

Rural Cooperatives in the United States

*Experience, Challenges,
 Lessons, Observations*

May 15, 2008

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Today's Discussion

1. Cooperative Businesses
2. Agriculture and Our Economy
3. Farmer Cooperatives
4. Legal Systems for Cooperatives
5. Business Comparisons
6. Changing Cooperatives
7. Credit Cooperatives
8. Support and Assistance



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Introduction

1. Cooperative Businesses

Cooperatives – What Are They?

- Businesses
- Special purposes
- Service oriented
- Businesses of principles
- All sectors of U.S. economy



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Brief Description

A Surprising Number Unexpected Importance

“Good company to be in.”



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Introduction

Cooperative Overview

Farmers	3,086
Credit Unions	8,800
Housing	1,523
Rural Electric	850
Rural Telephone	260
Water and Waste	2,000
Childcare	1,000
Health Maintenance Orgs.	1,216
Grocery	300
Business-to-Business	300
Educational	200
Arts & Crafts	350



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Introduction

Largest 100 Cooperatives

Agriculture	38
Grocery retail	18
Energy and communications	18
Finance	11
Hardware and lumber	7
Healthcare	3
Foodservice distribution	2
Recreational	1
Media	1
Franchise	1

Total business, 2005 \$140.8 billion



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Introduction

International Cooperative Alliance (ICA)

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation among co-operatives
7. Concern for community

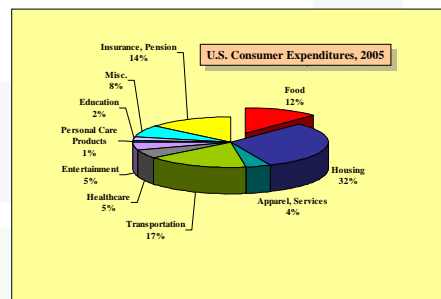


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Brief Description

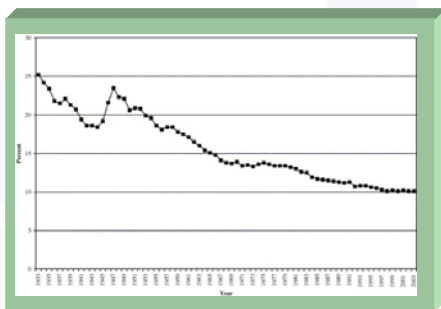
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Agriculture and Our Economy



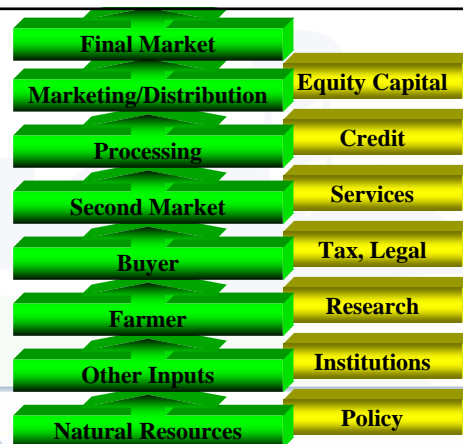
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Food Expenditures



9

Food Expenditures



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Supply Chain

Sectors	Employment		Contribution to GNP	
	Million	Percent of Total	\$Billion	Percent of Total
Farming	1.8	7	74.3	5
Food processing, manufacturing	1.4	6	166.9	12
Related manufacturing	2.2	9	215.3	16
Wholesaling, retailing	8.4	34	397.0	29
Eating places	6.8	27	188.1	14
Supporting activities	4.2	17	325.6	24
Total food and fiber system	24.8	100%	1,367.2	100%



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Contributions

Contribution of Food and Fiber System to U.S. Economy

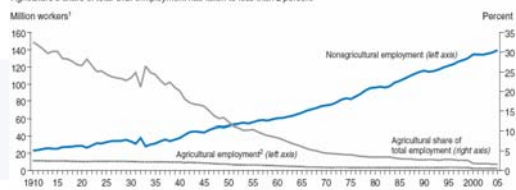
Year	Employment	Contribution to GNP
	Percent of Total	Percent of Total
1947	41.0	40.0
1967	22.9	24.0
1975	21.4	20.4
1985	18.5	17.5
1993	17.2	14.2
1999	18.0	15.6
2001	16.7	12.3



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Contributions

Agricultural and nonagricultural employment, 1910 to 2005

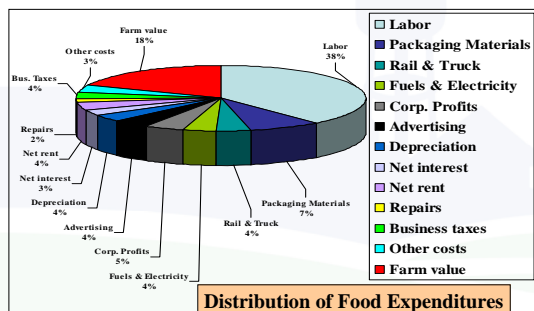


¹Persons at least 14 years old prior to 1947; persons at least 16 years old in 1947 and later years.
²From 2000 onward, estimates of agricultural employment actually are for "agricultural and related industries." For more information, see the U.S. Department of Labor, Bureau of Labor Statistics (2003, p. 28).
Source: USDA, Economic Research Service, compiled from Bureau of Labor Statistics data (U.S. Office of the President, 2006, pp. 304-305; U.S. Department of Commerce, 1975, p. 126).



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Contributions



Distribution of Food Expenditures



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Price Spreads

Food Price Spread

Expenditures	1980	1990	2000	2002
Billion dollars				
Labor	81.5	154.0	252.9	273.1
Packaging materials	21.0	36.5	53.5	56.8
Rail and truck transportation	13.0	19.8	26.4	28.4
Fuels and electricity	9.0	15.2	23.1	24.9
Pretax corporate profits	9.9	13.2	31.1	33.0
Advertising	7.3	17.1	26.1	28.1
Depreciation	7.8	16.3	24.2	25.3
Net interest	3.4	13.5	16.9	19.2
Net rent	6.8	13.9	26.7	30.3
Repairs	3.6	6.2	10.1	10.9
Business taxes	8.3	15.7	23.5	24.9
Other costs	11.1	22.2	23.3	22.0
Total marketing bill	182.7	343.6	537.8	576.9
Farm value	81.7	106.2	123.3	132.5
Consumer expenditures	264.4	449.8	661.1	709.4



Distribution of farms, total production, and assets, 2004

Farm type	Farms	Value of production	Farm assets
Percent of U.S. total			
Small family farms: ¹			
Limited-resource	9.4	1.0	5.5
Retirement	16.1	2.0	11.3
Residential/lifestyle	39.7	5.3	23.7
Farming-occupation			
Low-sales	18.8	5.5	16.9
Medium-sales	6.3	10.8	10.3
Large-scale family farms: ¹			
Large family farms	4.1	14.8	9.1
Very large family farms	3.4	45.4	16.1
Nonfamily farms: ^{1,2}	2.2	15.2	7.1

¹Small farms have sales less than \$250,000; large-scale farms have sales of \$250,000 or more; no sales limit for nonfamily farms.
²Nonfamily farms include those organized as nonfamily corporations or cooperatives, as well as any other farms operated by hired managers. Also includes farms held in estates or trusts.
Source: USDA, ERS, 2004 Agricultural Resource Management Survey, Phase III.



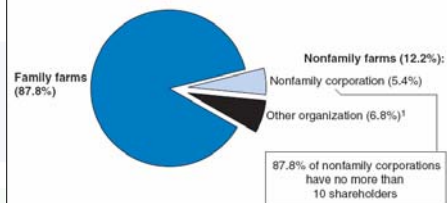
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Farm Characteristics

