Statement of FCA Board Member Kenneth Spearman
Regarding the U.S. AgBank-CoBank Proposed Merger
at the Special Meeting of the FCA Board
June 22, 2011

First, I would like to express my appreciation to FCA staff for their extraordinarily diligent efforts in reviewing and analyzing this merger. This merger will result in the largest and most complex System institution; in response to the merger proposal, FCA staff went above and beyond the call of duty in undertaking an unprecedented review to ensure that the FCA Board was fully advised of all of the knowable risks, benefits and ramifications of the potential merger before taking the vote here today. Based on those efforts, I feel confident that we are making a fully informed decision.

Similarly, as Chairman of the Insurance Corporation, I also want to express my appreciation for the extremely diligent work put in by the staff of the Farm Credit System Insurance Corporation in their review of the merger proposal. Their efforts added significant value to the board’s consideration of the proposal and helped shape the approval documents adopted today.

I believe it is appropriate for the FCA board to grant preliminary approval for this merger and to allow the stockholders of these two banks to decide their fate. I believe that the Conditions of Approval adopted by the FCA Board today are necessary and appropriate to address potential risks raised by this business combination while still allowing the stockholders the final say on whether to merge.

I am also comfortable approving this merger because I have confidence that FCA’s Office of Examination is up to the task of ensuring vigilant oversight of the new entity and will be proactive in identifying and mitigating emerging risks.

I am also very pleased that the FCA Board adopted my suggestion and added a requirement related to mission service. I am concerned that as System institutions grow larger and larger, they will be chasing larger and larger borrowers and lose sight of their mission to serve ALL creditworthy farmers and ranchers. I believe that the continued relevance of the Farm Credit System depends on growing the base of borrowers and nurturing a new generation of agricultural borrowers, borrowers who may not necessarily look or operate their businesses like the current generation. In short, I believe that the largest, most dominant, System institution should have an affirmative obligation to ensure that the smallest borrowers have access to System credit.

The requirement adopted by this board will mean that CoBank is obligated to promote diversity and inclusion in marketplace service. This provision also specifically places an obligation on CoBank to support and assist its affiliated associations in their efforts in providing mission service to all eligible borrowers, including young, beginning and small producers, minorities,
non-traditional agricultural producers (including local, organic and specialty crop producers) and other underserved or underrepresented borrowers.

It is, of course, up to the associations to adopt programs and make loans to individual borrowers; I am not suggesting that CoBank should be taking any autonomy away from associations in making individual lending decisions. However, I do believe that CoBank, acting in concert with its associations, will be uniquely situated to use some of its vast resources to provide its associations with effective support and assistance in fulfilling the mission of the System.

We are not dictating what form that assistance should take, and I think that “support and assistance” can encompass a wide variety of efforts, including, for example, financial and technical assistance for geographic expansion of existing programs – such as Farm Credit East’s very successful Farm Start program. It could also include assistance in creating new association-specific or district-wide programs, financial incentives to borrowing associations, education and training, coordination of efforts within the district, data collection, human capital and information technology support and any other effective measures.

Again, we are not dictating what should be in CoBank’s plan, but CoBank will be required to make a tangible commitment by adopting a plan that identifies the specific financial and other resources CoBank will commit to this effort.

CoBank, as the newly dominant Farm Credit System institution, is uniquely situated – and obligated – to provide this important support for mission fulfillment. I have faith that CoBank’s board and professional management is up to the task of leadership in this area and I will continue to urge other Farm Credit Banks to provide similar support to their affiliated institutions to ensure that all of America’s creditworthy farmers and ranchers have meaningful access to System credit.