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Financing Rural America in the Future

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FINANCING RURAL AMERICA IN THE FUTURE

By Jim Plerson
President and COO
CoBank

Presented to
NC-207 Annual Meeting
Oct. 6, 1997, Denver

- CoBank is honored to host the annual meeting of NC-207
- I've been asked to provide information on financing rural America in the future

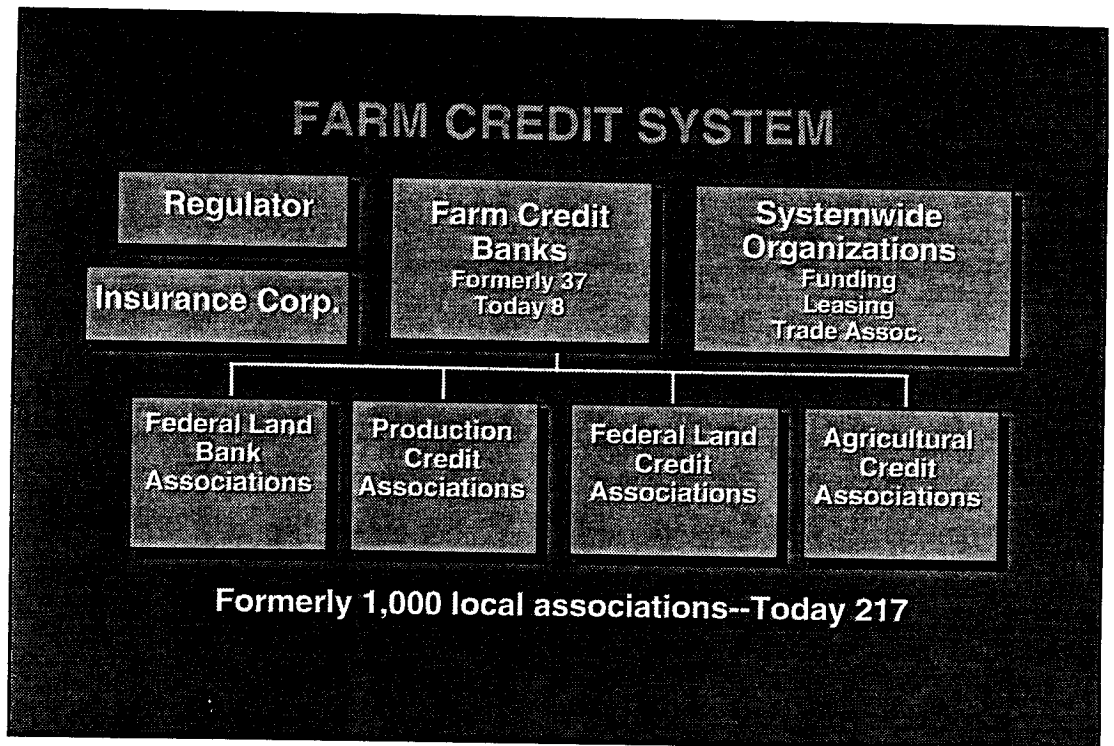
OVERVIEW

- ◊ Update on the Farm Credit System and CoBank
- ◊ Financial services outlook
- ◊ Ag/rural marketplace trends
- ◊ Challenges



OVERVIEW

- Yogi Berra once said, the future ain't what it used to be. That's certainly true in the financial services industry today. It's also true for Farm Credit, for CoBank, for agriculture and for ag co-ops.
- Today I'll provide an update on CoBank and the Farm Credit System, and our battle plan for how we'll serve our customers in the future
- I've also been asked to offer our perspective on the financial services industry and the ag and rural marketplace.

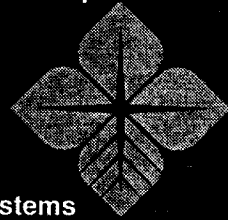


First I'd like to explain how CoBank fits into the FARM CREDIT SYSTEM

- Farm Credit associations provide credit to farmers and ranchers
 - There has been a great deal of structural change in recent history-- primarily through consolidations and mergers. Formerly, there were 1000 associations; now there are 217.
- Farm Credit banks provide funds to the local associations
 - Formerly there were 37 banks; now there are 8. Six of the banks are regional Farm Credit Banks which fund local Farm Credit associations. St. Paul Bank is a Bank for Cooperatives. And CoBank finances both Farm Credit associations and cooperatives.
- Farm Credit entities are owned by customers they serve
 - Stockholder-owners elect local directors, as well as directors for their bank
- Real estate loans are provided through Federal Land Banks and Federal Land Credit Associations
- Short-term loans are provided through Production Credit Associations
- Plus, today, in some areas, both short- and long-term loans are offered through Agricultural Credit Associations
- All Farm Credit institutions are regulated by the federal Farm Credit Administration
- We all fund our own insurance corporation to insure against System losses
- We have three Systemwide service organizations
 - The Funding Corp. raises funds through the sale of securities
 - The Leasing Corp. offers leasing services to our customers and
 - The Farm Credit Council is our trade association, providing legislative, insurance, training and other services

