The Farm Credit System

The cooperative Farm Credit System currently supplies about 30% of the credit used by farmers and 60% of that required by farmer cooperatives. In 1960 the system had $4.4 billion in outstanding loans. Today it has about $64 billion.

By Donald E. Wilkinson

CRITICS were convinced that farmers could not run their own credit business back in 1916 when the Federal Land Banks (FLBs) were chartered by the federal government. They were sure the government would lose its $9 million investment.

But the story had a happy ending. The government didn't lose a cent. In fact, the cooperative Farm Credit System is often described as one of the most successful examples of government partnership with a segment of its people — in this case, farmers — to obtain a needed service.

Today, the cooperative Farm Credit System supplies about 30% of the credit used by farmers and a little more than 60% of the financing required each year by farmer cooperatives. This amounts to about $64 billion loaned to farmers, ranchers and aquatic producers and their cooperatives.

Over its 64-year history, the Farm Credit System has grown from a government-capitalized institution into the completely farmer- and user-owned cooperative financing system that it is today, with net worth of more than $7 billion, of which $4.3 billion has been invested by borrowers.

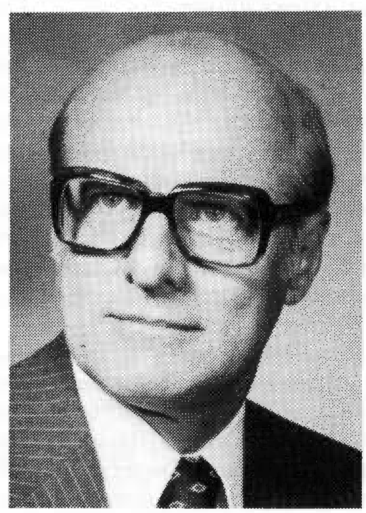
The triumvirate that forms the Farm Credit System today — the 12 FLB s and the 500 Federal Land Bank Associations (FLBAs), the 12 Federal Intermediate Credit Banks (FICBs) and the 424 Production Credit Associations (PCAs), and the 13 Banks for Cooperatives (BCs) (the thirteenth is the central BC in Denver) — was not envisioned by the framers of the Federal Farm Loan Act of 1916, which established the FLBs. The various parts of the Farm Credit System came into being at different times in history to fill different needs.

Federal Land Banks

The 20 to 30 years just before the establishment of the FLBs and the FLBAs (then called National Farm Loan Assocaitions) were characterized by agrarian distress. In 1890, the director of the census declared the frontier closed, which meant farmers no longer had an out when times got tough. No longer could they pack up and move on to new territory. Now they had to stick it out.

Farmers also faced price declines caused by overproduction for the world markets. Yet the prices of things farmers had to buy did not decline. By the close of the century nearly a third of the nation's farms were heavily mortgaged.

Available credit was geared to the needs of industry, not to agriculture. Interest rates ranged from 7% to 10%



Donald E. Wilkinson, as governor of the Farm Credit Administration, heads the independent federal agency responsible for supervising the nationwide farmer-owned Farm Credit System. He became governor in 1977 after serving as administrator of USDA's Agricultural Marketing Service. Prior to that he served as secretary of the Wisconsin Department of Agriculture for six years. He earned degrees in agricultural economics and agricultural education from the University of Wisconsin. He has served as president of both the National Assn. of State Departments of Agriculture and the National Assn. of Marketing Officials. He has served on several federal ag advisory committees.

and were nearly doubled by special charges and fees. Foreclosures rose alarmingly as farmers were unable to make payments to absentee mortgage holders. A credit system for agriculture was badly needed.

Congress recognized this need and, after considerable study, approved the Farm Loan Act of 1916, which filled the need for a permanent and dependable source of long-term borrowed capital at reasonable rates and on terms suited to agriculture.

Initially the FLBs were capitalized by the federal government, but the 1916 Act provided a means by which they would ultimately be owned by their borrowers through the FLBAs. By 1947 all federal "seed money" was paid back and the Federal Land Banks became completely owned by their farmer borrowers.

Production credit beginnings

Although there was concern in Congress over the need for short- and intermediate-term credit, it was six years before a serious solution was tackled. The financial crisis of 1920-21, followed by the agricultural depression that continued through the decade, emphasized the difficulty farmers had in obtaining short-term operating credit.

Commercial banks in rural areas, dependent on deposits for their lending funds, made loans for 30 to 90 days. Crops and livestock, however, took longer to produce. Farmers expected to renew their loans. But rural commercial banks, often short of funds, had the legal right to demand payment, and often did at times when farmers did not have the money.

