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Keep the 'Farm' in Farm Credit: FCS Needs Reform

As every farmer in Indiana knows, the business of farming requires access to steady credit. Many farmers also know that every five years, Congress considers legislation called the "Farm Bill," which reauthorizes federal agricultural programs. What many farmers don't know, however, is that local banks in rural communities do more than simply provide steady lines of credit for their customers; they also advocate for policies that set their customers up for success. That includes advocating for preserving programs such as the Farm Service Agency's Guaranteed Farm Loans Program or its Emergency Farm Loans Program.

Programs like these are at stake in this year's Farm Bill. Members of Congress are still hashing out the details, with hopes of passing the bill before year-end. Time is running out, but the Indiana Bankers Association is confident that lawmakers will maintain the programs which help rural community farm banks serve farmers, ranchers and producers by providing the credit they need.

The Farm Bill primarily makes changes to federal programs, but it also affects other agricultural credit providers, such as the Farm Credit System (FCS). Unlike rural community farm banks, which operate locally, the FCS is a national government-sponsored enterprise that extends loans across the country. As of June 30, the FCS held \$333 billion in assets. If it were regulated like a bank, it would be the seventh largest in the country.

The biggest difference between FCS institutions and local, taxpaying banks is that FCS institutions are required by law to make certain kinds of loans and prohibited from making others. FCS institutions must provide loans to "young, beginning and small farmers," and they may not make loans for purposes other than farming, ranching and producing, or otherwise sustaining agriculture.

Unfortunately, in recent years Farm Credit has been ignoring these mandates. The number of loans extended by FCS banks to young, beginning and small farmers has dropped substantially. Meanwhile, FCS institutions have extended loans far outside of their purpose, such as loans to Rayonier Inc. to bail out a foreign company in New Zealand, to Verizon to purchase a stake from the European Vodafone, and to CyrusOne to build a "server farm." Beyond these ridiculous transgressions, Farm Credit overreaches its bounds by taking deposits or extending loans for non-agricultural purposes – for vacation homes or tuition payments, for example.

This inappropriate, unlawful activity, which often flies under the radar, hurts farmers in need of credit. There is good news, though, in that both the U.S. Senate and the House of Representatives versions of this year's Farm Bill demonstrate that members of Congress have been watching, and they're not happy with the strayed mission of the FCS.

The House version of the bill includes provisions that empower the Farm Credit Administration, which regulates the FCS, by expanding the administration's enforcement authority. The Senate version goes even further by setting up a legal framework that allows Farm Credit's insurance corporation to assume control of the system – or any of its constituent institutions – if it fails again, as it did in 1987.

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Most importantly, the Senate version of the Farm Bill requires Farm Credit to lend to socially disadvantaged farmers in addition to young, beginning and small farmers. That's an important step forward, and it strongly suggests that members of Congress want the FCS to return to its true mission: serving America's farmers, ranchers and producers by maintaining their access to reliable credit.

Recognizing that Farm Credit has expanded beyond its mission, Congress clearly is prepared to equip the Farm Credit Administration with the tools it needs to make sure the FCS stays on track. Congress is also committed to helping rural community farm banks serve their customers, including young, beginning and small farmers.

While there is still work to be done, the Indiana banking community thanks members of the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry for their efforts in reining in the Farm Credit System. Their efforts demonstrate commitment to helping America's rural community farm banks help America's farmers, ranchers and producers.

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