STOWARZYSZENIE EKONOMISTÓW ROLNICTWA I AGROBIZNESU
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Rafał Balina

Warsaw University of Life Sciences – SGGW, Poland

THE FARM CREDIT SYSTEM – AN OVERVIEV ON THE U.S. COOPERATIVE BANKING SYSTEM

THE FARM CREDIT SYSTEM – PRZEGLĄD SYSTEMU BANKOWOŚCI SPÓŁDZIELCZEJ W STANACH ZJEDNOCZONYCH AMERYKI

Key words: The Farm Credit System, cooperative banks, loans
Słowa kluczowe: The Farm Credit System, bankowość spółdzielcza, kredyty

Abstract. The aim of the article was to present the cooperative banking system functioning in the United States of America. Article was related to the organizational structure of the system and basal its functions. The analysis showed that the US cooperative banks are focus on their activities on financing activities of farms and agricultural enterprises by providing them with loans. More than 85% of the loan portfolio structure of The Farm Credit System were loans in the amount not exceeding 250 thous. USD**.**

Introduction

The Farm Credit System (FCS) was created to provide a permanent, reliable source of credit to U.S. agriculture. When Congress enacted the Federal Farm Loan Act in 1916, credit often was unavailable or unaffordable in rural areas. Many lenders avoided farm loans due to the inherent risks of agriculture. After 55 years the Farm Credit Act of 1971 was amended first time. The 1971 act, along with amendments added in 1980, significantly expanded the range of services Farm Credit institutions could offer [Ely 2012]. These services included rural home mortgages, leasing services, and international and rural utility lending. It also expanded certain authorities of local associations and led to a major reorganization of the Farm Credit Administration.

As American agriculture plummeted into recession in the early and mid 1980`s, Farm Credit predictably suffered severe financial stress. After this devastating period of rising inflation and collapsing farmland values, the legislation of the mid 80`s made several major revisions to the structure and operations of the Farm Credit System and provided financial assistance in the form of a fully repayable, privately financed line of credit which was guaranteed by the federal government. The major changes were made in 1987 [Walser, Anderlik 2003]. As American agriculture plummeted into recession in the early and mid 1980`s, Farm Credit predictably suffered severe financial stress. During a three-year period from 1985-1987, Congress passed several laws to deal with recessionary economic and agricultural conditions. After this devastating period of rising inflation and collapsing farmland values, the legislation of the mid-80s made several major revisions to the structure and operations of the Farm Credit System and provided financial assistance in the form of a fully repayable, privately financed line of credit which was guaranteed by the federal government.

Nowadays the FCS is authorized by statute to lend to farmers, ranchers, and harvesters of aquatic products. Loans may also be made to finance the processing and marketing activities of these borrowers; for home ownership in rural areas; certain farm or ranch-related businesses; and agricultural, aquatic, and public utility cooperatives [Barnard, Yeager 2013].

FCS is a commercial for-profit lender and is not a lender of last resort. Borrowers must meet creditworthiness requirements similar to those of a commercial lender [Anderlik, Cofer 2014]. However the FCS holds nearly 41% of the farm sector's total debt (slightly higher than the nearly 40% share of commercial banks) and has the largest share of farm real estate loans (46%). As of December 2014, FCS had $217 billion in loans outstanding, of which about 46% was in long-term agricultural real