EVOLUTION OF SERVING RURAL AMERICA

- 1916: Congress created Farm Credit System to serve farmers
- 1933: Formed Banks for Cooperatives to serve ag co-ops and rural America
- 1966: Made first electric loan under farmer-owned co-op eligibility
- 1971: Expanded services to rural homeowners and electric and telecom systems
- 1980: Began international export group
- 1989: CoBank formed (11 BCs merge)
- 1990: Expanded services to rural water/waste systems
- 1994: Gained new authorities to finance any ag export, to loan to international joint ventures and partnerships, and to buy and sell loans
- 1995: CoBank merges with Springfield FCB, BC



There has also been change to our capacity to serve rural America.

The Farm Credit System was created by Congress in 1916 to provide much-needed financing to farmers. Over the years, we have worked with Congress to expand our services to rural America

- In 1933, Congress formed the Banks for Cooperatives to serve ag co-ops and rural America
- In 1966, the Banks for Cooperatives made their first electric loan under farmer-owned co-op eligibility rules
- In 1971, we expanded to provide loans to rural homeowners and to electric and telecom systems
- In 1980, we began international export group
- In 1989, CoBank was formed with the consolidation of 11 of the 13 Banks for Cooperatives
- In 1990, CoBank expanded services to rural water and waste systems
- In 1994 we gained new authorities to lend to international joint ventures and partnerships, and to buy and sell loans
- In 1995, CoBank consolidated with the Springfield, Massachusetts, Bank for Cooperatives and Farm Credit Bank of Springfield, making CoBank the first Agricultural Credit Bank in the Farm Credit System. As an ACB, we're the only bank in the System that finances both ag co-ops and Farm Credit associations.

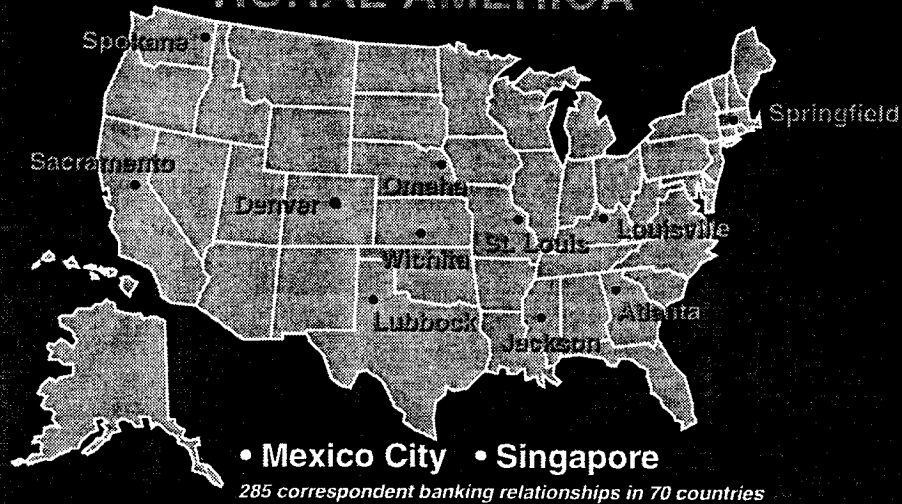
COBANK PROFILE

- **Rural America's Cooperative Bank**
 - Owned by 2,300 stockholders
 - Governed by board elected by stockholders
 - Approximately \$19 billion in assets
- **Largest bank in Farm Credit System**
 - FCS has \$61 billion in assets
- **Specialists in rural utility, cooperative, agribusiness, Farm Credit association and agricultural export financing**
- **Operates on cooperative basis with a substantial portion of earnings returned to owners in patronage refunds**

If I were to paint a profile of CoBank, it would look something like this:

- We're Rural America's Cooperative Bank
 - We're owned by our 2,300 stockholders
 - We're governed by a board elected by our stockholders
 - At June 30, 1997, we had approximately \$19 billion in assets
- We are the largest bank in the Farm Credit System
 - The System has \$61 billion in assets
- CoBank specializes in rural utility, cooperative, agribusiness, Farm Credit association and agricultural export financing
- The bank operates on a cooperative basis, with a substantial portion of earnings returned to owners in patronage refunds

INTERNATIONALLY RECOGNIZED COOPERATIVE BANK SERVING RURAL AMERICA



We are unique!

