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FCW to FCA: Crack Down on Inappropriate FCS Lending

(November 2002)



We are being flooded with reports about inappropriate FCS lending, some of which has been discussed in past issues of *FCW* as well as in my report, "*The Farm Credit System: Reinvented and Mission-Challenged*," released at the ABA's National Agricultural Bankers Conference. Clearly, inappropriate lending is epidemic at the FCS. The Farm Credit Administration (FCA) should declare that an FCS lending crisis exists and direct its examiners to scrutinize every outstanding FCS loan and loan commitment over \$5 million for conformity with the Farm Credit Act and the FCA's lending regulations.

Here is what the FCA examiners should look for. First, flag loans that clearly do not conform with the law or FCA regulations. One good example is the \$8 million line of credit (with \$4.5 million drawn down) that Carolina Farm Credit, ACA, extended last year to the Fox Den Development Co. in North

Carolina. Another was a \$153,000 loan on property clearly slated for development in Fauquier County, Va, that was reported in the November 2001 *FCW*. *FCW* has no doubt that FCS associations have made other loans to property developers, a clearly inappropriate class of FCS borrower.

FCA examiners also should flag "country living" loans for close examination, specifically loans on country estates, weekend getaways, second homes and rural retreats that have no connection to agriculture. Hunting preserves and similar rural recreational properties also fall into this category. FCA regulations clearly preclude this type of lending, stating that FCS loans should go only to a "bona fide farmer or rancher," defined as "a person owning agricultural land or engaged in the production of agricultural products." Rural estates and hunting preserves are not agricultural land nor do they qualify as "moderately priced" rural homes, another lawful FCS lending category. Finally, the FCA examiners should closely examine loans to nonfarm businesses to ensure that the lending conforms with the FCA's strict regulation on lending for "farm-related business activities."

FCS Lending to Hard-Up Rich Guys

FCW has already reported a \$30 million participation in a loan to former WorldCom CEO Bernie Ebbers that was purchased by several FCS associations. *FCW* is tracking down a report of another \$30 million FCS loan to Ebbers to purchase farmland. On a smaller scale, National Public Radio recently ran a report about an optometrist borrowing from the FCS to buy a 40-acre fruit farm in California that he works on weekends. Should a well-compensated optometrist get subsidized credit to pursue his weekend hobby?

FCA Working to Improve Its YBS Regulations

The FCA Board held a public hearing in Kansas City on November 12 to receive public com-

ment on improving the FCS's lending to young, beginning and small (YBS) farmers and ranchers. As *FCW* has reported on numerous occasions, the FCS's YBS lending has fallen far short of its congressional mandate. Dale Pohlman, CEO of the Ravenna Bank, in Ravenna, Neb., testified on behalf of the ABA.

The Farm Credit Council, the FCS trade association, argued at the hearing that the FCA does not have the authority to regulate the FCS's YBS lending practices. The Council also said the FCS would do more YBS lending if it got "the regulatory relief necessary to enable it to meet the full credit needs of smaller farmers." The FCS's tax breaks and credit cost advantage aren't

enough!? This posture demonstrates the level of the Council's contempt for the FCA's efforts to improve the FCS's YBS lending.

Zero Percent FCS Financing

We all know the FCS charges extremely low, taxpayer-subsidized interest rates, but this is getting ridiculous – zero percent interest (that's right, 0%) for 90 days and no payments until 2004 on new or used equipment loans! That's the deal an Arkansas FCS association, Farm Credit Midsouth, recently offered to its members. That is unsound lending, pure and simple. Hopefully, FCA examiners will take a close look at this association's loan pricing.

Bert Ely's report, "The Farm Credit System: Reinvented and Mission-Challenged," is available as a no-cost download at www.agricultural-lending.com