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Empire Builders and Heavy Hitters (February 1999)

by Bert Ely

Past issues of *Farm Credit Watch* have discussed consolidation trends within the FCS and the accelerated rate of consolidation that will occur if the Farm Credit Administration (FCA) adopts, as it most likely will, its proposed "customer choice" regulation (see below) which will permit aggressive FCS institutions to lend almost anywhere they want. Driving this consolidation process are the FCS's empire builders. Compared to Federal Reserve Bank and Federal Home Loan Bank presidents, the FCS empire builders are also heavy hitters in the paycheck department. Here are four key FCS empire builders:

• Doug Sims, the CEO of CoBank, a nationwide cooperative bank, is well positioned to become the dominant empire builder within the FCS. Sims, 52, has spent nearly his entire professional career within the FCS. CoBank CEO since 1994, before that, he was chief operating officer for five years.

Headquartered in Denver, CoBank had assets of almost $19 billion at the end of 1997. Soon CoBank will merge with the smaller ($2.4 billion in assets) St. Paul Bank for Cooperatives while taking a majority ownership position in the Farm Credit Leasing Services Corp. In addition to lending to cooperatives, CoBank also serves as the farm credit bank for FCS associations serving New England, New York and New Jersey. Working from that base and with 11 offices across the nation, CoBank is well positioned to become a nationwide lender to larger farming operations if the FCS's "customer choice" rule takes effect. As befits FCS's top empire builder, Sims also is the FCS's top heavy hitter, earning $627,000 in 1997; interestingly, this represents a $20,000 cut from 1996. Still, that is not a bad paycheck for the CEO of a GSE that enjoys substantial tax breaks.

• Terry Fredrickson, the 60-year-old CEO of AgriBank, FCB ($17.7 billion in assets at the end of 1997), probably is FCS's #2 empire builder as well as #2 heavy hitter, pulling down $533,000 in 1997. Fredrickson started with the FCA in 1968 and later moved to the St. Louis FCB, which then merged with the St. Paul FCB to form AgriBank. Serving 11 states in the Midwest, from North Dakota down to Tennessee, Fredrickson's AgriBank is well positioned to expand into adjacent states, and beyond, if "customer choice" takes effect.

• Coming up fast as the #3 empire building and heavy hitter is Jim Kirk, CEO of both the AgAmerica and Western FCBs. These two FCBs, jointly managed from Sacramento, serve 14 Pacific Coast and Western states and had combined assets of $12.9 billion at the end of 1997. Kirk, who declined to supply biographical information to *FCW*, has been running FCBs since 1987, when he became CEO of the Omaha FCB. Last April, a year after he became a co-CEO of Western, he became the sole CEO of both FCBs. When Ag-America and Western will merge is not clear, but Kirk is prospering in the meantime, with his salary rising from $301,000 in 1995 to $464,000 in 1997.

• Another interesting empire builder who would not supply biographical information is Jack Webster, the CEO of FCS of America, which until recently was known as FCS of the Midlands. As a direct lender, FCS of America has served Iowa, Nebraska, South Dakota and Wyoming, where it has gained notoriety among bankers for aggressively peddling below-market-rate loans. With $4.3 billion in assets at the end of 1997 and a name change which reflects an intent to expand outside its present markets, Webster could become a much bigger player within the FCS. Unfortunately, *FCW* could not obtain salary information on Webster.

As one long-time observer of the FCS commented recently, FCS managers have always done a pretty good job of taking care of themselves financially. The numbers certainly reinforce that observation. In 1997, the total compensation of the eight bank-level CEOs within the FCS ranged from Sims' $627,000 down to $210,704 and averaged $401,377. Those figures compare quite favorably with the presidents of the Federal Home Loan Banks (FHLBs), which on average have more assets than FCS banks, and even more favorably with the salaries of Federal Reserve Bank presidents. In 1997, the salaries of the 12 FHLB presidents ranged from $255,000 to $419,000 and averaged $349,363. The salaries of the 12 Fed bank presidents in 1997 ranged from $192,400 to $273,900 and averaged $213,988. Poor Alan Greenspan made just $133,600 in 1997, about one-fifth of what Doug Sims made.

Short Takes

FCA foresees serious FCS loan problems this year

According to a Feb. 12, 1999, news release, the FCA anticipates increased asset quality problems within the FCS over the next 12 months.

FCA Chairman Marsha Martin stated that FCS's "worst case scenario over a 2-year horizon indicates 16 percent of the System's direct lenders and 12 percent of their total assets would be hurt significantly." Given the reports of reckless and below-market pricing reaching *FCW*, one is not surprised by her concerns.

Comments due May 10 on borrower choice regulation

The FCA's comment period on its proposed rule to provide "customer choice" within the FCS will close on May 10. If adopted, this rule, which really should be called the "lenders' choice" rule, will unleash the FCS's taxpayer-subsidized lenders to tear each other apart within the ag lending marketplace. Bankers are encouraged to read the proposed rule — it is posted on the Ely & Company website at **www.ely-co.com/fcareg1.pdf.**

ABA commissions new report by Bert Ely on the FCS

In 1990, the ABA published *The Farm Credit System: Reckless Lender to Rural America*, which was written by Bert Ely and Vicki Vanderhoff. Recognizing the need to revisit FCS issues, the ABA has commissioned Ely to write a sequel, tentatively titled *The Farm Credit System: Reckless Past, Doubtful Future*. While reviewing the past and discussing the present, the report will focus on examining the FCS's future.

Suggestions from bankers for this report are most welcome. **jal**