

The State of Banking in Kansas

2009 State of the State
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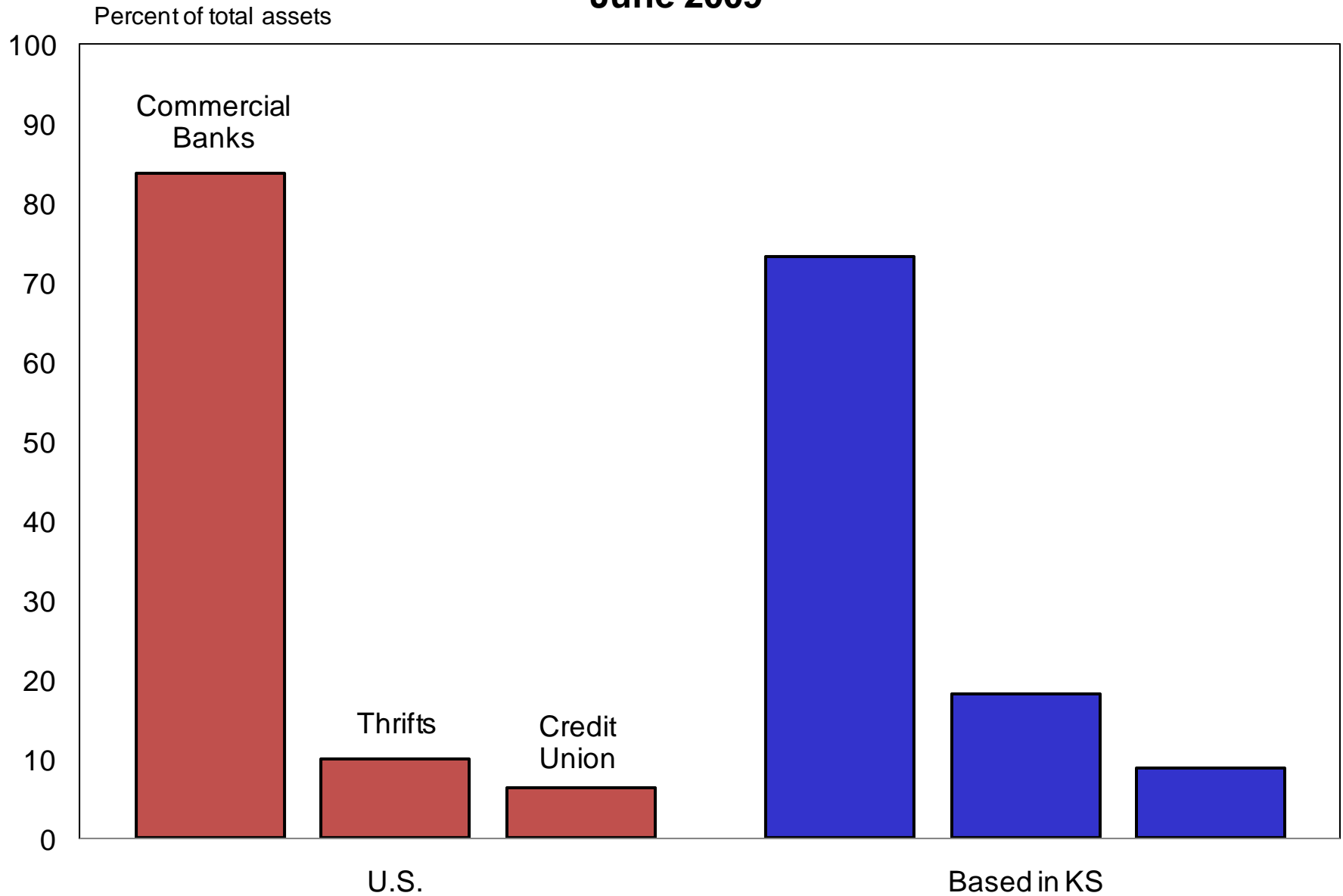
Plan of talk

