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Remarks of
Mary McBride, President
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at the
Farm Credit Administration Symposium on
Consolidation in the Farm Credit System
McLean, Virginia
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Thank you Madam Chair. I am grateful to be here on behalf of the Board and executive management of CoBank to share our views on consolidation within the Farm Credit System.

Before I share those views, it is important to establish that further System consolidation and the ultimate System structure should be determined under cooperative governance principles by well-informed stockholders with a customer-centric commitment to our congressionally mandated mission using the flexibility that exists under current law. We see no need for further regulation or additional FCA requirements related to consolidation between System institutions. In fact, under existing authorities FCA has consistently and appropriately evaluated the long-term safety and soundness implications of System institution mergers and the capability of the merged institution to meet the needs of eligible, creditworthy borrowers.

With that said, let me respond briefly to the questions we were asked to explore.

The factors driving System institutions to consider consolidation are the same as those driving consolidation in banks and other financial institutions. They include the need for scale to provide products, services, and delivery channels to an increasingly diverse customer base; the need to be competitive and maintain acceptable operating efficiency ratios in the face of shrinking margins due to market competition; the need to provide capacity and knowledge to serve a consolidating customer base competing in capital-intensive businesses in global markets; the need to offer desirable career opportunities to attract, develop and retain high-quality human capital; the need to diversify risk concentrations and consolidate risk-bearing capacity; and the need to absorb increasing non-revenue generating costs associated with the growing emphasis on enterprise risk management and regulatory requirements.

The most significant institutional characteristics when determining how to best serve a territory in an efficient and effective manner are the quality of the board of directors and the executive leadership team, along with the strength and alignment of the financial capital, human capital, and strategic business plan to serve the market.

From our observations, well-executed consolidations significantly improved the System's ability to meet the needs of eligible, creditworthy borrowers, improved operating efficiency, strengthened financial capacity, and provided greater outreach to enhance diverse and inclusive marketplace service.

We see past and future consolidation enhancing opportunities for young, beginning and small farmers and ranchers. We believe the financial, human and risk-bearing capacity of larger System institutions makes them better able to design and implement specific programs serving young, beginning and small farmers and ranchers. When institutions consolidate, they often either create new programs or expand existing programs by dedicating financial capacity and resources to enhance outreach efforts and grow the pool of creditworthy borrowers in these market segments.

And finally, the FCA should consider the safety and soundness of the merged organization in the context of the capabilities of board and executive leadership, the proposed business strategies, the quality of human capital, and the commitment of the merged organization to better serve all eligible borrowers and their rural communities.

Let me address the issue of bank consolidation in the System. CoBank was formed by a merger of banks and recently completed a merger with U.S. AgBank. It is accurate to say, and could be validated by our affiliated associations, that the merger accomplished a great deal in terms of positioning those associations to better serve all eligible customers, enhance outreach for diverse and inclusive marketplace service, and provide increased support to their rural communities. The traditional roles of a Farm Credit Bank we assume in serving our associations–asset/liability management, reporting, direct note accounting, risk management and supervisory responsibilities–are delivered by better qualified people in a more efficient manner as a result of the merger. This has been reflected in reduced direct note pricing for all association customers as well as increased and dependable patronage for all legacy U.S. AgBank associations. These improvements allow associations more options and flexibilities to carry out all aspects of Farm Credit's mission in a highly competitive environment, irrespective of market conditions.

Beyond those traditional Bank roles, CoBank has an association customer relationship philosophy that treats associations as customers in the same manner we treat our retail cooperative customers and other similar businesses. We have well-documented examples of the benefits to customers and rural communities driven by partnerships between associations with significant market knowledge and competencies combined with the additional capacities and competencies of CoBank. It has resulted in greater value to association customers, increased association capacity to serve the full spectrum of eligible, creditworthy borrowers, and meaningful increases to vital corporate social responsibly initiatives in rural communities.