In an effort to provide agriculture with more credit — particularly of a short- and intermediate-term nature — Congress passed the Agricultural Credit Act of 1923. The Act provided for the establishment and capitalization of 12 FICBs.

It was expected that the FICBs would provide a new flow of funds from the money markets to rural commercial banks by discounting the notes of agricultural producers given to various financing institutions, thereby helping to fill the existing credit gap in which farmers were trapped. However, financial institutions did not use the services of the FICBs to the extent expected. The flow of funds was not more than a trickle, which left the credit needs of farmers unfilled.

The situation continued to deteriorate through the 1920s as a depression gripped the agricultural sector. Then in the early 1930s the entire nation faced the Great Depression. By the fall of 1932, farmers were in dire circumstances. Hundreds of thousands of farmers were finding it impossible to produce enough net income to pay their debts. Foreclosure sales were common occurrences. Banks were closing all over the country — especially in rural areas — which compounded the problem. All sources of credit had virtually dried up.

Agriculture will continue to require increasing amounts of credit. As the borrower's operations become more complex, the lender will be called upon to serve more as a financial advisor rather than simply a processor of loan applications.

Congress again acted, with passage of the Farm Credit Act of 1933. This act authorized the establishment of local PCAs, which could discount farmers' notes with the FICBs. In effect, the PCAs became the retail outlets for credit available at wholesale from the FICBs. The act also provided for the initial capitalization and staffing of these institutions and brought credit service closer to borrowers.

Like the FLBs, FICBs and the PCAs were initially capitalized by the federal government. Although not initially established to become borrower-owned like the FLBs, later changes in the laws governing these institutions paved the way for them to repay the government's investment. Complete ownership of the FICBs by the PCAs was achieved in 1968.

Serving farmer cooperatives

The Farm Act of 1933 also established and initially capitalized the BCs. The law was intended to help farmers gain greater control of their own economic destinies by providing dependable credit for their marketing, supply and service cooperatives.

Although the Agricultural Credit Act of 1923 did provide for cooperative financing through the FICBs, for whatever reasons, it did not work to the extent expected. A few cooperatives were highly successful pioneers. However, generally the growth and development of early cooperatives were severely handicapped by the cooperatives not being able to borrow sufficient amounts of money.

Local banks were reluctant to finance new ventures owned by farmers who lacked experience in running businesses beyond their property lines. Even when cooperatives were relatively successful or had potential for success, the cooperatives' local competitors were often on the local banks' boards of directors. Local bankers usually could see cooperatives' weaknesses, but often did not understand the organizational differences between cooperatives and other businesses.

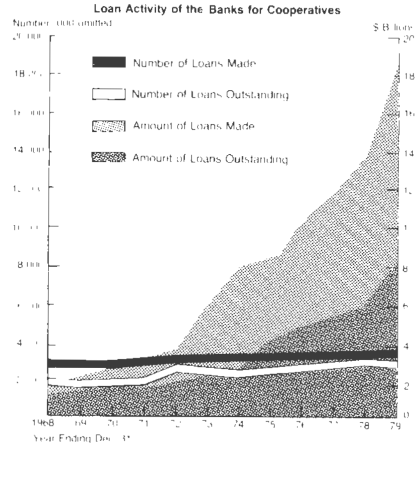
As a result, credit for agricultural cooperatives before 1933 was virtually nonexistent. With the 1933 Act, however, credit needs of farmers' marketing, supply and business service cooperatives were recognized.

Like the PCAs and the FICBs, the BCs became completely owned by their borrowers in 1968.

The Farm Credit Administration

Although now completely borrower-owned, the banks and associations of the cooperative Farm Credit System operate under federal law and are chartered by the federal government. As a result, they are supervised,

Loan Activity of the Banks for Cooperatives



according to the law and in the public interest, by the Farm Credit Administration, an independent agency of the executive branch of the government.

The Farm Credit Administration was established by an executive order of the President in 1933. At that time, all Farm Credit institutions were placed under its supervision. It remained an independent agency until 1939 when it was made part of the U.S. Department of Agriculture. Its independent status was returned by the Farm Credit Act of 1953. That act also provided for increased participation by borrowers in the control of the system by establishing a Federal Farm Credit Board as its top policy-making body.

Although the Farm Credit Administration is an official agency of the government, its expenses are paid by the banks and associations of the system. Thus, not only does the system operate at no expense to the taxpayer, but so does its supervisory agency.