- 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

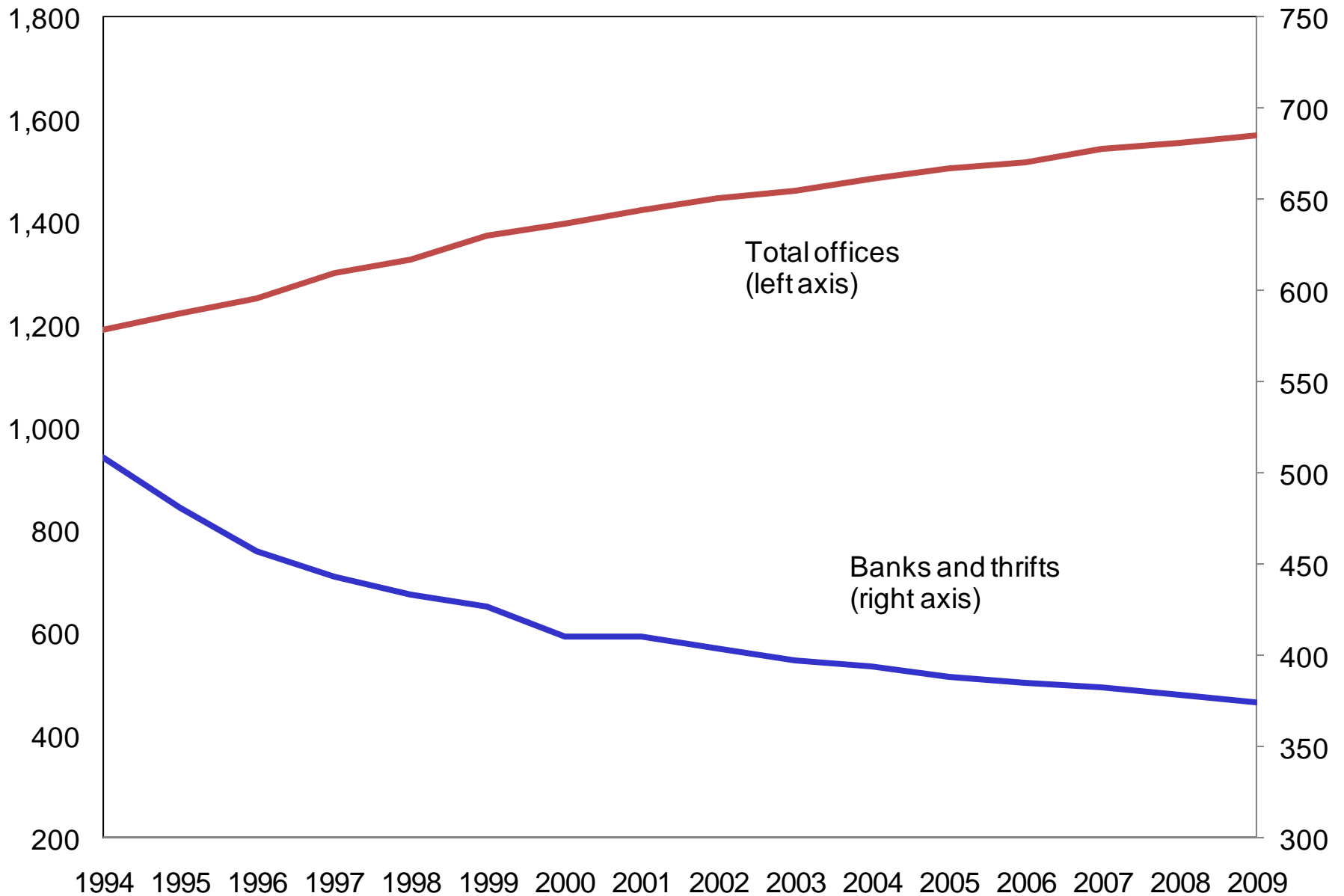
Key features of Kansas banking

- 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



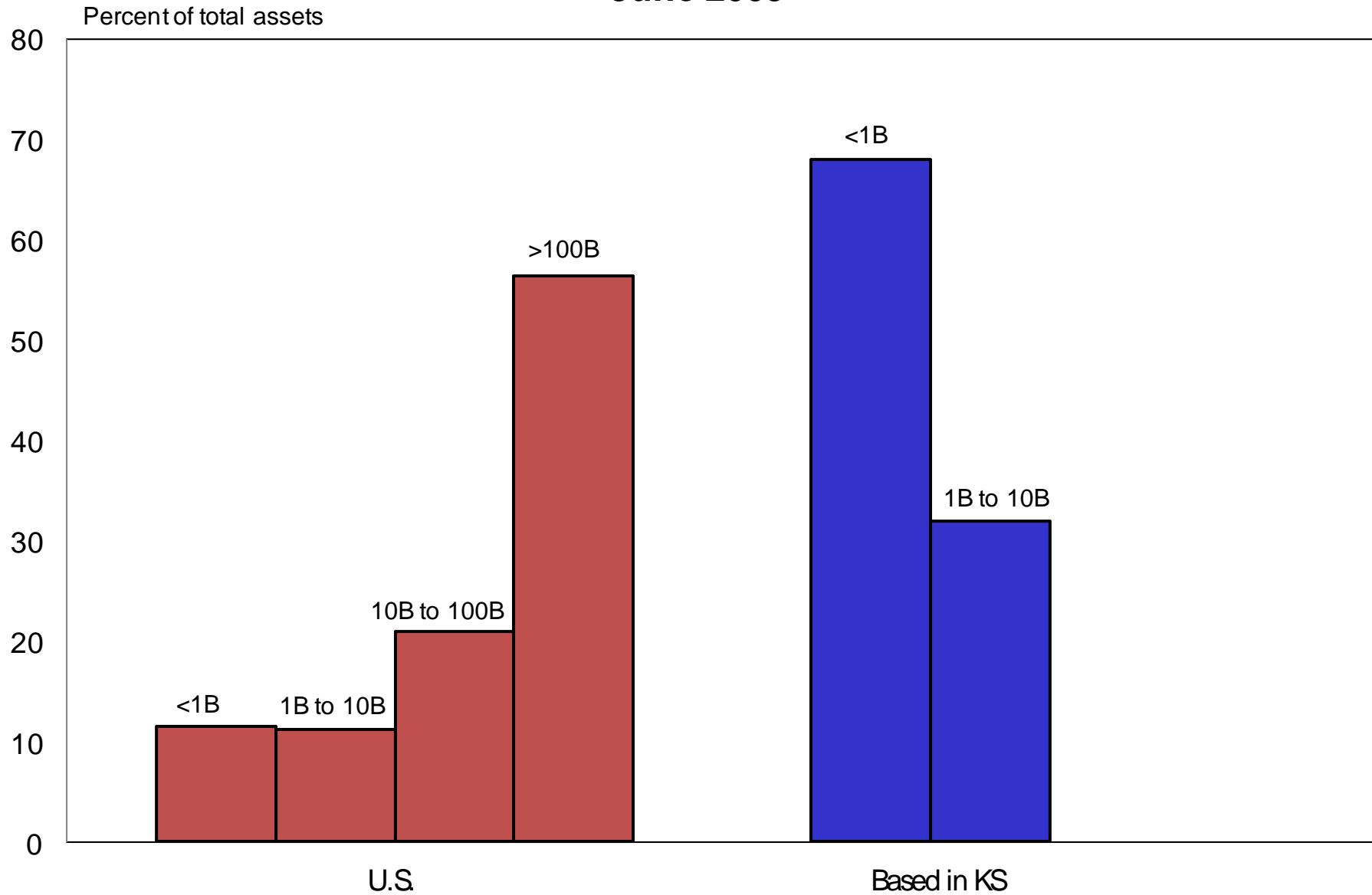
Banking Institutions vs. Banking Offices in Kansas



Key features of Kansas banking (cont.)

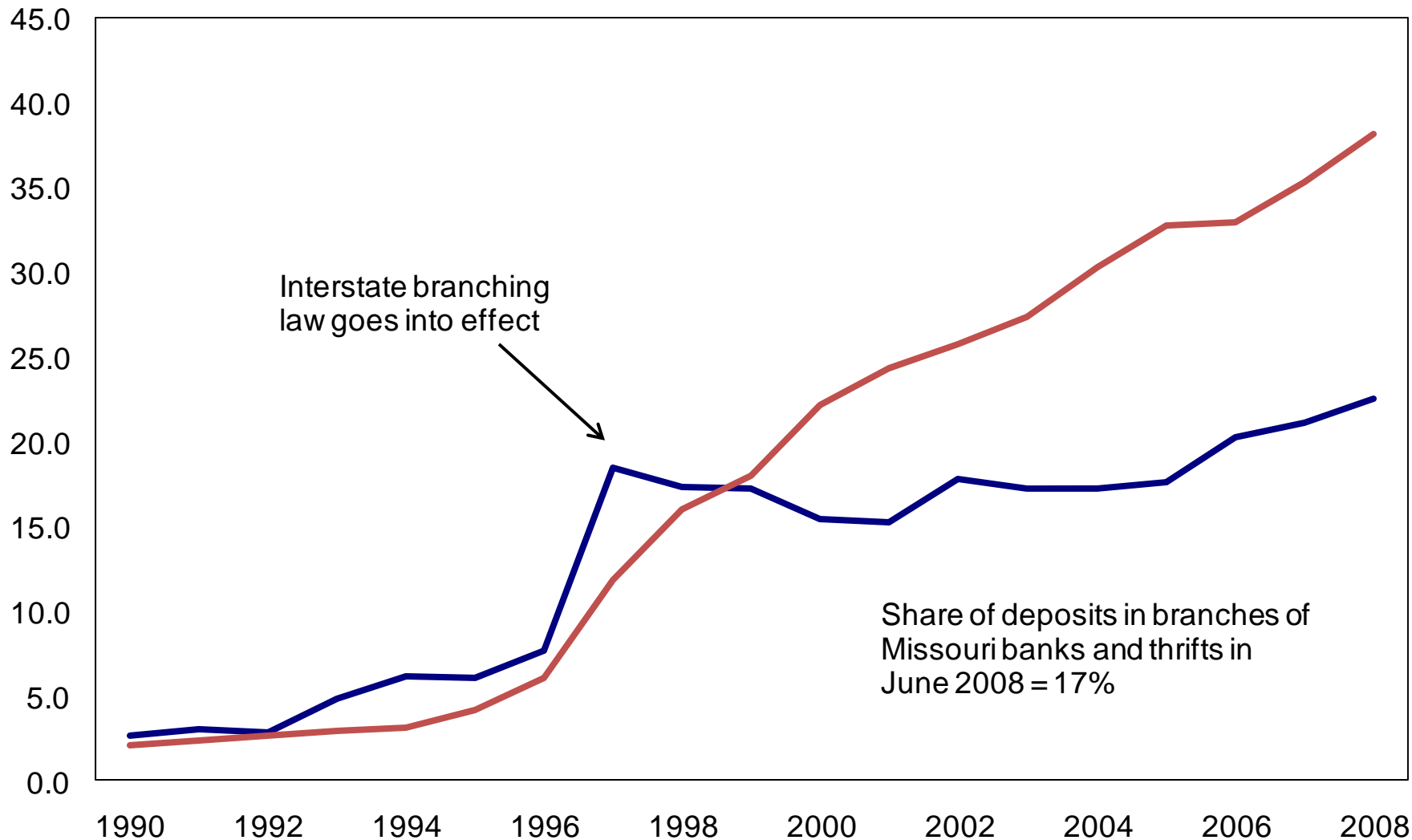
- Small banks and thrifts are still much more important in Kansas than the nation
- Out-of-state banks are more important in Kansas than 20 years ago, but less important than in nation as a whole

