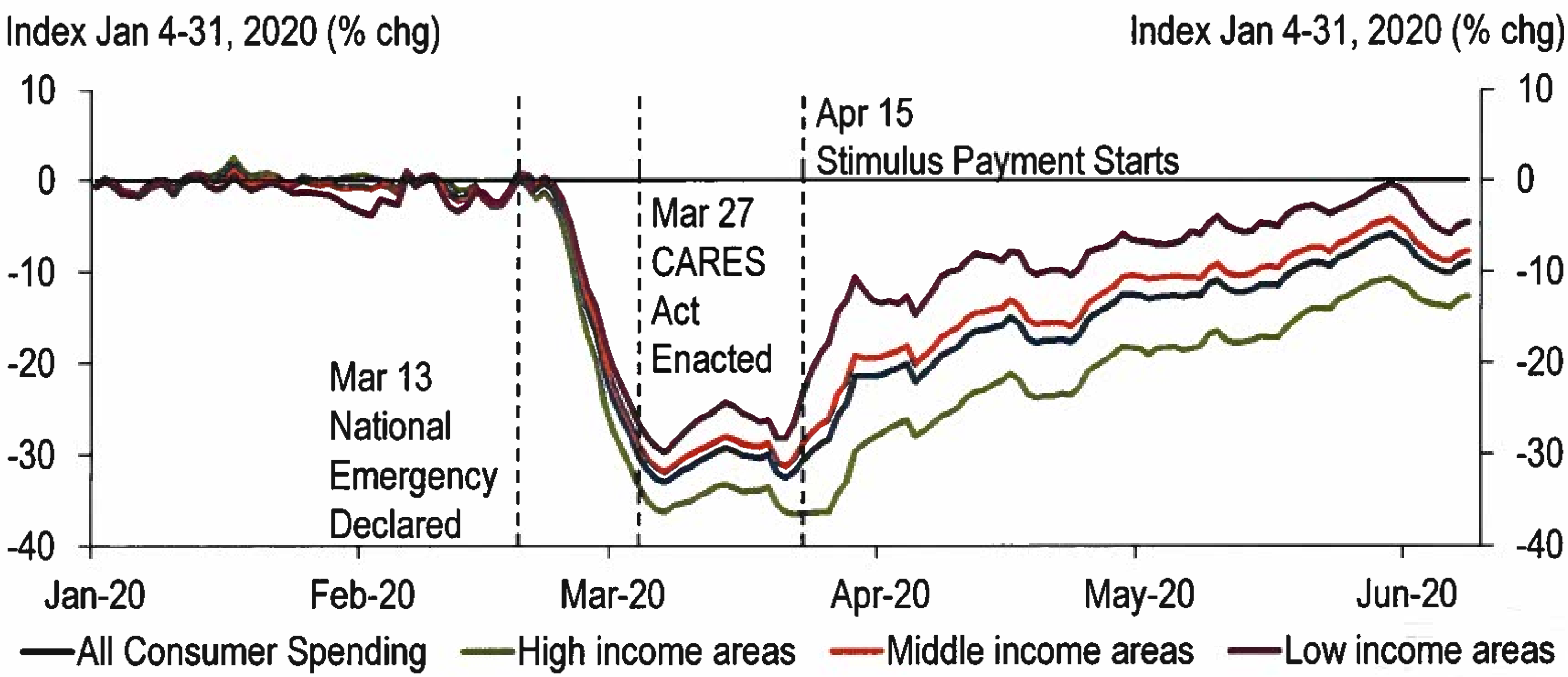


Cumulative Payroll Change by Industry



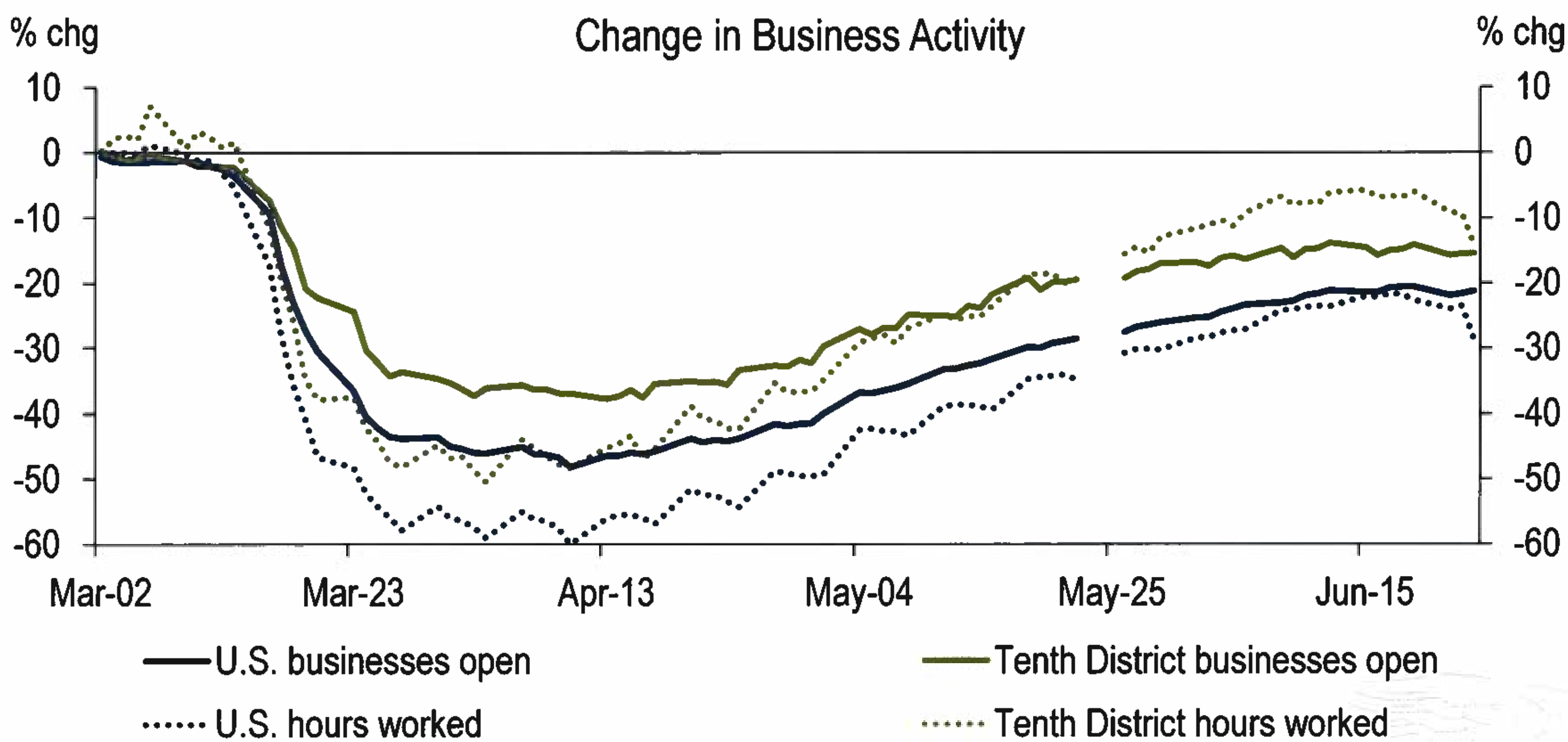
Sources: BLS, Department of Labor, Haver Analytics