Organization of farms with gross sales of \$1 million or more, 2004

Most million-dollar farms are organized as family farms

Total million-dollar farms = 34,480

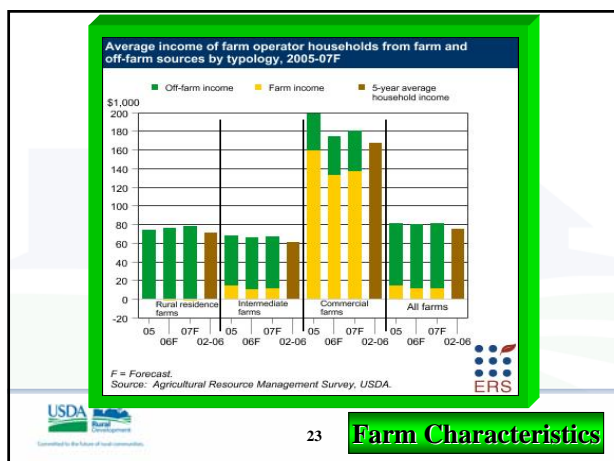
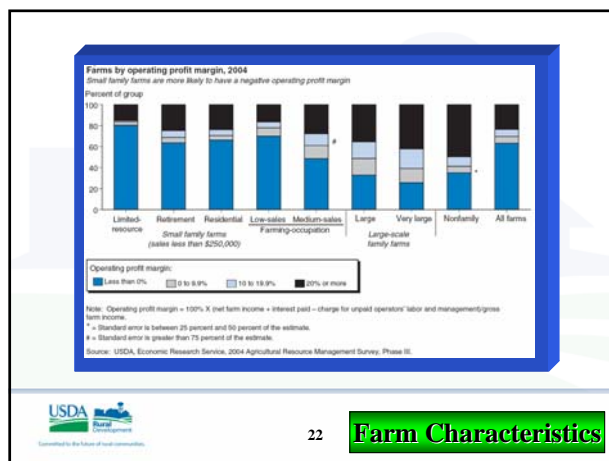
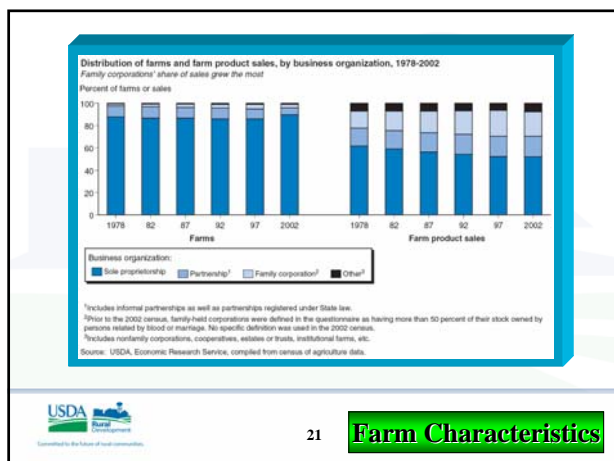
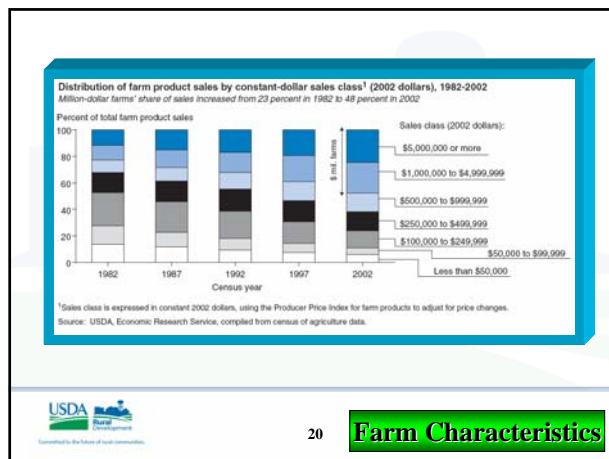
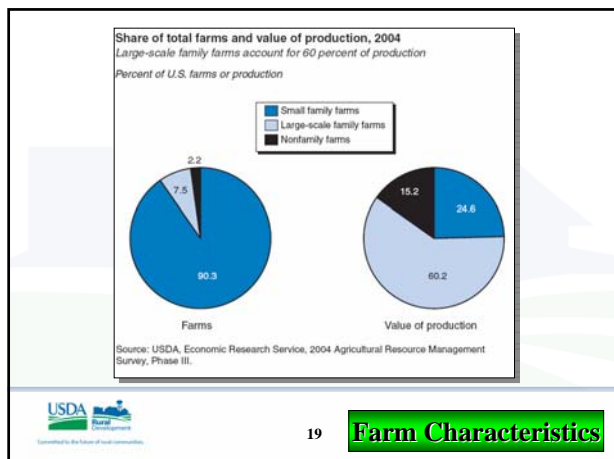


¹Proprietorships, partnerships, or family corporations with hired managers. Also includes estates, trusts, and cooperatives.
Source: USDA, Economic Research Service, 2004 Agricultural Resource Management Survey, Phase III. (Number of shareholders is from version 1 of ARMS.)



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Farm Characteristics

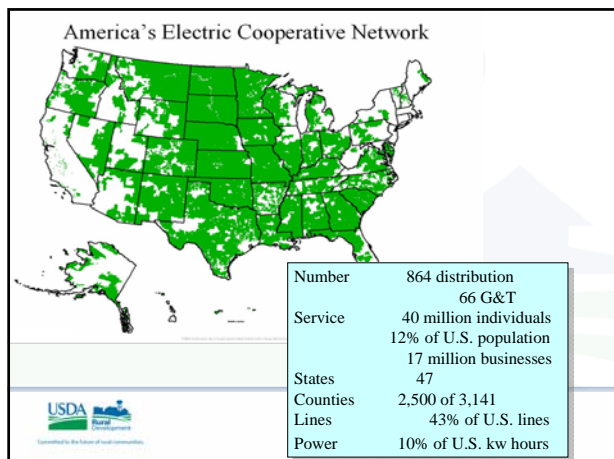


3. **Farmer Cooperatives**

All Parts of U.S. Economy
Rural Non-Agriculture

- Community
- Utilities
- Health, insurance
- Housing
- Food

24 **Rural Cooperatives**

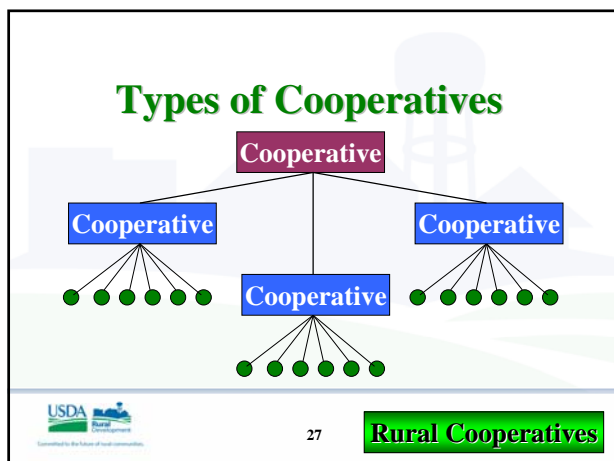


Types of Cooperatives

Agriculture

- Local, regional, national
- International
- Centralized, federated

26 **Rural Cooperatives**

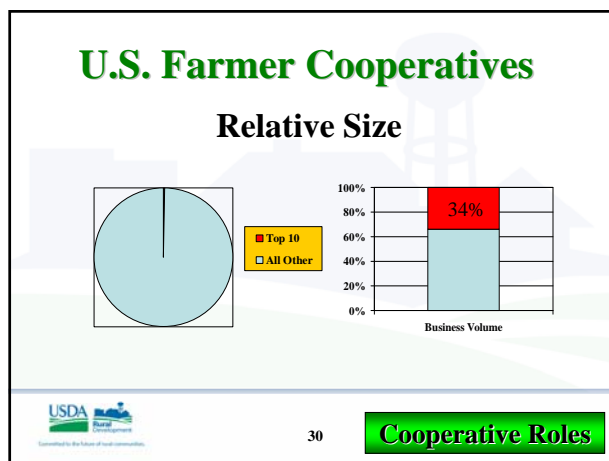
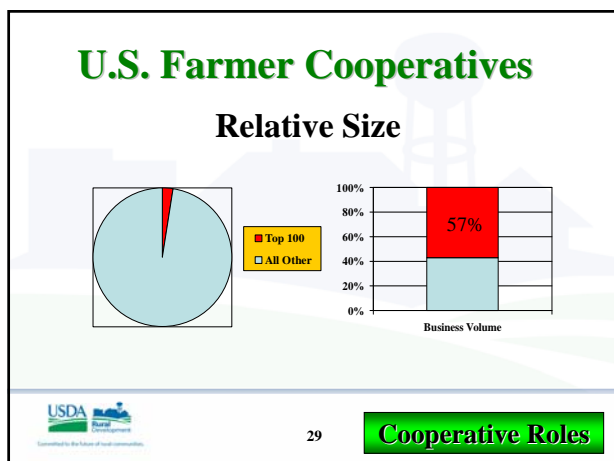


U.S. Farmer Cooperatives - 2006

Number of Cooperatives	2,675
Memberships	2.6 million
Gross Business Volume	\$126.5 billion
Net Income	\$3.2 billion
Total Assets	\$47.9 billion
Net Worth	\$20 billion
Full-time Employees	123,000
Part-time Employees	57,000
Gross value of products marketed	\$76 billion
Gross value of supplies handled	\$46 billion

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28 **Cooperative Roles**



U.S. Farmer Cooperatives

Cooperative Shares -- Marketing (%)

Milk/milk products	83
Grains/oilseeds	38
Cotton/cottonseed	42
Fruits/vegetables	19
Livestock/wool/mohair	13
All other	12
Total	28



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Cooperative Roles

U.S. Farmer Cooperatives

Cooperative Shares -- Supply (%)

Fertilizer	45
Petroleum	46
Crop protectants	34
Feed	15
Seed	13
Total	26



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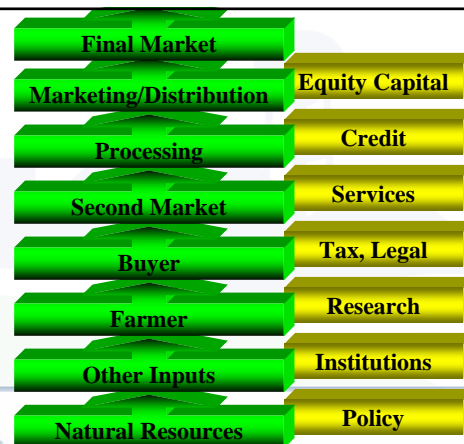
Cooperative Roles

Agricultural Systems -- The "Supply Chain"



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Why Cooperative?



