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ACA vs. FLCA-PCA with Joint Management: Is One Organizational Form More Efficient Than the Other?

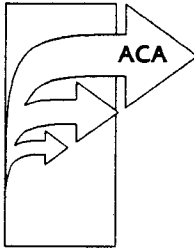
George D. Irwin

**Proceedings of Regional Committee NCT-173
“Financing Agriculture and Rural America: Issues of Policy, Structure and Technical Change”
Denver, Colorado
October 6-7, 1997**

Department of Agricultural Economics and Agribusiness
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April 1998

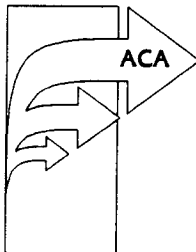
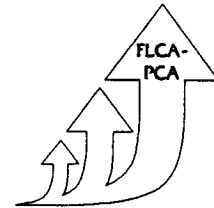
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ACA VS FLCA-PCA with JOINT MANAGEMENT

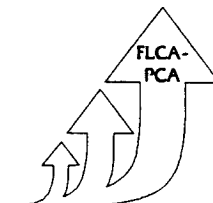
Is One Organizational Form More Efficient Than The Other?

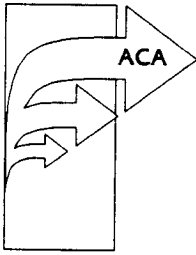
Prepared for NC207 Research Committee Meeting
Oct 6-7, 1997 George D. Irwin



OUTLINE of PRESENTATION

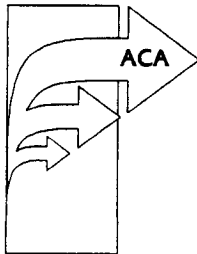
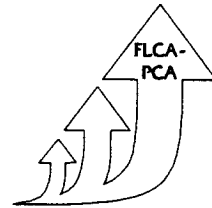
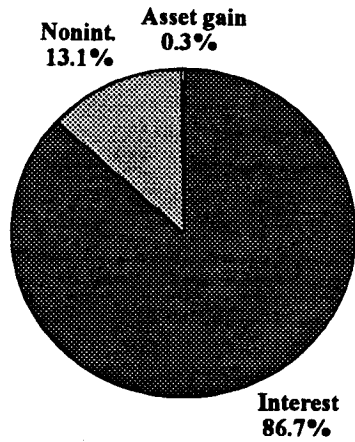
- This is a progress report which***
- ***covers association costs:***
 - **Financial flows, including operating costs**
 - **Operating cost rates**
 - **Some possible causes of differences**
 - ***seeks your feedback and discussion***
 - **Other causes**
 - **Methodology**





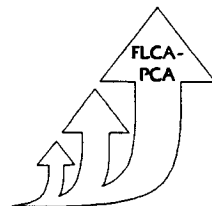
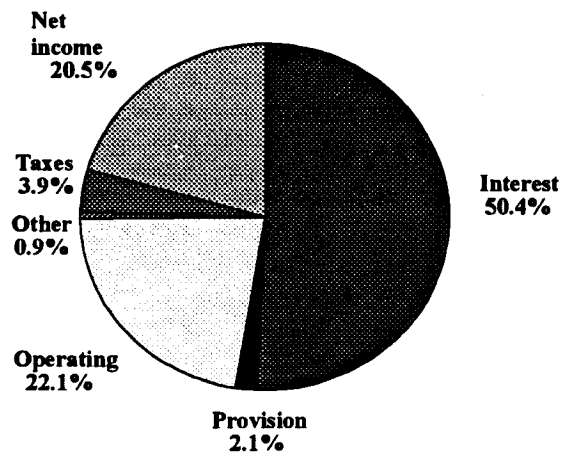
FINANCIAL INFLOWS

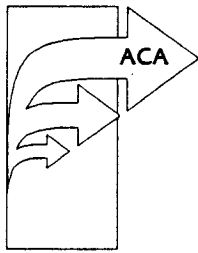
Components of Income, All FCS ACAs and jointly managed FLCA/PCAs, 1994