Consumer spending has increased, but remains below pre-pandemic levels



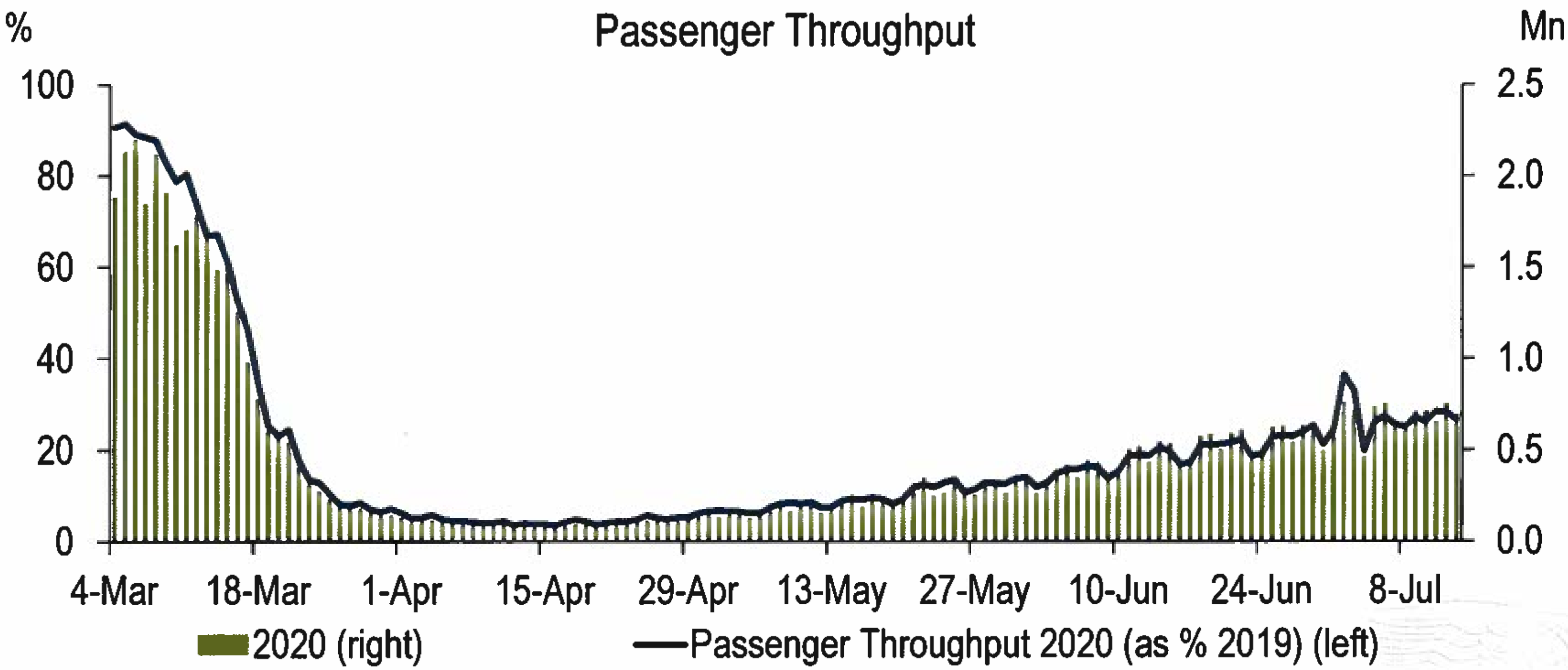
Sources: Affinity Solutions, Opportunity Insights Economic Tracker

