



INDEPENDENT COMMUNITY
BANKERS *of* AMERICA

Statement Of

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&

The Independent Bankers Association of Texas

Before The

Farm Credit Administration

McLean, VA

Public Hearing

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Introduction & Background

Thank you for the opportunity to be here today to take part in the FCA's public hearing on the scope and eligibility of Farm Credit System lending.

My name is Curtis Griffith. I am a third-generation farmer actively involved in growing cotton and wheat and we share rent and cash lease additional acreages to other farmers. I'm also a second-generation banker in rural West Texas. So my family has been in farming – production agriculture – longer than in banking. In the parlance of today's hearing, this means I have been a "Bona-Fide" farmer longer than I have been a "Bona-Fide" banker.

I am also Chairman of the Board of City Bank – that's C I T Y, NOT C I T I – and South Plains Financial, Inc. We are headquartered in Lubbock and have locations in eight other West Texas communities. City Bank holds over \$600 million in total assets and a substantial portion of that amount are loans to farmers and ranchers. I also serve as a director of the Independent Bankers Association of Texas, the Texas Cotton Ginners Association, the Texas Independent Ginners Association, and the Texas Tech University Foundation, as well as other local charitable organizations.

I want to emphasize at the outset, Chairman Reyna and board members Flory and Pellet, that City Bank currently has an excellent relationship with First Ag Texas, FLCA, and our bank provides them some banking services and we have often worked with their officers to help finance farmers to keep them going in these tough times.

I am also still an active farmer and landlord to other farmers. I personally have loans from First Ag Texas through one of their local offices and have been a member of the local Federal Land Bank Association for many years. So I do have a real and personal understanding of the need for the Farm Credit System and I have no desire to see it diminished or harmed in any way.

However as both a farmer and a lender, I want to state emphatically, that I would indeed have a problem with adopting the proposals that were requested by the two Farm Credit System entities that form the background of today's public hearing.

FCS Should Focus on Loans to Farmers

I strongly believe that the FCS should focus its efforts on making loans to "Bona-Fide" farmers, which is what is stated in various sections of the Farm Credit Act. What we are seeing today is an attempt by the Farm Credit System to loosen the definition of who a farmer is in order to increase their customer base and the purposes for which they can lend.

But Chairman Reyna, board members Flory and Pellett, their customer base has already grown three percent per year each of the past two years! Many of their associations are seeing double-digit growth. They're growing market share rapidly at the expense of commercial banks because they have unique advantages not given to their competitors!

As a member of the Farm Credit System and a farmer, I don't want to see the emphasis shift away from production agriculture, which this proposal would do.

The System argues that the Act does not restrict the System's authority to finance all the credit needs of any group of eligible farmers and, therefore, current regulations, which distinguish between full-time farmers and part-time farmers, should be eliminated as having no basis in law.

I respectfully and wholeheartedly disagree.

Look Closely At the Act and its Intent

In fact, I would argue that the FCA has been extremely lenient with the System in its definitions of bona fide farmer and the credit available to part-time farmers. The Farm Credit Act (Act) itself states upfront its "Policies and Objectives" that are intended to drive the FCS's scope and eligibility. This section states:

“. . .the farmer-owned cooperative Farm Credit System be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses *necessary for efficient farm operations.*”

I want to emphasize the ending of that paragraph—“*necessary for efficient farm operations*”.

The recognition that System credit should be designed to facilitate *the flexible flow of credit so long as it is used to enhance efficient farm operations* seems to be what is encompassed by the current regulations when they make a distinction between “*full time bona fide farmer (one whose primary business and vocation is farming or ranching . . .)*” and “*conservative credit to less than full-time farmers for agricultural enterprises.*” In the current regulations, FCA has framed the language so that the credit provided is ratcheted down as the individual moves away from agricultural production and a bona fide farming operation.

In response to those who want to open the spigots wide for FCS funds to flow to virtually anyone, I would caution that current regulations already have extremely liberalized flexibility to meet legitimate needs of part-time farmers. The regulations already state that part-time farmers, “*who need to seek off-farm employment to supplement their farm income*” can access credit to meet their “*family needs in a preferred position along with full-time farmers*”.