Why Cooperatives?

- Market system failure
- Certainty of market
- Efficiency in size
- Bargaining power
- Farmer focus



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Why Cooperative?

Why Cooperatives?

- Value added capture
- Risk management
- Self-determination
- "Competitive yardstick"
- Social benefits



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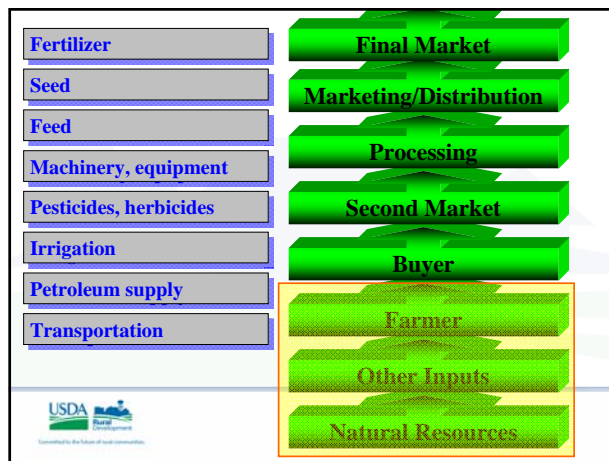
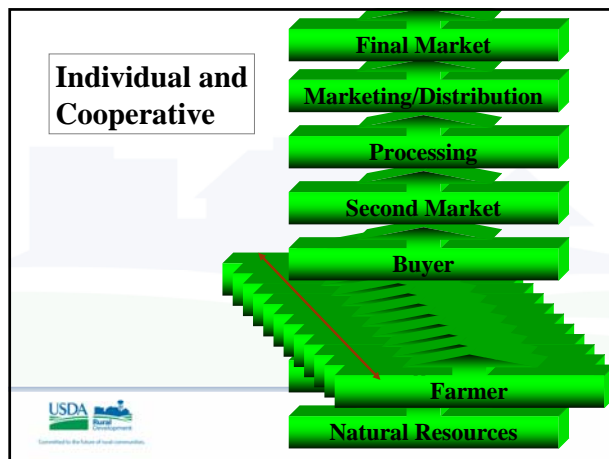
Why Cooperative?

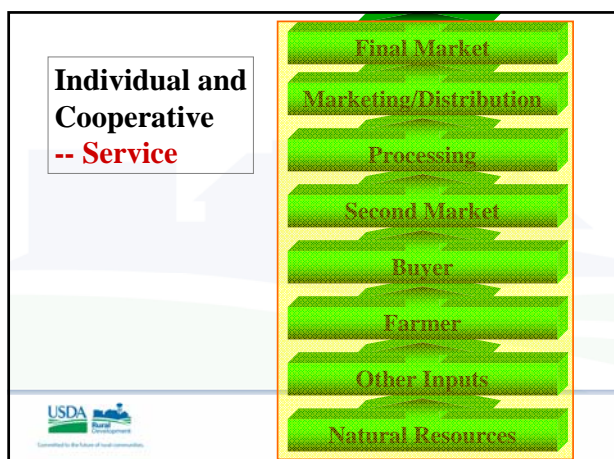
What Cooperatives Do

- Market
- Bargain
- Supply
- Service
- Add value


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Why Cooperative?





Cooperative – Corporation

1. Legal person
2. Limited liability
3. Perpetual existence
4. Centralized management

5. Broad range of capital sourcing
6. Interests freely transferable

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The Principles

Cooperative Principles

1. The User-Control Principle: Those who control the cooperative are those who use the cooperative

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The Principles

Cooperative Principles

2. The User-Benefits Principle: The cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

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The Principles

Cooperative Principles

3. The User-Owner Principle: Those who own and finance the cooperative are those who use the cooperative.

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The Principles

International Cooperative Alliance (ICA)

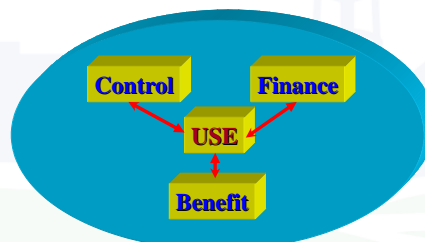
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5. Education, training and information
6. Co-operation among co-operatives
7. Concern for community



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The Principles

Putting It Together



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The Principles

Putting Principles to Work

Practicalities

1. → Control by members
2. → Member benefits
3. → Member ownership
4. → Structure
5. → Operations



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Practice

Who controls the cooperative – and how?

1. The User-Control Principle: Those who control the cooperative are those who use the cooperative.

- Control by members
- Membership qualifications
- Voting and voting power
- Board of directors



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Control

Who controls the cooperative – and how?

- Control by members
 - Voting
 - Voting power
 - Participation
 - Responsibility
 - Dedication



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Control

Who controls the cooperative – and how?

- Member qualifications
 - Purpose of the cooperative
 - Service to members
 - Business focus
 - Statutes
 - Bylaws
 - Approval of new members
 - Formalities



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Membership

Who controls the cooperative – and how?

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Membership

Who controls the cooperative – and how?

- **Voting and voting power**
 - Right to vote
 - One member, one vote
 - Requirements and variations
 - Subject of voting
 - Choosing directors
 - Special topics
 - What members want

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Control

Who controls the cooperative – and how?

- **Voting and voting power**
 - Member meetings
 - General
 - Special
 - Mail, proxy voting
 - Financial reports

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Control

Who controls the cooperative – and how?

- **Board of directors**
 - Legal requirement, authority
 - Qualification
 - Number
 - Options
 - Chosen by members
 - Cooperative members
 - Additional qualifications - bylaws

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Control

Who controls the cooperative – and how?

- **Board of directors (cont.)**
 - Nominations
 - Districting
 - Representatives and delegates
 - Number of directors
 - Terms of office
 - Length
 - Limitations

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Control

Who controls the cooperative – and how?

- **Board of directors (cont.)**
 - Board structure
 - Officers
 - Committees
 - Meetings
 - Deliberations and minutes
 - Written policies
 - Removal

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Control

Who controls the cooperative – and how?

• Board of directors (cont.)

Responsibilities
 Assigned duties
 “Circle of responsibilities”

Liabilities
 Protecting directors
 Indemnification
 Insurance



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Control

Directors’ Seven Responsibilities



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Who controls the cooperative – and how? Challenges

- Active member participation
- Active voting and control
- Qualified directors
- Director and board performance
- Board-management relations
- Management skills



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Control

Who benefits from the cooperative – and how?

2. The User-Benefits Principle: The cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

- Purposes and strategies
- Pricing and efficiency
- Patronage refunds – a unique idea



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Benefits

Who benefits from the cooperative – and how?

Patronage refunds – a unique idea

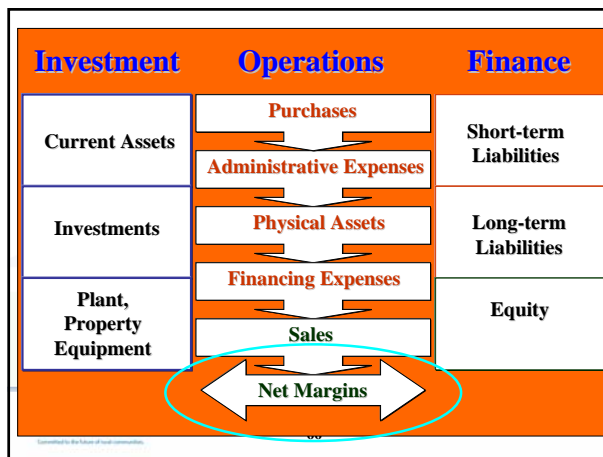
What’s left over
 Total income - total expenses
 Net margins, net savings

Back to members
 The “patronage refund”



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Benefits



Net Margins

Gross income from commodity sales		\$100,000
Cost of goods sold		
Beginning Inventory	\$5,000	
Purchases	\$81,000	
Goods available for sale		\$86,000
Ending inventory	\$6,000	
Cost of goods sold		\$80,000
Other expenses		\$10,000
Total costs and expenses		\$90,000
Net margins		\$10,000



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Who benefits from the cooperative – and how?

Patronage refunds – a unique idea (cont.)

