Fact Sheet

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Fact Sheet on Farm Credit System Bank Merger Applications Bookletter—BL-063

The Farm Credit Administration (FCA or Agency) issued a Bookletter containing guidance for Farm Credit System (System) banks to use when preparing merger proposals to submit to FCA.

While a merger of System banks may provide many benefits—including portfolio and geographic diversification, improved risk-bearing capacity, management capability, and operational efficiencies—it may also create broader issues for the merged bank and the System. Three such issues are discussed below.

1. Size-Concentration Risk
   Concentrating assets and funding in a single bank's business model may unduly stress the Farm Credit Insurance Fund and the statutory joint and several liability of the remaining banks. To address size-concentration risk, merger applications must identify needed risk-mitigating controls such as stronger financial performance requirements; enhanced standards and obligations in intra-System agreements; and, possibly, the equalization of risk concentration through association re-affiliations, territorial adjustments, and other structural or financial approaches that could occur at the same time as the merger. As part of the analysis of size-concentration risk, merging banks are expected to consult with other banks on appropriate and acceptable risk-mitigating actions and controls.

2. Business Model Compatibility
   For long-term success, a bank and its affiliated associations need compatible business models. Merger applications must identify and analyze the risks caused by business model incompatibilities and provide practical approaches for addressing them. These approaches may include providing associations that have different philosophies the opportunity to re-affiliate at the time of the merger. Alternatively, the bank may consider refining its business practices or governance structure to create greater compatibility in the district business model, cooperative philosophy, and operating practices.

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3. Intra-System Operational Risk
   A bank merger may concentrate significant influence, management decision making, and authority in the resulting bank. This may affect existing coordination mechanisms within the System on a variety of operational matters. Therefore, bank merger applications must include an assessment of the impact that the merger will have on representation in various Systemwide decision-making and coordination bodies and identify any needed enhancements or new measures that ensure long-term cooperation across the System.

Legal Authorities Governing Bank Mergers
Under §§ 7.0 and 7.12 of the Farm Credit Act of 1971, as amended, two or more System banks may merge if the FCA Board approves the plan of merger. FCA regulations governing bank mergers are found in 12 C.F.R. Part 611, subpart F.

Bank Merger Guidelines
FCA intends to issue bank merger guidelines that describe the bank merger application process and list the specific information and documents that a bank merger application must contain. FCA issued similar guidelines for association mergers in January 2010.

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