FARM CREDIT ADMINISTRATION

Newsline

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FCA Chairman Addresses Agricultural Finance Leaders

"The Farm Credit Administration (FCA) is taking bold steps that will allow the Farm Credit System (FCS or System) to better position itself for the future," FCA Board Chairman Marsha Pyle Martin told a select group of agricultural finance decisionmakers April 12 in Oak Brook, Illinois. Speaking at the Eighth Annual National Symposium for Agricultural Finance Executives, Martin discussed the philosophy statement on competition adopted by the FCA Board last July and the reasons for the action.

The symposium was attended by almost 70 agricultural finance executives. The theme for this year's conference was "Structural Change in an Era of Heightened Volatility."

Martin told the group that the philosophy statement was adopted by the FCA Board to encourage and support actions to help ensure the FCS will be a relevant source of agricultural credit in the 21st century. She acknowledged the new philosophy has generated some controversy, especially among commercial banks and other critics who think it will result in "reckless lending" by the FCS. Martin addressed these concerns by noting the FCA has instituted better controls, including an early warning system, to quickly address deterioration in the System's loan quality and performance. She also emphasized that the purpose of the Board's action is to provide better service to farmers, ranchers, agribusinesses and agricultural cooperatives.

"Our first action as a result of the philosophy statement was proposing the Customer Choice regulation last fall," Martin said. "This will allow customers of the FCS to do business with the lender of their choice—an option that had not existed since the System was organized in 1917," she noted.

Martin pointed out that agriculture, agricultural producers, and agribusinesses benefit from competition within the FCS, just as customers of large commercial banks benefit by having a choice of lenders. She said a more streamlined and competitive FCS will likely result in better service to customers from all sources of agricultural credit.

Martin concluded by stating, "We will do all we can as the regulator, within the law and the confines of safety and soundness, to make sure there is a Farm Credit System that can better serve its customers."

Communication Is Key to Dealing Successfully With Hog Crisis

On April 7, Farm Credit System representatives and Farm Credit Administration Board members and representatives attended a conference held at FCA headquarters in McLean, Virginia, to discuss actions the pork industry and the System are taking to manage and mitigate risk. FCA Board Chairman Marsha Pyle Martin and Board members Ann Jorgensen and Michael Reyna participated in the one-day conference organized by FCA's Chief Examiner, Roland E. Smith.

The conference included FCS institutions with a high concentration of hog loans and potential risk exposures to the hog industry. A recent report by FCA's Office of Examination titled *Hog Loans in the Farm Credit System* identified 21 FCS institutions with a large portion (more than 50 percent) of their capital invested in hog loans. The combined hog loans of these 21 FCS institutions represent 62 percent of the total hog loans financed by the System.

The FCA report concluded, "The risk exposure to the crisis in the hog industry for most FCS institutions with hog loans is minimal. The risks to FCS institutions with a high concentration of hog loans vary from institution to institution." The FCS institutions represented agreed and noted their respective associations have adequate risk funds available should the pork situation worsen.

One constant theme throughout the one-day conference was the importance of good communication with customers. Speaking both from her experience as a pork producer and as a member of the FCA Board, Ann Jorgensen underscored the importance of learning from past experiences.

"Given borrower's experiences during the economic crisis of the late 1980s, effective human relations will impact how hog farmers will remember the System during this hog crisis," said Jorgensen. "We have to pay attention to the customer. Customer relations are paramount to successfully deal with borrowers and meet their needs."

Conference participants shared with FCA representatives their institution's communication strategies. Many of them had recognized the problem early and had well-prepared strategies to deal with distressed customers. FCA staff will continue working with FCS institutions to monitor market conditions.

Board Member Reyna Cuts Ribbon Opening Small Farm Center

FCA Board Member Michael Reyna participated in the March 30 grand opening and ribbon cutting for a new center established to assist small and ethnic farmers and business owners in California's central San Joaquin Valley. The center, known as the Multi-Ethnic Small Farm and Community Development Center (Small Farm Center), is located at California State University, Fresno. Fresno State recently was designated as a USDA National Center for Excellence.

"The Farm Credit System is one of the sources of credit small and ethnic farmers should consider," Reyna said in his remarks at the grand opening ceremony. "The System has had a program in place to serve young, beginning, and small farmers for many years," he added. "The FCA Board recently adopted a policy on Farm Credit System Service to Young, Beginning, and Small Farmers and Ranchers that refocuses our efforts to ensure that the System is responsive to these borrowers' needs and is a reliable lender for future generations."

