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Agricultural Lending by Credit Unions

by Keith Leggett

Today, 262 credit unions are actively making agricultural business loans. These credit unions constitute a small percentage of the total non-real estate farm debt market in our economy. But recent statistical evidence identifies a great deal of growth in agricultural business lending activities by credit unions. The enactment of the Credit Union Membership Access Act will only promote the continued expansion of credit to the farm sector by credit unions. While the Farm Credit System poses the greatest challenge to farm banks today, bankers should not take lightly the competitive threat in their local markets arising from tax-exempt credit unions.

Credit Union Lending Growing Rapidly

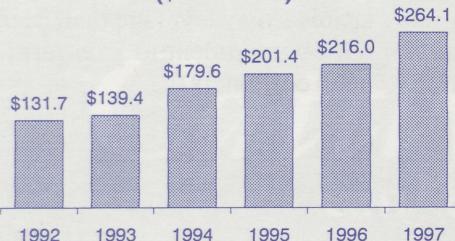
As of 1997, credit unions had 0.5 percent market share of non-real estate farm business debt. While relatively small, agricultural business lending by credit unions, since 1992, has grown at a compounded annual rate of almost 13 percent to \$417.1 million by 1997. This compares very favorably to the overall growth rate of 4.2 percent for non-real estate farm debt over the same period. Credit unions had slightly more than 15,000 farm loans on their books at year-end 1997.

Credit unions' farm business lending as measured by originations has also grown rapidly, doubling from \$131.7 million in 1992 to \$264.1 million in 1997. During 1997, credit unions originated more than 11,000 farm business loans, a 50 percent increase from the number of agricultural loans originated in 1992.

Despite having a negligible national market share of farm produc-

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Agricultural Loan Originations By Credit Unions (\$ millions)



Source: NCUA

tion and operation loans, in several states credit unions are significant competitors. For example, in North Dakota credit unions hold almost a 6 percent market share in non-real estate farm debt. One out of every five dollars in credit union assets in North Dakota goes to agricultural lending. While North Dakota has the highest credit union farm loan market share, the states of Wisconsin, Minnesota and Indiana also report credit union market shares in excess of 1 percent.

H.R. 1151 Will Not Restrain Farm Lending Growth by Credit Unions

Title II of the Credit Union Membership Access Act imposes a new aggregate limit on a credit union's business loans of the lesser of 1.75 times net worth or 12.25 percent of total assets. Agricultural loans are treated as business loans and are therefore subject to the aggregate limit.

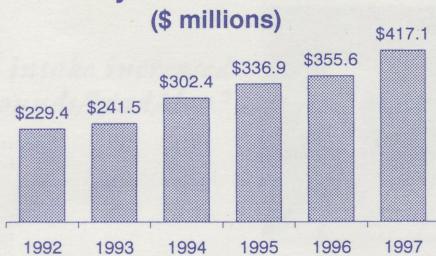
However, there are a number of exceptions from the aggregate business lending limit.

- Credit unions that have a limited income designation or participate in

the Community Development Financial Institutions program are exempted.

- Credit unions that have a history of primarily making member business loans are exempted.
- Credit unions that were chartered for the purpose of primarily making business loans are exempted.
- Business loans that total less than \$50,000 to a single member are not counted as business loans and therefore do not count toward the new aggregate limit. This is a very important exception, as the average size of an agricultural

Agricultural Lending Outstanding By Credit Unions (\$ millions)



Source: NCUA

loan originated by a credit union in 1997 was \$23,500 and almost 90 percent of loans to farmers are below \$50,000, according to commercial bank data.

- Additionally, business loans fully secured by a lien on 1 to 4 family residence that is the member's primary residence; or fully secured by shares in a credit union or deposits at other financial institutions; or loan guaranteed (insured) by any agency of the federal government or a state or any of its political subdivisions will

not be treated as business loans and thus not counted against the aggregate limit.

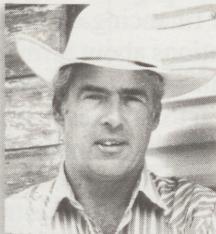
Given these exceptions, the aggregate business loan limit, as applied to credit unions making agricultural loans, are not likely to be effective.

Agricultural business lending by credit unions may be expected to continue to grow, and credit unions may be expected to continue to gain market share as they leverage their preferential tax treatment to gain farm business customers. **jal**

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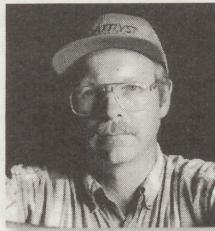
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