The same is true for broad measures of business activity



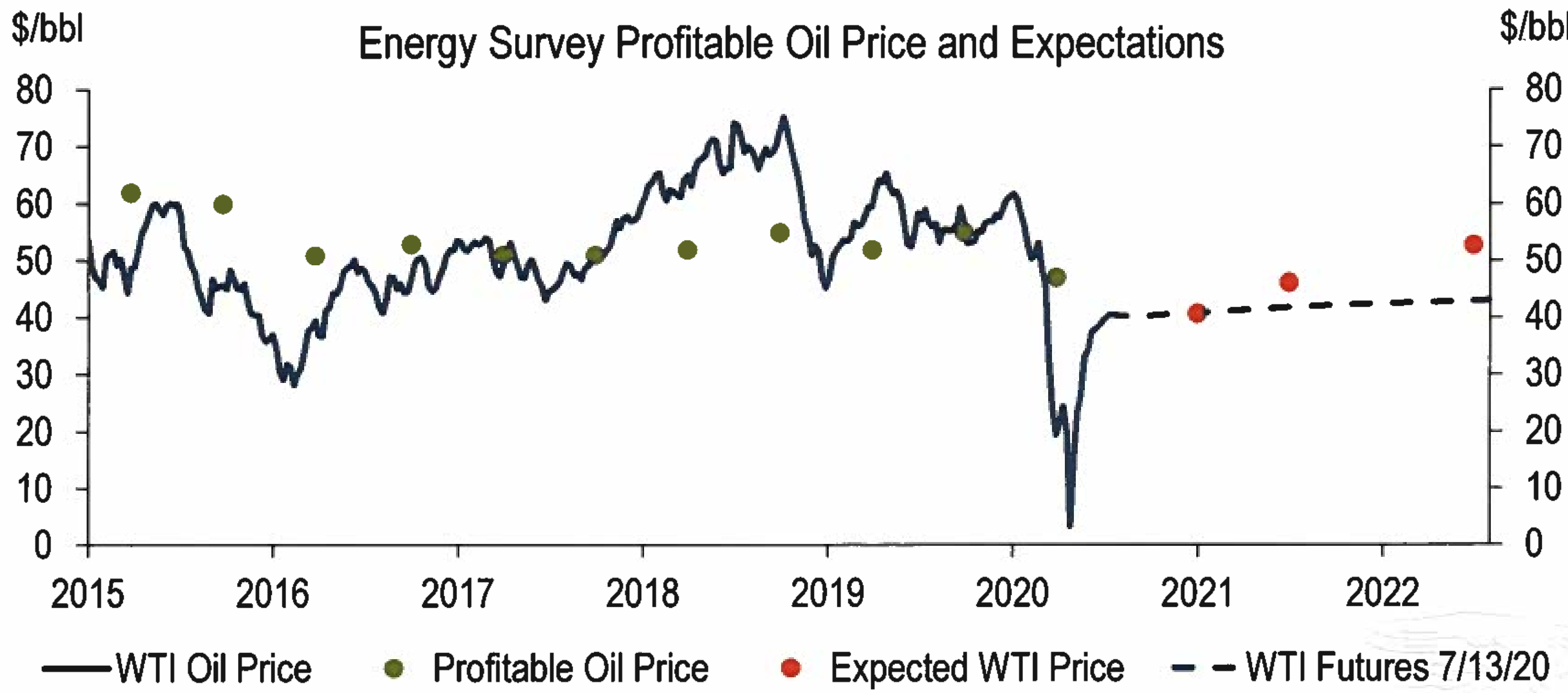
Sources: Homebase, Haver Analytics

Transportation activity has been slow to improve, weighing on fuel demand



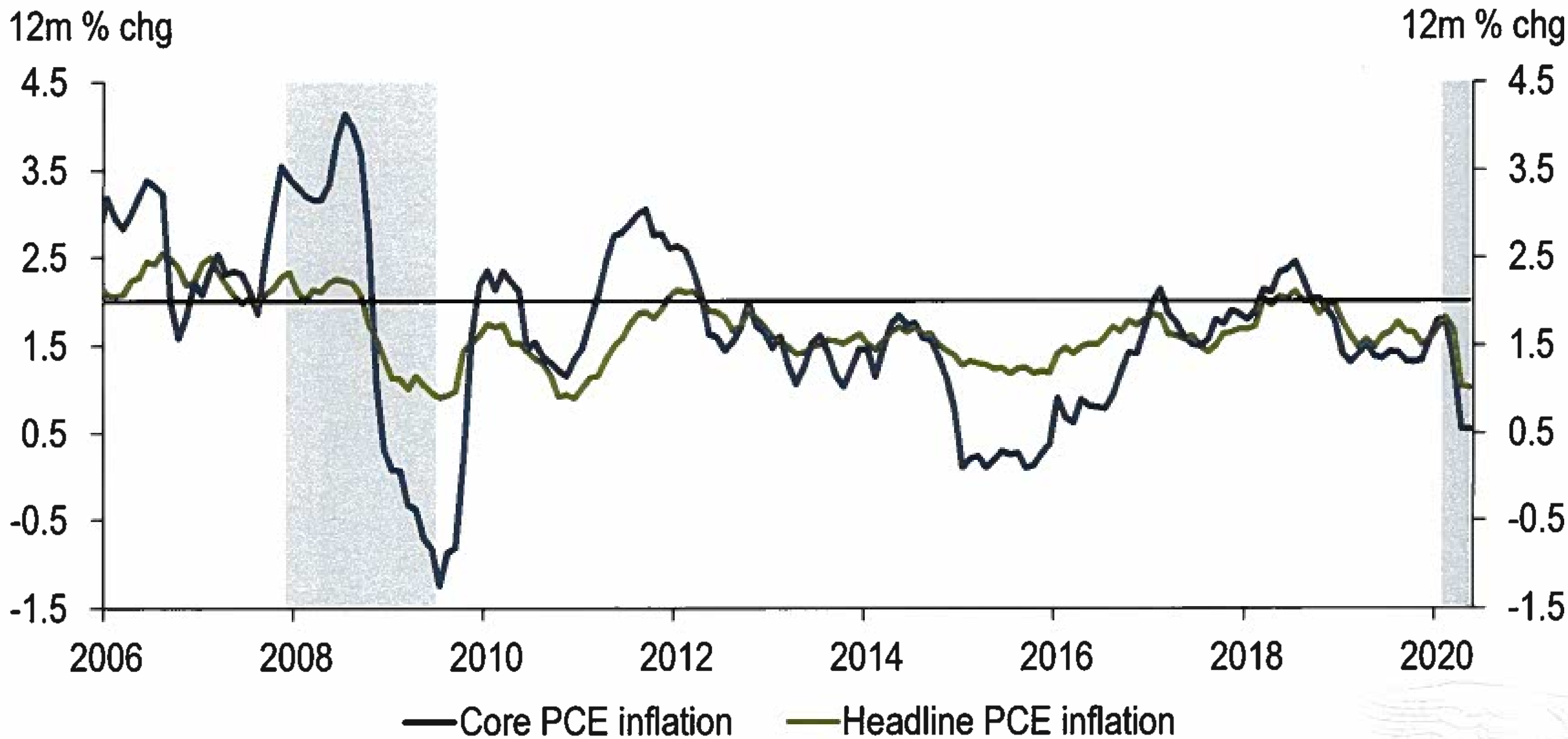
Sources: TSA

Oil remains under pressure from the global imbalance of supply and demand



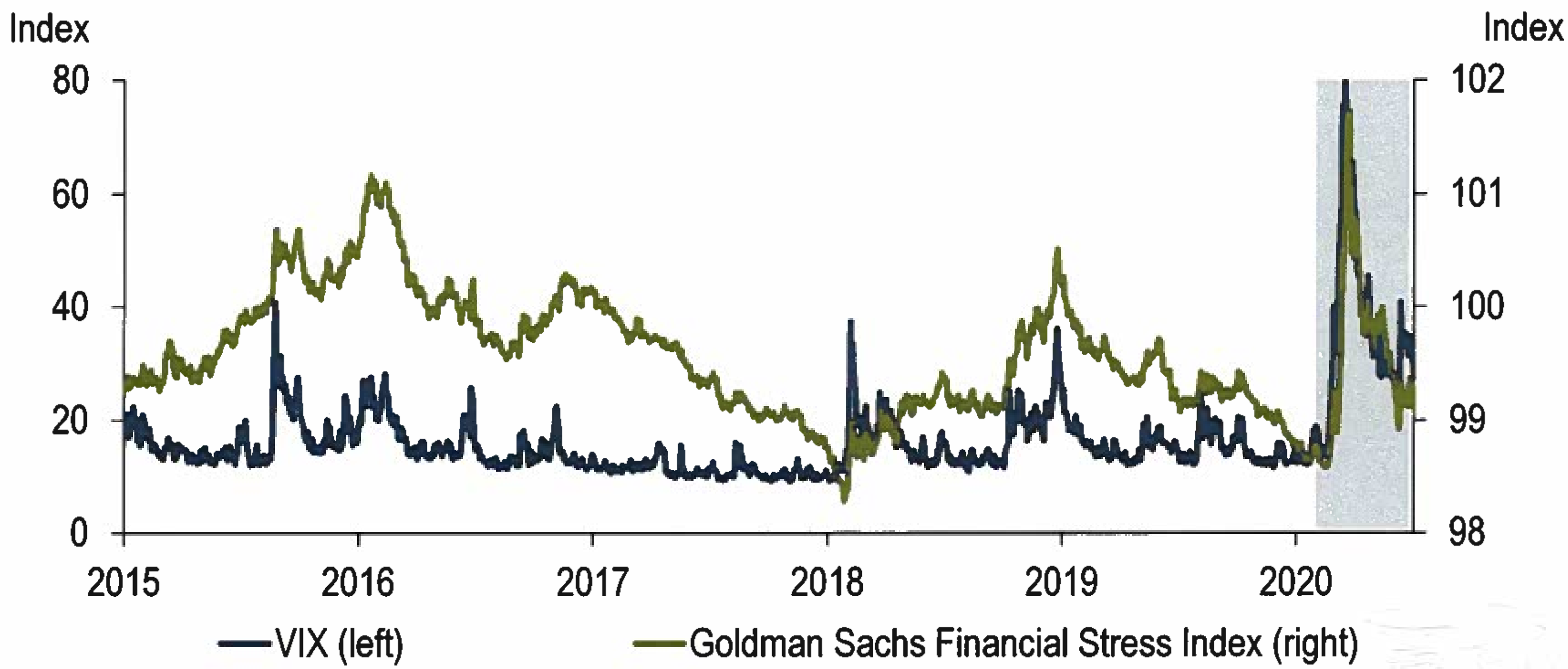
Sources: Bloomberg, EIA, FRBKC Energy Survey, Haver Analytics

Inflation is likely to remain subdued in the near term



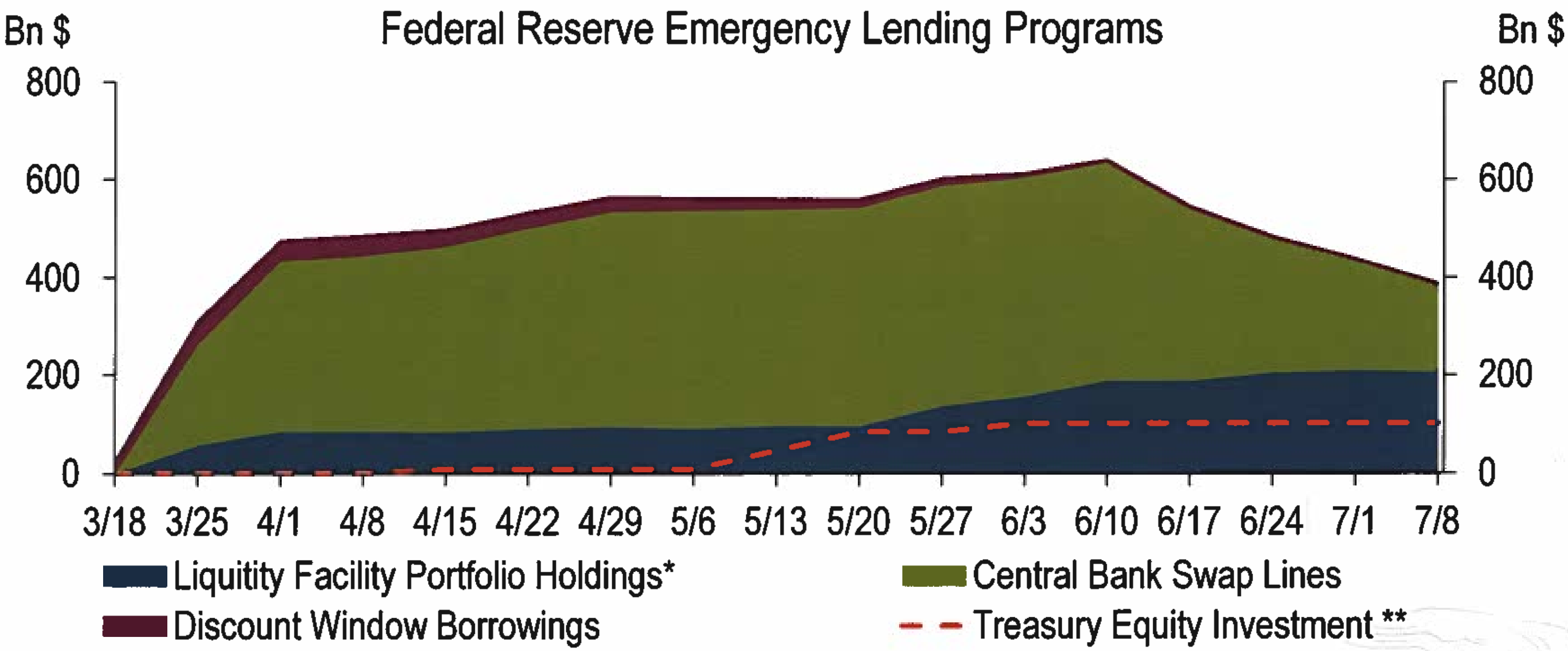
Sources: BEA, NBER, Haver Analytics
Note: Grey bars represent recession shading

Fed and fiscal policy actions appear to have helped reduce stress in financial markets



Sources: Wall Street Journal, Goldman Sachs, Haver Analytics
Note: Grey bar represents recession shading

Holdings in emergency lending programs are relatively stable



Sources: Federal Reserve Board

Notes: *Liquidity facility portfolio holdings include: CPFF, PDCF, MMLF, FIMA, PPP, Corp Credit, TALF, Main Street, and Municipal Liquidity Facilities.
**The Treasury plans an additional $10 billion investment in the TALF program that has not yet been recorded, guarantees all loans purchased under the PPP

Looking forward

- Some areas have paused reopening plans after recent spikes in COVID-19 cases.

