

## Agriculture by Sue Atkinson and Suzanne Rose

### Farm Credit System swindles exposed

*The FCS has been ordered to make reparations for its loan scam, but thousands of farmers are still high and dry.*

**T**he Farm Credit System (FCS) in Omaha, Nebraska has reached a settlement with the federal government, according to which the FCS has to repay \$4.2 million for guarantees it fraudulently collected on 20 loans to farmers in the eastern Iowa counties of Cedar, Jackson, Clinton, and Jones in 1985. According to the *Des Moines Register* of April 25, another \$3 million of guaranteed loans is still under investigation.

What the *Register* hypes as the "largest single recovery ever collected by the Northern District of Iowa," vastly understates the real sums involved and the magnitude of the crime. According to the newspaper, the repayments were ordered following a probe by the U.S. Attorney's office in eastern Iowa, "because the credit association collected government guarantees on the loans, based on improperly valuing loan collateral and cash-flow projections."

According to most accounts, the FCS falsified information to obtain the guarantees on the loan and put the loan into default, in order to cash in on the guarantee.

Loans to farmers meeting certain criteria can be guaranteed by the government up to 90% of the amount borrowed. If the borrower defaults on the loan, the lender will receive cash from the government. The so-called guaranteed loan program became widespread in the mid-1980s, and was institutionalized in the 1985 Farm Bill.

The Farm Credit System was established to be a cooperative farm lender controlled by farmers. Howev-

er, it became deregulated in the early 1970s and became the vehicle for infusing billions of dollars into a speculative agricultural "bubble." As such it was the usurious instrument of its Wall Street bondholders. A decision was made by "insiders" to burst the bubble in the mid-1980s. This bankrupted hundreds of thousands of family farmers. Wall Street investors who held the system's securities were saved, as well as many of the banks which made the loans. In the process, however, much of the nation's food-producing capability was wiped out.

Farm Credit System spokesmen like to brag that their banks were not bailed out during the collapse by taxpayers, unlike the savings and loans or the commercial banks today. But what happened was far worse. Farmers were squeezed until they had to stop farming or were swallowed up by larger farms, and many banks, both inside and outside of the FCS, were paid off by government guarantees on their loans, as the farmers were manipulated into foreclosure.

Not only did the FCS banks and bondholders benefit from these farmer liquidations, but farm activists discovered that multinational private banks, such as the Dutch giant Rabobank, were buying government-guaranteed farm loans from U.S. agricultural banks, only to turn around and liquidate the borrower to cash in on the guarantee.

The loan guarantee program was vastly expanded in the 1985 Farm Bill, just prior to the "deflation" which insiders knew was about to occur—

and did, when the FCS suddenly announced that it was insolvent. Overnight changes were made in its book-keeping procedures and loan evaluation methods, which called into question large numbers of farm loans. The system accounts appeared to turn in one year from operating in the black to operating in the red. FCS and other lending institutions scrambled for the loan guaranties.

Three brothers who farmed in Iowa suspected that their loans were being manipulated by their farm credit bank to get guarantee money. They complained to Congress and a federal grand jury probe was initiated. Other farmer activists accessed their loan files, which contained documented evidence of fraud, and gave them to the grand jury. Evidence of loan guarantee abuse was turned up by farmers all over North Dakota. *EIR* obtained one memo between a farm credit district bank officer and the loan officer which documented just such a scheme.

After an initial spurt of publicity around the grand jury investigation, all evidence in the probe was sealed. This settlement, which involves restitution to the government for a mere 20 loans, represents a tiny fraction of the loans involved in the program.

The Omaha Farm Credit bank was accused of falsifying appraisals of property or real estate and of providing false cash-flow projections in order to obtain the guarantees and then liquidate the loans. For such fraud to have occurred, the wrongdoing would have had to have been done with the knowledge of FCS officers, and would have been far more widespread than the 30 cited incidents. The Omaha bank was only one of dozens of farm credit institutions, private banks, and insurance companies that were involved in the guaranteed loan program and in whose interest it was to cash in on the guarantees.