How the Farm Credit System was taken over by usury

by Sue Atkinson and Suzanne Rose

Between 1970 and the present, the farm sector in the United States has become the victim of powerful usurious private bankers and cartels which have used a combination of high interest rates and low prices to bleed dry the family farmer, toss away his carcass, and restructure agriculture, so that even greater looting can take place. In this they have been aided by Congress and the courts. In this article we shall show how lending institutions that were set up by the U.S. government to help the farmer became the tools of usury against him, and that during the 1980s, a usurious debt bubble, created over the previous 15 years was deliberately burst, eliminating hundreds of thousands of family farms. This has left 80% of food production in the hands of a few large owner-operators and investors whose markets, prices, and ofttimes methods of farming itself, are controlled by the cartels. Farming has been transformed from the means of feeding the population, through the efficient, productive family farm system, into a "food industry" run for power and profit which will give select international bankers finger-tip control over the world's food supply.

How did this happen? Through the policy of the U.S. government itself, acting on behalf of liberal establishment financiers: The Farm Credit System (FCS), the widely heralded, "farmer-controlled" cooperative of 37 banks and credit associations, and the Farmer's Home Administration, (FmHA), the government's "lender of last resort," were their instruments.

The Farm Credit System or so-called "farm cooperative system," and the FmHA (set up by Congress), were entrusted with the well-being of the nation's food supply. Instead, they became instruments of unparalleled usury, which, between 1970 and 1985, transferred over $40 billion in accrued interest on real estate debt alone out of farming into the hands of megabanks, insurance companies, and investors. A comparable if not greater amount was accrued in interest on operating loans for feed, livestock, and other credit advances related to production. The fact that FCS and FmHA were government backed proved to be the undoing of the farmer, as the U.S. government enforced the usury.

Which were the banks that benefited? The list includes the Wall Street and international banks that were authorized by the Farm Credit System to buy and sell its securities for their own gain and that of chosen customers, such as: Chase Manhattan, Citibank, and Chemical Bank; the three largest agricultural lending banks, Wells Fargo, Security Pacific, and BankAmerica; as well as brokerage houses, including Salomon Brothers, Bear Stearns, and Goldman Sachs. Internationally, the Dutch giant Rabobank participated with American agriculture banks in agriculture real estate loans which were backed by FmHA loan guarantees. When farm borrowers were liquidated in the mid-1980s, Rabobank siphoned off the government guarantee money.

The origins of the Farm Credit System

On July 17, 1916, President Woodrow Wilson signed the Federal Farm Loan Act, creating what we now know as the Farm Credit System. Twelve Federal Land Banks (FLBs) were set up, one for each of 12 districts covering the country, to assure farmers access to long-term real estate loans. They could provide farmers up to 50% of the worth of the land, which was used as collateral. The amount of credit they issued was limited by congressional appropriations.

The Federal Reserve System, created in 1913 as an instrument of Wall Street control over lending, began choking off credit to rural banks in the 1920s, leaving them unable to extend credit to agriculture. Congress passed the Emergency Farm Mortgage Act in 1933 in response to public demands for credit. Eighty-nine percent of this money was used to refinance selected loans formerly held by banks, insurance companies, and other creditors, into the Farm Credit System. The rest of the borrowers were allowed to go under. Because of the depressed conditions at the time, Congress also passed the Farm Credit Act of 1933, which created the Production Credit Associations (PCAs) for financing production. By 1935, the Federal Land Banks held 48% of the farm mortgage debt.

During World War II, the productive potential of our farmers was unleashed. Farmers were given the credit they needed to produce under a system of full farm parity prices. During the period of parity pricing, much of the debt was paid down. After the war, many Americans thought—and quite correctly—that the United States had the technological capabilities to end hunger. But the policy was to be otherwise. The liberal establishment released a series of plans to effect the top-down transformation of agriculture away from the family farm system. The parity price system, through which a farmer is paid the cost of his production plus a profit to reinvest to maintain his productivity, was phased out, beginning in 1954.

The most important of these liberal establishment planning groups was the Committee for Economic Development (CED). It was set up in 1942 by the Wall Street elite to plan postwar economic policy for Europe and the United States. The group included S.D. Bechtel, chairman of the board of Standard Oil; Don David from the Harvard Business School; Thomas J. LaMont, from J.P. Morgan investment bankers; Nelson Rockefeller; and William Benton from the University of Chicago. Their agriculture policy called for "free trade": curtailing and controlling technological progress, dumping goods on poorer markets, decreasing acreage of cultivated lands, and decreasing farm price supports.