- As a result, the economic recovery is uncertain and likely to be choppy.

- It is too early to tell how much additional take-up there might be in emergency lending programs.

FEDERAL RESERVE BANK OF KANSAS CITY | JULY 16, 2020

kcFED *Ag Finance* DATABOOK

Agricultural Lending Consistently Slower

and

Farm lending slowed alongside the initial effects of the pandemic and a more pessimistic outlook for agricultural economic conditions. The volume of total non-real estate farm loans continued into a yearlong trend of declines during the second quarter of 2020. The slowdown in lending generally was consistent across all types of loans. Delinquency rates on farm loans increased at a steady pace through the first quarter and agricultural credit conditions remained weak. Recently implemented government lending programs (Paycheck Protection Program (PPP) and Economic Injury Disaster Loans) likely supplemented the financing needs of some producers while direct aid payments may help offset declines in farm revenues in 2020.

Data & Information

Historical Data | Tables | About | Archive

Conclusion

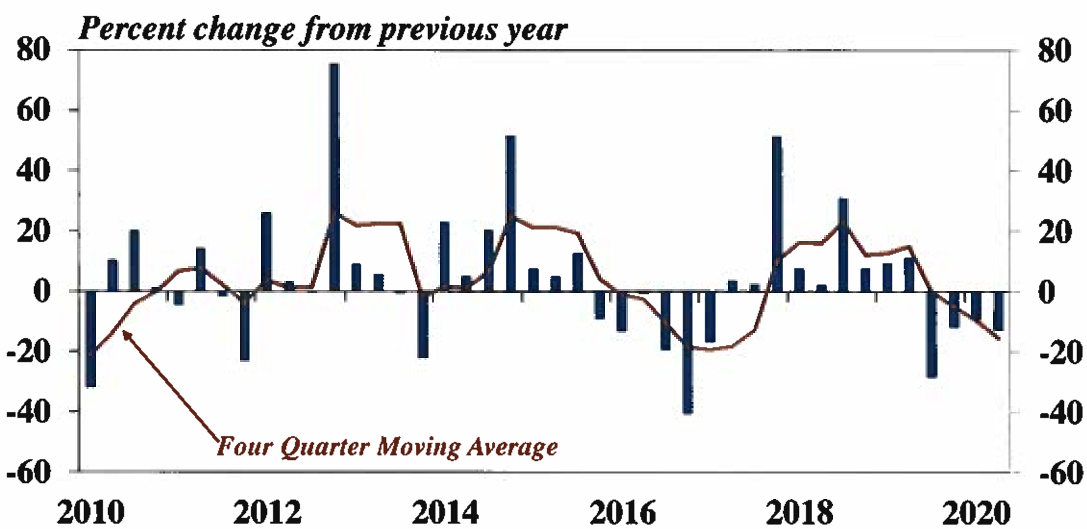
Agricultural lending at commercial banks appeared to soften further in the second quarter amid the ongoing pandemic. Financing secured through recent government lending programs likely supported the borrowing demands for some producers. However, a weak outlook for agricultural sector amid low commodity prices in the second quarter likely also weighed on lending activity. Delinquency rates on farm loans trended higher at a steady pace and there have been some signs of further liquidity stress among farm borrowers. Government payments in the agricultural sector appear likely to limit the severity of financial stress among farm borrowers in the coming months, but uncertainty about longer-term prospects is likely to remain elevated.

[1] All outstanding agricultural loans previously held by Rabobank N.A. no longer are included in commercial bank reporting as of Sept. 31, 2019. Above charts exclude Rabobank N.A. from all previous periods. Data reported in Section B of Agricultural Finance Databook are not adjusted.

Section A – Second Quarter National Farm Loan Data

Agricultural financing activity slowed in the second quarter, according to the Survey of Terms of Lending to Farmers. The volume of total non-real estate loans declined for the fourth consecutive quarter, decreasing about 13% from a year ago (Chart 1). Over the past year, lending activity has declined at an average rate of over 15%. This measure of farm lending excludes loans provided to producers through the Small Business Administration (SBA) PPP, which may have replaced traditional financing for some borrowers and supplemented existing operating lines for others.

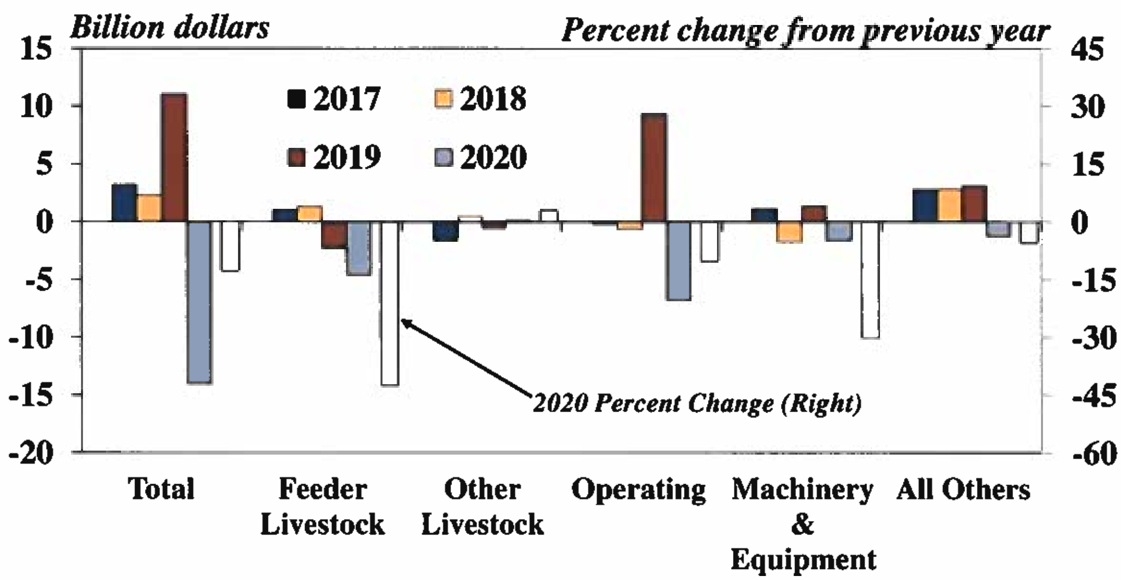
Chart 1: Total Non-Real Estate Farm Loans



Source: Agricultural Finance Databook, Table A.3.

The overall reduction in lending was driven by a decrease in loans for nearly all purposes. While operating loans accounted for the largest share of the total decline in volume, the decrease in feeder livestock loans, in percentage terms, was notably more than other types of loans (Chart 2). Alongside sharp declines in cattle and hog prices during recent months, feeder livestock loans declined more than 40% from a year ago, compared with a 10% decrease in operating loans.