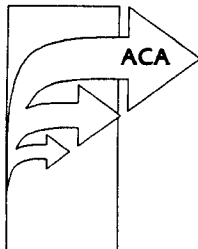
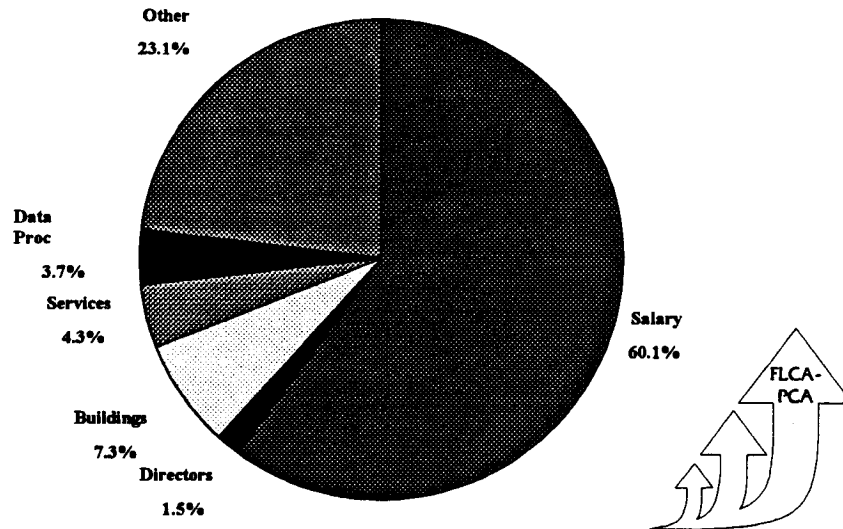
FINANCIAL OUTFLOWS

Components of Financial Uses, All FCS ACAs and jointly managed FLCA/PCAs, 1994



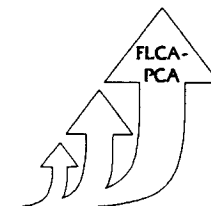


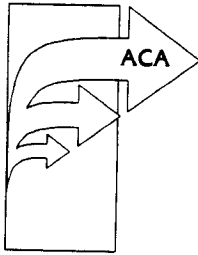
MAKEUP OF OPERATING COSTS



Operating Cost Analysis:

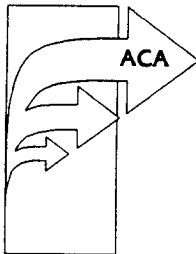
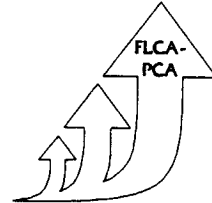
- Selected all ACAs and jointly managed FLCA-PCAs operating in 1994
- Computed operating costs per \$100 of assets for each
- Ranked them and tabulated averages and ranges
- Made simple correlations with possible explanatory variables





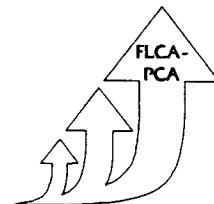
OPERATING COST RATES: Which type of management has lowest?

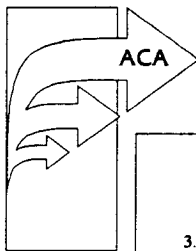
- Lowest cost ACA \$ 0.88
- Lowest FLCA & PCA 1.17
- Average FLCA & PCA 2.48
 - with noncongr. terr. [1.88]
 - with congruent terr. [2.93]
- Average ACA 2.62
- Average PCA top 1/3 of ACAs [1.48]
- Average PCA 2.38



