

Self-Help, a CDFI Credit Union and Lender

In today's member highlight, we share with you the expertise from an OCM associate member who wants to hear your thoughts on the Farm Credit System.

Self-Help is a CDFI (Community Development Financial Institution) headquartered in North Carolina that includes two credit unions serving over 175,000 members, a non-profit loan fund, and the Center for Responsible Lending, a policy advocacy organization focused on curtailing predatory lending. Self-Help has been involved in the farm and food system since their very start in 1980, most particularly through their support for North Carolina food cooperatives that regularly source from local farmers. Today Self-Help supports projects like the farmer-owned food hub Eastern Carolina Organics, a wholesale distributor of organic produce that returns 80% of every retail dollar to family farms in the region.

I recently spoke with Self-Help Policy Director David Beck about Ag's Government Sponsored Enterprise (GSE) the Farm Credit System. Self-Help Credit Union is a long-time member of the Federal Home Loan Bank (FHLB) system, a GSE mainly serving home lenders and somewhat analogous to Farm Credit. As Self-Help has increasingly engaged in supporting sustainable ag and local food systems, they've worked to better understand and explore how CDFIs and Farm Credit Associations - both mission driven lending networks - might partner and better serve local and sustainable ag and food initiatives. On the public policy side, there is also a growing question of whether Farm Credit, as Ag's GSE, could and should be doing more to help support a more diverse and sustainable ag system, given the amount of public subsidy that GSE status provides. Below is a summary of David's expertise on the issue.

What is a Government Sponsored Enterprise (or GSE)? GSEs are created by acts of Congress. Farm Credit is one of the first, created in 1916 to help ensure farmers could obtain longer term loans. The most well known GSEs are Fannie Mae and Freddie Mac. Both the FHLB system (created by Congress in The Great Depression) and Farm Credit

are cooperative, member-owned GSEs. Farm Credit, like all GSEs, benefits from this quasi-public status through the implied guarantee of federal support and preferential tax status. This translates into cheaper bond funding and lower taxes, which provides GSEs a competitive advantage by allowing them to more cheaply fund their borrowers than competitors such as traditional banks. Part of the policy rationale is that GSEs use that public support to more fully serve its mission. GSE status implies that the taxpayers will bail them out in case of financial trouble, a substantial edge in raising funds in the financial markets. (In fact both the FHLB and FCS systems were bailed out by Congress in the 1980s.) GSEs also can benefit from dispensation from certain financial regulations, and more limited government oversight.

Who else benefits from GSE status? GSEs in addition to Farm Credit and FHLBs include Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), National Veteran Business Development Corporation, Federal Agricultural Mortgage Corporation (Farmer Mac), and SLM Corporation (Sallie Mae).

What sets Farm Credit apart? Given that GSEs are highly profitable enterprises in no small part due to what is ultimately taxpayer support, Congress requires many of the housing GSEs to dedicate some of their profits to support and subsidize affordable housing initiatives. Most notably, the federal government's 1980s FHLB bailout also required FHLBs to create Affordable Housing Programs (AHPs) and grant 10% of their annual profits to help support affordable housing. Since its 1990 inception, the FHLB AHP has granted out \$5.8 billion and is the public face of how FHLBs use their GSE status for the public good. Further, the Atlanta FHLB has studied AHP's "multiplier effect" and found that every dollar granted results in \$14 additional private dollars invested. By comparison the Farm Credit System cumulatively earns over \$5 billion a year in profits but does significant fund grants that might support worthy sustainable ag

and local food system initiatives that could help build a more diverse, less monopolistic and more economically sustainable ag system. At present FCS profits generally are returned to members as patronage or stay with the association. A Farm Credit System grant program similar to the FHLB AHP would generate around \$500 million a year in grants (10% of FCS profits).

It's not only about expanding investment in our food system. Farm Credit has come under increasing scrutiny for straying from its mission. For example a Farm Credit bank issued a \$725 million loan to telecom giant Verizon for its acquisition of a European cellular company. According to our friends at Open Markets Institute, Verizon's history of aggressive monopolization versus competitive behavior causes American telecom services to be overpriced. At the same time that they were helping Verizon, in 2017, Farm Credit's new loans to young, beginning, and small farmers dropped by 10 percent. In 2016, only 15.5% of Farm Credit loans went to small farmers. Farm Credit was formed to support rural communities and fair agricultural opportunities. Have they crept too far from that original mission?

What can we do to support a brighter future for our farm and food systems? Self-Help is creative and bold in its approach to providing financial support to our farm and food system. For instance, in 2017 Self-Help acquired South Chicago's Seaway Bank and is working to revive the Seaway Bank farmers market that connected Black rural Illinois farmers to the South Chicago urban community. In North Carolina and California, Self-Help supports a wide range of farm and food projects, and also is working with their credit union members to better understand access to fresh fruits and vegetables, financing fresh food storage spaces, and supporting a free lunch site for kids during the summer. Self-Help is a clear example that fearless leadership and a commitment to America's roots of "radical entrepreneurship" can truly help draw a brighter farm and food future. It seems reasonable to examine whether our taxpayer backed Farm Credit is really performing to our expectations.

What is your experience with Farm Credit? Are you a borrower? Do you see a brighter Farm Credit future? OCM and Self-Help want to hear from you. Please visit: bit.ly/FarmCreditQuestionnaire to share your thoughts.