FARM CREDIT ADMINISTRATION
Newsline
November 1999 ▪ Vol. 1, No. 9

FCA Hosts Regulators' Agricultural Risk Conference

The Farm Credit Administration (FCA) sponsored a one-day Regulators' Agricultural Risk Conference November 9 at FCA headquarters in McLean, Virginia. The conference provided a forum for agricultural economic experts and financial institution regulators to discuss the current state and future prospects for U.S. agricultural markets and the potential risks for financial institutions.

Among the speakers at FCA's Regulators' Agricultural Risk Conference were (left to right) Alan Bush and Keith Seibold, Federal Deposit Insurance Corporation, Roland Smith, FCA, Steven Phillips, Office of the Comptroller of the Currency, and Dennis Pittman, Farm Credit System Insurance Corporation.

"We hosted the conference to provide a forum to hear firsthand from financial regulators about how the problems in the agricultural sector are affecting the institutions they regulate," said FCA Board Chairman Marsha Pyle Martin. "We wanted to learn about what they are doing to address risk in the agricultural sector as well as to share with them what FCA is doing in that area."

The FCA conference evolved around three broad themes. The first session set the tone for the conference with a synopsis of the current agricultural condition. "Although Congress authorized $8.7 billion in emergency payments in 1999, farmers and ranchers continue to feel the economic pinch mainly due to low commodity prices and weather related problems," said FCA Chief Economist John Moore.

"The duration of the slump is perhaps the most critical issue today," said Moore. A Federal Deposit Insurance Corporation representative speaking at the conference noted that while most agricultural lenders were performing well despite depressed commodity prices, smaller producers and lenders were especially affected by current conditions.

U.S. Department of Agriculture economists predict that most agricultural commodity prices would remain low in the near term because of large global surpluses and slow economic growth abroad.

Although low interest rates and Federal subsidies are cushioning stress in the agricultural economy, financial regulators still remember the agricultural economic crisis of the mid-1980s. The second session focused on what financial regulators are doing to mitigate the risk on the institutions they examine due to the current economic agricultural financial condition. They discussed at length a question in the minds of farmers, ranchers, and regulators: Will the agricultural economy of today face a fate similar to the agricultural crisis of the mid-1980s? With respect to the Farm Credit System (FCS or System), FCA Chief Examiner Roland Smith responded by saying, "I do not think so if risks are properly managed."

Financial regulators also learned about FCA's Early Warning Systems, the risk identification and management tools to identify institutional risk. In addition to ongoing monitoring of institutions that cross a certain threshold of risk, FCA's Office of Examination prepares a semiannual stress analysis test that estimates how economic stress would endanger safety and soundness.

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"I believe the tools we have put in place will alert us to emerging risk in a timely manner sufficient to ensure corrective actions are taken," said Smith. "With sound management, strong earnings and capital positions, and effective internal controls and risk management systems, most institutions will handle the risk that might emerge in the short term."

The last session of the one-day conference provided an opportunity for experts to highlight the recent developments in current farm policy. Congress is likely to continue debating whether to make broader changes to the 1996 Farm Bill. That farm bill was supposed to eliminate emergency assistance payments like the ones Congress approved the past two years. Next year's agricultural debate, according to Joe Glauber, Deputy Chief Economist at USDA, will likely focus on crop insurance reform. There are a number of crop insurance bills pending in the Congress.

Because 2000 is an election year and the World Trade Organization talks are coming to Seattle, Washington, look for agriculture to play a significant role next year, experts agreed.

The three FCA Board members, Chairman Martin, Ann Jorgensen, and Michael Reyna took part in the FCA conference. The meeting also attracted participants from Congress, The Farm Credit System Insurance Corporation, the Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, National Credit Union Administration, Office of Thrift Supervision, Federal Housing Finance Board, the Commission on 21st Century Production Agriculture, and the General Accounting Office. At the conclusion of the conference, attendees said it provided an excellent opportunity to get together as financial regulators and discuss important issues. "We have met individually with other financial regulators, but this is the first time we met in a forum like this," said an attendee from the FDIC.

FCA Board Adopts Policy Statement on Borrower Privacy

At its November 10 meeting, the FCA Board adopted a policy statement that requires FCS institutions to formally inform borrowers that their nonpublic personal financial information is protected by regulation.

