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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

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## Report On The Implementation Of The Farm Credit Act Amendments Of 1980



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APRIL 8, 1985

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COMPTROLLER GENERAL OF THE UNITED STATES  
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To the President of the Senate and the  
Speaker of the House of Representatives

This is the second of two reports on the programs and activities which were authorized by the Farm Credit Act Amendments of 1980. An interim report (GAO/GGD-83-26) on the general implementation process for the 1980 Amendments was issued on March 7, 1983. Our final report discusses the extent that the new and expanded lending authorities in the 1980 Amendments have been used by the agricultural community and whether these amendments have resulted in the benefits anticipated when the legislation was enacted. Our review was made pursuant to the Farm Credit Act of 1971, as amended (12 U.S.C. 2260).

Copies of this report are being sent to the Governor of the Farm Credit System, the Director of the Office of Management and Budget, and interested Members and committees of the Congress.

A handwritten signature in black ink, reading "Charles A. Bosker".

Comptroller General  
of the United States



## **REPORT ON THE IMPLEMENTATION OF THE FARM CREDIT ACT AMENDMENTS OF 1980**

The Farm Credit System, a network of lending institutions owned by its borrowers, is the largest single source of credit to farmers. In 1980, the Congress provided the Farm Credit System with new and expanded lending authority through the Farm Credit Act Amendments of 1980. At the same time, the amendments required GAO to review the effects of this authority and issue an interim and final report to the Congress. Specifically, in this final report GAO addresses these legislative objectives of the amendments: increasing exports by agricultural cooperatives financed by the Farm Credit System; increasing non-System financial institutions' availability of loanable funds; helping young, beginning, and small farmers; and maintaining utility cooperatives' eligibility to borrow from the System. GAO also discusses other provisions of the amendments.

### **BACKGROUND**

The Farm Credit System is composed of a network of banks and institutions that lend money to farmers, ranchers, aquatic producers, and their cooperatives. The Farm Credit System has a wide range of programs to meet the special needs of its borrowers. The 1980 amendments affected many of these programs.

Since 1980 the agricultural sector has been plagued by weak export markets due mainly to a strong dollar and sluggish world demand. In addition, declining land values, relatively stagnant commodity prices coupled with rising production costs, and natural disasters have weakened the financial positions of many participants in the agricultural sector.

### **International services**

The 1980 amendments authorized the System to engage in a variety of international banking services that had previously been provided only by commercial banks and other financial institutions. The international banking service authority was to assist agricultural cooperatives, through direct financing, to increase their amount of exports. Proponents of the legislation believed that this financing authority would increase agricultural cooperatives' exports both in absolute

terms and relative to others involved in the export of agricultural products and increase farmer members' profits.

Discounting  
loans

Since 1923 the System has been able to purchase (discount) from non-System financial institutions loans that they made to farmers and ranchers. By selling these loans to the System, financial institutions receive funds to make additional loans. Before the System purchases the loans, however, the institutions have to meet certain eligibility standards. The 1980 amendments changed these standards to make discounting more widely available to financial institutions.

Young farmers  
or ranchers

To stem the decline of small farms, the Congress, in the 1980 amendments, required the System's financing institutions to design programs that would meet the credit needs of young, beginning, or small farmers and ranchers.

Utility  
cooperatives

The Congress was concerned that the changing demographic patterns of rural America would reduce the number of rural electric, telephone, public service, and certain local supply cooperatives who could borrow from the System. Therefore, in the 1980 amendments, the Congress changed from 70 percent to 60 percent the farmer voting control requirement that must be met before a rural utility cooperative is eligible to borrow funds.

**RESULTS IN  
BRIEF**

Overall, expanded credit for target groups of borrowers has not materialized. These findings, however, may have been affected by the agricultural environment that existed from 1980-84 and the relatively short time the System has been operating under the expanded credit authority.

**PRINCIPAL  
FINDINGS**

International  
services

The Farm Credit System has provided over \$2 billion in agricultural export financing since lending began under the international financing program in April 1982. GAO's evaluation of experience with the program indicated that in some cases, the program enabled cooperatives to sell in markets that had previously not been penetrable. Agricultural exports of U.S. products declined between 1982 and 1983. GAO's analysis

indicated that the market share of agricultural cooperatives was roughly maintained. To the extent that the program may have reduced financing costs of export sales or promoted sales that may not have been made without the program, logically the profitability of farmers of exporting cooperatives should increase. However, GAO could not obtain any data to validate this expected result. Thus, the evidence to date on progress in meeting objectives is mixed. GAO believes that more experience with the program in an improved agricultural environment is necessary to reach firm conclusions about whether the program will meet the objectives intended by the Congress.

Discounting  
loans

The changed eligibility requirements did not result in greater utilization of discounting services offered by the Farm Credit System. Since 1980 the amount of loans discounted annually has remained constant at about \$1.8 billion. GAO randomly selected and sent out a questionnaire to 396 of 2,182 commercial banks involved in agricultural lending to find out why they were not using this method of financing. A majority of banks responded that they did not need additional funds for agricultural loans because of increased bank liquidity and weak farm loan demand. Additionally, some banks were not aware of the program, and others did not use the program because they viewed the Farm Credit System as a competitor.

Young farmers  
or ranchers

The Farm Credit System has not singled out young, beginning, or small farmers or ranchers for special credit standards. The terms and conditions are the same for all System borrowers. Instead, the System's financing institutions are attempting to meet this group's credit needs by advising potential borrowers on financial and agricultural matters and on coordinating loan arrangements with other financial institutions. There has been no increase in credit extended to this group since passage of the amendments. Neither the amendments nor the legislative history provide direction on specific forms of financial assistance the Congress intended the System to provide to this group of borrowers.

Utility  
cooperatives

The full impact of the change in eligibility requirements remains unclear. Although the Farm Credit System had an estimate prepared prior to enactment of the amendments of the effect of the change, it could not provide detailed support. Also, two of three affected System banks visited by GAO did not know the percentage of farmer members in each of their cooperative borrowers. GAO randomly selected and sent out a questionnaire to 399 of 993 rural electric utility cooperatives that were active members of the National Rural Electric Cooperative Association as of June 1, 1982. GAO's questionnaire results showed that, if the requirement had not changed, 15 percent of the 345 cooperatives responding would not have been eligible to borrow from the System if they so desired.

**MAJOR  
RECOMMENDATIONS**

No recommendations were made as a result of this effort.

**AGENCY COMMENTS**

The Farm Credit Administration stated that on balance the report is an accurate reflection of the results of the 1980 amendments.



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#### ABBREVIATIONS

BC	Bank for Cooperatives
CBC	Central Bank for Cooperatives
CCC	Commodity Credit Corporation
CFC	National Rural Utilities Cooperative Finance Corporation
EXIMBANK	Export-Import Bank of the United States
FCA	Farm Credit Administration
FCIA	Foreign Credit Insurance Association
FCS	Farm Credit System
FICB	Federal Intermediate Credit Bank
FLB	Federal Land Bank
FLBA	Federal Land Bank Association
FmHA	Farmers Home Administration
GAO	General Accounting Office
LIBOR	London Inter-Bank Offered Rate
OFI	Other Financing Institution
PCA	Production Credit Association
REA	Rural Electrification Administration
YBS	Young, Beginning, or Small Farmer or Rancher

## CHAPTER 1

### INTRODUCTION

The Farm Credit System (FCS), the largest single supplier of agricultural credit, provides low-cost credit to farmers, ranchers, producers and harvesters of aquatic products, agricultural and aquatic cooperatives, and rural home owners. In 1980, legislation was enacted to update and improve the operation of the FCS. The Farm Credit Act Amendments of 1980 (Public Law 96-592, 94 Stat. 3437) contained numerous provisions that authorized institutions in the FCS to offer new and expanded types of credit to farmers and other borrowers of the System.

This report discusses the extent that the new and expanded lending authorities have been used by the agricultural community and whether the amendments have resulted in the benefits anticipated when the legislation was enacted. This report is submitted to the Congress under the provisions of Section 5.30(a) of the Farm Credit Act of 1971, as amended, which requires the Comptroller General to evaluate the programs and activities authorized by the amendments.

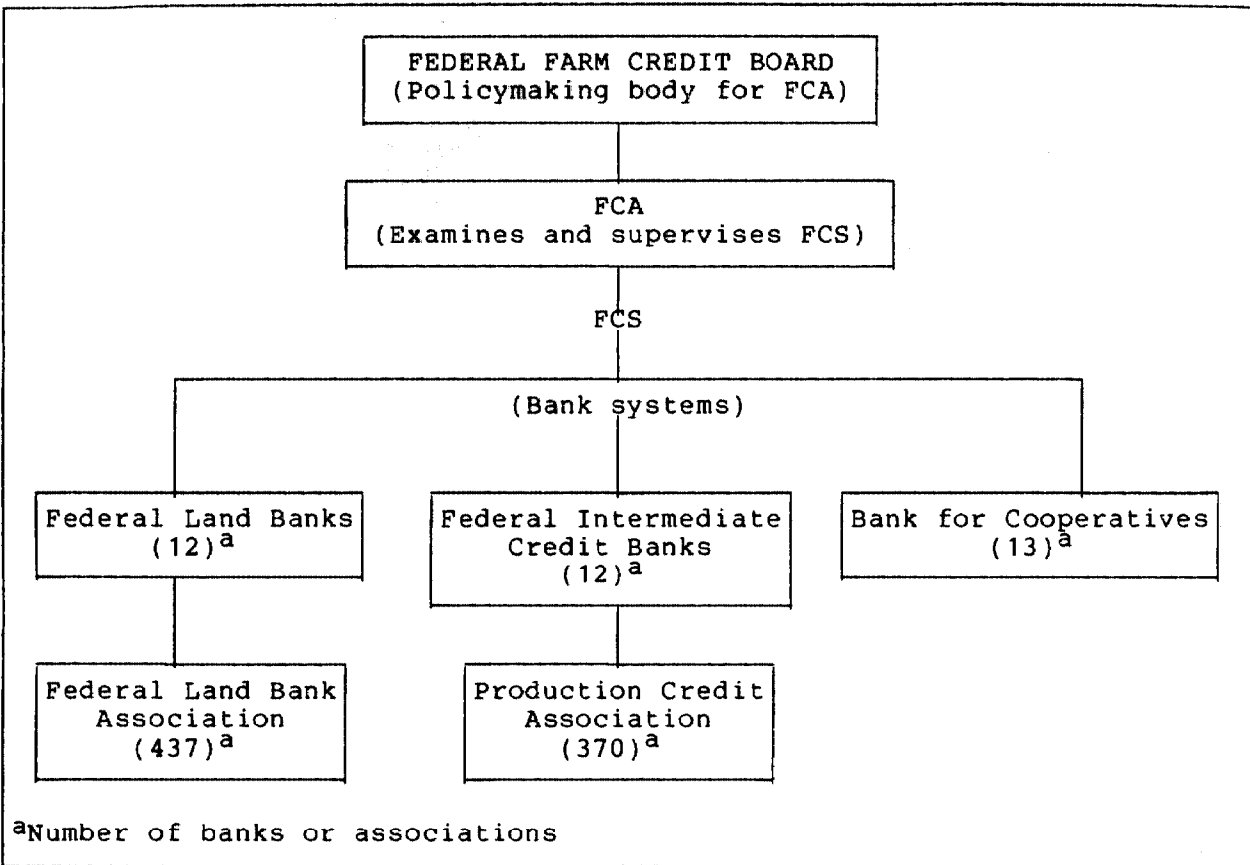
### OVERVIEW OF THE FARM CREDIT SYSTEM

FCS is organized as a cooperative and is entirely borrower owned.<sup>1</sup> The FCS comprises 12 districts covering the United States and Puerto Rico. Each district has a Federal Land Bank (FLB), a Federal Intermediate Credit Bank (FICB), and a Bank for Cooperatives (BC). The FCS also has a Central Bank for Cooperatives (CBC), which is located in Denver, Colorado.

The Federal Farm Credit Board is the policymaking body for the Farm Credit Administration (FCA) and FCS banks. There are 13 board members--one from each of the bank districts and one appointed by, and who serves as a representative of, the Secretary of Agriculture. The board members serve a single 6-year term. FCA, an independent federal agency, supervises and regulates the activities of the FCS banks. The following organizational chart shows the relationship between FCA and the FCS.

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<sup>1</sup>As a condition of obtaining loans from the FCS, borrowers must acquire capital stock in the lending institution. The investor recoups the investment upon repayment of the loan.



Only the amount of bonds issued by the U.S. Treasury exceeds the amount issued in the national money market by the FCS. An FCS Funding Corporation functions as a fiscal agent in arranging for the issuance, sale, and retirement of FCS bonds and discount notes. After each FCS bank has determined and reported its funding needs, the funding corporation, located in New York City, will consult with bond dealers and the FCA Governor to determine the amount and terms of the issues to be offered. The FCS bonds and notes are then sold through a nationwide chain of securities dealers. The principal and interest on these bonds and notes are not guaranteed by the government. FCS borrowers bear the interest costs through variable interest rate loans that are adjusted whenever necessary to cover the cost of FCS borrowing.

In 1983, the FCS made loans totaling \$65.9 billion, a 5-percent decrease from the \$69.3 billion in loans made during 1980. Total loans outstanding on December 31, 1983, amounted to \$82.0 billion, a 20-percent increase from the \$68.3 billion outstanding as of the December 31, 1980.

The FLBs, through a network of 437 Federal Land Bank Associations, make long-term loans secured by first mortgages on farm or rural real estate. Loans for farm real estate are made for periods from 5 to 40 years. The FLBs are the major farm real estate lenders in the United States. As of December 31, 1983, 662,276 loans totaling \$53.4 billion were outstanding compared to 593,634 loans totaling \$38.1 billion outstanding as of December 1980.

The FICBs finance the production needs of agricultural and aquatic producers through 370 Production Credit Associations<sup>2</sup> (PCA) nationwide and Other Financing Institutions (OFI). OFIs include commercial banks, trust companies, agricultural credit corporations, incorporated livestock companies, and other institutions involved in making loans for agricultural purposes. The PCAs make short- and intermediate-term loans of up to 10 years to farmers for such items as seed, fertilizer, and fuel and for repair or maintenance of rural housing and other agricultural needs. As of December 31, 1983, the FICBs had loans totaling \$17.4 billion outstanding to PCAs and \$850.0 million in loans outstanding to OFIs. This compared to \$17.9 billion in loans and discounts to PCAs and \$811 million to OFIs as of December 31, 1980.

The BCs provide term and seasonal loans to marketing, supply, and business service cooperatives for almost any purpose that will allow the cooperative to better serve its members. To qualify for a loan, at least 80 percent of a farm-related cooperative's voting control must be vested with farmers, ranchers, producers or harvesters of aquatic products, or federations of cooperatives. For rural electric, telephone, or public utility cooperatives, such voting control must be 60 percent.

The CBC's primary function is to participate in loans that exceed the lending limits of a district BC.<sup>3</sup> Since the 1980 amendments, the CBC has also been responsible for financing international sales and purchases of exports and imports of cooperatives. As of December 31, 1983, the BCs and CBC had \$9.5 billion in loans outstanding compared to \$9.8 billion as of December 31, 1980.

