

Approved February 11, 1986  
Date

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

The meeting was called to order by Representative Lloyd D. Polson at  
Chairperson

9:00 a.m. on January 30, 1986 in room 423-S of the Capitol.

All members were present except: Representatives Neufeld and Teagarden who were excused.

Committee staff present:

Raney Gilliland, Research Department  
Mary Jane Holt, Committee Secretary

Conferees appearing before the committee:

Ron Wilson, Vice-President of Legislative Services and Member Relations  
Farm Credit Services, Wichita  
Allan Jacks, Vice-President and Review, Farm Credit Services, Wichita

Mr. Wilson explained the Farm Credit System is a nationwide system of cooperatively owned banks and associations organized into twelve farm credit districts. Each district has a federal land bank, a federal intermediate credit bank and a bank for cooperatives. In addition to the district banks there is also a central bank for cooperatives in Denver, Colorado, and over 600 federal land bank associations and production credit associations nationwide. He said the ninth farm credit district, also known as the Wichita district, which is comprised of Kansas, Oklahoma, Colorado and New Mexico is implementing a restructuring plan to improve service to borrowers, pool capital and cut costs in an effort to deal with the farm income crisis. The farm credit banks of Wichita third quarter losses totaled \$106.5 million.

Mr. Wilson discussed the reorganization and the impact on Kansas farmers, Attachment I.

Mr. Wilson explained four overheads to the Committee: The Farm Credit Amendments Act of 1985; Additional Federal Backup; System Self-Help; and Stronger Independent Regulation, Attachment II.

In answer to questions from the Committee, Mr. Wilson stated one positive step Kansas could take would be to enact H.B. 2635 that is in the Pensions and Investments Committee. This bill would clarify that farm credit system securities could be used for the purpose of collateralizing excess state fund deposits in Kansas banks. He also stated they support interest rate reduction programs. He said they have a forbearance policy. He replied the Federal Land Bank did not get a federal government bail-out and there is no government money in the new legislation. The Federal Land Bank will work with the farmers to the extent of their resources. He further stated no favor is given to disinterested third parties. The large number of acquired properties need to be sold as they are not in the business of farming. Differential interest rates were discussed. Mr. Wilson said the new legislation states the Farm Credit System will not retain mineral rights on the sale of property acquired through foreclosure.

The Chairman expressed interest in hearing more about federal intermediate banks and P.C.As. He said another meeting will be scheduled in the future, if time allows.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS,  
room 423-S, Statehouse, at 9:00 a.m./~~p.m.~~ on January 30, 1986

Representative Buehler moved to approve the minutes of  
January 15, January 21, January 22 and January 23, 1986. Representative  
Freeman seconded the motion and the motion passed.

The Committee meeting adjourned at 10:00 a.m.

## GUEST REGISTER

DATE Jan. 30, 1986HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

<u>NAME</u>	<u>ORGANIZATION</u>	<u>ADDRESS</u>
Steve Montgomery	Kansas Legal Services, Inc	Topeka
Marsha Wilkening		Kinsley
Willis M. Claren		Kinsley
Dennis Wilkening		Kinsley
Charles E. Kusigantuk		Stafford
Marsha Fitzpatrick		Stafford
Ron Swenson	Menasha Co. Farmer	Centralia, Ks.
David Ernst	Kansas Farmer Magazine	Topeka
Chris Wilson	KGFDA	Hutchinson
Jon Wilson	Farm Credit Services	Wichita
Al Jost	Farm Credit Services	Wichita
Nancy Mantola	Kansas Co-op Council	Topeka
Mike Bean	Ks. LUSTK. ASSN.	TOPEKA
Kathy Peterson	CKFD	Topeka
Mary Harger	AAAM	Healy
Mervin Guper	AAAM	Healy
Emmett Koch		Centralia Ks
John Brange		Corning Ks
Clem Becker		Centralia
Joe Lieber	Ks. Co-op Council	Topeka
Howard White	KAWG	Hutchinson
Tom Jinnell	KGFDA	Hutchinson
Rich McKee	KLA	Topeka
Jeff Dillon	US Congress - Sottery	Topeka

