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Up and Down the Hill



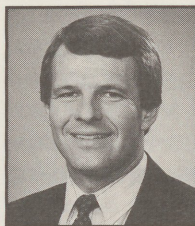
by Rusty L. Jesser

In late October, the 100th Congress adjourned sine die, three weeks later than scheduled in order for members to campaign for reelection. For many bankers, the second session was less than productive because Congress failed to address in a meaningful way the financially battered Savings and Loan industry crisis (see related story) and the competitive inequity between commercial banks and other providers of financial products (i.e., real estate, insurance and securities firms, not to mention the Farm Credit System, Credit Unions, and Savings and Loans). Congress, for a variety of reasons, has repeatedly fumbled the political football on bank powers as the private market place continues to offer consumers new financial options while the banks pace the sidelines.

101st Congress and the Bush Administration

A certain amount of excitement and uncertainty resides in the Nation's Capital as Congress reconvenes in January and a new President takes the Oath of Office on January 20, 1989. For our industry, we will see some new faces in two of our major banking related committees: Agriculture and Banking. However, more than the new faces, there will be new chairmen gaveling their respective Committees and Subcommittees to order.

Banking Committees - Based on Seniority, the House and Senate have se-



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lected new Chairmen for the House and Senate Banking Committees: Senator Don Riegle (D-MI) and Congressman Henry Gonzales (D-TX). Meanwhile, the Ranking Republican slots will remain the same: Senator Jake Garn (R-UT) and Congressman Chalmers Wylie (R-OH).

Agriculture Committees - On the Agriculture Committees, changes are much less dramatic. Both senator Leahy (D-VT) and Congressman E. (Kika) de la Garza (D-TX) remain as Chairman. Further, Senator Lugar (R-IN) and Congressman Ed Madigan (R-RI) still serve as Ranking Members in their respective legislative bodies. In one change to the Senate Committee, former Governor Bob Kerry, now Senator Kerry (D-NE) replaces former Senator David Karnes (R-NE). In addition, Senate Agriculture Subcommittee Chairs may rotate, but that reorganization is not yet final. The House Agriculture Committee basically stays the same, except that with

the retirement of Congressman Ed Jones, (D-TN) the Agriculture Subcommittee Chairmanship becomes vacant. Though not official until Congress decides Committee Assignments, reliable sources strongly suggest that Congressman Glen English (D-OK) will assume that Chairmanship.

Secretary of Agriculture - With the changing of the Administration guard, all "Schedule C" Political Appointments are subject to replacement. However, this process takes months and many influential policy makers will no doubt remain with the Bush Team. While Clayton Yeutter has been given the nod as the new designee for Secretary of Agriculture, other high ranking positions are unfilled as the Ag Journal goes to print.

I share the view with many others that in the new Bush Administration, the United States Trade Representative (Cabinet Position), will be as important as the Secretary of Agriculture. With one in three acres of produced commodities bound for foreign markets, our posture on trade issues is critical for American Agriculture. How the Free Trade Agreement with Canada and other countries plus the GATT (General Agreement on Trade and Tariffs) negotiations, are deliberated and managed will shape Agriculture policy beyond the year 2000.

Agricultural issues for the 101st Congress

Farm Bill Reauthorization - The 1985 Food Security Act (Farm Bill) expires October 1, 1990. Potential scenario: Reduce the farm program budget from \$14-\$16 billion annually to \$10-\$12 billion annually and continue a basically market oriented approach.

Commodity Futures Trading Commission Reauthorization - The Commodity Futures Trading Commission (CFTC) expires October 1, 1989. Policy direction is uncertain. Final results will depend on the market conditions and private regulation initiatives resulting from the October 19, 1987 stock market futures major downturn.

Rural Development - Based on the Democratic and Republican platform policy positions, rural development has renewed interest in Washington, D.C. The broad based coalition approach necessary to enact a new law has not yet surfaced. Many believe a comprehensive bill needs to be addressed, but piloting such a proposal through a host of reluctant committees and interests is difficult, if not impossible. Rural development may surface as a separate bill or as a part of a Farm Bill. Prospects for legislation are uncertain.

Ground Water Contamination - Probably the hottest agricultural related environmental issue is ground water contamination. Bankers and the ABA should keep a watchful eye on this emotional issue during the next Congress.

Agricultural Credit Oversight Hearings - A number of Subcommittees, and potentially Full Committees in the House and Senate will assess the situation of Farmers Home Administration, Farm Credit System, and Farmer Mac. While it is unclear at this stage what agenda items they will pursue, the committees will contain new staff and members, so the tone and approach will fluctuate. How many of these changes, will definitely result in substantive legislative issues, remain fluid.

Bankruptcy Reform - Many people inside and out of Congress, believe bankruptcy reform is necessary. There

are simply too many people and corporations filing for bankruptcy as this country enjoys six consecutive years of strong economic growth. One Chapter in particular that ABA will like to readdress is Chapter 12 - "The Family Farm Reorganization Act of 1986." ABA has well founded concerns on a number of the Chapter 12 issues. Foremost on the minds of bankers are two issues: 1) the creditor writes down debt yet is not allowed "shared appreciation" from debtors to recoup this writedown when asset values return from the current low values; and 2) the uncertainty of outcome due to variations in legal interpretation between various bankruptcy courts across the country. The possibility of comprehensive legislation is however uncertain at this juncture.

