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## Improving FCS Lending Disclosures

(June 2002)

**T**he Farm Credit Administration (FCA) recently took important steps to improve the Farm Credit System's (FCS) information disclosures. As *FCW* reported, the FCA has increased the amount of data posted on its web site ([www.fca.gov](http://www.fca.gov)) on individual FCS associations as well as for aggregations of associations. Not being bashful, *FCW* hereby offers its suggestions for improving FCA disclosures about FCS lending.

*FCW*'s recommendations fall into two broad categories: expanding the data the FCA collects on FCS lending activities and making that data readily available on the FCA web site. Few people know that the FCS has a data collection system, the Loan Account Reporting System, or LARS, that is highly conducive to expanded disclosure of FCS lending activities. FCS associations have to create an electronic LARS record, containing 29 data items, for every loan they make. These are not enough data items, nor do FCA examiners routinely audit the accuracy of this data during the course of examining FCS associations, but LARS represents an excellent starting point for expanding FCA disclosures about FCS lending practices.

Expanded and more accessible lending disclosures will enable the FCS's owner/borrowers, as well as outsiders, to easily monitor the FCS's compliance with its congressionally mandated mission and to ensure that the FCS is not abusing its substantial tax and credit advantages. Presently, FCS call reports only list the total amount of an association's loans — there is absolutely no breakdown by type of loan, such as long-term real estate, intermediate credit or seasonal production credit. Worse, there is no breakout of loans to farmers and ranchers vs. non-farmers, such as loans to farm-related businesses and owners of country estates and hunting preserves. FCS associations often provide some breakdown of loans by commodity type in their annual reports, but those reports are not readily available.

One important FCS mission is serving young, beginning and small (YBS) farmers. But the current system of reporting YBS loans has many flaws. For example, a loan to a 25-year-old beginning farmer guaranteed by her mother, who is a successful, wealthy farmer in her own right, should not be classified as a YBS loan. Further, a loan to a farmer who is young AND beginning AND small should not be counted three times. The LARS database should be structured to eliminate the double- and triple-counting now present in much of the YBS loan data. Fortunately, the FCA already is moving to eliminate this duplicate counting.

Not only should the FCA expand the LARS database, but it also must provide easy public access to it

through the FCA web site. Public access to LARS data can be structured in such a way that FCS owner/borrowers, as well as congressional staff members, and the general public, can drill deeply into the LARS database without accessing data on individual borrowers. For example, it should be possible to determine how much the FCS has lent to finance hunting preserves or country estates. While it will take time, expanding the LARS database and providing access to it via the FCA web site will enhance FCS compliance with its public mission.

Every day bankers see FCS lending that falls far outside the FCS's public mission. Increasingly, the FCS is turning its back on those farmers and ranchers it was designed to serve as it consolidates into larger and larger associations. FCS's non-compliance with its mission cannot be ferreted out without comprehensive, accurate and detailed data on its loans that is posted in a timely manner on the FCS web site. Increasing the data the FCA collects under LARS and posts on its web site is vital to reducing the FCS's non-compliance.

### **Farmer Mac Exam Report Leaked to *The New York Times***

In a June 17 investigative article about Farmer Mac, *The New York Times* revealed that it had obtained confidential examination reports on Farmer Mac. Farmer Mac exam reports, like those of FCS associations and commercial banks, should always be held in the strictest confidence and not leaked to the

media. Public disclosure of exam reports of any financial institution will lead to less examiner candor in these reports, thereby undermining the effectiveness of banking and FCS supervision. Shame on the leaker!

**Report FCS Lending Abuses to:  
green-acres@ely-co.com**

Bankers are continuing to send *FCW* reports of FCS lending abuses, such as FCS loans for rural estates, weekend getaways, and hunting preserves. E-mail reports of similar lending abuses in your market to: green-acres@ely-co.com. Please provide as much detail as possible about any loan that violates the spirit, if not the law, governing FCS lending.

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