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# Up and Down the Hill

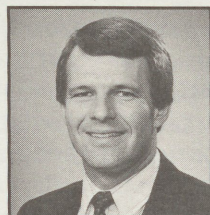


by Rusty L. Jesser

## *Presidential Appointments*

Since the 101st Congress has convened and President Bush has occupied the Oval Office, the Cabinet appointments have marched steadily forward, but Subcabinet and agency appointments have bogged down in red tape. (The Secretary of Agriculture was confirmed by the Senate by a unanimous vote in February.) Only 6 major Subcabinet appointments at USDA have been nominated by the President including: Jack Parnell, California State Agriculture Director, for Deputy Secretary of Agriculture, and Richard Crowder, Division President for Pillsbury, Burger King Subsidiary, as Under Secretary for International Affairs and Commodity Program. No announcement for the Under Secretary for Small Community and Rural Development, currently headed by Roland Vautour, has reached the Senate Agriculture Committee for confirmation.

This slow clearance process has complicated Secretary of Agriculture Clayton Yeutter's extremely difficult job. Any group interested in agricultural policy must ask to address the Secretary, as opposed to the Deputy, Under and Assistant Secretaries who normally could make a variety of decisions on his behalf. Currently, those unfilled department slots are held by Reagan appointees in an "acting" capacity, and they are extremely reluctant to make new policy deci-



Rusty L. Jesser is a federal legislative representative for ABA's Government Relations Division, and works directly with the Ag Bankers Division. Prior to this post, he worked as a legislative assistant to Senator Steve Symms and Congressman Larry Craig. From 1978-1982, he served as a loan officer for the FmHA.

sions. ABA is in the same boat as other "interested parties." While ABA would like to see carefully structured changes in the Farmers Home Administration Guaranteed Program, those changes are "on hold" until the Under Secretary is in place and the new Administrator for FmHA has been named.

## *Congressional Activities*

Meanwhile, Congress has focused primarily on confirmation hearings and the Bush Administration's Budget Proposals for the FY 1990 budget. The biggest issues to reach Congressional floor debate so far include:

1. the defeated pay raise for judges, top administration officials and Congress
2. the defeated John Tower nomination for Secretary of Defense
3. the Savings and Loan/FSLIC Bailout Package,
4. the Congressional committee assign-



ments and respective budget and staff requirements.

Outside of the 1990 budget (see insert for Bush Administration Agricultural Credit Policy FY 1990 Budget) and reaching the Gramm/Rudman/Hollings targets, the Savings and Loan issue will be the top domestic policy question for the Administration and Congress during most of 1989.

### *ABA Agricultural Executive Committee*

In late January, during three days of meetings of the Agricultural Bankers Executive Committee, chaired by Murray Lull, Smith Center, Kansas, the committee identified seven major areas for action by the Agricultural Bankers Division and ABA during 1989. Obviously some of these topics are continuing issues from the last Congress as well as regulatory issues which have been addressed at various stages during the last year.

### *Farmers Home Administration*

ABA continues to work with Roland Vautour and LaVerne Ausman, current Deputy Under Secretary of Agriculture, and Neal Sox Johnson, Acting FmHA Administrator to modify the current Guaranteed Loan Programs' regulations and procedures.

Recently, ABA asked the Farmers Home Administration to enact emergency regulations to return the 100 percent cash flow requirements for farmers using the Guaranteed Loan Program. In recent regulation changes announced in January, FmHA modified the cash-flow requirements from 100 to 110%. After four meetings with key USDA and White House officials, we believe our recommendations will be given serious consideration. But if changes are

made, they will no doubt not affect farmers and lenders this lending season. Under the best of circumstances, to modify regulations, even after a decision has been rendered, normally takes 30 to 60 days.

In a recent letter to Roland Vautour, ABA President-Elect C.G. (Kelly) Holthus reiterated bankers concerns with the recent changes in the Guaranteed Loan Program. In the interim, FmHA's interest-rate buydown program presents a possible alternative to the agency's new, higher cash-flow requirements for guaranteed farm loans. Under the interest-rate buydown program, bankers may qualify a borrower at a below-market interest rate and FmHA will pay one half of the interest-rate write down from 0.25 percent to 2 percent.