TESTIMONY OF

RON WILSON, VICE PRESIDENT

LEGISLATIVE SERVICES & MEMBER RELATIONS

FARM CREDIT SERVICES

FOR

HOUSE AND SENATE AGRICULTURE COMMITTEES

TOPEKA, KANSAS

JANUARY 30, 1986

1/30/86 Hs. ASB  
*Attachment I*

MR. CHAIRMAN, I AM RON WILSON FROM WICHITA, KANSAS. I AM THE VICE PRESIDENT FOR LEGISLATIVE SERVICES AND MEMBER RELATIONS OF FARM CREDIT SERVICES, AN AGRICULTURAL LENDING COOPERATIVE WHICH INCLUDES: THE FEDERAL LAND BANK OF WICHITA, PROVIDING LONG-TERM REAL ESTATE LOANS THROUGH THE FEDERAL LAND BANK ASSOCIATIONS; THE FEDERAL INTERMEDIATE CREDIT BANK OF WICHITA, WHICH PROVIDES FUNDS TO PRODUCTION CREDIT ASSOCIATIONS FOR SHORT- AND INTERMEDIATE-TERM FARM OPERATING LOANS; AND THE BANK FOR COOPERATIVES, WHICH OFFERS LOANS TO AGRICULTURAL AND RURAL UTILITY COOPERATIVES.

THE FARM CREDIT SYSTEM IS A NATIONWIDE SYSTEM OF COOPERATIVELY OWNED BANKS AND ASSOCIATIONS ORGANIZED INTO TWELVE FARM CREDIT DISTRICTS. EACH DISTRICT HAS A FEDERAL LAND BANK, A FEDERAL INTERMEDIATE CREDIT BANK AND A BANK FOR COOPERATIVES. IN ADDITION TO THESE DISTRICT BANKS, THERE IS ALSO A CENTRAL BANK FOR COOPERATIVES IN DENVER, COLORADO, AND OVER 600 FEDERAL LAND BANK ASSOCIATIONS AND PRODUCTION CREDIT ASSOCIATIONS NATIONWIDE.

THE FARM CREDIT SYSTEM IS THE LARGEST SINGLE LENDER TO AMERICAN AGRICULTURE PROVIDING NEARLY ONE-THIRD OF THE CREDIT MADE AVAILABLE TO AGRICULTURE. THE AMERICAN FARMER IS OUR FIRST AND FOREMOST CUSTOMER FOR SHORT-TERM OPERATING LOANS, LONG-TERM MORTGAGE LOANS, CREDIT SERVICE TO COOPERATIVES WHO SERVE AGRICULTURE AND FINANCIALLY RELATED SERVICES.

IN KANSAS, WE WERE PROVIDING 1.8 BILLION DOLLARS IN LONG-TERM FEDERAL LAND BANK LOANS AND 193 MILLION DOLLARS IN SHORT-TERM PRODUCTION CREDIT ASSOCIATION LOANS TO FARMERS AND RANCHERS AS OF DECEMBER 31, 1985. WE SERVE OVER THIRTY THOUSAND FARMER/RANCHER BORROWERS IN KANSAS IN ADDITION TO OUR FARMER-OWNED COOPERATIVE BORROWERS.

MONEY TO FINANCE THE LOANS MADE BY FARM CREDIT BANKS AND ASSOCIATIONS PRIMARILY COMES FROM THE SALE OF FARM CREDIT SECURITIES TO INVESTORS IN THE NATION'S MONEY AND CAPITAL MARKETS. THESE SECURITIES ARE THE JOINT AND SEVERAL OBLIGATIONS OF ALL 37 FARM CREDIT BANKS AND ARE SOLD THROUGH A NATIONWIDE SELLING GROUP MANAGED BY THE FEDERAL FARM CREDIT BANKS FUNDING CORPORATION IN NEW YORK. FEDERAL FARM CREDIT BANKS CONSOLIDATED SYSTEMWIDE SECURITIES COMBINE THE FINANCIAL STRENGTH OF THE FARM CREDIT SYSTEM AND ARE BACKED BY THE NET WORTH AND ASSETS OF THE SYSTEM.