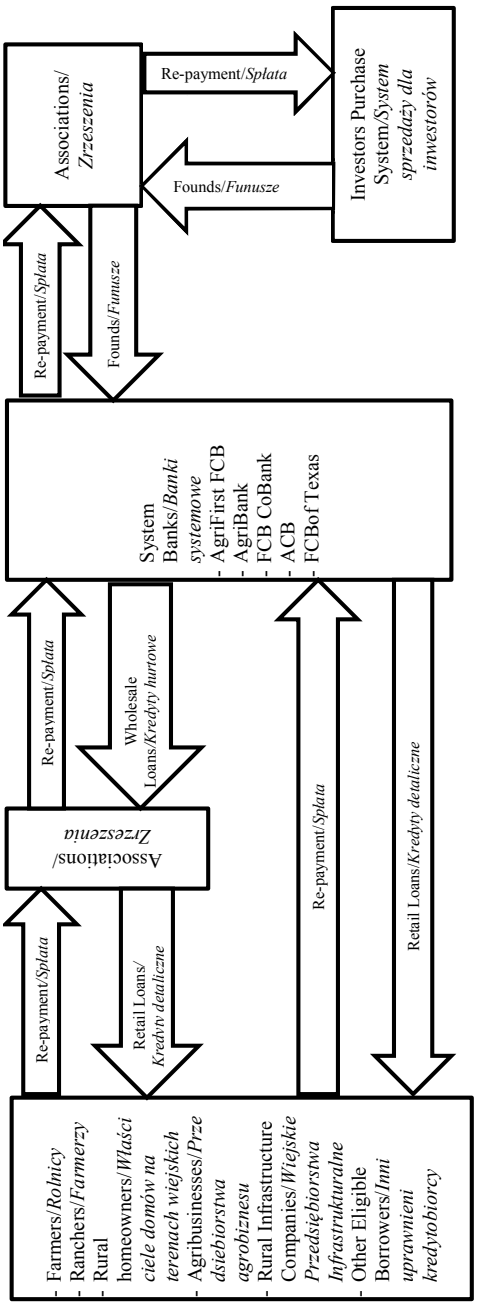

Figure 1. Flow of Funds from through the Farm Credit System
Rysunek 1. Przepływ środków w ramach The Farm Credit System
Source/*Źródło*: [*Farm Credit*… 2015]

estate loans, 22% in short- and intermediate-term agricultural loans, 14% in loans to agribusinesses, 8% in energy and water/waste water loans, 4% in export financing loans and leases, 3% in rural home loans, and 2% in communications loans. This shows how well-functioning organism is the FCS.

The aim of the article is to present the cooperative banking system functioning in the United States of America as a one of the example of effective system of financing of agriculture which could be applied in polish conditions, especially taking in to account changes that have place in polish cooperative banking sector.

The Farm Credit System as a Cooperative Business Organization

The Farm Credit System associations are owned by the borrowers who purchase stock, required as part of their loan (the smaller of $1,000 or 2% of the loan amount). FCS stockholders elect the boards of directors for banks and associations. Each has one vote, regardless of the loan size. Most directors are members, but federal law requires at least one from outside [Keeton et al. 2003].

If an association is profitable, the directors may choose to retain the profits or distribute some of it through dividends or patronage refunds that are proportional to the size of loan. Patronage refunds can effectively reduce the cost of borrowing. Also the Federal Farm Credit Banks Funding Corporation uses capital markets to sell FCS bonds and notes. These debts become the joint and several liability of all FCS banks. The funding corporation allocates capital to the banks, which provide funds to associations, which lend to borrowers. Profits from loans repay bondholders (Fig. 1).

FCS is composed of four regional banks (Fig. 2) that provide funds and support services to 76 smaller Agricultural Credit Associations (ACAs), Federal Land Credit Associations (FLCAs), and Production Credit Associations (PCAs). These associations (Fig. 2), in turn, provide loans to eligible borrowers. The most common operating structure (due to favorable tax and regulatory rules) is a "parent ACA" with FLCA and PCA subsidiaries. There are 74 ACAs and two FLCAs.

In addition to its charter as one of the regional banks, CoBank has a nationwide charter to finance farmer-owned cooperatives and rural utilities. It finances agricultural exports and provides international services for farmer-owned cooperatives

