

BROAD OUTLINE OF A PROPOSAL* FOR
A NATIONAL COOPERATIVE BANK

*A proposal of (as of
February 14, 1975) The
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Starting more than 50 years ago, Congress authorized farmers to build a farm credit system of their own to help them help themselves. From time to time since then Congress has broadened and strengthened the system. Because farmers didn't have the funds to invest in capital stock for needed equity capital, Congress helped all parts of the system get started by providing that the government supply the original needed equity capital in the form of capital stock that would eventually be replaced by capital stock investments of farmer members or through reserves accumulated from net operating margins. Congress also provided a method by which this credit system can go into the investment markets to borrow some of its lending funds through the sale of securities.

The Farm Credit System has worked eminently well. Farmers and their cooperatives now borrow over \$26 billion dollars a year from it. Farmers have built up a \$3 billion net worth, consisting of capital stock investments and reserves accumulated from net operating margins. The Government has never lost a single dollar of its investment in capital stock. But most important, the System has provided needed credit at lower cost to farmers and their cooperatives on terms especially suited to their needs. In addition, it has long been a pacesetter in the agricultural credit field. Therefore other leaders have tended to adjust their terms, service and costs to those of the Farm Credit System. They have widely copied the system's continuing innovations. Thus operation of the system has tended to benefit all farmers who borrow money.

Today only 5% of our people are farmers. We have become a non-farm society. Our society, particularly people in low and moderate income brackets, need credit facilities that will help them build organizations that can and will help them help themselves rather than leave the primary burden to government - federal, state and local. Just as farmers lacked capital, so do these families lack the funds for investment in equity capital of such a Bank. This makes it difficult, often impossible, for them to build organizations to help themselves.

Therefore, it is proposed that Congress draw on its experience with the Farm Credit System to build a new co-op credit system that will serve low and moderate income families and others. Such a system is strongly needed to attract and build new businesses and industries which will increase employment, to help people achieve good housing at prices they can afford, to assist in solving problems of depressed non-farm areas, to help migrants, to increase preventive as well as curative medical assistance, to improve self-respect through ownership and control of self-help enterprises which in turn may well have the effect of reducing crime and law enforcement expenditures, and for many other reasons.

National Cooperative Bank (working name only)

It is proposed that there be created a National Cooperative Bank with headquarters in the Washington, D. C. area and with authority to establish branches anywhere in the U.S. The system would serve Puerto Rico, the Virgin Islands, Guam and all other U.S. possessions.

The Banks would be capitalized by the U.S. Treasury purchasing no less than \$1 billion of capital stock originally in the form of liquid government bonds until needed for loans. The operating branches would be staffed by professionals and be granted loan powers subject only to the rules and regulations established by the National Cooperative Bank board of directors. The interest collected from the government bonds would be used to defray expenses until the loan volume was sufficient, after which the Bank would continue to collect interest subject to a franchise tax. The Banks would obtain loan funds by selling their consolidated bonds, notes or other forms of securities to investors with government guarantee. The Bank would be authorized to borrow from commercial banks, Farm Credit Banks, Credit Unions and other financial institutions. Stock would be invested by borrowing cooperatives on some agreed-upon formula such as stock purchases equal to 10% to 15% of their interest payments. The Bank would be authorized to accept certificates of investment, etc., from cooperatives, their members and the general public. This would provide some additional sources of funds.

The several Federal Reserve Banks would be authorized to purchase or discount any note, debenture, bond or other obligation secured or unsecured which is held by the Bank. Obligations of the Bank would be made eligible for purchase by the Federal Reserve Open Market Committee.

Obligations of the Bank would be eligible for purchase by any federally chartered or regulated commercial bank, savings and loan association, mutual savings bank or credit union.

After setting aside valuation reserves for depreciation and 1% of loans outstanding up to a total of 5%, the net margins will be distributed on a cooperative basis as patronage refunds representing as nearly as practicable a return of the true overcharge.

The Bank would be authorized to lend up to 10 times its capital in the beginning and 20 times after 5 years of continuous operations.

The Bank would be authorized to lend to any eligible cooperative for facilities and equipment, operating capital, goods in storage and loans to its members to the extent its financial statement, its operating statement, its management, its membership support, its ability to give collateral security when deemed necessary by the Bank, or its plan for repayment indicates it could carry its loan and repay it on the schedule agreed upon.

Eligibility

A cooperative is defined as an organization of people created to provide a service directly or indirectly for its members at cost, including the building

of needed reserves, which is ultimately controlled by its member-users. It must do 50% of its business with members or pay patronage refunds, when earned, to all users of the cooperative who request them on an equal basis. Such cooperatives would include credit unions, housing, group health, consumer goods and services, as well as other types of user-owned associations (not owned or controlled by profit corporations) excluding those cooperatives able to borrow from the Farm Credit System.