THE FARM CREDIT SYSTEM IS SECOND ONLY TO THE FEDERAL GOVERNMENT IN TERMS OF THE VOLUME OF SECURITIES IT ISSUES. THIS REFLECTS THE TREMENDOUS INVESTMENT CAPITAL NECESSARY TO MEET THE CREDIT NEEDS OF THE AGRICULTURAL INDUSTRY.

THE FARM CREDIT SYSTEM IS MANDATED BY LAW TO SERVE ONLY AGRICULTURE AND THEREFORE, WE ARE DIRECTLY AND DRASTICALLY AFFECTED BY THE DETERIORATING FARM ECONOMY. NO FINANCIAL INSTITUTION CAN SEPARATE ITSELF FROM THE FORTUNES OF ITS CUSTOMERS. AS AGRICULTURE GOES, SO GOES THE FARM CREDIT SYSTEM.

1985 CALENDAR YEAR-END FINANCIAL RESULTS FOR THE FARM CREDIT BANKS OF WICHITA HAVE NOT BEEN FINALIZED AT THIS TIME, BUT WE STAND TO FACE OUR LARGEST EVER YEAR-END LOSSES. THE FARM CREDIT BANKS OF WICHITA THIRD QUARTER LOSSES TOTALED 106.5 MILLION DOLLARS. THESE LOSSES ARE THE RESULT OF DECLINING LAND VALUES, INCREASING VOLUME OF NON-PERFORMING ASSETS, INCREASING PROVISIONS FOR LOAN LOSSES, INTERNAL LOSS-SHARING AGREEMENTS, AND A GENERAL DETERIORATION IN THE AGRICULTURAL ECONOMY.

THE LOSSES ARE SUBSTANTIAL AND WE ARE RESPONDING TO MEET THESE CHALLENGES. JUST AS FARMERS ARE ADJUSTING TO HARD TIMES ON THE FARM, SO THE FARM CREDIT SYSTEM IS MAKING ADJUSTMENTS AS WELL.

THE NINTH FARM CREDIT DISTRICT -- ALSO KNOWN AS THE WICHITA DISTRICT, WHICH COMPRISES KANSAS, OKLAHOMA, COLORADO AND NEW MEXICO -- IS IMPLEMENTING A RESTRUCTURING PLAN TO IMPROVE SERVICE TO BORROWERS, POOL CAPITAL AND CUT COSTS IN AN EFFORT TO DEAL WITH THE FARM INCOME CRISIS. AS OF FEBRUARY 1, 1986, OUR CREDIT DELIVERY SYSTEM IN THE WICHITA DISTRICT WILL HAVE A NEW NAME: FARM CREDIT SERVICES. THE NEW NAME REFLECTS OUR COMMITMENT TO SERVING AGRICULTURE, AS WELL AS THE FACT THAT A NEWLY STRUCTURED CREDIT SYSTEM IS IN PLACE.

THIS REORGANIZATION IS THE RESULT OF A PROPOSED RESTRUCTURING PLAN WHICH OUR DISTRICT BOARD OF DIRECTORS RECOMMENDED AND STOCKHOLDERS IN SELECTED ASSOCIATIONS VOTED TO APPROVE LAST YEAR.

WICHITA DISTRICT FLBA AND PCA STOCKHOLDERS ATTENDED SPECIAL MEETINGS IN NOVEMBER AND EARLY DECEMBER TO VOTE ON THE CONSOLIDATION PROPOSAL TO MERGE ALL FLBAS AND PCAS INTO ONE DISTRICTWIDE FLBA AND PCA. DISTRICTWIDE, APPROXIMATELY 65 PERCENT OF THE FLBAS AND 59 PERCENT OF THE PCAS VOTED TO APPROVE CONSOLIDATION.