Proportion of business done

All business with the cooperative

Individual patron's business

Calculate proportion

Divide up margins, savings, profits

Pay members their share



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Benefits

Patronage Refunds

Patron	Sales to Cooperative	Percentage of Total
A	\$20,000	24.69
B	\$10,000	12.35
C	\$25,000	30.86
D	\$12,000	14.81
E	\$14,000	17.28



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Benefits

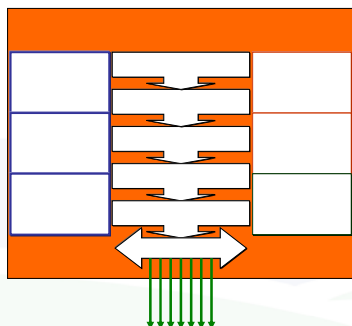
Patronage Refunds

Patron	Sales to Cooperative	Percentage of Total	Patronage Refund
A	\$20,000	24.69	\$2,469
B	\$10,000	12.35	\$1,235
C	\$25,000	30.86	\$3,086
D	\$12,000	14.81	\$1,481
E	\$14,000	17.28	\$1,728



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Benefits



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Benefits

Who benefits from the cooperative – and how?

Patronage refunds – a unique idea (cont.)

Some variations

Non-member business

Member or non-member refunds



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Benefits

Who benefits from the Cooperative – and how? Challenges

- Multiple products
- Different member/patron participation
- Value-added activities
- Pooling
- Calculations and bookkeeping
- Finding patrons

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Benefits

Who benefits from the Cooperative – and how? Challenges

- Fairness – equitable or equal treatment
- Member expectations and demand
- The problem of losses

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Benefits

Ownership = Financing Financing = Investment

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Ownership

Who finances the cooperative – and how?

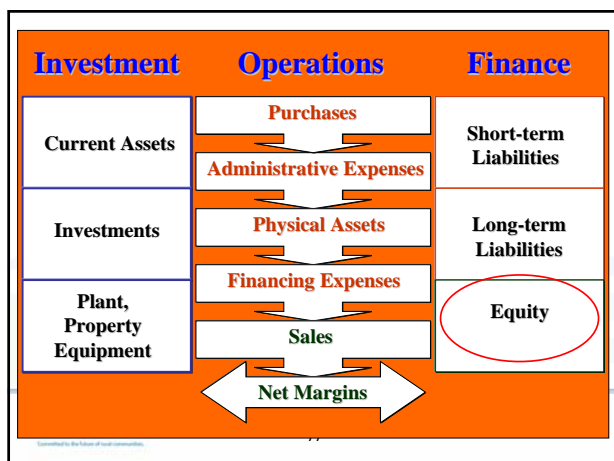
3. The User-Owner Principle: Those who own and finance the cooperative are those who use the cooperative.

- Range of funding sources
- Limitations
- Borrowed capital
- Equity – membership capital
- Equity – patronage-based capital

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Ownership



Who finances the cooperative – and how?

- Needs depend on operation and service
- Purchasing a membership
- Balancing benefits and investment
- Investment based on patronage

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Ownership

Who finances the cooperative – and how?

Investment based on patronage

Patronage proportions (determined)

Patronage refund payment

Portion in cash

Portion in investment in cooperative

The member's investment belongs to member



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Ownership

Patronage-based financing (I)

Patron	Patronage Refund	Cash	Equity
A	\$2,469	\$1,235	\$1,235
B	\$1,235	\$618	\$618
C	\$3,086	\$1,543	\$1,543
D	\$1,481	\$740	\$740
E	\$1,728	\$864	\$864



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Ownership

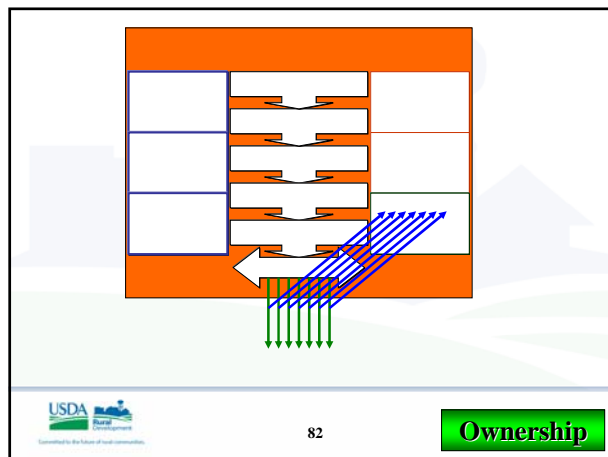
Patronage-based financing (II)

Patron	Head Delivered	Equity
A	20	\$200
B	50	\$500
C	30	\$300
D	75	\$750
E	45	\$450



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Ownership



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Ownership

Who finances the cooperative – and how?

- Balancing cooperative needs
- Equity contributed
- Proportion assignment
- Methods



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Ownership

Who finances the cooperative – and how?

- Revolving fund system
- Base capital plan
- Revolving period



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Ownership

Who finances the cooperative – and how?

Investment based on patronage (cont.)

Process of contribution continues
 Balancing cooperative needs
 Paying back (redeeming) equity
 Amounts
 Methods
 The “revolving fund” system



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Ownership

Who finances the cooperative – and how?

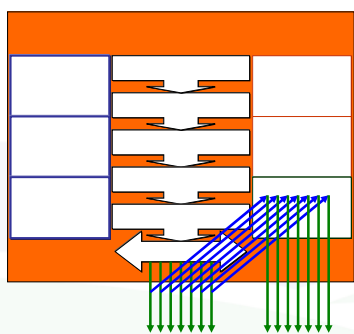
Investment based on patronage (cont.)

“Base capital plan” method
 Based on business proportion
 Kept up-to-date
 Revolving period



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Ownership



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Ownership

Who finances the cooperative – and how?

Challenges

- Complications, records
- Decisions
- Trade-offs
- Fairness
- Getting enough capital



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Ownership

Getting Started

Formation

1. Interest
2. The people focus
3. Steps in process
4. Getting the right information
5. Getting the right assistance
6. Getting it done right



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Formation

Cooperative Formation

- Individual initiative -- farmers
- The process -- farmers
- Decisions -- farmers
- Legal matters
- Government participation



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Formation

Getting Started

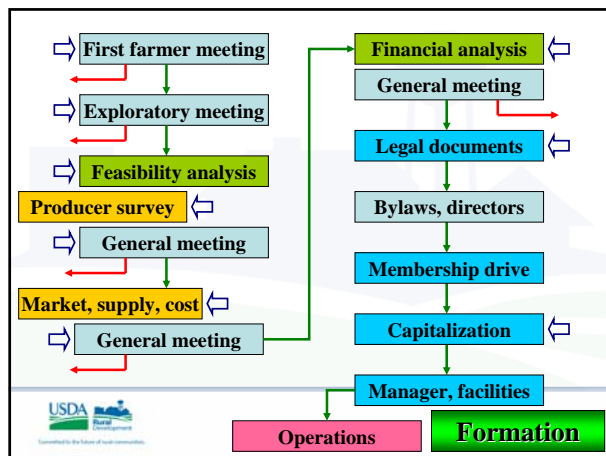
General process

1. Exploratory meeting(s)
2. Steering committee
3. Surveys, analyses
4. Financial analysis
5. Incorporation
6. Implementation



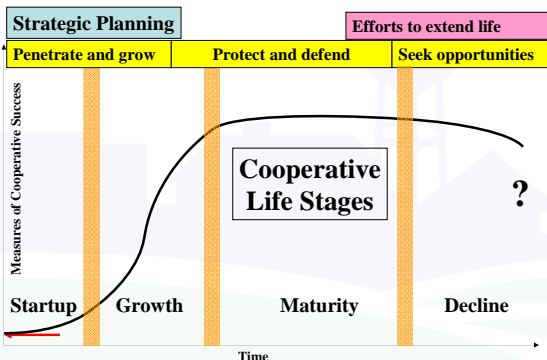
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Formation

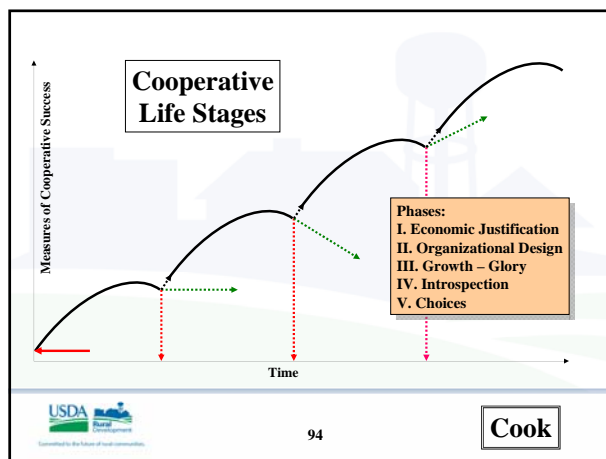


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Formation



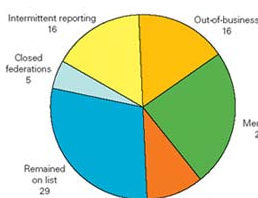
Adapted from Wadsworth



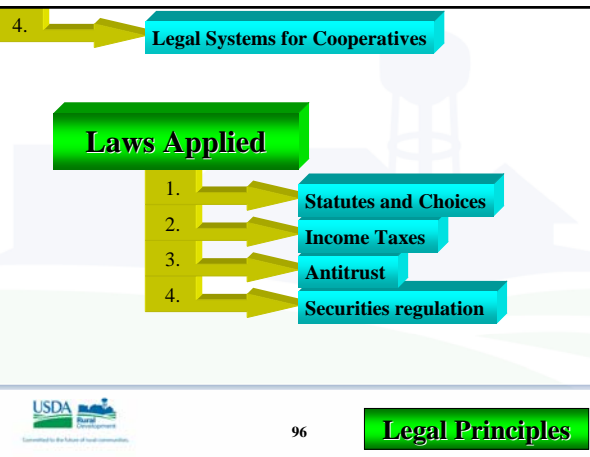
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Cook