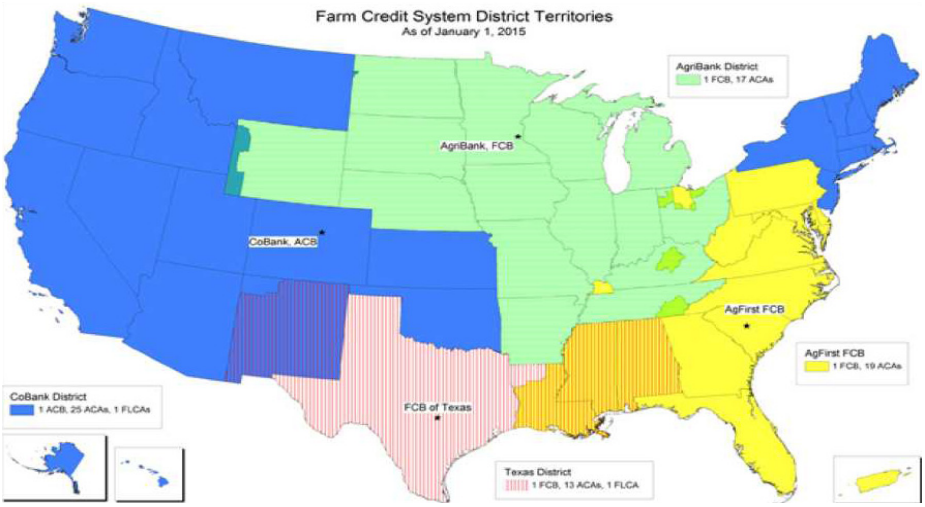

Figure 2. Farm Credit System Regional Banks
Rysunek 2. Banki regionalne wchodzące w skład The Farm Credit System
Source/Źródło: [*Farm Credit Administration*, http://www.fca.gov, accessed 15.05.2014]

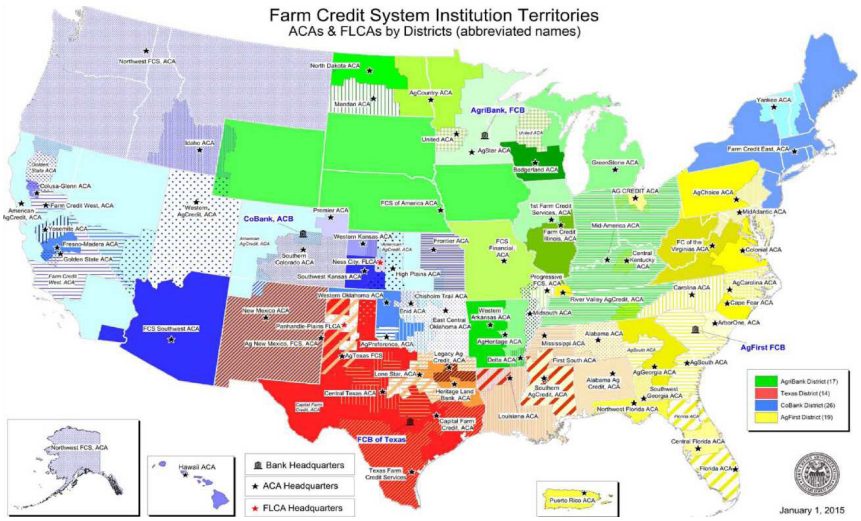

Figure 3. Farm Credit System Associations That Deliver Loans to Borrowers
Rysunek 3. Zrzeszenia obsługujące kredytobiorców w ramach systemu Farm Credit Associacions
Source/*Źródło*: [*Farm Credit Administration*, http://www.fca.gov, accessed 15.05.2014]

through three international offices [USDA-FSA 2011]. The number of banks and associations has been declining for decades through mergers and reorganizations. This consolidation has continued in recent decades through the "parent ACA" structure. In the midm1940s, there were over 2,000 lending associations, nearly 900 in 1983, fewer than 400 by 1987, 200 in 1998, 95 in 2006, and 80 in 2015. The system operated with 12 district banks into the 1980s, 8 districts in 1998, 5 districts in 2004, and 4 regional banks since 2012.

Twenty years ago, the typical FCS association covered several counties and specialized in either land or farm production loans. Today, the typical FCS association covers a much larger

region, delivers a wide range of farm and rural credit programs and services, and has an extensive loan portfolio. FCS may benefit when consolidation creates more diversified portfolios. Customers may benefit if greater institutional efficiency is passed along through lower interest rates. However, consolidation may weaken the original cooperative concept of local borrower control.