MEMBERS OF 23 FLBAS AND 17 PCAS APPROVED CONSOLIDATION. IN KANSAS, NINE OF 14 FLBAS AND 7 OF 11 PCAS VOTED TO APPROVE CONSOLIDATION. AS YOU CAN SEE, THE PERCENTAGE OF APPROVAL WAS HIGHER IN KANSAS THAN IN THE OTHER STATES. WE ARE PLANNING TO IMPLEMENT THE CONSOLIDATION FOR THOSE ASSOCIATIONS WHO APPROVED THE PLAN BY FEBRUARY 1, 1986. THOSE ASSOCIATION STOCKHOLDERS WHO VOTED NOT TO CONSOLIDATE WILL CONTINUE TO RECEIVE LENDING SERVICES THROUGH THEIR ASSOCIATION JUST AS THEY HAVE IN THE PAST.

DOCUMENTS FOR CHARTERING THE CONSOLIDATED FLBA AND THE CONSOLIDATED PCA WORKING TOGETHER UNDER JOINT MANAGEMENT HAVE BEEN SENT TO THE FARM CREDIT ADMINISTRATION FOR APPROVAL.

IN THE SHORT TERM, THE CONSOLIDATION WILL HELP TO SAVE MONEY, ACHIEVE EFFICIENCIES OF OPERATION AND IMPROVE SERVICE. IN THE LONG RUN, IT WILL HELP ASSURE A DEPENDABLE, VIABLE SOURCE OF CREDIT THROUGH ALL OF OUR FARMER-OWNED COOPERATIVE LENDING INSTITUTIONS.

THE CONSOLIDATED FLBA AND PCA WILL INCLUDE 40 ASSOCIATIONS IN OUR DISTRICT. THE REMAINING 31 ASSOCIATIONS WILL OPERATE INDIVIDUALLY AS THEY HAVE IN THE PAST UNDER BANK SUPERVISION AS AN IMPORTANT PART OF OUR CREDIT DELIVERY SYSTEM.



THE NINTH DISTRICT FLBA/PCA WILL BE HEADQUARTERED IN WICHITA, KANSAS. THERE WILL BE 11 ADMINISTRATIVE CENTERS LOCATED THROUGHOUT THE WICHITA DISTRICT TO HANDLE THE ADMINISTRATIVE WORK LOAD OF THE NINTH DISTRICT FLBA AND PCA. THEIR LOCATIONS IN KANSAS ARE: SALINA, MANHATTAN, EMPORIA AND WICHITA.

IN ADDITION, WE ESTIMATE THAT APPROXIMATELY 60 FARM CREDIT CENTERS WILL BE OPERATIONAL IN THE DISTRICT. EVERY COMMUNITY WHICH IS NOW SERVED BY A FULL-TIME FLBA AND/OR PCA WILL CONTINUE TO BE SERVED BY A FARM CREDIT SERVICE CENTER OR AN UNCONSOLIDATED FLBA AND/OR PCA. FARM CREDIT CENTERS WILL PROVIDE BOTH SHORT-TERM OPERATING LOANS AND LONG-TERM REAL ESTATE LOANS.

IN FACT, MANY KANSAS COMMUNITIES WHICH WERE PREVIOUSLY SERVED BY ONLY A FLBA OR PCA WILL NOW HAVE BOTH SHORT- AND LONG-TERM CREDIT. EACH CENTER WILL BE DELEGATED LOAN-MAKING AUTHORITY AND WILL HANDLE BOTH SHORT-TERM OPERATING LOANS AND LONG-TERM REAL ESTATE LOANS.

FOR THE TIME BEING, FARMERS AND RANCHERS SHOULD CONTINUE TO WORK WITH THE FLBA AND PCA OFFICES THAT ARE NOW SERVING THEM.

