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# FARM CREDIT WATCH

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## Important FCA Public Hearing on FCS's YBS Lending

(March 2003)

**T**he Farm Credit Administration (FCA), the FCS's regulator, held an important public hearing in Kansas City in November 2002 on FCS lending to young, beginning, and small (YBS) farmers and ranchers. Dale Pohlmann, CEO of the Ravenna Bank in Ravenna, Neb, testified on behalf of the ABA. Also testifying were three representatives of the Farm Credit Council (FCC), the FCS's trade association, and seven representatives from FCS associations.

Ken Auer, the FCC's CEO, claimed at the hearing that "FCA currently is doing absolutely everything you are supposed to be doing under the Farm Credit Act as it relates to [FCS] lending in support of [YBS] farmers." Auer then asserted that the Farm Credit Act clearly states that the FCS "YBS programs are to be operated under policies established by the boards of directors of [FCS] banks, not policies established by FCA." Auer stated that the FCA's role in YBS lending was merely "to provide Congress with an annual summary and an analysis of the reports provided the [FCA] by [FCS] banks. Congress did not ask for or suggest that FCA rate the performance of individual institutions."



In making this assertion, Auer ignored the fact that the FCA regulates the FCS banks as well as the FCS associations. As such, the FCA has all the congressional authority it needs to tell the FCS banks what standards they will establish for the associations' YBS lending and how YBS lending programs will be evaluated. The fact that the FCC attacked the FCA so vigorously at the hearing is a clear indication that FCS associations know they have a serious problem regarding their YBS lending and that they fear more intense FCA oversight of that lending.

Clearly, the FCC is trying to undercut the FCA initiative to get FCS associations to fully meet the clear congressional intent that they make special efforts to supply sufficient credit to YBS farmers and ranchers. As numerous studies and FCA data have shown, the FCS has failed to meet that mandate. It was quite troubling to read in the transcript of the hearing that new FCA Board member Doug Flory agreed with Auer's comments, when Flory stated "I recognize Congress did not charge FCA with setting specific standards or actually supervising the [FCS's] performance with YBS. Also, I don't want our regulatory efforts in this area to be overly burdensome."

Flory's concerns about regulatory burden are a highly unusual statement for a regulator – don't bankers wish they would hear that kind of statement from their regulators? Further, as FCW has noted several times, continuing consolidation among FCS associations opens the door to eliminating the FCS

banks. If there were no FCS banks, who would Flory propose regulate the FCS associations' YBS lending?

### **FCA Launches Major Regulatory Review**

The FCA Board recently announced its 2003 regulatory agenda. It contains two items of great importance to bankers. In June the FCA will issue an "advanced notice of proposed rule making," or ANPRM, with regard to the permissible scope of FCS lending. The FCA will hold a public hearing in July on this ANPRM. This ANPRM, which the FCS requested, will trigger a review of the FCA's all-important "lending objective" regulation, 12 C.F.R. Sec. 613.3005, which can be found on the FCA website at [www.fca.gov/handbook.nsf](http://www.fca.gov/handbook.nsf). Once there, click on "FCA Regulations." The FCS almost certainly wants the FCA Board to water down this regulation so that FCS associations can lend more liberally to borrowers who are not "bona fide farmers." FCW will closely monitor attempts by the FCS to reshape this regulation more to its liking.

The FCA will also study how the FCS can enhance its services to YBS farmers and the FCS's reporting of those services.

### **FCS Association Will Finance "Your Inner Child"???**

FCW often reports on the FCS's increased focus on lending to finance "country living," which is a euphemism for lending on second homes, weekend getaways, country estates, and hunting preserves. Northwest Farm Credit Services,



one of the largest FCS associations, serving the Pacific Northwest, went over the top, though, in a recent newspaper advertisement. Under a dreamy picture of a small girl looking out over a rural countryside was this caption: "*We finance country homes, bare land and the dreams of your inner child.*"

Your inner child???

The ad text continues – "A special place in the country: It's something you've wished for. Imagined. Talked about. And Northwest Farm Credit Services is ready to help make it come true."

How, pray tell, does financing "the dreams of your inner child" advance the rationale for the FCS? How does this type of lending advance the FCS's YBS lending objective that Congress has mandated? The time has come for the FCA to examine FCS advertising to determine how well it conforms to the congressional intent for FCS lending.

#### **Report FCS Lending Abuses to: [green-acres@ely-co.com](mailto: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. Email reports of similar lending abuses in your market to: **[green-acres@ely-co.com](mailto:green-acres@ely-co.com)**. Please provide as much detail as possible about any loan which violates the spirit, if not the law, governing FCS lending.

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



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**Mark Your Calendars**

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