Budget-cutters sabotage farmers: the FmHA is now a debt collector

by Cynthia Parsons and Marcia Merry

Federal Judge Bruce Van Sickle of North Dakota handed down his decision Feb. 17 on a suit demanding relief for farmers in 44 states from farm foreclosures by the Farmers' Home Administration (FmHA), the federal lending agency for agriculture. In a 36-page decision, Van Sickle specified procedures of conduct which must be followed by the FmHA in implementing foreclosures of farm loan delinquencies. Initiated as a class action suit by North Dakota farmers, the case will reportedly have "zero" effect on FmHA's functioning, in the words of an FmHA lawyer, and at best will allow the farmer the luxury of knowing 30 days in advance that he is being foreclosed on.

The ruling highlights the fact that over the past year, the constructive functions of FmHA have been transformed into threats to farmers and the national food supply. The FmHA, a congressionally funded program now holding 11% of national farm debt, was originally intended as a reliable lender of last resort for farmers needing low-interest production loans pending crop harvests and other farm operations' capacity to pay its own way.

The FmHA evolved three categories of loans—operating loan credit, and disaster and economic emergency relief loans. Over the past year, lending has dried up in all loan categories, while foreclosure proceedings have escalated.

The FmHA has been key in holding together the farm sector since Paul Volcker decided to ruin the U.S. economy back in 1979. Now Volcker and Office of Management and Budget (OMB) chief David Stockman are pulling the plug on the farm sector in the name of cutting the budget deficit. The FmHA is carrying out the recommendations made to the incoming Reagan administration by the KGB-influenced Heritage Foundation.

The modus operandi has been for the administration to reject nearly every FmHA program appropriation Congress has made, except the operating loan program, leaving needy farmers out in the cold. In fiscal year 1983 Congress appropriated just over $8 billion for all farm programs, slightly less than the previous year. Of the $7.3 billion actually allocated by FmHA, $3 billion went for farm loans to about 153,561 farmers, including operating loans, disaster emergency loans, and economic emergency loans.

First, in March 1983, the FmHA was given the excuse to restrict loans, and get tough with hardship farms by orders of the U.S. Department of Agriculture (USDA). The USDA's Office of Inspector General audited the FmHA's operations, deemed them too lax in their bookkeeping, and accused loan officers of making $2 billion worth of bad loans. The auditors ordered the loan officers to restrict the quantity of loans and concentrate on "quality." The rural housing program was to be reduced by forcing borrowers to be refinanced through other credit sources.

Then, after the severe summer 1983 drought, the FmHA determined to restrict disaster emergency loans, despite pleas from farm state governors and others. Federal Judge Thomas A. Flannery of Washington ruled last autumn that though Agriculture Secretary John Block has discretion over the funds, his decision was "arbitrary and capricious," and ordered FmHA to make the loans available for the period of Dec. 22, 1983 through April 30, 1984.

But then the FmHA and the USDA unilaterally decided to restrict the amount of relief loans to $50 million out of a possible $600 million. The remaining $550 million had to be used as guaranteed loans which would not be classified as a federal expenditure. The borrower has to find a lender first, then FmHA says it will guarantee that loan. But farmers will have to pay prevailing interest rates, and it appears that few rural banks are now willing to make such loans. Kika de la Garza (D-Tex.), chairman of the House Agriculture Committee, declared, "In my view this is a flagrant attempt by OMB to circumvent the order of the court."

On Feb. 2, hearings were held by the House of Representatives Agriculture Committee's Subcommittee on Conservation, Credit and Rural Development on the need to reverse the policy. It was reported then that the OMB insisted on the restrictive policy of the FmHA.

Many congressmen denounced the policy. But Undersecretary of Agriculture Frank W. Naylor, Jr. insisted that all the credit the farmers need is available.

What FmHA was intended to do

Thus, due to the administration's push to get the government out of lending to the private sector, and to implement the OMB's budget-cutting recommendations, the FmHA is no longer able to provide the services that built up rural America and its infrastructure to ensure production of the nation's food supply. Even when farmers were receiving parity prices for their output, they could find themselves in a tight cash-flow position; in such cases, the government provided low-interest loans.