IT IS IMPORTANT TO NOTE THE SPECIFICS OF THE RESTRUCTURING PROPOSAL WERE DEVELOPED BY EIGHT DIFFERENT WORK GROUPS COMPOSED OF FARMER/RANCHER DIRECTORS, LOCAL ASSOCIATION OFFICERS AND BANK STAFF. PEOPLE IN THE FIELD WERE DEEPLY INVOLVED WITH DEVELOPING THE ORGANIZATIONAL STRUCTURE OF THE NEW ASSOCIATIONS.

FARMER/BORROWER CONTROL OF THE SYSTEM WILL CONTINUE ALTHOUGH STRUCTURED DIFFERENTLY THAN IT IS TODAY. THERE WILL BE A DISTRICT BOARD, ASSOCIATION BOARDS, A DISTRICTWIDE ADVISORY COMMITTEE, ADMINISTRATIVE CENTER BOARDS AND STOCKHOLDER COMMITTEES, ALL COMPOSED OF ELECTED FARMER/BORROWERS.

THE REORGANIZATION WILL IMPROVE SERVICE, CUT COSTS, ACHIEVE EFFICIENCIES AND POOL CAPITAL. THESE ACTIONS ARE ESSENTIAL TO MAINTAIN A VIABLE AND DEPENDABLE SOURCE OF CREDIT TO KANSAS AGRICULTURE.

IN ADDITION, IN 1985 THERE WERE OTHER SUBSTANTIAL MEASURES TAKEN TO CUT COSTS INTERNALLY. THESE MEASURES INCLUDED A 25 PERCENT STAFF REDUCTION IN THE FARM CREDIT BANKS OF WICHITA. EVEN WITH THESE REDUCTIONS, WE EXPECT TO PROFESSIONALLY HANDLE THE CREDIT NEEDS OF OUR BORROWERS.

EVEN WITH MORE EFFICIENT MANAGEMENT AND STREAMLINED ADMINISTRATION, WE RECOGNIZE THAT WE CANNOT CONTROL OR GUARANTEE THE FUTURE OF THE FARM ECONOMY. ALL OF OUR EFFORTS AND THE EFFORTS OF OTHER GROUPS AND INDIVIDUALS CAUGHT IN A SPIRALING DECLINE OF AGRICULTURE WILL BE FUTILE WITHOUT THE PROSPECT OF LONG-TERM PROFITABILITY FOR U.S. AGRICULTURE.

IF CURRENT TRENDS CONTINUE, FARM CREDIT SYSTEM RESOURCES COULD BE OVERBURDENED. TO PREVENT THIS POSSIBILITY, CONGRESS PASSED AND PRESIDENT REAGAN SIGNED INTO LAW THE FARM CREDIT ACT AMENDMENTS OF 1985.

THE LEGISLATION IS DESIGNED TO HELP EASE FINANCIAL STRESS IN THE FARM CREDIT SYSTEM AND HELP RESTORE STABILITY TO OUR FARMER-OWNED LENDING SYSTEM.

MR. CHAIRMAN, I THANK YOU FOR ALLOWING ME THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY.

## SUMMARY OF FARM CREDIT AMENDMENTS ACT OF 1985

(See Attachment #1)

THE FARM CREDIT COUNCIL IS THE TRADE ASSOCIATION REPRESENTING COOPERATIVE AGRICULTURAL LENDERS SUCH AS FARM CREDIT SERVICES. LAST WEEK, OUR WICHITA DISTRICT FARM CREDIT COUNCIL BOARD OF DIRECTORS ADOPTED A POLICY STATEMENT EXPRESSING OUR SUPPORT FOR SOLUTIONS TO AGRICULTURAL PROBLEMS. IN THE LONG TERM, THAT MEANS MORE FARM INCOME. IN THE SHORT TERM, THAT MEANS OPERATING FCA AND THE CAPITAL CORPORATION IN A WAY THAT BENEFITS FARMER/BORROWERS.

(See Attachment #2)

IN SUMMARY, MR. CHAIRMAN, MANY PROBLEMS FACING AMERICAN AGRICULTURE ARE MACROECONOMIC IN NATURE. HOWEVER, THERE ARE STEPS WHICH THE KANSAS LEGISLATURE CAN TAKE WHICH WOULD BE HELPFUL.