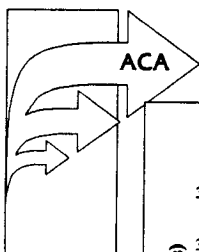
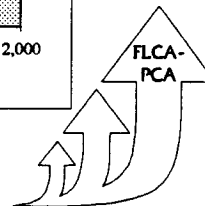
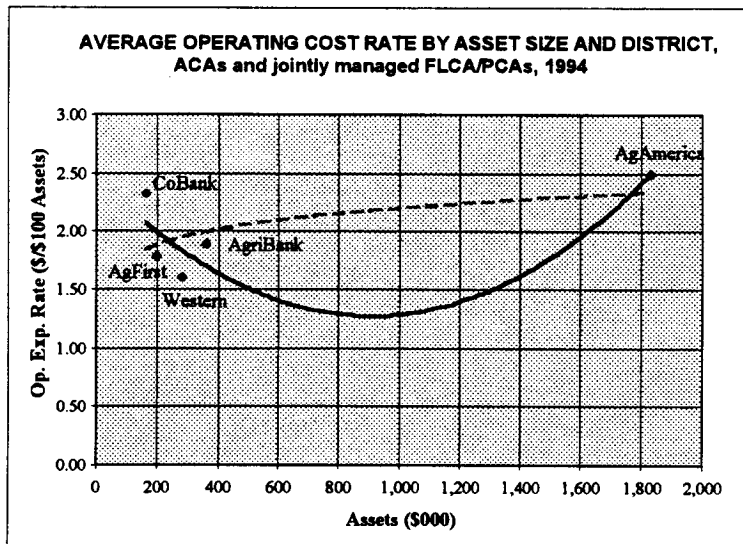
DIFFERENCES IN OPERATING COST RATES

- **Conclusion: More is involved than just the type of business organization!**
- **Some possibilities:**
 - Size
 - Services provided besides credit
 - % of volume in mortgages
 - Functions provided at bank level
- Will look at these in reverse order

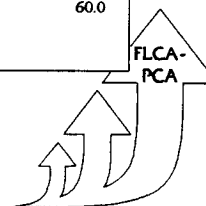
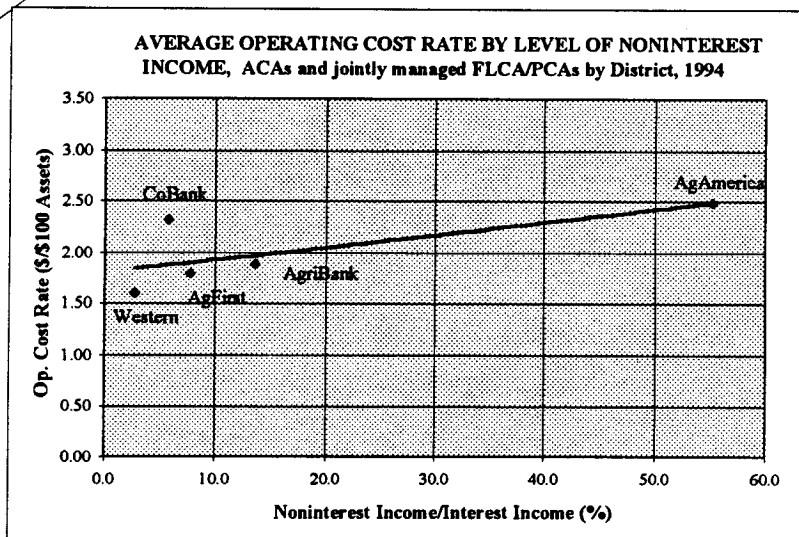


