

## Commentary

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A review of Donald Wilkinson's document discussing the history of the Farm Credit System caused me a bit of nostalgia. My recollection of this history is from the other side of the desk. I remember as a very small boy listening to discussions my parents had with an insurance company representative. He was calling on them in the early '30's to discuss the balloon payment due on the farm mortgage. You will recall that farm mortgages at that time were made with five-year balloons and interest-only annual payments. I remember the great relief when it was decided to leave my folks in possession of the farm.

Both banks in our home community closed. My dad would go to the bank in Elkader and borrow on a six-month note. Six months later he would go to the bank in Strawberry Point and borrow to repay the bank in Elkader. That was called agriculturally programmed credit at that time. Somewhere about this time a local PCA was started in Elkader, and it became the source of credit for my parents' farming operation. It also financed my 4-H calves. I'm indebted to them for the opportunity that was created for me because of that financing.

Some years ago I served on an Advisory Group of the Farm Credit System when they were updating the methods of chartering other financial institutions. On July 14, 1971, as a member of the ABA Agricultural Committee, I testified before Congress on the proposed Farm Credit Legislation.

I related, in that testimony, matters I felt concerned the farmer. I supported the unified debt proposal of the system and opposed its efforts to issue "deposits" in rural areas at interest rates beyond Regulation Q, which restricted banks. At that time I quoted a Federal Reserve Board report which said "Production Credit Systems serve

only one function—to provide credit to farmers. This is the reason they have been successful and have actually outgained the banks in this function in the Seventh Federal Reserve District.”

My testimony continued: “If this be the case, why then in the interest of national policy and the serving of agriculture do we want to dilute that effort with mobile home financing, fiduciary relationships, depositor privileges, farm management, and estate planning? Will this really benefit the farmer or is it designed to benefit the system?” Over the years I have spoken to the annual director's meeting of the Federal Intermediate Credit Bank of Omaha. I have talked to the annual meetings of our local PCA. Early in 1979 I was asked to prepare a research paper for presentation to the Strategic Planning Committee of the Federal Intermediate Credit Bank of Omaha. One of my summary statements in that report was “The responsibilities for the Farm Credit System of being No. 1 in agricultural lending are very great. When the Farm Credit Systems speaks, everyone listens.” E. F. Hutton picked that one up and has done much better with it than I did.

Our holding company, Brenton Banks, Inc., has an OFI which has helped meet the needs of our agricultural borrowers. In the spring of 1979, during the very tight money situation, our bank, the Fidelity Brenton Bank, negotiated a participation line of credit with our area Production Credit Association. The relationship in our area is one of two good professionals respecting the capabilities of each other. We are good friends and intense competitors. I have great respect for the Farm Credit System, its personnel, and its training program. Its service to agriculture has been a part of my rural life for many years. We have been well treated by the Farm Credit System. I have never felt disadvantaged at their window. I'm envious, frankly, of their very good capabilities. I regard them as a formidable competitor.

My function here this morning, however, is to address the report presented by George D. Irwin, FCA director of research, on behalf of Governor Wilkinson. I have observed throughout the report the same six areas of contention that have recently surfaced between the commercial banks and the Farm Credit System:

1. The congressionally designed requirement that the Farm Credit System serve as a source of credit during all economic times.
2. The very apparent concept that the Farm Credit System is a growing monopoly in agricultural credit nationally and is accelerating that monopolistic position at an expanding rate.

3. The fallacy that the Farm Credit Administration is like a bank regulator.
4. What appears to be a Farm Credit System policy to politically divide and conquer the banking industry.
5. The present thrust of the system's effort that goes beyond its designed purpose of "service to farmers and ranchers," to that of expanding the system into a nationwide full-service financial organization.
6. The system's agile way of tiptoeing through the tulips as it hopscotches from "private" to "Federal" depending on where they are and to whom they are talking.