ONE POSITIVE STEP WOULD BE TO ENACT H.B. 2635 TO CLARIFY THAT FARM CREDIT SYSTEM SECURITIES CAN BE USED AS COLLATERAL FOR EXCESS FUND DEPOSITS WHICH BANKS RECEIVE FROM THE STATE. FCS SECURITIES HAVE BEEN USED FOR THIS PURPOSE FOR MANY YEARS, BUT NO NEW FCS SECURITIES ARE NOW BEING ACCEPTED BY THE STATE TREASURER. H.B. 2635 WOULD CLARIFY THAT THESE SECURITIES CAN BE USED, WHICH WOULD BENEFIT KANSAS BANKS AND KANSAS FARM BORROWERS.

BEYOND THAT, WE MUST KEEP IN MIND THAT THE FUNDAMENTAL  
LONG-TERM SOLUTION FOR THE PROBLEMS FACING BOTH FARMERS AND  
LENDERS IS MORE FARM INCOME.

WE COMMEND YOU FOR YOUR CONCERN TOWARD KANSAS FARMERS AND  
RANCHERS AND WE WOULD BE HAPPY TO RESPOND TO ANY QUESTIONS YOU  
MAY HAVE.

## Highlights of S. 1884

### The Farm Credit Act Amendments of 1985

The Farm Credit Act Amendments of 1985 provides a mechanism for the Farm Credit System to use its available resources to provide financial assistance to System institutions, authorizes the Secretary of the Treasury to invest Congressionally-appropriated funds in the System and restructures the Farm Credit Administration into an arm's length regulator. The effective date of the Act is 30 days after enactment, however the effective date for chartering a new Capital Corporation is 60 days after enactment.

#### Reorganization of the Farm Credit Administration

The Farm Credit Administration (FCA), the Federal regulator of Farm Credit System institutions, will be reorganized and managed by a full-time, three-member Board, appointed by the President for staggered six-year terms. One board member will be designated by the President as the chairman. Appointments are required within 30 days of enactment of S. 1884, and only two members can be from the same political party. The two initial members appointed to terms of less than six years could be reappointed to a full term. Members appointed to fill unexpired terms of three years or less could also be reappointed to a full six-year term. The board will meet at least monthly.

The chairman will be the spokesman for both the board and the agency.

The current Federal Farm Credit Board (FFCB) will be abolished, however the FCA Chairman will have discretionary authority to appoint one or more advisory committees and may appoint existing FFCB members to one of those advisory committees. The present FCA Governor will continue to serve at the pleasure of the President until at least two members of the new FCA Board have been appointed and confirmed by the Senate and the Chairman designated.

#### New FCA Powers

Among the new powers of the restructured FCA are:

- o Issuance of cease and desist orders to banks and associations and their officers and directors.
- o Removal of officers and directors of banks and associations for violation of law, regulation, or cease and desist orders.
- o Merger of like System banks by the FCA Chairman if one of the banks has failed to meet its outstanding obligations.

#### Creation of New Capital Corporation

Within 60 days after enactment of the bill, the charter of the existing Farm Credit System Capital Corporation will be revoked; and the new Capital Corporation will be chartered by FCA. The new Corporation will succeed to the assets and obligations of the present Corporation. The new Capital Corporation will be capitalized through investments by System institutions.

The Capital Corporation will operate the System's financial self-help program. It will also purchase non-accrual loans and acquired properties (or interests therein) from System institutions.

According to the legislation, new financial assistance cannot be extended by the Capital Corporation to any System institution after December 31, 1990, unless the Congress authorizes it. This five-year sunset will not affect the Capital Corporation's other functions.

By December 31, 1987, the Farm Credit Administration will provide a report to Congress analyzing the operation of the Capital Corporation and making recommendations on an extension of its charter.