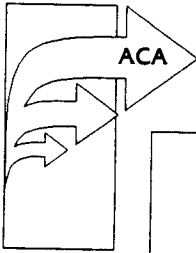


DISTRICT-RELATED DIFFERENCES

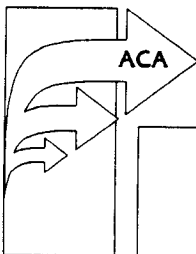
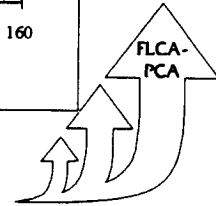
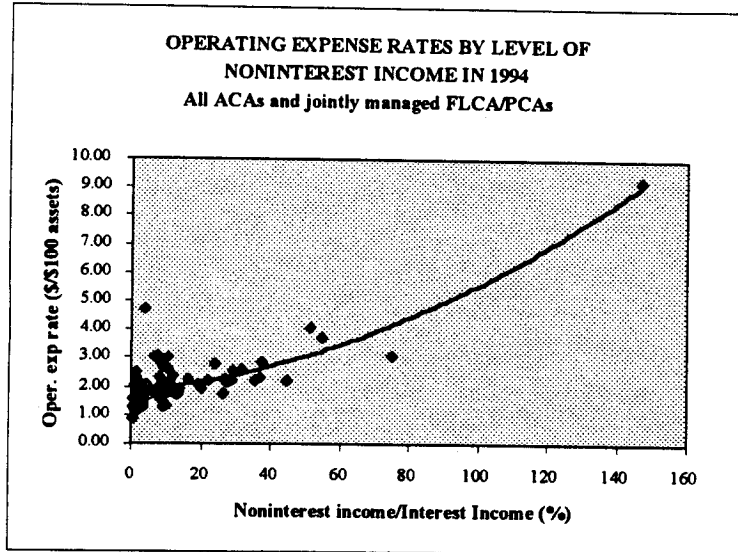


DIFFERENCES BY LEVEL OF NON-CREDIT BUSINESS

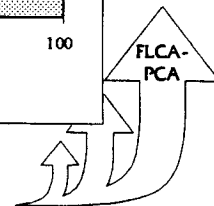
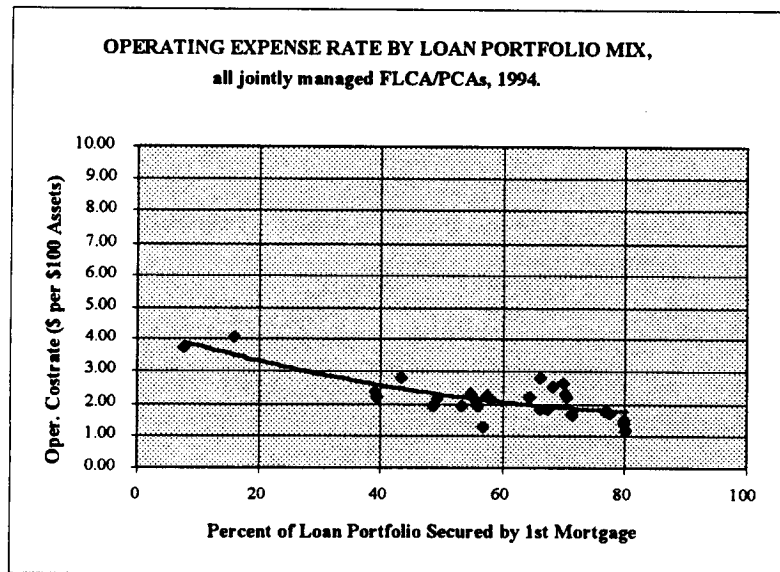


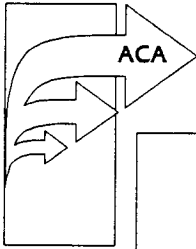


BY LEVEL OF NON CREDIT BUSINESS - Assn. Detail

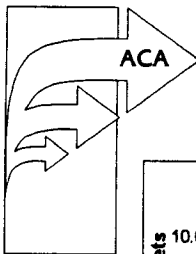
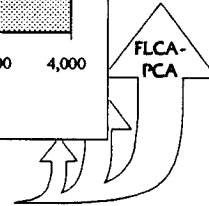
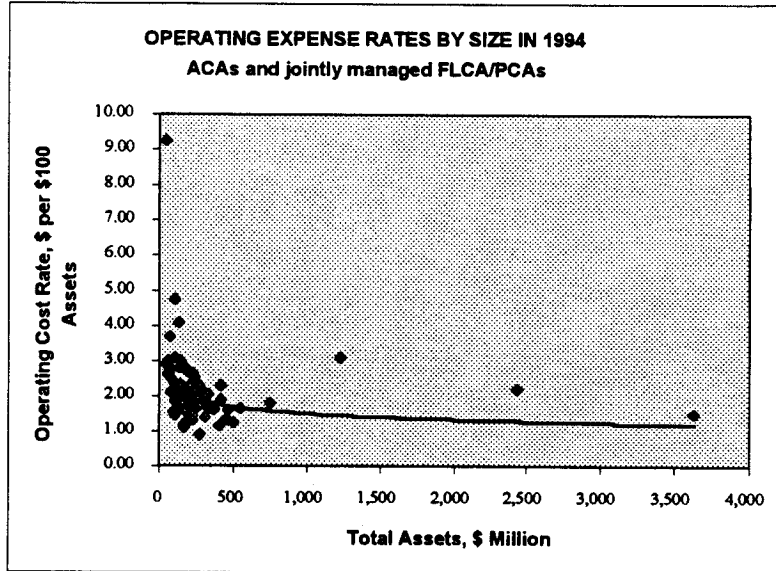