Factors contributing to changes in Top 100 Ag Co-ops since 1980



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Legal Principles

Statutes and Choices

Choices available

Cooperative statutes
Corporate statutes
Limited liability company (LLC)
Other

Reasons for choice

Purposes and objectives
Limitations
Flexibility



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Statutory Systems

Statutes

1. Statutory development
2. Incorporation and principles
3. New statutes
4. Proposed uniform law
5. Federal statutes and programs



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Statutory Systems

Highlights of Statutory History

- Michigan – 1865
- Wisconsin – 1911
- California non-stock – 1909
- “Standard Act” – Sapiro
- Uniform Act – 1936
- Wisconsin -- 1955



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Statutory Systems

Current Status of Laws

- ~ 85 statutes
- Farmer cooperatives
- Corporate entity
- Corporate law application
- The “Standard Act”



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Statutory Systems

Implementation of Principles

- Principles identified
- Variations
- Specificity
- Enabling, mandatory
- Standard Act example



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Statutory Systems

Impetus for New Statutes

- Flexibility
- Capital demands
- Return on investment
- Attitudes toward cooperatives
- Lawyer driven?



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Statutory Systems

Wyoming, Minnesota, Iowa

- “Investor-members”
- Outside ownership limits
- Distribution to non-patrons
- Voting rights
- Board of directors



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Statutory Systems

Proposed Uniform Law

- National Conference of Commissioners on Uniform State Laws
- Study Committee on Business Cooperatives
- Expansion from agriculture to all forms of cooperatives



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Statutory Systems

Criteria for a “Good” Statute

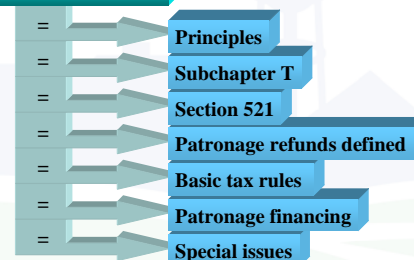
1. Authorize entity
2. Describe qualifying entities
3. Exclude non-qualifying entities
4. Flexible framework
5. Administration, regulation
6. Educational, supportive



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Statutory Systems

Taxation



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Taxation

Taxation

Principles

Tax on earned income
 Income “belongs” to patron
 Business expense

Subchapter T

Corporations
 Operating on cooperative basis
 Patronage refunds deductible
 Patron taxation



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Taxation

Taxation

Section 521

Farmer cooperatives only
 Strict rules
 Few advantages
 Decision to qualify

Patronage refund (“dividend”) defined

1. Payment on proportional basis
2. Obligation to pay
3. Patronage business



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Taxation

Taxation

Basic rule

Cooperative deducts
 Patron pays
 Single tax rule
 Exception for consumers

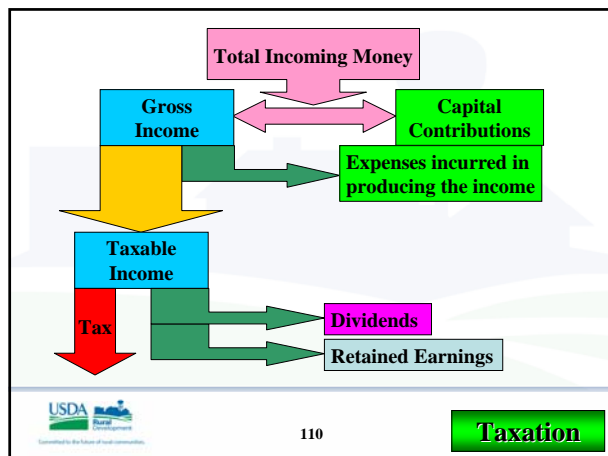
Patronage financing

Strict rules
 Refund is investment
 Patron pays tax, cooperative deducts



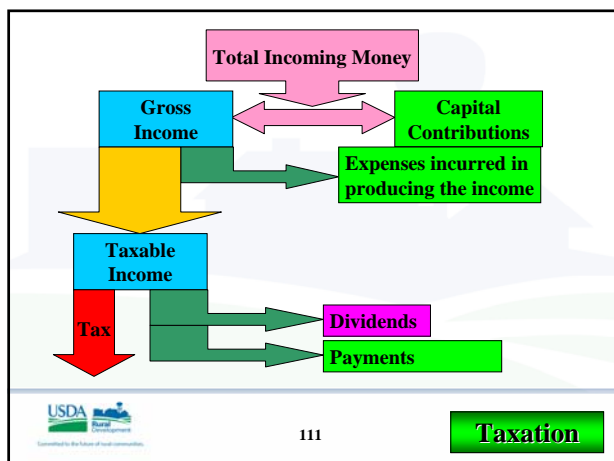
109

Taxation



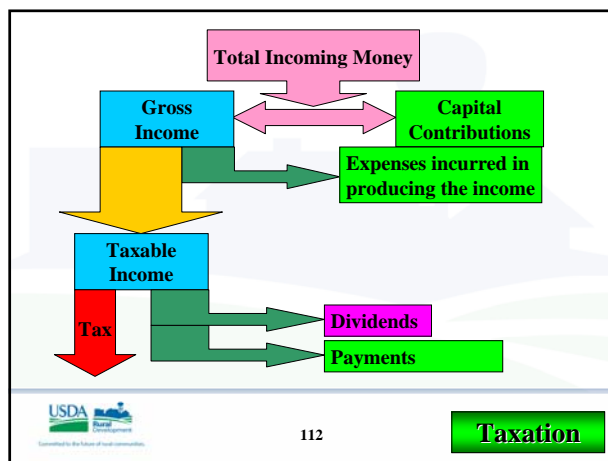
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Taxation



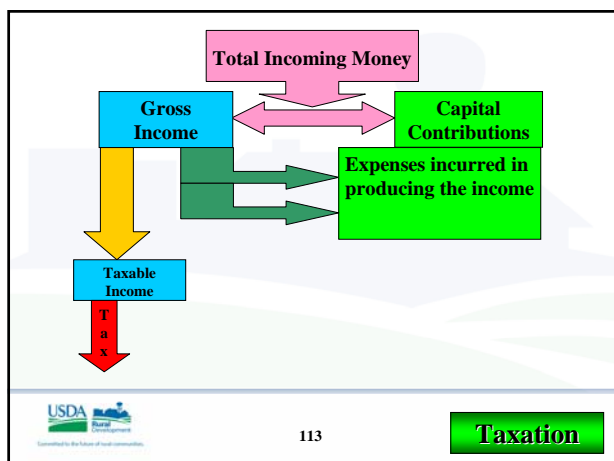
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Taxation



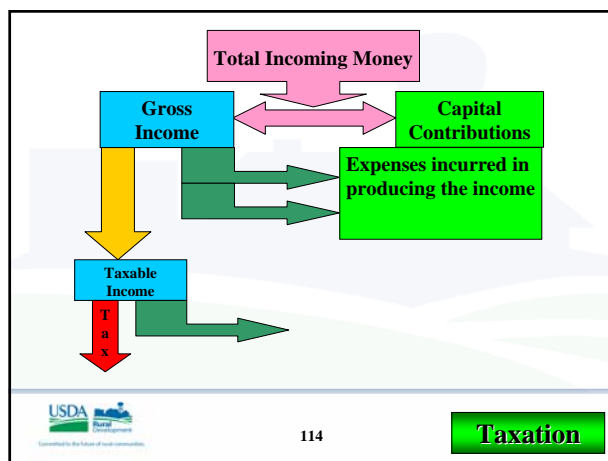
112

Taxation



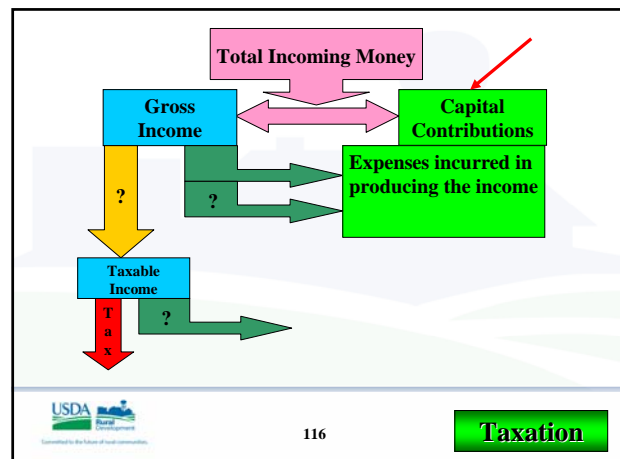
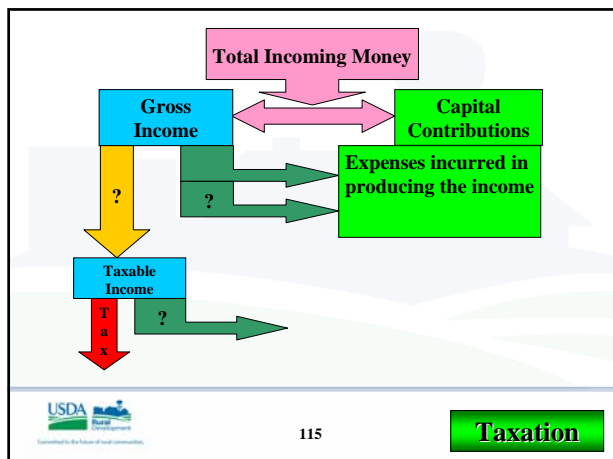
113

