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FARM CREDIT WATCH

FCS Consolidation: The Fat Lady Hasn't Sung Yet

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As *FCW* has reported previously, the Farm Credit System (FCS) has steadily consolidated at the association level. From 390 associations at the end of 1987, the FCS shrank to 203 associations at the end of 1997, to 133 at the end of 2000, and to 99 at the end of last year. Although there have been no association mergers so far this year, a review of association call reports as of the end of 2002 suggests that far more consolidation will occur within the FCS, creating more large, multistate associations focused primarily on serving larger farmers and ranchers while ignoring smaller farmers and ranchers. As *FCW* readers know, the FCS has a special congressional mandate to serve young, beginning and small (YBS) farmers. Consolidation hurts YBS farmers because large associations find it too expensive to serve smaller borrowers.

On Dec. 31, 2002, FCS associations ranged in size from Mid-

America FCS, headquartered in Louisville, with $7.25 billion of assets, to tiny Delta ACA, in Dermott, AR, with just $15.9 million in assets. The second largest association was FCS of America, based in Omaha, NE, with assets totaling $6.98 billion, and the third largest was Northwest FCS, ACA, headquartered in Spokane, WA, with $3.93 billion of assets. The 42 smallest associations had total assets approximating the size of Mid-America FCS, while the two largest associations together had slightly fewer assets than the combined assets of the 60 smallest associations.

The 16 largest associations each had more than $1 billion of assets and accounted for 56.8 percent of total association assets. At the other end of the size spectrum, the eight associations with fewer than $100 million in assets accounted for just 0.7 percent of total FCS association assets. In between, 17 associations fell in the $100 million to $200 million size range (3.6 percent of total association assets), 26 had total assets of $200 million to $400 million (10.8 percent of total association assets), and 32 fell in the $400 million to $1 billion size range, with 28.2 percent of total association assets. Future consolidation will largely occur among the smaller FCS associations as budding empire builders try to catch up with their much larger siblings.

The geographical distribution of FCS associations suggests where future consolidation will take place. The three largest associations serve all or part of 15 states. Mid-America FCS serves all of Indiana and Tennessee and most of Kentucky and Ohio. FCS of America serves South Dakota, Iowa, Nebraska and Wyoming. Northwest FCS serves Alaska, Washington, Oregon, Idaho, Montana and a few counties in California and North Dakota. On the other hand, 15 FCS associations are headquartered in Texas, nine in California, seven in Oklahoma, six in Kansas, five in Florida and four each in Arkansas and North Dakota. These states undoubtedly will see extensive association consolidation in the coming years.

For example, combining the 15 Texas associations would create only the third-largest FCS association.

Internal growth rates (i.e., excluding the effect of mergers) varied greatly last year among the 99 associations. While loans overall grew 12.4 percent at the association level, the fastest-growing association, AgPreference ACA of Altus, OK, grew its loan portfolio 42.9 percent while AgCredit of South Texas experienced the second-fastest growth rate – 29.4 percent. Eight other associations increased their lending by at least 20 percent during 2002. Most of the 10 fastest-growing associations, in terms of loan volume, are fairly small, although Greenstone, based in East Lansing, MI, the fourth largest association ($2.7 billion in assets at the end of 2002), grew its loans by 20.1 percent during 2002 while AgStar, the sixth largest, increased its lending last year by 21 percent. The two biggest associations experienced more moderate loan growth of approximately 10 percent each. Four relatively small associations modestly reduced their lending during 2002.

Loan growth in the fast-growing associations came in part from buying loan participations. One-third of AgPreference's outstanding loans at the end of 2002 were loan participations, most of which were purchased from non-FCS lenders, while 7 percent of its loans were originated with borrowers located outside its chartered territory. Other associations with rapid loan growth who also were active purchasers of loan participations include AgCredit of South Texas, South Florida ACA, Grand Forks ACA in North Dakota, Greenstone and AgTexas FCS.

Several FCS associations have become active in lending outside their chartered territories. As bankers know, it is riskier to lend outside the market you serve regularly. Kingsburg Federal Land Credit Association in California was the leader in this regard, with 28.2 percent of its loans having been originated outside of its chartered territory. Other major out-of-territory lenders at the end of 2002 were Ag New Mexico (25.7 percent), Chisholm Trail of Oklahoma (23.3 percent), High Plains of Kansas (18.2 percent) and American Ag Credit of California (17.8 percent).

Bert Ely's report, *"The Farm Credit System: Reinvented and Mission-Challenged,"* is available as a no-cost download at www.agricultural-lending.com.