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FCS Rapidly Consolidating Into Larger Associations

(May 2002)

As loyal *FCW* readers know, the Farm Credit System (FCS) has been consolidating into larger associations at an extremely rapid pace. Not only are Production Credit Associations (PCA) merging with Federal Land Credit Associations (FLCA) to form Agricultural Credit Associations (ACA), but ACAs have been merging to serve larger geographical areas. The days of the local FCS association have almost passed and soon will be gone completely. A comparison of year-end 2000 call report data with year-end 2001 data illustrates more dramatically the financial effect of these consolidations. (See table on next page.)

In terms of total assets, most FCS associations today are much larger than the commercial banks competing against them. The two largest associations – FCS of America ACA and Mid-America ACA – each had total assets at the end of 2001 exceeding \$6 billion.

Mergers since the first of the year have reduced the number of associations by six, to 108. ACAs accounted for 84 of the 108 associations as PCAs and FLCAs continue to form ACAs. Only one of the 38 largest associations at the end of last year was **not** an ACA. *FCW* continues to predict that the number of associations will drop below 100 before the end of this year. In the not too distant future, the FCS will likely shrink to 40 or fewer institutions with an average asset size exceeding \$1.5 billion and a few associations hitting \$10 billion in total assets.

As associations shrink in numbers and the remaining associations retain real estate loans formerly passed up to the Farm Credit Banks (FCB) funding them, the FCBs are becoming almost shells, with little to justify their existence. Not surprisingly, then, two of the six FCBs have announced restructurings that will effectively shrink the number of FCBs to four. CoBank also serves as an FCB, funding four ACAs that serve eight Northeast states. Next Jan. 1, AgAmerica FCB, which now funds just two ACAs, will merge with AgriBank FCB. At the same time, one of its ACAs, Northwest FCS

Financial Effect of FCS Consolidation

(Dollar Amounts in Millions)

Asset size range	December 31, 2001			December 31, 2000		
	Number of associations	Total assets	% of FCS total	Number of associations	Total assets	% of FCS total
More than \$1 billion	13	\$30,260	48.9%	10	\$23,017	41.6%
\$600 million to \$1 billion	13	9,863	15.9	8	6,015	10.9
Cumulative %		64.8			52.5	
\$300-\$600 million	31	13,244	21.4	27	11,613	21.0
Cumulative %		86.2			73.5	
\$100-\$300 million	41	7,631	12.3	68	12,181	22.0
Cumulative %		98.6			95.6	
Less than \$100 million	16	887	1.4	43	2,447	4.4
Totals	114	\$61,885	100.0%	156	\$55,272	100.0%

(the third-largest FCS association), will start funding itself through CoBank while FCS of America ACA (the second-largest association) will fund itself through AgriBank. On Jan. 1, Western FCB, which used to be jointly managed with AgAmerica, entered into a new management agreement with the FCB of Wichita. The two FCBs anticipate a full merger by Oct. 1, 2003. Additional FCB mergers are in the offing.

These consolidations raise two extremely important public policy questions. First, how can the continued existence of the FCBs be justified as associations merge into bigger institutions? Only CoBank has unique powers – lending to agricultural cooperatives and funding export transactions. The other FCBs? Who needs them, except their employees and managers? Second, how can larger and larger associations adequately meet their congressionally mandated mission – serving young, beginning and small (YBS)

farmers? As *FCW* has noted on numerous occasions, the FCS is failing to meet its YBS obligations. This is an issue Congress should address as FCS associations continue to consolidate and close local lending offices.

Improving the Quality of Information FCA Disseminates

On May 1, the Farm Credit Administration (FCA) issued draft guidelines for improving the quality of information it disseminates to the public. Congress mandated these guidelines to ensure and maximize the "quality, objectivity, utility, and integrity of information (including statistical information) disseminated by Federal agencies." *FCW* plans to offer the FCA many ideas for improving the FCS data it releases. Much more detailed information is sorely needed regarding the types of loans FCS associations make and the characteristics of FCS borrowers.