Taxation



114

Taxation



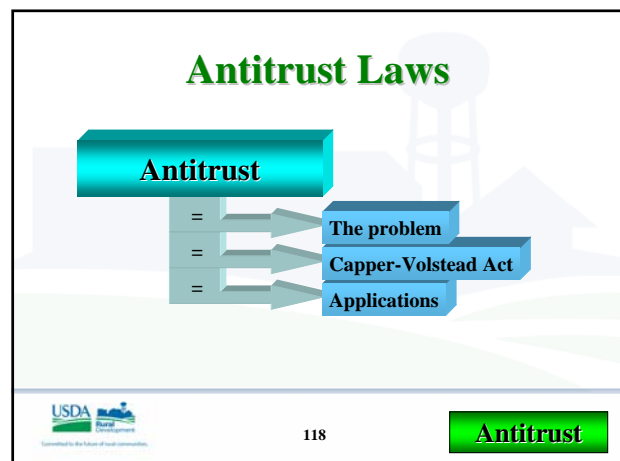
Taxation

Special issues

- Cooperative has choices
- Losses
- Other complications
- Getting the right advice
- Making the right decisions

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117 Taxation



Antitrust

The problem – Price fixing

Capper-Volstead Act of 1922

- Only farmer cooperatives
- Marketing
- Limitations
 - Farmers
 - Mutual benefit of members
 - Voting
 - Return on investment

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119 Antitrust

Antitrust

Applications

- Permitted actions
- Prohibited actions
- Need for protection
- Getting advice

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120 Antitrust

Securities Laws

```

graph LR
    A[Securities] --> B[=]
    B --> C[=]
    C --> D[=]
    D --> E[The problem]
    D --> F[Exceptions]
    D --> G[Getting Advice]
        
```

121

Securities

Securities Laws

The problem
 Selling stock, investment
 Federal and State regulations
 Penalties

122

Securities

Securities Laws

Special considerations for cooperatives
 Type and purposes of investment
 Federal and State exceptions

Getting advice
 Rules are complicated
 Penalties are severe

123

Securities

Business Comparisons

5. →

124

Comparisons

Cooperatives
Corporations

Enterprise Objectives

1. Stakeholders, beneficiaries
2. Service orientation
3. Generate benefits
4. Obtain required resources
5. Provide organization
 - Structure
 - Authority
6. Allocate benefits

125

Comparisons

Cooperatives
Corporations

Enterprise Objectives

1. Stakeholders, beneficiaries
2. Service orientation
3. Generate benefits
4. Obtain required resources
5. Provide organization
 - Structure
 - Authority
6. Allocate benefits

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Comparisons

Cooperatives
Non-profits

Enterprise Objectives

1. Stakeholders, beneficiaries
2. Service orientation
3. Generate benefits
4. Obtain required resources
5. Provide organization
 - Structure
 - Authority
6. Allocate benefits

127
Comparisons

Cooperatives
Non-profits

Enterprise Objectives

1. Stakeholders, beneficiaries
2. Service orientation
3. Generate benefits
4. Obtain required resources
5. Provide organization
 - Structure
 - Authority
6. Allocate benefits

128
Comparisons

Cooperatives
LLCs

Enterprise Objectives

1. Stakeholders, beneficiaries
2. Service orientation
3. Generate benefits
4. Obtain required resources
5. Provide organization
 - Structure
 - Authority
6. Allocate benefits

129
Comparisons

Cooperatives
LLCs

Enterprise Objectives

1. Stakeholders, beneficiaries
2. Service orientation
3. Generate benefits
4. Obtain required resources
5. Provide organization
 - Structure
 - Authority
6. Allocate benefits

130
Comparisons

6.
Changing Cooperatives

Cooperative Limitations

- Homogeneity
- Horizons
- Scope
- Membership

- Governance
- Management
- Equity
- Markets and size

131
Changing Cooperatives

Cooperative Responses

- Mergers, consolidation
- Subsidiaries
- Strategic alliances
- “New generation” cooperatives
- “Outside equity”
- New statutes

132
Changing Cooperatives

“New Generation” Cooperatives – Capital

- Capital requirements
 - Total capital
 - Capital and product
- Up-front contribution



133 **Changing Cooperatives**

“New Generation” Cooperatives – Delivery

- Unit measures
- Capital and delivery basis
- Right and requirement



134 **Changing Cooperatives**

“New Generation” Cooperatives – “Closed” membership

- Total production needs
- Equity investment



135 **Changing Cooperatives**

“New Generation” Cooperatives – Tradable Equity Interests

- Producer to producer
- “Market” price



136 **Changing Cooperatives**

“New Generation” Cooperatives – Market Orientation

- What can be marketed
- What can be produced
- Commodity acceptance
based on market forces



137 **Changing Cooperatives**

Conditions for “New Generation” Cooperatives

- Capture value-added benefits
- High capital requirements
- Efficient processing system
- Response to market signals
- Product differentiation



138 **Changing Cooperatives**

“New Generation” Cooperatives – What’s new, what isn’t?



139 Changing Cooperatives

Limited Liability Company

- As cooperative organization
- As joint venture



140 Changing Cooperatives

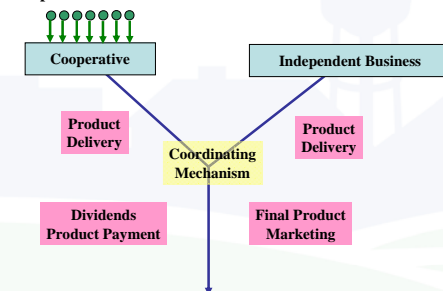
Alternatives

- Cooperative “plus”
 - Subsidiaries
 - Joint ventures
 - Strategic alliances



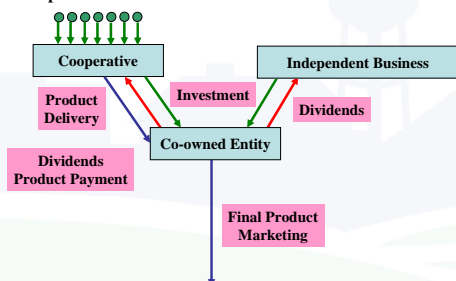
141 Changing Cooperatives

Cooperative Members



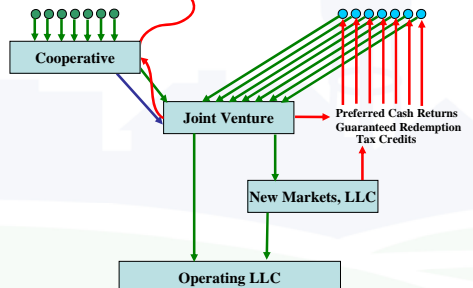
142 Changing Cooperatives

Cooperative Members

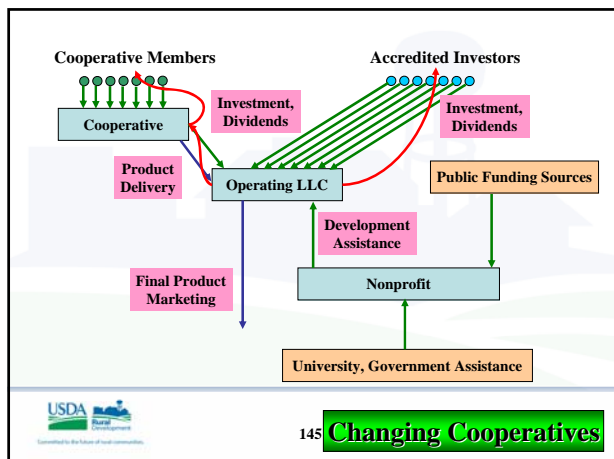


143 Changing Cooperatives

Cooperative Members



144 Changing Cooperatives



Emerging Views Of Equity

- Competition and markets
- New cooperative ventures
- Capital intensive ventures
- Member perceptions
- Capturing firm value

146 **Changing Cooperatives**

Definition of “Outside” Equity

Not based on the patronage relationship.

