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A Progress Report to the Agricultural Banking Community

by John Blanchfield

In August 1999 the ABA Task Force of 21st Century Agricultural Banking will issue its landmark report, *Positioning Agriculture and Rural America for the 21st Century*. The ABA's Agricultural and Rural Bankers Committee recognized the problems that agriculture was undergoing would require innovative solutions. Banks are the primary lenders to American agriculture and it was felt essential that the banking community weigh in on the issues facing agriculture and work to develop a framework for the future of agricultural banking.

Since August 1999 we have had some significant successes. What follows is a summary of Task Force recommendations and accomplishments. Interested readers may find the entire report at the following Web address: www.aba.com/aba/PDF_Files/AgRep0899.pdf

In addition to the actions listed below, ABA created the Center for Agricultural and Rural Banking in November in response to the Task Force's recommendations. Today the Center is operational and is working to produce the October 2000 North American Agricultural Finance Conference in Winnipeg, Manitoba, Oct. 1-4 with representatives from the Canadian Bankers Association's Agriculture Committee. For more details about the conference, please visit www.aba.com/aba/pdf_files/gr_ag_conference_preview.pdf

I. Create a Framework for Farmers and Bankers to Manage Agricultural Risks.

A. FSA Guaranteed Loan is a Top Funding Priority.

1. Immediate and continuing action to create an adequate supply of nationwide funding for FSA Loan Guarantee Programs.

ABA worked to get supplemental funding for the FSA programs in FY 1999 and FY 2000. For the remainder of FY 2000, funding is more than adequate. Proposed funding for FY 2001 is not yet secured. House appropriations contain funding that FSA has judged to be adequate. Senate appropriations would not be adequate. ABA will lobby to get House numbers appropriated.

2. FSA should continue to streamline programs and provide regulatory flexibility. In 1999 Congress passed legislation that eliminated the 110 percent cash flow requirement. In June of this year ABA representatives attended the FSA stakeholders meeting and made additional program recommendations.
3. Immediate action to remove the 15-year FSA borrower eligibility limit. Earlier this year, ABA Agricultural and Rural Bankers Committee member Terry Hague testified in favor of this and other actions. In May the House and Senate approved a two-year moratorium on the eligibility limit, and the President signed it into law in June. We will work to have borrower limits removed on a permanent basis in the 2002 Farm Bill.
4. Organize an annual stakeholders meeting with USDA. Secretary Glickman committed to this recommendation when then Chairman Denny Everson presented the findings of the Task Force to him in August 1999. FSA held the meeting in June 2000 in New Orleans. Current ABA Agricultural and Rural Bankers Committee Chairman Terry Barta and Everson represented ABA along with ABA staff member John Blanchfield.

B. Crop Insurance Reforms. Congress passed comprehensive crop insurance reform in May 2000 and the President signed it into law in June. The legislation incorporates all of the Task Force recommendations on crop insurance and provides an additional \$7.1 billion in farmer and rancher assistance. Payments will become available on Sept. 1 and the improved crop insurance program may be available for fall 2000 planted crops.

1. Stronger links between crop and income protection are needed.
2. Actuarial soundness is not working in the present system.
3. Yield coverages and price elections are not adequate and are inflexible.

C. Create Incentives to Save for Bad Times.

1. Incentives for savings are self-help investments in farm income stability.
2. Deposits in Federally Insured Depository Institutions create economic vitality.

FARRM accounts were included in the 1999 Tax Reform Act that Congress passed, but the President vetoed. It is unlikely that this legislation will pass as a stand-alone piece. The future of this idea is uncertain.

D. Greater Conservation Reserve Program Participation.

Currently there are 36.4 million acres in CRP. Legislation has been introduced to expand CRP to 45 million acres. Likelihood of passage in 2000 is slim due to a number of policy concerns within the program and the fact that a significant number of acres remain eligible for enrollment under the currently authorized level.

II. Create New Avenues for Local Bank Access to National Capital Markets.

A. Expand FHLB Authority, Expertise and Flexibility.

Passage of Gramm-Leach-Bliley Financial Modernization (GLB) in 1999 greatly opened FHLB access to banks that are \$500 million or less for farm and small business collateral, and greatly liberalized access to all banks for other real estate secured collateral. The FHFB, the regulator of the FHLBs, finalized the rule on new collateral on June 29.

1. Immediate action to expand FHLB authority. Accomplished with GLB legislation.
2. Immediate action to maximize value of rural collateral. Representatives of the ABA Agricultural and Rural Bankers Committee, the Federal Home Loan Bank Committee, the Steering Committee for the Community Development Center and the Board have met on several occasions with representatives of the FHLB system specifically to discuss the new collateral. On May 5, 2000, ABA held a seminar at the Atlanta Federal Home Loan Bank. Representatives from all 12 Federal Home Loan Banks attended. The entire seminar was devoted to how bankers analyze and service agricultural and small business loans. Des Moines FHLB President Pat Conway will be a speaker at the 2000 CBA/ABA Agricultural Bankers Conference.

B. Two Visions for the Future of the Farm Credit System.

1. Option 1: FCS becomes a source of liquidity for all rural lenders. FCS missed a great opportunity when they rejected this proposal from ABA in 1995. Passage of GLB allowing banks to access FHLB funding has made this a much less pressing issue to rural banks.
2. Option 2: Allow the FCS to privatize. ABA released Bert Ely's report *The Farm Credit System, Reckless Past, Doubtful Future* at the 1999 National Agricultural Bankers Conference. FCA, the regulator, responded with "customer choice" and the national charter proposals. In June 2000 House Banking Committee Chairman James Leach (R-IA) strongly criticized the

Farm Credit Administration for moving on national charters without appropriate Congressional or public review and comment.

C. Place More GSE Emphasis on Closing Rural Capital Market Gaps.

1. Fannie Mae and Freddie MAC should expand efforts to serve rural housing markets.
2. Farmer MAC should continue its important function in agricultural credit delivery.

D. Support Efforts to Increase Availability of Rural Equity Capital.

1. Regulatory flexibility for rural banks to enhance equity capital. GLB contains provisions that allow banks to enter into merchant banking. ABA is presently analyzing these provisions and examining how they might work for rural banks.
2. Banks are critical in developing rural equity capital networks and entrepreneurs.

At the end of 1999 ABA successfully fought off an attempt by CoBank to obtain full merchant banking authority. Since that time, ABA has been working with a wide group of interested rural organizations to structure a new proposal to develop and deliver equity capital to rural America. At this point in time, the discussions have been preliminary and we do not have a timetable for introduction of legislation.

E. Greater Flexibility for Banks to Use Innovative Forms of Business Organization.

III. Create Tools for New Ventures and Opportunities in Rural America.

A. Aggie Bonds for Young Farmers and Rural Entrepreneurs.

1. Educate the banking community about aggie bonds.
2. Remove the federal industrial revenue bond cap on aggie bonds.
3. Allow USDA and SBA guarantees on aggie bonds.
4. Expand trading of aggie bond authority.

Both the Senate (S 1038) and the House (HR 1810) have introduced bills that would exempt state Agricultural Bonds from the state volume cap for industrial revenue bonds. At present, neither bill is likely to move.

- B. USDA and SBA Loan Guarantee Programs for Young and Beginning Farmers and Rural Community Entrepreneurs.
- C. Expand Use of Linked Deposit Programs.
- D. Education for Reshape Young Farmers and Rural Entrepreneurs.
 - 1. Support programs that leverage information technology.
 - 2. Create rural SBDCs and networks for young farmers and rural entrepreneurs.

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