7-26-2017

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AGRICULTURAL ECONOMICS

July 26, 2017

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Cornhusker Economics

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Market Report	Year Ago	4 Wks Ago	7-21-17
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	115.50	*	120.00
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	*	201.17	*
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	*	NA	171.94
Choice Boxed Beef, 600-750 lb. Carcass.	201.39	244.90	207.88
Western Corn Belt Base Hog Price Carcass, Negotiated	69.95	87.05	82.89
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	88.78	99.56	102.94
Slaughter Lambs, wooled and shorn, 135-165 lb. National.	*	186.54	182.28
National Carcass Lamb Cutout FOB.	353.65	429.92	431.08
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	3.07	3.63	3.83
Corn, No. 2, Yellow **Columbus**, bu.	3.07	3.30	3.41
Soybeans, No. 1, Yellow **Columbus,** bu.	9.53	8.31	9.22
Grain Sorghum, No.2, Yellow Dorchester, cwt.	4.64	5.52	5.75
Oats, No. 2, Heavy Minneapolis, Mn, bu.	2.61	2.86	3.26
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	165.00	135.00	165.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	75.00	77.50	82.50*
*G80.00rass Hay, Large Rounds, Good Nebraska, ton.	*	*	80.00
Dried Distillers Grains, 10% Moisture Nebraska Average.	127.50	98.50	105.00
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	35.25	40.00	39.50
*** No Market**			

Credit availability affects the equilibrium quantity of housing. Lenders incorporated as cooperatives, such as agricultural credit associations (ACA) and credit unions, are aware of their role in offering rural residential real estate loans, facilitating entry into this housing market. In some instances there are few alternatives to cooperative financial institutions for access to mortgages in rural areas. At year -end 2016, credit unions were the only type of financial institution in approximately 275 non-metropolitan counties nationwide. In some instances other types of financial organizations simply do not offer home finance products in non-metro locations. Compounding these features of non-metropolitan real estate finance, the Dodd-Frank Act was passed in 2010. This bill, intended to facilitate transparency in financial transactions, imposes additional duties and obligations on loan originators that change the costs of providing mortgages. The costs of complying with these duties result in additional hiring and training expenses for lenders.

Financial statements from credit unions and agricultural credit associations can be used to observe the effects of Dodd-Frank compliance. Credit unions headquartered outside metropolitan statistical areas offered nearly $203 billion in primary (first) home mortgages by 2013. Primary mortgages and other types of mortgage loans, were approximately 30 percent of all loans made by credit unions that year. First mortgage loans volume grew at an average annual rate of 6 percent between 2009 and

2013. Mortgage loans feature less prominently for agricultural credit associations. In 2013, 8 (of 78) agricultural credit associations had no reported loan activity for this category, 19 associations had less than $1 million in outstanding loans, 26 associations had $10 million or more in rural residential real estate loans. Of the largest 26 associations participating in this lending category, 7 reported over $100 million in rural residential real estate loan activity. Rural residential loans in agricultural credit associations grew at an average annual rate of 5 percent between 2009 and 2013.

Changes in overhead expense, in general, and personnel expense, in particular, have occurred since the passage of Dodd-Frank in cooperative financial institutions. Credit unions and ACAs experienced a 53% and 29%, respectively, increase in noninterest expense between 2007 and 2013. During this same period these institutions underwent a 52% and 41%, respectively, increase in personnel expenses. These increases outpaced changes in assets in cooperative financial institutions.

One way to observe the magnitude of these changes in overhead expense is to compare the ratio of non-interest expenses, like personnel, to the amount of income earned before and after Dodd-Frank was enacted. For the smallest credit unions (assets up to $250 million) the ratio of non-interest expenses to income increased; it decreased for larger credit unions. This ratio decreased for all agricultural associations, regardless of size after the passage of the Dodd-Frank Act.

Changes in this ratio suggest an explanation for the historical changes in rural mortgage lending. Since non-interest expenses are increasing faster than income for the smallest credit unions--at least in part due to compliance costs--these have incentives to consolidate and form larger credit unions so as to compete. This is, in fact, happening as several small credit unions consolidate annually. With respect to agricultural credit associations, almost one-third of these have $1 million or less in rural residential loan volume, suggesting only a handful of mortgages. Hence, many associations choose to essentially forgo dedicating resources to develop expertise in complying with Dodd-Frank regulations since the income associated with expected loan volume is low. Certain ACAs, however, indicate willingness to share their expertise in Dodd-Frank compliance with other associations.

These structural changes in rural mortgage lending indicate cooperative lenders, in pursuit of their service-maximization objective, choose to offer mortgage products in selected underserved markets by consolidating or via service agreements among other cooperative lenders. Managers in this market segment must adjust to the set of informational and cost realities. Firms that operate in this market will continue to have to examine the costs of maintaining regulatory currency as well as adopting technology to provide sustained products for consumers. Members will need to continue to develop the ability to monitor the performance of these, increasingly complex, cooperatives.

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