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<sup>2</sup>As of February 28, 1985, 11 PCAs were in stages of liquidation (terminating business).

<sup>3</sup>These limits are based on the capital and surplus of the individual BCs and are related to individual borrowers and countries. One example is that domestic limits on loans made by a BC cannot exceed 12 times its capital and retained earnings. International loans guaranteed by a government agency cannot exceed an additional four times capital and retained earnings of the BC.

FARM CREDIT ACT AMENDMENTS  
OF 1980

The Farm Credit Act of 1971 (Public Law 92-181, 85 Stat. 583) gives the Farm Credit Administration broad authority over the banks and associations that make up the FCS. In 1979, officials of the Farm Credit System recommended to the Congress a number of substantial changes to the 1971 Act. The Congress approved these changes, and on December 24, 1980, the President signed into law the Farm Credit Act Amendments of 1980. The purposes of the amendments were to expand credit to the agricultural sector, to provide uniformity in lending practices between banks, and to revise certain administrative procedures of FCA. The analyses performed in preparing this report were designed to ascertain whether these purposes have been achieved.

For individual borrowers, the 1980 amendments

- broadened the authority of the Federal Land Bank Associations and Production Credit Associations to finance the processing and marketing activities of farmers, ranchers, and aquatic producers;
- permitted Federal Land Banks to make loans up to 97 percent of the market value of the real estate serving as security when the loans are guaranteed by a federal or state agency;
- expanded the financing of aquatic operations to the FLBs and Banks for Cooperatives;
- authorized the FCS institutions to sell insurance to protect loan commitments; and
- directed the FLBAs and PCAs to prepare programs to meet the special needs of young, beginning, or small farmers or ranchers.

For cooperatives, the 1980 amendments

- allowed the BCs to perform export-import financing functions for agricultural cooperatives equivalent to those that may be exercised directly by banks;
- lowered the farmer membership requirement for BC financing of rural electric, telephone, public utility, service, and certain local supply cooperatives; and
- made cooperatives that were organized to provide commercial fishermen with business services eligible to borrow from the BCs.



Other important provisions of the amendments liberalized the requirements that commercial banks and other financial institutions must satisfy to obtain funds from the FCS. The amendments also contained numerous housekeeping provisions, such as increasing the daily rate of compensation of the Federal Farm Credit Board.

The 1980 amendments also provided for increased congressional oversight of the FCS. To this end, one of the provisions required GAO to conduct an evaluation of the programs and activities authorized by the amendments and to make an interim report and a final report to the Congress. We issued an interim report that discusses how regulations were being prepared and implemented to carry out the amendments.<sup>4</sup> This is our final report on the implementation of the 1980 amendments.

#### FCS LOAN ACTIVITY HAS DECREASED

As shown below, total loans made by the FCS each year have declined since 1981. This is largely a reflection of the adverse conditions in agriculture.

<u>Year</u>	<u>Loans made</u> <u>(billions)</u>
1980	\$69.3
1981	73.9
1982	66.5
1983	65.9

According to information obtained from FCA and potential participants in FCA programs, such as commercial banks, adverse economic conditions in the agricultural industry have been an important factor in preventing borrowers from taking advantage of the new and expanding authorities provided by the 1980 amendments. Table 1 compares the outstanding loans on December 31, 1980, to those outstanding on December 31, 1983, for six programs affected by the 1980 amendments where systemwide data were available.

FCA officials point out that a number of problems have beset farmers, including high interest rates, low farm prices, declining land prices, increased production costs, reduced exports caused by improved world crop conditions, unattractive currency exchange rates for foreign agricultural customers, and a severe drought that began in July 1983. Moreover, these officials do not expect an increase in lending until such time as farming conditions improve.

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<sup>4</sup>Interim Report on the Implementation of the Farm Credit Act Amendments of 1980 (GAO/GGD-83-26, Mar. 7, 1983).

Table 1

Comparative Loan Activity For Six FCS  
Programs Affected By The 1980 Amendments<sup>a</sup>

	<u>Loans outstanding</u>		
	<u>12/31/80</u>	<u>12/31/83</u>	<u>Increase or (decrease)</u>
<u>Amendments that allowed for increased lending</u>			
(1) Authorized the banks for cooperatives to finance transactions for export or import of agricultural or aquatic products by U.S. cooperatives. (See ch. 2.)	\$ -0-	\$ 646.9	\$646.9
(2) Improved access to FICBs discounting services. (See ch. 3.)	810.7	850.0	39.3
(3) Streamline the PCA-commercial bank loan participation arrangements. (See ch. 6.)	201.1	95.1	(106.0)
(4) Authorized FLBAs and PCAs to make loans to finance basic processing and marketing if the applicant's farming, ranching, or aquatic operation supplied at least 20 percent of the amount of commodity processed or marketed. (See ch. 6.)	-0-	7.4	7.4
(5) Lowered the farmer-member eligibility requirements for rural electric cooperatives to be eligible for loans from BCs. (See ch. 5.)	1,120.3	1,454.1	333.8
(6) Authorized FLBs and BCs to make loans for aquatic purposes. Previously only PCAs could make aquatic loans. (See ch. 6.)	-0-	0.9	0.9
Total	<u>\$2,132.1</u>	<u>\$3,054.4</u>	<u>\$922.3</u>

<sup>a</sup>Systemwide data on other programs were not available as of June 30, 1984.

The effects of financial problems in farming during the last few years are illustrated by FCS loan losses, particularly those of PCAs. For example, in 1982 the loan losses charged off for PCAs of \$159 million exceeded the total losses for the entire 11-year period of 1970-80. Moreover, PCA loan losses increased to \$238 million in 1983. Losses for FLBs have not increased significantly. According to a Federal Reserve Bank report, if present conditions continue, however, FLB losses will probably increase sometime in the future because farmers delay default on real estate loans as long as possible.

Both FCA and Federal Reserve Bank economists are predicting that total farm income and net farm income should improve in 1984. The U.S. Department of Agriculture is projecting net farm income between \$29 billion and \$33 billion. FCA pointed out, however, that the 1984 income is misleading because the inventory component of farm income will experience a high swing from liquidation in 1983 to accumulation in 1984 and most of the Department of Agriculture's Payment-In-Kind program payments were received in 1984, rather than 1983. FCA believes that, from a credit perspective, net cash income is probably a better measure of repayment capacity. FCA estimates that net cash income will be down in 1984 from 1983, which underscores the debt servicing problems that many farmers are experiencing.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this review is to evaluate the effect the 1980 amendments had on the lending activities of the FCS. In evaluating the amendments' effects, we used various measures to determine whether program objectives were being met under the new and expanded authorities provided by the amendments. This review was conducted in accordance with generally accepted government audit standards.

This report covers

- (1) international banking services (ch. 2);
- (2) discounting loans of non-System financial institutions (ch. 3);
- (3) financing young, beginning, or small farmers or ranchers (ch. 4);
- (4) financing rural utility cooperatives (ch. 5); and
- (5) other related programs (ch. 6).

The House Committee on Agriculture, in its report on the amendments, indicated particular interest in the first two programs listed.<sup>5</sup>

Our work was performed between August 1983 and June 1984 at FCA headquarters in Washington, D.C.; at the district Farm Credit Banks in St. Louis, Missouri; Wichita, Kansas; Omaha, Nebraska; and New Orleans, Louisiana; and at the CBC in Denver, Colorado. We selected the St. Louis, Wichita, and Omaha districts for review because, collectively, institutions in these districts held about 30 percent of the System's outstanding loans and because these three districts appear to be representative of districts throughout the country. We visited the New Orleans district because of its involvement in aquatic lending. We performed work at the CBC because international banking services are centralized at this location. At each location we obtained data and interviewed officials on programs or activities affected by the amendments. We also visited two of the largest exporting cooperatives in the St. Louis, Wichita, and Omaha districts to obtain information on exports financed through the CBC. We also visited five rural utility cooperatives in the St. Louis, Wichita, and Omaha districts to obtain information on cooperative utility loans. These five cooperatives accounted for most of the utility lending in these three districts. We interviewed officials of the Department of Agriculture, the Comptroller of the Currency, and the National Rural Electric Cooperative Association to obtain information on farm exports, banking, and rural utility cooperatives.

We reviewed the amendments' authorizing legislation and the legislative history. We also reviewed FCA policies and regulations, policies, and guidance established by the various district banks, and directives and guidelines established by the CBC. In addition, we reviewed FCA audit reports and other records, documents, and directives from other agencies, banks, or cooperatives we visited. We interviewed officials of the Comptroller of the Currency to obtain their views on CBC and FCA lending limits for international loans. Our analysis was primarily limited to lending activity during calendar years 1982 and 1983.

We randomly selected 6 PCAs and 10 FLBAs in the Wichita, Omaha, and St. Louis districts to determine what these associations were doing as a result of the 1980 amendments to help young, beginning, or small farmers or ranchers.

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<sup>5</sup>House Report No. 96-1287, Report on H.R. 7548, a bill to amend the Farm Credit Act of 1971, 96th Congress, 2nd Session.

From the Federal Reserve, we obtained quarterly financial performance data for 14,240 U.S. commercial banks and randomly selected and sent questionnaires to a sample of 396 banks out of a universe of 2,182 banks that had less than \$200 million in total assets, a maximum of 60 percent loan-to-deposit ratio, and at least 15 percent of their total loanable funds in agricultural loans. We used a questionnaire to obtain information on the banks' views on discounting loans with the FICB. We also sent questionnaires to a random sample of 399 rural electric cooperatives from a membership list of 993 members of the National Rural Electric Cooperative Association to obtain their views on the FCS' expanded authority to make loans to utility cooperatives. Appendixes II and III describe the methodology we used in selecting the sample and the confidence limits for responses to the two questionnaires.

#### AGENCY COMMENTS

We reviewed comments on a draft of this report from FCA. The agency stated that on balance the report is an accurate reflection of the results of the 1980 amendments. The full text of the agency's comments appears in appendix V.

## CHAPTER 2

### EXPERIENCE WITH INTERNATIONAL

#### BANKING SERVICES PROGRAM

#### INSUFFICIENT TO DETERMINE

#### ACCOMPLISHMENT OF OBJECTIVES

Since enactment of the 1980 amendments, the FCS has lent \$2 billion to promote the direct exporting of agricultural products by cooperatives. The FCS requested and was given this authority in the 1980 amendments. The rationale given by those advocating the program was that through farmer-owned cooperative supplied financing, American farmers could increase their export activities and improve the profitability of their operations. Our data indicate that the objectives of the program have not yet been met. However, lending did not begin until the Spring of 1982. Therefore, we do not know whether the program will ultimately meet the objectives of the 1980 amendments.

The overall objective of the 1980 amendments was to provide financing that would enable agricultural cooperatives to increase the amount of agricultural products that they export. Specifically, the proponents of the legislation believed that this capability offered the potential to increase the exports of cooperatives both in absolute terms and relative to other exporters and to increase the return that cooperatives' members receive for their products. For example, in testimony before a House Committee supporting the new authority, the Governor of FCA stated that

"The BC proposal is based on the premise that more can be done by U.S. farmers themselves to export their own products and that the means for this participation is through farmer-owned cooperatives. The latest USDA statistics show that cooperatives account for about 10 percent of all U.S. farm exports."<sup>1</sup>

In supporting the request for exporting finance authority, the President of the Central Bank for Cooperatives stated that

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<sup>1</sup>Farm Credit Act Amendments of 1979, hearings before the Subcommittee on Agricultural Credit and Rural Electrification of the Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, 96th Congress, 1st Sess., page 175.

"I would like to review briefly why we are interested in having the authority to offer export financing. Our interest and involvement in export financing really started many years ago, but its importance was dramatically emphasized at the time of the Russian wheat sale of 1973, when farmers suddenly began to ask themselves if they sold all this grain to Russia, why are our cooperative marketing organizations not participating to a greater extent in the sales, and thereby permitting a greater share in the earnings from those sales? The farmers, through the boards of directors of their marketing cooperatives began to ask their bankers, the BC's, how can we do this, what should we be doing? The banks responded that they did not have the necessary authorities to provide full export financing in marketing their products overseas."<sup>2</sup>

PROGRESS TO DATE  
IN MEETING PROGRAM  
OBJECTIVES

Before the international banking services program was devised, less than 10 percent of total agricultural exports were directly handled by the cooperatives. In addition to direct sales to foreign buyers, agricultural cooperatives were indirectly involved in exporting in which the cooperative worked through an intermediary, usually brokers and dealers who were perceived by some program advocates to have garnered a large share of the profits from export sales. Financing was in all cases obtained from commercial banks or other private sector lenders.

Following enactment of the 1980 amendments, FCA drafted and received comments on regulations to implement the anticipated international activities. The CBC developed reference manuals and developed policies and procedures for the activities in 1981. International activities were authorized to commence on February 15, 1982, and the first international loan was made on April 30, 1982. Information provided to us by the Department of Agriculture indicates that agricultural cooperatives, the channel through which the program was to have its effect, roughly

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<sup>2</sup>Ibid., page 25.

maintained rather than increased their market share.<sup>3</sup> It would appear that the \$2 billion in financing from the FCS has, to a certain extent, displaced financing that had previously been available from other private lending sources.

The cooperatives' market share may not have increased because of the economic condition prevalent during this time. Since the enactment of the 1980 amendments, agriculture exports declined from \$40 billion to \$35 billion by the end of 1983. According to a U.S. Department of Agriculture publication,<sup>4</sup> the decline in agricultural exports resulted from such factors as sluggish world demand, improved crop production abroad, more intense competition for import markets, and high exchange rates for the U.S. dollar.

Despite the overall reduction in exports and the maintenance of, rather than increase in, market share by agricultural cooperatives and consequent decline in their export sales, the CBC provides examples where some cooperative officials said their cooperative had been successful in marketing in countries where they had not been successful before. They attribute this to the financing provided by the CBC. For example, they said that the cooperatives have made sales to Mexico, Portugal, and the Philippines, and they had not been able to make sales in these areas before. Officials of the cooperatives stated that the CBC assisted them in meeting local bidding requirements and that this effort greatly assisted in making the sales.

We obtained information from five regional or multi-regional exporting cooperatives on whether they could show an increase in export sales as a result of international financing by the CBC and, if so, could they show an increase in income as a result of the increased exports. Officials of four cooperatives said that the CBC was instrumental in helping them to increase export sales to countries financed by the CBC. In some cases, they increased their volume to countries to which they were already exporting. In other cases, the CBC helped them to enter new markets. Also, these officials said that increases from the increased sales helped them to reduce losses and gave them a greater potential for profit when overall U.S. exports

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<sup>3</sup>A full descriptive presentation of the information we obtained from the Export Sales Reporting Division was precluded by USDA's strict interpretation of the confidentiality requirements of section 812 of the Agricultural Act of 1970, as amended (7 U.S.C. 612c-3). This provision requires that contracts for export sales be reported to the Secretary of Agriculture and that "individual reports shall remain confidential. . ."

<sup>4</sup>U.S. Department of Agriculture, FATUS-Foreign Agricultural Trade of the United States (Nov./Dec. 1983).



were declining. An official at the other cooperative said that they could not show that CBC financing had helped to increase exports or reduce losses.