Assets by Size of Banking Institution June 2009



Deposits in Branches of Out-of-State Banks and Thrifts Midyear

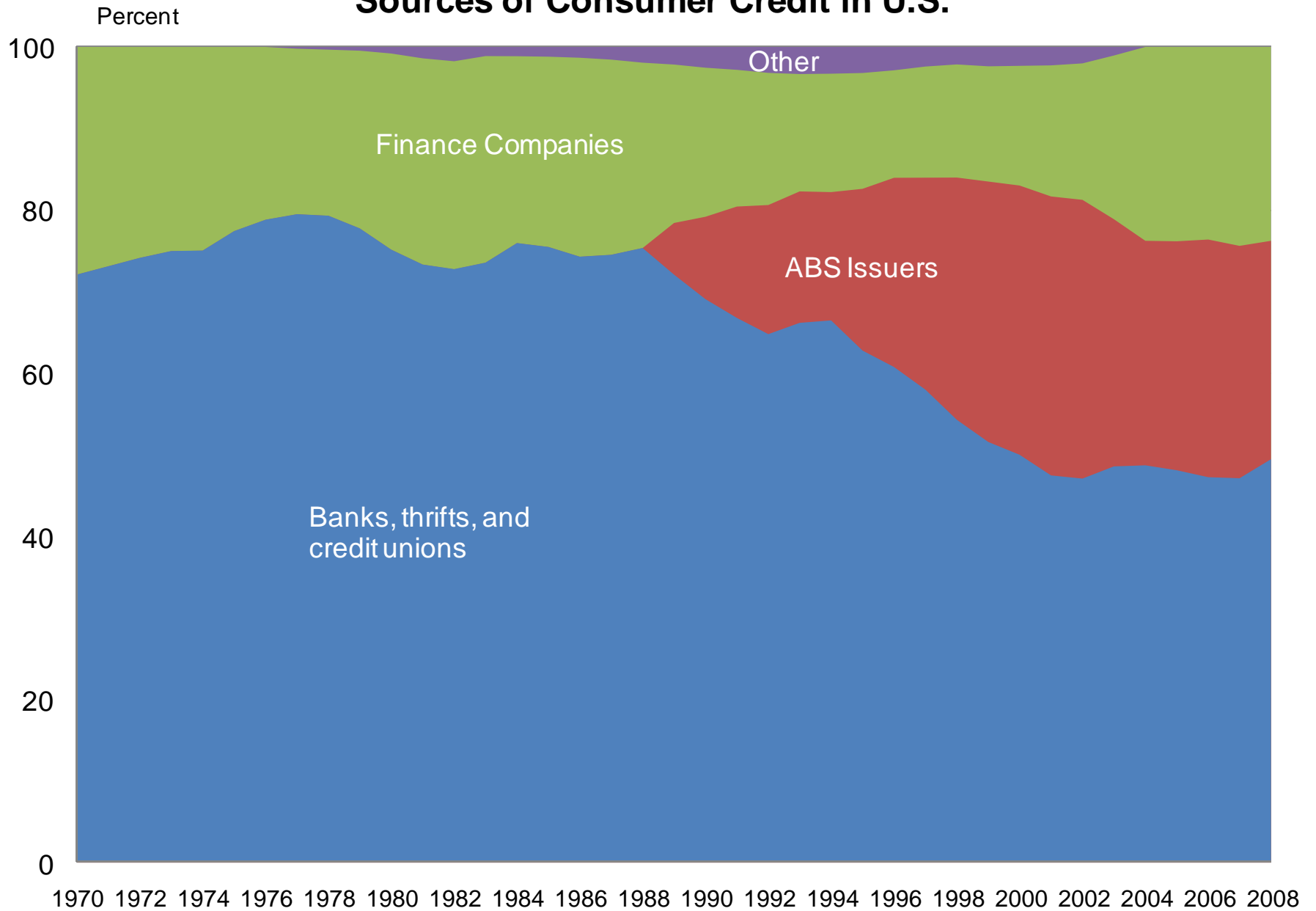
Percent of total



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

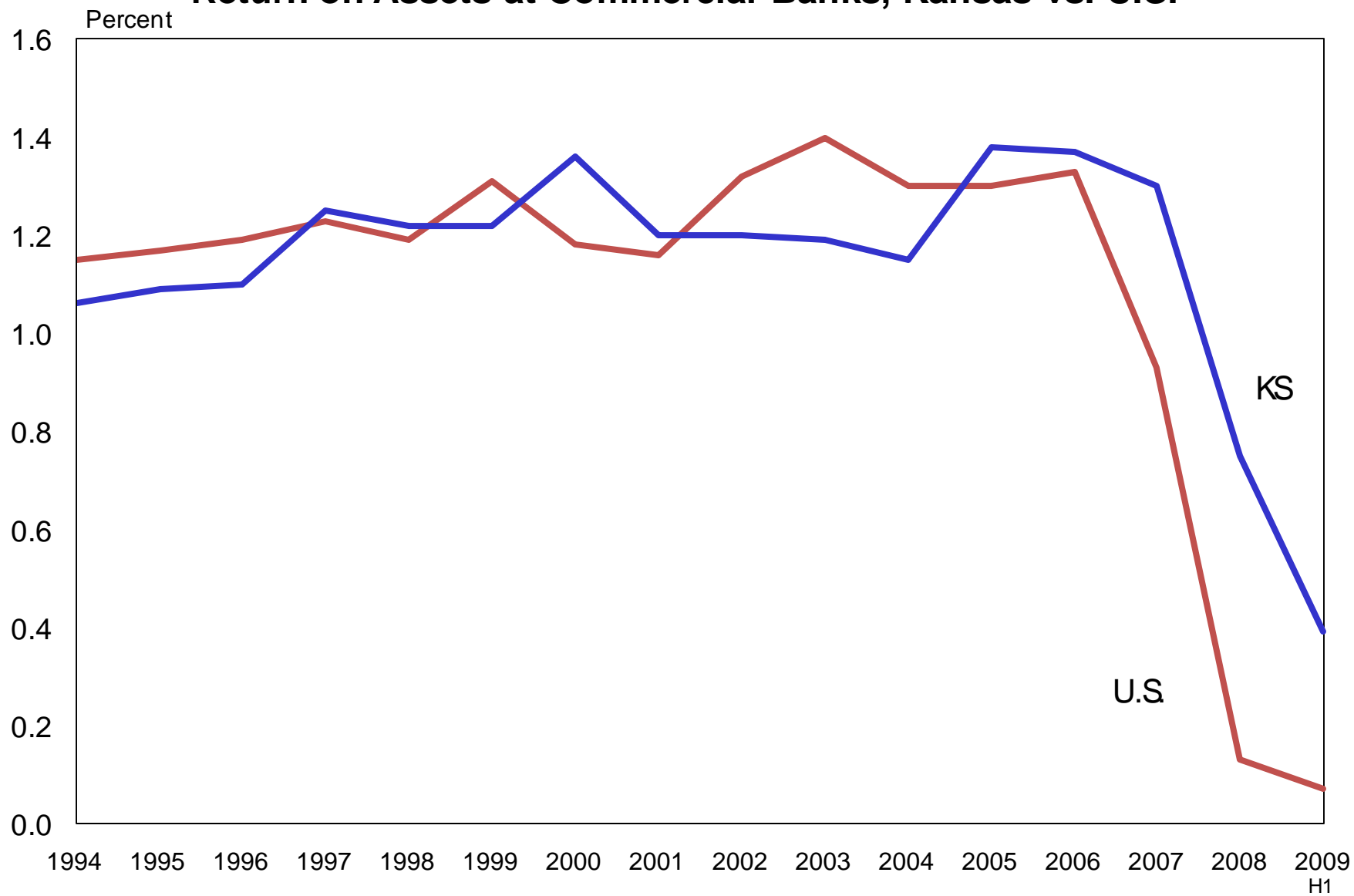
Sources of Consumer Credit in U.S.



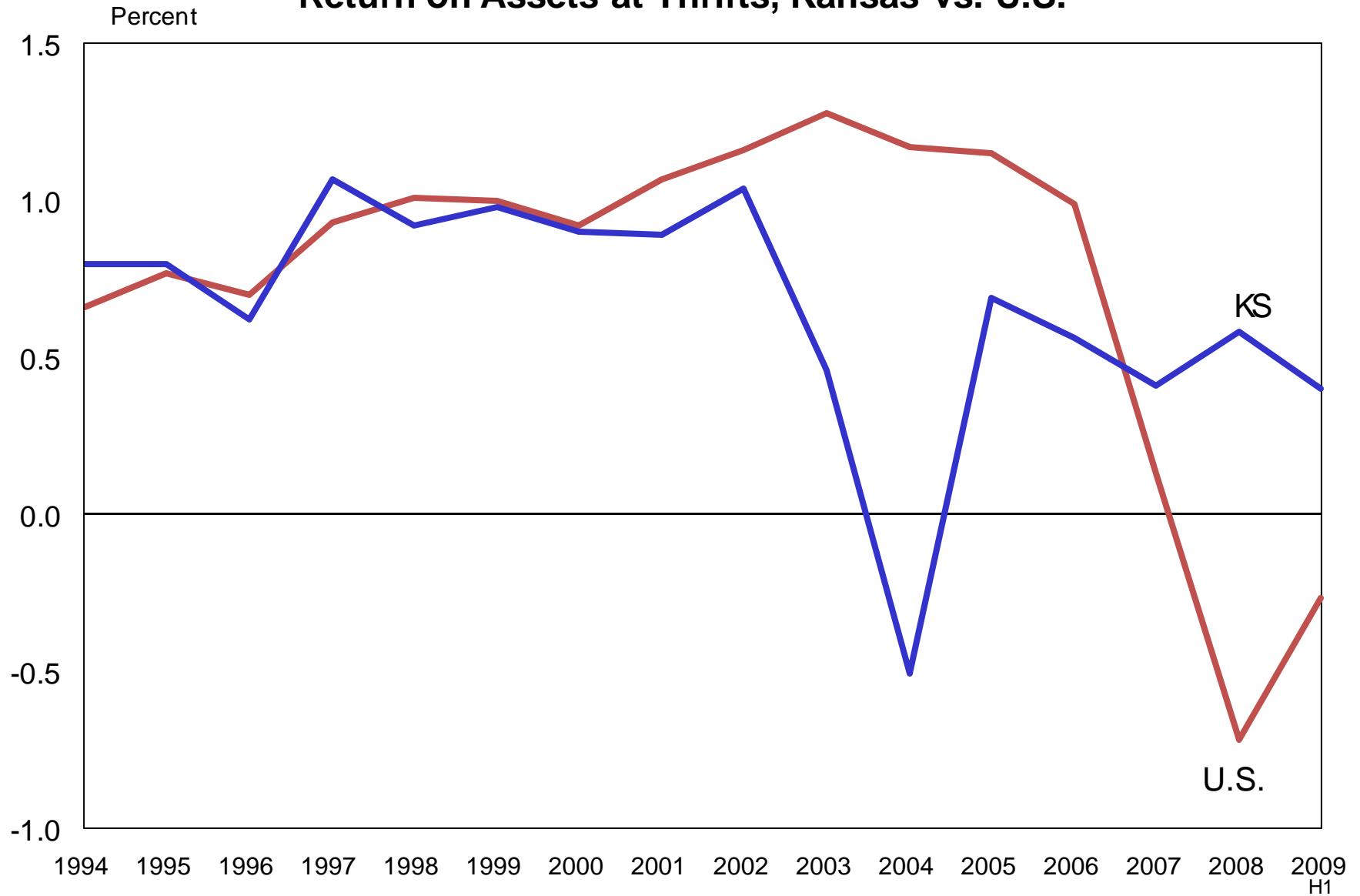
Current financial condition of Kansas banks and thrifts

- 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 Commercial Banks, Kansas vs. U.S.



