THE FARM CREDIT SYSTEM

The Farm Credit System is a nationwide network of borrower-owned lending institutions and specialized service organizations. Farm Credit provides more than $191 billion in loans, leases, and related services to farmers, ranchers, rural homeowners, aquatic producers, timber harvesters, agribusinesses, and agricultural and rural utility cooperatives.

HISTORY

The impetus of the Farm Credit System began when President Theodore Roosevelt in 1908 appointed a Country Life Commission to address the problems facing a predominantly rural population. The commission's report documented a lack of adequate agricultural credit where a farmer could readily secure loans on fair terms. The report led to various presidential and congressional studies which included extensive analysis of other nations' rural credit systems.

The credit delivery method established by the 1916 Federal Farm Loan Act was based largely on Germany's "Landschafts" which had operated since 1769 and appeared to be the most successful of the various European cooperative ag-credit systems.

During the pivotal congressional debate over an American agricultural credit system, nearly 100 different bills were introduced, which focused on three major approaches:

- Small, independent land banks, with federal charters but private capital. Proponents of this concept favored the non-government funding, but critics feared its built-in motive for high profits would not assure low rates to farmers.
- Twelve federal land banks owned by their farmer-borrowers, partly capitalized by the government and financed through the private purchase of tax-exempt bonds. Advocates maintained this cooperative structure would guarantee low rates, but critics disliked the government sponsorship and expense involved.
- Direct government loans to farmers, favored by the nation's farm organizations but opposed by most politicians.

Lawmakers chose a cooperative credit structure based on 12 Federal Land Banks (FLBs), using $125 million in government seed money but financed by private capital from investors.

Creation of the Farm Credit System coincided with World War I, a very prosperous time for American farmers with the demand for food in Europe. But prices collapsed after the war and among the resulting economic problems were severe shortages of short-term credit for farmers. Congress responded with the Agricultural Credits Act of 1923, adding 12 Federal Intermediate Credit Banks (FICBs) to the Farm Credit System. However, these were flawed by procedural and geographic problems and a long, complicated loan approval process.

Things went from bad to worse with the stock market crash of 1929, touching off the Great Depression, throwing thousands of farmers into foreclosure and virtually shutting down the System's ability to finance agriculture.

Three major agricultural laws followed that would lead to a sweeping reorganization of the Farm Credit System:

<u>Agricultural Marketing Act of 1929</u>: enacted to help stabilize farm prices and finance the development of agricultural cooperatives (which had been authorized by the Capper-Volstead Act of 1922).

<u>Emergency Farm Mortgage Act</u>: passed by Congress in 1933, the act recapitalized the land banks with $189 million and cut interest rates to deal with the Depression.

Farm Credit Act: passed by Congress in 1933, it revamped the FICBs and established a new production credit system for farmers and ranchers through local Production Credit Associations. The Act also created 13 Banks for Cooperatives.

President Franklin Roosevelt also issued an executive order in 1933 consolidating the supervision of all the federal agricultural credit agencies under the new Farm Credit Administration.

These various cooperatively owned financial entities, with the FCA as their regulator, formed the basis of the Farm Credit System as it exists today.

FARM CREDIT ACT OF 1971

With its government capital paid off, a National Services Commission on Agricultural Credit was formed in 1969 to consider where the Farm Credit System should head in the future. Its recommendations formed the basis for the Farm Credit Act of 1971, the most sweeping update of the System's charter since 1933. The 1971 act, along with amendments added in 1980, significantly expanded the range of services Farm Credit institutions could offer. These services included rural home mortgages, leasing services, and international and rural utility lending. It also expanded certain authorities of local associations and led to a major reorganization of the Farm Credit Administration.

FINANCIAL STRESS IN THE 1980S

As American agriculture plummeted into recession in the early and mid-1980s, Farm Credit predictably suffered severe financial stress. During a three-year period from 1985-1987, Congress passed several laws to deal with recessionary economic and agricultural conditions.

After this devastating period of rising inflation and collapsing farmland values, the legislation of the mid-80s made several major revisions to the structure and operations of the Farm Credit System and provided financial assistance in the form of a fully repayable, privately financed line of credit which was guaranteed by the federal government.

As a result of the Congress' efforts:

- FCA became a fully independent arm's-length regulator;
- A limited and temporary government-guaranteed line of privately financed assistance was provided to stressed System institutions;
- Risk-based capital standards were mandated, to be determined by FCA;
- The Farm Credit System Insurance Fund was created, financed by annual contributions from System banks; and
- The Federal Farm Credit Banks Funding Corp., which manages the sale of Farm Credit System wide debt securities, was formally established by statute as a System entity.

In the early 1980s, the Farm Credit System was comprised of 37 banks and more than 1,000 local lending associations. Today, there are only four Farm Credit System banks and 78 local lending associations. As the 1980s drew to a close, and agricultural producers began their recovery from the recession, Farm Credit began a return to financial health, a trend that continued and strengthened into the 1990s.

RECENT YEARS

In 1990-1991, Congress asked Farm Credit to play a greater role in financing agricultural marketing and processing operations, as well as water and sewer loans in rural communities.

In 1992, Farm Credit petitioned Congress to enact legislation allowing Farm Credit to repay in advance, the financial assistance provided in 1987. As a result, the Congress enacted the FCS Safety and Soundness Act. The 1992 law clarified the Farm Credit System's obligation and made provision for full repayment of all the assistance borrowed, including interest. These developments ensured the System would repay all its financial assistance without any cost to the government.

That same year, all System banks met or exceeded the new, seven percent risk-weighted permanent capital standard mandated by FCA, an achievement that came nearly a year ahead of schedule.

The System continued to show strong profits throughout the early 1990s. As a result, the last of the four Farm Credit Banks that received financial assistance due to the 1980s recession redeemed its assistance, almost 10 years before the 15-year assistance bonds were due.

The 1990s also saw a continued trend of consolidation in Farm Credit, as the first Agricultural Credit Bank was formed by the merger of a Farm Credit Bank and two Banks for Cooperatives.

Today, through 78 local Farm Credit associations and four Farm Credit banks, the Farm Credit System provides more than $191 billion in credit and related services to farmers, ranchers, rural home owners, aquatic producers, timber harvesters, agribusinesses, and agricultural and rural utility cooperatives.

The early 2000s saw examination of the System’s programs for supporting young, beginning and small farmers and ranchers. Through this effort, the System’s commitment to YBS is stronger than ever and highly successful.

The 2007 Census of Agriculture showed that about 93 percent of all farms are small and also demonstrated that more than half of all small farms had no farm debt. Farm Credit lenders reported that slightly more than 60 percent of the total numbers of loans outstanding in association portfolios were held by small farmers.

Taking into account the fact that small farms are less likely to carry debt than larger farms, this figure indicates the strong commitment by the Farm Credit System to serving the credit needs of small producers.

Nearing the 100th anniversary (2016), the Farm Credit System has: assets in excess of $246 billion; nearly 500,000 member-borrowers; more than 12,000 employees; coverage in every county in all 50 states plus Washington DC and Puerto Rico.