Logic would suggest that by eliminating the brokers and dealers from the export financing chain and the costs associated with the intermediation function they perform, the profitability of CBC-financed international transactions would increase. However, the officials stated that, because of the way they manage and account for income and loss, they could not separate out income based on specific sales. While some examples of transactions resulting in increased profits from CBC financial sales were offered, we could not obtain an overall demonstration from cooperatives or the CBC of whether the program increased income to farmers or increased exports.

Furthermore, during hearings on the 1980 amendments, BC officials also indicated that many small cooperatives were interested in entering the export market. However, we found that a majority of the outstanding loan volume under the amendments at the end of 1983 was for sales originating from seven large regional or multi-regional cooperatives. CBC officials said that they now believe that the number of cooperatives involved in exporting will eventually evolve to a few since many of the smaller cooperatives are members of the regional cooperatives and they would, in effect, be competing against themselves for export sales.

TOO SOON TO EVALUATE  
ULTIMATE EFFECTIVENESS

At the time our evaluation of the program ended, there had been only 1 full year's worth of international lending experience. Our evaluation indicates that, on the one hand, agricultural cooperatives' market share remained unchanged and that no demonstrable increase in profits resulted from directly financed transactions. On the other hand, there was evidence that in some cases the program has enabled cooperatives to sell in markets that had previously not been penetrable. Thus, the evidence on the extent to which the program has achieved its objectives is mixed at this time. Clearly, the period of our evaluation is not sufficiently long to determine whether the international lending activities program will ultimately achieve the objectives intended by the 1980 amendments. Thus, our assessment of the lending experience should not be construed as conclusive as to the ultimate potential of the program to improve the competitive position of agricultural cooperatives in the U.S. export market.

## STATUS OF PROGRAM

The BC system has generally centralized its international lending authority at the CBC under the International Services Department, with all BCs except for the Sacramento district bank acting primarily as marketing agents for the new service. The Sacramento district bank was allowed to provide limited international services and to participate in international loans affecting cooperatives in its district. A CBC official said the Sacramento district bank was allowed to do this because it had to meet FCA's minimum requirements regarding the hiring of qualified personnel and the development of a marketing plan, operating plan, and approved policies. The official also said that Sacramento was used as a pilot for the other district banks.

In July 1982, the BC system had a total of \$19.6 million outstanding in international letters of credit. As of December 31, 1983, or about 18 months later, the program had grown to \$647 million in international loans outstanding and \$233.2 million in letters of credit outstanding.

As of the end of December 1983, 91 percent of CBC-financed international loans outstanding were insured under government loan guarantee programs. Two programs have been used--one administered by the USDA and one associated with the Export-Import Bank (Eximbank).

The GSM-102 program is a Commodity Credit Corporation (CCC) export credit guarantee program that is administered by the General Sales Manager, Foreign Agricultural Service, USDA. The program, which was started in 1981, is designed to expand U.S. agricultural exports by stimulating U.S. bank financing of foreign purchases on credit terms of up to 3 years. In every transaction, the foreign buyer's bank must issue an irrevocable letter of credit covering the port value (f.o.b. value) of the commodity exported. CCC's guarantee will cover 98 percent of the amount owed should the foreign bank default. The program operates in cases where credit is necessary to increase or maintain U.S. exports to a foreign market and where private financial institutions would be unwilling to provide financing without CCC's guarantee.

Another loan insurance program is offered through the Foreign Credit Insurance Association (FCIA), a group of about 50 of the Nation's leading private insurance companies that cooperate with the Eximbank to cover repayment risks on short- and medium-term credit transactions.

FCIA insures U.S. exporters against the risk of nonpayment by foreign buyers for commercial and political reasons. Commercial risks include losses from a buyer's insolvency or failure to pay within 6 months after the due date of insured obligations. Political risks are losses from dollar transfer delays, war, revolution, license revocation, diversion of goods, and

similar politically related incidents occurring in the buyer's country that might cause a loss to the U.S. company. FCIA assumes the commercial portion of export credit risks. Eximbank assumes political risks and reinsures FCIA against certain extraordinary commercial risks.

Table 2 shows outstanding loans to countries insured under the GSM and FCIA programs as of the end of January 1984. About 81 percent of the CBC loans outstanding were to countries rated as high risk by the CBC.

According to CBC officials, the CBC has had no losses as a result of loan reschedulings. CBC officials stated that although most of their loans are to high risk countries, uninsured risk is low because of the guarantee programs. They said they would like to make loans to lower risk countries, but these countries usually pay cash. While the CBC eventually would like to reduce its concentration on government guaranteed loans to high risk countries, it has continued to emphasize lending under the guarantees through 1984. The status of other types of international financing services offered by the CBC follows.

Table 2  
International Loans Outstanding at  
the End of January 1984

<u>Country</u>	<u>Loan</u> <u>Amount</u>	<u>GSM</u> <u>insured</u>	<u>FCIA</u> <u>insured</u>	<u>Uninsured</u> <u>risk</u>
	----- (thousands) -----			
Portugal	\$189,597.0	\$186,792.0	\$ 0	\$ 3,812.0
Brazil	176,493.0	172,963.0	0	3,530.0
Mexico	117,151.0	116,114.0	0	1,007.0
Philippines	7,518.0	3,575.0	3,793.0	150.0
Yugoslavia	53,069.0	52,420.0	0	1,070.0
South Korea	67,387.0	47,948.0	18,091.0	1,348.0
Thailand	3,910.0	3,832.0	0	78.0
Japan	14,782.0	0	0	14,782.0
Totals	<u>\$629,907.0<sup>a</sup></u>	<u>\$583,644.0</u>	<u>\$21,884.0</u>	<u>\$25,777.0</u>

<sup>a</sup>This loan volume does not include \$32 million in loan participations with other financial institutions, which when added to the above total would equal \$661.9 million in loans outstanding as of the end of January 1984.

### Financing foreign trade receivables

As of May 1984, the CBC had just begun to establish lines of credit to finance foreign trade receivables, such as advances against collections and open accounts. At that point, they had established three lines of credit in three different countries: two lines of \$500,000 each and one line of \$3 million.

### Bankers acceptance financing

The CBC is offering bankers acceptance financing to borrowers for use when appropriate. A bankers acceptance is a short-term financing instrument used to finance the import or export of goods. As of March 1, 1984, the CBC had two correspondent banks and two foreign third parties regularly utilizing this service. Bankers acceptances outstanding as of March 1, 1984, totaled approximately \$43 million.

### Standby letters of credit

As of the end of December 1983, the CBC had standby letters of credit outstanding totaling \$17.6 million. These standby letters of credit are used to secure a cooperative's bid and may not result in an actual sale. These letters of credit assure the foreign buyers that the cooperatives will perform and that the CBC will be liable for damages resulting from nonperformance.

### Foreign exchange

The CBC is extending foreign exchange service to cooperatives through its correspondent banking network and through the Farm Credit Banks Funding Corporation. A CBC official said this service is very seldom utilized because of the present method of selling commodities in U.S. dollars. According to the official, as the dollar weakens, there may be a tendency to convert from U.S. dollars to other hard currencies; therefore, activity in this area could increase. The CBC will continue to monitor the activity in foreign exchange to determine the feasibility of initiating capability within the BC system in the form of a foreign currency trader.

### Collections, wire transfers, and credit reports

In addition to the preceding services, the CBC can provide collections, wire transfers of money, and credit report services. According to a CBC official, as of May 1984 the BC system was offering collection services and wire transfer services.

He said that they are testing procedures for collection services through a commercial bank with two of their district banks and, if these services worked out, the services would be expanded to the other district banks. He further stated that the CBC has always provided credit report services to cooperatives at their request.

FCA ACTIONS TAKEN ON GAO  
RECOMMENDATIONS IN THE  
INTERIM REPORT

In our interim report to the Congress in 1983 on implementing the international amendment to the Farm Credit Act, we recommended that the Governor, FCA

- establish minimum requirements that district banks for cooperatives must meet before they are allowed to undertake an international banking services program, and
- determine the feasibility of using the results of the federal bank regulatory agencies country risk<sup>5</sup> studies or have FCA develop such studies on its own.

In response to the recommendations, FCA has taken the following actions:

- FCA has established minimum requirements that district banks must meet before they are allowed to undertake an international banking services program.
- FCA has established a country risk evaluation unit for regulating the BC system country risk decisions. In setting up its unit, FCA has requested and is receiving country risk input data from the Federal Reserve Bank of New York and informal assistance from the Comptroller of the Currency. These are two of three banking regulatory agencies that make up the country risk committee. The Federal Deposit Insurance Corporation is the other agency in the Committee.

CONCLUSIONS

Results from the international financing program have been mixed during its first full year of operation. Although there has been some demonstrated penetration of markets as a result of the direct financing program, the agricultural cooperatives'

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<sup>5</sup>The possibility that adverse economic, social, or political circumstances may prevent a country's borrowers from making timely repayment of interest or principal is commonly referred to as "country risk."

overall export market share remained roughly unchanged. Furthermore, though it is logical to assume that the program has increased the profitability of export sales because of elimination of intermediate brokers and dealers in the export chain, we could find no data indicating the extent to which profitability has increased as a result of the program. Expectations regarding small cooperative participation have not been realized. It is entirely possible that agricultural cooperatives' market share would have declined in the absence of the program, but we have no basis for making this determination. Furthermore, because the program had only been in operation for a short time when our review was completed, there is not sufficient information to conclude whether the program ultimately will achieve the objectives of the 1980 amendments. The effectiveness of this program may be more accurately evaluated when more experience has been gained and when those factors adversely affecting U.S. export sales, such as sluggish world demand, return to more normal levels.

## CHAPTER 3

### LIMITED ACTIVITY UNDER OTHER

### FINANCING INSTITUTION PROGRAM

Federal Intermediate Credit banks were established originally to discount agricultural loans made by commercial banks and other agricultural lenders, referred to as Other Financing Institutions (OFIs). Discounting in this context is the FICB purchase of OFI loans so that the OFIs will have additional funds to make agricultural loans. The 1980 amendments attempted to improve OFI access to the discounting services and thus encourage greater use of those services.

Three years after the enactment of the amendments, OFIs have not materially increased their use of the discounting services. Banks responding to our questionnaire (see app. I) indicated that FCS funds have not been needed because of increased commercial bank liquidity and relatively weak farm loan demand since December 1980. Since the institutions in FCS play an important role in providing agricultural credit in rural communities serviced by commercial banks, many bank officials also said they are reluctant to discount loans with the FICBs since they view the PCAs as competitors. Another reason given by many bankers for not using the FICBs' discounting services is the lack of information about the program.

#### BACKGROUND ON PROGRAM AMENDMENTS

The FICBs were originally created in 1923 to discount loans for OFIs. OFIs made little use of the discounting mechanism. As a result, in 1933 the Congress created a national system of PCAs, which obtains funds by discounting farm loans with the district FICBs to make short- and intermediate-term loans to farmers. The 1980 amendments to the OFI program came as a result of statements from the commercial banking industry that OFIs were not being treated equally with PCAs.

In the 20 years prior to the passage of the 1980 amendments, FICB loan and discount volume increased substantially; however, the OFIs' share of this increase did not keep pace with the PCAs' share. As shown in table 3, by 1980 OFIs accounted for 5.2 percent of the FICBs' total loans (down from 7.1 percent in 1960).

The extent of OFI discounting activity has varied significantly among the 12 district FICBs, with the highest activity concentrated primarily in the central United States. The Wichita, St. Paul, Texas, and Omaha districts have each had more than \$100 million in OFI discounts outstanding in recent years, while some other districts, such as Springfield, Massachusetts, and Columbia, South Carolina, have had less than \$2 million.

Table 3

Loan And Discount Data Comparing FCS And  
Non-FCS Financial Institutions

<u>Year</u>	<u>FICB Loans and Discounts Made</u>			<u>OFI loan as percent of total</u>
	<u>PCA</u>	<u>OFI</u>	<u>Total FICB loans</u>	
	------(billions)-----			
1960	\$ 2.6	\$0.2	\$ 2.8	7.1
1970	8.3	0.6	8.9	6.7
1980	32.7	1.8	34.5	5.2

THE AMENDED PROGRAM HAS  
PROVIDED OFIs EQUAL  
DISCOUNTING PRIVILEGES  
WITH PCAs

The 1980 amendments were intended to provide equal treatment between OFIs and PCAs and to extend to more OFIs access to FICB's discounting. The amendments included four criteria that OFIs are required to meet to be eligible to discount with an FICB. First, an OFI must be significantly involved in lending for agricultural or aquatic purposes. Formerly, an OFI was required to have at least 25 percent of its loan volume at its seasonal peak in agricultural or aquatic loans. This requirement is now 15 percent.

Second, an OFI must show a continuing need for supplementary sources of funds to meet its agricultural or aquatic borrowers' credit needs. This need is measured by a gross loan-to-deposit ratio of not less than 60 percent at the seasonal peak for the last 3 consecutive years.

Third, an OFI must have limited access to national or regional credit markets. Fourth, an OFI must not use the FICBs' services to extend credit to borrowers not covered by the act.

FCA's review of the OFI program, conducted in response to our interim report, showed that the FICBs have adopted uniform procedures and criteria for considering discounting eligibility and that the procedures and criteria provide equal discounting privileges to OFIs and PCAs. The review disclosed only minor differences in how the OFI program is administered by the various FICBs. The review further showed that, generally, all 12 district FICBs treat the OFIs equally with the PCAs.

HAS THE AMENDED PROGRAM  
PRODUCED THE INTENDED  
RESULTS?

FCA testified that implementation of the amendment would make it possible for OFI discounting to constitute as much as 30



percent of the total amount of agricultural loans discounted by the FICBs. However, since 1980, OFI activity has remained at about 5 percent of total FICB loan activity, despite the increase in the number of eligible banks and the equalization of treatment between the OFIs and PCAs. (See table 4.)

Table 4

OFI Loan Activity As A Percentage Of  
Total FICB Loan Activity

	<u>Loans</u>			<u>OFI percentage of total loans</u>	<u>Number of OFIs</u>
	<u>PCA</u>	<u>OFI</u>	<u>Total</u>		
	----- (billions) -----				
1980	\$32.7	\$1.8	\$34.5	5.2	167
1981	35.0	1.9	36.9	5.1	184
1982	33.1	1.8	34.9	5.2	204
1983	30.3	1.7	32.0	5.3	198

Some decrease in the number of eligible OFIs has occurred since 1980 because of adverse economic conditions. The number of banks able to meet both the 15 percent agricultural or aquatic loan and the 60 percent loan-to-deposit ratio requirements is slightly less in 1983 than it was in 1980. (See table 5.)

Table 5

Number Of Potential Banks Eligible To Use  
FICB Discounting Services Because Of Change  
In Eligibility Criteria In 1980 Amendments

	<u>All commercial banks</u>	<u>Banks with 60% loan- to-deposit ratio and 25% agri./ aquatic loans</u>	<u>15% agri./ aquatic loans</u>	<u>Newly eligible as a result of change</u>
1980	14,268	1,526	2,125	599
1983	14,289	1,521	2,083	562

To obtain the views of bankers who were involved in agricultural lending in 1982 as to why they had not made greater use of FICB's discounting authority, we sent questionnaires to a random sample of 396 banks out of the universe of 2,182 banks that had a 60 percent loan-to-deposit ratio and at least 15 percent of loan volume in agricultural and aquatic loans (see app. I). Eighty-seven percent of the banks in the sample responded to our questionnaire, 98 percent of which were not using the FICB's discounting services. The principal reasons given for not using the FICB's discounting facilities were

- banks were unaware of the program,
- banks did not need additional loan funds in 1984, and
- banks viewed the PCAs as a competitor.

