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# Measuring the efficiency of the Farm Credit System

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## Abstract

### Purpose

The purpose of this paper is to develop information on the relative efficiency of Farm Credit System (FCS) lenders. Also the evolution of relative efficiency is examined as influenced by the biofuel boom, the financial crisis, and farm income increases. The paper aims to discuss these issues.

### Design/methodology/approach

A stochastic frontier production function is used to estimate technical efficiency of FCS banks and associations.

### Findings

A significant difference is found in efficiency between large and small associations and banks. Larger asset bases and management compensation are found to be positively associated with efficiency. Banks are found to have higher technical efficiency than associations (66-46 percent). Association efficiency is found to be increasing indicating likely effects of recent consolidation. The financial crisis was not found to have a significant effect with the bioenergy and farm income booms being likely countervailing forces.

### Research limitations/implications

Further work is needed on the impact of the biofuel boom, increases in farm income, and new regulations.

### Practical implications

The study provides information and indications of strategies for FCS management including additional consolidation.

management actions such as more consolidation. The study also uses a more advanced methodology compared to older studies.

## Keywords

- Technical efficiency
- Financial crisis
- Agricultural lenders
- Banking efficiency
- Farm credit system
- Stochastic frontier production function

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