



Comptroller of the Currency
Administrator of National Banks

Community Developments

Fall 2002

Community Affairs OnLine News Articles

Investing in Value-Added Agriculture

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The Central National Bank of Alva, Oklahoma, invested in the Value Added Products agricultural cooperative which processes locally produced hard red winter wheat into frozen self-rising dough products.

The Community Reinvestment Act (CRA) encourages national banks to help meet the credit needs of their entire communities. The CDC, CD Bank, and Other Public Welfare Investments regulation (12 CFR 24 or Part 24) gives banks the legal authority to make community development investments designed to promote the public welfare. Part 24 investments can generally be used to meet a bank's CRA obligations as long as the investment primarily benefits low- and moderate-income people in the bank's assessment area and demonstrates nonbank community support. (For a more detailed discussion of Part 24, see OCC's Community Development Investments Web resource directory at www.occ.treas.gov/cdd/resource.htm).

Central Bank of Alva is a small community bank in rural northwestern Oklahoma, an area that has been losing population since the 1930s. The bank found an investment opportunity that supported local agriculture and created jobs for local residents — combining a value-added agriculture initiative sponsored by the Woods County Economic Development Authority with the bank's investment authority under Part 24.

The basic idea behind value-added agriculture is straightforward. A rural area is more likely to thrive — creating more revenue, more jobs, and more long-term economic stability — if its resources can be used to ship out finished products rather than raw materials. To take an example from forestry: Cutting trees and trucking the logs away creates a few jobs. Running the logs through a local sawmill, rather than trucking them away, creates more local jobs. Using the milled lumber locally to create furniture, rather than shipping it out as raw lumber, creates still more local jobs. Each stage adds value to the original product — and strengthens the community's tax base.

Value-added agriculture can take many forms. Hog farmers can underwrite a local meat-processing plant. Corn growers can pool their resources to build a plant that converts corn into energy, as ethanol. Durum wheat can become pasta. Community banks can be important players in strengthening rural economies by investing in or financing well-planned agricultural cooperatives and similar initiatives to add value to local resources by converting raw materials into processed products — at the source.

Central Bank of Alva's equity investment is in Value Added Products, Inc. (VAP), an agricultural

cooperative organized and owned by area wheat farmers. Oklahoma and several other states have passed legislation to encourage value-added processing by giving tax credits to farmers who organize such co-ops. The bank was able to join the co-op, with an investment of \$5,000 as a charter member, because it owns a parcel of farmland and meets the state's cooperative membership requirements.

Woods County farmers grow winter wheat — Oklahoma's most important crop. VAP uses the wheat to make self-rising, frozen pizza dough for the fast-food industry. The value added? It's estimated that processing turns \$1 million-worth of wheat into roughly \$33 million-worth of bread dough.

Along with the bank, some 856 other individuals and companies have invested almost \$10 million in VAP (demonstrating strong nonbank community support as required by Part 24). In addition to its Part 24 investment, the bank participated in two loans to support the project and purchased a Woods County general obligation bond. The bank's total support for this creative rural economic development venture exceeds \$2.5 million.

The new co-op, which opened its main plant in April 2001, has created about 55 jobs so far, most of them for low- and moderate-income people. In doing so, it has helped to keep young people in the area, strengthened the local tax base — in turn strengthening the county's infrastructure and services — and improved the quality of life in Woods County.

That, too, is value added.

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The Farm Security and Rural Investment Act of 2002 (better known as "the farm bill") created a program of Value-Added Agricultural Product Market Development Grants (VADGs) to encourage value-added agriculture initiatives. For more information, visit www.rurdev.usda.gov/rbs.