



Mid America Cooperative Council

# MACC VOICE

## JULY 2017 NEWSLETTER

### The July 2017 Voice Newsletter Features Our Farm Credit Cooperatives

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#### The History of the Farm Credit Administration and the Farm Credit System

The concept of a reliable source of credit for the nation's farmers dates back to 1732, when the first cooperative credit system was organized in New London, Connecticut. Government intervention to meet this need, however, particularly for long-term credit to purchase land, only started in the early 19th century. It was then that most of the free land available in the West under the Homestead Act of 1862 was claimed, and farmers needed long-term credit to purchase land. However, whereas credit from commercial banks was readily available for business and industry, it was scarce, short term, and at high interest rates for agriculture. With

land values rising, the need for long-term fixed-rate credit became acute.

#### **The Remedies**

Starting in 1908 in the administration of President Theodore Roosevelt, the Country Life Commission and congressional committees studied the problems facing rural families, who constituted the majority of households in America at that time. The Commission recommended development of more cooperatives and a cooperative credit system for farmers. In 1912 and 1913, Presidents William Howard Taft and Woodrow Wilson sent commissions of ambassadors to Europe to study cooperative land-mortgage banks, rural credit unions, and other institutions that promoted agriculture and rural development. The Wilson commission recommended a system of agricultural banks to provide both long-term, or land-mortgage credit, and short-term credit to meet recurring needs. Congress responded with the Federal Farm Loan Act of 1916.

#### **The Federal Farm Loan Act of 1916**

The Act established a Federal Land Bank (FLB) in each of 12 districts across the country, along with hundreds of National Farm Loan Associations (NFLAs) to serve as agents for the FLBs. The FLBs were the first component of what eventually came to be known as the Farm Credit System (FCS). The FLBs, through their agent associations, provided long-term credit to farmers to develop and expand farms. Part of each farmer's loan bought stock in the association, making the individual farmers owners of the association.

#### **FCA and the FCS Today**

The financial assistance by the Government and FCA's new policies and enforcement authority helped the FCS recover from the crisis years of the 1980s, regain safe and sound practices, and become more efficient. A stronger economy in the 1990s and 2000s further stabilized the FCS as farm prices and incomes rose. For the past several years, the FCS's share of the agricultural debt market has been increasing and now accounts for about 40.7 of farm business debt. All Government financial assistance was repaid, with interest, by 2005. FCA itself does not receive any Government appropriations; rather, FCA operations are funded through assessments paid by FCS institutions.

Today, the FCS is structured into: Three FCBs, seventy-two ACAs and one FLCA, each of which receives loan funds from the Farm Credit bank with which it is affiliated; and one Agricultural Credit Bank (CoBank), which has the authority of an FCB (in that it provides loan funds to 23 ACAs and one FLCA) and the authority of a BC (in that it lends to agricultural and aquatic cooperatives and rural utilities; finances U.S. agricultural exports and imports; and provides international banking services for farmer-owned cooperatives).

**The Farm Credit Administration remains committed to ensuring a reliable source of credit to finance agriculture and rural America.**

*(excerpts from [https://www.fca.gov/about/history/historyFCA\\_FCS.html](https://www.fca.gov/about/history/historyFCA_FCS.html))*

## Our Farm Credit Cooperatives

**Ag Credit** - Ag Credit is one of the leading providers of credit and insurance services to farmers, agribusiness and rural residents in northern Ohio; with more than \$1.75 billion in assets and more than 7,200 members and customers. As an agricultural cooperative with 16 offices serving 18 counties, Ag Credit is committed to providing a stable source of financial products and services to their owner-members. They have financing programs to meet just about any rural lending need. (excerpts from <https://www.agcredit.net/home.aspx>)

**CoBank** - CoBank is a national cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation's rural economy. (excerpts from <http://www.cobank.com/>)