- We are internationally recognized
 - Our International Banking Group has relationships with 285 correspondent banks in 70 countries throughout the world. We have representative offices in Mexico City and Singapore.
- We are a cooperative bank specializing in serving rural America
 - Our national office is located in Denver, and we serve our 2,000 domestic customers from 10 additional banking centers throughout the nation.

RURAL AMERICA'S COOPERATIVE BANK

Customer Owned - Customer Driven - Customer Controlled

Business Philosophies

Sound Lending - Customer service - Financial Performance - Funding
Technology - Capitalization - Ownership, control and board representation
Corporate values - International banking - Organizational relationships
Competitive posture - Cooperative and rural development
Growth & scope of business - Human resources - Corporate citizenship

Mission

As Rural America's Cooperative Bank, CoBank's mission is to be the preferred provider of financial services for its customers to enhance their business success.

Motto

Committed to Customer Success

Through
Customer
Service

Through
Employee
Excellence

Through
Bank
Performance

We are guided by our vision of enhancing our role as Rural America's Cooperative Bank.

- This slide captures the essence of our vision, from our business philosophies to our mission and motto.
- Although we have 15 business philosophies and practices that drive our strategic and business activities, they all essentially support four major objectives:
 - They reflect the best interests of our stockholders
 - They strengthen the financial condition of the bank
 - They enhance our public policy purpose
 - They improve the quality of life in rural America.
- **Last, but not least, the key to achieving our vision is our commitment to customer success.** We realize that commitment by focusing on customer service, employee excellence, and bank performance.

COBANK FINANCIAL POSITION

June 30, 1997

Total Assets	\$18.7 billion
Loans Outstanding	\$15.3 billion
Capital	\$1.3 billion
ROE	11.06%

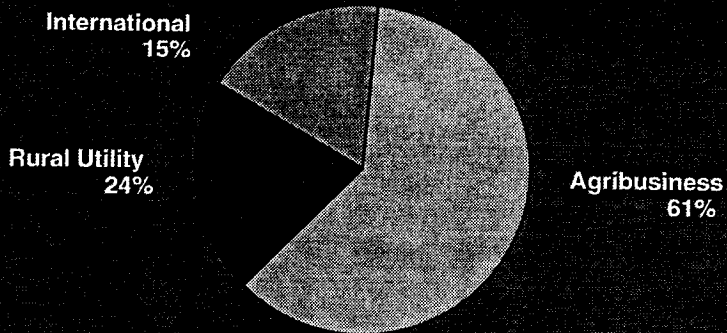
Our vision has served us well. Today, CoBank continues a tradition of financial strength

- As of June 30, our assets totaled \$18.7 billion
- Loans outstanding were at \$15.3 billion and
- We had a capital base of \$1.3 billion
- We offered our stockholders an average return on investment of 11.06%
- We've returned \$80 million in patronage for the past six years
- For 1996, our Capital Plan reduced effective interest rates for our customers by an average of 58 basis points
- We don't require up-front equity purchases beyond a \$1,000 minimum.
Instead, our customers build their investment over time.
This helps us attract new customers.

COBANK LOANS OUTSTANDING BY GROUP

June 30, 1997

Loans outstanding: \$15.3 billion



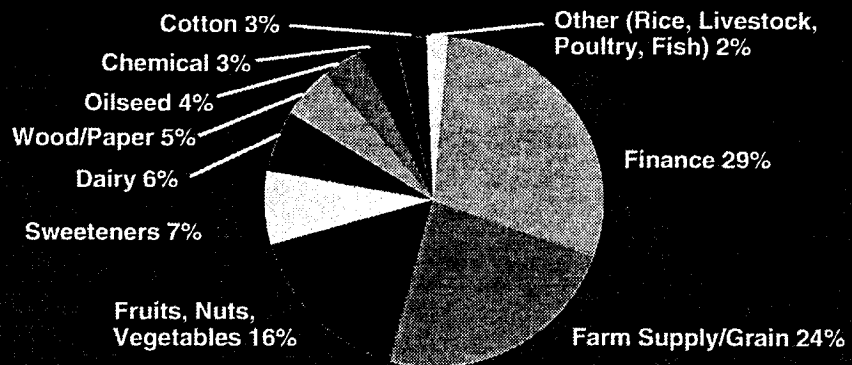
This pie chart illustrates how our three customer groups contribute to our bottom line