DIFFERENCES BY % OF VOLUME IN MORTGAGES

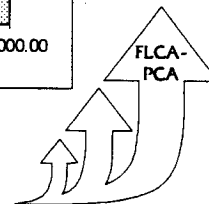
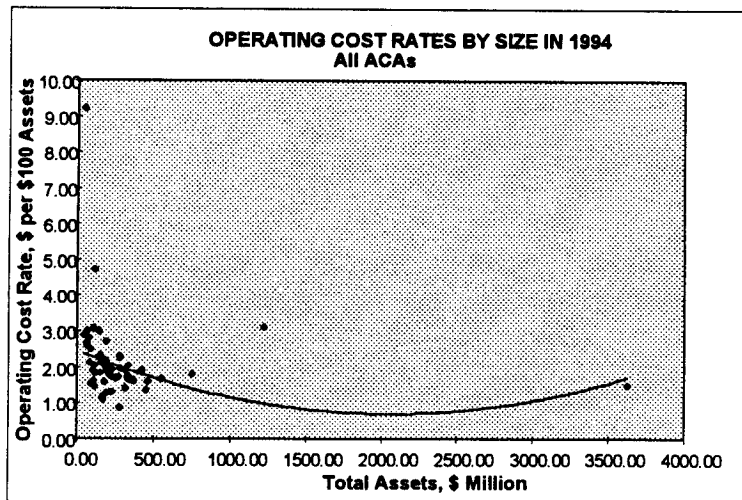


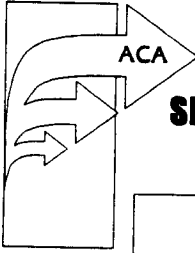


SIZE-RELATED DIFFERENCES

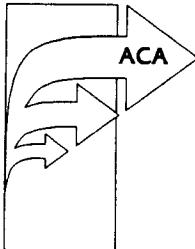
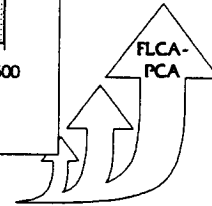
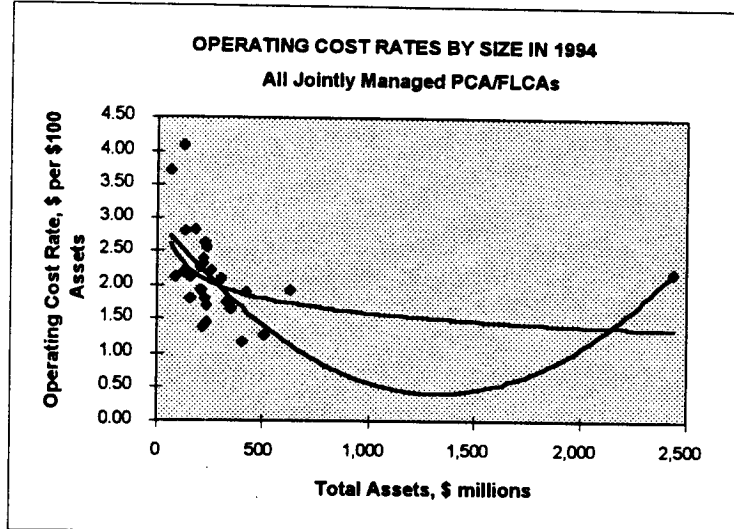


