

# More Than Loans for Land and Livestock - ArborOne Farm Credit

BY DAN MCCUE  
PHOTOS BY BENTON HENRY



**Standing L-R: Carey Middleton, Kathy Heustess, Jack Shuler,  
Seated L-R: Don Boice, Bill Aston**



**Clay Ward, Chris Bradham, Chris Collins, Johnson Atkinson;**

**E**nsconced in ArborOne Farm Credit's beautiful new offices at 800 Woody Jones Blvd. in Florence, Chris Collins considered a question about the financial institution's new digs and promptly turned it on its head.

"To be honest with you, I think we'd all say our real offices are our trucks. We go to where our customers are," said Collins, adding that in his case that means farms and Ag operations in Clarendon and Sumter Counties. "More often than not, we close loans on the hood of a truck," Collins continued.

Established as Pee Dee Farm Credit in 1923, ArborOne is one of South Carolina's oldest financial institutions, and one of the few that has always specialized in providing loans for land, livestock and agricultural improvements to local farmers and ranchers.

From the state, it's been a participant in the federal government's Farm Credit System, a program championed by President Woodrow Wilson and intended to provide the nation's rural communities with access to needed credit.

Nationwide, the system, which is regulated by the Farm Credit administration, now provides about \$160 billion in loans, leases and related services to farmers, ranchers, rural homeowners, aquatic producers, timber harvesters, agribusinesses, and of late, those intent on providing the raw materials to U.S. Biofuel entrepreneurs.

As of Sept. 30, 2009, ArborOne had a gross loan volume of \$292,500,000 in a 12 county region that encompasses northeast South Carolina, a decrease of \$8,493,000 compared to the same nine month period in 2008, and \$291,108,000 in net outstanding loans.

Its financial products include long-term mortgage loans for agribusiness, farms, acreage, recreational and timber tracts, and homes; loans for equipment or vehicles; and short-term loan to finance their crops.

In recent years the product offering has expanded to include insurance and financial planning services.

"You have to understand how unique the relationship is," said Bill Aston, who's been calling clients in Dillon, Marlboro and Chesterfield counties for 29 years.

"When farmers ask us what's new, they're asking about more than financing," he said. "They know that we recognize innovative farmers invent their own ways to do things better. So in effect, we serve as conduits for passing on that knowledge."

"By sharing information, what you're doing is building strong relationships," Carey Middleton added. "Over time, our customers become real good friends."

"Everyone here is dedicated to serving rural America and to making life better for each other," agreed Jack Shuler, ArborOne's CEO.

## Customers own the company

One of ArborOne's most unique attributes is that every borrower automatically becomes a part-owner of the institution, and the recipient of a portion of the profits generated by its lending activity.

"We call them 'patronage dividends,'" said Don Boice, ArborOne's senior vice president of relationship management.

Explaining their function, Boice pointed out that ArborOne's interest rates are a little higher than those available from a commercial bank – assuming a farmer was able to find a lender willing to take a gamble on agriculture.



Jack Shuler (right), ArborOne's CEO, discusses the company's dedication

"That's because we hold all the loans in house, and assume all the risk," he said. "We're not selling the loan to a secondary market, getting involved in Fannie Mae or anything like that. What the patronage dividends allow us to do is give something back. In effect, every time we pay it, it reduces the cost of borrowing money from us."

"Our entire focus is to maintain and improve the income and well-being of our shareholders," Boice said. "Everybody we do business with is an owner of the company."

Of course, the distribution of patronage dividends is a little more complicated subject. Not all of ArborOne's products come with cooperative membership, and distributions are not automatic.

After each fiscal year, the institution's board of directors determines how much of ArborOne's net income will be distributed to its members. The total amount depends on the board's decision to retain all of the net income to strengthen its capital position or distribute some or all of the net income to members. In 2007, ArborOne returned 25 cents on every dollar of interest earned by members.

## Evolving with the market

According to a November report by the Palmetto Institute, the Agri-business cluster is one of, if not the biggest driver of the South Carolina economy. It generates more than \$30 billion in annual sales



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and is tied to more than 180,000 jobs, about 8 percent of its total employment.