Each association within FCS has a specific "charter territory." If an association wants to lend outside its charter territory, it first must obtain approval from the other territory's association. Charter territories help ensure that borrowers are served locally and maintain local control of the association. Charter territories and any changes must be approved by FCA.

The efficient functioning of FCS is ensured by many organizations. Which are supervising the whole system and provide its safety. In accordance with the U.S. low we can identify:

– The Farm Credit Administration is an independent agency and the federal regulator responsible for examining and ensuring the safety and soundness of all FCS institutions;
– Farmer Mac was established in the Agricultural Credit Act of 1987 as a secondary market for agricultural loans. It purchases and pools qualified loans, and sells them to investors as securities.
– The Insurance Corporation was established by statute in 1988 to ensure timely payment of principal and interest on FCS debt securities. The FCA board comprises its board of directors. Annual premiums are paid by each bank through an assessment based on loan volume until the secure base amount of 2% of total outstanding loans is reached.

Types of loans and borrowers

The FCS provides three types of loans to farm producers:

– operating loans for the short-term financing of consumables such as feed, seed, fertilizer, or fuel;
– installment loans for intermediate-term financing of durables such as equipment or breeding livestock;
– real estate loans for long-term financing (up to 40 years) of land, buildings, and homes.

The FCS has a statutory mandate to serve agriculture, and certain agribusinesses and rural homeowners. Borrowers must meet eligibility and creditworthiness requirements. Types of eligible borrowers and their scope of their financing can be grouped into four categories:

1. Full-time farmers. For individuals with over 50% of their assets and income from agriculture, FCS can lend for all agricultural, family, and non-agricultural needs (including vehicles, education, home improvements, and living expenses).

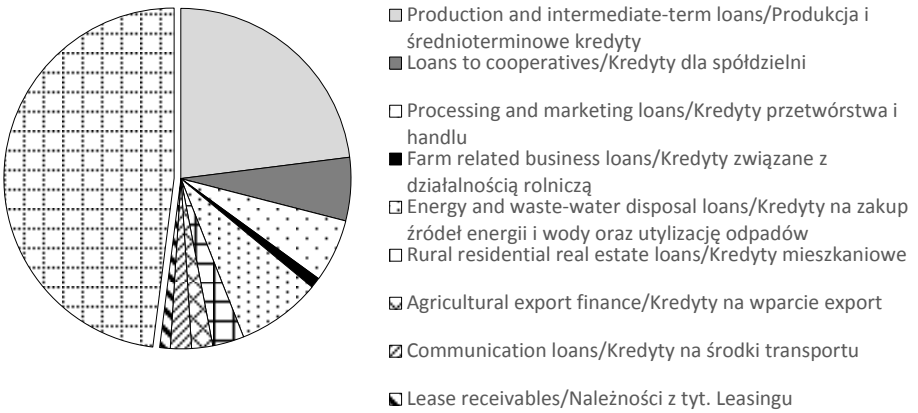

Figure 3. Farm Credit System Loan Portfolio by Type of Loan [%]
Rysunek 3. Struktura portfela kredytowego Farm Credit System pod względem rodzaju kredytu [%]
Source/*Źródło*: [*Farm Credit*… 2015]

2. Part-time farmers. For individuals who own farmland or produce agricultural products but earn less than 50% of their income from agriculture, FCS can lend for all agricultural and family needs. Non-agricultural lending is limited.
3. Farming-related businesses. FCS can lend to businesses that process or market farm, ranch, or aquatic products if more than 50% of the business is owned by farmers who provide at least some of the "throughput." FCS also can lend to businesses that provide services to farmers and ranchers, such as crop spraying and cotton ginning. The extent of financing is based on the amount of the business's farm-related income.
4. Rural homeowners. FCS can lend for the purchase, construction, improvement, or refinancing of single-family dwellings in rural areas (2,500 population limit).

