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by:
Keith Leggett

Agricultural Lending by Credit Unions – An Update

million outstanding as of mid-year 2001, despite an almost 30 percent decline in the number of credit unions making agricultural business loans. Many of the credit unions that exited the ag credit market in the 1990s did so because they did not possess the requisite skills to administer farm loans.

During the first six months of 2001, outstanding agricultural loans by credit unions grew at an annualized pace of 26 percent, compared with a 5 percent pace for commercial banks. As of mid-year 2001, slightly more than one in four business loans on the books of credit unions was for agricultural purposes, with an average outstanding balance of \$40,000.

However, in 2001 the pace of lending to agriculture by credit unions accelerated, with approximately 38 percent of the almost 18,000 business loans granted year to date going to farmers and ranchers. Additionally, 20 cents of each dollar in new business lending by credit unions goes to agriculture. Thus, credit unions made 6,772 agricultural loans for \$236.1 million during the first half of 2001.

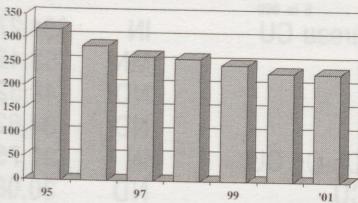
Interestingly, the dollar volume of agricul-

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While many ag bankers view credit union competition as an urban phenomenon, I would like to dissuade them of this notion. Credit unions have set their sites on rural America and pose a threat to both the loan and deposit sides of the balance sheet of agricultural banks. While total agricultural lending by credit unions remains a relatively small piece of the \$180 billion ag finance marketplace, it is a growing presence.

Since the beginning of 1996, ag lending by credit unions has nearly doubled to \$672.5

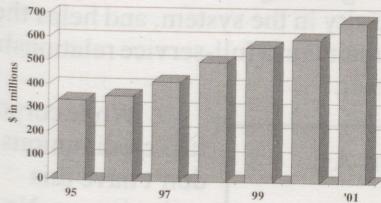
Number of Credit Union Ag Lenders Continues to Fall



Source: Credit Union Call Reports

tural loans made by credit unions in 2000 surpassed the dollar volume of outstanding ag loans by credit unions as of year-end 1995 — \$343 million vs. \$337 million, respectively.

But the Volume of Ag Loans by Credit Unions Grows



Source: Credit Union Call Reports

While 43 states have at least some credit union involvement in lending to agriculture, the credit union presence is negligible in most states. Credit unions in Indiana, Minnesota and North Dakota have the highest visibility in the agricultural credit market. Combined, these credit unions account for 70 percent of all agricultural loans made by credit unions, or \$472.4 million in outstanding ag loans. North Dakota credit unions, by

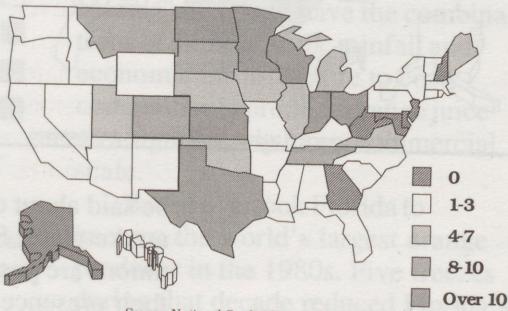
themselves, represent one-third of all farm lending by credit unions.

Colorado, Kansas, Montana, Nebraska, South Dakota, Texas and Wisconsin have the next level of visibility. Credit unions in these states account for almost 26 percent of all agriculture lending by credit unions.

The evidence suggests credit unions serving agriculture in these states tend to be more specialized and have a larger local market presence. If we look at the 10 largest credit union lenders to agriculture, six are from North Dakota, two from Indiana, and one each from Wisconsin and Minnesota.

And the prospect for the future is that the volume of ag lending by credit unions will continue to grow. Nebraska Corporate Central Federal Credit Union, a banker's bank for credit unions, is lobbying for the authority to participate in agricultural loans with their member credit unions. Currently, credit unions that are specializing in agricultural lending have to partner with community banks to serve their members. This partnering with

Number of Credit Unions by State Making Ag Loans



Source: National Credit Union Administration

Top Credit Union Ag Lenders

June 2001

\$ in 000

Wabash County Farm Bureau CU	IN	\$91,276
Melrose CU	MN	53,420
First Community CU	ND	48,524
Town and Country CU	ND	34,624
Elkhart Cty Frm Bureau Co-Op CU	IN	31,753
Benson County Co-Op CU	ND	30,087
Western Cooperative CU	ND	26,839
Citizen's Community CU	ND	24,289
Community CU	ND	24,114
Heartland CU	WI	20,486

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community banks is due to the credit union either lacking the business lending expertise or exceeding its regulatory limit.

Mike Kiem, president of Nebraska Corporate Central FCU, says: "Corporates can help by participating in larger loans. It keeps the yield and activity in the system, and helps the credit union maintain a full-service relationship" with the farmer.

While corporate credit unions don't have this authority yet, National Credit Union Administration is granting waivers to corporate credit unions to engage in loan participations with their member credit unions.

As former Speaker of the House Tip O'Neill said, "All politics is local." The same can

be said about competition in the ag credit marketplace. Specialized, tax-exempt credit unions are positioning themselves to increase their presence in local ag lending market.

Dollar Volume of Credit Union Ag Lending by State