Gathering funds

The Farm Credit System has been particularly successful in its ability to gather funds from the national money markets and distribute that money to farmers across the country through its financial pipeline. In 1979, the Farm Credit Banks issued a total of $75.6 billion in securities. Only the U.S. Treasury exceeds the Farm Credit System in amount of money raised through the money markets.

During its 64-year history, the Farm Credit Banks have never failed to pay principal and interest on their obligations when due. As a result, Farm Credit securities enjoy a very high rating, falling just below the rating given to U.S. Treasury bonds. To further protect the investor, the Farm Credit Act of 1971 requires collateral — promissory notes, other obligations representing loans, other readily marketable securities approved by FCA, or cash — to be held in an amount at least equal to securities outstanding.

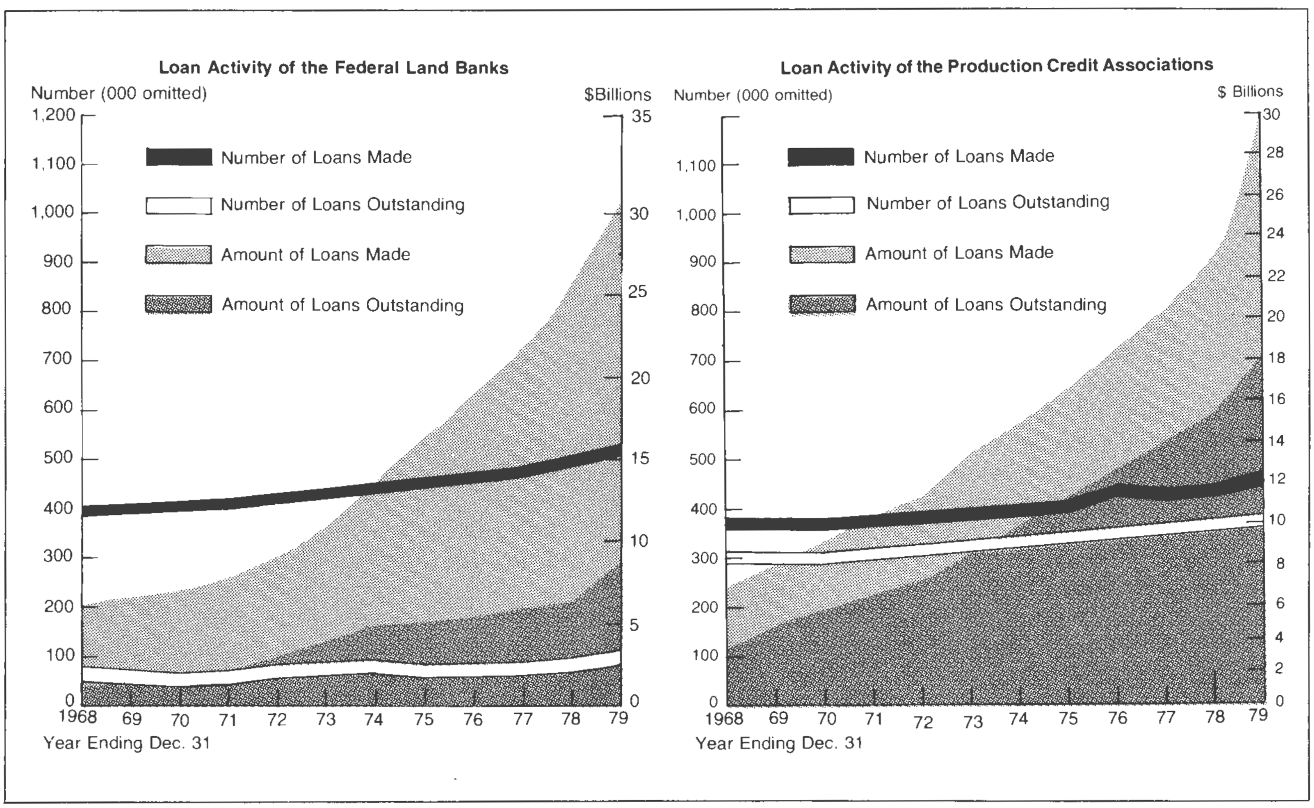
Raising the capital for agriculture begins in the heart of the New York financial district at the Fiscal Agency. Maintained by the 37 Farm Credit Banks, the Fiscal Agency issues, markets and handles Farm Credit securities through a selling group of approximately 170 dealers.

