

Bert Ely's FARM CREDIT WATCH®

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

©2012 Bert Ely

To contact Bert Ely: Email: bert@ely-co.com; Fax: 703-836-1403; Phone: 703-836-4101
Mail: P.O. Box 320700, Alexandria, Virginia 22320

January 2012 (No. 166)

FCS's Washington-based lobbying arm taps into U.S. Treasury

The Farm Credit Council (FCC), the FCS's Washington, D.C.-based lobbying arm, has just received a \$675,109 grant from the USDA "to improve the effectiveness of educational material for those who provide training to beginning farmers" with a "primary focus" on the "components of a successful financial skills education." It is not enough of an outrage that the FCS pays hardly any federal or state income tax, as I reported in last month's FCW, but now the FCS, through the FCC, is tapping taxpayers to reclaim a portion of the pittance the FCS pays in taxes. This grant to the FCC was included in \$18 million of USDA grants to organizations providing "training and assistance to beginning farmers and ranchers."

The key question: What is the FCS up to? We know that despite its lip-service to serving young, beginning, and small farmers, the FCS is primarily focused on financing large farming and ranching operations. Given this focus, the FCS needs political friends outside traditional agri-business. Where to find these friends: among interest groups who promote small-scale farming and shrinking the distance between food production and consumption. Even though the FCS does not lend much money to small-scale farmers, by aligning with such groups, the FCS is building alliances with potential political allies in advance of congressional reauthorization of the Farm Bill. Such alliances could help to protect the FCS from being hurt by the Farm Bill and possibly even help the FCS. With this \$675,000 in taxpayer funds, the FCS has the opportunity to make many new friends.

Shouldn't the FCS pay a guarantee fee to taxpayers, too?

Just before the end of the year, Congress levied a 10-basis point guarantee fee on all new mortgages guaranteed by Fannie Mae and Freddie Mac, with the fee going directly into the U.S. Treasury. The new fee partially pays for the two-month extension of the payroll tax cut first enacted last year. Although not advertised as such, the new fee, for the first time, compensates taxpayers for the risk those GSEs pose to taxpayers, the same type of taxpayer risk the FCS poses. Congress should consider levying a comparable guarantee fee on debt issued by the FCS. Based on the amount of FCS debt outstanding as of September 30, 2011 (\$183.4 billion), this fee

would pump almost \$200 million annually into the U.S. Treasury, partially compensating taxpayers for the risks the FCS poses to them, while also partially compensating the Treasury for the taxes FCS does not pay.

CoBank completes its acquisition of U.S. AgBank

On January 1, CoBank completed its acquisition of U.S. AgBank, another of what were five FCS banks who fund FCS associations. Although officially called a merger, Denver-based CoBank clearly acquired Wichita-based U.S. AgBank. Based on September 30, 2011 data, the new CoBank had total assets of \$86.7 billion, 43% of all FCS bank assets. The second largest bank, St. Paul-based AgriBank, had total assets of \$71.8 billion on September 30. The other two FCS banks are much smaller – Columbia, South Carolina-based AgFirst (\$30.3 billion in assets) and Austin-based Farm Credit Bank of Texas (\$13.9 billion in assets). One can reasonably wonder when the two smaller banks will merge or be gobbled up by the two bigger banks.

American AgCredit becomes even more disjointed

The other FCS merger effective January 1 was American AgCredit's acquisition of FCS of the Mountain Plains. Several 2009 issues of the FCW expressed concern about a very disjointed merger of two FCS associations – Santa Rosa, California-based American AgCredit and Wichita, Kansas-based Farm Credit of the Heartland. The distance from American AgCredit's headquarters to the Heartland territory was about 1,300 miles. Mountain Plains, which served northern and western Colorado and the northwest corner of New Mexico, sits about halfway between the other two American AgCredit territories, but with big gaps in between – Utah to the west of the Mountain Plains territory and eastern Colorado and western Kansas to the east of Mountain Plains.

Although this merger moves American AgCredit from eighth to sixth in size among the FCS associations, with about \$5.6 billion in assets as of September 30, 2011, the five larger associations have essentially contiguous territories. For example, the largest association, Louisville-based FCS of Mid-America, serves all of Indiana and Tennessee and almost all of Ohio and Kentucky. The second-largest association, Omaha-based FCS of America serves all of Iowa, Nebraska, South Dakota, and Wyoming, but nothing else. Only the fourth-largest association, Farm Credit West, is somewhat disjointed, serving two different portions of California plus southern Nevada.

The obvious question at this point: How can a board of directors and management team properly run an agricultural lending business spread across such widely divergent market areas – portions of northern California, southern California, Nevada, the mountain plains of western Colorado, and western Kansas? More specifically,

how much understanding or knowledge can an American AgCredit director farming in western Kansas have about farming conditions in Mesa County, Colorado, or about a grape-growing and winery business in Sonoma County, California? Such geographical disparity and lack of territorial contiguousness is fraught with danger, for both American AgCredit and for the entire FCS should other disjointed FCS associations emerge through mergers and acquisitions. It will be interesting to see if the Farm Credit Administration, the FCS's regulator, permits this type of territorial fragmentation to grow within the FCS.

Report FCS lending abuses to: 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. Please provide as much detail as possible about any loan which violates the spirit, if not the law, governing FCS lending.

If your bank belongs to the ABA, you can enjoy a FREE email subscription to FCW or you can read it monthly on-line, at www.aba.com. To receive FCW by e-mail or to manage your subscription, please visit [ABA E-Mail Bulletins](#) and check or uncheck the appropriate boxes. For other inquiries, please contact [Barbara McCoy](#) at 1-800-BANKERS.