In 1962, a CED blueprint for agriculture was released which demanded a complete restructuring of agriculture by reducing the number of family farmers. Entitled "An Adaptive Program for Agriculture," the report advocated utilizing "positive government action" to facilitate and promote the movement of labor and capital out of the family farm system of agriculture to areas where a higher rate of return on investment could be achieved by financial institutions. They considered family farming the leading case of misuse of resources in the American economy: "Agriculture's chief need is a reduction of the number of people in agriculture." They claimed that many more children are born and raised on farms than will be needed to produce the nation's food and fiber: "They must be educated, trained, and guided to non-agricultural employment."

A decade later, in 1971, "The Young Executives' Report" appeared. It was written in conjunction with the CED by a committee of "young executives" from the U.S. Department of Agriculture (USDA). The committee included Eric Thor, who was simultaneously participating in a commission to restructure the Farm Credit System, called the National Commission on Agricultural Finance. The report stated that by the year 2000, some 2 million family farmers should be eliminated and that the nation's food supply could be maintained by 500,000 corporate farms. The plan recommended that farm policy disregard the incomes of farmers and be concerned only with ensuring enough production to meet needs of the domestic and export markets. The "young executives" speculated that 78% of the farms would be eliminated.

How they did it

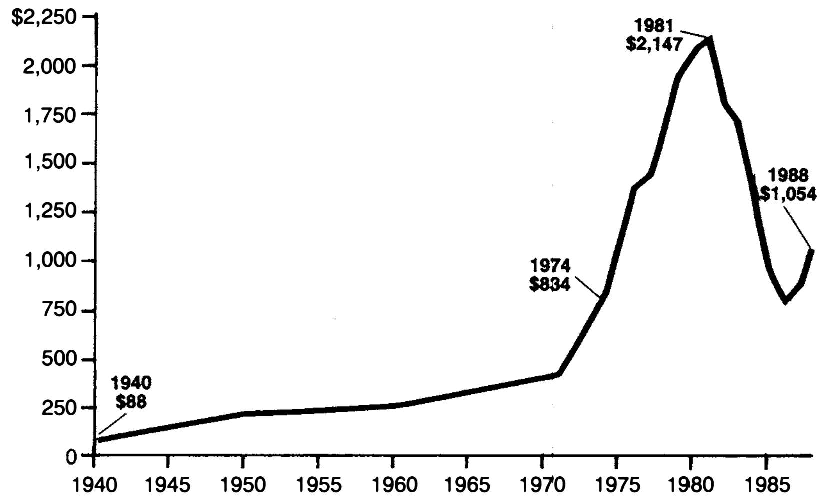
From the late 1960s onward, changes in regulations, banking practices, and procedures took place in the Farm Credit System and the FmHA which facilitated the practice of usury. Deregulation began in 1968 when the Farm Credit System repaid its government capitalization and became fully private. At the same time, FCS enjoyed the reputation of being a "government-backed" system: that is, it was understood by investors that the government would back Farm Credit System securities, if necessary. Decision-making control over the system's banks and associations, however, was nominally vested in the farmer-elected boards, both national and local. The National Commission on Agricultural Finance was formed in 1969 to plan long-term changes in the system which would put it completely in the pocket of Wall Street. Serving on the commission were representatives of the CED, the Farm Credit System, the media, all of the major farm groups, and the Federal Reserve.

Many of the recommendations of the commission were incorporated in the 1971 Agricultural Credit Act. This act was the first major overhaul of the system since 1933. It further deregulated agricultural finances. Under the act, the USDA would no longer supervise the Farm Credit System. From now on, auditing of its banks would be done on a regional level. The conditions were ripe for a heist.

The act was passed the same year the Nixon administration took the dollar off the gold reserve standard. The postwar monetary crisis had hit full force, and Wall Street found it necessary to find new sources of liquidity and new avenues for debt creation, and sources of profit through usury. Hence, the dollar was unmoored and an unprecedented orgy of speculation began. The farm sector was a juicy target. The 1971 overhaul of the FCS put into place mechanisms which would trigger, and then manage, the mass liquidations that had been recommended in the "Young Executives Report."

One of the highlights of the 1971 act was an increase in the amount the Federal Land Bank could loan against farmland as collateral to 85%. The collateral would now be valued according to its "market value" instead of its productive value. This not only increased the amount of money lent, but

FIGURE 1
Iowa land values, 1940-88
Current dollars per acre



Source: *The Farm Debt Crisis of the 1980s*, by Neil Horl, Iowa State University Press, 1991.

also the risk exposure, because the ability of farmers to repay debt was simultaneously being undermined by government-led moves to reduce farm prices below parity levels.

