

**Remarks of
Richard Gilmore, AgVisory
Farm Credit Administration Symposium on
Consolidation in the Farm Credit System
McLean, Virginia
January 16, 2014**

This paper is intended to address the following topics related to the January 16, 2013, FCA symposium.

- Impact of consolidation on the System mission
- Part-time producers and rural residents
- Current and future farming needs of those involved in the production of local foods
 - How those needs may be affected by future System consolidation
 - What are your views on the factors the FCA Board should consider when evaluating future merger applicants
 - The Board must always consider the long-term safety and soundness of the System as well as the ability to meet the needs of eligible credit-worthy borrowers
 - All mergers must meet both questions:
 - Long-term safety and soundness
 - Needs of eligible credit worthy borrowers

FCA's Mission: Ensure a safe, sound and dependable source of credit and related services for agriculture and rural America.

The System is a Government sponsored enterprise of cooperative institution's owned and controlled by their member-borrowers. Congress, in establishing the System in 1916, determined that the cooperative structure was the best model for furnishing sound, adequate and constructive credit and closely related services to rural areas. Subsequent Farm Credit legislation, including the Farm Credit Act of 1971 reaffirmed the cooperative nature of the System.

The System, through its cooperative structure makes competitive credit available to credit-worthy farmers, ranchers, producers and harvesters of aquatic products and their cooperatives. The three core cooperative principles are the foundation of the System's structure:

1. The cooperative is owned by its members.
2. The cooperative is controlled by its members
3. The members benefit from doing business with, and participating in, the management, control, and ownership of their institution.

System institution Boards and management that focus on serving their members ensure the institution maintains and embraces its mission of furnishing sound, adequate and constructive credit as a cooperative. Institution boards that have exposure to all the agriculture sectors and various market segments of its member base are better able to make decisions that benefit the varied shareholder interest within its territory.

System institutions, particularly those with large and dispersed territories, should consider using current technology and flexible approaches to facilitate communication and involvement. System institutions should provide outreach, education, training, and information to all eligible borrowers and the communities in which they live and work. Outreach activities could be offered in conjunction with other organizations such as state or national young farmer groups or farmers who market their agriculture products through the local/regional food systems. Another value added benefit to members and their families is for System institutions to be engaged corporate citizens in their rural communities to advance the economic health and well-being of the entire community in their efforts to maintain the focus of seeing all member-borrower segments. It is important that all System institutions are fully engaged and use all available authorities to assist YBS farmers to begin, grow, or remain in agriculture or agriculture production. In addition, some associations have programs set up to offer workshops geared to this group of farmers that provide training, education, assistance with business plans, reduced or waived fees, reimbursement vouchers for assistance in buying and using computers or other technology, reimbursement for attending commodity conferences, or consultation fee waivers for assistance to prepare and present complete loan applications. Others have bilingual loan officers and have all loan documents and some meetings in languages other than English. Other institutions have programs that provide start-up seed capital to assist beginning and undercapitalized producers get started in agriculture. Other programs reward young, beginning, small producers with interest rate reductions for completing seminars and workshops that improve their financial, business and production skills.

In the 4th quarter of 2012, FCA published a booklet on providing credit to farmers and ranchers operating in local/regional food systems. This provided guidance on how associations can effectively meet the credit and related service needs of farmers who market their agriculture products through the local/regional food systems and farm related service businesses that are operating within the local/regional food system. It emphasizes the statutory mandate to serve all types of agriculture and agriculture producers. Agriculture continues to evolve as the farming population becomes increasingly diverse. Many first generation farmers are operating farms that market products within the local food system and other emerging market segments.

This agency guidance required a commitment by each institutions board of directors to lend to this group of farmers. It also required inclusion in the institutions business plans and strategic plans to support and finance various emerging agriculture markets.

There are numerous part-time producers and rural residents that are credit worthy and can be served by Farm Credit institutions. The current and future financing needs of those involved in the production of local food involve the need for working capital for operational expenses and

long-term capital for asset expenses such as equipment, breeding stock and infrastructure. Many if not most of these farmers have off farm income to provide for living expenses. Other operations attempt to self-finance their yearly operational expenses using the proceeds from the year before.

The challenge for many is that it is hard to qualify for a loan in the start-up phase without a proven track record. It is also critical that there is a food system centered on a regional and local level rather than on a national and international level. This food system could strengthen small farmers, community gardens, urban farms, farmers markets, community supported agriculture projects, and food cooperatives. This lack of an infrastructure is in many ways the most challenging aspect because the lack of the market place to sell the products raised is very real.

While the needs and challenges of the part-time producer and rural residents are many in their efforts to establish a viable and credit worthy business I do not think that is a function of System consolidation. The examples referenced in this paper apply to all Farm Credit System Associations. In fact, I think an institution that is large enough to support a specialized staff that can work directly with the YBS customer, knows the individual farmers that are operating in an underserved market, can relate to and has a relationship with the ethnic diversity, including language skills may be more successful than the institution that makes these responsibilities another assigned duty of its lending staff.

Many of these first generation farmers may not be known to association staff as they operate outside the traditional agriculture network. Many of the service producers, such as university extension staff are dealing with budget constraints and are not in a position to provide training to this under-served agriculture community. In order for Farm Credit institutions to serve the bona-fide farmer as well as the food hubs and aggregators in each community, it is important all of the parties to know each other, to know what services are needed and what financial services can be provided or need to be developed.

In conclusion, since all proposed merger applications must meet the tests of the long-term safety and soundness of the System and the ability of the System to meet the needs of all eligible, credit-worthy borrowers, each merger should be considered based on the factors of:

- What are the plans of the merged entity to continue to expand its efforts to serve the young, beginning and small market place.
- These plans need to be specific in how the Board and management intend to utilize staff to actively market to this under-served member or potential member.
- The plans must address underwriting standards, loan pricing, and fees. If exceptions or waivers are going to be part of the program, they should be detailed in the strategic plan for the new company.
- The importance for the institution staff to be able to communicate with many of these first generation farmers in their native language is important. This may require some staff that is bilingual or having access to interpreters will be necessary. Loan programs and documents should be translated.

- The local/regional food system will operate in both urban and rural communities. The proposed merger should address the demographics of the new territory along with plans of how it will become involved with these food systems. It may need to address lending programs, staffing and volunteer efforts.
- The association should be required to address how it plans to work within the community activities that may exist, may need to be developed, work with university extension activities and be active in education, training and business planning.
- The Board and management should establish goals and objectives and be held accountable for the results achieved.