Before his appointment to the FCA Board in October 1998, Reyna was the director of USDA Rural Development in California and was instrumental in building the coalition that led to the development of the center and securing designation of Fresno State as the center's location. Its mission and purpose for being are to create a healthy community of historically underserved small farmers and businesses by achieving economic self-sufficiency through coordinated public and private investment. The center offers services in four areas: technical assistance; access to capital; marketing and outreach; and farmland acquisition.

Congressman Calvin Dooley (D-Calif.), who led the delegation of local, state, and Federal officials, bankers and other dignitaries at the grand opening, played a central role in the center's creation. His efforts began in January 1998 when he convened a planning meeting, which included representatives from USDA, the University of California Cooperative Extension, American Farmland Trust, California State University, Fresno, as well as, Asian-American, African-American, and Latino small farmers and business owners.

"It's gratifying to see the Small Farm Center officially open its doors for business," Reyna said. "It was a cooperative effort and I'm proud to have been a part of its creation. The result will be farmers that are more viable and a stronger economy that will benefit everyone in the region."

FCA Board Member Michael Reyna, second from left, cuts the ribbon officially opening the USDA National Center for Excellence and Multi-Ethnic Small Farm and Community Development (Small Farm Center). Assisting with the honors are, left to right, Gloria Palacios, President, Small Farm Center, Congressman Calvin Dooley, and Al Smith, Chairperson, Small Farm Center.

World Bank Cites Need for Strong Oversight by FCA

Robert L. Thompson of the World Bank cited weak regulation and supervision of the Asian financial sectors and high risk lending and borrowing among the causes for the Eastern Asian financial crisis. He urged FCA to continue to ensure sound lending practices by Farm Credit System institutions to help avoid similar downturns.

Thompson is an advisor to the World Bank on agricultural and rural development strategies and policy issues. On March 29, he briefed FCA's Board members, key staff, and representatives of the Farm Credit Council, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation on the implications of the financial crisis. He reviewed, among other topics, the causes of the crisis, the implications for world agriculture, and prospects for the future.

As we have learned from recent reports, the crisis led to a drop in American agricultural exports to the region, which contributed to a drop in commodity prices for American farmers and agricultural producers. Of particular relevance to FCA and the FCS is that Thompson cited, among other things, weak regulation and supervision of the financial sectors and high risk lending and borrowing as two of the major causes of the crisis.

Thompson said that in response to the crisis, local authorities have taken steps to address the weaknesses. Meanwhile, international bodies like the International Monetary Fund and the World Bank, increased their lending, along with stricter oversight of the funds, and are providing policy advice to the countries involved. According to Thompson, these steps and others have stabilized the regional economies and will help in their recovery.

Thompson was bullish on the prospects for long-term economic growth in Asia and predicted that global demand for food would double in the next century. However, he also predicted that commodity prices would remain relatively low for the next three to four years because of world excess production capacity and the lack of robust economic growth areas around the world outside of the United States.

When asked what regulators could learn from the recent events, Thompson urged FCA to remain diligent in its oversight of the FCS's lending practices. He said it's very important that lenders make sound loans to agricultural cooperatives and enterprises doing business in today's world economy.

National Ag Credit Committee Meeting Highlights Trends, Outlook

The National Agricultural Credit Committee held its semiannual meeting March 15 at the Library of Congress in Washington, D.C. The Committee is an information exchange group consisting of agricultural lenders, their trade organizations, regulators, and Federal government personnel dealing with agricultural lending. FCA representatives attended the meeting and provided the following highlights.

- Neil Conklin, representing the Farm Credit Council, noted that nonperforming assets in the Farm Credit System had increased to 2.1 percent, up from 1.4 percent at year-end 1997. However, he pointed out this number had been as high as 10 percent in the 1980s. Conklin reviewed the results of the Council's semiannual agricultural condition survey, as of December 1998. Survey results showed that 72 percent of FCS associations expect farm financial stress to increase, compared with only 37 percent in the December 1997 survey. However, the percentage expecting financial stress to increase did not change from the survey conducted last June. More associations are reporting increases in loan restructurings, 30 percent versus 12 percent a year ago. The Northeast and Southeast are the only areas reporting better loan performance as compared with a year earlier.
- Commercial bank representatives noted that 30 percent of the banks surveyed recently were willing to make Farm Service Agency guaranteed loans under $25,000. The bankers said this is a good sign that commercial banks are interested in making loans to young, beginning, and small farmers. They noted there are numerous cases of farmers making long-term loan payments with short-term debt. It was mentioned that credit card debt may have limited value as an early warning sign of trouble because home equity loans are being used as a substitute to meet borrowing needs. Also, many banks are securitizing credit card debt.

