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Congress and the disarray at FCS

Lawmakers have several proposals for a bailout before them, all premised on the lie that there is too much food in the world.

The chief lending agencies for $83 billion in U.S. farm debt—about half of the national agriculture-related debt—have reached a state of disarray comparable to the Federal Savings and Loan Insurance Corporation's condition in the face of the savings and loan crisis.

Already before Congress is a proposal to reorganize the Farm Credit System, and provide some multibillion-dollar bailout. FCS assets have dropped from $80 billion to $55 billion in the last few years. A significant percentage of its outstanding loans are delinquent, and several of its 12 operating districts, consisting of networks of Intermediate Credit Banks, Federal Land Banks and Production Credit Associations, have been operating in the red.

Though much smaller, the Farmers Home Administration (FmHA)—the government lending agency of last resort—is likewise in trouble. As of June this year, delinquencies amounted to $7.8 billion of the agency's $28 billion in total outstanding debt.

In the case of both lenders, the policy of their top governors, and the orientation of Congress and the administration, has been to push for "fiscal reform" measures that ignore the condition of the underlying farm crisis. Nor is any thought given to affordable credit for farmers, required to maintain and expand the food production system. The farm debt "reform" measures proposed so far, are premised on the lie that there is too much food in the world, and too many farmers.

The weekend of Aug. 30, the 80-member board of the Farm Credit System met in Sacramento, California and agreed to a set of radical FCS reorganization measures that they believe will placate Congress, and lead to a federal bailout of $6 billion this fall. The 12 districts of the FCS will be consolidated into 6 districts. Within districts receiving federal assistance, a proposal will be placed before the stockholders to merge the Federal Land Banks and Federal Intermediate Credit Banks. In those districts where such a merger takes place, a proposal will then be put before the stockholders within a year, to consolidate their Federal Land Banks with their Production Credit Associations.

The overseer of the Farm Credit System, Frank Naylor, former top USDA assistant secretary and now head of the Farm Credit Administration, says that the current overhead of the 37 FCS banks and 387 associations is running at $800 million a year. "We simply can't have that kind of overhead."

This consolidation of the FCS network is not merely a management overhaul, but represents a planned shrinking of credit and a change in the farm debt market as well. The House Agriculture Committee has already approved a measure to create a federally guaranteed secondary market in farm loans. As it is, the FCS is not federally backed, but is privately incorporated and raises money on public bond markets.

The new House proposal—nicknamed "Farmer Mac," or "Aggie Mac"—would give federal backing to all farm loans, not merely the FCS loans, for the first time.

In a show of "fiscal concern," Naylor was extensively quoted on how the new FCS policy will be to get tough with farmers, and collect on their loans. At a press briefing Aug. 27, he said, "We've found in some cases that, if the management will just make the contact with the borrower, 80% of the interest due on nonaccruing loans was actually collectable. But the industry average right now is about 11%." He said that the FCS lending agencies will therefore press harder on farmers.

The FmHA effectively stopped extending loans in recent months, for lack of funds, except for farm disaster loans. In 1982, the agency directed farm lending officials to pursue tens of thousands of delinquent borrowers. Of the $7.8 billion worth of delinquent debt, $6 billion of it is accounted for by emergency disaster loans—which by definition are in hard-hit locations. Thousands of farmers resident in federally designated disaster districts avoid these loans, because they must pledge their farms for three years as collateral.

Congress, the courts, and local communities have strenuously fought the FmHA implementation of farm foreclosures. But neither they nor the agency has come up the an alternative.

The latest move on FmHA debt was to sell some of it off, at a discount, in the agency's new "credit management improvement" campaign. During the month of September, $1.9 billion in FmHA rural development loans will be offered at about 58¢ on the dollar.

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