Under normal circumstances, it might be feasible for farmers to turn instead to the commercial lenders for short-term loans, repaying them when the crop comes in. However, under recent conditions of drought and severe cold, on top of four years of unusually high interest rates, falling crop prices, and increased costs—all of which resulted from wrong policy decisions—the farmer and the U.S. food supply are being undercut, only to find that the government is withholding help rather than doing what President Roosevelt did in the early 1940s: offering government assistance to farmers in distress because the country's most strategic commodity was in danger.

Since 1983, FmHA has had its programs cut and is no longer providing credit for rural infrastructure. The only remaining programs are the following:

Operating loans are usually short-term loans to cover planting and operating costs. Though funding has increased since 1981 from $847 million to $1.8 billion in 1984, the "conditionalities" for receiving them have become almost as deadly as those the International Monetary Fund imposes on Third World borrowers. Farmers report that county supervisors have been trained to humiliate and belittle applicants.

An added feature of the program is the **guaranteed loan.** When a farmer has borrowed the maximum of $50,000, he can apply for Special Credit Assistance. This program, designed in conjunction with the Agricultural Bankers Association, tries to get rural banks to make the primary loan while FmHA takes a backup position such as offering a second mortgage. Such guaranteed operating loans have increased from 5,000 in 1981 to 31,000 in 1983. For farm loans as a whole, according to the Nebraska-based Center for Rural Affairs, direct loans have increased from 26,000 in 1981 to 28,000 in 1983 or 7.5%, while guaranteed loans for the same periods jumped from 71,000 to 101,000 or 42%. No wonder more than half of FmHA's foreclosures in fiscal year 1984 were of this nature!

Disaster emergency loans are authorized for farmers who cannot get sufficient credit from other sources and need credit to maintain viable farming operations under conditions of disaster such as floods or droughts. The program is slated for extinction. The amount of lending fluctuates at the discretion of the secretary of agriculture. In 1981, a drought year, loans totaled $5 billion. They dwindled to $865 million in 1983 and $1.5 billion in fiscal year 1984, and may be $2 billion in 1985.

Weather conditions were severe in 1983 with drought and floods and frost, but only $1.5 billion was given out; Secretary Block is on record saying that weather conditions in 1983 did not warrant an increase in emergency funds. In addition, at the request of Congress in December 1979, a ceiling was placed on the amount a borrower can receive; no matter what his loss, he will receive credit to cover only 80%.

Making this program even less accessible is an expected FmHA proposal that all applicants be required to buy crop insurance if their crops are used as collateral. Many county supervisors are using their discretionary authority in this matter already.

Economic emergency loans are the most controversial FmHA program. The program was first funded in 1978 and was intended to last for one year, ending in 1980, with a ceiling of $4 billion. Under the Reagan administration, the program was continued for 1981 with funding at $2 billion. The administration has claimed since then that no funding is necessary for this program. Congress has allocated $600 million a year for the program, but the funds have not been touched.

Politics of farm debt

Officially, 55,000 farms have gone out of business in 1983, and farm debt has risen from $121 billion to $221 billion from 1978 to 1982. The USDA, working with the State Department, nevertheless maintains that there is no serious farm debt problem. The State Department further recommends that food surpluses be reduced, both in the United States and in other food-exporting regions. Their recommendation is an end to farm price supports and loan programs, and a "free market approach." This was presented in detail, for example, at the national convention of the American Farm Bureau Federation in January, which followed the State Department orders to support the U.S. bailout of the International Monetary Fund. The director of the FmHA, Charles Shuman, is the son of a former president of the Farm Bureau. Shuman told Congress at the February hearing that he was "proud" of his agency's performance, contending that loan applications are being handled promptly and generally favorably.

Though Congressmen castigated him, none have been prepared to enact emergency measures for the farm sector, but merely, as onlookers at the hearing reported, to "stage show" during the election year.

Delinquents become 'non-farmers'

FmHA has instituted new ways of classifying its activities. The most striking change is that they no longer seem to have a category called "delinquent." These were farmers who could not repay their loans and would move into various stages of bankruptcy, but often the paperwork was so slow that they would be technically delinquent for a long period before any action was taken. Now they have a broad category called "discontinued farming." This definition includes foreclosures and bankruptcy.

Thus the FmHA has pushed farmers off the rolls to the tune of 82,027 or 3% of their borrowers in FY1984 and 75,000 or 2.7% of borrowers in FY1983. However, many of these farmers are still farming or trying to earn off-farm income to pay for the farm operations.