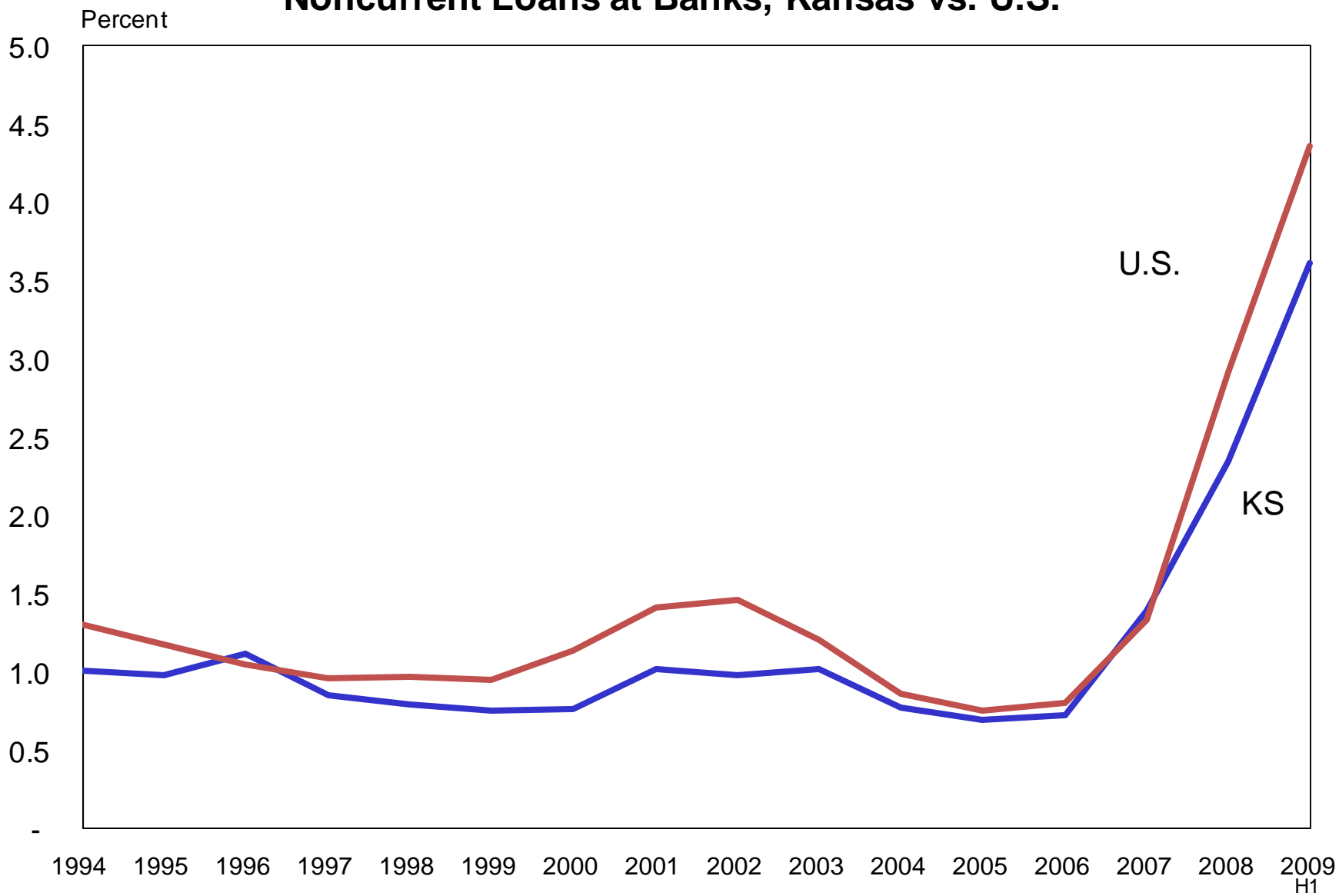
Return on Assets at Thrifts, Kansas vs. U.S.



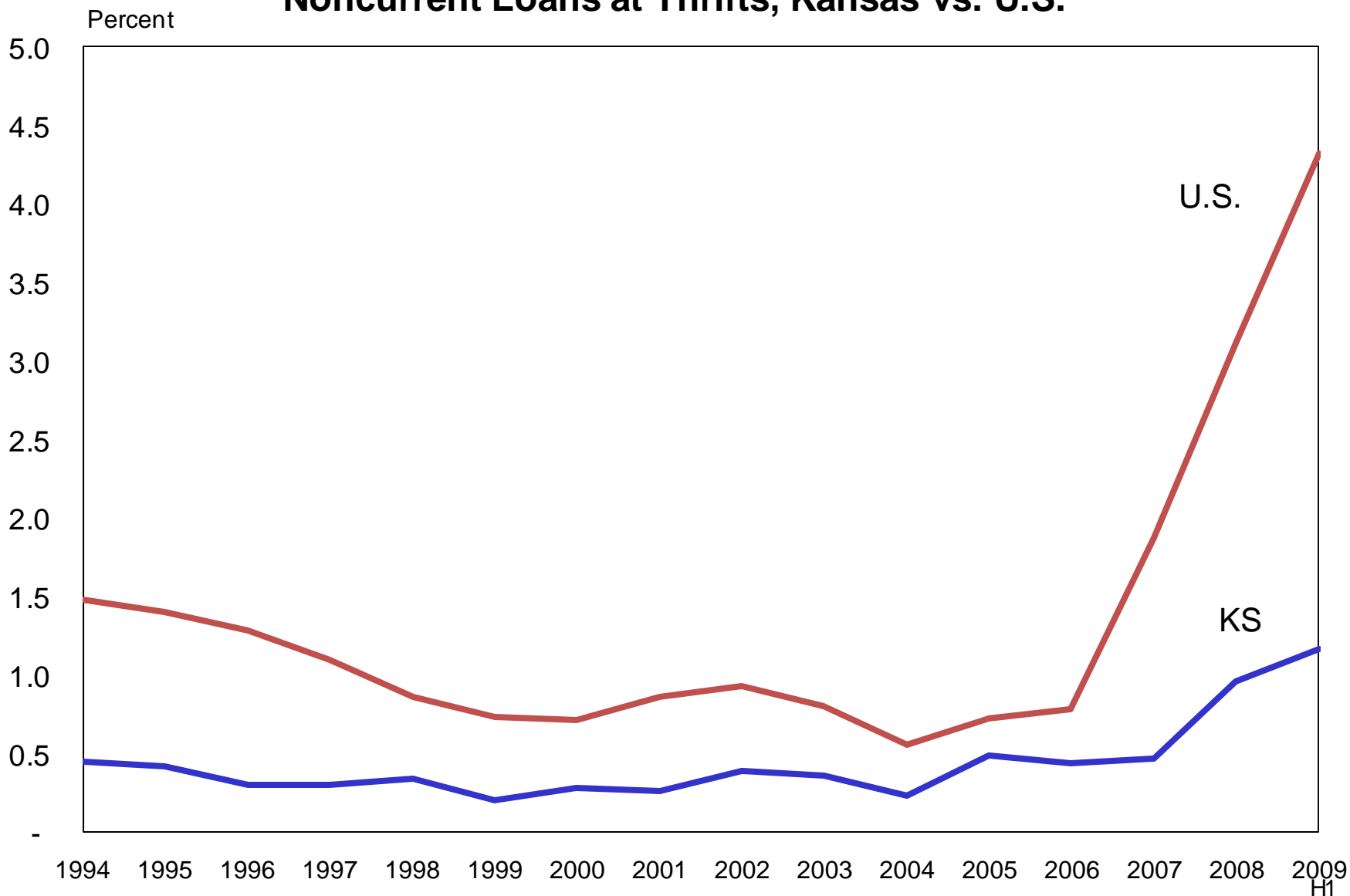
Current financial condition of Kansas banks and thrifts (cont.)

