The rural Missouri economy has historically been dependent on agriculture for economic survival. As part of the rural economy, financial institutions have also been dependent on agriculture. However, the rural landscape has changed over time, especially since the mid 1980s. The number of banking institutions has declined substantially over this time (figure 1). This decline, like agriculture in general, has been due to change of ownership, consolidation, and liquidation. The current farm financial crisis, which began in the Fall of 1997, continues today, and appears poised to continue into the near future. The financial pressure observed at the farm level is sure to be felt at the bank level as well. The question is, what is the financial position of Missouri banks today and how does their position today compare to historical levels.

The St. Louis Federal Reserve surveys Missouri banking institutions on a quarterly basis to determine financial performance and financial staying power of these institutions. Four financial measures of Missouri banks are presented here. A quarterly time-series from the first quarter of 1984 through the first quarter of 1999 is used to compare current levels to past levels.

Figure 2 shows the average return on assets and return on equity for banks responding to the Federal Reserve's survey. Currently, both the rate of return on equity and assets has increased from mid to late 1980 levels. Between 1992 and 1996 both financial measures increased substantially; however, beginning in 1997 both values decreased and then rose again. Both the rate of return on equity and assets has been fairly stable since mid 1997 with a return on equity between 14-15% and a return on assets of 1.1-1.5%.

Figure 3 shows the average non-performing loans/total loans and net loss/total loans for banks responding to the Federal Reserve's survey. Current levels are far below levels realized in the 1980s. Furthermore, both performance measures are near 15 year lows.

While the farm economy may face financial crisis, Missouri lending institutions appear prepared to withstand a modest hit from farm level financial difficulties. Diversification of lending institutions away from farm loans should provide an extra cushion given the strong overall U.S. economy.
Figure 1. Number of banks surveyed by Federal Reserve
(source: St. Louis Federal Reserve Bank)
Figure 2. Return on assets and return on equity for Missouri banks surveyed by Federal Reserve (quarterly, 1984.1 - 1999.3) (source: St. Louis Federal Reserve Bank)

Figure 3. Non-performing loans and net loan loss to total loans for Missouri banks surveyed by Federal Reserve (quarterly, 1984.1 - 1999.3) (source: St. Louis Federal Reserve Bank)