

D.C. OUTLOOK: Farm Lending

Farm bill's back on the table, along with plenty of other issues

Last

Congress' "punt" sets up new

debate on ag legislation. What it will look like and even whether it will gain momentum in this session remains to be seen.

This

article is an online companion to the January 2013 ABA Banking Journal cover story, "The Road Ahead." To read that article and other online articles in the report, please [click here](#).

By Steve Cocheo, executive editor & digital content manager

"The first question that anybody who's not from farm country asks me is, 'Why is ABA even involved in the agricultural sector?'," says John Blanchfield, senior vice-president at the association's Center for Agricultural and Rural Banking. When that happens, Blanchfield cites statistics drawn from sources such as the chart accompanying this article.

As the bar chart shows, outstanding bank credit to farmers has risen steadily since 2002, when farmland loans and farmland production loans are totaled year-by-year. By the end of the second quarter 2012, Blanchfield points out, banks' loans to farmers came to \$135 billion.

"And that doesn't even include all the loans made by banks on Main Street, to support businesses that support farmers and ranchers," says Blanchfield. He says that about half of the debt owed by farmers and ranchers comes from banks.

The biggest story has been in farm real estate lending by banks. "In 1987, when the farm real estate debt crisis hit, banks had about \$10 billion in farm real estate loans," Blanchfield says. Over the years since, banks have become major farm real estate lenders, so much so that their investment in this piece of the business has sometimes exceeded production credit.

For a larger version of the chart, click on the image or click [here](#).

In sum, that's broadly why ABA is involved in agriculture, and why what happens in the nation's capital is so important for the association to watch.

The industry has a heavy stake in the ag sector-including not only community bank ag lenders but also some of the country's largest commercial banking companies. Of the latter, while there are mega-banks involved directly in farm production and land lending, such as Wells Fargo, there are others where ag and rural involvement doesn't always fit the usual image. JP Morgan Chase, for instance, has been heavily involved in the U.S. Department of Agriculture's Guaranteed Rural Housing Loan program since 1992.

(That federal program guaranteed \$20 billion in housing credits in federal fiscal 2012.)

Out of Washington comes support for banks' borrowers in forms ranging from crop support programs and insurance programs, as well as support for bank lenders through Farmer Mac (the Federal Agricultural Mortgage Corp.). But Washington also sends competition, in the form of the Farm Credit System, governed by the Farm Credit Administration. Blanchfield and Edwin Elfmann, ABA senior legislative representative responsible for ag issues, working with the ABA Agricultural and Rural Bankers Committee, keep a weather eye on all of it.

Farm bill developments

The House and the Senate had differing versions of the farm bill in development in the last Congress. The Senate version passed the full Senate in June 2012, but the House version, passed out of the House Agriculture Committee, did not pass the full chamber. The two approaches differed, chiefly in regard to nutrition programs. With the fiscal cliff dominating much of the time at the end, the farm bill fell by the wayside. As part of the fiscal cliff legislation, however, an assortment of mostly nine-month program extensions passed--essentially, a bare-bones extension of the 2008 farm bill--a "punt."

The "credit title"--the portion of most direct interest to bankers--extended programs as is until Sept. 30. There were no expansions for the Farm Credit System and term limits on Farm Service Agency guaranteed loans remained in effect. The "commodity title"--also of interest--was extended for the same period, and direct payments to farmers will be made on 2013 crops as a result. No changes to the crop insurance program were made.

What's left now are questions.

"Does Congress tackle a new farm bill in 2013? Both houses have said that that is their intention," says Blanchfield. "Will they start with a blank sheet of paper? That's hard to say."

Blanchfield points out that both House and Senate had passed completed drafts in 2012, but there will be less money going forward. And changes in leadership may dictate a shift in the dynamics.

"Some here in Washington think that there may be no compelling reason for Congress to pass a farm bill in 2013, and that they may punt again when the extensions expire in September. The big fight, in any case, will be in nutrition programs," says Blanchfield. He points out that these federal efforts account for a majority of ag bill spending.