- 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

Noncurrent Loans at Banks, Kansas vs. U.S.

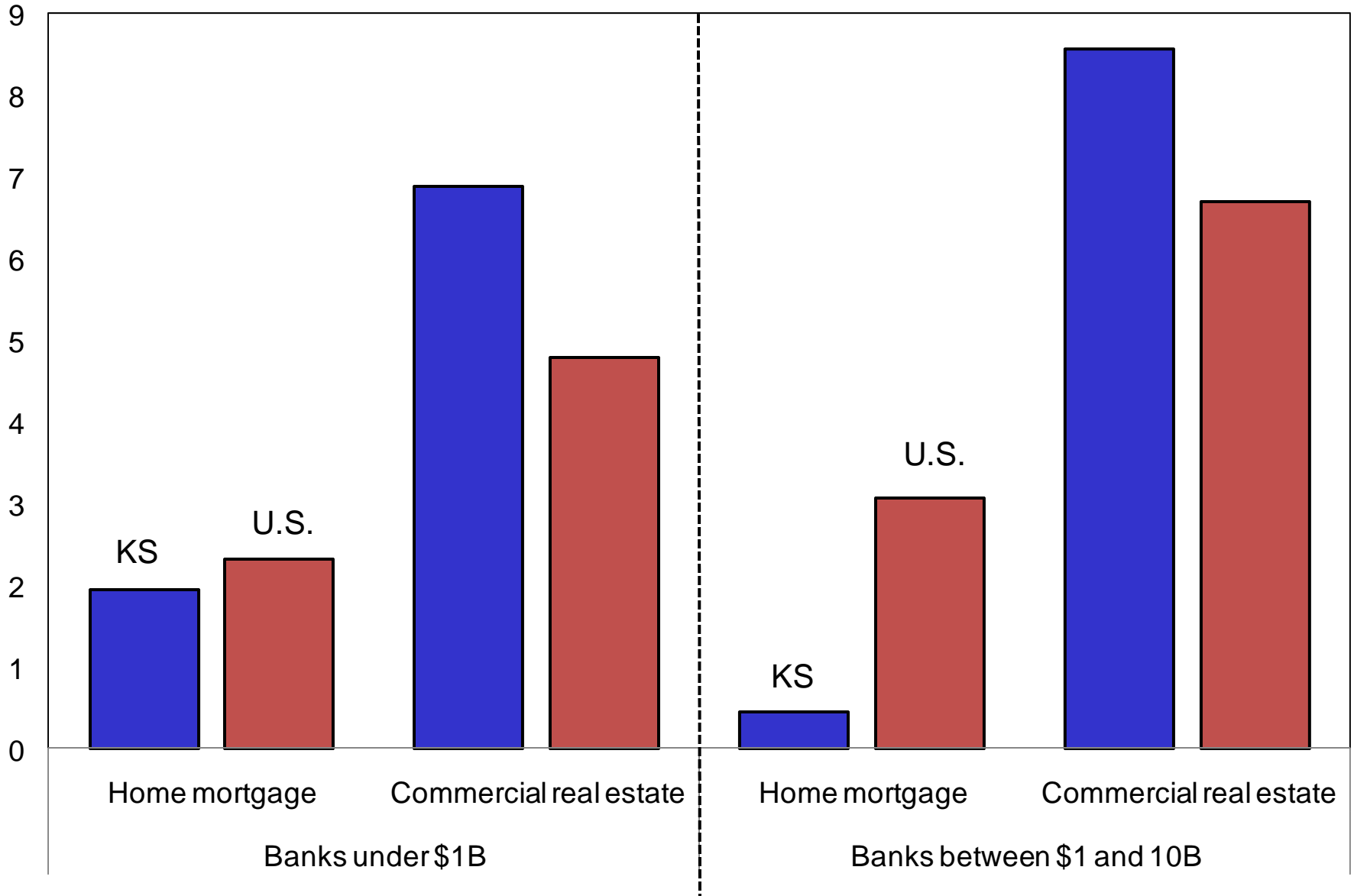


Noncurrent Loans at Thrifts, Kansas vs. U.S.