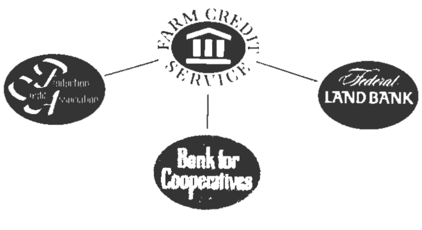
The Farm Credit Banks raise their funds by issuing two types of securities — the Federal Farm Credit Banks Consolidated Systemwide bonds are issued in book-entry form 16 times a year on the first of each month and on the 20th of January, April, July, and October.

Bonds with six- and nine-month maturities are issued on the first of each month and sold only in multiples of $5,000. Longer-term bonds are issued at least quarterly. Bonds with maturities of 13 months or longer are available in multiples of $1,000. With book-entry securities, an investor receives a custody receipt from his bank or brokerage firm instead of the usual certificate. Investors are assigned an account through the Federal Reserve Banks' computerized records of book-entry securities in the names of member banks. Member banks, in turn, issue a custody receipt to the investor which serves as proof of ownership.

Systemwide notes, on the other hand, are designed to provide flexibility in obtaining funds when unexpected demands occur by allowing financing between bond sales. These discount notes are issued daily with maturities of 5 to 270 days and are sold only in certificate form in $50,000, $100,000, $500,000, $1 million and $5 million amounts.

When a new issue of Systemwide bonds is offered, the Fiscal Agency places notices in financial publications and major newspapers such as the *Wall Street Journal, The New York Times, American Banker* and *The Bond Buyer*. No public announcement is





made of the daily sales of Systemwide notes.

Anyone can purchase Farm Credit securities and the list of investors reflects a variety of groups who have benefited by providing capital to the nation's food and fiber producers.

Commercial banks make up the largest single group of investors in Farm Credit securities, followed by state and local governments, savings and loan associations, credit unions, corporations and insurance companies. To a lesser extent mutual funds, savings banks, pension funds and individuals also invest in Farm Credit securities. Foreign investors, which are most large European banks, also hold a small percentage of securities outstanding.

One attractive feature of Farm Credit securities is that income from interest is exempt from state, municipal and local taxes. The interest income, however, is subject to federal income taxes.

Interest rates on new security issues are set at the time they are sold and are consistent with current rates. This process of pricing Farm Credit bonds begins a week before the actual sale. The Fiscal Agency's financial experts contact the various dealers handling Farm Credit securities to get a "feel" for the market and customers' interests. This market survey also includes an analysis of Federal Reserve buying and selling activity.

At the same time the 37 banks indicate their interest in participating in the upcoming bond sale. Once the Fiscal Agency completes its market survey, price recommendations are formalized and submitted to a nine-member finance subcommittee comprised of three presidents from each banking system. After the subcommittee approves the interest rates for the issue, final approval must come from the governor of the Farm Credit Administration, who acts in the public interest.

Getting funds to borrowers

Once the Fiscal Agency collects the capital for agriculture, it's the job of the banks and associations to distribute those funds by making sound loans to farmers, ranchers, rural residents, aquatic producers and their cooperatives at the lowest possible cost.

Before making a loan, however, the banks and associations look at five credit factors in determining what constitutes a sound loan that will benefit both the borrower and the lender.

(1) The most important credit factor is the individual or, as in the case of a cooperative, the management. Does the potential borrower show responsible and cooperative management? This aspect is so important that it can affect the weight placed on the other credit factors.

(2) The second criterion considered is financial position and progress. Will the potential borrower be able to meet obligations, continue business operations and protect the lender from undue risk and otherwise show financial responsibility? Total assets controlled, equity owned, contingent liabilities, and history of earnings are examined because these are measures of financial responsibility.

One definite prediction that can be made is that it will take the best efforts of all agricultural lenders working together to meet the credit needs of farmers and their cooperatives in the future.

(3) Will the potential borrower be able to pay back the loan? To determine this, an analysis of cash flow history and projection is made. Generally, lenders look for a cash flow that will cover all obligations and leave enough funds to cover contingencies.

(4) The lender has direct control over the amount of the loan, use of funds and loan terms. Therefore, one of the key questions raised when evaluating a loan application is whether the loan will be constructive in amount and purpose and whether repayment terms will be practical for both the borrower and the lender. Loan conditions such as loan agreements, personal liability, additional collateral, insurance and so forth are required as conditions warrant.

(5) Does the borrower have adequate collateral? Requirements of the law and the strengths and weaknesses of all credit factors dictate what the potential borrower's collateral needs will be. Basically, the collateral requirement and collateral taken must reasonably protect the lender, provide the necessary control of equity and repayment, and leave the borrower in a position to manage his business constructively.