My first point was the congressional requirement that the Farm Credit System serve as a source of credit during good times and bad. It is important to remember that the system is not intended to be, nor does it act as, a lender of last resort. Borrowers are turned down as not being credit worthy. Last winter in our area was a particular example of a time when cash flows did not work very well because of low grain and livestock prices. Applicants were rejected, borrowers were asked to consolidate, and some were eliminated. As with all other sophisticated conventional lenders, when borrowers don't perform appropriately, loans are called.

The same requirement was mentioned as it related to rural housing loans. Last winter the Federal Land Bank in our area put a six-month moratorium on rural housing loans so they could process the load of land loan applications they were receiving. In fact, they were so burdened with applications, it was taking up to three months to get a loan closed. Let's face it, the system is not and cannot be all things to all people. It has realistic and practical limitations.

My second point is that the Farm Credit System is a growing monopoly nationally and that its monopolistic position is expanding at an accelerating rate.

A 40 per cent penetration of the total farm credit market is certainly a dominant position. I am reminded of an incident that occurred with my son many years ago. As we were leaving church, he saw some frames hanging on the wall of the foyer and said, "What are those pictures, Daddy?" I said, "Those are plaques with the names of servicemen who died in the service." He asked, "Did they die in the 9:00 or the 11:00 service?" I feel like I have survived the 9:00 service, but I'm not sure I'm going to survive the 11:00 service.

If the Farm Credit System were Procter & Gamble they would be a monopoly. If they were General Motors they would be a monopoly. If they were Citibank they would be a monopoly. I'm really not objecting to that, except that in that position, they certainly don't need a nurse cow anymore.

My third point relates to the fallacy that the Farm Credit Administrator is like the Comptroller of the Currency. This, in my opinion, is a total misconception of how it works. It would be like comparing an OSHA inspector to the Chamber of Commerce executive in our community.

The Farm Credit Administrator serves as an advocate of the system, and properly so. He serves in that capacity in admirable fashion, I might say. Bank regulators, on the other hand, serve as an adversary to the banking industry and have been a weight on our backs. I feel like the Father Flanagan quote: "He's heavy, but he's my brother." Let me give you an example. The Federal Reserve discount window has been discussed earlier in this meeting as an outside source of funds. Yet there are more agricultural loans placed by agricultural banks in the Farm Credit System through the 136 OFI's and direct PCA participations than are supported by the Federal Reserve discount window. Why is it the discount window is not supportive and not used by agricultural banks? Because it is run by an adversary of the banking system.

We recently had a compliance examination in a \$40-million bank of which I am a director. There was a discrepancy observed, the results of a calculator with a programming error. After three weeks of work to find a \$201 error, refunds of less than \$7 apiece were made to 29 borrowers.

This is, in my opinion, overzealous regulation. There have been some real horror stories in the banking industry caused by overactive regulatory insensibilities. My area of responsibility at my bank is operations and compliance. I probably spend about a fourth of my time reading regulations, interpreting them, quite often with legal counsel, and disseminating the information to our banks. I was interested to note that the first week the new Deregulation Committee was active, it issued three new regulations.

I was recently looking through some old files in a bank where I formerly served as president. I ran onto an examination report from the early 1940s that was very critical of the bank for making farm machinery loans on a term installment basis. Typical then, as now, of

failure to keep up with the world.

Some months ago we established a new product and service in our area, the repurchase agreement. We did this in order to draw funds to the bank and compete with the money market funds that were having considerable impact on our area. It wasn't very long until the regulators came down and said, "Treat it like a deposit." You all remember on October 1 when we had to identify the deposits of natural persons in our banks by stamping "Non-Transferrable" on the savings account card or the certificate as it was opened. One of our new-account people put a sign on her desk that said, "Effective October 1st, all natural persons must be stamped on." Some years ago, our holding company designed a program of selling debentures to our customers. It wasn't very long until this source of additional funding was cut off to us by the regulators as being an inappropriate activity.

