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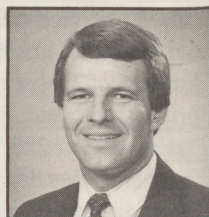
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Up and Down the Hill



by Rusty L. Jesser



In the beginning my of last "Up and Down the Hill," I would like to paraphrase a few recent remarks made by Jack Parnell, Deputy Secretary of Agriculture, at the 1989 Agriculture Outlook Conference. An old proverb reads: "He who has food on the table may have many problems; but he who has none has only one -- food." In the past 25 years, improved farming techniques have been five times more important than any other factor in agricultural production increases. The world is running out of land but not out of science. We should applaud science, and the contribution it has made to our daily life, however, there are still major problems, particularly dealing with population increases.

In 1950, there were 2.5 billion people inhabiting the earth, but in less than 40 years, that population had doubled to 5 billion. Now we are looking at an increase of 1 billion every decade, even with the slowing of birth rate in a number of populated countries. By the year 2025, there will be 8 billion people to feed and clothe. It will take all of agriculture pulling together -- including those who supply capital -- to meet this challenge. Congressman Stan Parris (R-VA) spoke at the ABA National Convention this Fall and made the following comment. In his office, inscribed on a large sign, are the following words: "Get into politics or get out of business." And one could say -- "get into politics or get out of banking." At no time does it

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seem more imperative that bankers be involved in the process. As Kelly Holthus, President of ABA, is fond of saying, "You can make a difference in Washington, if you are involved in the process." As you look to the future as commercial bankers, I hope you will keep these three quotes in focus,-- particularly applying to the Federal level.

ABA Staff

During the last two months, ABA has acquired three new staff people to work on agricultural issues. Most bankers are now becoming acquainted with John Blanchfield, former commercial and ag lender in upstate New York. In addition, two new Federal Legislative Representatives joined ABA in December and January to address agricultural issues. Josh Tenuta worked for three years as a Senate legislative aide and most recently as Legislative Representative with

the National Rural Electric Cooperative Association in Washington, DC. Alan Ott, formerly with the National Association of Wheat Growers and presently with Senator Kassebaum (R-KS) brings a commercial lending and farm background, plus agpolicy experience to ABA.

Rural Development

After the Senate passed its version of rural development (S. 1036) as part of a compromise on disaster assistance legislation, in mid-November the House began serious efforts with the introduction of a bill sponsored jointly by Congressman Glenn English (D-OK), Congressman Tom Coleman (R-MO), Chairman and Ranking Member of the House Agricultural Credit Subcommittee. In the waning days of Congress in November, the House Agricultural Committee attempted to mark up H. R. 3581, the Rural Development Act of 1989. Included in this legislation, were provisions that would have effectively expanded the powers of the Farm Credit System (FCS) and weakened the competitiveness of bankers serving America's rural communities.

Rural Housing

Section 303 of the bill, as originally proposed, would have expanded to 20,000 residents the size of communities they could receive FCS rural housing loans. However, with the preservation of the Federal Agricultural Mortgage Corporation (Farmer Mac) in mind, ABA argued that loans of this type should be allowed ONLY if sold to Farmer Mac because

- a) banks can participate;
- b) Farmer Mac loan volume is increased; and
- c) the taxpayer is protected.

Concurring with the banking industry, the committee added this restriction.

Rural Business Loans

Another proposed amendment would have broadened FCS lending authority to rural business loans. ABA and Contact Bankers forcefully argued to committee members that commercial banks can fulfill the needs of credit-worthy borrowers in rural America and that it would be imprudent for the tax-favored FCS, now receiving a federal bailout, to take on risky, new business in direct competition with commercial banks. Work on the bill was postponed before the committee considered this proposed amendment.

While some of the ABA supported modifications have been made to the legislation since first introduced by Congressmen English and Coleman, there remains a strong possibility that provisions against the interest of the banking industry will still be included.

Other provisions that would further expand FCS lending authority may be offered (and previous ones may resurface) as amendments to the bill in the next session of Congress. The ABA will continue to adamantly oppose such proposals.

Through various state associations and the ABA Contact Banker program, numerous contacts to the House Agricultural Committee members were made, which quickly and loudly expressed the banker's oppositions to broadening FCS authority. With Congress eager to adjourn before Thanksgiving, with questions still outstanding on the cost of the rural development bill, and with the changes in the new rural development administration, the House Agricultural Committee postponed votes until after Congress reconvened in January.

Appreciation

A special word of thanks should be given to the following members of Congress for their assistance during rural development discussions: Marlenee of Montana, Roberts of Kansas, Smith of Oregon, Lewis and Grant of Florida, Stallings of Idaho, Penny of Minnesota and, Nagle of Iowa.

Farm Credit System

The Farm Credit System (FCS) was created by Congress as a federally chartered, special-purpose farm lender. As a farmer-owned and operated co-op, the FCS has evolved over the years and its relationship with commercial banks has changed substantially since the early 1900s. Once a complementary lender to commercial banks, FCS has now become a one-stop credit center. To many in the agricultural industry, it now appears that FCS is attempting to buy back loans that it lost during the agricultural credit crisis of the last five years.

The laws created by Congress in 1985, 1986, and 1987, to assist the FCS, make specific references to competitive interest rates. In particular, FCS should offer competitive rates but not offer below-market rates. ABA has asked the Farm Credit Administration as FCS's regulator, to determine what are below-market interest rates. In addition, there are concerns about the variety and types of financial products that FCS is offering. In particular, the 30-year, fixed rate mortgages with no prepayment penalty offered at a time when the system is funding those long-term mortgages with relatively short-term bonds. This creates a potentially high-risk interest rate environment.

Further, Senator Kent Conrad (D-ND), Chairman of the Senate Agricultural

Credit Subcommittee, announced at the ABA's National Ag Credit Conference in St. Louis that he would convene oversight hearings early next year to investigate the growing charges of FCS's unsafe and unsound lending practices. ABA is developing testimony for those hearings and needs factual and statistical information that only commercial lenders can provide on below-market pricing by FCS.

Bankers who have concerns on the expanded authorities for FCS and the low market interest rates and unsound lending practices, should call and write to their Members of Congress.

1990 Farm Bill

Addressing agricultural credit issues today is a far cry from almost five years ago when I joined ABA. During 1985, one-fourth of the farm customers were delinquent. The FCS in 1985 and 1986 lost \$4.6 billion; half of the failures of commercial banks were agricultural banks; numerous implement and input suppliers were terminated across the country.

The 1990 Farm Bill is starting to take shape, and unlike the extremely controversial 1981 and 1985 Farm Bills, the 1990 Farm Bill could be a less difficult measure to pass. Net farm income is at a record high, exports are increasing, and federal assistance for crop subsidiaries, has been substantially reduced from the high levels of 1985 and 1986. With these strong suits in hand, Congress should be able to structure a bill similar to the 1985 bill and still meet the budget targets that were proposed by the President in early February.

Environmental Concerns

The banking industry must join forces with reasonable elements of the agricultural industry to address prudent environ-

mental concerns without tying the hands of America's suppliers, producers, and processors. Lenders cannot be turned into policemen for the Environmental Protection Agency, Food and Drug Administration, or Department of Agriculture. ABA will be actively involved in this debate as well as credit issues and other concerns that affect farmers and their lenders.

Farmer Mac

With issuance of the Farmer Mac Securities Guide and Certification of Poolers, rural housing and agricultural real estate loans should be available to rural residents and farmers in early 1990. ABA continues to press the bank regulators for flexibility in selling these loans through Farmer Mac.