- Of our total loans outstanding of \$15.3 billion...
- Agribusiness continues to make up the largest piece of our loan pie, with 61 percent
- The rural utility share of the pie continues to grow, now making up 24 percent of all CoBank loans
- And our international export portfolio makes up about 15 percent of our loans

AGRIBUSINESS LOANS OUTSTANDING BY INDUSTRY

June 30, 1997

Loans outstanding: \$9.3 billion



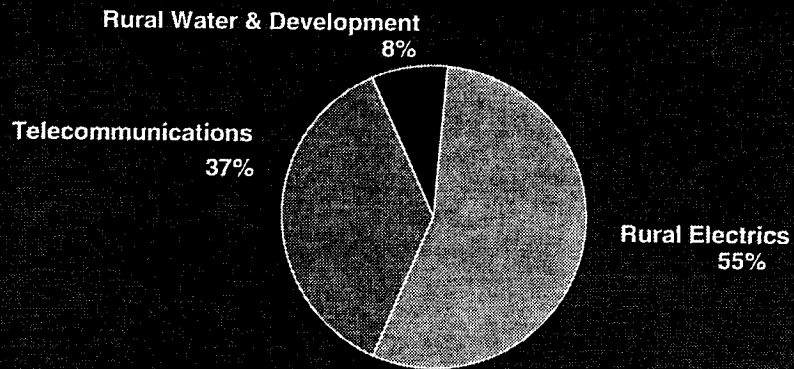
Our agribusiness loans total \$9.3 billion. If you analyze our agribusiness loans by industry...

- Finance co-ops are now the largest share of our agribusiness pie. As I said earlier, we are the System's only Agricultural Credit Bank, which means we lend to cooperatives as well as to Farm Credit associations. This is one of the reasons our finance co-op lending has grown. In addition, our ag co-op customers, like Southern States, Growmark and Countrymark are also offering more financial services to their customers.
- Farm supply and grain loans make up another large chunk of our agribusiness loan pie
- We serve all types of ag co-ops, including fruit, nut and vegetables, sweeteners, dairy, wood, oilseed, chemical, cotton and others
- Many of our customers' products are household names--like Sunkist, Welch's, Ocean Spray, SunMaid, Farmland Foods, Norbest Turkeys, Blue Diamond Almonds, Riceland Foods, and Sunsweet. Many people don't realize that ag co-ops own more than 1,000 brand names.

RURAL UTILITY LOANS OUTSTANDING BY INDUSTRY

June 30, 1997

Loans outstanding: \$3.7 billion



Rural utility loans total \$3.7 billion

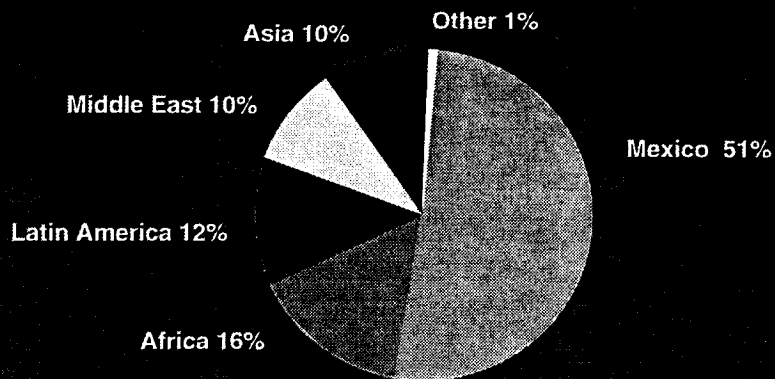
- Rural electric systems continue to make up the greatest share of our rural utility business
- Telecommunications loans are closing in fast. This is the fastest-growing segment of our entire portfolio
- We began lending to rural water and waste disposal systems just seven years ago, and while the loans are generally small, they are growing in number.

It's just one more way we are filling a need in rural America.

