Agriculture by Suzanne Rose

Farmers jailed in Nebraska

Farm Credit district commits fraud; a halt in foreclosures pending an investigation of government abuse is needed.

On June 4, Alliance, Nebraska farmers Joe and Margaret Nelson were arrested by the county sheriff, evicted from their ranch, and incarcerated for 30 days without bail. They were charged with contempt of court for refusing to comply with a judicial order issued on behalf of their creditors which demanded, among other things, that they vacate their property and turn it over to court-appointed receivers.

The Nelsons have waged a 10-year battle in the courts and before congressional committees to save their farming operation from speculators who have destroyed hundreds of thousands of family farmers. They became victims of the speculative lending practices that have dominated agriculture since the early 1970s. These practices have been documented in the Goodloe Report (see *EIR*, Jan. 8, "U.S. Family Farmers Tell Story of Usury and Human Rights Violations") and are the basis for demands for government action to halt foreclosures pending an investigation. Like hundreds of other farmers, they were defrauded by the Production Credit Association of the Midlands (PCAM), a branch of the Omaha-based Farm Credit System (FCS).

In their case, the fraud occurred in collusion with the Travelers Life Insurance Co. In 1983, PCAM demanded that they pay down a portion of their outstanding loan by obtaining outside financing. They mortgaged their ranch to Travelers and developed a plan with the University of Nebraska, which was supported by both Travelers and PCAM, which affirmed that they would finance the Nelson ranch for at least three more years, helping them to fill their pastures with cattle so they could remain solvent. However, when the first payment to Travelers came due, PCAM reneged on their agreement, plunging the Nelsons into bankruptcy and effectively allowing Travelers to steal their ranch at one-third its value.

The Nelsons filed suit against PCAM for fraud and breach of contract. In 1989, they won a $1.2 million jury verdict against those two entities. Three months later the judge, in an unprecedented action, overturned the jury verdict.

PCAM was earlier caught in a fraud scheme and forced to repay $4.2 million to the government in March 1992 because employees, at the direction of district officers, were making false applications to the federal government for Farmers Home Administration (FmHA) loan guarantees which resulted in the liquidation of many farmers.

The Nelsons sought protection from their creditors by filing bankruptcy. However, the court lifted the stays on the creditors. Receivers were appointed who demanded eviction.

Over 1,100 of Nebraska's 55,000 farmers have applied for Chapter 12 bankruptcy protection since the government passed an enabling act in 1987. This is the largest number of any state. Many, like the Nelsons, were successful operators who had run family cattle-feeding operations for generations. The past decades' economic policy commitment to "free trade" has favored speculators and resulted in increasing U.S. reliance on meat imported from Mexico and other malnourished countries, and the predominance of cartel-owned feedlots over family farming.

When a group of legislators in Nebraska tried, in 1986, to pass a bill protecting the homestead of the farmer in the event of foreclosure or bankruptcy, three insurance companies, including Travelers, led a fight against it, and began using new lending instruments ("deeds of trust") which were not covered under the protection. Hence, farmers like the Nelsons, who are in their late fifties can be put out of their homes.

The Farm Credit System is a government-chartered system of farm credit banks mandated to provide credit to agriculture. They are owned by their farmer members, and are self-regulated; that is, regulated by a government-appointed executive committee and board which has close ties to the Federal Reserve System. Their securities, which are sold on the financial markets, enjoy the implicit backing of the federal government. However, real oversight of the system was removed in the early 1970s, and their lending policies have been dictated by the needs of the Wall Street and international speculators who purchase their securities. The cost to the economy of their speculation, in terms of family farm loss, has been devastating. During 1984-88, over 300,000 farmer borrowers from the Federal Land Bank, an entity of the FCS, were liquidated.

The Nelsons calculate that they owe PCAM today more than double their original loan. Interest rates during the 1980s were 12 to 20%. Having liquidated many of their family farmer borrowers, the FCS has reduced its overall volume of lending. They now favor larger loans to larger corporate entities, including corporate farms and cooperatives. This type of lending is more profitable to speculators in the short term because such operations loot labor and the land.