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The axe hits farmers

Agriculture lenders have cut back severely over the past year, and are cracking down on debtors on a "case-by-case" basis.

As this year began, the Production Credit Administration (PCA) of the Cooperative Farm Credit System in North Dakota refused to roll over the $30,000 unpaid portion of a farmer's $197,000 one-year loan and foreclosed on him for a total of $197,000—despite the fact that he had already repaid $165,000. The farmer, a 24-year PCA member who brought this cooperative into the state, also lost the machinery he had put up as collateral.

The PCA, which was formed in the 1930s, has been able to offer credit at cheaper than prevailing interest because its bonds were guaranteed by the U.S. Treasury. Currently, the PCA, most of whose bonds are held by the New York banks, has lent 32 percent of total farm credit.

Until the past year, the PCA had made a practice of carrying over unpaid portions of loans and incorporating them into new loans the following year. But now farm banks are being hit hard by the Federal Reserve's tight credit policy.

The rate of increase of agricultural credit has been declining since 1980. Farm debt, which stood at $217.5 billion in mid-1983, had risen in 1982 at less than half the rate of the previous year, and the rate of increase for the first two quarters of 1983 was half that of the same period for 1982. Currently, 16 percent of farm income is going to pay a total interest bill of $23 billion. Net farm income now totals approximately $14-$16 billion.

Because of falling land prices and farmers' already highly mortgaged capital, few have enough collateral to offer the banks. Farmers' one other important source of collateral, their future crops, were severely cut back under last year's Payment-in-Kind program, which induced farmers not to plant specific crops.

Although lending institutions claim they have plenty of credit available, the Office of Management and Budget's "lend with caution" policy is in full force. Only debt-free farmers and new entrants into farming are to be considered eligible for loans.

"There'll be no shortage of credit next year for most farmers," said Frank Naylor Jr., USDA Undersecretary for Small Community and Rural Development, in early December. "But all lenders to farmers are going to be looking more closely at their farm loans and making sure crop and livestock producers have sound operating plans for 1984."

The fact that preferential farm interest rates have been abolished and the declining activity of the government's lender of last resort, the Farmer's Home Administration (FmHA), are indications that the government has already started to restrict credit flows. Both FmHA and PCA's ability to lend at lower than prevailing interest rates was eliminated by the 1980 banking deregulation act, and many farm economists are speculating whether the FmHA will soon be phased out.

FmHA lending increased sharply after the 1979 interest rate hike, and it now carries 11 percent of the total debt. But in the most recent years, overall lending has decreased. In 1981, loans went up $3.725 milllion, but only increased by $648 million in 1982. Overall lending continued to decline in 1983.

In the same period, the various state PCAs have cut back long-term lending almost entirely. Policy decisions of the PCAs are made by local boards of shareholders. With the profitability of the farm sector dropping, "There is a real tendency for [these boards] not to fund farming," an Oklahoma State University economist told *EIR* Jan. 5.

This situation has forced farmers into the government's loan programs such as the Commodity Credit Corporation (CCC), which holds a farmer's stored grain for collateral in return for government loans at lower than prevailing interest rates. The CCC's share of total farm debt nearly doubled in 1982, when other lending institutions were reducing their debt loads. Although the original purpose of the CCC was to lend to farmers to minimize the effects of depressed commodity prices, in fiscal 1983 almost all of the CCC's $25 billion in funds was used for the crop loan programs.

As traditional credit sources dry up, farmers are being forced to sell out, declare bankruptcy, or find alternative sources.

The Federal Reserve of Kansas City had already advocated in mid-1983 that farmers should lease rather than buy land as costing far less, as would leasing all the farm equipment. New credit can be infused into the system, the Fed proposed, through funneling non-farm equity capital to farms through limited joint ventures or partnerships—which would essentially turn U.S. farms, unable to get credit for production themselves, into tax shelters.

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