Remarks of
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National Council of Farmer Cooperatives
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Farm Credit System Consolidation
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Thank you for the kind introduction. It is an honor to be here today to discuss mergers and the competiveness of Farm Credit System Banks.

As you know, I am currently president and CEO of the National Council of Farmer Cooperatives and the Farm Credit System is absolutely vital to meeting the financing needs of agricultural co-ops of all sizes across the country. But I would like to begin by giving a little more background on my past work. I graduated from Purdue University with plans to join my father and brother on our family farm. But the business of farming was lousy then and my father encouraged me to seek off farm employment.

I ended up working for the Federal Land Bank of Louisville, Kentucky. My choice would have been a good one except for the fact that the FLB of Louisville and the Farm Credit System at that time were in far worse shape than our own family farm. I would eventually leave the FLB to work on agriculture policy for Senator Richard Lugar of Indiana. This career move put me squarely in the middle of the efforts from1985 to 1988 to shore-up the failing Farm Credit System and position it to better meet the needs of agriculture.

As I reviewed the legislative history from those days in preparation for these remarks, I was struck by an often overlooked aspect of those efforts and the contrast it provides to why we are here today.

We are having this conversation today because some believe the Farm Credit System is becoming too concentrated and consolidated. Yet, the key reform of 1987 was not the limited financial assistance Congress provided the ailing system but was instead Congress's action in forcing the Farm Credit Banks and their regulators to reorganize and consolidate the structure of the system to make it more competitive with commercial banks. During the debate, House Agriculture Committee Ranking Member Ed Madigan, who would go on to be Secretary of Agriculture, had this to say, "H.R. 3030 takes bold steps to reorganize the structure of the Farm Credit System to make it more competitive in the future with commercial banks."

The legislation mandated the merger of the Federal Intermediate Credit Banks and the Federal Land Banks. It further required a consolidation from 12 regional banks down to six. Congress directed that the regulators withhold financial help from any bank who refused to make the changes necessary to become competitive. So the clear congressional intent of one of the most

bipartisan and successful pieces of banking legislation ever produced by Congress was to require consolidation for the health of the system.
The Members of Congress who were intimately involved in this process, Congressmen de la Garza, Jones and Madigan, as well as Senators Leahy, Cochran and Lugar were visionaries who recognized the need for a competitive Farm Credit System.

A lot has happened since 1987. The world of agriculture has changed dramatically. We had four-row corn planters the day I left the family farm. I remember writing an outlook memo to Senator Lugar around the time of the 1987 Act where I discussed the impact that 12-row corn planters and minimum tillage would have on the future size of farms. Today 36-row corn planters are not uncommon.

When I was growing up in Benton County, Indiana there were two grain elevators owned by local coops where my family did business—one at Foresman and one at Montmorenci. Today those elevators are not co-ops—they are owned by one family farmer who operates tens of thousands of acres of corn and soybean. As the shape and size of America's farms and ranches have changed, so too have the farmer co-ops serving them.

This is no surprise. The needs of a farmer with thousands of acres are very different than it was on the small family farm where I grew up. Many of these producers have created their own economies of size—a position that used to be reserved for co-ops.

We could devote this entire panel to whether or not these structural changes to farming are good or bad. I have great memories growing up on a farm that raised small amounts of many different crops and produced five different types of livestock. But I also know that farm could just about sustain itself and my family and not too much else. Today the world counts on each farmer to feed themselves plus about 150 more people. Tomorrow that figure will double. Increased food production is a national security issue.

So nostalgia cannot be a part of our food policy no matter how heartwarming. American farmers must produce and compete. We need competitive farmer-owned coops to meet the needs of all producers—large and small. No matter the size of the co-op, though, in order to be successful they need dependable access to credit for capital investments, acquisitions and other initiatives. All of agriculture needs the Farm Credit System to be there for them—in good times and bad times, in the short term and the long term.

The difference in the finance needs of farmer-owned co-ops today versus yesterday cannot be overstated. Today, farmer-owned co-ops are investing member capital in virtually every region of our planet … from Peru, Indiana to the country of Peru.

Since its low point in the mid 1980's the Farm Credit System's banks have made remarkable contributions to American agriculture. I recall a very tense time when I was serving as the Acting Secretary of Agriculture. Grain prices were spiking and many producers and local co-ops, many of them rather small, had product hedged at much lower prices. The industry faced margin calls of an unprecedented magnitude. CoBank was the primary source of credit for most of these cooperatives, providing the resources for them to honor their hedges and meet these margin calls. Orderly marketing was preserved. We could fill the program today with these examples.

I continue to encourage the Farm Credit Administration to recognize the bipartisan mandate from Congress during those fateful years in 1987. Not only should you allow the Farm Credit Banks to compete with their commercial counter-parts, you should do like Congress did and demand it. You are an arm's-length regulator whose charge is to ensure the safety and soundness of the banks. Nothing in the legislative history suggests that Congress wanted FCA to dictate bank size. If anything, the clear direction was for the banks to optimize efficiencies in order to keep 1987 from ever happening again.

While Farm Credit System Banks have clearly gotten larger, I would note that even the largest FCS banks are very small compared to their commercial counterparts. CoBank, the largest FCS lender would rank 29th in the U.S.

From my members' standpoint, it's important that their financial service providers have sufficient scale, lending capacity, financial strength and portfolio diversity to meet their needs reliably in all market conditions. Mergers should not be discouraged if they can help achieve these objectives.

I will close by reminding everyone that the Farm Credit System is itself a cooperative. Profits are plowed back into main street businesses and farms. Record profits among the FCS banks means a better shake for those in rural America who need it most! I also remind you that these banks are run by a board of directors made up of farmers. It has been my observation and experience that these farmer-elected Boards are serious about their commitment to being a different kind of bank—a bank that is committed to being there for their local communities and for those who are less fortunate and for the future well-being of American agriculture. Our system should be the standard by which others are measured.

Thank you again for inviting me.