Many banks unaware  
of program

Despite the FICBs' and FCA's efforts to publicize the program, our questionnaire results indicate a large degree of unfamiliarity with various discounting relationships. The FICBs have conducted several types of activities attempting to inform commercial bankers of the revised OFI program.<sup>1</sup> Officials from each FICB participated in presentations at state bankers' meetings, agricultural lenders' conferences, agricultural lending schools, and American Bankers Association and Independent Bankers Association meetings.

Commercial agricultural banks responding to our questionnaire generally were unfamiliar with the process for obtaining funds by either direct discounting with the FICB or forming an agricultural credit corporation to discount loans with the FICB.<sup>2</sup> Their responses showed that 62 percent to 63 percent of the banks were at least somewhat unfamiliar with procedures for discounting through the FICBs.<sup>3</sup>

We asked the agricultural banks to indicate how interested they were in obtaining additional information about the FCS lending programs.<sup>4</sup> Thirty-six to 45 percent of the banks expressed an interest in obtaining additional information about discounting with the FICB. (See table 6.)

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<sup>1</sup>FCA officials have written magazine articles published in banking trade publications and have assisted the American Bankers Association in developing a paper on how to organize an OFI.

<sup>2</sup>An agricultural credit corporation (ACC) is a corporate organization with its own capital base usually wholly owned by one or more commercial banks or other financial institutions that provide credit to farmers.

<sup>3</sup>See page 2, question 5, in appendix I.

<sup>4</sup>See page 3, question 6, in appendix I.

Table 6

Agricultural Banks Interested  
In Learning More About FCS  
Lending Programs

	Discounting directly with the FICB -----(percent)-----	Discounting through an agricultural credit corporation with the FICB -----
Definitely to probably interested	45	36
Definitely to probably not interested or uncertain	<u>55</u>	<u>54</u>
Total	<u>100</u>	<u>100</u>

Some commercial bankers commented as follows:

"We have never received any information concerning FICB or ACC. We would be interested as to what assistance they could provide."

"We are not at all familiar with (FCS) programs but would be interested in learning."

"I believe it would be in our best interest to become familiar with other secondary markets. Therefore, on this premise I indicated more information is needed."

"Need more info re FICB direct which we would be most interested rather than ACC or participation w/PCA."

Many banks did not  
need additional loan  
funds in 1984

We asked commercial agricultural banks to what extent their calendar year 1984 funds were sufficient to meet their anticipated demand for agricultural and aquatic loans.<sup>5</sup> As shown in table 7, 97 percent of the respondents said their own funds were

<sup>5</sup>See page 1, question 2, in appendix I.

from some extent to a very great extent sufficient to meet the expected demand:

Table 7

Extent That Agricultural Banks' Funds Are  
Sufficient To Meet Their Anticipated  
Demand For Agricultural Loans

	<u>Percent</u>
Very great to great extent	41
Moderate to some extent	56
Little or no extent	<u>3</u>
Total	<u>100</u>

The lack of need for funds is further illustrated by the average loan-to-deposit ratio of commercial banks. The ratio indicates what percentage of a bank's total deposits are being used to make loans. This ratio declined from a peak of 68 percent in 1979 to 59 percent in 1983. According to FCA, the change in the loan-to-deposit ratio resulted from declines in loan demand and increases in deposits.

The decline in loan demand is related to the generally unfavorable agricultural economy that has prevailed since 1980. (See ch. 1.) According to FCA, farmers have reacted to this declining profitability by reducing purchases of capital items, such as machinery and real estate, thereby reducing the growth rate in the demand for agricultural credit.

Some banks view FCS  
as a competitor

Sixty-one percent of those agricultural banks responding to our questionnaire said that they viewed the PCAs as competitors and did not desire to participate in loans with them, i.e., become joint lenders with PCAs in making loans to farmers.<sup>6</sup> Thirty-eight percent said they were not interested in direct discounting with the FICBs for the same reason.<sup>7</sup> (See table 8.)

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<sup>6</sup>See page 5, question 13, in appendix I.

<sup>7</sup>See page 4, question 9, in appendix I.

Table 8

Extent That Agricultural Banks Are Not  
Interested In FCS Loan Programs Because  
The FCS Is A Competitive Lender

	Not participating in loans with <u>PCAs</u> -----	Not discounting directly with <u>the FICB</u> -----
	(Percent)	
Very great to some extent	61	38
Little to no extent or no basis to judge	<u>39</u>	<u>62</u>
Total	<u>100</u>	<u>100</u>

For example, a commercial agricultural banker responding to our questionnaire commented:

". . .we previously participated with the local PCA Association (sic). We currently have funds and/or a source of funds to meet our loan demand. We have always been somewhat uncomfortable participating with a direct competitor."

Another banker stated:

"Have participated with PCA previously. Discontinued this practice because of increased joint advertising campaign of PCA & FLB."

We asked those bankers who indicated that their 1984 funds were insufficient to meet their anticipated demand for agricultural loans the extent to which they planned to utilize other sources of funds, such as correspondent banks<sup>8</sup> or the FCS. Most said they planned to obtain the funds from correspondent banks. About 29 percent of those needing additional funds planned, at least to some extent, to obtain them from the FCS.<sup>9</sup>

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<sup>8</sup>A relationship between banks in which smaller banks have deposits with larger banks in exchange for the performance of various services.

<sup>9</sup>See page 2, question 3, in appendix I.

## CONCLUSIONS

The amended program has removed unequal treatment of OFIs and PCAs in using the FICBs' discounting facilities. However, it does not appear to have accomplished the intended results of providing more agricultural credit through OFIs' utilization of the discounting facilities. Limited activity during the first 3 years (1981 through 1983) of program implementation appears to be due largely to a lack of demand for additional funds by commercial banks, unfamiliarity with FICB discounting service, and a view that the FCS is a competitor.

## CHAPTER 4

### NO SIGNIFICANT CHANGE IN LENDING

#### PRACTICES TO YOUNG, BEGINNING,

#### OR SMALL FARMERS OR RANCHERS

Prior to the 1980 amendments, district banks and associations were not required to have special programs for young, beginning, or small (YBS) farmers or ranchers; however, FCA regulations permitted district banks and associations to make limited amounts of loans to this group under special programs. While some districts and associations had no special programs for YBS farmers or ranchers, other districts and associations had programs that provided loans under terms and conditions that were considered to be more favorable to these borrowers than those normally provided to other borrowers of the System.

The 1980 amendments required that each FLBA and each PCA prepare a program for furnishing sound and constructive credit and related services to YBS farmers or ranchers. Yet, neither the amendments nor the legislative history provided FCA with any direction on how lending programs should have been structured to meet the needs of this group, and FCA was not given any authority or funds to subsidize this program.

In the three districts involved in our review, associations have not developed programs that provide for financing YBS farmers or ranchers under terms and conditions that are any different than those normally made to System borrowers. Instead, these associations appear to be directing their efforts principally at providing creditworthy YBS borrowers with advice, counsel, and information. While these types of services are provided to all borrowers of the FCS, the associations appear to be placing greater emphasis on those applicants meeting the criteria of a YBS farmer or rancher.

#### IMPLEMENTATION OF PROGRAM

In late 1981, FCA finalized regulations to implement the program required by the 1980 amendments. The regulations, while not providing specific guidance, defined YBS farmers or ranchers as persons who meet one of the following criteria.

- Young--under the age of 35.
- Beginning--in the process of establishing an agricultural operation and has not assumed the full control and risk of such an operation for longer than 5 years.
- Small--sustaining gross agricultural income of less than \$40,000 a year and a net worth of less than \$100,000.

In November 1982, FCA furnished each FLB and each FICB general guidelines for associations to follow in developing its YBS programs. Among other things, the guidelines provided that

"The same credit standards and policies as are used in determining a sound loan for other groups of borrowers and applicants shall be followed in considering loan applications for young, beginning, and small farmers, ranchers, and producers and harvesters of aquatic products."

We reviewed the program policy statements of 18 FLBAs and PCAs in the St. Louis, Omaha, and Wichita districts. These statements were similar to the general guidelines furnished by FCA. For example, with regard to credit standards, a typical association policy statement provided that

"Borrowers in this program will capitalize their loans in the same manner required of all other borrowers. There will be no differential interest rates used in this program. The Association recognizes that borrowers in this program have special needs. The Association intends to meet those needs through utilization of existing credit programs. Standards for these loans will be the same as those required for all other loans."

We discussed the extent to which associations are now helping to meet the unique needs of YBS farmers, ranchers, and harvesters and producers of aquatic products with officials of the FLBs and FICBs for the three districts included in our review, as well as officials of 16 associations located in these three districts. We also reviewed and discussed the district banks' annual reports on this program.

The principal difference between the services provided to borrowers under the YBS farmers or ranchers program as compared to the services provided to other borrowers of the FCS is in the amount of emphasis placed on advising and counseling potential borrowers on financial and agricultural matters, on informing potential borrowers about the program, and on coordinating loan arrangements with other financial institutions. It does not appear that an applicant under this program would be considered any differently than any other applicant with respect to the approval or denial of the loan, interest rates on the loan, or any other financial terms of the loan.

For example, officials of the Wichita and the St. Louis FLBs said that terms and conditions of loans to YBS farmers or ranchers are the same as those for all other borrowers but they might require the YBS farmer or rancher to contact the association more often than other borrowers to discuss matters relating



to the loan, such as conditions of crops and status of harvests. In this way, officials can provide timely advice and counsel on problems the YBS farmer or rancher may experience.

LOANS TO YBS FARMERS  
OR RANCHERS HAVE  
DECLINED

The number and dollar volume of all loans made to YBS farmers, ranchers, and producers and harvesters of aquatic products has declined since 1980. We obtained information on loan amounts from seven FLBs. The data exclude rural residents who have bought small acreages and homes for a residence.

Table 9 shows that loans made to YBS farmers or ranchers and total loans made to all farmers or ranchers in these seven districts have declined since 1980. Furthermore, with the exception of 1983, the percentage of total loans and the percentage of total loan value to YBS borrowers declined. Although the relative number and value of loans made to YBS borrowers increased in 1983 over previous years, the data are not strictly comparable because of a definitional change in the reporting of YBS farmer or rancher loans.

CONCLUSIONS

FCA's effort to assist YBS farmers or ranchers has consisted primarily of emphasizing that FLBAs and PCAs should, to the extent the loan applicants are creditworthy, make loans to this group of borrowers. Loan volume, however, has declined. There is no clear indication that the services provided this group are over and above those provided other borrowers. The Congress has not provided direction as to the type of financial assistance that it intended the FCS to provide to the YBS farmers or ranchers beyond what is normally provided to other creditworthy borrowers. Because of this, there is no reason to believe that, barring special provisions to assist this group, the relative number and volume of loans will increase significantly in the future.

Table 9

Comparative Data On Loans To YBS  
Farmers Or Ranchers, 1980-83  
Loans Booked by Calendar Years

Federal Land Banks		1980		1981		1982		1983	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount
----- (millions) -----									
Louisville,	Total	6,005	\$837.4	6,420	\$898.4	3,762	\$467.5	2,381	\$252.4
KY	YBS	2,237	181.7	2,694	221.7	1,646	109.7	1,352	89.2
St. Louis,	Total	6,200	751.4	7,185	991.8	4,070	542.0	2,622	296.5
MO	YBS	2,002	154.9	2,320	207.4	1,305	107.2	990	67.9
Omaha,	Total	8,594	1,260.8	8,589	1,372.0	5,836	915.9	4,364	536.6
NE	YBS	1,492	177.5	1,455	182.3	888	105.1	1,340	132.4
Sacramento,	Total	2,915	799.2	3,383	1,111.5	2,349	803.2	1,813	613.8
CA	YBS	543	80.5	509	97.3	365	86.1	344	74.5
Wichita,	Total	8,607	1,060.4	9,189	1,238.4	5,475	685.5	3,117	330.6
KS	YBS	2,386	176.8	2,253	199.1	1,283	102.5	926	71.7
New Orleans,	Total	3,093	530.5	3,778	719.2	1,913	359.1	1,092	192.5
LA	YBS	1,596	122.2	1,471	121.4	700	61.1	568	49.5
Spokane,	Total	2,361	459.6	2,325	572.9	2,041	400.1	1,481	273.6
WA	YBS	722	55.2	694	58.6	456	44.0	430	38.9
	Total	37,775	\$5,699.3	40,869	\$6,904.2	25,446	\$4,173.3	16,870	\$2,496.0
	YBS	10,978	948.8	11,396	1,087.8	6,643	615.7	5,950 <sup>a</sup>	524.1
YBS as a									
percent of									
total loans		29.1	16.7	27.9	15.6	26.1	14.8	35.2 <sup>a</sup>	21.0

<sup>a</sup>FCS loan figures for 1983 included for the first time YBS farmers that are in this category only because they had less than 5 years experience.

## CHAPTER 5

### EFFECT OF AMENDMENTS ON UTILITY

#### COOPERATIVES NOT CLEAR

The 1980 amendments reduced from 70 percent to 60 percent the required voting membership of rural utility cooperatives that must be held by farmers in order for a cooperative to borrow from the Banks for Cooperatives. The amendment was proposed by FCA because of the changing demographic patterns in rural America. Because many farming areas are being populated by nonfarmers and rural electric cooperatives must serve everyone located in their territory, some cooperatives may become ineligible to obtain loans from the FCS. The full impact of the amendments cannot be determined because there is limited data on the farmer membership of utility cooperatives.

#### FINANCING RURAL UTILITY COOPERATIVES

Before 1973, USDA's Rural Electrification Administration (REA) was the principal source of financing for rural utility cooperatives. Since 1973, the utility cooperatives have relied increasingly on the National Rural Utilities Cooperative Finance Corporation (CFC, a utility cooperative-owned financial institution), the BCs, and commercial banks.

Legislation in 1936 established as REA's goal the making of loans "for rural electrification and the furnishing of electric energy to persons in rural areas who are not receiving central station service." Two types of utility cooperatives were formed. Distribution cooperatives were formed to buy electric power and build a network of electric lines to distribute the electricity to farms and rural residents. Generating and transmission or power supply cooperatives were formed to generate electric power and transmit it to the distribution cooperatives.

A major change in rural utility financing occurred in 1973. Public Law 93-32 set up a revolving fund to make direct REA loans. The interest rate on most REA loans from the revolving fund was increased from 2 percent to 5 percent. An additional provision of the 1973 legislation was the creation of REA guaranteed loans. Shortly after REA was provided this authority, the Congress established within the Treasury the Federal Financing Bank (FFB). The FFB agreed to provide funds for loans guaranteed by REA. The law also incorporated provisions that REA had initiated administratively in 1971. These provisions established "concurrent financing," which requires the utilities to obtain part of their loan funds (in most cases, 30 percent) from supplemental sources.

The principal private source of supplemental long-term funds for rural electric cooperatives is the CFC. CFC is a cooperative lender organized and owned by the rural electric cooperatives. It obtains funds by selling bonds in a manner similar to that used by the FCS. Any cooperative eligible to borrow from REA is eligible to become an owner/member of CFC.

