STATEMENT

of

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PRESIDENT

of the

NATIONAL ASSOCIATION OF WHEAT GROWERS

before the

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON THE JUDICIARY

"THE EFFECTS OF CONSOLIDATION ON THE STATE OF COMPETITION IN THE FINANCIAL SERVICES INDUSTRY"

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Mr. Chairman, Members of the Judiciary Committee, it is an honor to have this opportunity to appear before this Committee today to discuss the impact of bank consolidations and mergers on wheat producers and other U.S. farmers.

I am Bill Flory, a diversified grain farmer from Culdesac, Idaho. This year, I have the honor of serving as the producer president of the National Association of Wheat Growers (N.A.W.G.), a trade association comprised of 23 member state organizations that represent wheat producers on a wide range of public policy issues, including agricultural credit. Mr. Chairman, before I begin my summary of remarks to the Committee, I would like to note for the record that I am not the recipient of any federal grant, contract, or subcontract funding, except for payments received under federal farm programs that are exempt from disclosure. Additionally, the National Association of Wheat Growers does not participate in any grant, contract, or subcontract

programs of the federal government.
While it is unusual for farmers or their organizations to appear before this Committee, the importance of this issue to production agriculture can be easily explained by a brief examination of the magnitude of agricultural borrowing from the various credit sources that lend to farmers.

Prior to the early 1970's total farm business debt for both real estate and operating loans never exceeded $50 billion. The promise of expanded agricultural demand, dramatically improved price expectations, a relatively high level of credit availability, and inflationary pressure on nearly all types of agricultural assets encouraged a dramatic increase in borrowing during the past 25 to 30 years. From its peak of nearly $200 billion in outstanding farm business debt in the early to mid-1980's, to a level of around $150 billion today, farmers, in the aggregate, are now significant consumers of credit. Total interest paid to all credit sources on this indebtedness exceeds $11 billion annually. Production agriculture has a strong vested interest in ensuring that adequate levels of credit remain available to the industry, and in the structure of the financial services industry that will provide financial services in the future.

The N.A.W.G., and farmers in general, are not predisposed to opposing mergers and consolidations in the financial services industry or other economic sectors that impact agriculture. In fact throughout our nation's agriculture history, farms themselves have tended to grow in size as producers have sought new levels of efficiency, lower production costs and enhanced income through economies of scale. That trend continues today, and may in fact accelerate in the future.

For the most part, however, the nation's individual farms and ranches are still "small businesses" compared to those agricultural sectors that provide inputs or are involved in processing and merchandising. While business consolidation appears to be a fact of life, we are concerned that the increased level of concentration within many segments of the industry is not producing either the benefits of scale economies or improved levels of service. In fact, we would suggest that in many instances the opposite is true. It is our belief that many of the consolidations in the last 5-10 year period have served to reduce competition to the point where various sectors can engage in what are effectively monopolistic business practices.

For example, mergers within the rail industry have served to increase the number of captive shippers, failed to provide the improved service levels that were promised, increased the overall cost of transportation to many of their customers, and likely have been able to pass their added costs of the consolidations to customers through higher prices, rather than demonstrating that expanded operating efficiency would allow for customer savings.

Mr. Chairman, we are concerned that a similar impact is manifesting itself within the financial services industry as an increased level of both horizontal and vertical integration occurs. Our fear is that horizontal mergers within the banking sector may not only reduce the availability of credit to farmers and rural America, but will also diminish the level of attention and expertise available to production agriculture. This is particularly true when bank management becomes so removed from its customer base that corporate decisions fail to appreciate the impact of changes to its investment strategy on those customers. At the same time, the cost of mergers to borrowers is likely to increase through higher interest rates, additional service charges, and inconvenience. Although financial institutions may operate 24 hours a day, and exist in a national or even global marketplace, most farms, ranches and other rural businesses are incapable of operating in that environment. While I cannot presume to identify the nationwide impact of further large bank consolidations, experience suggests that the local and regional impact will be negative as competition is reduced in all markets.

In addition to the bank-bank mergers, a number consolidations of banks with other commercial enterprises have been proposed. Again, Mr. Chairman, I am not going to suggest that all such mergers are anti-competitive. In fact, some such arrangements do in fact enhance the availability of services and level of competition in rural America. However, the potential for such merged entities to engage in practices and "effective" requirements that reduce competition and choice are troublesome at best. This is particularly true when both parties already have significant market influence in their respective product markets. We do not believe the so-called product "bundling" that could occur from the creation of large conglomerates with interests in a wide range of financial products is a beneficial proposition for farmers if the result is a further reduction in competition in those product markets. We are concerned that customers may be ultimately "tied" to a basket of financial services dictated by the institution or run the risk of being unable to access any services at all.

Mr. Chairman, I appreciate the opportunity to provide a farmer perspective to your deliberations concerning consolidations in the financial service industry. We believe that this Committee should utilize its expertise and authority to ensure that proposed mergers, prior to their consummation, are subject to a thorough review that addresses company, customer, and public interest needs.

I will be happy to respond to any questions you or other Committee members may have at the appropriate time. Thank you.