**Compeer Financial** - Compeer Financial is a member-owned, Farm Credit cooperative serving and supporting agriculture and rural communities. They provide loans, leases, risk management and other financial services throughout 144 counties in Illinois, Minnesota and Wisconsin. Based in the upper Midwest, Compeer Financial exists to champion the hopes and dreams of rural America. They offer specialized expertise and personalized service regardless of the size of the farm, the type of crop grown or the livestock raised. (excerpts from <https://www.compeer.com/>)

**Farm Credit Mid-America** - Farm Credit Mid-America is an agricultural lending cooperative owned and controlled by their customers. They are one of the largest associations within the Farm Credit System. With more than 1,100 employees, they serve nearly 100,000 customers throughout Indiana, Ohio, Kentucky and Tennessee. Their purpose is to secure the future of rural communities and agriculture. FCMA helps to secure the future of rural communities and agriculture by supporting agriculture's next generation and creating stronger, more viable communities. (excerpts from <https://www.e-farmcredit.com>)

**GreenStone Farm Credit** - GreenStone Farm Credit is headquartered in East Lansing, Michigan, and is the country's seventh largest association in the Farm Credit System. They own and manage approximately \$8 billion in assets and serve 24,000 members with 36 branches throughout Michigan and northeast Wisconsin. GreenStone provides financial services to the agricultural industry - including short, intermediate and long-term loans, equipment and building leases, life insurance, crop insurance, accounting and tax services. (excerpts from <http://www.greenstonefcs.com>)



## Rod's Thoughts



Before the Farm Credit System first began in 1916, over half, 54%, of the US population lived in rural America. According to the 1910 US census, 92.2 million people lived in the US and 50 million lived in communities of less than 2,500 people, which the U.S. census defined as rural America. Today, only 19% of the U.S. population, some 60,000 people, live in rural America.

Those 50 million people who lived in rural America over 100 years ago lived without nearly all the modern conveniences we take for granted, today. There was no electricity, no hybrid seed, very limited farm inputs, and most farms did not own a tractor. Farm machinery was very limited and it was extremely difficult to convince any banker to loan money to purchase land or equipment.

Local banks wanted monthly payments with investments that had a high risk of return. Rural America heated with wood and coal stoves, fires were common and one year in five there was a high probability of a crop loss and no earnings to pay their lenders. Many of their city cousins had electricity and could get loans for their house, car, or business with steady income, but that was not possible in rural America.

Farmers needed capital to buy farmland and equipment that would help them be more productive, but the risk was too great for most banks. Farmers and citizens in rural America believed in their ability to produce, but the stability of the liquidity they desperately needed to grow and prosper was beyond their control.

The first Farm Credit Bank created by Congress in 1916 gave rural America the funds they needed to buy land; and the 1933 Farm Credit Act created local Production Credit Associations for equipment, inputs and other operating needs. Combined, these two acts gave rural America a financial option cooperatives could control. Oversight of this newly created Farm Credit System was given to USDA, so that those familiar with the risks of agriculture and rural America would have the oversight on the government's borrowed funds. That oversight is still separate from all other banking institutions, and the U.S. Department of the Treasury.

Farmers and citizens in rural America, who understood rural America, created a self-governed cooperative to serve their needs. They had the control to create a financial system with the patience and foresight to serve their higher risk markets. Additionally, this newly created cooperative was able to profitably serve the member/owners' needs. Profits were put back into the Farm Credit System bank to grow its capacity to serve long term needs, and repay the government.

In 1947, just 13 years after a nationwide drought labeled "The Dust Bowl", the Federal Land Bank paid off the last government loan with interest. Rural America is proud to be "debt free" on their loan from the government. My father received a loan from both the Federal Land Bank and the Production Credit Association. These loans were necessary to allow our farm to grow, be more productive and much more efficient. I believe it improved our quality of life.

The Farm Credit System and the Rural Electrification Act changed the face of rural America. They were able to take advantage of new technology and production growth that was not possible just a few decades ago. I believe these self-governing cooperatives and land grant universities helped to create the wealth in rural America, to build our current transportation infrastructure and give rural America a long term strategic advantage over other countries.