The BC system has also served as a supplemental lender to REA financing. BC system lending is primarily concentrated in the farm credit districts of Louisville, Kentucky; New Orleans, Louisiana; and St. Paul, Minnesota.

In 1970, all generating and transmission cooperatives and distribution cooperatives obtained financing for essentially all of their long-term needs from REA at a 2-percent rate. As a result of the changes in the 1973 legislation, generating and transmission and distribution cooperatives are now relying on supplemental sources for about 30 percent of their financing.

#### UTILITY PROVISIONS OF THE 1980 AMENDMENTS

According to the Senate report on the 1980 amendments, the need to reduce the membership requirement from 70 percent to 60 percent farmers arose from changing demographic patterns in the rural United States.<sup>1</sup> These changing demographic patterns had created or were expected to create problems for a number of cooperatives in meeting the eligibility requirements for BC financing. The report noted that this provision was not designed to encourage substantial growth of the BCs' share of the cooperative lending market but was only intended to preserve eligibility for the types of cooperatives that had been served by the BCs. The Senate report included a table provided by FCA that showed the estimated effect of the change in eligibility requirements. (See table 10.)

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<sup>1</sup>See Senate Report No. 96-837, Farm Credit Act Amendments of 1980, 96th Congress, 2nd Sess.

Table 10

FCA's Estimate of The Effect of The Change  
in Utility Eligibility Requirement

Number of utility cooperatives that would become eligible immediately	184
Number of utility cooperative <u>borrowers</u> that would have faced eligibility problems within 2 years if the change had not been made	50
Number of utility cooperative <u>borrowers</u> that would experience eligibility problems within 5 to 10 years if the change had not been made	76

FCA officials, at the time of our review in December 1983, could not provide detailed support for this estimate. They could not identify which utility cooperatives were expected to become eligible or which ones would have lost eligibility if the requirement was not lowered from 70 to 60 percent.

BC UTILITY LOAN ACTIVITY

Loans made to utilities, both in absolute terms and as a percentage of total loans made by the BCs, have declined since implementation of the 1980 amendments. (See table 11.)

Table 11

Data on The Decline of Loans to  
Utility Companies

<u>Year</u>	<u>Loans made</u>		
	<u>Utility loans</u>	<u>Total BC loans</u>	<u>Utility percent</u>
	-----	-----	-----
	(billions)		
1980	\$1.41	\$24.70	5.7
1981	1.76	24.80	7.1
1982	1.28	23.50	5.4
1983	1.28	29.10	4.4

Most of the BC lending has been to generation and transmission cooperatives, although FCA officials stated that the BCs continue to broaden the scope of lending to distribution cooperatives. They stated that loan commitments are increasing to a number of distribution cooperatives.

Limited need for  
FCA funding

We sent a questionnaire to 399 of 993 cooperative members of the National Rural Electric Cooperative Association. These members were selected at random. Our questions dealt with cooperatives' eligibility, familiarity, and use, if any, of the BCs' lending program. Rural electric cooperatives responding to our questionnaire generally believed that the REA, CFC, and other sources of funds available to them are adequate. In addition, they expected to obtain the funds they need in the future from these sources rather than from the FCS.

About 83 percent of the 352 electric cooperatives responding to our questionnaire stated that they do not participate in any BC lending program. We asked these cooperatives to indicate what factors influenced them. The respondents indicated that the chief reason they did not use the program was that their current REA, CFC, and other sources of loan funds were adequate.<sup>2</sup> (See table 12.)

Table 12

Extent To Which Electric Cooperatives Do Not  
Use BC Programs Because REA, CFC, And Other  
Sources Of Loan Funds Are Adequate

	<u>Percent</u>
Very great to great extent	80
Some to moderate extent	13
Little to no extent or no basis to judge	<u>7</u>
Total	<u><u>100</u></u>

We asked the rural electric cooperatives to indicate the extent to which they anticipate using various sources of funds during the period 1985 to 1995. (See table 13.)

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<sup>2</sup>See page 3, question 4, in appendix III.

Table 13

Rural Electric Cooperatives' Expectations About  
Source Of Borrowed Funds, 1985-95<sup>a</sup>

<u>Source of funds</u>	Number expecting to use this source to a great or very <u>great extent</u>
Rural Electrification Administration	316
Cooperative Finance Corporation	208
Farm Credit System	31
Commercial banks	6

<sup>a</sup>See page 5, question 10, in appendix III.

DEFINITION OF FARMER

For purposes of determining eligibility of rural utility cooperatives as well as other borrowers of FCS when that borrower must be a farmer or member of a cooperative, FCA has broadly defined a farmer as anyone owning agricultural land or producing agricultural products.<sup>3</sup> No minimum income or acreage requirements must be met.

Certain members of the FCS have added conditions to FCA's broad definition. For example, the Wichita BC has added a requirement that the farmer must own land that produces at least \$500 gross agricultural income annually or must be engaged in the production of at least \$500 in gross agricultural products. The other BCs we visited (Omaha, St. Louis, and New Orleans) do not have any dollar limitation. The Wichita FLB requires that a "farmer" must produce \$2,500 gross agricultural income. The Wichita FLB may make "farm loans" only to those meeting the \$2,500 definition. The Wichita FICB defines "full-time Farmer-Rancher" as those whose agricultural operations represent 50 percent or more of total business. The USDA and the Bureau of Census define a farm as any place with actual or potential sales of agricultural products of \$1,000 or more a year.<sup>4</sup>

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<sup>3</sup>12 C.F.R. 613.3020(a).

<sup>4</sup>USDA, Economic Indicators of the Farm Sector, Income and Balance Statistics, 1983, ECIFS 3-3.

Although 72 percent of the respondents to our questionnaire found FCA's definition of a farmer easy to apply to at least a moderate extent, 28 percent found some difficulties in its application.<sup>5</sup> Some respondents commented on the broadness of the definition. For example, the manager of one utility said that under the definition, virtually anyone would qualify as a farmer. Another respondent stated that

"Problem perceived in eligibility--many members although living in rural area, zoning of residence property may not be 'agricultural'. Many members live on parcels along rural roads in heavily forested areas. Also many members residing in rural area live in subdivided plots. Approximately 20% membership is seasonal (cabins around lakes or on streams, etc.)."

We asked the cooperatives to indicate their percentage of farmer membership. Most provided an estimate of their farmer membership. (See table 14.)

Table 14

Cooperatives' Assessment of  
Their Farmer Membership<sup>a</sup>

<u>Farmer membership</u>	<u>Percent</u>
70 percent or more (eligible before and after 1980 amendments)	38
60-69 percent (newly eligible under the 1980 amendments)	15
59 percent or less (not eligible before or after 1980 amendments)	29
Don't know (not able to establish eligibility)	<u>18</u>
Total	<u>100</u>

<sup>a</sup>See page 4, question 7, in appendix III.

UTILITIES' CERTIFICATION  
OF ELIGIBILITY NOT  
VERIFIED

The BCs that we visited accepted certifications of eligibility from the utilities that stated that at least 60 percent

<sup>5</sup>See page 3, question 6, in appendix III.



of their members were farmers. The BCs did not verify the accuracy of the utilities' certifications. In some cases, the utilities' certification explained that they had made random samples to determine their eligibility, while in other cases, there was nothing in the BCs' files to indicate what the certification was based on. One district required the utility to show the actual percentage of farmer members (such as 65 percent), while the others only required that the utilities certify that their farmer membership exceeded 60 percent.

#### WHAT WAS THE EFFECT OF THE 1980 AMENDMENTS?

In an attempt to identify utilities that may have been affected by the change in eligibility requirements, we asked the district BCs we visited what the percentage of farmer membership was for each of the cooperative borrowers. The Omaha district had this information based on data provided by the utilities, but the New Orleans and Wichita districts did not know what percentage of farmer members each cooperative borrower had. The St. Louis BC did not have any utility borrowers.

As noted in table 14, 15 percent of the electric cooperatives responding to our questionnaire indicated that they believed their farmer membership ranged from 60 percent to 69 percent. This group of cooperatives would not have been eligible for BC lending if the change in eligibility had not been made. About 3 percent of the cooperatives in this newly eligible group said they are borrowing from the BC system.

We asked BC officials in the four districts we visited if they were aware of any significant new loan activity resulting from the change in eligibility or if they were aware of any borrowers who would not have been able to continue borrowing without the change. The officials did not identify any examples of either situation.

#### CONCLUSIONS

The objective of the change in eligibility requirements provided by the 1980 amendments was to preserve eligibility for the types of cooperatives that had been served by the BCs. The full impact of this change remains unclear. Although FCA provided an estimate of the effect of the change, they could not provide us with detailed support for this estimate. Also, two of the three affected BCs we visited could not tell us what percentage of farmer members each of their cooperative borrowers had. However, our questionnaire data show that 15 percent of the cooperatives responding would not have been eligible if the requirement had not been changed.

## CHAPTER 6

### LIMITED ACTIVITY UNDER

#### OTHER PROVISIONS

FCS has experienced limited activity under the remaining provisions of the 1980 amendments. The amendments liberalized the PCA participation program, but the program activity decreased. Programs with newly granted authority experienced virtually no activity. These include authorities for (1) the FLBs and BCs to make aquatic loans, (2) the FLBs to make loans that are guaranteed by government units in amounts up to 97 percent of the security property's appraised value, (3) the PCAs to make loans with up to 10-year repayment terms, and (4) the PCAs and FLBAs to make loans to individuals and firms for processing and marketing activities. According to FCS officials, the absence of activity under these provisions resulted from a general lack of credit demand resulting from adverse economic conditions in agriculture and high interest rates. However, they said only limited loan demand is expected under some of the provisions even with improved economic conditions.

Additional provisions of the amendments did not directly relate to system lending activities. These include the provisions (1) authorizing FCA to organize federally chartered corporations to perform services and functions; (2) authorizing FCS institutions to sell certain types of insurance; and (3) exempting interest rates set by FCS institutions from usury laws imposed by any state constitution, statute, or other law.

#### COMMERCIAL LENDER PARTICIPATION PROGRAM ACTIVITY HAS DECLINED

Although the requirements of the commercial lender or PCA participation program were liberalized by the 1980 amendments, activity under the program has declined in each year since 1980. Our questionnaire showed that slightly more than 50 percent of the agricultural banks are aware of the program; however, interest in the program has declined because need under recent economic conditions has diminished.

The participation program is a means by which other OFIs can obtain loan funds from the FCS without establishing a discount relationship with an FICB. The PCAs are authorized to participate in funding agricultural loans originated by other lenders. Under the program, a commercial bank makes part of each loan, generally up to its legal lending limit per borrower, and the PCA, which usually has a higher individual lending limit, makes the rest of the loan. The originating commercial bank collects the principal and interest on the loan.

The amount of loans outstanding under the program each year since the amendment's passage is shown in table 15.

Table 15

Commercial Bank/PCA Participation  
Activity, 1980-83

<u>Date</u>	<u>Number of loans</u>	<u>Amount outstanding</u> (millions)
Dec. 31, 1980	1,637	\$201
Dec. 31, 1981	1,263	162
Dec. 31, 1982	1,006	142
Dec. 31, 1983	680	95

FCA officials and officials of the FICBs we visited (St. Louis, Wichita, and Omaha) attributed the decline in program activity to the adverse economic conditions facing agriculture and the high liquidity of commercial banks. District bank officials stated that they believed the amendment has made the program more acceptable to commercial banks and, with improved economic conditions, they believed program activity would increase.

LIMITED AQUATIC LENDING  
BY FLBs AND BCs

The 1980 amendments authorized FLBs and BCs for the first time to make aquatic loans. FLBs can now lend to commercial fishermen for the purchase of land and facilities. BCs can now lend to cooperatives engaged in producing or harvesting aquatic products or in furnishing aquatic business services. Before the amendment, only PCAs made aquatic loans, and their activity had been largely concentrated in making loans to individual fishermen for the purchase of commercial fishing boats. The amendments were intended to provide aquatic producers and harvesters with the same range of credit and related services that were already being provided to agricultural producers.

At the end of 1983, activity under the new authority was less than \$1 million. As of December 31, 1983, the BCs had three aquatic loans outstanding totaling \$697,498, and the FLBs had two aquatic loans outstanding totaling \$288,906.

FCA's 1984 report to the Congress noted that FCS' experience with aquatic loans was generally favorable through 1980, but aquatic loan defaults became apparent in 1981, continued through 1982, and accelerated in 1983. The report said these defaults stemmed from extensive expansion of debt, combined with

escalating operating costs, declining product prices to fishermen, and declining or cyclical aquatic resources.

To gain perspective on the extension of aquatic lending authority to the BCs and FLBs, we visited the New Orleans district because PCAs in that district were actively involved in aquatic lending. New Orleans FLB and BC officials said that, as of the time of our visit in May 1984, their banks had not made any aquatic loans under the authority granted by the 1980 amendments. They said they did not believe that a large volume of aquatic loans was ever expected in the FLBs or BCs because in very few instances are long-term loans for land needed and there are few aquatic cooperatives.

97-PERCENT LOAN  
AUTHORITY FOR LAND  
HAS NOT BEEN USED

The 1980 amendments authorized the FLBs to make loans in amounts up to 97 percent of the land's appraised value if the loan is guaranteed by the U.S. Department of Agriculture's Farmers Home Administration or by other federal or state agencies. Before the amendments, the maximum loan limit was 85 percent of the land's appraised value. The purpose of the amendment was to allow financing of real estate where young or low-equity farmers could not raise 20 percent (15 percent above the maximum loan limit plus 5 percent investment in FLBA stock) of the appraised value of the real estate needed as a down payment. We found no evidence that the FLBs have used this new authority.

FCA officials said these loans are not identified in the data they collect and, therefore, they could not tell if any loans have been made that exceeded 85 percent of the appraised value of the property being purchased. However, officials of the Wichita, Omaha, St. Louis, and New Orleans FLBs said that, to their knowledge, no loans have been made in their districts under this authority.

District FLB officials stated that the important factor in making a loan is whether the income produced by the land is sufficient to repay the debt. The FLB officials said that they will not make loans to an individual who does not have sufficient income to repay the loan even though the guarantee would protect the FLB from loss. District bank officials further stated that it is virtually impossible for the income from the land to adequately service the debt on loans for 97 percent of the appraised value. In fact, they said the cash flow is rarely sufficient to make loans in excess of 60 to 65 percent of the land's value under economic conditions prevalent from 1980 to 1984.

PROVISION TO ALLOW  
10-YEAR PCA LOANS HAS  
HAD LITTLE EFFECT

The 1980 amendments allowed PCA loans to extend for periods up to 10 years. Previously, such loans were made for a term not to exceed 7 years. However, district bank officials told us that, in practice, the law had no effect because, prior to the amendments, the loans could be made for a 7-year period with an extension of 3 years.

FCA officials said that they do not collect statistical data that would allow determining how many loans have been made for a term in excess of 7 years. Officials of the Wichita, Omaha, and St. Louis FICBs said that only a few loans were made for terms of 7 years before the amendment and the extension to 10 years has had no effect on the number of loans made.