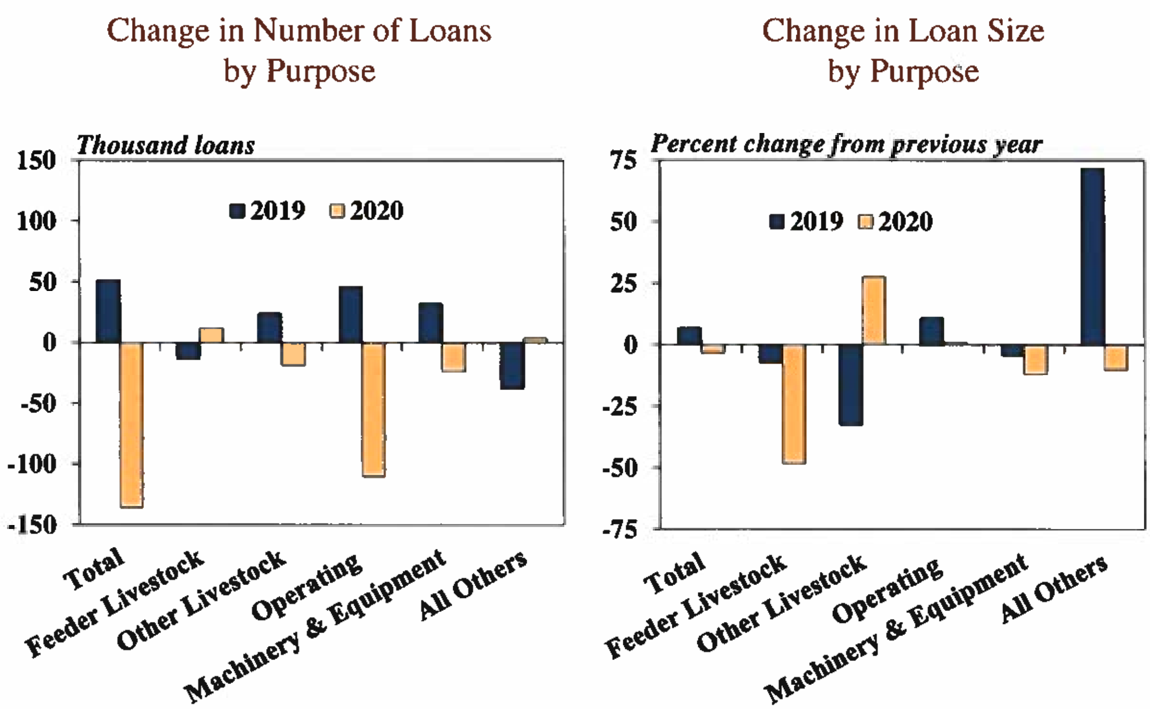
Chart 2: Change in Non-Real Estate Loans by Purpose, Second Quarter



Source: Agricultural Finance Databook, Table A.3.

The decline in non-real estate lending also was attributed to a drop in the total number and average size of loans. The overall decrease in the number of loans was due largely to fewer operating loans being originated (Chart 3). In contrast to other types of loans, the number of loans for feeder livestock increased from a year ago. However, the average size of feeder livestock loans was nearly 50% less than a year ago.

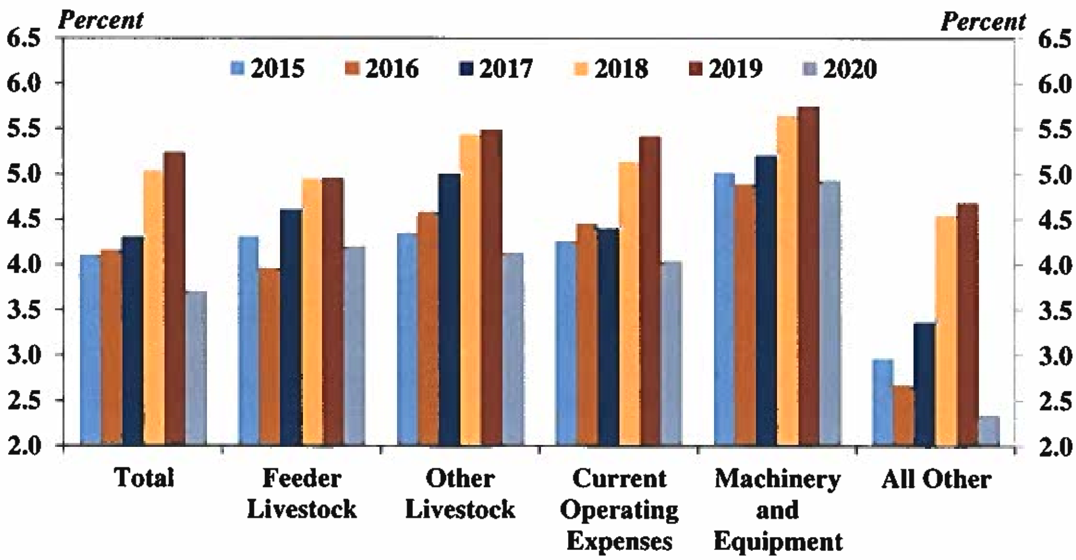
Chart 3: Non-Real Estate Farm Loans, Second Quarter



Source: Agricultural Finance Databook, Tables A.1. and A.2.

Interest rates on non-real estate loans decreased alongside a decline in benchmark rates. The average rate charged on all types of non-real estate loans neared historical lows in the second quarter (Chart 4). The rate charged on operating notes and loans for other livestock dropped at a slightly faster pace than other types. Overall, the average effective rate on non-real estate loans decreased by more than 150 basis points when including loans for unspecified purposes, which typically garner lower rates.

Chart 4: Interest Rates on Non-Real Estate Farm Loans by Purpose, Second Quarter



Source: Agricultural Finance Databook, Table A.5.

A portion of loans reported during the weeklong survey period in early May were secured through the PPP. Banks participating in the survey reported PPP loans totaling about $90 million to nearly 1,000 individual borrowers in 39 states (Table). The volume of PPP loans captured in the survey represented less than 2% of the total approvals for the agricultural sector reported by the SBA as of June 30. While some producers that had secured annual borrowing lines prior to implementation of the program likely were unable to qualify for the program, others likely were able to utilize the funds for eligible expenses.

Table: Paycheck Protection Program (PPP) Loans in Survey of Terms of Lending to Farmers

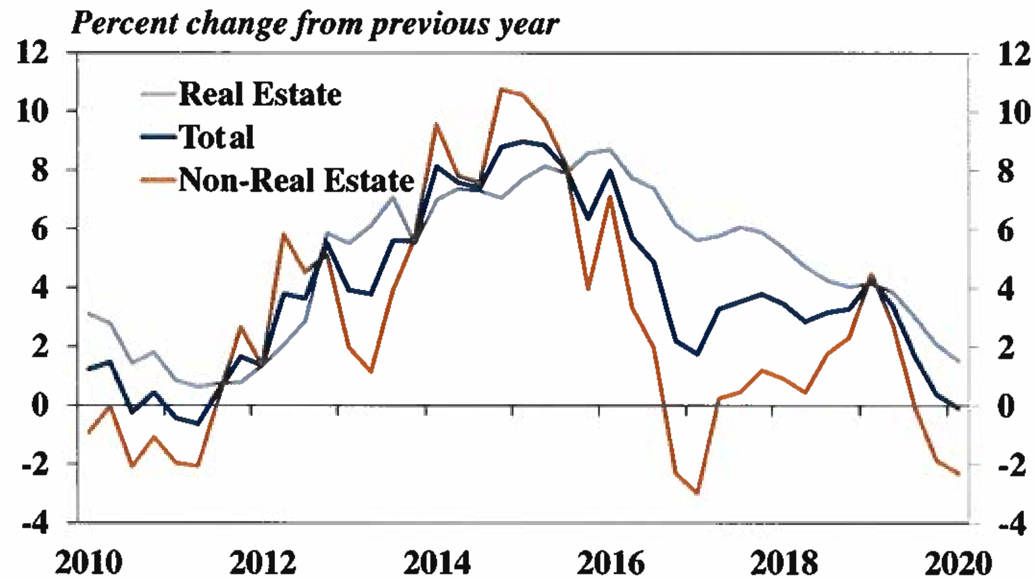
PPP Loans Reported in First Quarter Survey During week of May 4, 2020	
Share of Total Loan Volume	22%
Share of Total Number of Loans	22%
Share of Participating Banks Reporting PPP Loans	9%
Number of States Receiving PPP Loans	39
Average Loan Size	$98,000
Median Loan Size	$26,000

Source: Survey of Terms of Lending to Farmers

Section B: First Quarter Call Report Data

Ahead of a slowdown in new lending activity during the second quarter, first quarter Call Report data also pointed to signs of reduced farm debt at commercial banks. The rate of growth in farm real estate loans continued to slow and non-real estate loans declined more than 2%, leading to a slight decline in total farm debt outstanding (Chart 6). Excluding Rabo N.A. from all previous periods, this marked the third consecutive quarter of decline in non-real estate debt and the first decline in total agriculture loans in any quarter since 2011.[1]