SIZE RELATED DIFFERENCES-ACAs



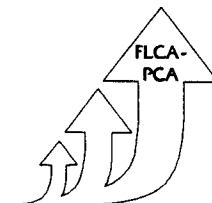


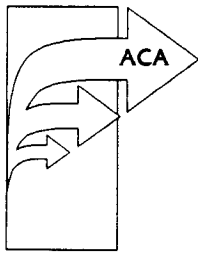
SIZE RELATED DIFFERENCES - JOINTLY MANAGED FLCA-PCAs



SUMMARY OF FINDINGS

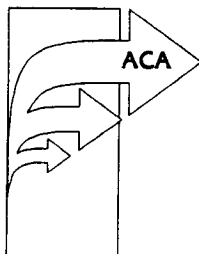
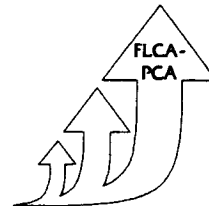
- Financial inflows - 87% is interest
- Financial outflows - 50% interest, 22% operating expense (3/5 is salaries)
- No clear winner between ACAs and jointly managed FLCA/PCAs
- Much cost variation between Associations
- Other factors important -size, amount of noncredit business, district





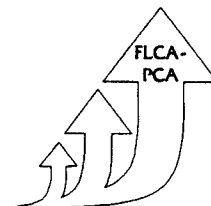
ACA VS FLCA-PCA with JOINT MANAGEMENT

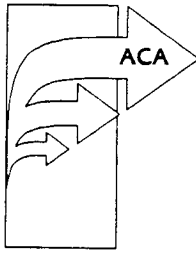
Is One Organizational Form More Efficient Than The Other?
Answer: We don't know yet!
but.....



THE ANSWER COULD BE WORTH MILLIONS !!

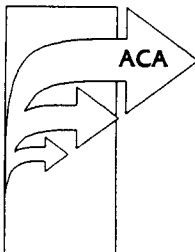
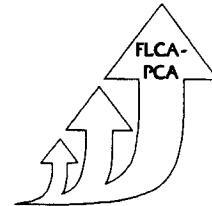
- Association assets in 1994 in ACAs and jointly managed FLCA/PCAs
 - \$27,179,806,000
 - Lowest operating cost rate \$ 0.88
 - Average operating cost rate \$ 1.93
 - difference \$ 1.05
- Theoretical savings \$285.4 million
- \$ 1.05 per \$100 x (\$ 27.2 billion/100)





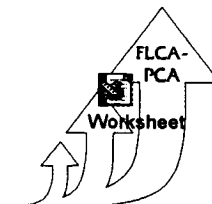
NEXT STEPS - EASE LIMITATIONS

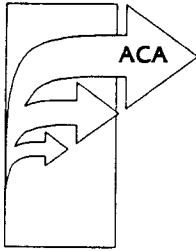
- All comparisons today are simple correlations – all variability “credited” to a single cause.
- Only four variables considered at this point.
- I want to invite your comments on each of these.



What tools are most appropriate?

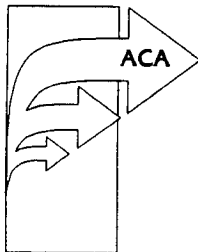
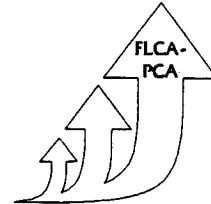
- **Central tendency approaches**
 - multiple regression?
- **Frontier approaches**
 - data envelopment analysis?
 - free disposal hull?
 - stochastic frontier approach?
 - thick frontier?
 - distribution-free approach





What other variables to consider ?

- Possible new variables
- Extent of competition in local market
- Cost of living differences/local pay rates
- Average loan size
- Extent to which mortgages have been downloaded to association
- Credit quality
 - - In addition to
- Size of association
- Mix of mortgage and operating loans
- Extent of non-lending business
- District differences in bank-provided services



Thank you for your attention!