Adjusting the bank's current loan-rate percentage by 0.25 percent, which is matched by a 0.25 percent reduction by FmHA, modifies the cash-flow requirement from 110 percent to 100 percent. While this was not the original intent of the interest-buydown regulation, this method does legitimately allow banks to qualify farmers who do have a positive cash flow, but do not meet the 110 percent cash-flow level.

Besides the cash flow requirements, ABA had specific concerns about the potential for inconsistency between various county and state FmHA offices in calculating the percentage of guarantee to total loan, and the lack of timeliness in processing the guaranteed loan application and liquidation procedure.

Once the new Under Secretary of Agriculture and the Farmers Home Administration Administrator are named, ABA will push for a two to three day "nuts and bolts session" with key agricultural bankers, county FmHA employees and federal policy makers to improve various components of the FmHA Guaranteed Loan Program.



## *BUSH ADMINISTRATION AGRICULTURAL CREDIT POLICY*

	1989	1990	Dollar Change
(in millions of dollars)			
<b>Farmers Home Administration:</b>			
Agricultural Credit Insurance Fund:			
Loan limit:			
Direct	1,617	700	-917
Guaranteed	2,777	3,000	+223
Outlays (interest subsidies, loan losses & administrative costs)	3,435	1,958	-1,477
Rural Development Insurance Fund:			
Loan limit:			
Direct	426	200	-226
Guaranteed	96	196	+100
Outlays	1,180	906	-274
Rural Housing Insurance Fund:			
Loan limit:			
Direct	1,845	100	-1,745
Outlays	3,295	1,613	-1,682
<b>Rural Electrification Administration:</b>			
Loan limit:			
Direct	1,794	—	-1,794
Guaranteed	—	1,365	+1,365
Outlays	615	412	-203
<b>Total:</b>			
Loan limit:			
Direct	5,682	1,000	-4,682
Guaranteed	2,873	4,561	+1,688
Outlays	8,525	4,889	-3,636

Source: Bush Administration



## *Secondary Market (Farmer Mac)*

The stockholders of Farmer Mac convened in Washington, DC on March 2, 1989. All nominated board members were elected and subsequently the new board gathered for their first meeting with Jack Dahl as Chairman. Another board meeting is scheduled for early April. Draft loan, appraisal, and loan documentation standards are anticipated to be released for private industry comment in mid-April. According to Jack Dahl, Farmer Mac should be prepared to issue securities by fall.

In conjunction with the State Bankers Associations, ABA plans appropriate educational sessions through state conferences, national teleconferences, and other sources to adequately educate bankers on Farmer Mac. Further, ABA is publishing, with Jim Murray (legal advisor to Farmer Mac) as our consultant, a comprehensive lenders guide to the Farmer Mac Act and operation entitled "Financing Farm Real Estate."

## *Secondary Market (Aggie Mae)*

As a portion of the 1987 Agricultural Credit Act, ABA supported the adoption of a new secondary market for FmHA guaranteed farm loan pools. Such a market would make the participation in agricultural lending more attractive for banks.

The new program was enacted in section 711 of the Agricultural Credit Act of 1987. Regretably, after a year and three months, regulations have not been proposed. The major tie-up seems to be at the Office of Management and Budget and the Department of Treasury. The issue primarily rests with whether the funds collected from the payment on the guaranteed loans are public

versus private funds. ABA has argued that those funds are private loan funds and can be handled through a private fiscal transfer agent. ABA has been informed that the regulations should be forthcoming.

## *Rural Development*

Legislation is possible during the 1989 session. Senator Leahy, Chairman of the Senate Agriculture Committee, has identified rural development as a priority for the committee and the Senate. On the Senate side, hearings are anticipated in April with mark-up sessions in either May or June. ABA is in the process of developing an expanded and comprehensive proposal for business development in rural areas. In the regulatory arena, ABA will continue to work with the USDA and other agencies, particularly SBA, on expanded use of guarantees for rural businesses.

