2016: Generations of Growth

Texas Organizations Merge to Better Serve Stockholders

In 2013, two adjacent Farm Credit organizations in Texas that were each facing CEO retirements carefully considered what was best for their stockholders moving forward, and decided that the most strategic course of action was to merge into a single, larger entity. And while retiring CEOs may have been the impetus for the merger between Lone Star Ag Credit and Texas Land Bank, the organizations' boards had greater expectations: improved asset diversification, increased equity capital, economies of scale and cost savings, and enhanced strategic positioning.

To attain these significant objectives, the boards started proactively working together even before the merger was fully approved, creating a Merger Committee with representation from each organization that was charged with planning for the merger process. A key outcome of their efforts was the plan for merging the boards themselves, including a restructuring plan that would reduce the initial 20+ member board to a more effective 12 member group. As part of the restructuring, the boards took the opportunity to redraw district lines, establishing more equitable representation than either organization had been able to deliver previously.

"Our boards were committed to open discussion and compromise," says Tom Johnson, Board Chair of Lone Star's Board of Directors. "Not once did we experience an 'us versus them' or an 'old versus new' attitude, and it made a big difference to how smoothly the merger was accomplished."

The boards also selected Lone Star's Troy Bussmeier to be CEO of the merged organization, and empowered him six months before the merger date to start establishing what was viewed as effectively a new entity, defining the culture, policies and procedures as well as developing an operational merger plan. Assisting Troy as he undertook this monumental challenge was a leadership team that included members from both predecessor organizations, who remain his close advisors and top leaders in the new organization.

"Both organizations had strong executive leaders, and we were able to come together to build an even stronger executive team for the new organization," says Troy. "Our collaboration started during the planning process, and continues today."

The merging of the boards and the executive leadership team was indicative of how effectively these two disparate organizations came together: the two staffs also merged without a single job lost, an accomplishment not always achievable during a merger.

“This merger wasn’t at all easy, and Troy and the executive team put in double time to make it happen,” says Tom. “That they were able to accomplish it so successfully speaks to the quality of the people in both associations.”

With Lone Star clearly the larger organization and the boards in agreement about moving forward with that name, leadership recognized that Land Bank employees may harbor concerns that the consolidation was actually a takeover. To alleviate any such worries, Troy and the incumbent Land Bank CEO visited every branch to meet with employees and encouraged open, two-way communication.

“We wanted to be absolutely transparent throughout this whole process so all our employees would feel comfortable with the merger,” says Troy. “Building the trust among our employees and that we recognized their concerns and would respond to their questions went a long way to supporting the merger process.”

That transparency has continued, as several employees are invited to sit in on each board meeting, witnessing first-hand the governance of the bank, and also the communication and camaraderie of the now-merged boards.

The preparation and planning were proven worthwhile when merger day came on January 1, 2014 and throughout the ensuing months as the merging of operations, systems and staff were completed.

As a Farm Credit organization regulated by the Farm Credit Administration (FCA), Lone Star had one more hurdle to overcome: a required post-merger report to the FCA to demonstrate that stockholders were being well-served by the new entity. To develop this report, Lone Star turned to FCC Services, which delivered a comprehensive analysis of how each merger objective was being met.

“Our board is never interested in just meeting any requirement if we can also gain a business benefit at the same time, and that’s what we were looking for from FCC Services,” says Troy. “We expected that the FCC Services report would go far beyond what the FCA required and provide us with an objective assessment of our performance, and that proved to be the case.”

To compile the merger report, FCC Services evaluated independently compiled customer surveys, interviewed directors and employees, and analyzed other market and financial related data. The FCC Services analysis found that all stated objectives had been attained: loan portfolio risk was reduced, equity capital position increased, efficiencies and cost savings were achieved, and strategic positioning of the organization was improved.

Moreover, according to Bill Wilson, Director of Agribusiness Consulting who led the merger report effort, “Our analysis also determined that the merger has been well received by the stockholder-

borrowers, credit and service needs were being effectively met and that Lone Star's stockholders deemed the merger a success."

Beyond the merger being a success, Lone Star believes the merger report was also a success. "The FCC Services report validated what we believed to be true and provided a quantification of our objectives, which more than satisfied the board and our regulators," says Tom. "It also gave us a roadmap for moving forward, enabling us to project our performance and establish our next set of objectives."