



Rural Community and Agricultural Finance

Defining the Issue

The Federal Deposit Insurance Corporation (FDIC) describes a *local community bank* as a private and/or locally owned institution providing relationship-based lending opportunities. Bank officials rely on specialized knowledge that is gained through managing long-term business relationships with customers who have specialized needs. These customers include farmers and agribusinesses.

Less need for brick and mortar facilities, new technology and potential one-size-fits-all banking regulations provide several challenges for the survival and growth of local community banking. Accordingly, the Federal Reserve Bank of St. Louis reports that over the past thirty years, more than half of all banks in America have been closed or consolidated. The vast majority of these institutions have been local community banks in rural areas.

What is the status of banking and financial services in your neighborhood? Is relationship-based lending alive and well? Do farmers and agribusinesses have access to capital and services that fit their unique financial requirements?

AFBF Policy

Producers need a variety of credit sources at the lowest possible interest rates. While competition in farm credit markets is in the best, long term interests of agriculture, we encourage commercial banks, the Farm Credit System (the System) and other lenders to seek out opportunities to cooperate in meeting the financing needs of farmers. We support the following principles:

- Individuals or institutions that hold mortgages or instruments that would normally require a certificate of release in order that a clear title may be presented, shall upon maturity or other satisfaction of said instruments, file a certificate of release in the local government entity of affected property at their expense within 30 days;
- Federal small business grants should not exclude beginning farmers and ranchers and entrepreneurs without any employees. Grants should be awarded based on the character of the applicant and the merit of business and financial plans submitted;

Farm Service Agency (FSA) - We support requiring FSA loans be secured by adequate collateral and reasonable repayment capacity. The loan process should be streamlined, to allow producers and lenders to implement or change management plans. Moreover, increased caps on and funding available for FSA loans to beginning farmers; eliminating minimum years of farming participation for beginning farmer loan programs.

Commercial Banks - We support regulators striking a balance between banking capital requirements which preclude lending to qualified farmers and making sure that financing for agriculture does not repeat mistakes on credit worthiness. This includes easing Federal Deposit

Insurance Corporation (FDIC) Community Bank regulations in order to stabilize real estate values and energize small business.

We oppose regulations that are restrictive, inflexible and damage farmers' and ranchers' ability to obtain and keep adequate financing and any federal or state banking transaction tax or fee. Financially responsible institutions should not be penalized for the excessive risk taken by other institutions.

Farm Credit System - Preservation of the System is in the long-term best interest of U.S. agriculture. The System should remain a farmer-owned, federally chartered system of banks and associations. We support:

- Efforts to make patronage allocations and cash distributions a higher priority than building capital reserves.
- Lending primarily to farmers, agricultural cooperatives and agribusiness;
- Full disclosure of financial condition;
- Removal of the statutory exit provision from the Farm Credit Act;
- Retention of regulatory authority by the Farm Credit Administration (FCA) and oppose the regulation of the System by the U.S. Treasury Department or any other regulatory authority;
- FCA examination of regulatory burdens and capital requirements to ensure System institutions can be competitive;
- Farmers and ranchers serving on the boards of directors of System institutions and are opposed to their replacement on the boards by commercial bankers;
- The System expanding its authority to allow rural lending which meets the changing production and marketing needs of agriculture;
- The need to modernize and expand the System's ability to serve agriculture and rural America to help them compete and thrive in the emerging global market;
- The population limit for rural home loans being increased; and
- Medical liabilities not being listed as a derogatory on a credit report.

We oppose allowing commercial banks to have access to money procured by virtue of the System's agency status.

Farmer Mac - We support Farmer Mac as a viable source of farm credit; and legislation that would provide agriculture producers a priority lien on crop, livestock and other agricultural products that are sold to brokers, processors, accumulators and end users.

Aggie Bonds - We support the Tax Exempt Agricultural Bond for Beginning Farmers or "Aggie Bond" program used by state agencies to assist farmers and ranchers with purchases of farmland, breeding stock and farm improvements; and changing the word "median" to "average" in the definition of previously owned real estate to make more beginning farmers eligible for the Aggie Bond program.

Small Business Administration - We support the Small Business Administration (SBA) partnering with commercial lenders as another provider of guarantees for agricultural loans; and continued funding for SBA programs.

OFBF Policy

We support the farmer-owned and controlled Farm Credit System and encourage our members to utilize it.

We support expansion of Ag-LINK; the State of Ohio Linked Deposit Program designed to serve agriculture. We support the current level of \$150,000 and encourage periodic review to ensure program effectiveness.

We encourage potential borrowers as well as lending institutions to explore and use Farmer Mac programs for purchases of agricultural real estate and/or farm homes.

We support the establishment of credit and/or venture capital for newly developed farmer-sponsored marketing programs.

We support statewide line item funding for Resource Conservation and Development Councils for the state budget.

We support the state of Ohio expanding participation of non-depository Farm Credit Services beyond Ag-LINK to include all state sponsored lending programs designed to support farming and agribusiness.

Discussion Questions

1. How do your council members define their farming operations? What specialized needs for credit and capital make them a unique customers? What key relationship-based lending factors need to be considered by banks and lending institutions?
2. What type of institution do your council members use? How many rely on a traditional brick and mortar locations, technology, and/or a combination of both? What factors do you consider in choosing available banking services - Convenience, security, lack of security and/or lack of other services available?
3. What banking, lending and credit challenges need addressed in your community? How should residents, local businesses farmers and agribusiness work together to address these financial service needs?
4. How does your community council want to work with the county Farm Bureau to explore banking and finance for your area?