As it relates to further consolidation of Farm Credit banks, we believe there should be at least as many banks as there are models which associations believe are necessary to best serve their territories. CoBank's customer relationship model flows from our Title III authorities and a resulting culture requiring all CoBank associates to earn our customers' business every day. We offer associations the option to reaffiliate with another Farm Credit Bank at any time they believe a change would allow them to better fulfill their mission and provide value to their customer-owners and the rural communities they serve. This policy goes well beyond current FCA regulations which require associations to leave excess capital behind should they choose to reaffiliate. We are not proposing any change in regulation, but believe the concept of "captive customer" has the potential to limit the ability of associations to best serve their territory.

Currently there are three business models in the Farm Credit System–a customer relationship model, a full-service federated cooperative model, and a low-cost wholesale funding model. We believe stockholders should have the exclusive right to determine the number of models and banks. Further consolidation at the bank level driven by association customer choice should be viewed as a strong positive if and when it happens. The continued growth of value-added, customer-centric, efficient associations likely argues for further long-term consolidation amongst the banks to address combined risk-bearing capacity and long-term utility of the banks.

In the longest term–the need to be customer-centric, provide direct line of sight to System earnings and capital by System owners and the investment community, maximize capital utilization by eliminating unnecessary double capitalization, and establish accountability by managing both sides of the balance sheet–begs considering the merger of Bank and Association responsibilities as a strategic alternative for System boards in determining System structure.

The merger of CoBank and U.S. AgBank has also allowed CoBank to better serve its retail cooperative customers and other similar businesses. Although there have been no increases in our board approved hold limits since the merger, other than to increase our ability to support U.S. ag exports, our risk-bearing capacity to handle the ongoing consolidation of our customer base has been extremely helpful. On the opposite end of the market, our increased financial and human capital has allowed us to put more resources towards mission related investments, our corporate social responsibility program, and our outreach initiatives targeted specifically for small and beginning cooperatives. Clearly, eligible borrowers–from the smallest to the largest–have benefitted significantly from the consolidation.

The same consolidation trends we see in our cooperative food and agribusiness customers are also accelerating on the farm. This requires associations to increase their financial, product, service and human capacities through partnerships, alliances, or mergers. We believe all three approaches can drive the same positive results, as they have at CoBank. Together, we have enhanced our ability to better serve all eligible customers and their rural communities. With specific reference to the System in the face of a changing customer base; we are particularly concerned about the ability to continue to attract, develop and retain high-quality human capital. System institutions must be of the size and quality to provide meaningful future opportunities to attract and retain human talent willing to build a career in a mission-based cooperative organization. This is a vitally important consideration as the System has differentiated and branded itself with the high-quality of its people. At CoBank we refer to this as “knowing more and caring more” about our customers. Every System entity must keep a close eye on the strength of their human capital and be prepared to make the substantial investment of time and money necessary to sustain this important competitive advantage.

The Farm Credit System cannot escape changes in an increasingly globalized economy, volatile commodity markets, the financial services industry, capital markets, food, agriculture and rural infrastructure; nor can it escape the growing demands by eligible creditworthy customers to deliver competitive products and services over a variety of secure platforms with the high-touch personalized service and knowledge that differentiates the System. In addition, the System is obligated to fulfill its mission and deliver value to rural America and our stakeholders. We believe the Farm Credit System is in a unique position to fulfill its obligations and deliver value to all those stakeholders irrespective of market conditions. The details and the pace of further System consolidation to better achieve these goals should be driven by the thoughtful recommendations of the boards of Farm Credit banks and associations and the final determination of well-informed stockholders–in keeping with good cooperative governance. Additional regulation or merger requirements would be burdensome, limit the flexibility and rights of stockholders, and result in unpredictable outcomes when System institution stockholders believe and conclude that consolidation is appropriate.

The Farm Credit System has much to be proud of! The System must continue to focus on better fulfilling our mission and remaining competitive in the financial services industry while delivering increased value to our customer/owners, their rural communities and other key stakeholders in both good times and bad. The FCA has an integral role in making sure the System accomplishes those objectives in a safe and sound manner. CoBank’s board and executive management look forward to working with the FCA to that end. Thank you.