The regulations at least partially attempts to reflect the objective stated for the Act by making clear that as an individual moves away from farming; credit supplied by the FCS is to be reduced, *“to the point where agricultural needs only will be financed for the applicant whose business is essentially other than farming.”* This is the very least that should be asked of the FCS, since the applicable sections of the law **ALL** mention that lending is to be targeted to **bona fide farmers**.

Obviously Congress did not intend for the System to be a general purpose lender providing every possible type of loan imaginable simply because somebody has a couple of acres of pastureland, but that’s what some in the System would have you believe. It’s just not so.

A plain reading of the statute suggests your regulations are already too lenient.

Bona Fide Farmers

Three sections of the Act have been cited regarding this discussion—parts of sections 1.9, 1.11 and 2.4. These sections all require FCS lending to be to “bona fide” farmers.

Here is just another instance where bankers can legitimately claim that the FCA regulations are overly generous because the **current regulations allow anyone with land that is not producing an ag product to be considered a bona fide farmer. This should not be allowed.** If the landowner doesn’t produce a product or doesn’t intend to within the next two years, according to their **original** schedule F filing, they should not be eligible for FCS financing.

So to answer your first question, I recommend the definition be:

- “a bona fide farmer who either owns land that is currently engaged in agricultural production or will be engaged in agricultural production within the next two years of the **initial** application for financing;
- that such applicants file a schedule F tax return at some point during the two year period to validate that their farming or ranching activities generate a majority of their annual income;
- that the applicant is actively and personally engaged in the management of the farming enterprise;
- and that the purpose of the loan is primarily agricultural in nature.”

“Other Credit Needs” Relate to Farming Enterprises

Some System advocates take wording from the Act out of context, specifically the wording “and other credit needs”. The suggestion is made that this means widespread “non-agricultural” lending. Such interpretations are misplaced.

The “other credit needs” references in the statute are **always** in the same sentence as the wording specifying the credit should be “***directly related to the operations of the borrower***” and specific reference is made to processing and marketing operations where the producer actively contributes a portion of their production to these beyond-the-farm-gate enterprises. The complete language that provides this context is also left out of the FCA’s request for comment but it can logically be argued that the “other credit needs” are to be directly related to the borrower’s operation.

What type of operation? A Car dealership? A Laundromat? A video store? No. The processing and marketing businesses that their local cooperatives are engaged in to support the farmers’ ***farming*** operations are clearly what Congress intended.

To answer FCA’s second and third questions, the limits I mentioned earlier in current regulations are the bare minimum—the statute suggests tighter standards—but should not be changed. At bare minimum, lending should be restricted as one moves further away from agriculture and the loans should obviously be primarily agricultural in nature.

I don’t believe FCA can adequately regulate FCS lending if you allow FCS to lend for any other non-agricultural credit need—the loans need to be primarily agricultural loans that, as the Act’s objective states—are for the ***purpose of maintaining an efficient farm operation***. Therefore, it is appropriate to keep the current distinctions between full-time and part-time farmers, and we need to all recognize that current FCA regulations are more than generous in allowing FCS to make loans to both full-time bona fide farmers and part-time farmers for a variety of credit needs. But this supply of credit needs to be targeted primarily for agricultural purposes, which is the intent of Congress and the clear direction of the law.

Off Farm Income

I want to also point out why it is not justifiable to suggest that because a number of rural citizens have off-farm jobs, FCS should be able to make them non-farm loans on an unlimited basis. The USDA’s data suggests that there are many reasons why people pursue off-farm employment. It’s not always just to keep the farm viable, which is the FCS argument, and which doesn’t really make sense if you look at the many reasons that USDA lists.

While many family farms do seek off-farm income, the commercial farms generate most of their income from the farm operation. Non-commercial farms with non-farm income consists of various categories of farmers as defined by USDA. Some farmers have non-farm income largely from *passive* sources, as in the case of retired farmers who receive social security. Some farms have spouses who work off-farm as a *career choice* or to better their *standard of living*. Some farmers are encouraged by their lenders to pursue off-farm income so they have adequate access to *health care* which can be very expensive in rural areas. Some farmers do use off-farm income to *repay their farm debts*, but *according to USDA this isn’t the primary reason* people pursue off-farm income.