Farmer Mac

The substantial demand for the initial offering of stock in Farmer Mac shows the depth of interest and the willingness of banks and other financial institutions to make the benefits of the new agricultural secondary market available to farm borrowers. As of December 1, 1988, the 1391 originators purchased 55 percent of the stock, while 29 poolers purchased 45 percent of the necessary stock. Since the early 1980's, ABA has been deeply involved in the effort to establish Farmer Mac to respond to the need for long-term fixed rate mortgages in agricultural lending. While most of the attention has focused on agricultural mortgages, it is important to remember that rural residential housing loans may also be sold through Farmer Mac. Following the stock sale, a permanent Farmer Mac Board of 15 directors will be cho-

sen, with 10 directors elected by the shareholders: Five directors will be elected by the shareholders of Farm Credit System stock (Class B stock), and five directors will be elected by the shareholders of private financial institution stock (Class A stock), of the remaining five directors; the President and Congress have already submitted and confirmed four of the five. The permanent board will then adopt underwriting standards for loans that will qualify for the secondary market and certify the poolers of these loans. The secondary market is expected to be in operation by mid-to-late 1989.

Farmers Home Administration

As part of the Agricultural Credit Act of 1987, regulations are still pending for improvements to the guaranteed loan program. Changes include: 1) a new secondary market for FmHA guaranteed loans allowing for the sale of pooled guaranteed loans; and 2) a method to restructure existing guaranteed loans when requested by the originating bank without total liquidation of the farmer's assets. In addition, the Business and Industry guaranteed loan program was modified for rural businesses affected by natural disasters during 1988.

ABA involvement

ABA will monitor and advise both the Farmer Mac Board and FmHA of the views of ABA's member banks. In addition, ABA has published a comprehensive lenders manual to give lenders a step-by-step approach to use Farmer Mac and will prepare a manual on the changes in the FmHA guaranteed loan programs.

FSLIC Crisis

by Gail Bolcar

The American Bankers Association (ABA) has carefully monitored the condition of the Federal Savings and Loan Insurance Corporation (FSLIC) and the thrift industry for several years. On September 20, 1988, the ABA released a paper entitled "The FSLIC Crisis: Principles and Issues, A Call to Action," which was prepared by the ABA's FSLIC Oversight Committee under the direction of William T. McConnell, President, Park National Bank, Newark, Ohio. In this paper, a three-phase action plan was presented to address the growing insolvency of the FSLIC.

Immediate action calls for halting the growth of the 900 or more insolvent and nearly-insolvent FSLIC-insured institutions. The committee suggested limits on growth of deposits, borrowings from Federal Home Loan Banks, use of brokered funds, growth of assets, and loans to new customers, officers and directors.

Near-term actions call for documentation of deficiencies in thrift regulatory, supervisory and accounting practices, as a basis for formulating a program for correction. At a minimum, thrift standards and practices should be brought up to the same level as those governing banks. In addition, a framework needs to

be developed for increasing the pace of insolvent thrift caseload resolutions. Any constraints on financial and personnel resources that are needed to accomplish the resolutions should be eliminated and administrative procedures for assisted mergers should be streamlined. Only in this way can the rapid escalation of the FSLIC insolvency be meaningfully reduced.

As part of this framework, a solution for funding the FSLIC's insolvency needs to be developed. The funds available from the recent FSLIC recapitalization plan appear to be insufficient to resolve the problem. The conclusion of most observers is that the FSLIC's insolvency is so large — perhaps as much as \$75 billion or more — that the use of taxpayer funds and/or the Treasury's credit now appears unavoidable.

While some have suggested the use of the insurance funds at the Federal Deposit Insurance Agency (FDIC) and the National Credit Union Administration (NCUA) to resolve the FSLIC deficit problem, several considerations argue strongly against such an approach. The thrift industry crisis is a national crisis, and concentrating the cost of the FSLIC assistance on just a narrow segment of our society runs completely contrary to the principles followed in other national assistance programs. Furthermore, banks and credit unions have not

been responsible for the condition of the thrift industry or its deposit insurer and should not be required to pay for the mistakes of thrift regulators and supervisors, nor the irresponsible actions of the thrift competitors. From a purely practical viewpoint, there are simply not enough funds available in the FDIC and the NCUA to reduce even one-third of the FSLIC's insolvency.

Longer-term actions calls for enactment of legislation in the 101st Congress to bring thrift regulatory, supervisory, and accounting standards up to banking industry levels. Additional legislation may be re-

quired to enable an increase in the pace of insolvent thrift caseload resolutions and provide a sound means for funding the FSLIC's insolvency. Moreover, steps must be taken to reform the deposit insurance system — particularly in the area of increasing the reliance on market discipline — to assure that a crisis like that besetting the thrift industry does not reoccur. In addition, there should be a reconsideration of whether a specialized housing credit system consisting of specialized lenders and the Federal Home Loan Banks is still needed.