

**Testimony**  
**of**  
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**Senior Vice President, Regional Agribusiness Banking Group**  
**on behalf of**  
**CoBank**  
**Before the Subcommittee on**  
**Underserved, Agricultural, and Rural Business Development**  
**of the**  
**Small Business Committee**  
**United States House of Representatives**

**July 13, 2021**

Good morning, Chairman Golden, Ranking Member Hagedorn and Members of the Subcommittee. Thank you for calling this hearing today to focus on “Rural American Recovery: The Role of Small Businesses and Entrepreneurship.”

I am Brett Challenger. I serve as Senior Vice President of the Regional Agribusiness Banking Group for CoBank, based outside of Denver in Greenwood Village, Colorado. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. CoBank is a proud member of the Farm Credit System, and also provides wholesale loans and other financial services to 20 affiliated Farm Credit associations serving more than 75,000 farmers, ranchers and other rural borrowers in 23 states around the country.

**We are a financially strong institution – delivering value to our customer-owners**

We are immensely proud of the value and customer service we provide our customer-owners across rural America. Financial strength and stability are critical to our customer-owners and to fulfill our mission to serve rural communities and those who live in rural America.

Organized as a cooperative, we pay patronage to our customer-owners. That means CoBank’s earnings go directly back to our customers – not outside shareholders. Over the past five years, CoBank has distributed \$3.27 billion in patronage back to our customers across rural America, highlighting the enduring value of the cooperative model.

**2020 was a challenging year**

Like the rest of the world experienced, March 2020 brought tremendous uncertainty to CoBank. As more than 95% of our associates shifted to full-time remote work, our board and management made decisions enhancing our ability to respond to the economic challenges COVID-19 brought to our customers. Through our 14 regional banking centers, we were able to reach out to each borrower to ensure that we could meet their immediate and rapidly changing needs to help them weather the storm.

Today, we can look back with pride, realizing that our worst case scenarios never materialized and we were able to keep the bank running without interruption. We are now preparing to welcome most employees back to the office in September.

For many of our customers, keeping their employees was a concern, but also a priority. Although many of our customers weathered the COVID storm well, the level of uncertainty and volatility was great. They were worried about being able to pay their employees, what was going to happen in the financial markets and for how long was all of this going to last? After Congress passed the CARES Act, there was a new option—the Paycheck Protection Program (PPP). In April of 2020, CoBank and 52 other Farm Credit institutions, mobilized to deliver Paycheck Protection Program loans. While a few Farm Credit associations had previously been Small Business Administration (SBA) lenders, most, including CoBank, had not. I was fortunate to lead CoBank’s team to stand up the delivery mechanism for this economic lifeline of a program in nearly two weeks. CoBank’s employees proceeded to help 318 customers obtain more than \$418 million in PPP loans. System wide, Farm Credit delivered \$2.29 billion in 51,760 PPP loans to customers across the country, saving well over 126,000 jobs in rural America.

### **Vital help from the Office of Rural Affairs**

This program challenged SBA and lenders from the beginning, as many details to PPP were not set or defined. Not only was this a shotgun start for lenders, but it brought together lenders and borrowers with no previous experience with SBA procedures, in a race to lend out limited funds.

When we experienced challenges, the Office of Rural Affairs was a tremendous help to CoBank, the Farm Credit System and to our customers. They answered hundreds of questions from our team via email and phone calls. They hosted two webinars for our customers to help navigate the loan application and forgiveness documentation, inviting individual follow-up emails and calls. They helped us provide the service our customers deserve, during an especially uncertain and volatile economic time. Their help was essential in interpreting rules and guidelines in real time, as guidance was changing daily. The staff went above and beyond while we at CoBank were delivering a program brand new to us, partnering with an agency with which we had no familiarity.

In addition to their assistance with our PPP questions, our discussions with the Rural Affairs personnel helped us realize they could be an important means of bridging gaps between programs at USDA and programs at SBA when addressing rural needs. One thing that the pandemic made clear is that rural America was already struggling, and will continue to need extra attention and more capital to help recover from the challenges COVID has wrought.

The Office of Rural Affairs can serve as a useful coordinating resource for those in rural communities. SBA regional offices are often located in different locations than USDA offices. They can help bring information to businesses that may be unaware of ways they can help in rural communities. Without the Office of Rural Affairs, we would not have been as successful in executing PPP loans or navigating our customers' forgiveness applications through the SBA process.

We learned through our experience with SBA that some of the agency's programs are well suited to meet the needs of certain rural businesses. SBA's offerings are different from those of USDA and, for certain rural businesses, can provide substantial support to help businesses recover from the effects of the pandemic and foster job opportunities for rural families. Customers should have the information to make the best choice for their business and the Office of Rural Affairs can make sure the right capital resources and technical assistance are available.

I strongly encourage the subcommittee to support permanent funding for the Office of Rural Affairs.