My point is, the regulators are designing all of our products. We really have no options for innovation. We have been studying asset allocations to make sure that we can meet the needs of our agricultural communities and have deemphasized consumer lending. We have great concern that in so doing we will be in violation of our CRA statement and will come under criticism again from the regulators. We have very great difficulty now serving the credit needs of our directors because of one indiscretion in the industry and an overactive regulatory position.

We do have monetary decontrol, if we can last the eight years to deregulation. A leading eastern banker was recently quoted in one of the trade journals as saying that the regulators are dragging us into the 19th century. I have spent considerable amount of time studying the feasibility of the interest rate hedge. I have established a paper position at no exposure or risk to the bank. I am monitoring this position to determine that we fully understand what this offers before we risk any of the bank funds. I discussed it the other day with one of our regulators. He was visibly shaken. He cautioned me not to do this and said his current feeling was that he should issue a cease and desist order.

I said, "You mean just for thinking about it?" I understand one of the qualification tests to be a bank regulator is to squeeze a rock until it bleeds. There is some discussion going on in the industry now about what are appropriate capital ratios. Our competitors have us handicapped in the branching field. When push comes to shove out in the

country, it's just me against the regulators. My machine reads TILT every day.

My fourth point is the farm credit system's current policy that seems to be designed to divide and conquer the banking system. From what I read, about 2,500 banks will apparently be eligible to use the rediscount privilege, for which historically all banks have been eligible. The industry sees this as a significant giveup. It has been endorsed by the Independent Banker's Association, which has negotiated hand in hand with the Farm Credit System. The Independent Banker's Association, in my opinion, is not positioned on the cutting edge of the progressive elements of the banking industry. Reference is made in the report to what I call a blind participation feature of the new bill. A bank can buy stock in the Farm Credit System and not tell the borrower where the loan is placed. This is not full disclosure. It's not professional banking. I am used to correspondent bank participation relationships where we visit the loan periodically and we do have full disclosure.

Indications are made that banks larger than the so-called special 2,500 can access money markets. I'm telling you that our holding company, a group of 17 banks in the middle of Iowa, with approximately \$700 million in assets, has difficulty in accessing the money markets for funds. We have had a private placement of preferred stock. We do have a line of credit with correspondent banks, but we have been advised by professionals not to attempt a major money market solicitation. Certainly, the Fidelity Brenton Bank, an institution of \$75 million, can do nothing spectacular in that area. We do have a \$6-million line of credit for participations with one of our correspondent banks. We as bankers have let this divisiveness weaken our industry.

Someone has asked what are the five most difficult years for a banker. The answer—second grade. We do cause a good share of our own problems. We confuse Congress by our lack of togetherness.

My fifth point is the present thrust of the system. Designs go beyond "service to farmers and ranchers," and the thrust is designed to expand the system into a full-service nationwide financial organization. Throughout the report there are numerous reference such as: "Improve the income and well-being of American farmers," and "Farmers are our primary business." If this is the design, then why is it necessary to seek commercial and industrial loan capabilities? Why reduce the farmer membership requirement of co-ops? Why go international?

My sixth point is the agile way in which the Farm Credit System uses its Federal affiliation or its private enterprise connotation, depending on where they are and who they are talking to. The Federal relationship is used to deny subservience to state usury laws and to disclaim responsibility for payment of state filing fees and, in some cases, other state regulations. The private enterprise clock is put on in Washington. They jump back to the Federal gate when they appear as a regulator. I understand you to be private, and I congratulate you for your success. I wish you would quit playing hopscotch and just level with everybody.

Let's look at what really accrues to the farmer's benefit:

1. Availability of funds.
2. Professional service.
3. Competitive intensity.
4. Elimination of artificial barriers to product delivery

This may not be an all-inclusive list, but it would generate a darn good financial service in Marshall County, Iowa.

I want to reaffirm my respect for the Farm Credit System. I really don't begrudge them their opportunity. We in agriculture need you. I resent as strongly as I possibly can, however, the handicaps that are placed in the way of my bank, my loan officers, my peers in the banking industry, so we can't run in the same race. I want to try to do what we can do together instead of trying to do what we can do to each other.