The proposed merger of U.S. AgBank, FCB and CoBank, ACB comes at a time when much is being said and done to address the issues and concerns of the financial crisis that engulfed the United States, and for the most part, the world financial and banking system since 2008.

Considerable effort has been undertaken, including the passage of legislation by Congress to ensure adequate safeguards are in place to protect the public from risk due to large, complex, and interconnected financial institutions. New rules that will affect “systemically important financial institutions” or SIFI’s, along with banks over $50 billion, will mesh with international standards that are now under consideration by regulators around the globe. Those rules will be strengthening new capital and liquidity requirements in accordance with Basel III and incorporating provisions of the Dodd-Frank Act. I encourage FCA staff to examine these new rules and work expeditiously to provide the FCA Board with recommendations incorporating industry “best practices” into new rules for Farm Credit System institutions.

During my 33 years of involvement with the Farm Credit System, I have seen both the “best of times” and the “worst of times” for the agricultural economy in the United States. I lived through the very difficult period of the 1980’s agriculture crisis and was witness to the revisions to the Farm Credit Act, that for the last two decades, have allowed the Farm Credit System to modernize into what today is a world class, safe and sound provider of credit and related services to the agriculture sector. It does so while continuing to meet its public mission as defined by Congress.

That said, this proposed merger represents the largest transaction of its kind in the history of the Farm Credit System, and has raised a number of questions in the process. The staff of FCA has spent considerable time conducting analysis and studies as requested by me and other Members of the FCA Board. They have carefully reviewed the information submitted in the merger package, and the Farm Credit System Insurance Corporation also conducted significant analysis of the merger. Several outside firms were engaged in additional analysis. This has been the most comprehensive “due diligence” review ever conducted by FCA on any single corporate application.

Bank merger proposals have impact not only on the merging institutions but the entire Farm Credit System. As I have said previously, as the number of System Institutions continues to contract, especially at the Bank level, it becomes more important for there to be a continuing dialogue to build a consensus around the appropriate structure of the System going forward. This is important for both safety and soundness, and mission service reasons. I recognize the efforts of the merging banks to engage other System institutions during the past several months.
In my opinion, the most significant drawback in this merger application has been the issue of concentration risk of a large portion of System assets into a single management team and board of directors. Even though the financial benefits of the proposed merger have been identified, the matter of concentration risk needs special consideration and is best handled in the conditions of merger. I therefore believe the conditions that are being imposed on this merger, will serve the Agency well in its ability to assess risk in a larger more complex institution. When combined with the tools currently at the Agency’s disposal and an enhanced examination program, those conditions which include monitoring, reporting, and stress testing procedures, will allow for the continued safe and sound operation of the combined bank going forward.

Based on all the analysis, I believe it is appropriate to provide preliminary approval of the merger with conditions. While there are certainly pros and cons regarding the proposal, I believe the substantial and solid analysis supporting the merger outweigh the potential drawbacks. With these important conditions in place, it is now appropriate for the stockholders of the merging institutions to be afforded the opportunity to determine the future course of the banks they own, given the ability of FCA to ensure safety and soundness now and well into the future.