Noncurrent Real Estate Loans at Banks June 2009

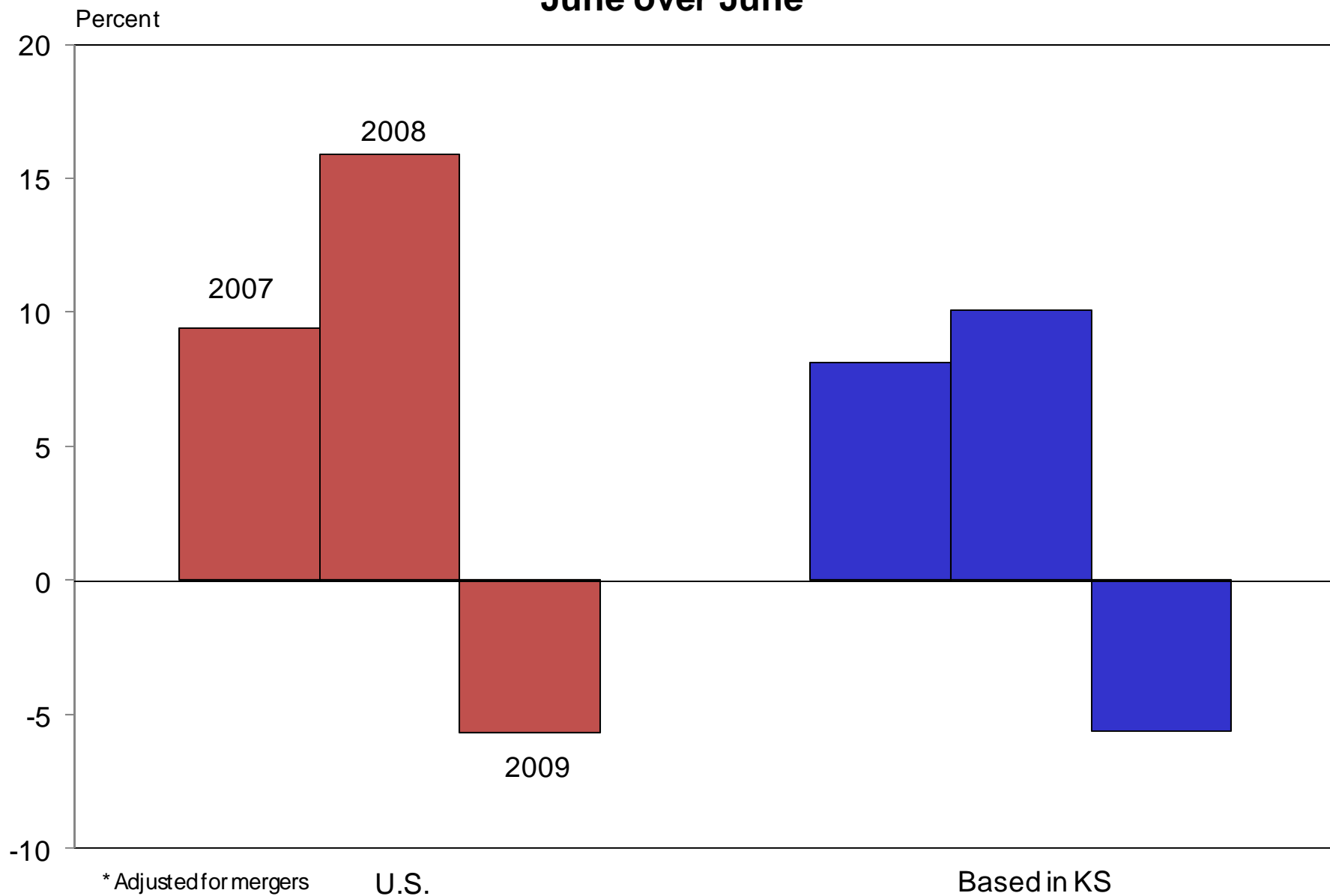
Percent



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

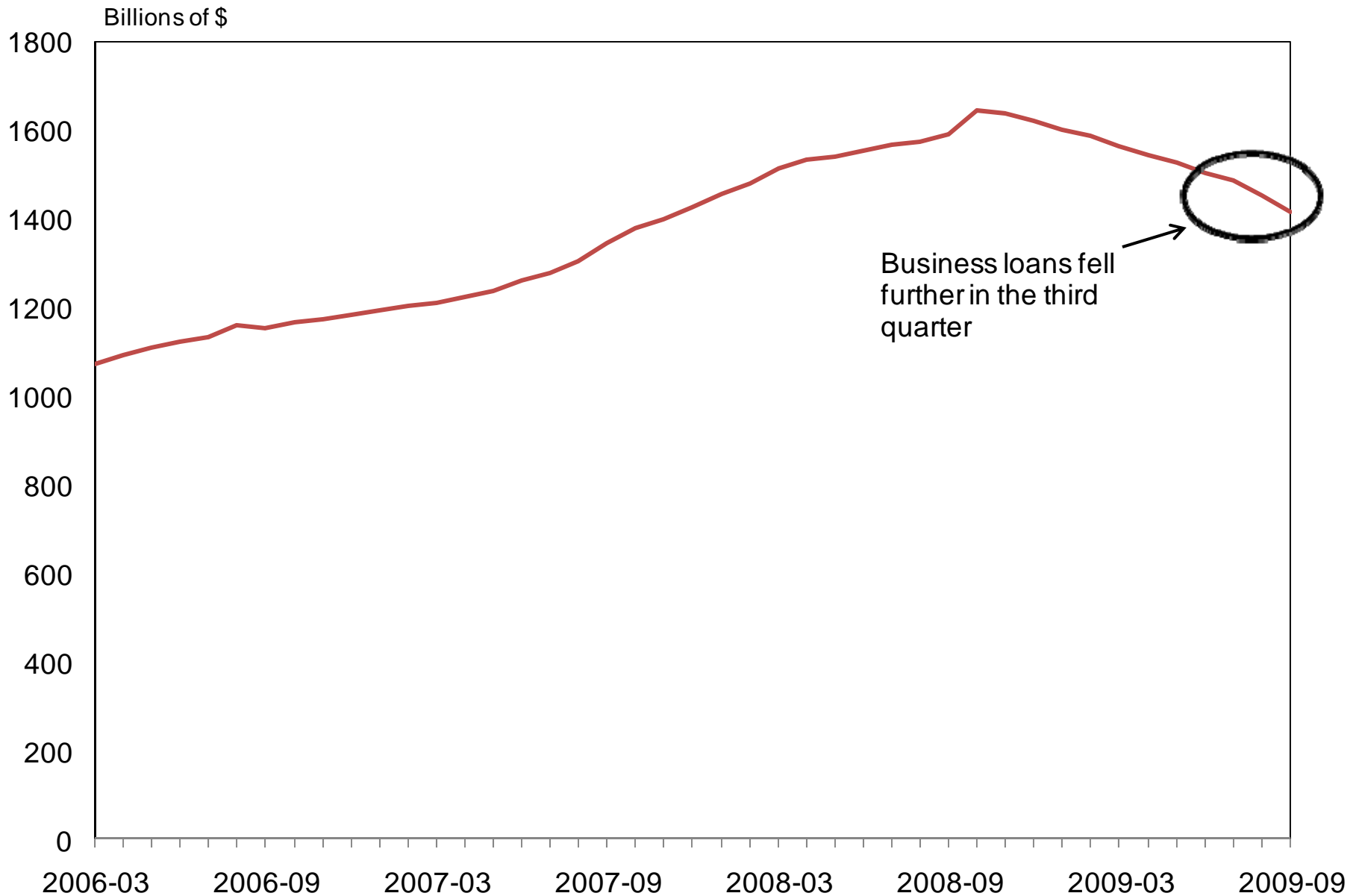
Business Loan Growth at Banks and Thrifts June over June*



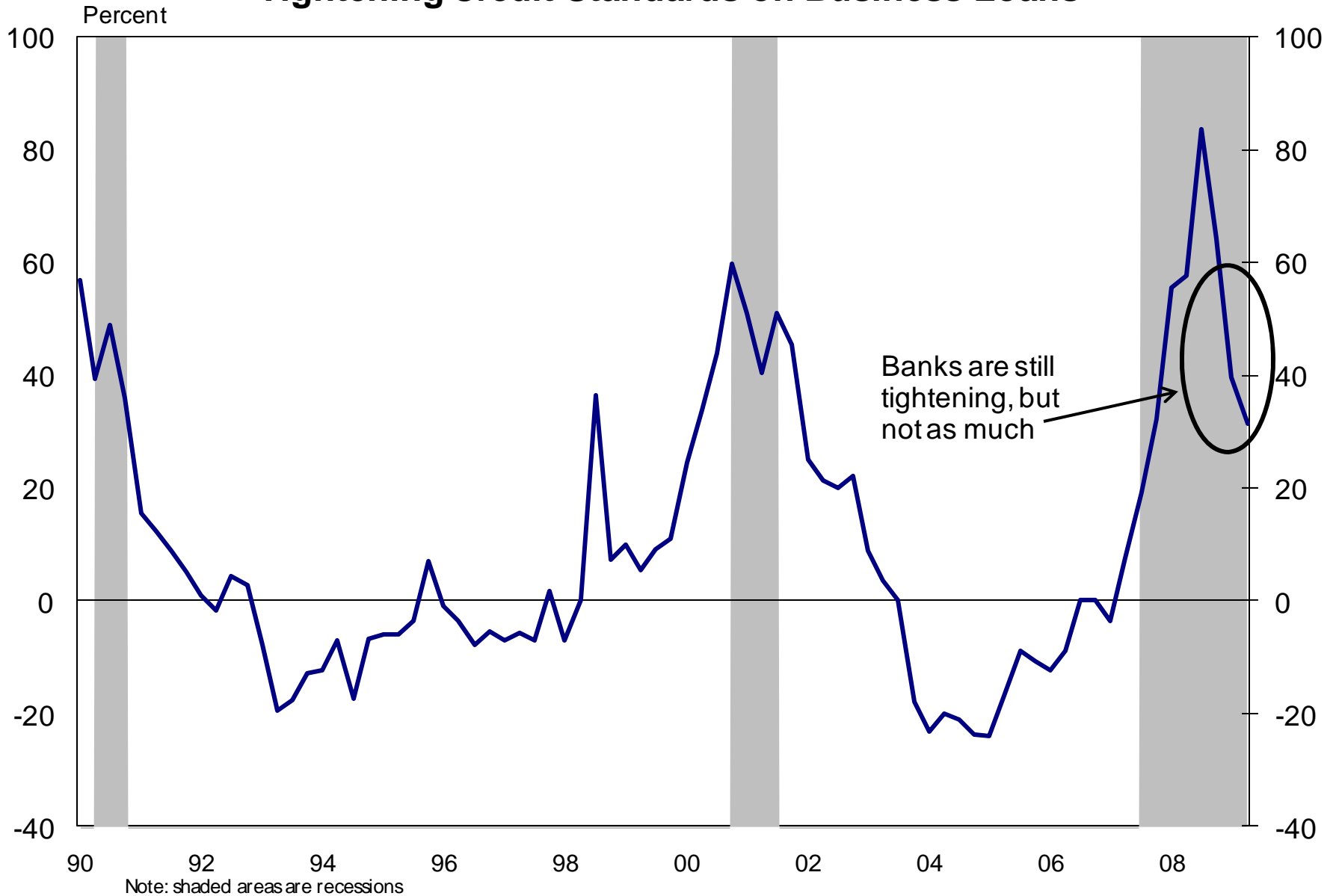
Availability of credit to Kansas businesses and households (cont.)

