

For: County Offices

STOCK VALUE IN COOPERATIVE ASSOCIATIONS

Approved by: State Executive Director

Acting:



1 Overview

A Background

This notice replaces MO NOTICE FLP-262, issued 9-14-00.

Farmers are looking at new generation processing coops as an alternative market. The coop allows them to retain the value added component for their agricultural commodities. The purchase of cooperative stock for credit, production, processing and marketing is an authorized OL loan purpose under 2-FLP Par. 122 and Instructions 1941-A, 1941.16 (b).

FSA loan funds cannot be used to finance the further processing or resale of agricultural commodities produced by other farmers.

B Purpose

This notice is to provide guidance on handling applications when loan funds have been requested to purchase coop stock.

C Contact

Any questions concerning this Notice should be directed to the Farm Loan Programs Section in the State Office.

D Filing Instructions

A copy of this Notice should be filed preceding 2-FLP Handbook and Instructions 1941-A.

Disposal Date Retain until further notice.	Distribution Farm Loan Teams, County Offices, AFLSs, DDs, CORs
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2 Implementation

A Stock Limitations

Some cooperative by-laws/articles of incorporation restrict members from granting a security interest in the stock and/or limit the ownership of the stock to members only without provisions for lenders becoming temporary owners. Prior to establishing a value for coop stock, the lender and/or loan approval official must obtain and review the cooperative by-laws/articles of incorporation to ensure:

- a valid security interest can be obtained
- there is no restrictive language that would limit the ability to liquidate the stock and, in effect, make the stock valueless if a non-farmer, such as a lender or government entity, becomes the owner of the stock.

B Stock Value

A stock certificate value for loan making purposes cannot be established until a market has been established and verified by “arms length” sales of stock after the coop has been in operation and has a proven track record. Due to risk involved and known limitations, the appraised value of most of the stock to be purchased with loan funds shall be considered zero for FSA loan making purposes.

Any coop stock used as basic loan collateral with an appraised market value greater than zero must have State Office written concurrence/approval.

C Number of shares that can be purchased

The owner of one share of coop stock is usually required to deliver a known XXX amount of bushels or XXX number of head per year to the coop each year for further processing of their own products. The number of shares that a borrower can own shall be limited to a modest amount over the farming operation’s own production. When the farmer owns a substantial number of shares in excess of the farming operation’s own production, the excess shares shall be considered a non-essential asset.

D Collateral Requirements

When loan funds are to be used to purchase coop stock and the stock’s value cannot be established as described in paragraph B, hard/basic collateral is required to fully secure 100% of the loan.

The borrower is required to pledge all of the stock purchased as additional loan collateral.