INTERNATIONAL LOANS OUTSTANDING BY AREA

June 30, 1997

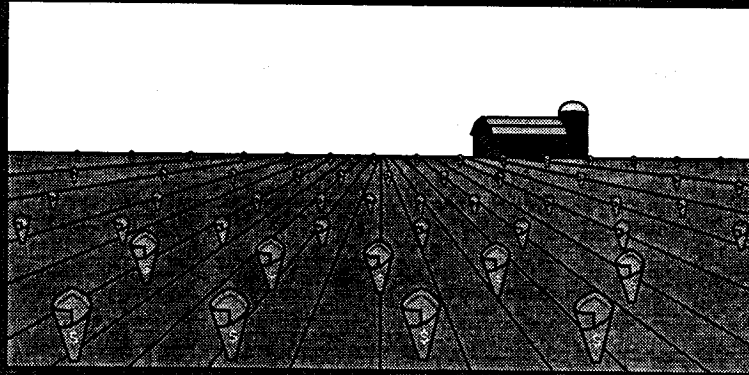
Loans outstanding: \$2.3 billion



We provide international export financing for the benefit of ag co-ops and U.S. agriculture

- Today our international loans total \$2.3 billion
- We finance exports primarily to developing countries. Our largest and oldest international market continues to be Mexico. We've had an office in Mexico City for several years.
- Other large markets include Africa, Latin America and the Middle East.
Like others in agribusiness, we are excited by the business opportunities in Asia and the Pacific Rim, which is why we opened our Singapore office this year.
- While we can finance any U.S. ag export, 99 percent of our business continues to be with ag co-ops.

THE OUTLOOK FOR THE FUTURE

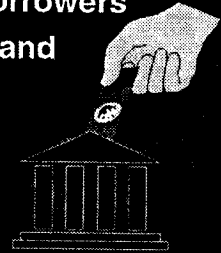


Financing Rural America

- Now I'll turn to the outlook for financing rural America

1997-2001 FINANCIAL SERVICE ASSUMPTIONS

- Major structural change has occurred, and is occurring, resulting in better-managed and financially stronger competitors
- Continued consolidation of the industry
- More international competition in domestic markets
- Increased access to capital markets by borrowers
- Narrower spreads from intense domestic and international competition
- Higher risk lending environment
- Bank regulators will be consolidated



What kind of competitive environment will we be operating in for the next three or four years? Here are our assumptions about the financial services industry through the year 2001.

- Major structural change has occurred, and is occurring, resulting in better managed and financially stronger competitors
- The financial industry will continue to consolidate
- We face more international competition in domestic markets
- Borrowers will need increased access to capital markets
- We'll continue to earn narrower spreads as a result of intense domestic and international competition
- It's a higher risk lending environment
- We expect that bank regulators will be consolidated

1997-2001 FINANCIAL SERVICE ASSUMPTIONS (Cont.)

- Continued shift from lending income to fee-based income
- Focus on customer service and market share
- Asset quality and profitability will be difficult to maintain
- Technology investments will increase productivity and competitiveness
- Increased pressure on productivity and cost control
- Customer expectations will increase



1997-2001 FINANCIAL SERVICE ASSUMPTIONS (cont.)

- We see a continued shift from lending income to fee-based income
- There's more focus on customer service and market share
- Asset quality and profitability will be difficult to maintain
- Technology investments will increase productivity and competitiveness
- There's increased pressure on productivity and cost control
- And through it all, customer expectations will increase

1997-2001
AG/RURAL MARKETPLACE

- Globalization of markets will continue to affect rural America
- Restructuring and consolidation will continue
 - Fewer, larger, stronger farms and agribusinesses
 - More integrated food/marketing system
 - Resulting in increased business risk
- Satisfying top 20% of customers will be critical
- Technology and deregulation will increase market risk and volatility
- Competition for customers and markets will continue to increase
- Interdependent relationships and alliances will continue to grow to access capital, markets and expertise

Now let's turn to our customers--what will the ag and rural marketplace look like in the next four years?

- Globalization of markets will continue to affect rural America
- Restructuring and consolidation will continue
 - There will be fewer, larger, stronger farms and agribusinesses--
and that includes ag co-ops
 - And a more integrated food/marketing system
 - Which will result in increased business risk
- Satisfying the top 20% of our customers will be critical
- Technology and deregulation will increase market risk and volatility
- Competition for customers and markets will continue to increase and
- Interdependent relationships and alliances will continue to grow as organizations seek access to capital, markets and expertise

FARM CREDIT BUSINESS IMPERATIVES

What does the System need to do to be a dominant player in the financial services industry?

