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How credit unions can steal ag-lending share from banks

Ken McCarthy

For credit unions interested in agricultural lending, their lack of experience is a major barrier. Some of those institutions are looking at bank acquisitions to fill their knowledge gap, while others are establishing deeper roots with local farmers.

Which path a credit union chooses depends on how aggressively it wants to build its ag lending portfolio, and how stiff the competition is locally.

Historically, banks and Farm Credit Services — a government-sponsored enterprise — have handled the bulk of farm lending in the U.S. Because farmers often have strong banking relationships, starting up an ag lending program from scratch is very risky, said Tom Kane, president and CEO of the Illinois Credit Union League.

Credit unions in Illinois are not into ag lending in any meaningful way despite the fact that the state ranks in the top 10 in the total number of farms. "I couldn't name a single credit union that does ag lending, even though it's a pretty big deal in our neighboring states," Kane said.

There are many financial institutions that have done extremely well over the years in the business, and the key to successful farm lending is in developing strong relationships with the farmers in addition to understanding the complexity of their finances, said Tim Scholten, president of the credit union and community bank consultancy Visible Progress.

"For credit unions that are thinking of entering the ag business, it is important to understand the volatility of this industry, with weather being one of the most significant factors," he said.

Soaring inflation and a lingering drought have been among those volatile factors recently.

Some credit unions are targeting banks with strong ag businesses because the credit union can acquire the expertise they need to mitigate the risk.

"In talking to some credit unions CEOs, developing their business lending capabilities — including agriculture — is one of the main reasons for a bank acquisition," Kane said.

Michael Bell, an attorney with Honigman who advised many credit unions on bank acquisitions, said there is no dabbling when it comes to a lending line such as farming.

"You either do it or you don't," he said. "And I absolutely have credit union buyers that have decided to do a deal to gain ag expertise and a portfolio."

There have been nine deals announced this year in which a credit union is buying a bank. In 2021, 13 such transactions were announced.

A few of those acquisitions may have been driven by the desire to acquire farm lending expertise, **Bell** said, though he declined to provide a specific example.

But it's not just an issue of competing with banks. Farm Credit Services is tough to compete against, and both credit unions and banks lose loans to it, said Jeff Olson, president and CEO of the Dakota Credit Union Association.

Still, some of the largest credit unions in the Dakotas — including First Community Credit Union, Capital Credit Union, Town & Country Credit union and North Star Community Credit Union — are as big as or bigger than most of the rural community banks and can hold their own.

"These credit unions are very competitive in the ag lending arena," Olson said. "And the majority of North Dakota state-chartered credit unions are exempt from the statutory member business lending cap, and that does factor in and allows them to play a key and vital role in the food production lending market here."

In Iowa, the \$1 billion-asset Community 1st Credit Union has seen its farm customers battered by inflation in 2022. Although commodity prices are much higher than the recent past, the input costs — fuel, fertilizer, chemical and seed — have all seen dramatic increases in 2022, said Community 1st CEO Gregory Hanshaw. "The true effects of inflation will be seen this fall into the winter after the harvest is complete," he said.

The big banks serve the market well, as do some strong, localized community banks, Hanshaw said. But Community 1st has a \$90 million ag portfolio built mainly through serving its membership with timely decisions that aren't bogged down by bureaucracy, he said.

"We might not always have the lowest interest rate, but we can serve our farmers and help keep their operation running as smoothly as possible by bringing a value and relationship that they appreciate," he said.

And the opportunity to build those relationships might bring new credit union players into the market.

Rodney Showmar, CEO of the \$1.9 billion-asset Arkansas Federal Credit Union in Little Rock, said his institution is not doing any farm lending, and he doesn't think any credit union in the state offers farm loans.

Showmar, who has made no secret of his desire to buy a bank, cited the lack of in-house knowledge and expertise as the primary roadblock to ag lending.

But that could change soon for Arkansas FCU.

"It's in our short-term strategy," Showmar said.

---- Index References ----

Company: NORTH STAR COMMUNITY CREDIT UNION; ILLINOIS CREDIT UNION LEAGUE INC.; Town and Country Credit Union; HONIGMAN MILLER SCHWARTZ AND COHN LLP; ARKANSAS SUPERIOR FEDERAL CREDIT UNION; First Community Credit Union; Community 1st Credit Union.; ARKANSAS FEDERAL CREDIT UNION; Farm Credit Services of America

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