The FLBs and FLBAs

The long-term lenders of the Farm Credit System are the 12 FLBs. Loans are made on farm and rural real estate through the 500 FLBAs, most of which have one or more branch offices.

Loans are made to farmers and ranchers for a variety of purposes, such as purchasing farms, farmland, machinery, equipment and livestock; refinancing existing mortgages and paying other debts; constructing and repairing buildings; and financing other farm and family needs. In addition, rural residents are eligible for loans for building, buying, remodeling, improving, refinancing or repairing a rural home.

Loan maturities range from 5 to 40 years and are secured by a first mortgage on the property taken as security or its equivalent. Most loans are made on variable-interst-rate plans. Under these plans, interest rates may be lowered or raised depending on the cost of money to the FLB.

The result is funds available at the lowest possible cost to all borrowers.

Although loans can be made in amounts of up to 85% of the appraised market value of the property, the average loan-to-appraisal ratio on new loans made during 1979 was about 61%.

When applying for a loan, an individual goes to the local Federal Land Bank Association serving the area in which the property is located. At the time the application is filed, information is given on the applicant's financial status, how the loan will be used and other items pertinent to the loan. Next the property offered as security is appraised by a representative of the association or bank and the credit worthiness of the applicant is checked.

Once the loan application is approved and accepted by the applicant, the title to the property is examined. If the title is acceptable, the loan is closed and the applicant becomes a member of the FLBA.

Loan terms, however, are flexible. The FLBA will work with borrowers to determine the best repayment plan. In addition, borrowers may repay any part or all of their loans at any time without penalty. This allows more rapid repayment when income levels are high.

When a farmer, grower, or rancher borrows through an FLBA, he or she purchases stock in the association in proportion to the amount of the loan. The proportion may range as high as 10%, but the average is around 5% of the loan. Other classes of borrowers are issued participation certificates instead of stock.

Funds raised through the stock and participation certificates help capitalize the association. The FLBA, in turn, then buys an equivalent amount of stock or participation certificates in the Land Bank. The stock and participation certificates are retired at par value when loans are repaid.

The Land Banks, after providing for reserves required by law and for net worth objectives, may distribute any net earnings among the associations in the form of dividends. Associations, in turn, may pass dividends on to their members.

The portion retained by the associations is used for expenses and to establish appropriate reserves to meet their endorsement liability on loans and maintain satisfactory net worth positions. Associations also defray expenses from loan service payments made to them by the FLBs.

In 1979, the FLBs passed a milestone when they held the largest share of outstanding farm real estate debt. As of Jan. 1, 1980 they held 35.5%.

During the past 20 years, the share of farm real estate debt held by individuals and others has declined. In addition, since 1965, life insurance companies have not yet regained the market share of farm real estate debt once held. Commercial banks and USDA's Farmers Home Administration have held a fairly stable market share during the past 15 years.

Why the change in market share of farm debt? There are several reasons. Traditionally, seller financing has been favored because of lower interest rates and tax advantages for the seller. In addition, seller financing is usually favored when interest rates are high, when credit conditions are tight and when real estate values are rising. The recent downtrend in seller financing is probably a reflection of the general economic conditions of farmers.

Production credit

The short- and intermediate-term farm lenders of the Farm Credit System are the 424 PCAs. The PCAs obtain their loan funds from the 12 FICBs, which may also participate with the PCAs in making loans. In addition, FICBs provide loan funds to about 125 other financing institutions serving agricultural producers. PCAs are primary lenders and may participate with commercial banks or with one another in making loans.

PCA borrowers include farmers, ranchers, rural homeowners, commercial fishermen and certain farm-related businesses. Most loans are made for production or operating purposes and mature within a year, though loans made for capital purposes may have terms up to seven years. Loans to commercial fishermen can be extended to 15 years.

Borrowers are required to purchase stock in the PCA amounting to at least 5% of their loans. This investment usually varies in proportion to the outstanding loan balance. PCAs and other financing institutions that receive loan funds from the FICBs invest in the banks through the purchase of capital stock or participation certificates.

When applying for a loan, an individual goes to the PCA serving the county in which the operation is located. The prospective borrower then discusses plans with the PCA manager or field representative and fills out a formal application.

The prospective borrower then outlines the operation and, working with the PCA, determines how much money is needed, works out a repayment plan and furnishes the PCA with a financial statement. The PCA representative then looks over the applicant's operation and together they determine the best course of action.