By 1972, when the Soviet markets were being opened up for U.S. grain sales, massive amounts of credit were being infused into farmland. The demand for U.S. grain exports suddenly exploded and transformed the face of U.S. agriculture. At the same time, government-backed farm price supports were dropping. The 1970 five-year farm bill lowered prices by 15%, driving more than a million farmers off the land during the 1970s.

Drive farmers out on a limb

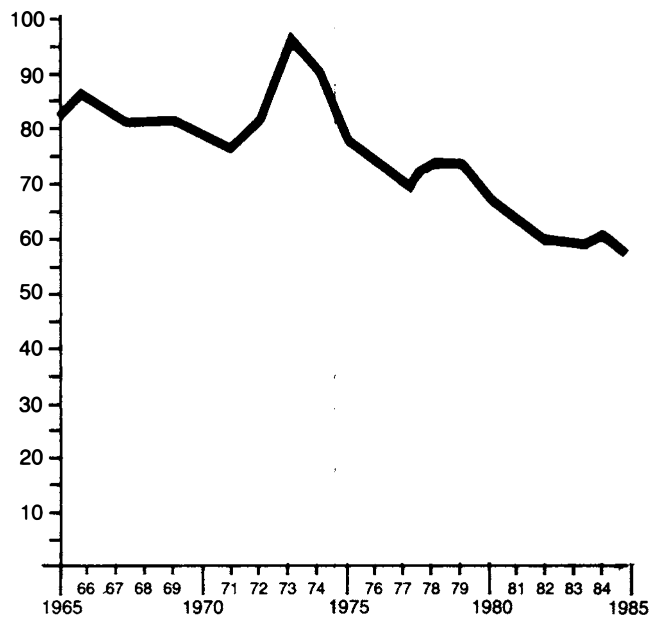
Young, new farmers came into the system through the offers of plentiful cheap credit which were made through the Farm Credit System. Established farmers borrowed in order to help their children, all to meet the need for the growing U.S. export market for grain shipments to the Soviet Union. The small, diversified farms, which had historically been the center of U.S. agriculture, gave way to larger monoculture tracts, which grew wheat and corn for export to the Soviets, and the cartels' new specialty for export to Europe, soybeans.

Land prices soared and land speculation took off, fueled by credit provided through the Farm Credit System (**Figure 1**). The farmers' costs rose, too, as a result of the speculation. Farm taxes tripled, fuel costs had tripled, interest charges multiplied, and by the end of the seventies, a farmer's price had been cut in half (**Figure 2**). Farmers who prided themselves for not becoming indebted, were forced into debt because of the high costs created by the speculation.

Contributing also to the need to borrow was wide fluctuation in prices during the 1970s. The price collapse at the end of the decade fueled the need for more borrowing, even as the farmer dug deeper into his family's living expenses to meet his debt payments.

Interest rates on Federal Land Bank loans were 8-10%

FIGURE 2
The parity price index for commodity prices to farmers shows steep decline, 1965-85
Price index



Index base: 1910-14

Source: USDA.

Graph shows the real prices paid to farmers averaged for all commodities based on a parity index for the years between 1965-85.

during the 1970s. A farmer never makes more than 3-4% real profit from production, even in the best of times. Usurious interest rates, in many instances, put the cost of interest per acre close to or above the actual farm income per acre! For a while, a usurious rate of return (anything over 2% on credit extended) can be extracted from farming, if the farmer cannibalizes on the family's living expenses, cuts costs in maintaining the productivity of his land and equipment, and increases output.

The 1971 Farm Credit Act also established loss-sharing agreements both within the banks and associations of a Farm Credit District and between the 12 districts. This assured that the entire system would have to cover any losses, which it surely would have, once the land bubble burst. That was only a matter of time. There were also subtle changes introduced into the regulations to shift the control away from the borrower-elected farmer board members to the hired, "professional" administrators. Such a move was necessary for the Wall Street high-rollers, because farmers would have a tendency to try to save themselves, instead of the investors in the system's securities, when the bubble burst.

Refinancings began to increase during the 1970s as equity was taken out of the farm operations to restructure debt, to expand operations, and to meet short-term obligations. Off-farm income grew to the point that it was nearly 60% of the total farm income, as farmers were forced to work in town to earn enough money to make their payments and cover their costs.

