September 2012

THE FARM CREDIT COUNCIL

As the national trade association for the cooperatively owned Farm Credit System (FCS), we believe it is appropriate and important to provide the Commission with background information as to the FCS structure, specifically, in regard to the basis for the treatment of cooperatives. In particular, we would note:

1.) Congress specifically established the Farm Credit System to operate as a financial cooperative for the benefit of its farmer-owners. See Sec. 1.1 of the Farm Credit Act (12 USC 2001) ("farmer-owned cooperative Farm Credit System…")
2.) This farmer-owner design is emphasized in Sec. 1.1(b), "It is the objective of this Act to continue to encourage farmer-and rancher-borrowers participation in the management, control and ownership…"
3.) Each association has a board of directors comprised of voting members of the association, and as required by law, at least one "outside" director. No CEO or other employee may serve on the board. (12 USC 2072 and 12 USC 2203).
4.) Association employees are precluded from participating in nomination process.(12 USC 2203 and FCA Regulations.)
5.) Voting stock may only be held by farmers, ranchers, producers of aquatic products, and cooperative associations eligible to borrow from System institutions (12 USC2154a).
6.) Each farmer-owner of association voting stock is entitled to one vote (one man – one vote) in the affairs of the association, regardless of the amount of the stock held.
7.) The Act and Regulations prescribe <u>minimum</u> stock purchase requirements for borrowers, but the Act and Regulations also <u>require</u> that institutions meet minimum capital standards well in excess of the amount of purchased stock. (12 USC 2151) At year-end 2011 combined System association capital was over $24 Billion dollars. As a percentage of loans it was in excess of 19%. Virtually all that capital is the result of income earned and retained. CoBank, one of the 4 System banks, serves eligible farmer cooperatives as well as System associations. Under its Capital Plan cooperative borrowers are required to maintain capital at 8% of the historical 10 year average borrowing.
8.) In accord with IRS provisions applicable to cooperatives (Subchapter T of the Internal Revenue Code), each year the System pays $millions in patronage dividends to its members, both in cash and allocated equities. Unlike stock corporations, that pay dividends based on ownership, coops pay patronage based on the amount of business done with the cooperative.

In establishing the Banks for Cooperatives (now CoBank) Congress specifically summarized the basic cooperative principals in regard to eligibility to borrow from the banks for cooperatives (12 USC 2129). Simply stated they are: one-man, one vote; limits on stock dividends; conduct a majority of business with members; and vest voting control in the hands of farmers or their cooperatives. System banks and associations all adhere to these principles in their operations.