Government Investment in Equity Capital

In addition to the capital for loans, the Banks would have access to a \$250 million loan and equity augmentation and interest supplement fund to be established by the U.S. Treasury to be known as the "self-help development fund." The fund would be used for the investment in preferred stock or any other evidences of debt or ownership of any type borrower defined above. Such investments would be made only to help cooperatives organized primarily, but not exclusively, to serve the needs of poverty groups, to help existing eligible organizations extend their services to such groups, and to cooperatives that have a workable plan to reduce the cost of distribution of food or other consumer goods or services by acquiring additional processing or handling facilities.

Investments of such funds would be made only to cooperatives that had a workable plan for replacing such funds with member-owned stock and accumulated reserves over a period satisfactory to the Bank but not longer than 30 years.

Operations

The Bank and its branches would make secured and unsecured loans, short and long term, related to the useful life of the property, to any cooperative which in the Bank's judgment can and will meet its terms and conditions, but only those not able to borrow from the Banks for Cooperatives of the Farm Credit System. The Bank may make loans jointly with other creditors and may guarantee loans fully or partially as to interest or principal or both.

Loan applications would be received by the appropriate branch or operating Bank and, within the limits of policy set forth by the board of directors, would be made and forwarded to headquarters for discount. Collection and loan servicing would likewise be conducted by the branch Banks. The interest rate, size of loan, length and conditions would all be within limits of policy declared by the board of directors. Every effort will be made to equitably allocate the Bank's loans and services between types of potential users. A borrower would be permitted to prepay loans and reborrow such amounts.

Control

Each branch Bank would select an advisory committee of not less than 5 or more than 9. The members of this committee need not all represent borrowers. Such committee shall be composed of members with tested cooperative experience.

The National Cooperative Bank and its branches would be controlled by a board of directors composed of not more than 15 people. There would always be one

member each from the branch Banks: one would be the Rural Electrification Administrator; one would be the director of the National Credit Union Administration; and one would be the Governor of the Farm Credit Administration. The latter three may designate alternates to serve in their absence. The branch Bank representatives would be appointed by the President of the United States for six-year staggered terms from the membership of the advisory committees of the branch Banks until the government-owned stock was reduced to 2/3 of the Bank's net worth; then the branch Banks would select 1/3 of the board members of the Bank. When the government-owned stock was reduced to 1/3, then 2/3 of the Board members would be selected by the branches and when the government capital was fully retired, the branches would select all of the directors representing them.

From the beginning, the members and owners and borrowers would be authorized to select their district advisory committees, with each member stockholder having one or more votes as determined by the members.

The board and all committees would meet at least quarterly and would be compensated for their expenses and paid an appropriate per diem.

Services

To further carry out the purposes of the act there would be appropriated annually \$2 million in addition to the present budget for the work of the Farmer Cooperative Service or a similar new agency. The funds would be used for studies on economic and social viability, for assistance in organizing self-help organizations, and to conduct leadership and management development and orientation programs either by the cooperative service agency alone or jointly with others. This cooperative service agency or the expanded Farmer Cooperative Service would be authorized to spend funds directly, through other government agencies, state or federal, or with private institutions or individual

Assistance to Low Income Areas

The Bank would be authorized and encouraged to accept grants from any source for assisting in marginal financing or for planning and organizing cooperatives to serve people in low income or depressed areas. The added costs and risks related to financing beginning cooperatives with low capital, new management, and unrealized volume, even where there is great economic and social need, is self-evident. Therefore, supplemental funds may often make a project viable which otherwise would not be. The repayments of government-owned stock in the National Cooperative Bank would be added to the \$250 million self-help development fund established by this proposal and be available for further investment by the National Cooperative Bank.

The Bank and its branches would be exempt from taxation until all the government capital is repaid. The Bank's real properties and its intangibles would be subject to the same taxation or exemption as those of any other federal corporation until the government-owned capital stock is retired.

Annual Reports

The Bank would make annual reports to Congress on the financial status and operations. The Bank would also be charged with making recommendations to Congress for any changes in legislation that would make it possible to better accomplish the goal of a user-owned and controlled credit system that would give low and moderate income families and other consumers the maximum help in helping themselves.

February 14, 1975

From the Reader of the Conference on Alternative State & Local Public Policies held June 13-15, 1975 in Madison, Wisconsin. The reader was edited and compiled by Derek Shearer and Lee Webb.

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