NO SIGNIFICANT INCREASE  
IN PROCESSING AND  
MARKETING LOANS

The FLBs and PCAs were granted authority under the 1980 amendments to make loans to farmers for processing and marketing facilities if the farmers produced at least 20 percent of the products being processed or marketed. Before the amendments, the owner of such a facility had to produce at least 50 percent of the processed products to be eligible for FCS financing. As of December 31, 1983, 12 loans were outstanding--11 PCA loans totaling \$7.4 million and 1 FLB loan for \$85,500.

District bank officials indicated that most of the FCS loans are made to farmers who provide more than 50 percent of the product being processed. The loans are treated as regular farm loans and these are not identified separately in loan activity reports. District bank officials we visited did not foresee much market potential for expanded loan activity under this provision. District bank officials also pointed out that most commercial processing and marketing activities are not eligible because the owners of the facilities generally do not produce any of the products being processed.

TWO SERVICE ORGANIZATIONS  
CHARTERED BY FCA

FCA was authorized by the 1980 amendments to charter and supervise service organizations. These organizations may perform functions or provide services for FCS banks and members that the banks could not otherwise perform under their own individual authorities. The Governor of FCA has issued two charters under this authority.

On July 1, 1983, the Governor chartered the Farm Credit Banks Funding Corporation. This organization, which previously was called the Fiscal Agency for the Farm Credit Banks, issues and markets Farm Credit securities. The functions of this organization remain unchanged.

In August 1983, the Governor issued a charter for a Farm Credit Leasing Corporation. FCA's 1984 report to the Congress said that this newly chartered corporation will be able to provide savings, especially to agricultural cooperatives, by buying and leasing farm equipment.

#### SCOPE OF SYSTEM INSURANCE ACTIVITY LIMITED BY AMENDMENTS

The 1980 amendments for the first time spelled out the FCS' authority to provide insurance. However, the amendments allowed insurance services that were more limited in scope than the services that some Farm Credit district banks were already providing. Before the amendments, insurance was offered under the broad authority of the System to provide credit and financially related services to farmers.

The amendments allow the System institutions to sell credit life insurance, credit disability insurance, hail and multiple-peril crop insurance, and title insurance. The amendments also allowed System institutions to sell other insurance, such as property insurance, for 1 year after the effective date of the amendments and to continue to service the insurance policies until their expiration.

#### USURY LAW EXEMPTION OF LITTLE CONSEQUENCE

The 1980 amendments provided that interest rates charged in the FCS were to be determined notwithstanding any limitation imposed by any state constitution, statute, or other law. According to FCA officials and St. Louis district bank officials, the intent of this law was to clarify the FCS' position that usury laws in Arkansas did not apply to FCS interest rates. Officials at the other banks we visited said the usury law had not been a problem in their districts. FCA and the banks had always maintained that state usury laws did not apply to FCS institutions and the law now specifically supports that position. FCA's position has not been challenged in court.

#### CONCLUSIONS

The 1980 amendments have not resulted in significant increased activity under any of the provisions discussed in this chapter. In some cases, the changes made were of a technical or

clarifying nature, and little increase in loan activity was expected. In other cases, adverse economic conditions may have prevented increased activity.



U.S. GENERAL ACCOUNTING OFFICE

**SURVEY OF COMMERCIAL BANKS' PARTICIPATION  
IN THE FARM CREDIT SYSTEM LENDING PROGRAMS**

**INSTRUCTIONS**

The U.S. General Accounting Office (GAO), an agency of the Congress, is reviewing the Farm Credit System (FCS). The purpose of this questionnaire is to help us determine why commercial banks participate or choose not to participate in the FCS.

As mentioned in our letter, your answers will be held in confidence. They will be combined with others and reported in summary form in our report to the Congress. The questionnaire is numbered only to aid us in our follow-up efforts and will not be used to identify you with your response.

Throughout this questionnaire, there are numbers printed within parentheses to assist our keypunchers in keying responses for computer analysis. Please disregard these numbers.

The questionnaire should take no more than 15 minutes to complete. Most of the questions can be readily answered either by checking a box or filling in a blank.

If you have any questions, please call Tom Givens at (202) 275-4426.

Please return the completed questionnaire in the pre-addressed envelope within 10 days after you receive it. In the event the envelope is misplaced, the return address is:

Mr. Thomas H. Givens  
Room 3826  
U.S. General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Thank you for your help.

**INTRODUCTION**

The Farm Credit System (FCS), a Federally-chartered and regulated lending institution, is the single largest source of credit to the farm sector. The Farm Credit System banks and associations are organized as cooperatives and are entirely borrower-owned. The FCS uses no federal funds, but raises money in the national and international money markets by selling securities. Eligible commercial banks can obtain funds from the FCS through the Federal Intermediate Credit Bank (FICB) for short and medium terms (i.e., maturities up to ten years) in order to originate farm improvement, operating, or aquatic production loans.

Recently-amended (1980) FCS legislation allows eligible commercial banks to obtain FICB funds for agricultural and aquatic lending through three separate programs. These programs include direct discounting with the FICB, loan participation with a production credit association (PCA), and the establishment of an agricultural credit corporation (ACC). Brief descriptions of these programs are included in Parts II, III, and IV of the questionnaire.

Part I of this questionnaire asks questions about your institution's agricultural and aquatic lending profile and your familiarity with the FCS. Parts II, III, and IV ask questions concerning your participation in each of three FCS lending programs (FICB, PCA, and ACC).

**PART I: LENDING PROFILE**

1. In calendar year 1984, will your institution be increasing, decreasing, or maintaining the same volume of activity for agricultural and aquatic loans? *(Check one.)* <sup>(5)</sup>

- 12 1.  Greatly increasing
- 147 2.  Moderately increasing
- 154 3.  Remaining about the same
- 27 4.  Moderately decreasing
- 5 5.  Greatly decreasing

2. To what extent, if any, are your calendar year 1984 funds sufficient to meet your anticipated demand for agricultural and aquatic loans? *(Check one.)* <sup>(6)</sup>

- 55 1.  Very great extent *(Skip to Question 4.)*
  - 87 2.  Great extent
  - 135 3.  Moderate extent
  - 56 4.  Some extent
  - 11 5.  Little or no extent
- } *(Go to Question 3.)*



3. If your calendar year 1984 institutional funds are *not* fully sufficient to meet the demand for agricultural and aquatic loans, to what extent, if any, do you plan to utilize each of the following sources to obtain additional agricultural and aquatic lending funds? (Please check one box in each row.)

	Very great extent	Great extent	Moderate extent	Some extent	Little or no extent	No basis to judge	
	1	2	3	4	5	6	
1. Correspondent bank	41	36	47	48	52	12	(7)
2. Other bank	13	24	25	46	75	25	(8)
3. Regional and national capital markets (e.g., federal funds, etc.)	6	6	21	16	89	49	(9)
4. Farm Credit System (e.g., FICB)	4	13	18	20	87	49	(10)
5. Sell existing loans in secondary market	1	2	6	13	106	51	(11)
6. Other (Please specify)	3	7	9	6	9	16	(12)

4. To what extent, if any, does lack of access to regional and national capital markets (e.g., federal funds, etc.) restrict your institution's ability to make agricultural and aquatic loans? (Check one.) (If your bank does *not* lack access to markets, check "Not applicable".) (13)

- |                                                |                                                    |
|------------------------------------------------|----------------------------------------------------|
| 71. <input type="checkbox"/> Very great extent | 324. <input type="checkbox"/> Some extent          |
| 122. <input type="checkbox"/> Great extent     | 1115. <input type="checkbox"/> Little or no extent |
| 273. <input type="checkbox"/> Moderate extent  | 1466. <input type="checkbox"/> Not applicable      |

5. In our discussions with bankers, we found some who were not familiar with how commercial banks can obtain funds from the FCS for agricultural and aquatic loans. Please indicate below your familiarity or unfamiliarity with each of these FCS programs. (Check one box in each row.)

	Very familiar	Somewhat familiar	Uncertain	Somewhat unfamiliar	Very unfamiliar	
	1	2	3	4	5	
1. Direct discounting with the FICB	30	68	33	37	175	(14)
2. Loan participation with a PCA	67	118	32	38	84	(15)
3. Discounting through an ACC	39	48	37	29	186	(16)

6. Please indicate your interest, if any, in learning how commercial banks can obtain funds from each of the FCS programs for agricultural and aquatic loans. (Check one box in each row.)

	Definitely interested	Probably interested	Uncertain	Probably not interested	Definitely not interested	
	1	2	3	4	5	
1. Direct discounting with the FICB	75	76	69	80	34	(17)
2. Loan participation with a PCA	47	52	68	85	71	(18)
3. Discount through an ACC	57	61	80	81	48	(19)

**PART II: DIRECT DISCOUNTING THROUGH THE FEDERAL INTERMEDIATE CREDIT BANK (FICB)**

Under this program, commercial banks with a sixty percent loan-to-deposit ratio, limited access to regional money markets, fifteen percent loan volume in agricultural or aquatic lending, and a continuing need for funds may request access to a discount relationship with the FICB. The relationship is based on a two-year minimum commitment. The purpose of this program is to broaden access to the FCS for eligible farmers and ranchers through commercial lenders active in agricultural or aquatic finance.

7. Does your institution currently participate in FICB direct loan discounting? (20)

- 6 1.  Yes (Skip to Question 10.)  
 335 2.  No (Go to Question 8.)

8. How interested, if at all, is your institution in direct discounting with the FICB? (Check one.) (21)

- 39 1.  Very interested  
 59 2.  Interested  
 111 3.  Uncertain  
 98 4.  Not interested  
 28 5.  Very uninterested

9. To what extent, if any, does each of the following describe your reasons for *not* direct discounting with the FICB? (Check one box in each row.)

	Very great extent	Great extent	Moderate extent	Some extent	Little or no extent	No basis to judge	
	1	2	3	4	5	6	
1. We do not need additional funds for agricultural or aquatic loans.	41	59	38	37	96	30	(22)
2. We are not interested in discounting with the FCS because they are a competitive lender.	14	22	26	53	96	88	(23)
3. The interest cost of funds from the FICB is too high.	2	5	15	31	96	142	(24)
4. FICB capital requirements, general collateral, or fees, exceed those required for PCA's.	7	15	17	24	57	174	(25)
5. FCS's two-year minimum participation commitment is too long.	8	19	16	28	81	139	(26)
6. Existing personnel cannot service additional agricultural or aquatic lending.	6	12	29	32	137	76	(27)
7. We are satisfied with current regional and national sources of loanable funds.	33	53	54	53	51	49	(28)
8. We need more information about the program before we can determine interest or likelihood of use.	66	57	42	26	61	52	(29)
9. Other reasons. (Please specify.)	15	4	-	2	5	8	(30)

10. If you have already established or intend to establish a direct discounting relationship with an FICB during the 1984 calendar year, give your best estimate of the volume of funds your institution would have outstanding with credit banks by December 31, 1984.

(Estimate dollar volume outstanding as of December 31, 1984, or check "Not applicable", if appropriate.)

17 \$ \_\_\_\_\_ (31-39)  
(December 31, 1984)

267  Not applicable (40)

**PART III: LOAN PARTICIPATION WITH A PRODUCTION CREDIT ASSOCIATION (PCA)**

There are no FICB eligibility requirements for commercial banks entering into production credit association loan participation agreements. However, commercial banks are required to purchase participation certificates in the association in proportion to the participated loan volume (usually ten percent). These participation certificates carry no-voting rights and, at least in the past, paid virtually no annual dividends.

11. Does your institution currently participate in production credit association loans? (41)

24 1.  Yes (Skip to Question 14.)

317 2.  No (Go to Question 12.)

12. How interested, if at all, is your institution in participating in production credit association loans? (Check one.) (42)

7 1.  Very interested

36 2.  Interested

103 3.  Uncertain

108 4.  Not interested

62 5.  Very uninterested

13. To what extent, if any, does each of the following describe your reasons for *not* participating in production credit association loans? (Check one box in each row.)

	Very great extent	Great extent	Moderate extent	Some extent	Little or no extent	No basis to judge	
	1	2	3	4	5	6	
1. We do not need additional funds for agricultural or aquatic loans.	40	55	31	39	86	32	(43)
2. We are not interested in participating in loans with a PCA because they are a competitive lender.	52	56	30	37	68	45	(44)
3. The interest cost of funds from a PCA is too high.	8	11	17	37	94	112	(45)
4. Existing personnel cannot service additional agricultural or aquatic lending.	2	11	25	36	131	72	(46)
5. We are satisfied with current regional and national sources of loanable funds.	28	61	38	49	54	52	(47)
6. We need more information about the program before we can determine interest or likelihood of use.	29	27	37	43	75	64	(48)
7. Other reasons. (Please specify.)	9	3	-	1	3	14	(49)

14. If you have already established or intend to establish a loan participation agreement with a PCA during the 1984 calendar year, give your best estimate of the volume of funds your institution would have outstanding with production credit associations by December 31, 1984.

(Estimate dollar volume outstanding as of December 31, 1984, or check "Not applicable", if appropriate.)

22 \$ \_\_\_\_\_ (50-58)  
(December 31, 1984)

243  Not applicable (59)

**PART IV: AGRICULTURAL CREDIT CORPORATION (ACC)**

An agricultural credit corporation (ACC) is a corporate organization with its own capital base usually wholly-owned one or more financial institutions for the purpose of obtaining loanable funds for agricultural or aquatic purposes by discounting loans through the FICB.

15. Does your institution currently participate in agricultural or aquatic lending through an agricultural credit corporation? (60)

36 1.  Yes (Skip to Question 18.)

299 2.  No (Go to Question 16.)

16. How interested, if at all, is your institution in establishing an ACC to acquire funds for agricultural or aquatic lending? (Check one.) (61)

18 1.  Very interested

45 2.  Interested

105 3.  Uncertain

100 4.  Not interested

29 5.  Very uninterested

17. To what extent, if any, does each of the following describe your reasons for *not* establishing an ACC to acquire FICB funds? (Check one box in each row.)

	Very great extent	Great extent	Moderate extent	Some extent	Little or no extent	No basis to judge	
	1	2	3	4	5	6	
1. We do not need additional funds for agricultural or aquatic loans.	35	48	28	42	70	43	(62)
2. We are not interested in participating in loans with the FCS because they are a competitive lender.	7	18	15	36	100	86	(63)
3. The interest cost of funds from the FICB is too high.	-	2	11	21	82	145	(64)
4. FICB capital requirements, general collateral, or fees, exceed those required for PCA's.	8	6	13	21	60	153	(65)
5. Existing personnel cannot service additional agricultural and aquatic lending.	5	11	23	29	116	77	(66)
6. We are satisfied with current regional and national sources of loanable funds.	25	49	40	44	45	64	(67)
7. We need more information about the program before we can determine interest or likelihood of use.	44	42	25	36	51	69	(68)
8. Other reasons. (Please specify.) _____	3	2	-	1	1	20	(69)

18. If you have already established or intend to establish an ACC during calendar year 1984, give your best estimate of the volume of funds your institution would have outstanding with your ACC by December 31, 1984.

(Estimate dollar volume outstanding as of December 31, 1984, or check "Not applicable", if appropriate.)