### **Backup Federal Assistance**

The Secretary of the Treasury is authorized to purchase obligations of the Capital Corporation upon certification by FCA that: 1) the System needs financial assistance; 2) the System surplus and reserves have been committed to System self-help; 3) that further drain on reserves would jeopardize their ability to provide credit on reasonable terms; 4) senior executive officers of System institutions other than associations have frozen their salaries and benefits until government capital is repaid or five years, whichever occurs sooner.

### **Capital Corporation Board**

The Capital Corporation will initially have a five-member board. Three members will be elected by the banks owning stock in the Capital Corporation on the basis of one-bank, one-vote. One member from an institution and a district that is (or is projected to be) a net contributor to the Capital Corporation; one from an institution and a district that is (or is projected to be) a net recipient.; and one elected at-large. Two members will be appointed by the FCA Chairman. If and when the Treasury invests government funds in the Capital Corporation, the board will be expanded to include a sixth director appointed by the Secretary of Agriculture. A seventh at-large member will be chosen by the other six board members and that member cannot come from either the Farm Credit System or the government. Members will serve staggered three-year terms; a chairman will be elected annually.

The Capital Corporation Board will choose a chief executive officer, subject to FCA approval. Since the Capital Corporation will be owned by the System, its officers and staff will not be government employees.

### **Capital Corporation Purpose, Powers & Responsibilities**

The purpose of the Capital Corporation will be to ensure continued viability of the System through:

- o the effective redistribution of capital.
- o the purchase, restructuring and sale of nonaccrual loans and acquired properties from System institutions.

- o the providing of technical assistance and related services to System institutions in connection with the administration of their loan portfolios and in restructuring and refinancing loans of their borrowers.

- o the receiving and administering of Federal financial assistance.

The more significant powers and responsibilities of the Capital Corporation are to:

- o Require investments by System institutions in stock or obligations of the Capital Corporation in order to provide funds for financial assistance to System institutions and to make assessments to cover the Corporation's operating expenses, while protecting stock, allocated equities and participation certificates, pursuant to criteria designed to ensure that no institution's ability to continue to provide credit to eligible borrowers on reasonable and competitive terms is threatened.

- o Repay investments by System institutions when funds become available.

- o Require System institutions to sell to the Capital Corporation nonaccrual loans and acquired property as a condition of receiving financial assistance.

- o Acquire nonaccrual loans and interests in such loans and acquired properties at fair market value and to assume debt or other liabilities in connection with these acquisitions.

- o Restructure or liquidate acquired loans.

- o Make contracts with other System institutions for administration, servicing and restructuring of loans and loan related assets and managing of acquired properties.

- o Purchase from associations undergoing liquidation all performing loans not voluntarily purchased by other associations.

- o Join in issuing, or assume liability for outstanding Systemwide obligations, and to make payments of principal and interest thereon as required by FCA, that banks, primarily liable therefor, are unable to make. Systemwide obligations, joined in by the Capital Corporation shall be free from state and local taxes.

- o Borrow from commercial banks.

- o Sell acquired real property only after the former owner/borrower is notified and is not precluded from repurchasing.



### **Other Aspects of New Law**

The new law also impacts other aspects of the Farm Credit System. For example:

- o Basic information with respect to interest rates must be provided to borrowers.
- o Each System institution shall establish a credit review committee which includes farmer board representation, and the majority of members shall be persons who were not involved in making the adverse credit decision.
- o Each local lending institution shall review all non-accrual loans to determine if they might be restructured as a result of this new legislation.
- o Restrictions are imposed on the sale by System institutions of surface rights without the underlying mineral rights and the sale of real property in tracts larger than a normal family farm in the vicinity for less than the fair market value price available from the Capital Corporation.
- o FCA is authorized to establish and maintain a central reserve for the System, effective January 1, 1991.
- o Stockholders must approve future joint management agreements.
- o The seventh district director shall be elected at-large by borrowers in the district.

