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The Government Is What?

*A Texas Bankers Association
Rural Affairs Committeeman
Addresses FmHA*

by J.R. Bob Jamison

There's a knock on the door; someone says he (and she) are with the government and they are here to help. We've all heard that and it's always good for a chuckle. We've also heard the negative innuendos about Farmers Home Administration's ability or willingness to pay claims, its slow response on applications and all the red tape. However, the story we are going to tell might help dispel the dismay in dealing with FmHA.

Castor oil in years past was not one of those things in life one looked forward to, but it did the trick. Today the remedy can be encapsulated with sugar, spiked with spearmint, and even comes in assorted colors; and it does the trick just as well. Maybe FmHA deserves a new look or taste.

Here are a few innovations our bank has discovered during the past eight years with FmHA.

Close Encounters with FmHA

Application for FmHA loans has been one of those fiduciary unsolved mysteries. The Farm and Home plan – just look at that thing! You'd think you'd need to hire an ex-federal employee who spent years creating that which might confound The Thinker himself! Not so! Our top guaranteed loan officers are from our own ranks. Neither has worked for any government agency nor holds a college degree. What they do have is *desire*. They wanted a challenge and were willing to dig a little extra. It can be greatly rewarding – they are both vice presidents now.

Currently they are anxiously awaiting the Certified Lender Program that will expedite all FmHA guarantees. When you qualify it is expected the program will allow many of the procedures and forms you currently use. But that's not all, it will speed up the process, giving your customers a quicker response.

So What's a Guarantee?

First of all, what would you like it to be?

1) *Ninety percent of principal and interest guaranteed with the full faith and credit of the United States.*



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2) *A reduction of possible classification by 90%* is an amount that can be treated as a government security should your farmers have a carry over and be classified. That's almost a cinch to be the examiners reaction.

3) *A reduction in concentration of credit* of the loan portfolio. If you are an ag bank such as ours you might consider this as the most important feature. You see, that which is guaranteed (90%) is no longer an ag loan but a government security.

4) *Legal loan limit compliance* frequently presents a problem for families whose loans are combined due to source issue as it relates to the interpretation of the code. The amount guaranteed by FmHA is a reduction of a like amount (90%).

Application for FmHA loans has been one of those fiduciary unsolved mysteries.

5) You have a *negotiable security* (90%) that may be participated. I've heard of one bank that sells or participates all of the guaranteed portions allowing them to set goals of upwards to \$100 million in ag loans and has only a \$20 million or less size bank. He makes money while the farmer makes "hay".

Hints to the Wise

Don't be confused by the program's attributes and be lulled into thinking FmHA guaranty agreement doesn't require you to do what you're supposed to do. If you make that guaranteed loan and forget to file a UCC-1 it probably won't work (neither will you for very long)! If you indiscriminately allow misuse of loan proceeds, for instance the borrower blows it on a trip to Vegas, you both might have a red face when payday comes and it could be caused by ink! Follow their rules. Get acquainted with the FmHA county supervisor and his superiors. Ask their help and

cooperate with them. Document what they tell you – even if it is only how many bull frogs they caught last night.

What About CRA?

What have we done for rural America so far? We've helped a farmer get on his feet by consolidation or production loans with risk reduction by 90%. Without it we probably could not help them in the regulatory environment of today. The beginning farmer program is up and running under this plan – and so are rural home loans. You say, "What! This guy is nuts, all I need is more complications. And now you are going to drive my real estate loan department crazy with more red tape?" Hold it, back up. You're trying to count my perch before I went fishing.

Think of it this way: You have a young couple (or old one) who wants to build a house with an FmHA guarantee. "That's all I need, a 30-year note and I'm stuck with a low rate!" Stop! We bankers are all alike aren't we? But what we do have is a deserving couple properly qualified who can walk into a new home, likely without a down payment. CRA will hug your neck! Also you have a government security yielding around 8% now and a negotiable instrument! Yes, you can sell that rascal and put the profit in your bank's pocket or keep the loan.

Wake up rural banks! Take notice because there are others out there that like to make money on guaranteed lending! What else did the government create? Someone else who can do the same thing you can, and they don't have to pay income tax. They are out there stalking your loan portfolio this very minute. It's the Farm Credit System! In other words, it appears to me the government is making this available for the people. It's not a giveaway, it's a right of way; the people must pay it back. It's for us too. We can help build our rural areas or we can complain about the proverbial dry water well. I suggest we start digging another one. Let's face it, if the banks don't the others will and they'll be doing it for the people.