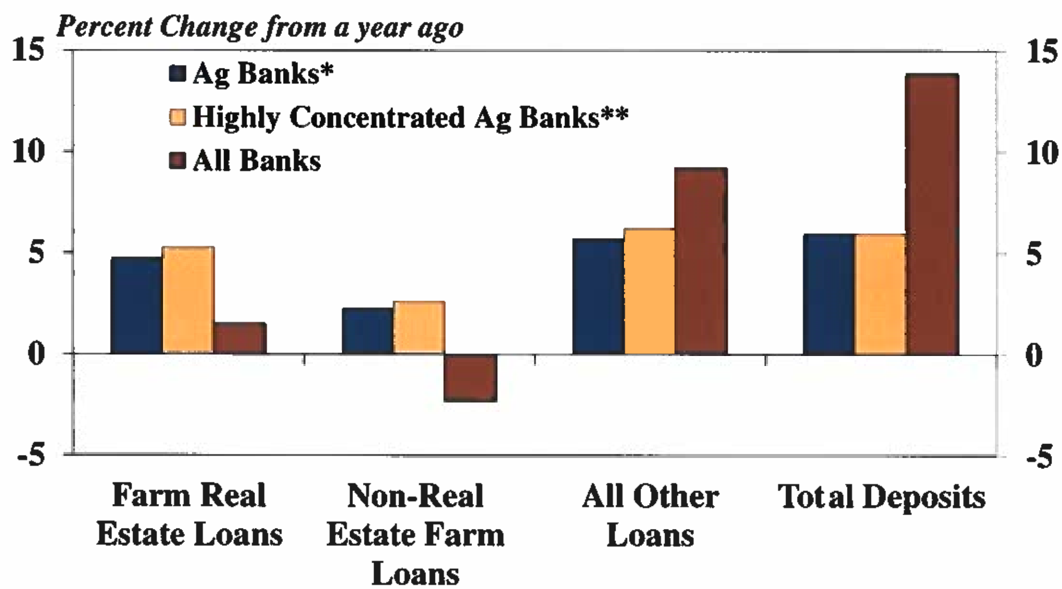
Chart 6: Farm Loans Outstanding at Commercial Banks*



*Excludes Rabobank, N.A. from all previous periods (See footnote 1)
Source: Agricultural Finance Databook, Table B.1.

In contrast to trends in farm debt at commercial lenders in total, balances grew steadily at agricultural banks. Among agricultural banks in the first quarter, farm real estate and non-real debt increased by about 5% and 3%, respectively (Chart 7). Compared with all banks, all other types of loans increased at a slower rate for farm lenders. While nearly all depository institutions likely benefitted from customers seeking to hold larger amounts of assets in highly liquid forms, total deposits at agricultural banks grew at half the rate of all commercial banks.

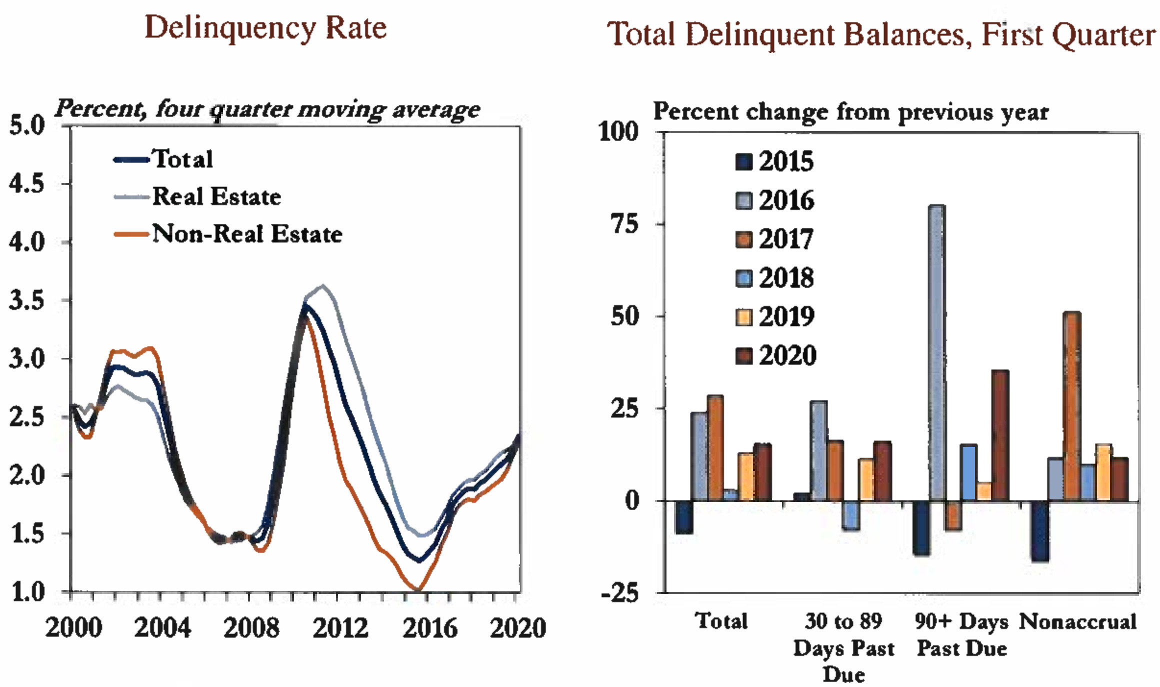
Chart 7: Loans & Deposits at Commercial Banks, First Quarter



*Banks with agricultural loans totaling at least 25% of total loans
**Banks with agricultural loans totaling at least 300% of total capital
Note: Based on banks meeting above criteria as of March 31, 2020 that also met criteria as of March 31, 2019.
Source: Federal Reserve Board of Governors.

Alongside continued weaknesses in the agricultural economy and the initial effects of the pandemic, farm loan delinquency rates continued to edge higher. Excluding Rabo N.A. from all previous periods, the volume of delinquent farm real estate and non-real estate loans increased about 17% and 13%, respectively (Chart 8). The volume of loans past due more than 90 days continued to represent the smallest share of total delinquencies, but increased at a comparably faster rate, an indication that previously past due loans remained delinquent.

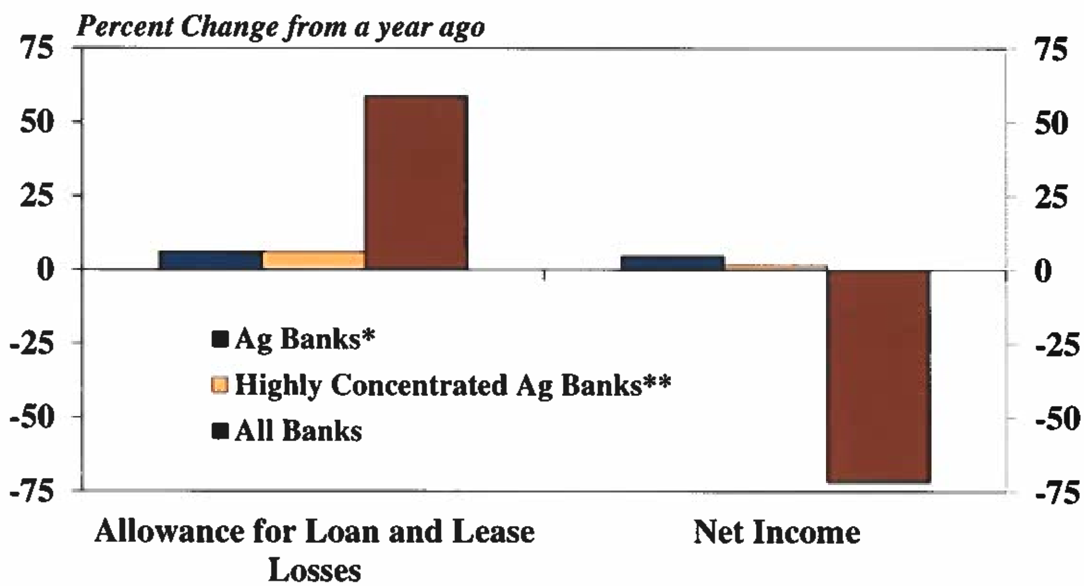
Chart 8: Delinquent Farm Loans at Commercial Banks*



*Excludes Rabobank, N.A. from all previous periods (See footnote 1)
Note: Delinquency Rate includes the share of all past due and nonaccruing loans.
Source: Federal Reserve Board of Governors.