36 \$ \_\_\_\_\_ (70-78)  
(December 31, 1984)

222  Not applicable (79)

19. If you have any comments regarding any of the previous questions or any comments on the Farm Credit System, please use the space provided below or attach another sheet. (80)

305 Had no comments

39 Had comments

THANK YOU FOR YOUR HELP.

### QUESTIONNAIRE RESPONSE ANALYSIS

As part of the final report on the Farm Credit Act Amendments of 1980, we surveyed eligible commercial bank interest and participation in Farm Credit System lending programs. Current FCS legislation allows eligible commercial banks to obtain Federal Intermediate Credit Bank funds for agricultural and aquatic lending through three separate programs. These programs include direct discounting with the FICB, loan participation with a production credit association, and the establishment of an agricultural credit corporation.

#### QUESTIONNAIRE SAMPLE SELECTION

To survey commercial bank participation and interest in these FCS lending programs, we mailed a questionnaire to a randomly selected sample of 396 eligible commercial banks. We obtained our sample from the latest available Federal Reserve data on the quarterly financial performance of 14,240 U.S. commercial banks. This sample was randomly selected from a population of 2,182 commercial banks that met the amended minimum program eligibility requirements at the end of 1982.

Eligible commercial banks were identified as those with less than \$200 million in total assets, a maximum 60 percent loan-to-deposit ratio, and at least 15 percent of their total loanable funds in agricultural production loans.

#### SAMPLE CONFIDENCE LIMITS

Our survey results are based on 346 responses from a usable sample of 396 mailed questionnaires--an 87 percent response rate. Although we received a high overall response to our questionnaire, most respondents did not completely answer all of the questions. Therefore, in most cases, we have different levels of confidence in the responses to each question. Furthermore, we cannot assume that had all nonrespondents answered the questionnaire their responses would be similar to those that did respond.

We generally discuss only those questions where there is a 95 percent confidence interval within plus or minus 5 percentage points. Confidence limits (in parentheses) along with the total number of respondents are shown for each question in the appendix.

#### DATA COLLECTION INSTRUMENT

We pretested the questionnaire by administering it to selected eligible commercial bankers. We asked for their comments and opinions about the questionnaire, and we discussed their answers with them to see if they understood the questions.

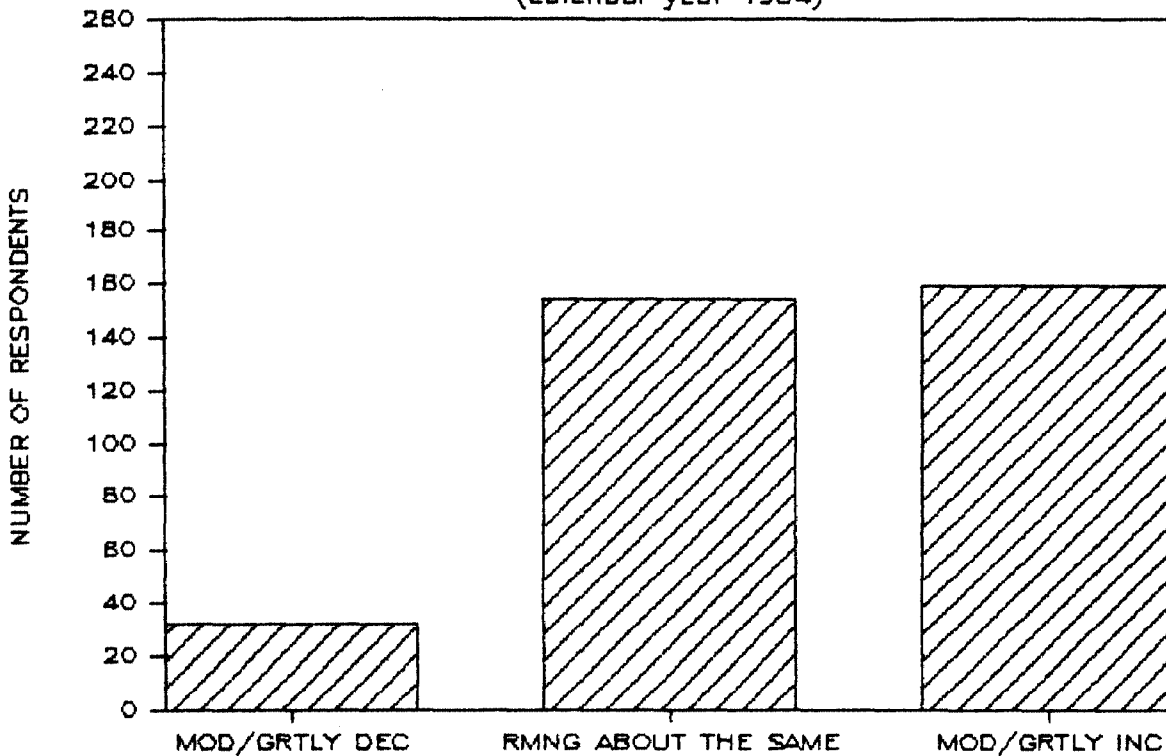
The returned questionnaires were reviewed for completeness and to determine whether or not the respondents' answers indicated an understanding of the questions. Questionnaires containing optional written comments were also reviewed to gain a better understanding of the respondents' opinions. Finally, the reviewed questionnaires were keypunched, and the resulting data base was checked to verify its accuracy.

QUESTIONNAIRE RESPONSES

Table 16

**VOLUME OF AGRICULTURAL LOAN ACTIVITY**

(calendar year 1984)



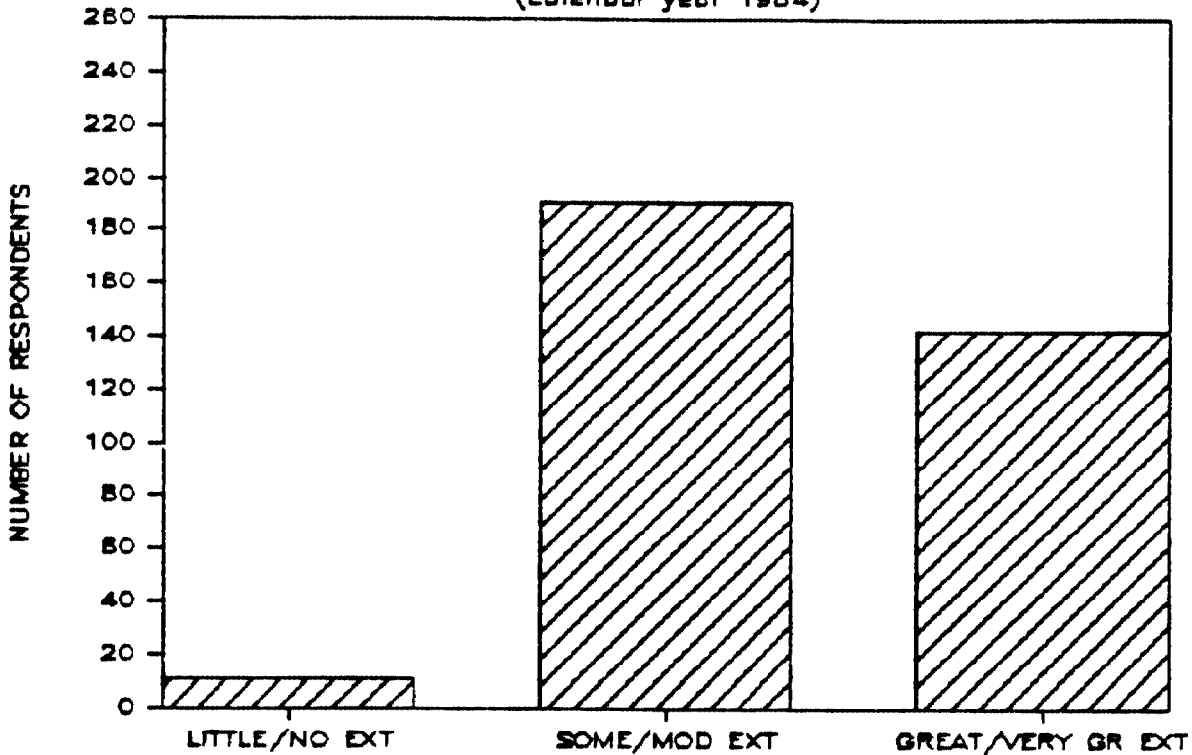
Agricultural bank lending profile - (Question 1)

Most questionnaire respondents anticipate their 1984 agricultural and aquatic loan volumes to at least moderately increase (159, or 46 percent) or remain about the same (154, or 45 percent). Only 32 respondents (9 percent) estimated that their agricultural and aquatic loan volume would decrease during 1984.

Table 17

**LOANABLE FUND AVAILABILITY**

(calendar year 1984)



Agricultural fund availability (Question 2)

Almost every respondent (333, or 97 percent) estimated that their 1984 calendar year funds would, to some extent, be sufficient for meeting the anticipated demand for agricultural and aquatic loans. Only 11 respondents (3 percent) estimated that their 1984 funds were completely insufficient for agricultural and aquatic lending.



Anticipated sources of borrowed funds - (Question 3)

Although almost every respondent (97 percent) estimated that their 1984 calendar year funds would, to some extent, be sufficient for meeting anticipated agricultural and aquatic loan demand, banks with insufficient loanable funds would borrow most from their correspondent banks (172, or 73 percent). Less than one third of the respondents (29 percent) would, to some extent, participate in one of the FCS lending programs. (See table 18.)

Table 18

Sources of Borrowed Funds  
(calendar year 1984)

	Great/ Very great Extent	Some/ Moderate Extent	Little or no Extent/ No basis to judge
1. Correspondent bank	77 (33%) (+/- 5.9%)	95 (40%) (+/- 5.9%)	64 (27%) (+/- 5.5%)
2. Other bank	37 (18%) (+/- 5.2%)	71 (34%) (+/- 6.3%)	100 (48%) (+/- 6.5%)
3. Regional and national capital markets	12 (6%) (+/- 4.1%)	37 (20%) (+/- 5.5%)	138 (74%) (+/- 6.3%)
4. Farm Credit System	17 (9%) (+/- 4.1%)	38 (20%) (+/- 5.4%)	136 (71%) (+/- 6.2%)
5. Sell existing loans in secondary market	3 (2%) (+/- 3.1%)	19 (11%) (+/- 5.6%)	157 (88%) (+/- 5.6%)
6. Other	10 (20%) (+/- 11%)	15 (30%) (+/- 12.6%)	25 (50%) (+/- 13.7%)

Other sources of loanable agricultural funds mentioned by the respondents include other commercial banks (108, or 52 percent) and selling existing loans in the secondary market (22, or 12 percent). Obtaining loanable agricultural and aquatic funds by selling loans in the secondary capital markets and utilizing regional and national capital markets were the only sources of borrowed funds mentioned less by the questionnaire respondents than the Farm Credit System.

Agricultural bank access to regional and national capital markets - (Question 4)

Few respondents (19, or 6 percent) to our questionnaire mentioned lack of access to regional and national capital markets as a major factor in limiting their ability to make agricultural and aquatic loans. One third (111) of the respondents replied that lack of access to regional and national capital markets had little or no impact on their agricultural or aquatic lending capabilities. Over 43 percent (146) of the respondents believe their institution does not lack access to these capital markets.

Commercial bank familiarity and interest in the Farm Credit System - (Question 5)

We found most questionnaire respondents are at best uncertain of their familiarity with FCS lending programs. The exception is bank familiarity with loan participation with a PCA. In this case, over one-half (185, or 55 percent) responded that they were at least somewhat familiar with the program. When asked to indicate their interest, if any, in learning more about FCS lending programs, most were either uncertain or at least probably interested, particularly in direct discounting with the FICB.

Loan participation with a production credit association (Questions 11, 12, and 13)

There are few FICB eligibility requirements for commercial banks entering into production credit association loan agreements, although only 24 respondents (7 percent) are currently participating in loans with a PCA. In addition, only 43 (14 percent) expressed definite interest in learning more about the program.

For those respondents not participating in the program, over one-half (165, or 58 percent), to some extent, do not require additional funds for agricultural and aquatic loans. Most respondents (61 percent) are not interested in participating in loans with a PCA because they are viewed as a competitive lender. (See table 17.)

Table 19

Loan Participation With a PCA

	Great/ Very Great Extent	Some/ Moderate Extent	Little or no Extent/ No basis to judge
1. We do not need additional funds for agricultural or aquatic loans.	95 (33%) (+/- 5.3%)	70 (25%) (+/- 5%)	118 (42%) (+/- 5.4%)
2. We are not interested in participating in loans with a PCA because they are a competitive lender.	108 (38%) (+/- 5.3%)	67 (23%) (+/- 4.9%)	113 (39%) (+/- 5.3%)
3. The interest cost of funds from a PCA is too high.	19 (7%) (+/- 3.3%)	54 (19%) (+/- 4.4%)	206 (74%) (+/- 5%)
4. Existing personnel cannot service additional agricultural or aquatic lending.	13 (5%) (+/- 2.4%)	61 (22%) (+/- 5%)	203 (73%) (+/- 5%)
5. We are satisfied with current regional and national sources of loanable funds.	89 (31%) (+/- 5.3%)	87 (31%) (+/- 5.3%)	106 (38%) (+/- 5.3%)
6. We need more information about the program before we can determine interest or likelihood of use.	56 (20%) (+/- 4.4%)	80 (29%) (+/- 5.1%)	139 (51%) (+/- 5.5%)
7. Other reasons	12 (40%) (+/-17.4%)	1 (3%) (+/-10.6%)	17 (57%) (+/-17.7%)

Less than one third of the respondents (26 percent) answered that the high interest cost of funds from a PCA was, to some extent, the reason for not participating in the program.

Discounting with the FICB through  
an agricultural credit corporation

An Agricultural Credit Corporation (ACC) is a corporate organization with its own capital base usually wholly-owned by

one or more financial institutions. More respondents (36, or 11 percent) are currently participating in this FCS program than the combined number of survey participants in the other two FCS lending programs. (See questions 7, 11, and 15.)

Table 20

Discounting With The FICB  
Through An Agricultural  
Credit Corporation

	Great/ Very great Extent	Some/ Moderate Extent	Little or no extent/ No basis to judge
1. We do not need additional funds for agricultural or aquatic loans.	83 (31%) (+/- 5.2%)	70 (26%) (+/- 5.2%)	113 (43%) (+/- 5.6%)
2. We are not interested in participating in loans with the FCS because they are a competitive lender.	25 (10%) (+/- 3.4%)	51 (19%) (+/- 4.6%)	186 (71%) (+/- 5.2%)
3. The interest cost of funds from the FICB is too high.	2 (1%) (+/- 2.5%)	32 (12%) (+/- 4.6%)	227 (87%) (+/- 4.6%)
4. FICB capital requirements, general collateral, or fees, exceed those required for PCAs.	14 (5%) (+/- 2.5%)	34 (13%) (+/- 4.6%)	213 (82%) (+/- 4.6%)
5. Existing personnel cannot service additional agricultural and aquatic lending.	16 (6%) (+/- 3.4%)	52 (20%) (+/- 4.6%)	193 (74%) (+/- 5.2%)
6. We are not satisfied with current regional and national sources of loanable funds.	74 (28%) (+/- 5.2%)	84 (31%) (+/- 5.5%)	109 (41%) (+/- 5.6%)
7. We need more information about the program before we can determine interest or likelihood of use.	86 (32%) (+/- 5.5%)	61 (23%) (+/- 5.2%)	120 (45%) (+/- 5.6%)
8. Other reasons.	5 (18%) (+/- 15%)	1 (4%) (+/- 11.3%)	21 (78%) (+/- 15%)

Direct discounting through the  
federal intermediate credit bank

Under this program, commercial banks meeting the minimum eligibility requirements may directly discount with the FICB. Very few respondents (6, or 2 percent) currently obtain agricultural and aquatic funds from this program--the smallest surveyed commercial bank participation in any FCS program. (See questions 7, 11, and 15.) In addition, less than one third (98, or 29 percent) of the respondents expressed interest in direct discounting through the FICB. (See question 8.)