During the land price boom of the 1970s, owner investors in farm assets averaged $53 billion annually in capital gains from land speculation. About one-third of the increase in value went to non-operator landlords. The rest was split among farm operators, most of whom owned only part of the land they farmed.

By 1978, land prices were 78% higher than they had been in 1973, an increase which was three times that of farm income. The increase in land values created more equity on lending institutions' balance-sheets, which permitted them to increase borrowing. At this time the Farm Credit System began issuing consolidated system-wide bonds to finance their lending, further ensuring that the entire system would be responsible for the total debt, rather than just the amount each district bank had borrowed.

The bubble grows

Beginning in 1979, when Jimmy Carter chose Paul Volcker to head the Federal Reserve, Volcker increased interest rates sharply. As interest rates rose, funds flowed from low-interest deposits to higher-yielding money market certificates. Rural banks did not have the ability to tap sources of funds such as foreign deposits, larger negotiable certificates of deposit, or other instruments available to larger urban banks. This undercut the ability of rural banks to lend to farmers during a year when loan demand was high. As a result, farmers turned to Farm Credit and to FmHA. Farm Credit's share of total farm debt rose to 30%, while the Land Bank's share of the real estate debt rose to 35%. At the same time, the system began issuing a substantial number of long-term "non-callable" bonds to investors at interest rates between 11 and 17%.

Farm Credit Act amendments in 1980 allowed the Land Bank to loan up to 97% of the market value of the farmland collateral when the loan was guaranteed by some government agency. Congress also passed the Young, Beginning, and Small Farmers lending program which made more opportunities for lending available to the Farm Credit System. Farmers continued to refinance in order to stretch out their debt load, continuing to borrow against an inflated equity, created by the bloated land values. Over half the growth in farm debt was secured by farm real estate. Farm real estate debt grew at the greatest rate in 60 years. Assisting in the vast flow of funds into the Farm Credit System was their ever-higher interest rates offered to investors, which reached over 15%.

The bubble is burst

The five-year 1981 farm bill, called the Agriculture and Food Act of 1981, allowed the commodity loan rate, or the basic price support mechanism for grains, to be reduced another 10%. Then in 1985, the five-year farm bill took loan rates off a parity standard entirely and caused a massive collapse of prices. Farm price supports were dropped 40%, and farm incomes overall fell 15% between 1985 and 1990.

Here is what farmers faced: The interest rates on Federal Land Bank mortgages rose to 13% in 1984. Farm cash receipts however, increased only 4.6%, while production expenses rose 8.6% on a cash basis.

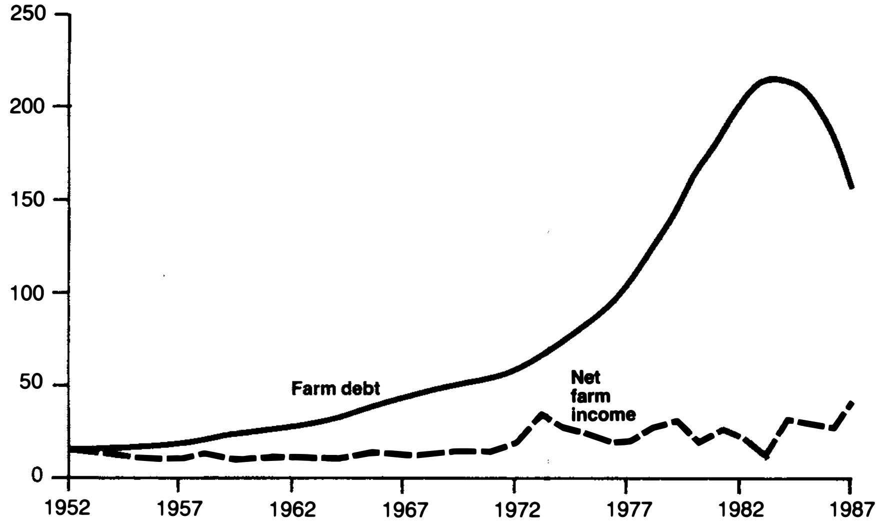
Almost half the loans made by the Farm Credit System at this time were to refinance existing debt. Moreover, nearly 75% of the net increase in farm real estate debt was provided by the Land Banks. Their share of all debt secured by farm real estate rose to 43%. Farm debt, which was almost negligible before 1970, rose from $52 billion in 1970 to $204 billion in 1984. It grew during this period to 1,350% of net farm income (see **Figures 3** and **4**).