First, an idea with growing Congressional support and proposed by ABA, would transfer FmHA Farm Operating Guaranteed (OL-G) loan authority to the FmHA Business and Industry Guaranteed (B&I-G) Loan authority. In the 1988 lending season, FmHA under-utilized over \$1 billion in operating loan guarantees. Meanwhile, the Business and Industry program, funded at \$100 million per year, is normally fully utilized during the first six months of the year. ABA supports transfer of a portion of that \$1 billion in excess loan capacity from the Operating Loan Fund to the Business and Industry Loan Fund.

Second, ABA has strongly supported FmHA establishing a preferred lender program, similar to the Small Business Administration Guaranteed Loan Program, for both the Farm and B&I Programs. This modification would enhance the use of the program by commercial banks and lessen the time peri-



ods necessary to process a guaranteed loan.

Third, ABA has asked Congress to grant banks authority to underwrite revenue bonds in local communities for infrastructure development. This change in the securities law would benefit rural communities by providing new sources of capital for water, sewer, and other kinds of community infrastructure projects. Fourth, ABA is currently studying various proposals for creating non-profit corporations which could then invest dollars in equity positions in existing and new small business enterprises. Fifth, ABA is commenting to USDA on a proposal to establish a guaranteed rural housing loan program. ABA believes this could be another tool in assisting those communities who need affordable housing in rural areas.

### *Competition from Other Lenders*

Commercial bankers have a variety of concerns dealing with the current financial assistance provided to the Farm Credit System and nontraditional agricultural credit lenders, particularly the Savings and Loan Industry and credit unions. The Ag bankers division will do their part as ABA addresses the S&L/FSLIC problems currently before the U.S. Congress.

### *Financial Standards Task Force*

One of the greatest challenges for farm lenders and borrowers is finding easy and consistent methods for interpreting the financial information needed to make sound management decisions.

ABA's Financial Standards Task Force, led by Stanley O. Forbes, Vice Chairman of ABA's Agricultural Division, is comprised of bankers and other private-sector lenders, academicians, regulators, farm-group repre-

sentatives, lawmakers and government-agency representatives. Just by conducting a three-day meeting in St. Louis with so much financial expertise gathered together is a breakthrough event. However, the real challenges are still ahead.

The goal of the task force is not to dictate credit practices, but to achieve uniformity in basic elements of financial management within the industry. The ABA Agricultural Bankers Division is assuming a lead role in the industry on this issue and future articles will be dedicated to this important topic.

### *Collateral Protection*

This is a broad category incorporating not only Chapter 12 Bankruptcy, but Uniform Commercial Code Agricultural Products Central Filing issues, environmental issues (primarily underground water quality) and the Perishable Agricultural Commodity Act regulations changes. Environmental issues will be brought even further to the forefront as Congress considers the 1990 Farm Bill.

### *Government Farm Programs (1990 Farm Bill)*

After Commodity Futures Trade Commission reauthorization and potential rural development legislation, debate on farm programs in 1989 will no doubt occupy the majority of the Agriculture Committee's time during the balance of 1989 and 1990. A large portion of the debate on the 1990 Farm Bill will focus around the budget issues encompassed in the 1990 budget and the budget deficit reduction package mandated under Gramm/ Rudman/ Hollings. ABA will monitor this issue as it moves through Congress. ABA is most concerned that any major changes in farm program policy and funding issues are gradual to allow prudent adjustments by farmers and their lenders. (For a



broader perspective on these and other issues, see the related articles about Vance Clark, former Farmers Home Administration Administrator and Congressman Glenn English, Chairman of the Subcommittee on Agricultural Credit.)

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### *ABA Contacts*

As always, if lenders have questions or comments regarding legislative or regulatory issues, please call Leslie Miller (202) 663-5100; Floyd Stoner (202) 663-5339; or myself (202) 663-5338.