Another wave of farm bankruptcies

Farmers Home Administration sends out more delinquency notices, turns to "privatized loans."

The Farmers Home Administration (FmHA) has announced that it will be sending out notices to 30,000 delinquent farmer borrowers over the next few weeks. The notices tell farmers they can have their loans restructured (written down or deferred), forgiven, or foreclosed, whichever is cheaper for the government. The action is said to affect 20% of the FmHA's direct loan portfolio, or approximately $5.6 billion in overdue loans.

The restructuring of FmHA loans was written into the Agricultural Credit Act of 1987 to politically diffuse social unrest caused by the exodus from farming in the 1980s, by stretching out bankruptcies caused by the government's farm policy. Farmers whose loans were restructured in 1989 are even more bankrupt today, due to low prices and a usurious debt load.

Behind the notices, however, is the Bush administration's intent to eliminate traditional government support for the independent "production-oriented" family farmer, and turn over agricultural lending totally to the private financial markets. Since its founding in the 1930s, the FmHA has been the lender of last resort, guaranteeing low-cost credit to farmers who were otherwise ineligible for commercial loans, thus ensuring that all farmers had access to credit. Since the 1985 farm bill, government direct lending to farmers for land ownership and production costs has been phased down, and the government has been turning its lending responsibilities over to private sector banks who will have their loans "guaranteed" by the FmHA.

FmHA Director Neil "Sox" Johnson explained the drive to put farming into the hands of the profit-oriented private banks and cartels: "The ones that to me are still really in the crunch on this thing are those people that are just production-oriented farmers that didn't have a good feel for the business. It's a business and you've got to be handling it as such in this day and time."

In reality, this view means that to eliminate risk, a farmer would have to produce under contract to a large agribusiness or cartel for a guaranteed price—a modern form of serfdom.

According to National Farmers' Organization activist Grant Buntrock, who testified before Congress on farm credit in February 1991, banks are becoming "more and more unfriendly to farm loans. Many lenders now require that only farmers who can guarantee a price are eligible for loans." The risk in farming has come from the deregulation practices of the Wall Street-dominated farm policy, which has caused output and income to drop significantly over the past 10 years. Along with a parity price and government-sponsored infrastructure projects, an abundant supply of low-interest credit available to independent producers is an essential mainstay of productive farming.

In April, the Government Accounting Office released a report, entitled "Billions of Dollars in Farm Loans Are at Risk," in support of administration efforts to eliminate FmHA direct lending to farmers. It claimed that 70% of the FmHA direct loan portfolio of $19.5 billion is high risk, and said that government money was being spent unwisely on trying to help farmers who are doomed to fail. The press around the country picked up reports that the government would lose $14 billion in FmHA loans because of poor lending practices.

The FmHA sent out a first round of delinquency notices in November 1988 to 70,000 farmer borrowers, one-third of the active borrowers at that time. In that round, only 16,000 farmers were offered restructuring, which was sold as a means to keep them on the land a little longer. The rest had either already left farming at the time the notices were sent out, or are still in the mediation or appeal process after having been refused restructuring.

In 1991, FmHA loans to farmers were cut so heavily that each state received 47% less than the year before. Direct lending was cut almost in half, from $932 million in 1990 to $493 million in 1991. The Bush administration proposed a 55% cut in FmHA lending in 1992.

Since the 1985 Farm Bill was passed, direct loans to farmers have decreased, while the guarantee program has increased. The guarantee program has been used primarily by private banks and banks in the government-backed Farm Credit System, as a bailout for existing distressed loans—not to expand lending to the traditional FmHA borrower, who could not qualify for commercial credit.

The potential for abuse of a guaranteed loan policy is clear from the recent scandals which hit the Omaha Farm Credit District. The Omaha Production Credit Association, a farmer-owned cooperative bank in the Farm Credit System, which is bankrolled by Wall Street, was found guilty of loan fraud after farmers complained about their lending practices. After securing FmHA guarantees on hundreds of loans, the bank loan officers manipulated farmers into foreclosure and cashed in on the guarantees.