

AgriBank Issue Brief

Costs Associated with Re-establishing Service in the FCS of America Territory

The task of re-establishing a new Farm Credit entity in the four-state area currently served by Farm Credit Services of America (FCS of America) would be a significant and difficult effort. In fact, a Farm Credit organization has not been built from scratch in the United States since the years immediately following the Farm Credit Act of 1933. With no loan volume, capital, infrastructure or resources, re-establishing a new Farm Credit association would be extremely challenging.

One alternative (re-establishing Farm Credit in the territory with existing associations) is daunting in its scope due to the sheer size of the current association both in financial and geographic terms. FCS of America is the 2nd largest association in the country with \$7.5 billion loan volume, 44 branch offices and approximately 900 employees and the task of rebuilding the infrastructure and loan volume that would be lost under an exit scenario would be both time consuming and costly.

AgriBank, FCB estimates that to fulfill the Congressionally-mandated mission of providing affordable and reliable credit, comply with the FCA Regulatory directives to serve Young, Beginning, and Small (YBS) customers and provide credit to farmers and ranchers would take a minimum of 10 years just to come close to what would be lost due to the proposed transaction. Significant operating losses and capital requirements related to re-establishing a marketplace presence could total \$300 to \$500 million over five years – capital that would have to come from the farmers and ranchers of other associations contributing to the effort to provide Farm Credit service to the vacated territory. Costs include the hiring of 100-200 loan officers plus the appropriate support staff (customer service reps, credit analysts, appraisers, inspectors, administrative support, etc). Furthermore, there would have to be a physical presence via branch offices, as well as the deployment of technology platforms that would allow for the origination of more than \$1 billion of loan volume (5,000 loans).

Under one scenario it is estimated that it would take four years and \$242 million in operating expenses to recover approximately 56% of the loan volume lost in the event FCS of America exits the System. Although longer-range estimates for loan volume recovery are more difficult to project and are highly dependant upon capital and resources, estimates indicate that it would be at least 10 years before \$7 billion in loan volume would be achieved (approximately \$500 million less than the current level of \$7.5 billion).

AgriBank's analysis points to the challenges of fulfilling the Farm Credit mission in this four-state territory, as well as achieving compliance with terms of the Farm Credit Act regarding service to rural America. This includes the FCA Regulatory directives to serve the Young, Beginning, and Small (YBS) farmers and provide credit to farmers and ranchers in the states of Iowa, Nebraska, South Dakota, and Wyoming. Clearly, such a development would be costly to the farmers and ranchers who own the Farm Credit System.