

Policy Pennings by Dr. Daryll E. Ray

# Rabobank: A Farm Credit Services of America replacement?

One of the hottest topics lately has nothing to do with the weather. Rather it is the proposal by Rabobank Group, a Dutch banking cooperative with 222 offices in 33 countries, to purchase Farm Credit Services of America (FCSA), a part of the Farm Credit System. FCSA has its headquarters in Omaha, Nebraska and serves more than 59,000 customers/stockholders in Iowa, Nebraska, South Dakota and Wyoming.

The purchase price for the customer-owned FCSA is \$600 million and, if approved, will result in the withdrawal of FCSA from the Farm Credit System. The average FCSA member would receive something over \$10,000 as a result of the sale. In addition, to leave the Farm Credit System, FCSA will have to pay an exit fee of approximately \$800 million to the Farm Credit Administration. This would be the first time that a bank has exited the Farm Credit System, although several mergers and reorganizations have occurred. The Farm Credit System was established nearly 90 years ago to ensure the availability of credit for U.S. farmers and ranchers.

Reacting to this announcement, a neighboring Farm Credit System member, AgStar, made a counteroffer to the members of FCSA. AgStar offered \$650 million. The AgStar purchase would not trigger the \$800 million exit fee because it is a part of the Farm Credit System and would keep FCSA within the system. AgStar serves farmers and ranchers in parts of Minnesota and Wisconsin.

AgStar points out several advantages of their offer over and above the higher price. In addition to the capital distribution, farmers in the FCSA would retain their rights to an on-going stream of patronage dividends. They also would maintain ownership and control because AgStar is a member-owned part of the Farm Credit System.

Another consideration in the whole process is the fact that the proposed Rabobank purchase has to jump through a number of regulatory hoops and garner the

approval of the members of FCSA as well as the Farm Credit Administration which oversees the Farm Credit System. A group of FCSA members opposed to the acquisition by Rabobank has asked for a meeting with the FCSA Board. They oppose the withdrawal from the Farm Credit System. It is also possible that Congress could get involved.

The national Farm Credit Board Chair, Wayne Lambertson, is quoted in an @griculture Online story as saying, "Farm Credit's mission is to ensure that American farmers and ranchers always have a competitive source of financing in good times and bad. Rabobank does not share that mission."

As if to highlight that point, several recent news stories have told of Rabobank's interest in India. Financial Express of India has noted that "Rabobank has a three-pronged India game plan: acquire a bank; leverage existing strengths in its local outfit, Rabo India Finance; and play the role of investor in the soon-to-be-launched Yes Bank." In addition, Rabobank is in discussion with three regional rural banks in India to rationalize them, that is, take them out of the public sector and into the private sector. This is not too different from their plans for FCSA.

The policy question to be wrestled with is whether or not in the 21<sup>st</sup> century there is a need "to ensure that American farmers and ranchers always have a competitive source of financing in good times and bad." And, if so, will Rabobank fill that need?

*Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of the UT's Agricultural Policy Analysis Center. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; <http://agpolicy.org>. Daryll Ray's column is written with the research and assistance of Harwood D. Schaffer, Research Associate with APAC.*

Originally published in *MidAmerica Farmer Grower*, Vol. 21, No. 37, September 10, 2004  
Reproduction Permission Granted with 1) full attribution to Daryll E. Ray and the Agricultural Policy Analysis Center, University of Tennessee, Knoxville, TN;  
2) Copy of reproduction sent to Information Specialist, Agricultural Policy Analysis Center, 310 Morgan Hall, Knoxville, TN 37996-001