I believe we need to recognize this point, because it reflects the diversity of our rural population and the variety of non-farm jobs and sources of income that our rural citizens can have. **It paints with far too broad a brush to say that because somebody has off-farm income, from whatever source it may be, that the FCS should lend to them on an unrestricted basis for purposes completely unrelated to agriculture.** Why should the FCS make a loan to somebody with a couple of acres of pastureland to run a hardware store or a car dealership in the community just because their wife may be a school teacher? The rationale the FCS has proposed becomes incredulous when one begins to think of all of the possible outcomes.

Increases Safety and Soundness Risks

This proposal by FCS is disingenuous for a variety of reasons including that it allows System lenders to venture off into areas where they are completely unfamiliar thereby increasing safety and soundness risks and it moves the System further away from serving bona fide farmers and ranchers – the very purpose for which they were created.

Depending on Local Boards Is Totally Insufficient

Some System lenders want their local boards of directors to decide what limits, if any, they should have on who they can lend to and for what purposes. Since some of these boards cover multi-state areas, it is hard to see them as “local” and it is even harder to see how the average member on those boards with limited financial training and no personal liability for losses would resist the expansionist requests of an aggressive CEO.

Banking regulators would never allow for such a scenario. The FCA is the arms length regulator as provided by Congress and the FCA needs to closely regulate the System’s lenders. Allowing for virtually unregulated self-governance, as the System is suggesting, is eerily reminiscent of the regulatory free-for-all that led to the S & L crisis.

FCA needs to maintain strict regulatory oversight to truly keep the System focused on agriculture.

Rural Housing

Regarding rural housing loans, the current regulations are more than generous. Using numbers from other regions can inflate the numbers used in the local rural market, so there should be a strong emphasis on using data from the local and surrounding area. This data is generally easily available.

I believe that FCS should provide more specific data about the number, location and size of home loans that FCS is making under the current regulation. Without this data, it is very difficult to see whether FCS is unreasonably limited on loans for “moderate-priced dwellings and

their appurtenances.” Therefore we request FCA make this data available as part of the public meeting record. *Please remember these two points:*

- The “moderate-priced” limit only applies to borrowers OTHER than farmers or ranchers.
- Also, if the 15 percent cap on these loans is a factor for a System lender, each “75th percentile” or higher home loan made *will remove the opportunity* for several low or moderate-income borrowers to get loans from that member.

For FCA’s fourth question, I recommend either no changes or make the FCS housing data used to determine “moderately priced” reflect only local, rural housing data.

Conclusion

In conclusion, I would like to once again thank you for holding this meeting today. I come to you wearing several hats. I’m a farmer. I’m a Farm Credit System member. And I’m a banker.

I urge you not to change existing regulations regarding scope and eligibility by allowing the System to lend to anyone loosely defined as a farmer for any non-agricultural credit need on a completely unrestricted and unlimited basis.

Some System advocates apparently want to become commercial banks while still enjoying the privileges of being a government sponsored enterprise. If System institutions want to lend to everybody, they are welcome to convert to commercial banks. But if they want to keep their unique privileges as a government sponsored enterprise, then they should remain focused on serving bona fide farmers and ranchers.

These dramatic proposals by FCS and the Farm Credit Council would displace community banks throughout rural America. This is not the role Congress intended for the FCS. It raises numerous safety and soundness risks as they venture into new types of loans on an unlimited basis with lending policies made by the FCS institutions themselves and over time these new powers would lead to many abuses. Such an unregulated and dramatic expansion would also shift the System’s focus away from agriculture, despite past promises they will not do this. As their regulators, I urge you to not let this happen on your watch.

The current regulations are already looser than what the statute says they should be, but they do at least attempt to keep the System focused on its mission—to provide sound, adequate, and constructive credit . . . **necessary for efficient farm operations.**

Thank you.