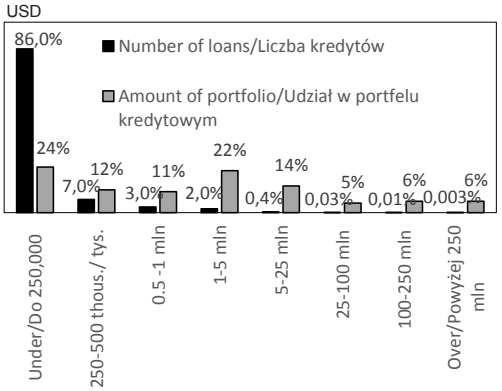

Figure 4. Farm Credit System Loan Portfolio by size of loan
Rysunek 4. Struktura portfela kredytowego The Farm Credit System
Source/*Źródło*: [*Farm Credit*… 2015]

FCS can also finance certain farmer-owned cooperatives and agricultural exports. Figure 3 illustrates FCS's portfolio of loans outstanding ($217 billion at the end of 2014) by the type of loan. About 70% of the loan portfolio is in the primary categories of farm real estate and operating loans.

The year-to-year change in loan volume was an increase of 8.0% in 2014, 4.8% in 2013 and 9.9% in 2012, as compared with a slight decrease of 0.4% in 2011. The increase in 2014 was primarily attributable to increases in real estate mortgage, production and intermediate-term, loans to cooperatives and processing and marketing loans. Real estate mortgage loans increased $4.487 billion or 4.8% during 2014, primarily due to continued demand for cropland. Production and intermediate-term loans increased $3.579 billion or 7.9% during 2014, primarily due to advance purchases of 2015 inputs, such as fertilizer, seed and fuel, as part of tax planning strategies and a greater utilization of operating lines. But if we check the loan portfolio by size of loan and the number of borrowers in each size category presented at Figure 4 w will see that nearly 86% of the number of loans (861,000 out of nearly 1 million) are under $250,000 in size and account for 24% of the loan portfolio. At the other extreme, 28 loans each over $250 million account for 6% of the loan portfolio.

Small loans (less than $250 thousand) accounted for 86% of System customers and 24% of System loan volume at December 31, 2014, as compared with 87% and 25% at December 31, 2013. At the other extreme, 28 loans each over $250 million account for 6% of the loan portfolio. Credit risk on small loans, in many instances, is reduced by off-farm income sources.

Conclusions

The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The Farm Credit System is specialized in providing financing and related services to eligible, creditworthy borrowers in the agricultural and rural sectors, to certain related entities, and to domestic or foreign parties in connection with the export of U.S. agricultural products. The system makes credit available in all 50 states to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. The Farm Credit System provides services for nearly half of American farmers. At the same time the FCS has appropriately structure of loans. Bearing in mind the structure of the loan portfolio of the FCS it can be con-

cluded that this system largely prevents the finance exclusion of the rural population. In addition, system allows to access to cheap credit even for small emitters, which significantly has impact on their future development. Having regard of organisation of The Farm Credit System in the U.S. we could apply some of solutions used in this system. First of all polish cooperative banks could have more flexibility connected with raising of capital on the bond market. Secondly polish cooperative banks should focus on one group of clients like cooperative banks in the U.S., because actually polish banking sector is characterized by high level of competition which can not handle cooperative banks steadily losing market share. Moreover polish cooperative banks should learn from other countries how they should organized the cooperative banking sector more effectively.

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Streszczenie

Celem artykułu było przedstawienie systemu bankowości spółdzielczej funkcjonującego w Stanach Zjednoczonych Ameryki. Badania dotyczyły struktury organizacyjnej systemu oraz jego podstawowych funkcji. Przeprowadzona analiza wykazała, że amerykańskie banki spółdzielcze koncentrują swoją działalność na finansowaniu działalności gospodarstw i przedsiębiorstw rolnych przez udzielanie im kredytów. Większość (ponad 85%) struktury portfela kredytowego The Farm Credit System stanowiły kredyty w kwocie nieprzekraczającej 250 tys. USD.

Correspondence address
PhD Rafał Balina
Warsaw University of Life Sciences – SGGW
Faculty of Economic Sciences
Department of Economics and Organization of Enterprises
Division of Banking
Nowoursynowska 166 Str., 02-787 Warsaw, Poland
phone +48 (22) 593 42 70
e-mail: rafal_balina@sggw.pl