

Banking by Robert L. Baker

Restructuring agricultural credit

The restructured look of agricultural credit is turning both farmland and the farm operators into speculative commodities.

Congress passed one restructuring act per year, three years in a row, before it finally passed the Agricultural Credit Act of 1987, which has become the blueprint for concentration of control over agricultural finance at the level of federal government agencies, in turn controlled by large private commercial banks and insurance companies. Farm credit is no longer to be centered in the farm community and private hands.

Paralyzed and near death only two years ago, today's government agricultural credit institutions are flexing a newly reconstructed body after the blood-letting of at least 300,000 farm liquidations since 1980. Both the Farm Credit System (FCS) and the Farmers Home Administration (FmHA), the nation's two largest agricultural lenders, have been streamlined and centralized.

At the same time, a rapidly expanding interstate banking group is centralizing commercial bank control through buy-outs.

Because of the Agricultural Credit Act of 1987, the 12 Farm Credit Districts of the Farm Credit System were reduced to 6 Farm Credit Districts. The three branches of each district, the Federal Land Bank Associations (FLB), the Production Credit Associations (PCA), and the Bank of Cooperatives also were consolidated.

The 232 FLBs and the 135 PCAs were merged together into one unit regulated by the Farm Credit Administration, and the 12 Banks of Cooperatives were allowed to merge into one new organization called the Central Bank for Cooperatives.

The regulatory agency of the Farm Credit System was reduced from a 12-man board of farmer-member borrowers, elected by other farmer-member borrowers, to a three-man committee, appointed by the President of the United States.

A congressional hearing on the implementation of the Agricultural Credit Act of 1987, chaired on May 9 by North Dakota Sen. Kent Conrad, brought severe criticism of the way FmHA has implemented the new regulations. Singled out was the new computerized credit analysis program called DALR\$. Jim Massey, a lawyer from the Farmers Legal Action Group based in North Dakota, testified, "The many deficiencies of the DALR\$ program is setting FmHA up for massive litigation."

Farmers have repeatedly complained that the DALR\$ program, used often enough to deny credit to a borrower, was incomprehensible to them.

Two new secondary markets for agricultural real estate loans are in the process of being established by the new credit act. The Federal Agricultural Mortgage Corporation ("Farmer Mac") provides a mechanism through which farm real estate and rural housing mortgages can be sold by banks, Farm Credit offices, insurance companies, and others to the "Farmer Mac" secondary market. These mortgages are used as collateral for securities that will be sold to investors. Similarly, an "Aggie May" will provide a formal secondary market for FmHA loans.

This secondary market network facilitates a nationwide centralization of agricultural land and rural home

mortgages. The ownership and servicing rights of the real estate mortgages will go outside the local community, and fall under the control of the Farmer Mac and Aggie May stockholders, most of which are large banks and insurance companies, such as Metropolitan Life, Prudential, and John Hancock.

A recent agricultural credit report by the National Commission on Agricultural Finance, which was authorized by the Agricultural Credit Act of 1987, and whose membership includes, Cooper Evans, President Bush's agriculture adviser, recommended that agricultural finance should have a more deregulated, "free trade" environment. The report states, "The marketplace alone should determine the ultimate flow of capital; restrictions on credit flows should be removed," and, "Barriers to prevent corporate ownership of farms . . . restricts the flow of credit into agriculture."

This report infers that agriculture would be more competitive if policy didn't attempt to "maintain a way of life" for hard-pressed marginal farmers. The commission says, "A well-managed, family-size farm with debt service in line with cash flow could provide a good investment opportunity to a local retired, or about to retire, professional. A group of such farms may provide an investment opportunity for local teachers' pension programs."

The restructured look of agricultural credit in the United States, is turning both farmland and the farm operator into a speculative commodity, into which investors can buy at the lowest price. Agricultural credit policymakers indicate through their own report, "The maintenance of viable farm units does not imply full resource ownership, and future policies should recognize this fact."