Regular PCA borrowers may not have to go through these initial steps each time. Many borrowers have established lines of credit with their PCA and enjoy over-the-counter service. These borrowers arrange for their credit ahead of time and draw money as they need it. No interest is charged on any part of a loan until the money is actually drawn. When any part of the loan is repaid, no further interest is charged on the portion repaid.

At the end of 1979, PCAs held 24.4% of the nonreal estate debt, which was slightly above the 1978 market share but still below the 1977 level. Commercial banks dominate the nonreal estate market by holding 40.7% of the debt. But the commercial banks' share of the market has decreased in recent years.

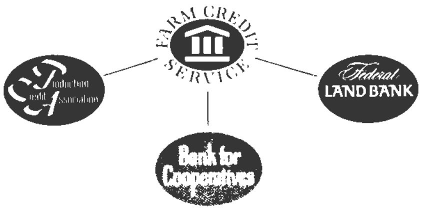
One factor affecting market share of both PCAs and commercial bankers has been the large increase in government funds flowing to agriculture. At the end of 1977, the Farmers Home Administration and the Small Business Administration held 6.1% of nonreal estate debt. This rose to 11.5% in 1978

FARM CREDIT SYSTEM
Agricultural Loans Outstanding ($000 deleted)

	Production Credit Associations (5-31-80)	Federal Land Banks (5-31-80)	Banks for Cooperatives (5-31-80)
Springfield	$ 517,920	$ 728,685	$ 290,856
Baltimore	595,434	1,436,004	195,244
Columbia	2,197,953	3,475,358	490,406
Louisville	3,228,427	3,601,870	996,189
New Orleans	901,412	1,727,201	774,761
St. Louis	1,601,475	3,797,739	1,004,500
St. Paul	2,964,426	4,136,319	1,872,105
Omaha	2,299,923	4,135,126	733,218
Wichita	1,487,394	3,431,301	648,388
Texas	929,196	1,670,647	332,196
Sacramento	1,834,769	2,591,131	664,571
Spokane	1,298,829	2,422,700	389,581
Total	$19,857,158	$33,154,081	$8,263,714*

*The Central Bank for Cooperatives, located in Denver, loaned $2,841,439 of that total through participations with the 12 district banks. The total does not include $128,301 of other participations that are included in the individual totals.

Source: Farm Credit Administration



and increased further to 15.9% in 1979.

As PCAs and commercial banks have generally increased their market shares of nonreal estate debt since 1965, the market share held by individuals and others has significantly declined. Merchants and dealers make up a large portion of this group. The interest charges on loans from merchants and dealers are generally higher than loans from other sources, which has reduced the effectivness of credit as a sales tool.

Credit for cooperatives

The 13 BCs are the leading source of credit for the nation's agricultural cooperatives. They provide nearly two-thirds of funds borrowed by cooperatives. During 1979, the BCs made loans totaling $19.0 billion to a total of 3,152 cooperatives. At the end of 1979, 3,478 cooperatives had loans outstanding totaling $8.4 billion.

The 12 district BCs make loans of all kinds to agricultural, aquatic and public utility cooperatives within their respective territories. The thirteenth bank — the Central Bank for Cooperatives — participates with the district banks on loans that exceed individual lending capacities. In addition, the banks may participate with one another or with commercial banks to provide for the credit needs of their borrowers.

To be eligible to borrow from a BC 80% of the voting control of the cooperative must be held by agricultural or aquatic producers or by federations of cooperatives in which the voting control is held. This may be reduced to 70% for cooperatives operating as public utilities. A cooperative must also do at least 50% of its business with its members. Business done with the U.S. government or services and supplies furnished by the cooperative as a public utility are exempted from this requirement. A cooperative must own at least one share of voting stock in a district BC to obtain a loan.

To obtain a loan from a BC, the cooperative contacts the bank serving the area in which it has its headquarters. The cooperative outlines its credit requirements for the bank. The request is considered by bank officers and, if approved, a loan agreement and other necessary legal papers are forwarded to the cooperative. The officers of the cooperative sign the papers and return them to the bank. Loan funds are then advanced as needed under the terms of the loan agreement. Requirements may vary slightly among the BCs, but these are generally the steps followed.

As with the FLBs and the PCAs, repayment plans can be adapted to the cooperative and its cash flow. Payment schedules may be variable, monthly, quarterly or annually. Seasonal loans are usually repayable within 12 to 18 months. Term loans are generally repaid in installments over a period of years with the length of term considered on a case-by-case basis.

