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# Economics Newsletter

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## THE NATIONAL CONSUMER COOPERATIVE BANK IS COMING

by

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The Federal Government has long had some interest in cooperatives. Its involvement with financing, however, began about 1917 with the Federal Land Bank System, followed in 1923 with the Federal Intermediate Credit Banks and PCAs, and the Banks for Cooperatives in 1933. All of these have long since repaid the initial Government-supplied capital and are now user-owned. The Rural Electric Administration was established by Executive Order in 1934 followed by an Act of Congress in 1935, with rural telephone amendments made to the Act in 1949. The separate Rural Telephone Bank was not established until 1971. The law establishing Federal Credit Unions was passed in 1934.

In 1978, President Carter signed into law a bill establishing a National Consumer Cooperative Bank (NCCB) which "will make available necessary financial and technical assistance to cooperative self-help endeavors as a means of strengthening the Nation's economy." While it is patterned after the Banks for Cooperatives, it will have only one central bank unless it becomes evident that regional banks would add to efficiency and effectiveness.

Cooperatives are not often recognized as such. Millions of consumers belong to mutual insurance companies, mutual savings and loan associations, Credit Unions, or housing, food or day-care cooperatives. Some of the most recent figures show that farm-related cooperatives in the U.S. now total about 7600 with 6.15 million members. About 320 of these cooperatives are in South Dakota. There are 32 million members of nearly 23 thousand consumer Credit Unions; 2.3 million members of consumer

goods, day-care and housing cooperatives; and 8 million members of health cooperatives. Millions of non-farmers belong to the Rural Electric Associations, Rural Telephone Associations and the Rural Water Systems, all cooperatives.

Very briefly, a cooperative can be defined as a business voluntarily owned and controlled by its member-patrons, for their benefit, on a non-profit or cost basis. They tend to be important where there are significant opportunities for improving incomes or reducing costs. They can be positive forces in a community, as note their influence in many small towns in South Dakota where they are the only remaining business and employers.

The Articles of Incorporation under which most cooperatives operate are generally quite restrictive in how the organization can be financed and in the distribution of any savings that may accrue from operations. This results in difficulties in financing current activities, with consequent weak abilities to function efficiently.

The NCCB will be initially financed by up to \$300 million of stock authorized to be purchased from the Bank by the U.S. Government. As cooperatives borrow, they will be required to purchase stock from the Bank. Eventually, as with the Farm Credit Banks, the investment of the government is expected to be retired and the Bank will be fully owned by the cooperative borrowers. During the early years, the Bank will be governed by a Board of Directors composed of 13 members appointed by the President. As the borrowers acquire

sufficient stock, they will be allowed to elect successively more directors until they are responsible for 12 of the 13 members of the Board. In addition to the original capital stock, the Bank is authorized to obtain funds by issuing bonds, debentures, notes and other evidences of indebtedness up to ten times the paid-in capital and surplus of the Bank.

The definition of eligible borrowers of the Bank is very broad, generally including any organization chartered or operated on a cooperative, not-for-profit basis which cannot borrow from the rural credit banks or the Farmers Home Administration. These may include formerly farm-oriented cooperatives that have lost their eligibility to borrow from the Farm Credit System. Credit Unions, mutual Savings and Loan Associations and some other cooperatives eligible for other assistance will not be able to borrow from the NCCB. The act stresses "low income" and provides that at least 35 percent of the Bank's loan are supposed to be made to cooperatives composed primarily of low-income persons. The term "low income" is still to be interpreted. In any case, only "sound" loans are to be made and to be repaid with interest.

Another important part of the law -called Title II-establishes an Office of Self-Help Development and Technical

Assistance. This Office is to have a Director appointed by the President who is not a member of the Board of the NCCB. It is authorized up to \$75 million to be used to make advances to cooperatives eligible to borrow from the Bank but which do not have sufficient investment capital of their own (probably because they are low-income) to justify a loan from the Bank. The loan from the Office could be for the purpose of paying interest on a NCCB loan, however.

The Office may also finance, directly or indirectly, assistance in the organization, financing and management of eligible cooperatives, again with emphasis on low income. These have traditionally been areas in which smaller and beginning cooperatives are weak.

Neither the Bank nor the Office of Self-Help Development and Technical Assistance are operational as yet. There are organizational problems that are being worked out. It is now expected that a functional Board of Directors may be at work later this summer with perhaps most of its staff by December. The Board will then have many policy decisions to make concerning the actual operation of the Bank. After that there will be many administrative day-to-day procedures to be established. Thus it is likely to be well into 1980 before any loans can be made.

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