For a larger version of the chart, click on the image or click [here](#).

In the 2012 legislation, the credit title saw very little change, with the exception being the Senate's lifting of term limits on FSA loans. Some important changes to crop insurance, chiefly involving limits on the adjusted gross income of participating farmers--essentially a "means

test"--had also been in that title. It's too early to say what will carry over.

ABA does not favor a means test on crop insurance. Blanchfield points out that in recent years the government has tried to push farmers towards a self-insurance approach to crop insurance. Throwing in a means test goes against the overall trend, he explains.

Farmland price horizon

In farm country the price of cropland continues to rise, but Blanchfield points out that while farm prices have risen substantially, farm debt overall has not.

"That reflects that what's happening in the farm real estate market is not necessarily tied to borrowing," he says. "It's still a prosperity thing at this point, it seems."

"We're the place where the world buys corn," Blanchfield explains, "and the rest of the world feeds that corn to livestock because people want animal protein. We have the corn, they feed their animals, life is good."

The internet has played a role in the ag real estate boom because news travels faster and more broadly than in the 1980s. "Now," says Blanchfield, "when some farmer in rural Iowa pays \$12,000 an acre for 80 acres

of land, that's known instantly around the country. So bankers are well aware of the trend. Yet there remains jaw dropping when someone opens a suitcase and buys a farm for \$1.5 million in cash."

Blanchfield says ABA continues to watch this issue. At the ABA National Agricultural Bankers Conference last November, farmland prices dominated a good part of the discussion. Blanchfield says two economists--Jason Henderson from the Kansas City Federal Reserve District Bank and Brent Gloy from Purdue University's Center for Commercial Agriculture--compared the current runup in prices to past periods when prices increased.

"They didn't see the current boom as quite the same as the disastrous boom of the 1980s," says Blanchfield. "That's because there hasn't been the massive buildup of farm debt."

In their presentation, the points were made that elevated export trends could keep farm prices high, but also that the impetus from ethanol demand for corn is about done.

However, Blanchfield says the economists had warned convention attendees that "the risk is always in the 'tails'."

"That means that if the farm economy begins to peter out, farm real estate prices won't correct immediately," Blanchfield explains.

"Henderson and Gloy cautioned the audience that farmers may start borrowing more to acquire land, even though the economics of that won't be as strong as they used to be. So the idea is that when you get to the end of the boom, that's when you get the squeezing."

Blanchfield adds that the speakers warned that the first signs of farmer stress would come in performance on their operating lines of credit.

On the Hill, not much was said about prices in the waning days of the 112th Congress, according to Elfmann. He points out that many members of the ag committees were coming of age during the 1980s ag crisis and know what a boom-bust cycle looks like.

"But nobody is making public statements or anything along those lines," says Elfmann. "The attitude is more, 'We know this could potentially happen again, so we are trying to see what we can do to avoid it'." He adds that this may work in favor of passage in this Congress of a farm bill.

More issues pending

Additional matters that the Ag Center will be watching:

• Basel III: The pending capital standards are a question mark for ag lenders, right now. "Ag

lending may be impacted by Basel III," says Blanchfield, "depending on how the regulators decide to view farm real estate loans." It's possible that the final rules could, in his words, "have a chilling effect on bank's willingness to make farm loans, or would require them to make farm loans in a different way."

A positive note, says Blanchfield, is Farmer Mac's continuing progress in building the secondary market for farm real estate loans. This could help ag banks handle Basel III, he suggests.

"Farmer Mac is a player in farm real estate loans," says Blanchfield, "but now I think they are going to grow into being a major player."

• Farm Credit System
pilot proposal: For several years, a proposal has been pending at the Farm Credit Administration that would allow FCS lenders to expand into new kinds of lending, in competition with banks, under the guise of the loans being "investments."

"It's stealth lending," says Blanchfield, "and in our comment letter, filed six years or so ago, we said that it's illegal."

[This article was posted on January 18, 2013, on the website of ABA Banking Journal, www.ababj.com.]