- 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



Net Percentage of U.S. Banks Tightening Credit Standards on Business Loans



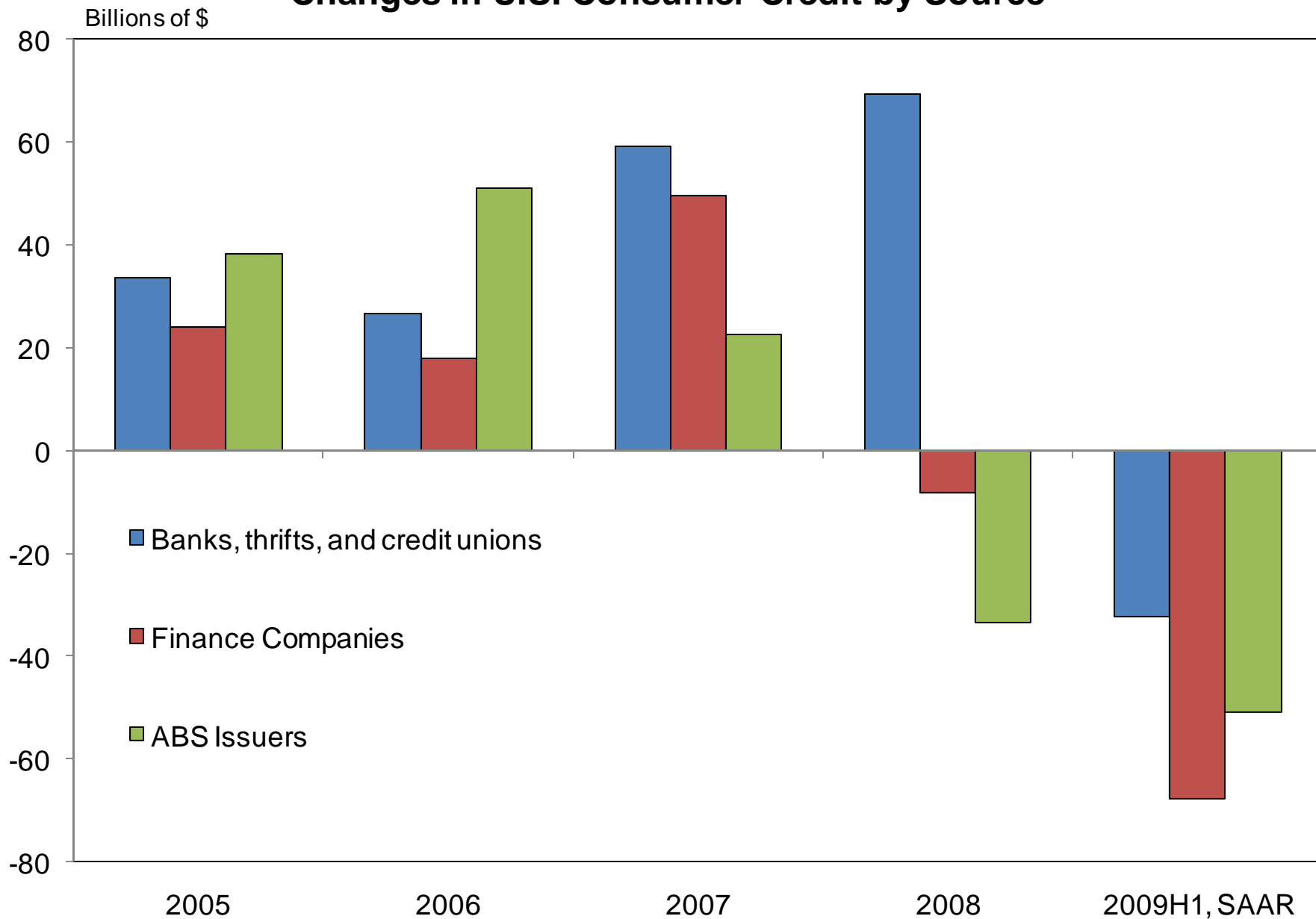
Availability of credit to Kansas businesses and households (cont.)

- 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

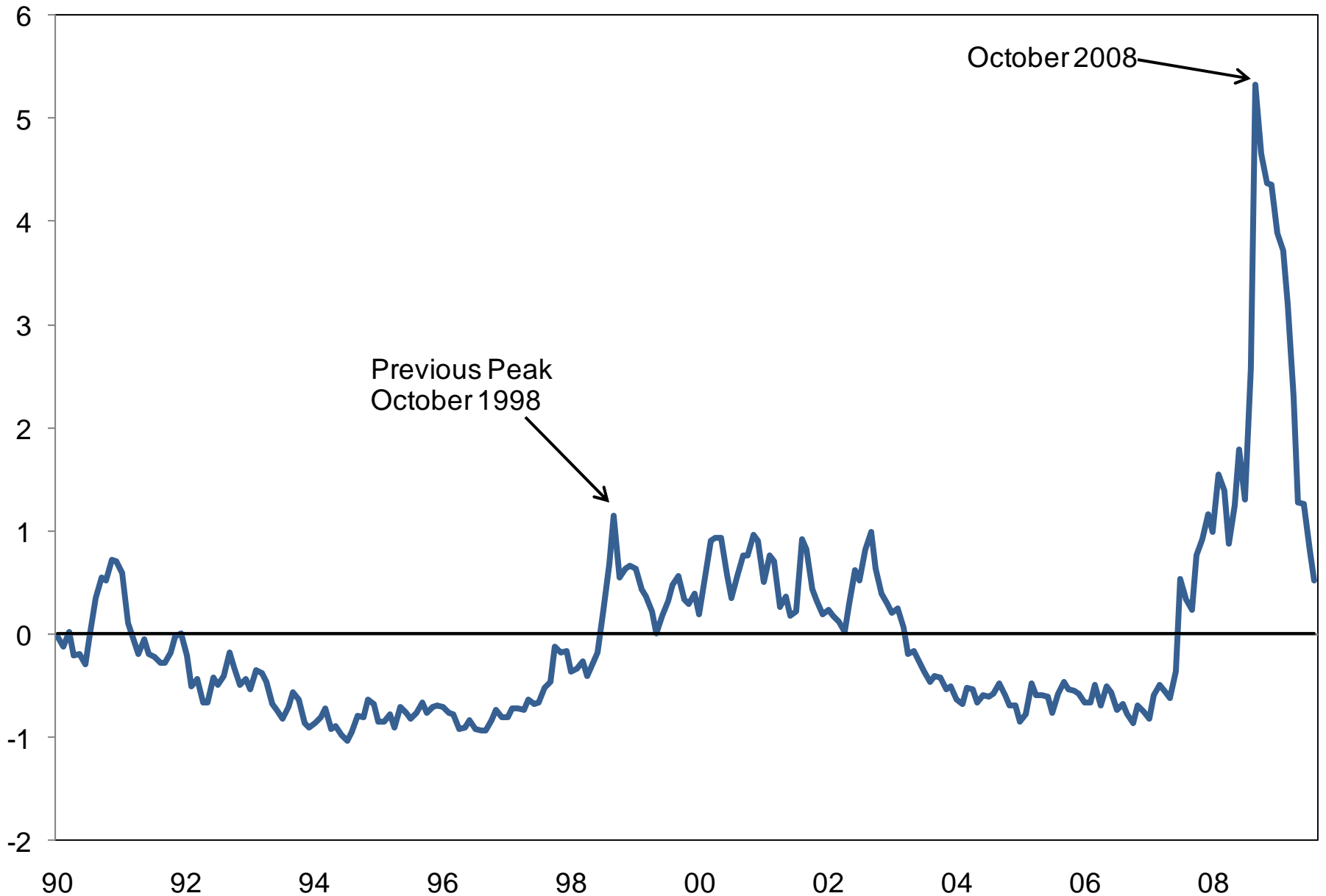
Availability of credit to Kansas businesses and households (cont.)