In contrast to the large increases in loan loss reserves among many commercial lenders, allowances at agricultural banks increased at a substantially lower rate. In anticipation of potential repayment issues resulting from a broad economic contraction and implementation of new accounting methodology, many banks bolstered accounts reserved for loan losses, contributing to large decreases in income (Chart 9). With less exposure to other types of lending and already strengthened allowances, agricultural banks increased reserves at a slower rate, which supported a slight increase in net income among those lenders.

Chart 9: Loan Loss Allowance and Net Income, First Quarter

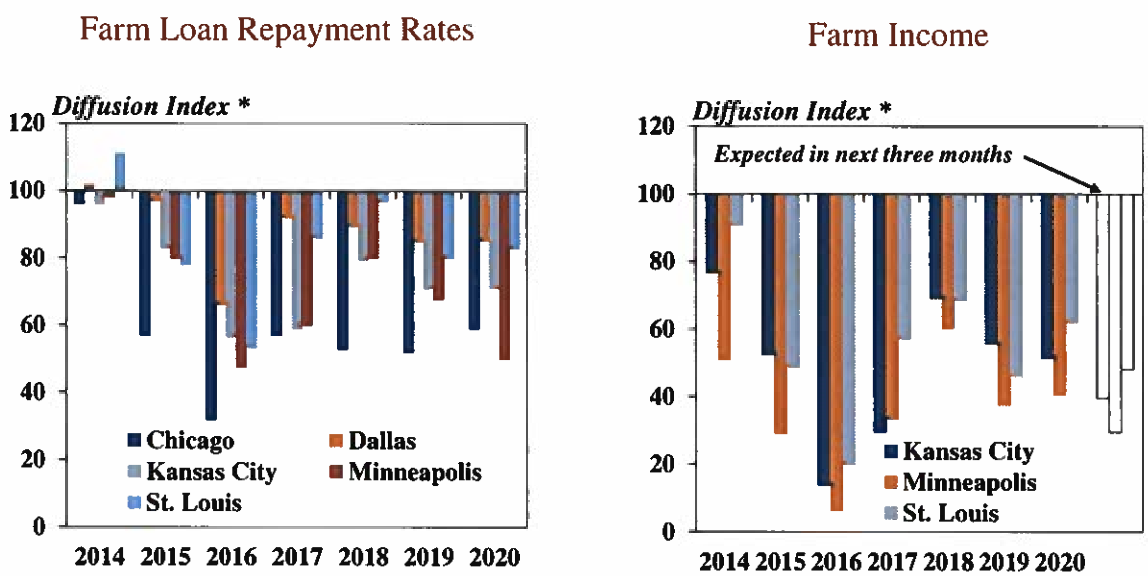


*Banks with agricultural loans totaling at least 25% of total loans
**Banks with agricultural loans totaling at least 300% of total capital
Note: Based on banks meeting above criteria as of March 31, 2020 that also met criteria as of March 31, 2019.
Source: Federal Reserve Board of Governors.

Section C: First Quarter Regional Agricultural Data

Alongside increases in farm loan delinquency rates, agricultural credit conditions remained weak in the first quarter. According to Federal Reserve District Surveys, farm loan repayment rates deteriorated at a steady pace across all regions in late March (Chart 10). Farm Income also remained weak in all reporting Districts and expectations about the coming months were slightly more pessimistic.

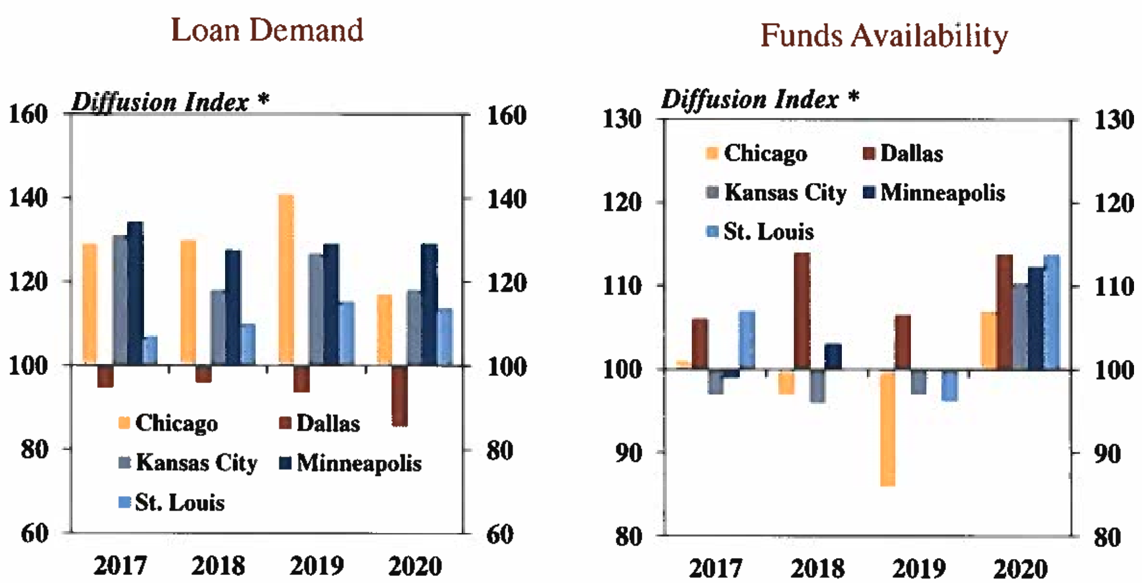
Chart 10: Agricultural Credit Conditions, First Quarter



*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.
Sources: Agricultural Finance Databook, Tables C.1. and C.7.

Similar to national trends, demand for farms loans at agricultural banks remained steady and fund availability increased. While the pace of increase slowed in some regions, farm loan demand continued to grow in all Districts except Dallas (Chart 11). As deposits at many commercial banks increased, liquidity at agricultural banks across all Districts was higher than a year ago.

Chart 11: Demand for Farm Loans and Funds Availability, First Quarter

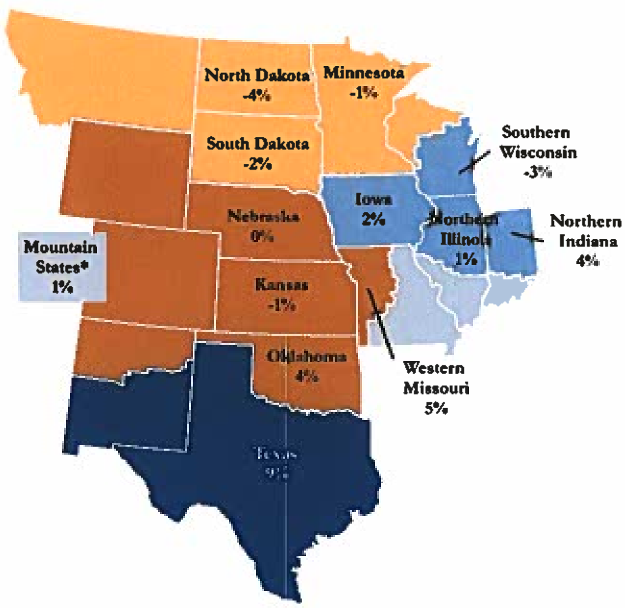


*Diffusion Index is calculated by subtracting the percentage of respondents who indicated "lower" from the percentage of respondents who indicated "higher" and adding 100.
Source: Agricultural Finance Databook, Table C.1.

Despite a more pessimistic environment for farm income and credit conditions, farmland values remained relatively steady in the first quarter. Compared with the previous year, the value of nonirrigated cropland changed by less than 5% in all reporting states except Texas (Map). In states where values were lower than a year ago, the average decline was about 2%. Across all other states, values increased about 4% on average.

Map: Value of Nonirrigated Cropland, First Quarter

Percent change from previous year



Sources: Federal Reserve District Agricultural Credit Surveys (Chicago, Dallas, Kansas City and Minneapolis).

U.S. Small Business Administration

Paycheck Protection Program (PPP) Report

Approvals through 08/08/2020

Summary of PPP Approved Lending

Loan Count	Net Dollars	Lender Count
5,212,128	$525,012,201,124	5,460

Lender Size	Lender Count	Loan Count	Net Dollars	% of Amount
>$50 B in Assets	34	1,696,961	$190,260,579,519	36%
$10 B to $50 B in Assets	88	769,963	$100,975,416,018	19%
<$10 B in Assets	5,338	2,745,204	$233,776,205,586	45%

The Paycheck Protection Program (PPP) closed to new loan applications at 11:59pm on August 8, 2020.

