Statement of
Wayne Lambertson
Vice Chairman, MidAtlantic Farm Credit, ACA
at the
Farm Credit Administration Symposium on
Consolidation in the Farm Credit System
McLean, Virginia
February 19, 2014

Panelist: Wayne Lambertson

Grain and Poultry Farmer, Pocomoke, Maryland
Director, MidAtlantic Farm Credit; Immediate Past Chairman, AgFirst Farm Credit Bank;
Director, National Farm Credit Council board; Director, Farm Credit Funding Corporation board

Panelist Background

As a director-stockholder, I have had the opportunity to be personally involved in two mergers in the last fourteen years. The largest merger was in 2000, when six associations—ranging in size from $150 million to $250 million in volume—came together to form a $900 million association. Today, MidAtlantic Farm Credit is a strong, stable lender serving Delaware, and parts of Pennsylvania, Maryland, Virginia, and West Virginia. Our portfolio is over $2.1 billion. As a result of the merger, we are involved in lending programs that none of our preceding associations could have supported on their own, including programs for Young, Beginning and Small (YBS) farmers, programs for local food production, rural homeowner programs, and programs for agricultural equipment purchases.

MidAtlantic Farm Credit was part of a smaller merger in 2008, when the association merged with Valley Farm Credit, an association with a portfolio just under $200 million. Today, customer/borrowers of the former Valley association have access to more capital, and additional programs, as mentioned above. In addition, they have benefited from a robust patronage program, with just under $5 million distributed to their membership since the merger.

In addition to my first-hand knowledge of association mergers, I also have had the opportunity to discuss mergers throughout our district as the immediate Past Chairman of the AgFirst Farm Credit Bank board. While association mergers do not require approval by their funding bank, it is important that our bank serve its customers and understands their needs. In that role, our board frequently discussed individual association challenges and the potential benefits and pitfalls of any proposed mergers within our district.

Board Considerations for a Merger

It is every board's responsibility to lead their organization in a way that supports its current members, while also creating a financial institution that will serve their marketplace in the future. As a board discusses its long term strategic plan, the potential for merger often arises. In the mergers that I've been a part of, we always started with the customer, and analyzed whether our borrower/owners' best interests were served by merging with another entity. Some of the specific factors and questions we considered included the following:

- Whether a merged organization could create improved economies of scale and provide increased opportunities for growth
- Whether our portfolio could be diversified, either through the addition of new markets, or through the ability to participate in larger loans with other System partners
- Operating expense savings
- The ability to retain larger loans within our portfolio, rather than participating them with other partners
- The strengths of the potential merger partner—are there opportunities to adopt the "best practices" of each association
- The ability to better withstand increasing competitive pressures
- Combined financial strength which would allow the new board and management to make appropriate investments for the future
- Would the merged association be better able to attract and retain a top workforce
- Would a larger organization have more career path opportunities for current employees
- Is this good for the System: As a co-op there is an advantage in helping keep all Farm Credit Associations strong

As a board considers the above factors, they must also consider the potential downsides for the customer, and how those issues could be mitigated by strong merger planning. Some of the issues we discussed included:

- Minimize potential disruption to borrower/owners
- Keeping our local feel and emphasis on customer service, particularly if the headquarters is moved or offices are closed
- Communicating with staff—they are the first people the customer will call

Potential Merger Advantages

There are obviously advantages to be gained in a well planned and executed merger. A merged association, which is more efficient and effective in serving its territory, will create the following advantages for its borrower/owners:

- A merged association has the opportunity to meet the needs of credit worthy borrowers, and it has the resources to evolve as the marketplace evolves

- The ability to have specialists who are focused on various products and market segments will allow the association to better serve the footprint of its territory
- Larger associations have the advantage of attracting and forming alliances to provide services that smaller associations are unable to provide
- Being relevant in the Farm Credit System means more opportunity to participate in System-wide issues
- There are more risk diversifications in a larger territory: there are less commodity risks, and less geographic risks. If a territory spans multiple states, there is less legislative risk from the state level
- Larger associations can better fund the investment needed for research and development in order to meet customer needs of the future
- More cost effective development of new delivery channels such as the internet and point of sale credit
- More development of new products and services that keep pace with changing customer needs
- The ability to provide a more consistent message and delivery to the marketplace in advertising and public relations
- Because of more resources and expertise, a larger association can enhance its ability to serve young, beginning, small and minority producers. Focused expertise also allows an association to identify new markets sooner and support them more quickly
- A larger association can expand training programs for their borrowers, providing education for critical business skills.

I cannot overstate the opportunities available to a larger organization because of greater resources and talent. As a result of our mergers, MidAtlantic Farm Credit was able to create the following programs for our borrower/owners:

- **StartRight**. A three-tier program focused on YBSM borrowers, the StartRight program includes special interest rates, mentoring and educational opportunities. Included in this program is the AgBiz Masters program, an online learning program. In 2013, we booked $26.5 million in StartRight loans in our portfolio for a total StartRight portfolio of $57.4 million. We have written $150 million in StartRight loans since the program's inception in 2008.
- **Farm Fresh Financing**. A program designed specifically for New Generation farmers, and those in the local food movement. The program offers special underwriting standards to give very small and new farmers access to credit. As of December 2013, we had $81 million in our Farm Fresh Financing program.
- **Farm Credit EXPRESS**. A point-of-purchase program, our Farm Credit EXPRESS program has provided credit to many YBSM farmers, some of whom were not aware of Farm Credit in the past. In 2014, this program will be available to all associations in the AgFirst district, and it will be managed by our association.
- **Diversity Resources**. By allowing our loan staff to specialize in particular areas, we have been able to better support diverse communities in our footprint, including Amish

operations in Pennsylvania and Asian populations on the Eastern Shore. This specialization has allowed us to create materials in other languages, employ translators when necessary, and create programs to specifically address challenges in these communities.

Final Thoughts

When discussing a potential merger, the main question that must be answered is “Does the merger return value to the borrower/owners?” Directors involved in a merger must focus on delivering value and creating an association that serves the stockholders, in both the short- and the long-term. There will be challenges over sensitive issues such as a CEO selection, association headquarters, board structure and governance, and the new association’s name, but the most important consideration must always be given to the borrower/owners.

This is not to say that other stakeholder groups—such as centers of influence and internal staff members—should not also be considered. Appropriate communication is critical to the success of a merger, particularly with staff. Employee severance and retention plans should be communicated on a timely basis, to ensure the smooth functioning of an association as a merger is considered. Communication with centers of influence can help uncover areas of concern in the community, which can be mitigated through more communication, or strategic structural changes in that area.

Board directors have a critical role in the merger process, both in initial discussions and strategic decision making as discussions move forward. In my experience, directors doing their due diligence must be honest and respectful of their colleagues and must work to build a consensus on important issues. The tone of the board will impact the tone and culture of the merged entity. Employees who will not be retained must be treated fairly, and clear and consistent communications must be a priority. It is important to keep employees focused on the reason for the merger—which is to add value to the borrower/owners.

As the Farm Credit Association assesses the safety and soundness of any proposed merged entity, I would suggest they ask whether the respective boards have kept the customer at the center of their discussions. If they have, they should be able to easily answer the question: “Does this merger bring value to the borrower/owners?” In my opinion, that is the guiding strategic question for boards to ask during any merger discussion.