How Mergers in the Farm Credit System Have Affected Ag Banks

by: Francisco Scott

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Ag banks likely altered some of their strategic portfolio decisions after an FCS merger in their local credit market.

Commercial banks and the Farm Credit System (FCS) have been the most important sources of agricultural loans in the United States in recent decades. Since the 1990s, however, mergers and acquisitions have increasingly concentrated both the FCS and commercial banks, raising concerns about potential effects on the agricultural credit market. Starting in the 2000s, the FCS gained a substantial market share of total agricultural debt, lending credibility to these concerns. Thus far, however, how the FCS's evolving size and scope affect agricultural bank operations, particularly through mergers, has not been adequately examined.

Francisco Scott explores the effects of FCS mergers on agricultural banks (ag banks) and finds that FCS mergers have had mostly muted long-term aggregate effects on ag banks' interest income, efficiency, and agricultural real estate loans as a share of their total loans. However, he also shows that FCS mergers likely decreased ag banks' agricultural operational loans as a share of their total loans and increased ag banks' interest expenses from historically low levels. These findings suggest that FCS mergers may have altered some strategic portfolio decisions of ag banks in their respective markets, though the effects on ag banks’ profitability were relatively minor.

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