Banking by Sue Atkinson

FmHA sends out foreclosure threat

The FmHA letters are the most dramatic development in a series of planned withdrawals of credit from U.S. farmers.

On Nov. 15, letters began going out from the Farmers Home Administration to 83,000 farmer borrowers in arrears, officially notifying them of their "options" to request restructuring of their debts, but in effect, warning them of foreclosure. The recipients of the letters have 45 days in which to reply. Should they not do so, they automatically forfeit their right to potentially ease their repayment schedule, and they become subject to foreclosure.

This action was authorized by a new 1987 agriculture credit law, whose bipartisan supporters saw to it that the initiation of the threats to farmers would begin only after the 1988 general elections. President-elect George Bush, speaking to reporters from his Florida vacation spot after election day, denied that any politics was involved in the timing, but everyone knew he was ducking the question. "You don't send bad news prior to the election," said the legislative analyst of the National Farmers Union, Howard Lyman, on Nov. 14.

The reality is that both the Democratic and Republican Party mainstream are united in doing nothing while this mass threat to farmers takes place. Although this summer's drought has made clear that a mobilization is required to protect farms and expand food output, nevertheless, Washington is paralyzed over the issue of how to handle the farm debt.

The debt of the 83,000 farmers in question represents about $8 billion. Overall, there are 232,000 FmHA borrowers, around 10% of all farm borrowers in the United States.

The FmHA is the government lender of last resort, and in recent years, has come to account for about 17% of all national farm debt. The largest farm creditor in the United States is the Farm Credit System of Production Credit Associations and land banks, accounting for about one-third of the value of all farm loans, and the remainder of the debt is to commercial banks, insurance companies, and various other private entities. Farm debt is in trouble in all of these categories of lenders.

Rather than deal with the debt crisis in a way to preserve food output potential, the government's policy is simply to keep things "orderly"—while the basis of our food supply disintegrates.

The procedures to be followed by the FmHA are the following:

FmHA officials are to determine if the borrower in arrears is eligible for "primary" loan servicing or "preservation" loan servicing. In the first case, the borrower may get some form of rescheduling, reamortization, reduced interest rates, deferrals, or write-downs of the loans.

In the case euphemistically called "preservation," the borrower may get a "homestead" option. He may be able to keep his home and 10 acres—in other words, he will not be able to farm. Or he may get some lease deal, or buy-back option to the farmland. The lease-back/buy-back option allows either a one-year or a five-year lease with a renewal option at FmHA discretion.

On Nov. 14, the eve of the mass mailing of debt payment notices, FmHA spokesman Ron Ence defensively told reporters that the warnings would not lead to a purge of the American farmers. "The purpose of these notices is to keep farmers on the land. Our mission is not to foreclose on anyone."

However, the administrator of the FmHA, Vance Clark, struck a more snide tone on Nov. 14, in a speech in Des Moines, Iowa, at the national conference of the American Bankers Association agriculture bankers. He said, "We have a monumental task to interview everyone of those 83,000 . . . if we can find them." Laughter followed.

The FmHA letters are the most dramatic development in a series of planned withdrawals of credit from U.S. farmers. At the same Des Moines speech, Vance Clark said, "Sadly, we at Farmers Home are still providing way too much direct credit."

Similarly, the Farm Credit System is cutting back drastically on their provision of production credit. In Iowa—the core of the farm belt—FCS officials have forecast a reduction in farm credit of 50%.

FmHA staff unofficially predict that as many as 70,000 of the 83,000 payment-delinquent farmers may be foreclosed upon eventually. The FmHA has a set of computer formulae, in a program called DALR$, which reviews the farmer's status in terms of farm-commodity marketing and cash flow. Once the computer determines if there is a loan restructuring option for which the farmer's situation "fits"—and it may not be the best one for either the government lender or the farmer—then the FmHA has 60 days in which they must offer the farmer an option.

FmHA's Vance Clark jokingly said, "We're getting ready to jump-start thousands of farmers." But the facts show that the American farm credit system is heading toward breakdown.