### **Overchartering**

Prohibits overchartering of disagreeing associations in cases of district-wide mergers of associations where one or more associations did not approve the merger. In the case of charters issued during calendar year 1985 for district-wide new or merged associations, no overchartering of disagreeing associations will be permitted unless specifically agreed to by the board of the disagreeing association.

### **Establish National Commission on Agricultural Finance**

The President will appoint a 15-member National Commission on Agricultural Finance. The commission will study methods to ensure the availability of adequate credit to agricultural producers and agribusiness, taking into account the long-term financing needs of the agricultural economy, and will study the roles of the commercial banks, the Farm Credit System, and the Farmers Home Administration in meeting those financial needs.

The President will name seven members. The Speaker of the House and the President pro tempore of the Senate will each name four. The commission must report to Congress within a year of enactment of the legislation.

## WICHITA DISTRICT FARM CREDIT COUNCIL

## STATEMENT

American agriculture is our nation's largest industry, generating 20 percent of our gross national product and employment for millions of Americans, while providing an abundant food supply for consumers in this country and abroad. Over the years, agriculture has become increasingly productive through the effective use of resources, technology and capital. Farmers have organized their own source of financing through the cooperative Farm Credit System, which is the largest single lender to American agriculture. Today, however, many family farmers are facing their most serious economic challenges.

Congress has now enacted legislation which, through the Farm Credit System Capital Corporation, can provide significant benefits to farm borrowers. This legislation must be implemented effectively in the short-term. However, the key to long-term success for both borrowers and lenders is a healthy and profitable farm economy.

Therefore, the Wichita District Farm Credit Council believes that:

1. The United States should implement policies to improve farm income, which is the key to long-term success of agricultural borrowers and lenders.
2. As soon as possible, the President should appoint individuals with a knowledge of agriculture as chairman and board members of the Farm Credit Administration and the Farm Credit Administration should produce the necessary regulations so that the Capital Corporation can operate in the manner provided by recent farm credit legislation without delay.
3. The President, Congress and FCA should ensure that the Capital Corporation has sufficient resources so that it can provide substantial benefits to farmer, rancher and cooperative borrowers, with the goals of stabilizing land values, reducing upward pressure on interest rates, and benefiting the agriculture economy.

# Farm Credit Amendments Act of 1985

1. Change the system's Capital Corporation so as to use system resources more effectively ;
2. Restructure the Farm Credit Administration as stronger, more "arms-length" regulator ;
3. Authorize the Secretary of Treasury to purchase obligations of the Capital Corporation, subject to appropriations ;
4. Provide new protections for system borrowers ;
5. Establish a National Commission to study agricultural finance.

1/28/86 Hs. ASB  
*Attachment II*

# Additional Federal Backup

1. FCA would first have to certify that the system needs assistance, has fully committed its resources, and has frozen salaries and benefits for senior executive officers.
2. Then the Secretary of Treasury would have the authority to buy obligations of the Capital Corporation, subject to appropriations, and to provide terms for repayment of assistance.
3. When FCA certifies aid is needed, notice will go to Congress as well as Treasury, which has 45 days to announce whether authority would be used.

# System Self-help

FCS Capital Corporation could:

1. Provide financial assistance to system institutions;
2. Serve as a "warehouse" for acquired properties and non-performing loans and assist in restructuring and disposing of loans;
3. Draw funds from system institutions except not to include borrower stock and not to reach a point where viability of contributing institutions is imperiled;
4. Join in offering systemwide securities;
5. Handle financial assistance from internal and external sources;
6. Be run by a five-member board, three from FCS and two appointed by FCA. When government money comes in, USDA would appoint a sixth member and these six would select a seventh.

# Stronger Independent Regulation

## Restructured FCA

1. Full-time, three-member presidentially appointed board, with one as chairman;
2. Regular examination of system institutions by FCA examiners;
3. Required independent audits;
4. Authority for cease-and-desist orders;
5. Setting minimum capital levels;
6. In issuing charters, charters of a consolidated association could not go beyond the territories of those associations that voted to consolidate;
7. Would no longer provide "prior approval" for many system actions.