Statement on the Small Association Presentation
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Farm Credit Administration Board Meeting
October 14, 2021

In just over 15 years, nearly one-third of Farm Credit System institutions have merged with other System institutions. A disproportionate share of the mergers involved small institutions. During that same period, total System assets almost tripled — to more than $400 billion today.

The small association presentation

One of the priorities of the FCA board is to assess how the needs and challenges of small associations differ from those of large associations and to adopt policies that are appropriate for all stakeholders and are consistent with cooperative principles. In the study discussed today, we solicited input from small associations on three topics:

- The role they play in the cooperative structure of the Farm Credit System
- Their mission achievement
- The unique challenges they face

As our staff noted in the presentation, small associations are seriously committed to their mission. They are very proud of their connection with their borrower-owners. They feel that their size allows them to be customer-friendly, to build good relationships with local farmers and ranchers, and to tailor their services to better meet the needs of their customers. They also emphasized connections to their local communities, motivation to meet the needs of underserved markets, and sharply focused more on mission.

At the same time, small associations have challenges. They point out that obtaining services — in particular, IT services — can be costly and difficult. They also believe that the cost of compliance disproportionately affects their money, time, and staff resources. These challenges make it difficult for small associations to grow their business and expand credit offerings to their customer base.

The discussion of mergers and the challenges of small associations is ongoing; the presentation today did not present conclusions. Some of the challenges identified are outside the control of this regulatory body. However, the purpose of including this presentation in the board meeting today is to acknowledge some of the high-level issues identified and to begin to address things within our control. I note a few takeaways that should inform the board in making policies and decisions going forward.

Balancing efficiency with customer service

A constant drive toward increased efficiency is a key factor in consolidation. We see this all around us in the business world, especially in mature industries. This is especially true with operating costs — and particularly in technology. Access to state-of-the-art financial technology and cybersecurity services may be challenging for small associations with more limited resources. But there can be a trade-off between increased efficiency and customer service and satisfaction. Both must be considered.

Cost of compliance

As the Farm Credit System's safety and soundness regulator, FCA must examine all institutions and approve regulations that set a high standard for all System institutions, no matter the size. We cannot exempt any institution from these standards. At the same time, the cost of compliance may put further stress on already limited resources, particularly in a small association. It is a difficult needle to thread but cannot be ignored.

Cooperative structure

Maintaining the cooperative structure of the Farm Credit System is fundamental to maintaining its status as a government-sponsored enterprise. A basic tenet of a cooperative is ownership and governance by its members. Consolidation and mergers have significantly reduced the representation of borrower-owners in the governance structure of the Farm Credit System as a whole. Each merger has resulted in fewer board members on the combined institution.

We must not forget that every Farm Credit System institution has a public mission, and we must consider the consequences that mergers may have on the ability of an institution to serve the local borrower. We must recognize that preserving local cooperative ownership, presence, and control is important to the System's cooperative structure.

Conclusion

Consolidation and mergers are not inherently bad. In fact, in the Agricultural Credit Act of 1987, Congress made it clear that the Farm Credit System should become more efficient through consolidation and mergers. Consolidation has been a consistent trend within agriculture for decades. In fact, it continues to happen all around us in most areas of our economy.

So, what do we do as a regulator? Do we have a role or even an obligation to look internally to determine whether we could be contributing unduly to this trend? FCA began this fact-finding effort to gather information on the perspective of associations about the changing structure of the System. As a regulator, we must remember that our number one priority is ensuring that the Farm Credit System provides a safe, sound, and dependable source of credit for all creditworthy and eligible persons in agriculture and rural America. To me, that not only means the financial stability of the entire System, but also the safety and soundness of each institution. It also means acknowledging that the differences between large and small associations are important to consider and FCA should maintain a balanced approach, making sure all business models have the opportunity to succeed.