- 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

Changes in U.S. Consumer Credit by Source



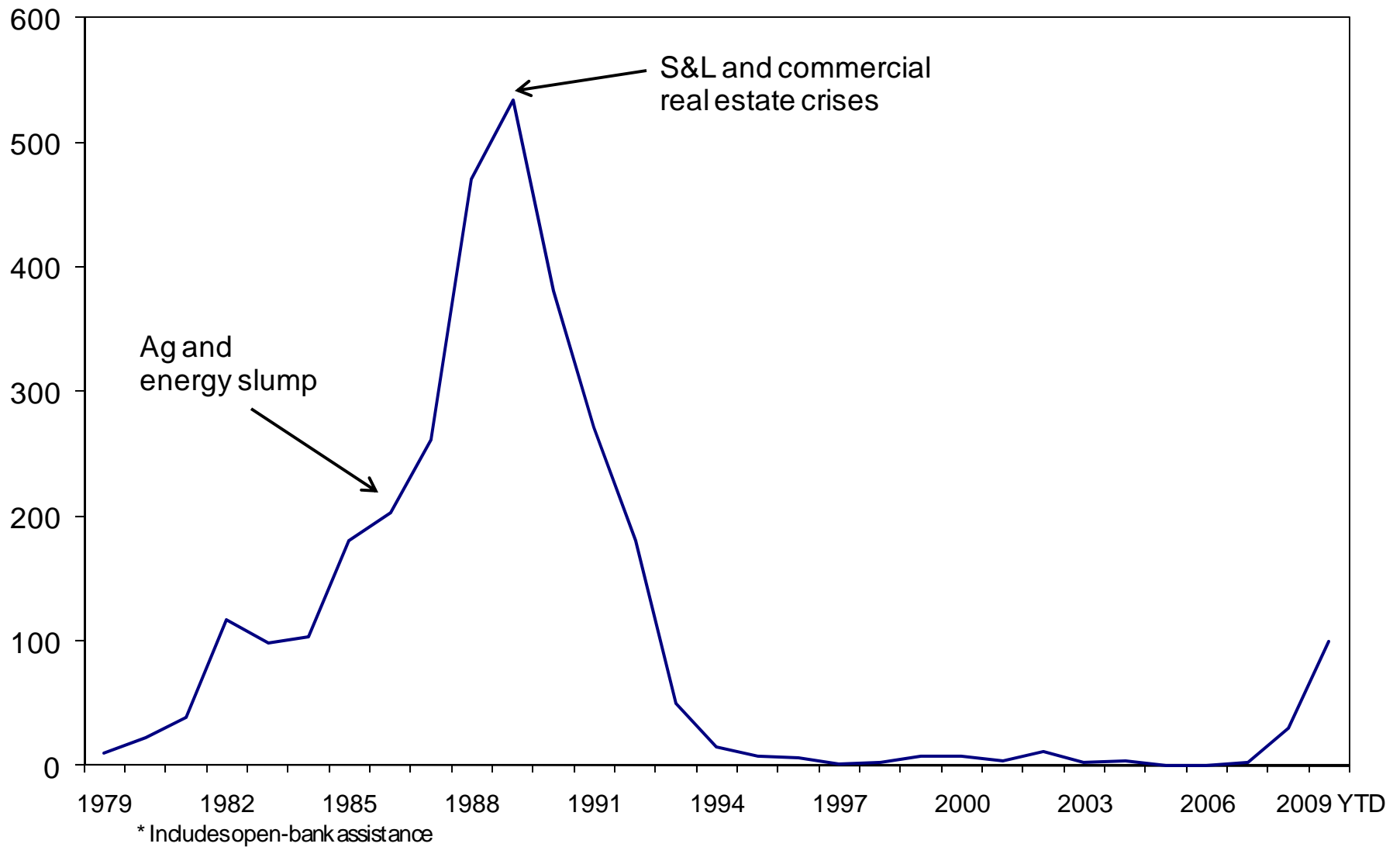
Kansas City Financial Stress Index



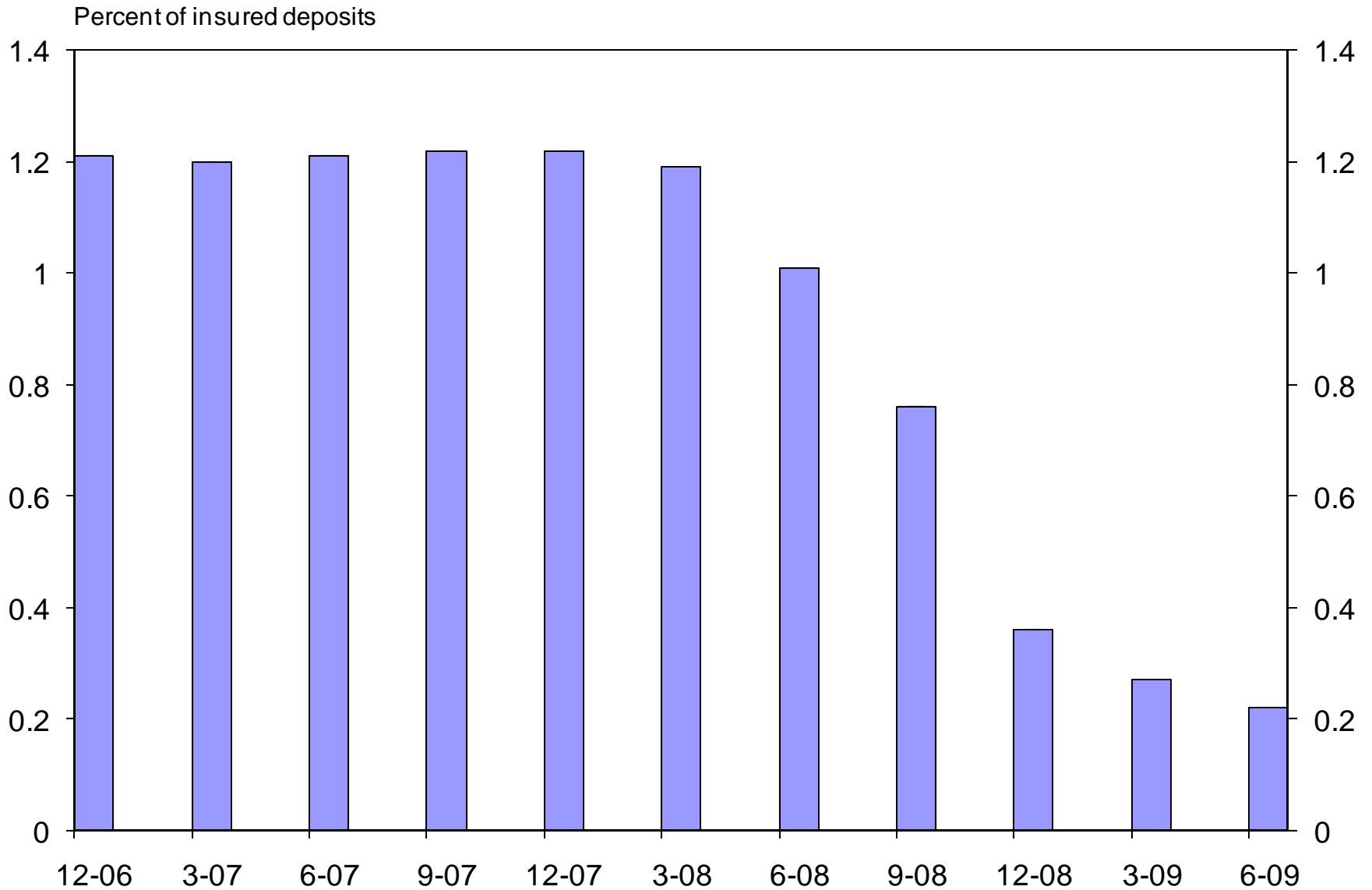
Implications of financial crisis for future of Kansas banking

- 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*



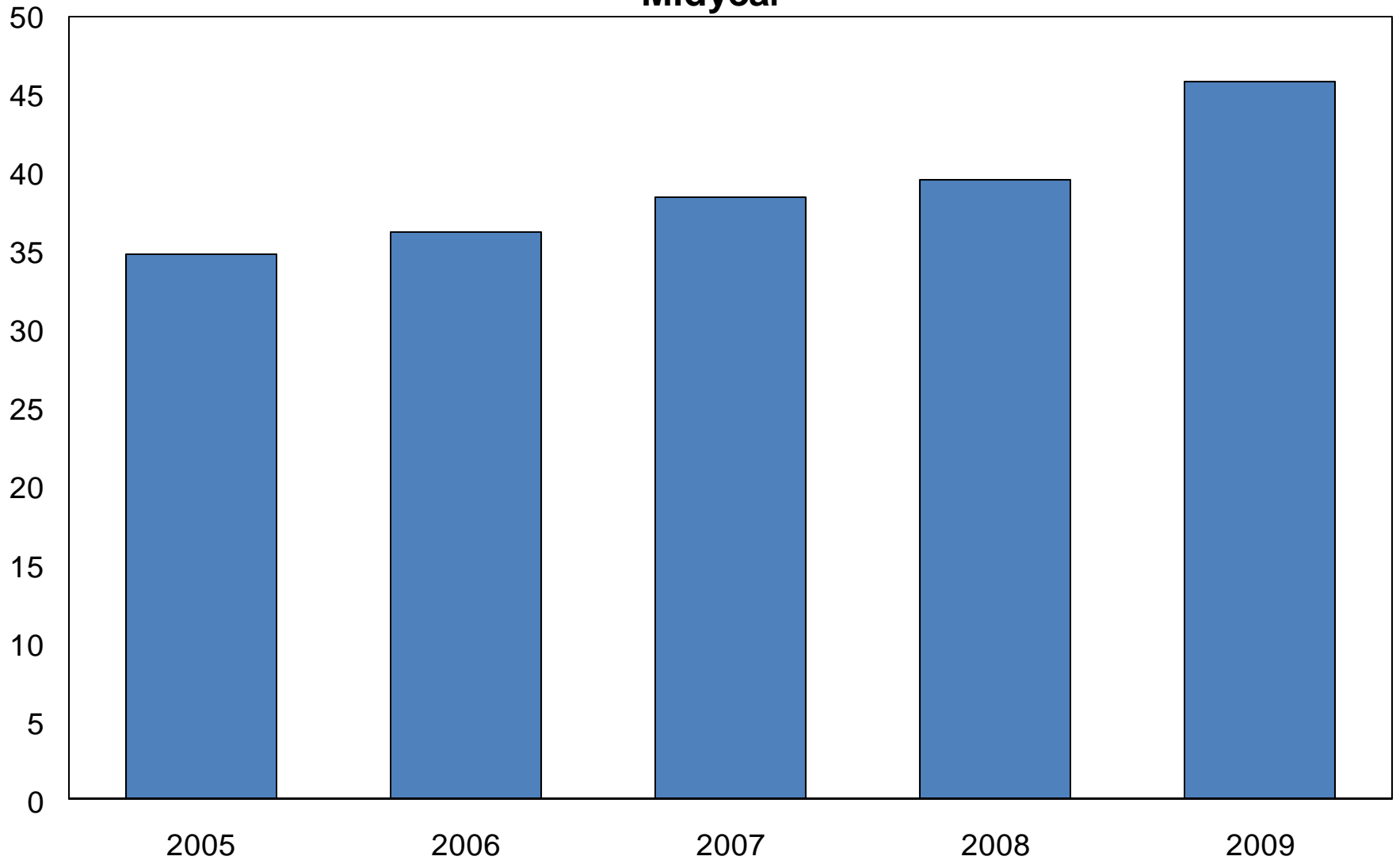
Deposit Insurance Fund Reserve Ratio



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



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