PPP Round 2 Lender Segments

Lender Size	Lender Count Round 2	Loan Count Round 2	Net Dollars Round 2
>$50 B in Assets	34	1,362,320	$95,031,882,206
$10 B to $50 B in Assets	88	470,889	$31,012,205,061
<$10 B in Assets	5,331	1,758,700	$79,035,596,201

Lender Group	Lender Count Round 2	Loan Count Round 2	Net Dollars Round 2
CDFIs	308	79,750	$3,343,312,437

CDFI lenders and associated loans are also captured in the <$10 billion or less lender asset size.

Lender Segments

CDFI's and MDI's

Lender Type	Lender Count	Loan Count	Net Dollars
CDFIs	308	114,717	$7,521,016,324
MDIs	175	123,615	$10,394,826,773
- minus CDFI/MDIs identified in both groups	51	16,711	$1,511,447,279
Total	**432**	**221,621**	**$16,404,395,818**

Lenders with <$1b Assets and Non-Banks

Lender Type	Lender Count	Loan Count	Net Dollars
Banks (less than $1b)	3,553	1,084,619	$84,947,576,047
Small Business Lending Companies	14	61,511	$6,429,280,309
Fintechs (and other State Regulated)	19	250,720	$6,050,562,792
Credit Unions (less than $1b)	719	67,846	$3,099,426,436
Farm Credit Lenders	54	15,876	$1,386,869,441
Savings & Loans (less than $1b)	77	11,769	$1,042,472,101
Certified Development Companies	19	8,463	$401,533,542
Non Bank CDFI Funds	8	9,598	$367,938,078
Microlenders	32	8,774	$238,627,841
BIDCOs	1	24	$791,088
Total	**4,496**	**1,519,200**	**$103,965,077,675**

* Loans from CDFI/MDI banks with <$1b Assets and non-bank CDFIs are captured in both tables.

Approvals through 08/08/2020

SBA

States and Territories

State	Loan Count	Net Dollars
AK	12,087	$1,311,919,096
AL	70,331	$6,245,496,446
AR	43,669	$3,333,413,929
AS	296	$12,233,986
AZ	85,771	$8,683,213,943
CA	623,360	$68,644,418,670
CO	109,170	$10,402,528,373
CT	64,629	$6,718,327,006
DC	13,510	$2,145,594,401
DE	13,202	$1,520,789,172
FL	432,893	$32,251,422,436
GA	174,429	$14,688,047,519
GU	2,208	$192,074,123
HI	25,097	$2,478,864,703
IA	61,418	$5,124,660,961
ID	31,056	$2,593,497,832
IL	225,409	$22,849,324,883
IN	83,246	$9,558,833,007
KS	53,755	$5,031,013,626
KY	50,655	$5,282,244,302

State	Loan Count	Net Dollars
LA	78,866	$7,461,129,155
MA	118,392	$14,315,290,705
MD	87,007	$10,054,456,506
ME	28,309	$2,266,870,258
MI	128,159	$16,040,039,297
MN	102,352	$11,269,172,424
MO	95,599	$9,194,916,076
MP	482	$38,700,116
MS	48,545	$3,209,532,093
MT	23,908	$1,780,415,878
NC	129,289	$12,288,152,674
ND	20,510	$1,775,524,393
NE	44,074	$3,442,626,881
NH	24,741	$2,563,295,034
NJ	157,405	$17,360,085,952
NM	23,033	$2,268,802,500
NV	45,771	$4,215,380,081
NY	348,870	$38,699,947,686
OH	149,144	$18,532,840,346
OK	66,210	$5,460,267,982

State	Loan Count	Net Dollars
OR	66,344	$7,057,574,349
PA	173,552	$20,742,750,517
PR	39,544	$1,821,671,163
RI	17,942	$1,905,859,786
SC	67,176	$5,791,085,572
SD	23,494	$1,682,896,085
TN	99,579	$8,970,935,809
TX	417,276	$41,326,454,268
UT	52,275	$5,257,258,177
VA	114,570	$12,588,096,276
VI	2,057	$126,446,683
VT	12,401	$1,201,175,929
WA	107,659	$12,464,918,993
WI	89,615	$9,908,335,442
WV	18,062	$1,802,521,277
WY	13,586	$1,052,798,882
To be confirmed	139	$6,057,463

Approvals through 08/08/2020

SBA

Loan Size

Loan Size	Loan Count	Net Dollars	% of Count	% of Amount
$50K and Under	3,574,110	$62,742,565,653	68.6%	12.0%
>$50K - $100K	683,785	$48,676,961,052	13.1%	9.3%
>$100K - $150K	294,557	$36,058,010,813	5.7%	6.9%
>$150K - $350K	377,797	$84,782,932,509	7.2%	16.1%
>$350K - $1M	199,679	$113,558,427,234	3.8%	21.6%
>$1M - $2M	53,218	$73,887,171,387	1.0%	14.1%
>$2M - $5M	24,248	$72,184,996,045	0.5%	13.7%
>$5M	4,734	$33,121,136,431	0.1%	6.3%

*** Overall average loan size is: $101K.**

Top PPP Lenders

Rank	Lender Name	Loan Count	Net Dollars	Average Loan Size	% of Total Authority
1	JPMorgan Chase Bank	280,185	$29,352,233,698	$104,760	4.4%
2	Bank of America	343,626	$25,557,615,698	$74,376	3.9%
3	PNC Bank	73,925	$13,003,814,963	$175,906	2.0%
4	Truist Bank	82,047	$12,631,618,727	$153,956	1.9%
5	Wells Fargo Bank	194,451	$10,597,856,807	$54,501	1.6%
6	TD Bank	85,970	$8,557,036,274	$99,535	1.3%
7	KeyBank	43,172	$8,211,676,707	$190,208	1.2%
8	U.S. Bank	108,365	$7,608,550,070	$70,212	1.2%
9	Zions Bank	47,828	$7,003,731,087	$146,436	1.1%
10	M&T Bank	34,651	$6,762,506,609	$195,161	1.0%
11	Huntington Bank	38,486	$6,575,686,696	$170,859	1.0%
12	Cross River Bank	198,738	$6,550,306,889	$32,960	1.0%
13	Fifth Third Bank	40,071	$5,422,983,389	$135,334	0.8%
14	Citizens Bank	50,822	$4,853,066,362	$95,491	0.7%
15	BMO Harris Bank	21,993	$4,835,997,160	$219,888	0.7%

Approvals through 08/08/2020

SBA

Industry by NAICS Sector

NAICS Sector Description	Loan Count	Net Dollars	% of Amount
Health Care and Social Assistance	532,775	$67,802,899,625	12.91%
Professional, Scientific, and Technical Services	681,111	$66,806,585,368	12.72%
Construction	496,551	$65,070,483,743	12.39%
Manufacturing	238,494	$54,101,623,487	10.30%
Accommodation and Food Services	383,561	$42,477,369,498	8.09%
Retail Trade	472,418	$40,576,055,345	7.73%
Other Services (except Public Administration)	583,385	$31,687,938,997	6.04%
Wholesale Trade	174,707	$27,650,501,453	5.27%
Administrative and Support and Waste Management and Remediation Services	258,907	$26,591,901,997	5.07%
Transportation and Warehousing	229,565	$17,522,942,736	3.34%
Real Estate and Rental and Leasing	262,921	$15,732,532,646	3.00%
Finance and Insurance	181,493	$12,202,534,934	2.32%
Educational Services	88,022	$12,075,274,769	2.30%
Unclassified Establishments	219,502	$9,652,279,182	1.84%
Information	73,824	$9,336,848,657	1.78%
Arts, Entertainment, and Recreation	130,760	$8,223,383,720	1.57%
Agriculture, Forestry, Fishing and Hunting	149,535	$8,140,628,410	1.55%
Mining	22,503	$4,542,309,832	0.87%
Public Administration	14,291	$1,755,782,485	0.33%
Management of Companies and Enterprises	9,472	$1,561,247,060	0.30%
Utilities	8,331	$1,501,077,180	0.29%

Approvals through 08/08/2020

SBA

Amount of Funding Remaining

$ 133,987,798,876

Available funds captures approvals net of cancellations as well as loan increases, decreases, and reinstatements. This amount accounts for statutory program costs. This amount also includes $10 billion PPP CDFI set aside. These are the remaining funds from the $659,000,000,000 authorized in Public Law 116-147.