By 1982, the Farm Credit Administration's national board adopted a regulation which effectively removed loan-making authority from the local farmer boards. The decision-making authority over the loans was moved to "professionals" within the Farm Credit Banks, because farmers' loans were expected to deteriorate.

At this point, interest charges were about 15% of the total farm production expenses and nearly double the share of 10 years earlier. All asset accounts except livestock and poultry declined. The real value of land dropped about 10% while outstanding debt grew 2%.

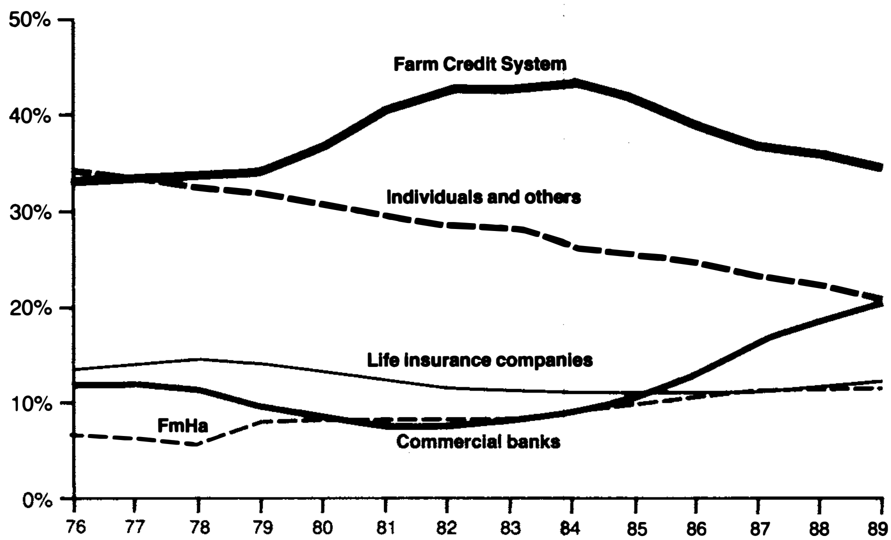
Anticipating the farm liquidity crisis, the Farm Credit System developed its plan for reorganization in 1983. Called "Project 1995," the report presented a plan for restructuring itself in expectation of the collapse of the farmland bubble which would occur two years later. At the same time, Congress passed a key piece of legislation which would trigger mass liquidations when it was implemented in 1985. Called the International Lending and Supervision Act of 1983, it

FIGURE 3
U.S. farm debt soared, while net farm income stagnated in the 1970 and 1980s
Billions $



Sources: USDA, Iowa State University.

FIGURE 4
Relative portion of farm real estate debt held by type of lender
Percent of all loans



Source: USDA.

mandated an accounting change for the Farm Credit System. FCS would have to transfer a large portion of its expected income and equity to the deficit side of the balance sheet in anticipation of future potential losses, called a loan loss reserve. The rules of the system changed: Farmers' loans were now going to be evaluated differently. Had their calculations of anticipated losses been based solely on a projected drop in land values, the disappearance of farmers would not have been as high as policymakers desired. In order to achieve a sufficiently high destruction of family farmers, farmer income/expense projections were made by loan officers using double the usual annual expenses, plus added liquidation expenses and legal fees. Double the amount of loan loss reserves were established than were subsequently used, putting the system technically in the red. Because of the new income/expense criteria, the evaluation of individual farmer loans made farmers candidates for foreclosure and liquidation.

Another publication anticipating the crisis was the 1985 Report of the Trilateral Commission called "Agricultural Policy and Trade: Adjusting Domestic Programs in an International Framework." The report called for increasing the capital return on investments in agriculture by removing government protection of farm prices, interest rates, etc. both in the United States and abroad. It called for reducing farm prices worldwide. The 1985 farm bill, known as the Food Security Act, followed the Trilateral lead by massively reducing the government support level.

The author of the report was Pierre Lardonais, chairman of Rabobank of The Netherlands. Rabobank had been positioning itself since 1984, through an agricultural financing corporation called MASI, to participate in U.S. farm loans with commercial banks. The 1985 farm bill called for widespread government guarantees on the farm loans which were expected to default in large numbers. Rabobank cleaned up by collecting guarantee money and the liquidated assets from the loans when the Farm Credit System pulled the plug on the farmers.

The trap is sprung

In 1985, the trap was sprung. Newspaper headlines blared that the Farm Credit System was suffering massive losses: It was not explained that these losses were due in large part to accounting changes. The public was told there was a farm crisis and the "system had to be saved." Farmers remained to be convinced that saving them was part of the plan. In an appearance of concern for the farmer, Congress told the system to offer them "loan restructuring."

