FCS's Beginning Farmers

(December 2001)

A Dec. 4, 2001, *American Banker* article, "Ely Can't See 'Farm' in These Loans," covered the *FCW*'s report on FCS loans used to finance country estates. Responses by FCS defenders quoted in the article failed to justify this lending. Almost laughable was the defense offered by the president of the FCS association which made the loans. He stated that the borrowers "intend to conduct some kind of agricultural activity." That was an artful way of saying that the borrowers are not farmers today and the land is not being used for agricultural purposes. In fact, these are taxpayer-subsidized loans to rich guys disguised as farm loans. These are not the beginning farmers Congress had in mind when it wrote the Farm Credit Act.

More entertaining were comments from the Farm Credit Council (FCC), the trade association for FCS lenders. It characterized *FCW*'s "search through courthouse records as a `kind of sleazy' tactic." That criticism ducks completely the substance of banker complaints about the extent to which the FCS increasingly lends for non-agricultural purposes. What seems to really upset the FCC is that *FCW* did the field research to confirm what many bankers have reported, that FCS lending often violates the spirit, if not the letter, of the Farm Credit Act. Especially noteworthy was the FCC's inference that the loans FCW described were to small farmers who need off-farm income to survive. Anyone who views the properties *FCW* reported on could quickly determine that these owners are not small, struggling farmers. Far from it.

FCW continues to extend its offer to Mike Reyna, chairman of the Farm Credit Administration (FCA), and FCA Board member Ann Jorgenson to take them on a tour of the estates the FCS has financed so that they can determine firsthand whether or not these loans conform with the Farm Credit Act. Also, *FCW* encourages bankers to report similar "country estate" lending they know of by emailing information to: **bert@ely-co.com**.

Cutthroat Competition Within the FCS

While many FCS associations are busy lending on country estates, some are engaged in aggressive, rate-driven competition against other FCS associations. This type of intra-FCS, taxpayer-subsidized competition is precisely what *FCW* predicted when criticizing the "national charters" proposal the FCA rejected. One banker reported that a production credit association (PCA) recently opened an office in Pratt, Kan., in direct competition with an FCS office operated by a Federal Land Credit Association (FLCA).

While PCAs and FLCAs have different lending authorities, they can compete against each other for shorter term credits secured by real estate. Apparently, the PCA hired away the staff from another office of the FLCA to staff its Pratt office. *FCW* predicted personnel swiping would occur if national chartering was approved. Almost due south, in the Enid, Okla., area, the FCA inexplicably authorized PCA powers for a newly chartered Agricultural Credit Association serving four counties already served by another PCA. Within weeks, the two PCAs began competing against each other on rates. As one banker characterized it, "the two PCAs hate each other." Just image the hatred within the FCS if national chartering had been authorized.

What's Behind Higher FCS Margins

Due to yield curve steepening last year, FCS's net interest spread has widened significantly, rising 20 basis points, to 1.98 percent, for the first nine months of 2001 compared to the first nine months of 2000. However, the spread the FCS earned on its interest-free capital has declined as rates have dropped. Consequently, the FCS's net interest margin increased only 5 basis points, to 2.79 percent for the first nine months of 2001 compared to the same period in 2000. This increased spread and margin appears to be due to two factors. First, during the first nine months of 2001, the FCS refinanced $15 billion of callable debt, almost 20 percent of its outstanding debt, at lower rates. Second, as the FCS admits, its lenders are slow to drop rates on administered-rate loans, which account for about one-fourth of FCS loans. This slowness enables the FCS to try to boost its lending market share by cutting rates to new borrowers.

"Who Finances America's Family Farmers?"

Leaving no stone unturned to educate Americans about who finances agriculture, the ABA has published a colorful, illustrated booklet, "*Who Finances America's Family Farmers?*" This booklet summarizes data from the USDA's authoritative 1999 Agriculture Economics and Land Ownership Survey. This survey, which *FCW* reported on in the Summer 2001 issue of the *Journal*, demonstrated beyond challenge that commercial banks are doing a much better job than the FCS in financing family farmers while the FCS focuses increasingly on financing larger, older, wealthier farmers, the very people least in need of subsidized federal financing. ABA members can obtain copies of this booklet by emailing requests to: **bmccoy@aba.com.**

Happy New Year

FCW wishes all of its readers as well as their families, friends, associates, and customers the very best for the New Year. FCW also wishes that the FCA would crack down in 2002 on FCS lending to finance country estates and to fulfill the promise it made, when it rejected national chartering, to develop a policy statement related to the mission of the FCS. Hopefully, the FCA will seek public comment when formulating that statement.