The state's core agribusiness sectors – food, food processing and forestry, all significant businesses in the Pee Dee – account for more than 7 percent of the state's earned income and 8 percent of the Gross State Product.

The Institute estimated that the state's Ag sector has the potential to grow to a \$50 billion industry by 2020. Not surprisingly, that activity – and that potential for growth – has made a huge difference in ArborOne's inner dynamics.

Ninety years ago, serving the Pee Dee market required expertise in a fairly limited number of enterprises: tobacco farming, certainly, poultry, and perhaps some knowledge of swine. Today, each of the institution's relationship managers has to know about everything from the best soil conditions for growing corn, the recreational viability of marshes and swamps, logging, and even the potential upside of an investment in a former rice plantation.

"The market goes in cycles, and at the same time we see diversification – a necessary diversification – that farmers are undertaking to keep themselves in business," Aston said. "Broadly speaking, people say we have a lot of poultry farms in the Pee Dee, but when you take a closer look what you see are broiler farms, farms that produce chickens for processed and packaged foods, farms geared to eggs for human consumption, eggs to boost the population

of laying hens, and even farms whose sole focus is to preserve and nurture the genetics of desirable birds."

"I mean, every time you go to the supermarket and choose a specific brand, you're choosing it for qualities you find appealing. What you get (when you get high quality) is the result of a farmer's hard work and dedication," Aston continued.

"And that's just chickens. Then you've got swine... Duck farms and duck hunting," Collins said.

"Turkeys, timberland, and even properties that are now best being called hunting properties," Aston continued.

According to Clay Ward, whose territory includes Horry, Georgetown and Williamsburg counties, in the past year there's also been a significant uptick in the number of professionals from other parts of the country – people from Massachusetts, New York, Pennsylvania and the Midwest – who are looking to park money in real estate and are seeking ArborOne loans to bring their purchases to fruition.

"It's been an interesting development," Ward said. "Land has always been considered a quality investment, and here in the Pee Dee, land values have largely held. Now, that's not to suggest we're turning away from farms and helping people buy second homes or recreational homes. In fact, our rules require us to limit home mortgages to 15 percent of our portfolio."

By Congressional mandate, ArborOne and other members of the farm credit system, must confine its home loan activity to communities with populations of 2,500 or fewer.

"Our primary purpose is to provide farmers and other agribusinesses with a form of risk management," said Boice. "Our goal is that they at least break even... because it's a huge investment, agriculture. It's a huge investment in a very uncertain industry, because, think about it, farmers have no input on their costs. They can't control the market prices of seeds, fertilizer, and so on, and of course, when fuel goes up, it's hard to compensate."

One way ArborOne does this is by providing hedging loans, enabling farmers to lock in a fixed price or their goods on the commodity market.

"It helps them through the variables, and hopefully takes a considerable measure of the risk out of their business," Boice said. "All they have to do is deliver the crop."

The desirability of such a vehicle underscore how much risk agribusinesses face year in and year out, said Chris Bradham, whose service area consists of Lee and Chesterfield counties.

"The average person really doesn't realize what it takes, and how important reducing that risk is – to everybody," he said.

"It's an enormous investment, to tie your life and your family's life to agriculture," Bradham continued. "Equipment alone can cost upwards of a half million dollars, and if an institution like ArborOne wasn't around to mitigate that risk, the cost would have to be made up on the retailers shelf. And you probably wouldn't be able to afford items you buy every week because of the risks inherent in getting it from point A to point B."

Talk of risk quickly led to another constant subject among farmers in the Pee Dee: Diversification.

With the decline of tobacco as the region's premiere cash crop in recent decades, agribusinesses have pursued diversity as a way of reducing their dependency on a given commodity.

As an example of a company that's done just that, Boice pointed to a page on ArborOne's Web site that tells the story of Lawson Farms

in Darlington County. Established in just over 300 acres in 1834, over the course of six generations Lawson Farms has grown to more than 2,400 acres.