### **Co-op Start**

The cooperative business model is not widely understood but can be an answer to helping businesses get started. In the early days of the PPP, the Office of Rural Affairs understood the co-op difference and was helpful in getting cooperatives approved for PPP loans when traditionally, they do not qualify for most SBA lending programs. The Office of Rural Affairs staff understood the customers cooperatives serve, their unique role in local economies and the locations where they are based. The staff worked hard to make available the PPP assistance to those cooperatives, which was essential to our customer's survival.

Lack of interested investors in rural businesses is not a new concept to CoBank. Over the last several years, we have developed a creative solution to address capital needs of small and emerging agricultural cooperatives. As consumers have increased demand for local foods and other specialty crops, we started to see the formation of new farmer-owned cooperatives for distribution and marketing.

CoBank, like all institutions of the Farm Credit System, is closely regulated by the Farm Credit Administration (FCA), an independent federal financial regulatory agency. As federally-regulated lenders, we are required to maintain specific loan underwriting guidelines to protect the safety and soundness of our institution to ensure continued service for all customers. Businesses in the early stage of growth, many of these small and emerging agriculture cooperatives do not meet traditional underwriting guidelines. To address this, the CoBank Board proposed a solution to FCA - creating a separate risk pool designed to provide more flexible financing for these cooperatives. FCA approved the proposal and this new program, called Co-op Start, and was launched in 2012. Co-op Start provides flexible financing up to \$250,000 to early growth-stage agriculture co-ops.

In Co-op Start's first year, we began lending to an elderberry cooperative in Minnesota that started with just four producers, and today has over 20 producer-owners of the Minnesota based cooperative, including producers who live in Michigan and Iowa. To date, Co-op Start has been used by 23 different small cooperatives in nine states with a total of \$2.7 million commitments in loans and leases.

In early 2020, CoBank added two grant programs as pilot projects to the Co-op Start program. The idea was conceived in response to reduced demand for the Co-op Start loan program and is designed to push additional capital to cooperative development centers and rural businesses. Given the limited funds allocated to the pilot and uncertain demand for the funds, the grant programs were launched only through the cooperative development centers on whose boards CoBank associates serve: Cooperative Development Services (St. Paul, Minnesota), the Kentucky Center for Agriculture and Rural Development (Elizabethtown, Kentucky), and the Indiana Cooperative Development Center (Indianapolis, Indiana). In the last year, we provided grants to four more companies that did not meet lending eligibility requirements.

These new grant programs were rolled out through the eligible cooperative development centers just as COVID-19 gained widespread attention in the U.S. and non-essential business activity slowed considerably. This, combined with a relatively short application window, likely negatively affected the volume of equity match applications. We are aware of at least one equity campaign that is currently in-process and are expecting an associated grant application prior to the September deadline. Business planning and equity raising for small cooperatives and similar businesses seems to be an especially slow process and even free-money opportunities can be difficult for them to take advantage of in a timely manner.

The various application deadlines for USDA grant programs, many of which are in the first few months of the year, and significant lag between USDA application deadlines and decision dates further complicates administration of a matching funds program. We continue to work through this process, and hope that identifying other opportunities for investing in small businesses becomes a focus on the federal level.

### **Rural Capital Access Act**

As I have stated, as a cooperative, CoBank is committed to fostering the creation of new cooperatives, through our support of numerous education and technical assistance programs. But we realize co-ops are not the only answer. CoBank understands that rural entrepreneurs – the engine driving rural economies – need dependable sources of capital to improve infrastructure they rely on to grow their businesses. Senior debt is readily available, but equity and junior debt remain more difficult to source. Few rural-focused investment funds exist beyond those that focus on acquiring farmland.

Several years ago, CoBank recognized this gap in access to capital for rural entrepreneurs and started to make investments in equity funds focused on rural America. Rural equity investments are an effective

source of junior capital to increase rural economic prosperity. These rural equity vehicles catalyze private capital investment and create jobs. And those jobs support the farms and communities across rural America.

One type of equity investment that CoBank has made is with Rural Business Investment Companies (RBIC), licensed by USDA. The Rural Business Investment Program was established by Congress in the 2002 Farm Bill to provide rural businesses venture capital and to encourage job creation. Nine of CoBank's 10 fund investments are in RBICs.

Since 2013, CoBank has committed \$154.5 million in 10 private equity funds in concert with Farm Credit institutions and other institutional investors: Midwest Growth Partners and Midwest Growth Partners II, West Des Moines, Iowa; Advantage Capital Ag Partners, St. Louis, Missouri; Innova Ag Innovation Fund, Memphis, Tennessee; Open Prairie Rural Opportunities Fund, Effingham, Illinois; Blue Highway Growth Capital Fund, Boston, Massachusetts and Philadelphia, Pennsylvania; Pharos Capital Partners Fund IV-A, Nashville, Tennessee and Dallas, Texas; Lewis & Clark RBIC Fund II, St. Louis, Missouri; Rural American Fund III RBIC, Chicago, Illinois; and Azalea Capital RBIC Fund, Greenville, South Carolina. Each of these funds has a slightly different focus to meet different needs. Today, over 70 rural businesses have received investments from these funds.