Relationship is one of investor-corporation, not primarily patron-cooperative

147 **Changing Cooperatives**

Examples

- Preferred stock
 - Unrestricted investors
 - No voting rights
 - Limited voting rights
 - Full voting rights
 - Liquidity

148 **Changing Cooperatives**

Examples

- Full “membership”
 - No patronage requirement
 - Limited voting rights
 - Full voting rights
 - Board membership
 - Liquidity

149 **Changing Cooperatives**

What might this mean?

- Opposing objectives
- From objectives to obligations
 - Mandated objectives
 - Obligations
 - Expectations
- A few ideas

150 **Changing Cooperatives**

7. **The Farm Credit System**

Credit and U.S. Farming

- Demand for credit
- Sources of credit
- The financial system
- Lending process
- Farming as a business

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151 **Credit Cooperatives**

Credit and U.S. Farming

- Resource purchases
- Ownership and labor
- Market based system
- Profit or livelihood

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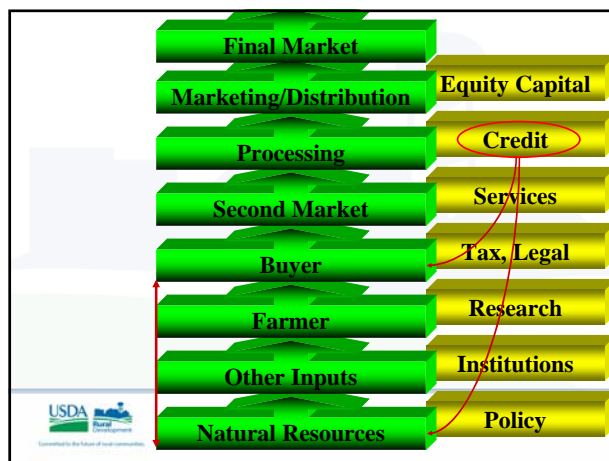
152 **Credit Cooperatives**

Need for Credit

- Farmers
- Cooperatives
- Agribusiness
- Rural residents
- Rural utilities
- Rural businesses

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153 **Credit Cooperatives**



Purposes of Borrowing

- Production
- Equipment
- Land, Buildings
- Entry
- Expansion

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155 **Credit Cooperatives**

Farm Borrowing

- Debt/Equity ~ 15%
- ~80% asset value is land
- ~60% of borrowed funds used for new purchases

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156 **Credit Cooperatives**

Sources of Farm Credit

- Commercial banks
- Farm Credit System
- Insurance companies
- Individuals and others
- US Department of Agriculture



157

Credit Cooperatives

Sources of Farm Credit

- Commercial banks

Real Estate	32%
Non-Real Estate	48%
Total	40%



158

Credit Cooperatives

Sources of Farm Credit

- Farm Credit System

Real Estate	36%
Non-Real Estate	23%
Total	30%



159

Credit Cooperatives

Sources of Farm Credit

- Insurance companies

Real Estate	11%
Non-Real Estate	00%
Total	06%



160

Credit Cooperatives

Sources of Farm Credit

- Individuals and others

Real Estate	17%
Non-Real Estate	25%
Total	21%



161

Credit Cooperatives

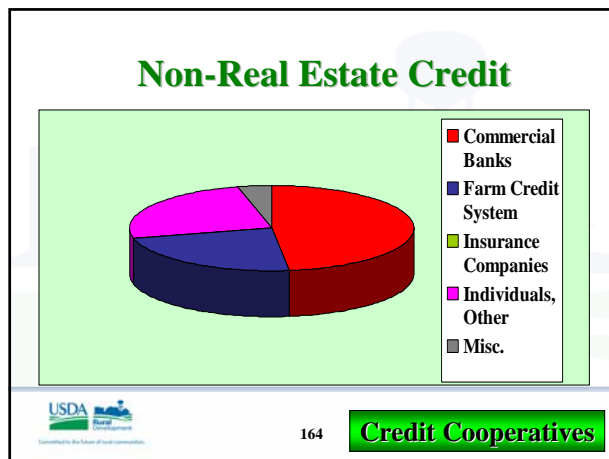
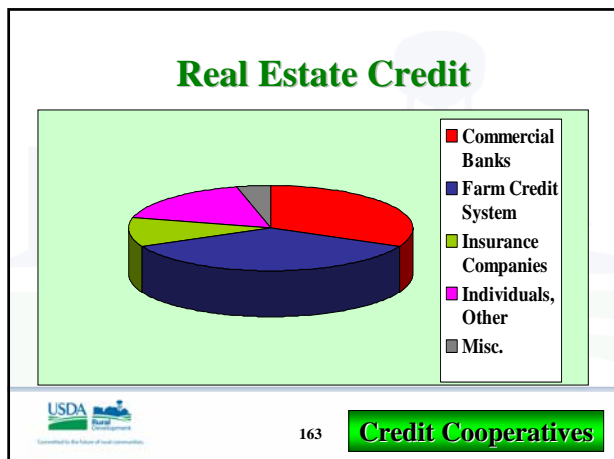
Sources of Farm Credit

- Rural development
 - USDA programs
 - Loans, loan guarantees
 - Direct assistance



162

Credit Cooperatives



- ### Cooperatives and Credit
- Farm Credit System
 - Credit for cooperatives
 - Operating farmer cooperatives
 - Marketing
 - Supply
 - Special purpose
 - Non-commercial credit
- USDA Rural Development
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- 165 **Credit Cooperatives**

- ### Credit Cooperatives
- United States
 - Farm Credit System
 - Credit Unions
 - Savings and Loan Ass'ns
 - European systems
 - Transition economies
- USDA Rural Development
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- 166 **Credit Cooperatives**

- ### Credit Cooperatives
- Micro-credit
 - Non-commercial
 - Commercial
 - Agricultural
 - Mixed
- USDA Rural Development
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- 167 **Credit Cooperatives**

- ### Functional Classes
- Direct loans
 - Facilitate lending
 - Government
 - Other
 - Banking functions
 - Multiple services
- USDA Rural Development
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- 168 **Credit Cooperatives**

Farm Credit System

- History
- Authority
- Structure
- Loans
- Regulation



169

Credit Cooperatives

Farm Credit System History

- 1916 – Land lending
- 1929 – Farm Board
- 1933 – Farm Credit Admin.
- 1953 – FCA independent
- 1988 – Restructuring
- Continued changes



170

Credit Cooperatives

Farm Credit System Authority

- Farm Credit Act of 1971
- Farmers, ranchers
- Aquatic products
- Rural homeowners



171

Credit Cooperatives

Farm Credit System Authority

- Certain farm-related businesses
- Cooperatives
- Rural utilities
- International transactions in agriculture



172

Credit Cooperatives

Farm Credit System Structure

- 5 Banks
- 97 Associations
- Government sponsored
 - Charter
 - Employees



173

Credit Cooperatives

Farm Credit System Structure

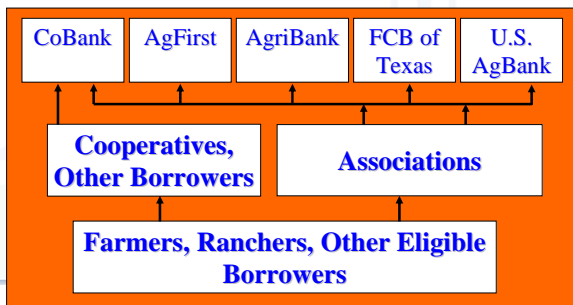
- Cooperative structure
 - Owned by borrowers
 - Controlled by borrowers
 - Capitalized by borrowers



174

Credit Cooperatives

Farm Credit System Structure



175

Farm Credit System Loans

Long-term farm mortgages	50%
Production and intermediate	23%
Domestic cooperative	10%
Communications and energy	8%
International transactions	3%
Rural homes	3%
Farm-related businesses	1%



176

Credit Cooperatives

Farm Credit System Regulation

Farm Credit Administration



177

Credit Cooperatives

Farm Credit Administration

- **Organization**
 - Federal entity
 - Board of directors
- **Functions**
 - Regulation
 - Examination



178

Credit Cooperatives

Farm Credit System

- Federal Agricultural Mortgage Corporation "Farmer Mac"
- Organization



179

Credit Cooperatives

Farm Credit System

- Loan "securitization"
- Use
 - Real estate mortgages
 - Certain other guaranteed loans




180

Credit Cooperatives


Farm Credit System

- **FCS Insurance Corporation**
 - **Organization**
 - **Funding**
 - **Obligation**
- **Farm Credit Council**


181
Credit Cooperatives


Farm Credit System

- **Other services**
 - **Life, disability insurance**
 - **Crop insurance**
 - **Tax, estate planning**
 - **Consulting**