- Grow the business base beyond today's capacities and authorities
- Provide products and services that add value to customers
- Reengineer the current credit delivery system
 - Reduce costs
 - Better use technology
 - Consolidate
- Improve the System's performance as a business
 - Market penetration
 - Customer satisfaction
 - Financial performance
- Be viewed as the preferred provider in our marketplace

The Farm Credit System must act on several business imperatives.

We must ask ourselves what we need to do to be a dominant player in the financial services industry.

- We must grow the business base beyond today's capacities and authorities
- We must provide products and services that add value to customers
- We must reengineer the current credit delivery system to
 - Reduce costs
 - Better use technology and
 - Consolidate
- We must improve the System's performance as a business
 - by improving market penetration
 - improving customer satisfaction
 - and improving financial performance
- At the end of the day, we must be viewed as the preferred provider in our marketplace.
- CoBank continues to work on all of these imperatives and we are urging other institutions in the System to do the same

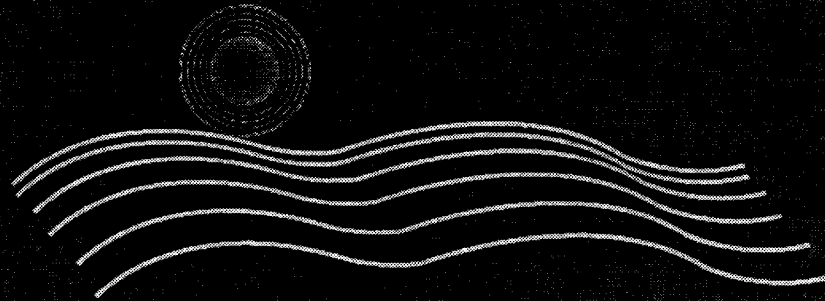
COBANK BUSINESS IMPERATIVES

- **Grow and diversify the business through internal growth, mergers and consolidations**
- **Maintain high customer satisfaction and market share**
- **Develop domestic and international strategic alliances that will increase product capacity and fee income**
- **Achieve a broader business charter for CoBank and the Farm Credit associations to serve agriculture, agribusiness, and the rural community**
- **Increase CoBank's competitive advantage by effectively using information technology and enhancing depth and breadth of employee and managerial capacity**

Now I'll cover the business imperatives we face at CoBank.

- We are working to grow and diversify the business through internal growth, mergers and consolidations
- We are working to maintain high customer satisfaction and market share
- We are developing both domestic and international strategic alliances that will increase product capacity and fee income.
- Achieve a broader business charter for CoBank and the Farm Credit associations to serve agriculture, agribusiness and the rural community.
- And finally, to increase CoBank's competitive advantage by effectively using information technology and enhancing depth and breadth of employee and managerial capacity

OUR FUTURE IS BRIGHT



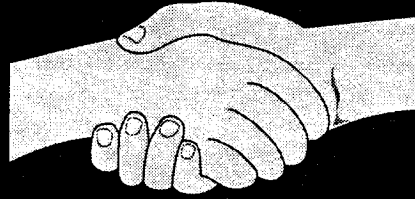
IF

- We continue to adapt
- We continue to learn
- We continue to grow

The future is bright for us at CoBank IF

- We continue to embrace change
- We continue to learn
- We continue to grow
- We firmly believe we are uniquely positioned to compete and win in the 21st century.
- But it won't come easy. Each day, we must look at our competitors and our customers to measure our success. We're currently working on a strategic research project with AgriBank, another large bank in the Farm Credit System, to interview our customers and prospects and to ask them what they will need from their financial providers in the future.
- We have to listen to our customers and anticipate their needs like never before. We must adapt, learn and grow with them, and sometimes we must lead them and encourage them to grow.

WE CAN'T DO IT ALONE



We'd like to work with you and others
to enhance our role as
Rural America's Cooperative Bank

We can't meet these challenges alone.

- We'd like to work with you and others to enhance our role as Rural America's Cooperative Bank



We need your help, because one thing's for sure about the future.

**What got us where we are
will not get us where we need to be.**

We must all continually assess where our customers are going, where our competitors are going, and where we are going. And we must determine new and better ways of getting there. Thank you for your attention. I look forward to your questions.

COBANK



Rural America's Cooperative Bank