Marvin Duncan, chief economist with the Federal Reserve in Kansas City, wrote in February 1985 in the *Economic Review of the Federal Reserve Bank of Kansas City* that restructuring debt won't help in a farm crisis: Farmland must change hands. Several months later, Duncan assumed the second highest position at the Farm Credit Administration. The stage was set for farmer liquidations.

While political opposition was neutralized by the congressional action, the farmer was readied to be picked clean. A system of "restructuring" and renegotiating the farmers' loans began. Interest rates on the most "distressed" loans were raised to astronomical levels, sometimes twice their previous rate, and the farmer was left to await foreclosure. If the farmer had additional collateral to be taken, his loan would be "restructured" and he would be offered a partial debt set-aside for one to three years, in return for more collateral. At the end of the term—when he couldn't meet the balloon payment due, which often included compounded interest—foreclosure proceeded, and the FCS took everything, including the additional collateral. Another device was the FmHA loan guarantee program. The government would pay part of the interest rates, while the farmer provided more collateral. His loan was extended one to three years or the term of the guarantee. At the end of the term, the farmer was liquidated, he lost everything including the additional collateral, and the lender cashed in on the guarantee. His land was sold to another sucker, an established farmer, to allow him to grow bigger, at a lower interest rate to start!

As the higher lending rates forced more liquidations, the liquidations reduced the income of the system and the system raised the interest rates to obtain more liquidity. Asset values declined rapidly as farmers were forced to liquidate assets to generate cash, which caused an increase in the loss projections as the reduced values were plugged into the loan analysis forms. This effect began "snowballing," as the system tried to liquidate fast enough to generate cash to cover the ever-increasing loss projections, which were being caused by the higher interest rates and the reduced asset values. What all but a handful of people never realized was that the liquidations were triggered by *potential* losses, not actual losses. The actual losses, which were determined after the liquidations, only required half the funds set aside to cover them. Therefore, the system was never in the dire financial condition being portrayed.

The liquidations continued until the end of 1987 when Congress passed the Agricultural Credit Act of 1987. Acting on the assumption that the system had booked \$4.5 billion in losses, Congress made some substantial changes. A further restructuring and consolidation was ordered. A new secondary market, Farmer Mac (Federal Agricultural Mortgage Corporation), was established to channel all qualifying agricultural real estate loans from the originators to "poolers" who would use them as collateral for a new security issue for investors. Congress also mandated that the system would generate sufficient income by raising interest rates to recapitalize itself and establish an account as insurance against future losses.

Overall farm debt increased 300% between 1970 and 1984. From 1985-87 the debt bubble was reduced by foreclosing on hundreds of thousands of farmers and millions of dollars of loans. Between January 1984 and January 1988, some 46% of all Federal Land Bank loans were foreclosed upon, involuntarily liquidated, or paid off, or borrowers fled the system. A total of 305,000 farmers were eliminated from the FLB loan roster. The same thing happened to 54% of all PCA borrowers. One hundred and eighty-four thousand farmers were eliminated from the PCA loan roster. There were \$23.5 billion of loan volume terminated in the FLB. There were \$10.5 billion loan terminations in the PCA.

The FmHA began the liquidation of its farmer borrowers in 1988. In 1989, a report from the congressional General Accounting Office said that the FmHA was prepared to write off as losses \$12 billion or 44% of its outstanding farm loans. Instead of a government bailout, there was a liquidation of both the farmer and of valuable farm properties. Throughout the so-called "farm crisis" there was never a loss to an investor, and payments of principal and interest were made on time.

Since the reorganization, beginning in 1985, over 40% of U.S. farmland is in the hands of non-owner operators. Some of this land is rented by neighboring farmers who are forced into farming larger tracts in order to survive another season. But millions of acres are now in the hands of investors or large operators, who simply hire the previous owner on as a tenant, or employ one of the growing numbers of farm management companies to work the land for the owner/investor on a strictly cash flow basis, which permits more intense looting of what was the family farm system of agriculture. The large owner/operator who dominates the farm sector today finds the market controlled by the cartels, if he is not actually contracted to a cartel to run his farm. Five hundred thousand large farms now produce 80% of the nation's food.

The family farm system as we know it has disappeared.

About 1 million farmers were lost between 1970 and 1990. Virtually all of the decline in farm numbers occurred on family-sized farms. The reduction in farm population during this time was 52.7%.