Tobacco still serves as a keystone crop on the farm, but it's been joined over the years by row crops such as soybeans, corn, sweet potatoes and wheat, a timber operation, and most recently, a sizable turf farm.

"The diversification of agriculture is a matter of survival. It's a matter of trying to sustain a cash flow year round," Boice said. "But even then, you're still dealing with considerable risk because no matter how many crops you're in, at least one is likely to fail in any given year."

As a result, ArborOne has seen many Pee Dee agribusinesses diversify in a way that reduces their absolute reliance on the land. According to Boice and several of his colleagues, many farmers have gotten into the trucking business in recent years, hauling grains for other farmers.

Others have embraced peanuts – something that requires a significant capital investment due to the specialized equipment needed – fertilizer sales, mulch sales, and even the marketing of pine straw.

Another significant trend has been building farmers building storage facilities on their land that enable them to hold onto their harvested crops long enough – hopefully – to get the best price on the commodity market.

"There's a strong trend in the last two to three years toward farm storage," Ward said. "It used to be people would harvest their crop and take it to the local elevators and sell it. Now that hedging has gotten so big, they harvest and store their crop until the contract calls for them to deliver it at the agreed upon price."

## Knowledgeable employees key to ArborOne success

Perhaps surpassing its various financial products as reason for its continued success in the face of the global economic crisis is the commitment of its staff and the nature of its "corporate" culture.

Recently named one of the state's best places to work by the SC Chamber of Commerce and the SC Society for Human Resource Management, ArborOne holds boot camps for new employees and has also implemented a Talent Management Program to not only foster employee development but also support its business continuity plan.

In an extensive survey that was one of the factors considered in bestowing the best places to work designation, ArborOne's employees gave it a 97% rating in terms of their overall satisfaction and a 99 percent rating in terms of satisfaction with their work environment.

Factors considered were leadership and planning, communication, role satisfaction, work environment, supervisor relationship, training, pay and benefits and overall engagement.

The company's boot camp allows new relationship managers to learn about farm finance in as hands-on a way as possible.

During their first six months on the job, every new hire receives training in each department of the institution, and then is deeply immersed in each of the company's financial vehicles and their attendant loan application process.

From there, it's literally out to the fields where they learn the clients businesses up close. In the case of its most recent three hires, that meant working for three days on a turkey farm.



Tammy Smith, Casey Sherman and Richard Pitts were not surprised when ArborOne was named one of the state's best places to work by the SC Chamber of Commerce and the SC Society for Human Resource Management.

"The main thing is gaining an understanding of what customers want, what customers costs are, and how and where they're going to sell their goods," Bradham said. "I mean, you have to understand what expenses they need to cover to get the seed out of the ground."

"Being on site, either for training or in the routine of visiting your customers, is a great way to understand the business from their perspective," Bradham said.

Boice said it takes as long as three years of training and on the job experience for a relationship manager to come into his own. All the relationship managers agreed.

"You have to have incentive and drive to be better than the competition," he said.

"The bottom line is our value comes from knowing our customers well and knowing the various sectors of agriculture they are involved in," Collins said.

For Carey Middleton, who works in Darlington and Florence, the up close and personal relationship with clients often means attending estate sales on their behalf.

"Recently I attended one on behalf of three different clients, bidding on their behalf on various items," he said, adding, "I closed two loans stemming from that sale the very same day."

ArborOne's commitments to their clients extend to the community's they live in.

As both a company, and through the efforts of its individual staff members, ArborOne has supported food drives held for the Florence County Humane Society and Harvest Hope Food Bank of the Pee Dee.

For the past decade ArborOne has participated in the Florence County Disabilities Foundation Project- "Making A Difference" at Christmas, and it also supports The Outreach Farm based in Williamsburg County. This non-profit organization raises beef cattle to donate to local soup kitchens in Williamsburg, Horry and Georgetown counties.

ArborOne also supports the local FFA, 4-H and Young, Beginning and Small Farmer organizations, among other groups.

"When you think about it, it's just the right thing to do," Boice said. "After all, the agribusinesses we work with provide the food, clothing and shelter we all need to live. It's only natural to give back and do all you can to help them and their community thrive." ♡