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Bert Ely's

Farm Credit Watch

The FCS is Primed to Grow, Grow, Grow

by Bert Ely

(Editor's Note: Bert Ely's Farm Credit Watch is a new monthly report that is available in the "Members Only" section on the ABA Web Site (www.aba.com). The following articles are the first installments.

To keep Journal of Agricultural Lending readers up to date on Mr. Ely's comments, we will publish all his columns that appear between publication dates. Mr. Ely welcomes information about the Farm Credit System in your area and can be reached at (703) 836-1403 or by e-mail at ely@cais.com.)

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Remember how weak the Farm Credit System (FCS) was a decade ago, so weak that Congress had just authorized a \$4 billion bailout for it?

Well, the FCS has recovered from its lending fiascoes of the 1970s and early 1980s and, in the process, accumulated, through its largely tax-free earnings, a mountain of capital — \$11.6 billion at the end of 1997 — that is burning a hole in its pocket. During the last six years, FCS's equity capital (including its insurance reserve) increased 91 percent while its loans increased a more modest 23 percent.

At the end of last year, FCS had a capital-to-assets ratio of 14.8 percent, including its insurance fund, or 13.4 percent, excluding its insurance fund. The FCS now has so much capital that, if it could find the loans, it potentially could double the size of its \$63.4 billion loan portfolio and still meet its minimum risk-adjusted capital requirement of 7 percent.

Not only is the lending potential there, but so is the desire. As the FCS's lending arm, the Federal Farm Credit Banks Funding Corporation, noted in a Feb. 25, 1998, news release that FCS loans to farmers and ranchers increased in 1997 due to "the effects of increased [FCS] marketing efforts and *competitive pricing programs*" (emphasis supplied). Not surprisingly, FCS ag lending increased approximately 4 percent last year. But it would have liked to increase it even more.

If FCS reaped its lending poten-

tial entirely on the farm, it could displace every single dollar of commercial bank lending to farmers and ranchers, thereby boosting its share of total farm debt from 25 percent to 65 percent. Obviously, bankers are not going to lose every dollar of their ag loans to the FCS. But there are other options for significant FCS loan growth.

First, the FCS could begin lending recklessly to farmers on a widespread basis, particularly for real estate purchases, just as it did in the 1970s. Second, utilizing expanding powers awarded by the Farm Credit Administration, the FCS could take business away from bankers by expanding its off-farm lending, such as to businesses, home buyers and consumers

located in rural America's villages, towns, and small cities.

Third, the FCS could begin lending to cooperatives and to finance agricultural exports, which would deprive some banks of ag-related lending business.

However the FCS did it, growing to meet its lending potential would raise competitive havoc with commercial bankers and possibly be very dangerous to American agriculture. This is why bankers have to closely monitor FCS's lending practices to quickly detect any reckless or excessively aggressive expansion of its loan portfolio. Longer term, though, the FCS's problem of excessive capital must be addressed in a more comprehensive manner. jal