The first fund CoBank supported was in partnership with Central Iowa Power Cooperative, the Iowa Corn Growers Association and several individual investors to form Midwest Growth Partners. This \$41 million equity fund targets growth stage investments in the upper Midwest in manufacturing, food and agriculture and distribution and logistics businesses.

In Adel, Iowa, Inland Coatings, which was founded in 1978 in Waterloo, Iowa, received an investment from Midwest Growth Partners in 2014 to aid an ownership succession plan and facilitate expanding their business. The founder of Inland Coatings had died and the management team needed an equity infusion to purchase the company from the founder's heirs. One of the potential purchasers was a rival manufacturer and there was no commitment to keep the existing plant open. With the equity infusion from Midwest Growth Partners, the management team purchased the company, retaining and adding jobs in Adel.

There have been investments in companies in many states since that first investment. The following examples may be noteworthy to the Subcommittee.

In 2014, CoBank joined eight other Farm Credit institutions to launch the \$155 million equity fund, Advantage Capital Agribusiness Partners, focusing on investments that grow rural economies, with an emphasis on companies involved in all aspects of the food and agriculture value chain. The fund has invested over \$130 million in 16 companies in 13 states, including California, Florida, Georgia, Iowa, Missouri, Oregon, Texas, Virginia, and Washington. The remaining 13 companies employ approximately 1,900 people.

Prolific Earth Sciences, Inc., headquartered in Montgomery, New York, developed a field test that measures microbial biomass and provides the Fungal to Bacterial Ratio in soil. An RBIC invested \$50,000 in Prolific's series seed stock. The investment went towards helping Prolific get its operations up and running.

Nexyst360, Inc. in Rice, Minnesota developed a novel mobile, traceable storage container that creates a unique logistics solution for grains and specialty crops that lowers costs and provides farmers with direct access to global markets. An RBIC invested \$50,000 for future equity when Nexyst360 was moving through the patent process.

Fast Ag Holdings, LLC is a manufacturer of innovative liquid fertilizer applicators, sprayers, specialty trailers, tanks, and related agricultural equipment. It is located in Windom, Minnesota. An RBIC invested \$2 million of equity and also provided \$2 million in subordinated debt to provide capital needed to grow its operations.

JSI Store Fixtures is a Maine-based designer and manufacturer of high-quality merchandising displays for the supermarket industry. The company's product offering consists of display fixtures, patented merchandising foam products, and refrigerated displays focused on the store perimeter. The RBIC loan of \$9 million helped JSI to continue growing its operations. JSI sold in May 2021 and the loan was paid back in full.

In 2017, CoBank joined 12 commercial and community banks, 11 other Farm Credit institutions and other investors to launch the \$81 million Open Prairie Rural Opportunities Fund. Targeting companies with high growth potential, this fund has invested more than \$36 million in 11 companies making advancements in animal health and nutrition, precision agriculture, and bio-based materials among others.

In 2018, CoBank and 11 other Farm Credit institutions, along with Central Iowa Power Cooperative, institutional investors, and high net worth individuals committed \$113.5 million to Midwest Growth Partners II, an RBIC following a similar strategy in food and agriculture investing as its first fund. To date, 7 companies have received a total of \$46.7 million of growth capital to take them to a new level of operation and financial performance.

In 2019, Blue Highway Growth Fund, raised a \$41.8 million RBIC to invest in a diversified portfolio of companies principally located in the Northeast and Mid-Atlantic regions. The fund seeks attractive risk-adjusted rates of return for investors while making a positive impact in rural areas of the United States by making investments which create quality jobs and enable shared prosperity. CoBank, six Farm Credit associations, a number of foundations and banks are among the investor group. A total of \$9.7 million has been invested in three companies.

In 2019, CoBank and nine other Farm Credit institutions anchored Pharos Capital Partners Fund IV-A, which is raising a \$200 million RBIC focused on high-growth healthcare companies that improve patient outcomes, increase access to healthcare, and/or lower the overall cost of care.

These are just a few of the success stories from Farm Credit investments in RBICs and we believe more could be accomplished. CoBank continues to evaluate other RBIC opportunities to provide additional equity to rural economies and their communities. These rural equity investments to rural entrepreneurs create and retain jobs and sustain rural communities.

We are strong supporters of the Rural Capital Access Act, introduced by Senators Thune, Shaheen and Fischer. This legislation encourages Small Business Investment Companies to invest in rural businesses, while allowing RBICs, who do not currently receive a federal appropriation, to access leftover federal funds from the SBIC program. We believe that collaboration between the SBICs and RBICs, which are complementary programs, can be an opportunity for increased coordination between SBA and USDA and improved rural business success.

**Summary**

I appreciate your attention and consideration of these important issues that impact rural America. We spend every day looking for opportunities to get much-needed capital into rural communities and would welcome any additional thoughts on rural investment that you have. At a time when rural communities are doing their best to recover from the COVID-19 pandemic, we will continue to encourage more attention and investment into their longevity and success.

It has been a pleasure to appear before you, virtually anyway, to express support for the SBA Office of Rural Affairs and to discuss the need for more investment in rural communities as would be accomplished through passage of the Rural Capital Access Act.

I look forward to your questions.