182
Credit Cooperatives

Financial System

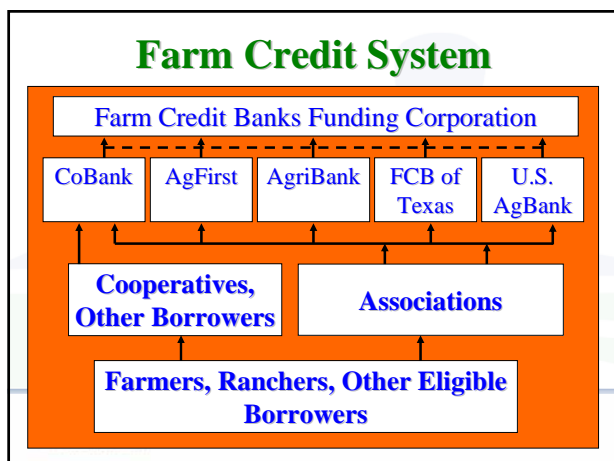
- **Saving/Investment sector**
- **Financial markets**
 - **Private markets**
 - **Public fund markets**
 - **Equity markets**
 - **Credit markets**


183
Credit Cooperatives

Farm Credit System

Federal Farm Credit Banks Funding Corporation


184
Credit Cooperatives




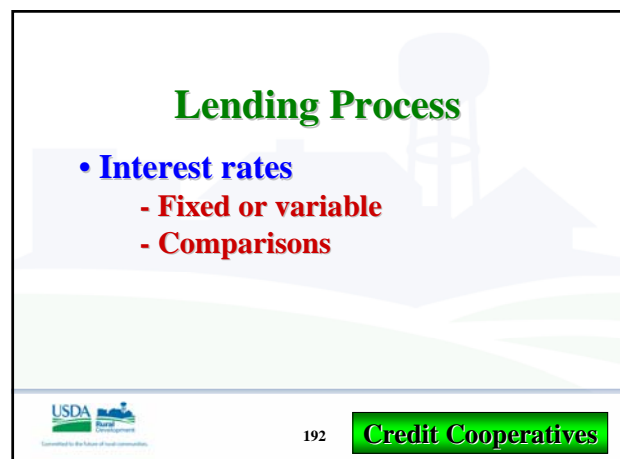
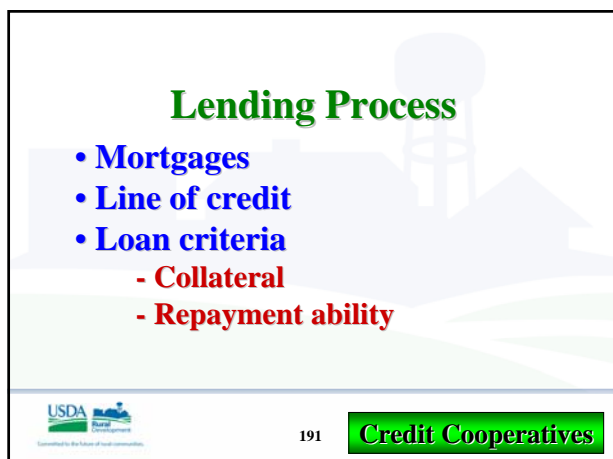
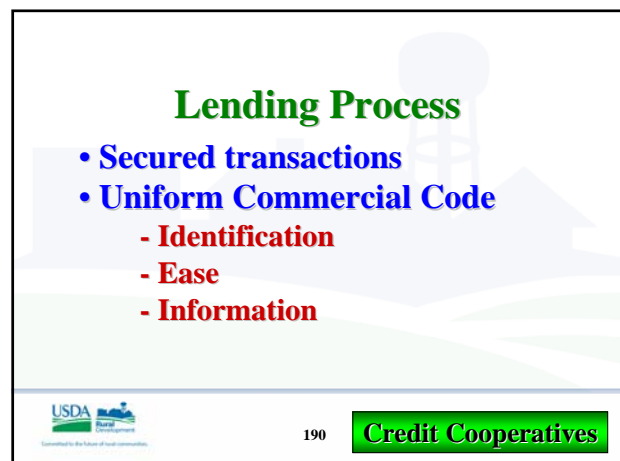
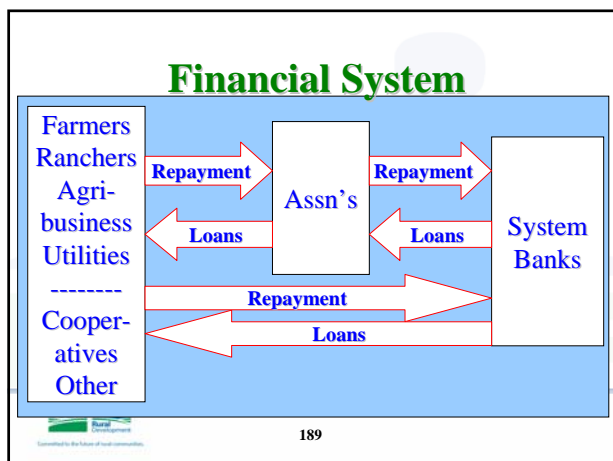
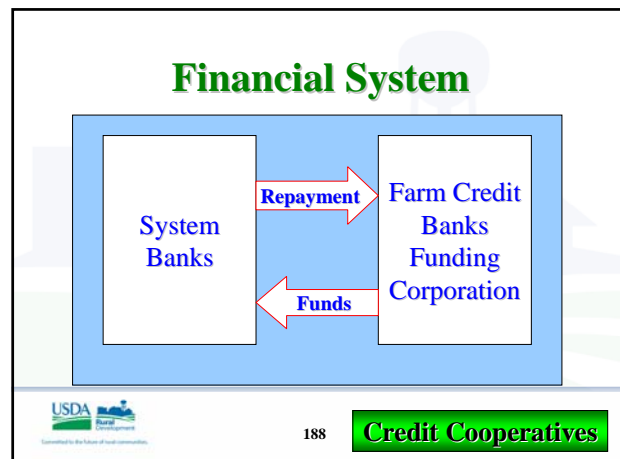
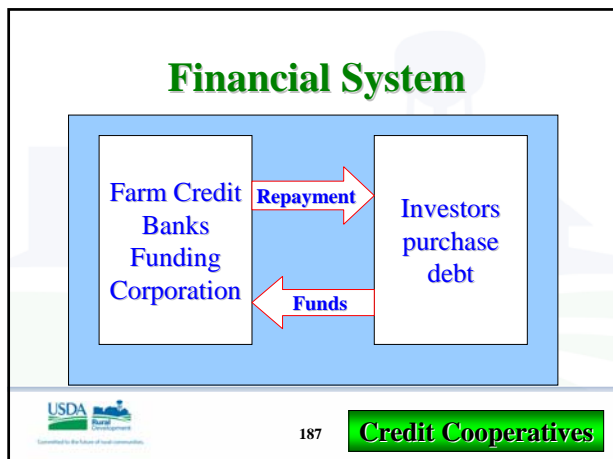
Financial System

Farm Credit Banks Funding Corporation

System Wide Debt Securities


- **Unsecured notes, bonds**
- **Joint & several liabilities**
- **Not government**


186
Credit Cooperatives



Lending Process

- **Conditions**
 - **FCS stock purchase, participation**
 - **Loan amounts**
- **Repayment**


193
Credit Cooperatives

8.
➔
Support and Assistance

Initial Assistance

- **Farm Credit System funding**
- **Rural Utilities funding**
- **Other programs**


194
Support, Assistance

Continued Assistance


- **Direct funding programs**
 - **Ownership**
 - **Value added**
 - **Rural development**
 - **Special programs**


195
Support, Assistance

Cooperative Programs Organization


```

graph TD
    Sec[Secretary of Agriculture] --> USRD[Under Secretary Rural Development]
    USRD --> RU[Rural Utilities]
    USRD --> RH[Rural Housing]
    USRD --> RB[Rural Business]
    USRD --> CP[Cooperative Programs]
    CP --> FP[Funded Programs]
    CP --> S[Statistics]
    CP --> RM[Resource Management]
    CP --> D[Development]
    CP --> M[Marketing]
    
```


196
Support, Assistance


Statutory Authority -- 1926

1. **Development**
2. **Technical assistance**
3. **Statistics**
4. **Education, publication**
5. **Research, publication**


197
Support, Assistance

Grants and Other Programs

- **Rural Cooperative Development**
- **Value Added Program**
 - **AgMRC**
 - **Producer Grants**
- **Appropriate Technology Transfer**
- **1890 Land Grant Outreach**
- **Small Minority Producer**


198
Support, Assistance

Program Delivery

- National Office
- Funding Programs
- Rural Development State Offices
 - Business Programs Staff
 - Cooperative Development Specialists
- Web-based Information
- Publications



199

Support, Assistance

- USDA Extension
- University Extension
- Educational institutions
- General farm organizations
- Development organizations
- Trade, educational associations
- Private consultants
- Financial institutions



200

Support, Assistance

International Assistance

- U.S. Dept. of Agriculture
- U.S. Agency for Inter. Dev.
- World Bank and Affiliates
- ACDI/VOCA
- NCBA/CLUSA International
- Credit Union National Assoc.
- Nat'l Rural Electric Coop. Assoc.



201

Support, Assistance

Cooperatives and Development

Broad Challenges

- Legal system
- Administrative/regulatory system
- Funding sources
- Entrepreneurial spirit
- Management capabilities
- Member education/participation
- Markets and economic system



202

Support, Assistance

Rural Cooperatives in the United States

Thank You!

May 15, 2008
James R. Baarda



203