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Farm Credit weathering the recession

Agricultural lender still paying dividends while large banks slash them

Charlotte Business Journal - by Adam O'Daniel Staff writer

An afternoon thunderstorm can wipe out acres of crops in minutes. But not even the worst economic storm in decades could stop **Carolina Farm Credit** from paying its annual dividend.

About 8,700 Farm Credit borrowers across the North Carolina Piedmont and mountains recently received dividend payments — officially called “patronage refunds” — totaling \$19 million from the Statesville-based cooperative.

It's the 21st consecutive year Carolina Farm Credit, the local agriculture industry's chief lender, has paid its members an annual share of the profits.

Chief Executive Mike Morton says the co-op's goal is to refund 20% of the interest paid by each borrower. As the recession hit last year, he wondered if his loan portfolio would hold up. It did — thanks to diligence before the economic storm.

While more traditional lenders slashed their dividends and looked for government bailouts, Morton kept the co-op's streak alive.

“We had a good year last year, and considering the economy, we're very pleased,” Morton says. “That's a tribute to our farmers and their conservative nature and hard work.”

In 2008, Carolina Farm Credit reported \$24 million in net earnings, down 7% from 2007, a solid performance considering the economy. Morton says he's seen some credit deterioration, but he calls past-due loans “very manageable.” Only 0.64% of the co-op's loans are delinquent.

Don't be confused by the numbers. North Carolina farms aren't booming. Last year was tough, and 2009 isn't any easier.

Dairy farms, in particular, are struggling as prices drop. And the timber industry has been hampered by the collapse of the housing market. Other agriculture products are finding soft markets as consumers trim their spending.

But Morton says the key is prudence in good times. Farmers know to prepare for a looming storm. Morton says the economic expansion of recent years benefited North Carolina's farms, but the profits weren't siphoned off by purchases of huge homes and big-screen TVs.

Instead, most Carolina Farm Credit members put cash away so when gasoline prices climbed and the stock market crashed, they remained solvent and paid their debts.

Anson County cattle farmer Milton Baucom, a Farm Credit borrower, gets all his financing through the co-op. He says its loan officers understand his business better than traditional banks.

When he wanted to expand his grass-fed beef cattle operation last year, Farm Credit structured his loan based on the time it would take for the expansion to make money.

“They've got a little bit more knowledge on what we're doing,” Baucom says. “And it's nice to get even just a little bit back every year, especially in a tough economy.”

Baucom supplies local organic restaurants with steaks and ground beef. He says his business slowed for a few months, but he has seen a recent jump in demand. This spring, sales have moved ahead of last year's pace.

Morton says many of his loan officers are part-time farmers, so they understand the plight of clients such as Baucom. They specialize in making loans based on a relationship with the borrower and not just a credit score.

The result: a loan portfolio that's performing even in a deep recession.

“Farmers face adversity at almost every turn. So they know how to watch their liquidity and plan ahead,” Morton says. “We've been able to rely on our prosperity in the good times to get through the tough times like right now.”

CAROLINA FARM CREDIT

•**Established:** In 1916 as a member-owned cooperative to finance agricultural operations in 54 western counties of the state.

•**Operation:** In a manner similar to a credit union, member-borrowers elect a board of directors, and all profits are either refunded to members or reinvested in the co-op.