

Bert Ely's FARM CREDIT WATCH®

Shedding Light on the Farm Credit System, America's Least Known GSE

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The Ag Census And FCA's National Charters Proposal

Just-released economic data from the USDA's 1997 Census of Agriculture confirms what bankers have always known, and the USDA's Economic Research Service (ERS) has repeatedly documented -- commercial banks do a much better job than the FCS in lending to young, beginning, and small (YBS) farmers as well as to women and minority borrowers. Clearly, the FCS is ignoring the very farmers on which it is supposed to focus. This situation will worsen if the Farm Credit Administration (FCA) adopts its pending National Charters proposal.

The Census of Agriculture surveys every farm operator with \$1,000 or more of farming income. Farmers and their spouses sit around the kitchen table describing what they know quite well -- themselves and their farming operation. Therefore, this data is extremely reliable. No matter how you slice and dice this data, commercial banks do much better than the FCS serving all farmers. The FCA should pay close attention to this data, which can be found at <http://www.mass.usda.gov/census/census97>. At that page, go to the lower right-hand corner, click on Agricultural Economics & Land Ownership Survey, and go to Table 45.

For starters, banks have a much larger market share of YBS and minority farm operators: For non-whites, banks have a 71.3% share versus a 12.4% share for the FCS; for Hispanics, 67.6% versus 12.6%; and for women, 68.8% versus 11.2%. The same story holds for younger farmers, who presumably account for most beginning farmers -- 7.9% of FCS's borrowers, holding 5.9% of FCS loans, were under 35, in contrast with 8.7% by number and 7.2% by amount for banks. Reflecting the fact that the average FCS loan to farm operators is far larger than for banks (\$152,145 versus \$104,756), the average farmer under 35 with FCS loans had borrowed \$113,856 from the FCS; the comparable figure for banks was \$86,174.

The Ag census reinforces ERS's findings that the FCS is more focused on lending to larger, older, wealthier farmers. In 1997, operators farming more than 1,000 acres accounted for 22.9% of FCS borrowers and held 43.4% of the reported FCS debt versus comparable figures of 14.1% and 32.9% for banks. In terms of revenues, FCS borrowers with farm sales exceeding \$500,000 annually accounted for 12.5% of all FCS borrowers and 39.6% of FCS loans. For banks, the comparable numbers were 5.4% and 28.5%. Similar results hold for age. Farm operators 55 and older accounted for 41.1% of all FCS borrowers and 41.8% of all reported FCS loans. The comparable bank numbers were 33.6% and 32.9%.

As bad as these numbers are for the FCS, the additional consolidation within the FCS that National Charters will spark will take the FCS even further away from the very rationale for its existence. That is just one reason why the FCA should kill the National Charters proposal, now.

What Is Going On Here?

One great challenge in monitoring the FCS is digging beneath the surface of new FCA regulations to determine their intent, given the FCA's constant catering to the FCS empire builders. The intent of regulatory initiatives, such as the National Charters proposal and the 100% loan participation rule the FCA adopted last year, is quite clear -- promote growth and consolidation within the FCS. However, the real intent of a just-published proposed rule governing the termination of FCS status is less clear.

On August 20, the FCA proposed to revise its existing regulation governing the termination of FCS status; that is, leaving the FCS. The present termination rule effectively permits only smaller FCS associations to leave the System. To the best of ECW's knowledge, only one association has cut the cord. The FCA claims that in revising this rule to permit any farm credit bank (FCB) or association to leave the FCS, it is merely meeting a statutory requirement for such a procedure, stating that "there are currently no pending applications from Farm Credit institutions to leave the System, and none are anticipated in the near future." However, extensive comments by the FCS trade association on the previous version of this rule suggest that this revision is much more than a mere bureaucratic dotting of i's and crossing t's.

Enter CoBank, the FCS's sole lender to co-ops and the FCB for four Agricultural Credit Associations (ACA) serving the Northeast. The FCS's largest institution, with \$25 billion of assets on June 30, 2001, CoBank has largely been unsuccessful in trying to expand its lending and investing powers. Surely Doug Sims, CoBank's CEO (and the highest paid CEO within the FCS), must be chomping at the bit to escape the statutory restrictions CoBank operates under without losing the funding cost advantages it now enjoys. Unlike the other six FCBs, which largely lend to FCS associations, CoBank primarily lends to agricultural cooperatives and agricultural exporters; only 10% of its loans go to its four ACAs.

Precisely how CoBank would bail out of the FCS is not clear, but high-priced lawyers probably have developed an exit strategy for CoBank. Presumably, CoBank would shift its ACAs to another FCB; AgFirst, which serves the rest of the East Coast, is the logical FCB to assume that responsibility. Interestingly, AgFirst is the minority shareholder in the CoBank-controlled Farm Credit Leasing Corp. To retain its access to cheap FCS debt, CoBank might recharter itself as an agricultural coop and then borrow from one or more FCBs. If you have any insights into this termination regulation or what CoBank might be up to, please email your thoughts to bert@ely-co.com (anonymous emails welcome). You can find the proposed rule by clicking, on the left side of the FCA home page (www.fca.gov), on "Pending Regulations & Notices" and then going to the bottom of the next screen, where you will find a link to the rule.

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