Droughts' impact on banks' lending in the US

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How people react to their peers' difficulties tells us a lot, just recall the proverb "friend in need is a friend indeed" which is very popular in many countries.

Arizona and many other US states saw exceptional heat waves during the summer of 2020 and Phoenix, AZ, for example, broke the record of the most 100+ F days that has ever been registered. That's why the question of how droughts impact the agricultural industry in the US as well as economy as a whole remains a very important one. We investigate this issue from the point of view of bank lending during such periods to see whether financial institutions adjust their lending policies to either help farms and regions in this difficult situation or, on the other hand, make things even worse in terms of credit availability when it's so needed by those states' economies.

After analyzing data received from both Community Reinvestment Act

(CRA) as well as Call Reports, we found that after droughts, financial institutions tend to lower the amount of loans to farms when they most need them. The substitution effect is also shown in this case as the number and amount of loans tend to increase for other business borrowers during the same time period. Moreover, smaller banks as well as those situated in traditionally farm regions cut credit supply to farms even more compared to their larger counterparts and those located on non-farm territories.