The most important credit factor is the individual or, in the case of a cooperative, the management. This aspect is so important that it can affect the weight placed on the other credit factors.

Cooperative needs increase

During the 1970s, cooperative debt grew at a faster pace than over-all farm debt. Cooperatives had $6.1 billion in loans outstanding at the close of the 1976 fiscal year, compared to $2.8 billion at the close of the 1970 fiscal year. This represents a 14% annual rate of growth compared to the 10% annual growth rate in total farm debt over the period.

Inflation, facilities expansion and greater use of debt leverage are major reasons for increased use of debt by farmers. Cooperatives, just as farmers, have come to rely on borrowed capital to supplement internally generated funds. The BCs' market share of cooperative debt remained fairly constant during the 10-year period.

The largest BC borrowers are marketing cooperatives holding about 70% of the loans made. About 17% of the loans are made to farm supply cooperatives with the remainder made to farm business service and miscellaneous cooperatives.

Financially related services

Although providing agricultural credit and financial advice are the primary business of the Farm Credit System, the banks and associations also offer other services, often referred to as financially related services.

For example, most associations offer credit life insurance, giving borrowers the peace of mind that comes with knowing their loans will be repaid if something were to happen to them.

In areas where hail damage is a hazard, some associations make it possible for their members to buy hail insurance, thus protecting both the borrower and the association against loss.

Many PCAs offer electronic farm recordkeeping services, which provide members with accurate records and basic information helpful in making informed management plans and decisions.

Some of the BCs offer counseling services in such areas as budgeting, long-range planning, operating trend analysis, credit standards and auditing practices.

Other types of services offered by the banks and associations of the system include multiple peril insurance, estate planning, farm business counseling service, income tax service, appraisal service and equipment leasing. Not all financially related services are available in all associations.

Looking to the future

Predicting the future for agricultural credit needs is difficult when we live in a world where nothing is permanent but change. Nothing illustrates our changing environment more than looking back 20 years.

In 1960, the Farm Credit System had $4.4 billion in loans outstanding. Today, it has about $64 billion in loans outstanding. In 1960, total farm debt was $23 billion. Today, it's around $160 billion. In 1960, total farm real estate was valued at $130 billion. Today, its value is over $700 billion.

Preparing for the future — whatever it may bring — is recognized as an integral part of planning in the Farm Credit System. Recently, the Farm Credit Administration undertook a study to project what the economic environment of 1985 will hold for our system.

Barring unforeseen shocks from

abroad, such as an oil embargo or further decline in the dollar's value, or from our own government, such as a grain embargo or an erratic monetary policy, the economy in the 1980s should grow at a slightly faster rate than during the last five years and inflation should slacken somewhat.

The rate of inflation will fall from the high levels of 1979 because of increased productivity, smaller federal deficits, the 1980-81 recession, energy conservation, and a tighter monetary policy.

Interest rates should remain high through 1985 in comparison to the average levels of the 1970s, but will be lower than the 1979 and early 1980 levels. Interest rates will be more volatile than in past years because of the Federal Reserve's emphasis on bank reserves and money supply rather than interest rates.

By 1985 the Farm Credit System may double the size of net bond issues, which now exceed $55 billion, but its share of the capital markets should increase very little. If the Farm Credit System maintains its excellent credit standing as expected, it should be able to borrow whatever funds it needs.

Farm export growth will be a major factor in determining favorable farm incomes during the early 1980s. Domestic demand will not be large enough to support favorable farm incomes. While prospects for future export growth seem good, actual sales will depend on world production levels, our ability to compete with other exporting countries, the purchasing power of foreign customers, capacity of shipping and handling facilities and political events.

If a strong export demand develops, it will strain the present transportation and storage capacities. This, in turn, will have several implications for the Farm Credit System with increased demand for PCA lending for trucking, on-farm storage facilities and inventory financing for longer periods. Demand will increase for BC loans for storage facilities, railcar leasing and inventory financing for longer periods.

By the end of 1985, total farm assets and proprietors' equities are expected to be up sharply. Average annual growth for assets will be about 10%, a slowdown from the recent pace. At this growth rate, total assets, land values and properietors' equities will nearly double by 1985.

Farm debt is expected to grow from $161 billion in 1980 to $275 billion in 1985. Farmers' use of debt will increase slightly, relative to income. Although net farm incomes should rise in dollar terms due to export growth and inflation, real incomes will not again reach the 1979 level during the next five years.

