Farm Credit System cuts crop loans

The nation's largest agriculture lending entity is less and less committed to financing food production.

The Farm Credit System made headlines in October on the questions of whether its regulating agency, the Farm Credit Administration, has been withholding financial information from Congress, while obtaining federal bailout aid; and whether the FCS has been plotting to forego farm production loans in favor of non-farm banking "services" like credit cards and consumer loans.

The Farm Credit System is the largest single farm lending entity in the United States, accounting for about one-third of the outstanding agricultural debt of $175 billion.

FCA head Frank Naylor, formerly Deputy Secretary of Agriculture in charge of the USDA's farm credit programs, has conducted himself at the FCA in such a manner as to confirm every charge against him. Naylor believes in the need to "diversify" the Farm Credit System out of providing credit for farming. Reflecting his view, James Kirk, president of the Omaha Farm Credit Services, recently told the *Des Moines Register,* "We would like to be able to offer, in conjunction with someone else who has the expertise, investment vehicles for our members, such as savings accounts, checking accounts, investment accounts, IRAs, CDs."

Farm state officials and congressmen do not agree. Rep. Jim Leach (R-Iowa) blasted the FCA: "The idea that the U.S. government should infuse funds in a farmer-oriented system so that it can in turn become a banker/broker/real estate empire is socialized nonsense."

While Congress fulminates, crop production credit is being systematically denied to farmers by the FCS. But Congress has initiated no emergency measures to provide credit and inputs to expand 1989 food output. Because of the drought, and the precarious financial condition of farms after successive years of low crop prices, it is in the immediate interest of the nation's food supply to ensure that farmers have access to crop production credits for the winter carryover and spring planting. Just the opposite is taking place.

Overall, the FCS Production Credit Associations, created in 1933 for the express purpose of financing farm production, have cut their lending by over 45% in recent years. In Iowa, the heart of the farmbelt, the PCA has reduced lending by 96% since 1980, and has stated that another 50% of those remaining loans will not survive the impact of the drought.

The regional president for Farm Credit Services of Iowa, Moe Russell, said during an interview in August concerning the drought legislation, that 50% of their 3,500 production loans would not survive. On Oct. 4, Russell announced that 25% of their current PCA loans would not be renewed. This announcement came before harvest was over and at the beginning of the loan renewal season when operating loans are reviewed to see who will get financing for the coming crop year.

It may be expected that next spring, when a lender commitment is needed to finance a crop, another announcement will be made that 25% more of the loans did not survive the drought.

This process shows that the decision has already been made to reduce the level of financing for food production. The Farmers Home Administration (FmHA), the government "lender of last resort," is now beginning its review of more than 95,000 borrowers who are more than three months delinquent on loans, to determine which will be helped by rescheduling, restructuring, or lower interest.

The FmHA foreclosure moratorium specified by the 1987 Agriculture Credit Act, expired in October this year, and letters of notification of the need to apply for "restructuring" will go out to farm borrowers in November. Under the prevailing Washington policy, preventing food "surpluses" is the foremost problem, and therefore it is deemed acceptable for independently family-owned farms to be foreclosed upon.

Meanwhile, there is a wave of commercial bank failures. In Iowa alone, 37 banks have failed since 1984, not including those independent banks which were purchased by larger banking interests before being declared insolvent. The number of problem banks has increased 585% over this time.

Just as in the foreclosure of a farm, in which the farming operation is stripped of its assets necessary to produce, the buyout of a bank puts its assets into the hands of a larger entity which then determines the priorities of how these assets will be used. Since 1980, the number of bank holding companies has increased over 125%, while their financing of farm real estate has increased almost 50%, and their financing of farm production has decreased.

As independent farmers keep mortgaging to produce, more farmland will become the acquired property of lenders. The number of independent producers is shrinking every day, and the control of food production is centralized into fewer and fewer hands.