Table 21

Direct Discounting With The FICB

	Great/ Very great Extent	Some/ Moderate Extent	Little or no extent No basis to judge
1. We do not need additional funds for agricultural or aquatic loans	100 (33%) (+/- 5.1%)	75 (25%) (+/- 4.8%)	126 (42%) (+/- 5.3%)
2. We are not interested in discounting with the FCS because they are a competitive lender.	36 (12%) (+/- 4.2%)	79 (26%) (+/- 4.8%)	184 (62%) (+/- 5.2%)
3. The interest cost of funds from the FICB is too high.	7 (2%) (+/- 3.2%)	46 (16%) (+/- 4.3%)	238 (82%) (+/- 4.3%)
4. FICB capital requirements, general collateral, or fees exceed those required for PCAs.	22 (7%) (+/- 3.2%)	41 (14%) (+/- 4.3%)	231 (79%) (+/- 4.9%)
5. FCS's 2-year minimum commitment is too long.	27 (9%) (+/- 3.2%)	44 (15%) (+/- 4.3%)	220 (76%) (+/- 4.9%)
6. Existing personnel cannot service additional agricultural or aquatic lending.	18 (6%) (+/- 3.2%)	61 (21%) (+/- 4.9%)	213 (73%) (+/- 4.9%)
7. We are satisfied with current regional and national sources of loanable funds.	86 (29%) (+/- 4.9%)	107 (37%) (+/- 5.2%)	100 (34%) (+/- 5.2%)
8. We need more information about the program before we can determine interest or likelihood of use.	123 (41%) (+/- 5.1%)	68 (22%) (+/- 4.8%)	113 (37%) (+/- 5.1%)
9. Other reasons.	19 (56%) (+/-16.7%)	2 (6%) (+/- 10%)	13 (38%) (+/-16.3%)

The majority of respondents (98 percent) not participating in direct discount with the FICB cited several reasons for their lack of interest in the program. Most respondents (175, or 58 percent) did not need additional funds and were satisfied to some extent with current sources of loanable funds (193, or 66 percent).

## U.S. GENERAL ACCOUNTING OFFICE

SURVEY OF RURAL ELECTRIC COOPERATIVES' PARTICIPATION  
IN THE FARM CREDIT SYSTEM COOPERATIVE LENDING PROGRAMSINSTRUCTIONS

The U.S. General Accounting Office, an agency of the Congress, is reviewing the Farm Credit System. As part of our review, we are surveying the extent, if any, of rural electric cooperatives' participation in Farm Credit System cooperative lending programs.

We are asking your help in completing this questionnaire. It should take no more than 5 minutes of your time. Although your participation is voluntary, your response is very important to the success of our review.

Your answers will be held in confidence; they will be combined with others and reported only in summary form in our report to the Congress. The questionnaire is numbered only to aid us in our follow-up efforts and will not be used to identify you with your responses.

Throughout this questionnaire, there are numbers printed within parentheses to assist our keypunchers in keying responses for computer analysis. Please disregard these numbers.

If you have any questions, please call Tom Givens, collect, at (202) 275-4426

Please return the completed questionnaire in the pre-addressed envelope within 10 days after you receive it. In the event the envelope is misplaced, the return address is:

Mr. Thomas H. Givens  
Room 3826  
U.S. General Accounting Office  
441 G Street, N.W.  
Washington, D. C. 20548

Thank you for your help.

\* \* \* \* \*

INTRODUCTION

The Farm Credit System (FCS), a Federally-chartered and regulated lending institution, is the single largest source of credit to the farm sector. The Farm Credit System banks and associations are organized as cooperatives and are entirely borrower-owned. The FCS uses no federal funds, but raises money in the national and international money markets by selling securities. Organized as cooperatives, there are three separate banking groups within the FCS: (1) Federal Land Banks; (2) Federal Intermediate Credit Banks; and (3) Banks for Cooperatives (BC). The Farm Credit Administration (FCA) is the Independent Federal agency that supervises and examines all participating banks in the system.

Recently-amended (1980) FCS legislation provides new and expanded authority to the Banks for Cooperatives for financing eligible rural electric utility cooperatives. Bank for Cooperatives term loans are made for acquiring land, purchasing or constructing buildings, buying equipment, or expanding facilities. Seasonal loans are made to finance current assets or for short-term needs. In order to be eligible to obtain funds from the Bank for Cooperatives, rural electric cooperatives must have 60 percent farmer membership. The Farm Credit Administration defines a farmer as any person (or individual or legal entity) owning agricultural land or engaged in the production of agricultural or aquatic products.

This questionnaire asks questions about your cooperative's eligibility, familiarity, and use, if any, of the Bank for Cooperatives lending programs.

1. To what extent, if any, are you aware of the Farm Credit System's Bank for Cooperatives rural cooperative lending programs? (Check one.) (5)
- 57 1. [ ] Very great extent
- 72 2. [ ] Great extent
- 119 3. [ ] Moderate extent
- 68 4. [ ] Some extent
- 35 5. [ ] Little or no extent

2. Does your cooperative currently participate in any Bank for Cooperatives lending programs? (Check one.) (6)
- 57 1. [ ] Yes (Go to Question 3)
- 293 2. [ ] No (Skip to Question 4)

3. To what extent, if any, does each of the following describe why your cooperative decided to borrow from the Bank for Cooperatives rather than the Cooperative Finance Corporation (CFC)? (Check one box in each row and then skip to Question 5.)

	<i>Very great extent</i>	<i>Great extent</i>	<i>Moderate extent</i>	<i>Some extent</i>	<i>Little or no extent</i>	<i>No basis to judge</i>	
	1	2	3	4	5	6	
1. Funds were not available from the CFC.	2	-	2	2	18	22	(7)
2. Total cost of funds from the CFC is higher (e.g., interest rates, capital costs, etc.).	7	10	4	7	6	15	(8)
3. Other, please specify.	9	5	5	-	-	-	(9)
	-	1	-	-	-	-	(10)

(SKIP TO QUESTION 5)



4. To what extent, if any, does each of the following describe your reasons for not participating in the Bank for Cooperatives (BC) lending programs. (Check box in each row.)

	<i>Very great extent</i>	<i>Great extent</i>	<i>Moderate extent</i>	<i>Some extent</i>	<i>Little or no extent</i>	<i>No basis to judge</i>	
	1	2	3	4	5	6	
1. We do not need additional funds	30	20	26	20	67	49	(11)
2. The interest cost of funds from the BC is too high.	8	16	23	28	34	107	(12)
3. BC capital requirements are higher than CFC capital requirements.	7	15	21	15	35	121	(13)
4. We need more information before we can determine interest or likelihood of use.	27	33	29	38	37	54	(14)
5. Current REA, CFC, and other sources of loanable funds are adequate.	135	85	28	9	6	14	(15)
6. Other, please specify.	22	4	1	-	2	10	(16)
	9	3	-	-	1	1	(17)

5. Please indicate below your level of interest, if any, in learning more about obtaining funds from the Bank for Cooperatives. (Check one.)

- 67 1.  Definitely interested (18)
- 87 2.  Probably interested
- 70 3.  Uncertain
- 45 4.  Probably not interested
- 9 5.  Definitely not interested
- 68 6.  Already have sufficient information

6. The Farm Credit Administration (FCA) defines a farmer as any person (or individual or legal entity) owning agricultural land or engaged in the production of agricultural or aquatic products. To what extent, if any, is this FCA definition of a farmer easy to apply to your cooperative's membership so that the percentage of farmer members can be easily determined? (Check one.)

- 59 1.  Very great extent
- 88 2.  Great extent
- 102 3.  Moderate extent
- 56 4.  Some extent
- 40 5.  Little or no extent

7. Which of the following best describes the percentage of farmer membership in your cooperative, based on the FCA definition. (Check one.) (20)

- 61 1.  Don't Know
  - 100 2.  59 percent or less
  - 53 3.  60-69 percent
  - 131 4.  70 percent or more
- (Skip to Question 9.)  
(Go to Question 8.)

8. Do you anticipate that the percentage of farmer membership in your cooperative will fall below 70 percent during the period 1985-1995? (Check one.) (21)

- 54 1.  Yes
- 84 2.  No
- 49 3.  Don't know

9. To what extent, if any, were each of the following your sources of borrowed funds in calendar year 1983? (Check one box in each row.)

	<i>Very great extent</i>	<i>Great extent</i>	<i>Moderate extent</i>	<i>Some extent</i>	<i>Little or no extent</i>	<i>No basis to judge</i>	
	1	2	3	4	5	6	
1. Rural Electric Administration	223	59	14	6	21	7	(22)
2. Cooperative Finance Corporation	108	50	37	16	66	21	(23)
3. Commercial Bank	2	-	4	12	155	52	(24)
4. Farm Credit System	6	6	13	4	152	54	(25)
5. Other, please specify	5	6	2	2	42	25	(26)
	-	2	1	-	2	2	(27)

10. We realize that it is difficult to forecast the future source of borrowed funds. However, please estimate, if possible, the principal sources of borrowed funds that you anticipate using during the period 1985-1995. (Check one box in each row.)

	<i>Very great extent</i>	<i>Great extent</i>	<i>Moderate extent</i>	<i>Some extent</i>	<i>Little or no extent</i>	<i>No basis to judge</i>	
	1	2	3	4	5	6	
1. Rural Electric Administration	238	78	18	9	1	3	(28)
2. Cooperative Finance Corporation	146	62	71	25	12	9	(29)
3. Commercial Bank	4	2	8	33	134	46	(30)
4. Farm Credit System	17	14	33	29	101	63	(31)
5. Other, please specify	-	4	2	1	2	4	
							(33)

11. If you have any comments regarding any of the previous questions or any comments on the Farm Credit Systems Bank for Cooperatives lending programs, please use the space provided below or the back of this sheet.

299 Had no comments  
 53 Had comments

Thank you

### QUESTIONNAIRE RESPONSE ANALYSIS

The Farm Credit Act Amendments of 1980 provided new and expanded authority to the Banks for Cooperatives (BCs) for financing eligible rural electric utility cooperatives. BC term loans are made for acquiring land, purchasing or constructing buildings, buying equipment, or expanding facilities. In order to be eligible to obtain funds from the BC, rural electric cooperatives must have at least 60 percent farmer membership.

We surveyed rural electric cooperatives' program eligibility, familiarity, and use, if any, of the BC lending programs.

### QUESTIONNAIRE SAMPLE SELECTION

We mailed questionnaires to a randomly-selected sample of 399 rural electric utility cooperatives chosen from 993 active members of the National Rural Electric Cooperative Association as of June 1, 1982. Our survey results are based on 352 questionnaire responses--an 88 percent response rate.

Although we received a high overall response to our questionnaire, most respondents did not completely answer all of the questions. Therefore, in most cases, we have different levels of confidence in the responses to each question.

We generally discuss only those questions where there is a 95 percent confidence interval within plus or minus 5 percentage points. Confidence limits for most questions are included within each appendix table (in parentheses).

### QUESTIONNAIRE RESPONSES

Although only 16 percent (57) of respondents were actually participating in the BC lending program, most (90 percent or 316) were, to some extent, aware of the FCS program. Respondents not participating in the system are satisfied, to a great or very great extent (220, or 79 percent), with current REA, CFC, and other sources of borrowed funds. (See questions 1, 2, and 4.)

Sources of Borrowed Funds  
(Question 9)

Table 22

Current Sources of Borrowed Funds  
(Calendar Year 1983)

	Great/ Very great Extent	Some/ Moderate Extent	Little or no Extent/ No basis to judge
1. Rural Electrification Administration	282 (86%) (+/- 3.5%)	20 (6%) (+/- 2.6%)	29 (8%) (+/- 2.6%)
2. Cooperative Finance Corporation	158 (53%) (+/- 4.7%)	53 (18%) (+/- 3.8%)	87 (29%) (+/- 4.3%)
3. Commercial Bank	2 (1%) (+/- 2.5%)	16 (7%) (+/- 3.6%)	207 (92%) (+/- 2.6%)
4. Farm Credit System	12 (5%) (+/- 2.4%)	17 (7%) (+/- 3.4%)	206 (88%) (+/- 4.5%)

Most respondents are, at least to some extent, satisfied with current REA, CFC, and other sources of borrowed funds, and they anticipate their sources of borrowed funds to remain essentially unchanged over the next decade. (See question 10.)

Table 23

Anticipated Sources of Borrowed Funds  
(Calendar Years 1985-1995)

	Great/ Very great Extent	Some/ Moderate Extent	Little or no Extent/ No basis to judge
1. Rural Electrification Administration	316 (91%) (+/- 2.6%)	27 (8%) (+/- 2.6%)	4 (1%) (+/- 1.9%)
2. Cooperative Finance Corporation	208 (64%) (+/- 4.4%)	96 (29%) (+/- 4.1%)	21 (6%) (+/- 2.7%)
3. Commercial Bank	6 (3%) (+/- 2.5%)	41 (18%) (+/- 4.6%)	180 (79%) (+/- 5.2%)
4. Farm Credit System	31 (12%) (+/- 4.2%)	62 (24%) (+/- 4.8%)	164 (64%) (+/- 5.2%)

FCS DEFINITION OF A FARMER  
(Questions 6 and 7)

One of the concerns of the questionnaire was to determine if the FCA's definition of a farmer as any person (or individual or legal entity) owning agricultural land or engaged in the production of agricultural and aquatic products was easy to apply to their cooperative membership. Although three-fourths of the respondents (249, or 72 percent) considered the FCA definition of a farmer easy to apply, to at least a moderate extent, some (61, or 18 percent) did not know the percentage of farmer membership in their cooperative.

Cooperative Interest in  
the BC Lending Program  
(Question 5)

When asked to indicate their level of interest in learning more about obtaining funds from the Bank for Cooperatives, over one third (44 percent) responded that they were probably (25 percent) or definitely (19 percent) interested in learning more about the program. Almost one-fifth of the respondents (68, or 19 percent) already have sufficient program information.

**Farm Credit Administration**

1501 Farm Credit Drive  
McLean, Virginia 22102-5090  
(703) 883-4000



December 27, 1984

Mr. William J. Anderson, Director  
General Government Division  
U.S. General Accounting Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. Anderson:

This is in response to your letter of November 28, 1984, requesting Farm Credit Administration comments on your draft report entitled "Final Report on the Implementation of the Farm Credit Act Amendments of 1980." On balance, we believe the thrust of the report is an accurate reflection of the results of the 1980 amendments.

We appreciate the opportunity to comment on the report. If you have any questions regarding these comments or any other matters, please let us know.

Sincerely,

Donald E. Wilkinson  
Governor









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