Juggling the books at FCS

The Farm Credit System is doing some "creative accounting," in order to close its books at year-end looking good.

Recently, orders quietly went out to the many divisions of the Farm Credit System, the largest agricultural debt-holder in the nation, consisting of Production Credit Associations, Federal Land Banks, and various intermediate banks, to re-categorize and shuffle FCS farm debt around the ledger sheets, in order to give an "aura of solvency" to the system at its year-end close-of-books. Since Washington's policy has bankrupted the farmers, the FCS is also bankrupt. But, it has decided to engage in a little creative accounting to hide the fact.

It's like shuffling the deck chairs when the whole ship is sinking.

The Farm Credit System accounts for about $60 billion of the national farm debt of $180 billion. The rest is held by commercial banks, the federal government, the Farmers Home Administration, insurance companies, and some other lenders. In the last two years, as growing numbers of farmers proved unable to service their debt, the FCS has posted billions in losses, taking over record numbers of foreclosed farm properties.

What the FCS needs is a pro-production, government-mandated reorganization, orienting it toward keeping farmers in operation to preserve and expand the nation's food output capacity.

Instead, most of the 12 districts of the FCS are operating in the red, and sinking the surrounding farm areas into disaster.

As the October stock market crash proceeds, the FCS insolvency crisis may be dwarfed by national media headlines about bankruptcies of famous-name brokerage houses and financial figures. However, these famous companies do not produce food or other necessities. The FCS collapse process is less dramatic, but far more deadly.

The bookkeeping maneuvers now under way in the FCS may buy a few months' time—depending on other factors in the economy—but will not restore needed credit, prosperity, and output to the farm sector.

Under its former policy guidelines, a loan was considered either an asset accruing interest (income to Farm Credit System), in liquidation (non-accrual status), or in charged-off status. During the last two years, there has been a management policy of very conservative loan analysis, with the result that a majority of the PCA (Production Credit Association) loans ended up in liquidation status or were charged off. The PCAs (short-term lenders) have almost been wiped out in some areas.

The FCS books will be closed for the 1987 accounting year in late December, and by then, there will be a changeover in accounting procedures to minimize the number of loans declared in liquidation or charged off. The trick is simple. FCS will change accounting procedures to match those of agriculture banks. There will still exist an account for loans accruing interest, but there will also be an account for loans which are not accruing interest, and yet, not in liquidation or being charged off. These non-accruing loan balances (non-earning assets) will be sitting in an asset account until some future date when a decision will be made about what to do with them. This decision could be made years down the road.

Coupled with this change in accounting procedure is a management policy to analyze the loans more liberally, to make them look better and to produce some new business.

The net effect of these changes will be to make the financial condition of the system appear better than it is, and to indicate that the farm economy is doing better than it is.

The personnel profile is also radically changing as the FCS disintegrates. FCS staff members warn *EIR* that there are fewer and fewer people in the FCS capable of making the proper decisions about the disposition of these non-earning assets.

The people hired to make and manage operating loans were ideally trained to think and make sharp decisions in service of credit for seasonal farm output. The FCS people making land loans (Federal Land Banks) could generally simply follow the policies set by the central banks. They did not make credit decisions, they just submitted their paperwork to the central bank. As the volume of short-term lending has dropped to practically nothing, the short-term loan officers are being eliminated from the system.

Gone, or leaving, are the very people who had their hands on the pulse of the farm economy and were capable of making recommendations and pushing for needed changes affecting farm output potential. This process parallels the "restructuring" of manufacturing companies to convert their smokestack factories for service-sector activities. But you can't eat services, any more than you can eat accounting tricks.