The *FCA Newsline* is a publication of the Farm Credit Administration. Suggestions, comments or questions should be sent to: Editor; Office of Congressional and Public Affairs; Farm Credit Administration; 1501 Farm Credit Drive; McLean, VA 22102-5090; Phone: 703-883-4056; Fax: 703-790-3260; E-mail: info-line@fca.gov; Web site http://www.fca.gov.
Chairman and CEO, Marsha Pyle Martin; Board Members, Ann Jorgensen and Michael M. Reyna.
The Farm Credit Administration is the Federal agency responsible for the regulation and examination of the Farm Credit System, a nationwide network of cooperatively owned agricultural lending institutions and their service organizations.

- Tom Clark of the Federal Agricultural Mortgage Corporation (Farmer Mac) noted that 1998 had been a good year with an increased number of participants, higher loan volume (loan purchases were up 84 percent), and five new products. He noted delinquencies are up slightly to 1.31 percent as of December 31, 1998, due to loan aging as well as the agricultural economy. Farmer Mac now has 300 approved sellers.
- Bruce Morrison of the Federal Housing Finance Board said he wants community banks to gain better access to the capital markets. He believes Government-sponsored enterprises should be subject to competition, whether the FCS or Fannie Mae and Freddie Mac.
- Representatives of USDA's Economic Research Service distributed the annual "lender issue" of the February 1999 edition of *Agricultural Income and Finance–Situation and Outlook Report* at the meeting. It contains the latest market share statistics. Based on preliminary numbers for 1998, USDA concludes that farm debt outstanding increased by 3.0 percent for the year to $170.4 billion. This is the highest level since 1985. The largest gainers were the commercial banks, which increased about 4.4 percent versus 3.8 percent for the FCS. The System's market share has increased each of the past 4 years rising to an estimated 25.8 percent from a low of 24.4 percent at the end of 1994. Commercial bank market share has increased to 41 percent. During 1998, commercial bank market share rose by 0.5 percent versus only 0.2 percent for the System. The USDA report predicts that farm debt will decline in 1999 by 0.5 to 1 percent, the first decline in seven years. USDA also predicts that in 1999 farm debt at commercial banks will hold steady while farm debt held by FCS institutions will decline by 2.2 percent.
- Representatives of USDA's Farm Service Agency said loan funds for FY 1999 are nearly exhausted. However, there is a supplemental appropriations request to Congress for about $500 million more in guaranteed loan-making authority for FY 1999.
- Jack Brown of Equitable Insurance represented the six major insurance company lenders to agriculture. He noted that 1998 was the best year ever for agricultural lending by insurance companies with $2.78 billion in agricultural loans and $800 million in agricultural commitments. Delinquency rates were considered good at 0.5 percent of all loans. They expect financial stress to increase and the quality of their portfolios to decline.
- Barry Finchbaugh, the chairman of the Commission on 21st Century Agriculture, provided a report on the Commission's activities. The Commission was established by the 1996 Farm Bill to provide recommendations to Congress for farm policy after the 1996 Farm Bill expires. The Commission is currently considering seven long-term policy options: continuing "Freedom to Farm;" recoupling payments to price and production; marketing loan deficiency payments; increasing loan rates; making countercyclical payments—payments up when income is down; providing revenue insurance; and reverting back to the 1949 Act. The chairman noted that one problem with the 1996 Farm Bill was that the promise for a free trade policy was not kept and that the U.S. still does not have fast-track authority.

In Brief . . .

Comptroller of the Currency John D. Hawke Jr. said Congress needs to address the competitive inequity small banks face in the tax treatment of credit unions. He made these remarks during the recent convention in San Francisco of the newly renamed Independent Community Bankers Association (ICBA), formerly the Independent Bankers Association of America. Hawke said the environment in which banks and other financial service providers operate is fiercely competitive, yet credit unions, which act a lot like banks, don't pay taxes on their earnings. The Credit Union Membership Access Act of 1998, enacted last summer, mandated a Treasury Department study on whether credit unions enjoy an unfair advantage because of their tax-exempt status. The study is due in August.

Federal Reserve Board Chairman Alan Greenspan said banks active in agricultural lending appear to be maintaining their profitability, despite difficulties in the farm sector. Speaking at the ICBA convention March 16 on agriculture and the stresses the sector faces, Greenspan also said the Farm Credit System appears to be in better shape that it was in the 1980s.