Market shares of the farm debt will continue to shift during the 1980s. It is expected that the Farm Credit System's share of farm debt will gradually increase, but the level of increase will depend on several factors including funding costs, the difference between the system's variable rates and interest rates charged by other lenders, and the availability of funds from other lenders, including government.

Credit demand from cooperatives will also continue to be strong as cooperatives expand their role in exporting and integrate more fully. Credit demands of large cooperatives, in particular, will become more specialized and complex, challenging the future role of BCs as a leading lender.

The rise in farm and cooperative debt, plus the increase in market share of farm debt held by PCAs and FLBs, will almost double total system outstandings, reaching $109 billion by the end of 1985, compared to $59 billion at the end of 1979.

In addition to the expected loan demands from farmers and cooperatives, increases in loan demands are expected from special borrower groups. For example, because of continuing liquidity pressures at rural commercial banks, the share of FLB lending going to rural home borrowers is expected to increase during the next five years. For the same reason, lending through other financing institutions (OFIs) will also continue at a high level. Aquatic lending — the fastest growing program in the system — will continue to generate high borrower demand.

Proposed amendments

Another aspect of preparing for the future is recognizing when time is ripe for a change. A few years ago, the Farm Credit System took a look at itself and questioned whether it was effectively carrying out its mandate as stated in the Farm Credit Act of 1971. After considerable study and discussion, the decision was made to go to Congress with a legislative package — the Farm Credit Act Amendments bill of 1980 (H.R. 7548, the Jones/Madigan Bill, and S. 1465, the Talmadge Bill).

Proposed as an update of the Farm Credit Act of 1971, the 28 amendments now before Congress would help the system continue to keep pace with the credit needs of farmers, aquatic producers, rural residents and their cooperatives.

One of the key provisions of the proposed legislation would authorize the BCs to finance agricultural export transactions of U.S. farmer cooperatives. BCs would be permitted to make deposits in foreign banks, receive and hold credit balances from banks and borrowers, buy and sell bankers acceptances, buy time drafts payable by foreign buyers of farm products, take part in currency exchange and otherwise facilitate transactions of borrowing cooperatives.

Another provision would lower the farmer-member eligibility requirement for BC financing to 60% of voting members. District Farm Credit boards would also have authority to set the eligibility requirement higher than 60%.

Publications available

Detailed information on the Farm Credit System is available in several publications available from the Farm Credit Banks or from the Public Affairs Division, Farm Credit Administration, Washington, D.C. 20578.

The Cooperative Farm Credit System — Its Functions, Organization, and Development (Circular 36).

Federal Land Banks — How They Operate (Circular 35).

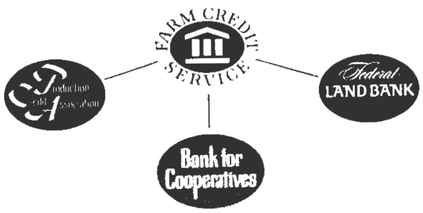
Production Credit Associations — How They Operate (Circular 37).

Banks for Cooperatives — How They Operate (Circular 40).

Farm Credit Facts — A Summary of Operations of the Farm Credit Banks and Associations (Circular 49).

An Investor's Guide to Farm Credit Securities.

Farm Credit Banks Report to Investors.



Farm Credit/continued

A third key provision of the proposed legislation would allow FLBs to make loans up to 100% of the appraised value of farm real estate when these loans are guaranteed by a federal agency such as FmHA or SBA or in some instances by state government agencies. This would expand financing to farmers with limited equity, especially young farmers. Another major element of the proposed legislation would broaden FLB and PCA financing to include processing and marketing activities directly related to the applicant's farm, ranch or aquatic operations.

Predicting the future for agricultural credit needs is difficult when we live in a world where nothing is permanent but change.

Other key provisions would expand Farm Credit System service to fishermen and increase cooperation between system institutions and commercial banks in meeting credit needs of farmers.

Critics of the Farm Credit Amendments of 1980 have questioned whether these modifications to the law would create unfair competition. But the question of competition — whether fair or unfair — lies in the eye of the beholder. Competition in itself is good. It raises standards of quality. Without competition there is no yardstick for measuring effectiveness or efficiency. With active competition among the various agricultural lenders the result is better financing and service to farmers and ranchers.

As studies have shown, agriculture will continue to require increasing amounts of credit. As the borrower's operations become more complex, the lender will be called upon to serve more as a financial advisor rather than simply a processor of loan applications. One definite prediction that can be made is that it will take the best efforts of all agricultural lenders working together to meet the credit needs of farmers and their cooperatives in the future.