Agriculture by Suzanne Rose and Sue Atkinson

The Farmer Mac swindle

There's a new bankers' scheme for managing the farm lending crisis—but it won't mean producing more food.

On Feb. 24, Frank Naylor, Jr., former head of the Farm Credit Administration and current president of U.S. Agricredit, a financial services corporation, conducted an all-day seminar for agricultural lenders in Des Moines, Iowa. Naylor discussed how to take advantage of the new approach to agricultural lending represented by the Federal Agricultural Mortgage Corporation—"Farmer Mac"—the new government agricultural lending institution set up under the provisions of the Agricultural Credit Act of 1987.

Naylor, one of the originators of Farmer Mac, promoted it as the "new way" that the government's Farm Credit System and all agricultural lenders will make money: by selling agricultural loans to a secondary mortgage market, rather than the old-fashioned way of loaning money to farmers to produce food.

Naylor and his Wall Street cronies are plotting how to maintain an agricultural credit structure while liquidating thousands of family farmers as well as the local lenders which support agriculture. Since 1985, the beginning of Naylor's tenure as head of the Farm Credit Administration, untold thousands of family farmers (the government refuses to say how many) involved in the government's agricultural lending programs have been liquidated and driven off their land.

Farmer Mac is a boondoggle for the likes of Prudential Insurance Corporation and such bankers as Armand Hammer's friend John Chrystal from Iowa, who sit on Farmer Mac's board of directors. It is supposed to "service" agricultural loans—sell them to a secondary mortgage market controlled by 10-12 certified "poolers," like Prudential, who, along with representatives of the Farm Credit Administration, will have the authority to issue new government-backed securities.

Their bonding authority is supposedly backed by granting the Farmer Mac "poolers" and Farm Credit Administration representatives the right of first lien on the farm loans they acquire and the authority to set the terms of the loans. This ostensibly takes the risk out of agricultural lending, because the authority to determine the terms of the loans will be taken out of the hands of local community boards upon which the Farm Credit Administration had previously relied. The boards were controlled largely by farmers and others who were elected to the local district and national boards.

According to knowledgeable sources, Naylor initiated the move to centralize agricultural loans in the hands of a few top insurance companies, by actions he took while he was head of the Farm Credit Bank in Sacramento, California in 1985. He initiated the Farm Credit Amendments Act of 1985, which placed the Farm Credit System, the nation's largest agricultural lender, under the top-down control of three men who were appointed directly by the President. Frank Naylor became one of them.

This group replaced the locally elected 12-member national board, each of whose members represented one of the 12 national Farm Credit districts. The Agricultural Credit Act of 1987, which created Farmer Mac, merged the government farm lending banks in each district. The 12 districts were slated under the act to be reorganized into 6 regional service centers. The cash surplus accounts of each local district were placed under the direct control of the three-man board.

Also at that time (1985) Naylor changed the Farm Credit Administration's accounting procedures, which resulted in turning the surplus on their books into a loss. The loss became the motive for setting up a new structure, Farmer Mac, to centralize farm loans and put them on a sounder footing (e.g., more stringent enforcement of debt payments).

The accounting changes worked as follows: The balance in the cash asset account of the Farm Credit System at the end of 1984 was $4.1 billion. At that time, Congress decreed a change in the way farm land was valued on the books. An appraisal was done of all the farm land in the system, and wherever the current valuation was less than the amount recorded on the books, the new amount was said to represent a projected loss to the system. Some $2.8 of the $4.1 billion was moved into a liability account called "provision for losses." The media claimed that this was an actual loss rather than a projected loss, and the system was said to be in terrible trouble.

The result was the effective decapitalization of the system, because the surplus in the system was the basis for the generation of loans. Congress proceeded to order that the system be recapitalized. The "crisis" resulting from this was the basis for setting up Farmer Mac.

Naylor and friends intend to bring all agricultural loans, old and new, into the Farmer Mac system.