Agriculture by Marcia Merry

46 farm bank failures this year

The federal farm banks are complaining about having to manage foreclosed farmland.

As of Aug. 22, forty-six U.S. farm banks have failed already this year, of a total of 93 failed banks. In addition, the federal Farmers Home Administration (FmHA),
Banks have acquired record amounts of foreclosed farmland.

Congress has taken the approach of "studying" the matter.

Meanwhile, farm infrastructure—farms, suppliers, storage and transportation systems, and the farm communities are shutting down.

On Aug. 21, the 46th, the United Bank of Minneapolis, Kansas failed—the 11th bank failure in the state this year alone. Also, the Danbury Bank failed in Danbury Texas—the 15th bank failure in the state this year. The process of farm bank failures in the "foodbelt" states signifies the shutdown of farm infrastructure on a scale so vast as to threaten the national food supply, and global food potential.

In a Government Accounting Office report of June, *Farmers Home Administration—Federally Acquired Farm Property Presents a Management Challenge* (GAO/RCED-86-88), the scope of the farm bank failures and farmland foreclosures was presented, but only from the point of view of how difficult the problem is for the bankers to "manage."

In 1985, it is estimated that more than 20% of all farm property that changed hands in the United States, was on the market as the result of foreclosure. At present, billions of dollars of farm property has built up in the inventory of the Farm Credit System or FmHA, awaiting the decision of whether to be sold, leased, or otherwise disposed of.

FmHA's farm property inventory has increased over 14-fold, from an estimated 288 farms in December 1979, to an estimated 3,969 in October 1985.

Billions of dollars more of farmland will be acquired over the coming months. According to the GAO report, "GAO has noted in other reviews that as much as half of FmHA's farm loan portfolio is in danger of default. . . ."

By the turn of 1985, Congress had legislated the mechanisms by which the Farm Credit System—which holds up to 33% of the $200 billion worth of farm debt—could "warehouse" foreclosed land. What was created was a new entity—the FCS Capital Corp., with sweeping powers to take and hold land, and to also mandate the movement of funds from one district of the FCS into another. In other words, the FCS Capital Corp. can preside over the dismantling of the extensive Farm Credit System, in whatever way it chooses.

The current record rates of farm bankruptcy and foreclosure come from the process of rapid farm-income decline, accumulated debt burden, and collapse of farmland values. The value of a farmer's collateral on his debt declined as the value of his land fell, dumping more of a debt burden on him which he cannot pay. Many local farm banks have tried to extend credit, but they are under pressure from the Federal Reserve and federal banking regulators to lower the valuation of the collateral and refuse more credit to farmers. The large money center banks—for example, Citicorp., Chase Manhattan, Mellon, and others—then expect the elimination of rural banks to pave the way for the "megabanks" to move across the country, taking over what remains of the economy.

According to figures released in August by the Federal Reserve Bank of Chicago, farmland values in the five Midwestern states in its district—all top farm-producing states—dropped on average by 45% in the last five years, causing a huge loss in the net worth of Midwest farmland-owners. From 1985 to June 1986, land values in these states have fallen by 15% on average.

Officials at the Chicago Federal Reserve have tried to downplay the implications of this, by saying that the rate of farmland-value decline is slowing down. During the second quarter of this year, values fell in the five Midwestern states by "only" 2%, and the Federal Reserve bankers are predicting the decline will "level off." To break down the farmland-value decline during this period: Indiana, down 3.5%; Iowa, down 2.45%; Michigan, down 1.5%; Illinois (northern half), down 1%; and Wisconsin, leveled off.

However, even the Federal Reserve admits that the five-year decline is only comparable to the collapse in the 13-year period between the end of World War I and the Great Depression, when farmland prices collapsed 57%. Federal Reserve officials prefer to call such a collapse a "profound" decline.

The state with the largest such "profound" decline, is Iowa—the heart of the farmbelt. There, prices have dropped by 55% since 1981. Land values in Illinois and Indiana have dropped by more than 45% over the same period, and by 30%, at least, in Michigan and Wisconsin.