FCA already has specific regulatory requirements for protecting borrower privacy. The FCA Board's policy statement is intended to ensure FCS institutions inform and remind borrowers that their privacy is protected.

Recently, the increase in the release of personal financial information, including the sharing of customer information with other institutions, has spurred interest in consumer privacy issues. As a result, the new financial modernization law signed by the President on November 12 includes important consumer privacy provisions. The new law requires financial institutions to disclose the type of customer information collected, their policies and practices for sharing information with third parties, and their policies for protecting the confidentiality and security of customer information. These requirements are similar to those FCA imposed on FCS institutions more than 20 years ago.

Since 1972, FCA regulations have required that borrower information be held in strict confidence by FCS institutions, their directors, officers and employees. Specifically, the regulations restrict disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members.

The FCA Board policy statement requires FCS institutions to inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address borrower privacy in the annual report to shareholders.

FCS Institutions Forming More Alliances

The consolidation in agriculture and the shift toward integrated value-adding operations are driving the formation of alliances that allow FCS institutions to be more competitive by creating greater efficiencies and access to capital.

"Strategic alliances in the FCS are not new but lately they have become a popular way to meet market competition, mitigate risk, and create efficiencies by pooling resources," said FCA Board Member Ann Jorgensen. "Alliances also allow FCS institutions to partner with other entities external to the System to deliver unique services beyond their authorities."

Jorgensen noted these alliances exist between FCS institutions as well as with commercial banks and other financial institutions. "Their goal is to

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FCA Employees Reach Out and Touch Agriculture

Farm Credit Administration employees toured farms and agricultural operations financed by Farm Credit System institutions this summer and fall, listening to farmers talk about the risks and the challenges facing production agriculture. FCA organized the tours in cooperation with FCS institutions and their borrowers.

"We wanted to give our FCA employees the opportunity to experience the day-to-day life of a farmer," said FCA Board Chairman Marsha Pyle Martin. "We also wanted our employees to see firsthand how farmers ultimately benefit from our efforts as the System's regulator."

FCA employees learned directly from farmers the role FCS institutions play in establishing certain industries in the area. At a poultry farm in Virginia, a farmer told how he started his poultry operation 40 years ago with a loan from an FCS institution. He said other lenders turned him down. The farmer received funding from the local FCS lender, and the rest, as they say, is history. Today, the area houses a major processing center for some of the biggest poultry companies on the East Coast. Poultry is the fastest growing segment of the agricultural economy in the region.

During one tour, FCA employees learned about a group of recent college graduates who turned to a local FCS institution when they needed financial backing to start a wholesale herb business. Today, the business boasts 21 greenhouses and $1.5 million in annual sales. They market fresh herbs, such as basil, chives, mint, rosemary, sage, tarragon, and thyme in grocery stores in the surrounding states.

FCA employees get an up-close look at a milking parlor at Kenwood Limited Partnership, a dairy farm near Orange, Virginia, owned by Wallace W. "Monk" Sanford, III. Sanford is a director of Blue Ridge Farm Credit, ACA, in Staunton, Virginia.

FCA employees also saw the challenges facing farmers today. Everyone listened closely as a farmer in Virginia talked about how the drought that hit the area this summer caused hay prices to triple. The farmer sold his cattle in June, an activity that normally takes place in October, when the grass dried up and he was forced to start feeding hay. He then decided to sell his hay rather than feeding it, which he found more profitable than his cattle operation. Other farmers in the area did the same thing.

"Whether they visited a dairy operation, a wholesale herb business, or a poultry farm financed by an FCS institution, FCA employees returned to work with a renewed commitment to help farmers and rural America," said Martin.

FCS Alliances (continued from page 2)

find the best way to serve customers' needs and take advantage of competitive markets," she said.

In one instance, an FCS association is considering an alliance with a commercial bank located outside its lending area. This alliance offers FCS customers (from this association and other participating associations) cash management and other on-line banking services from a commercial bank equipped to provide these services, but not physically accessible to the associations' customers.

"We expect to see more alliances between FCS institutions and non-System entities in the future," said Jorgensen. "We are following these alliances with great interest and encouraging those alliances that are within the System's authorities and do not compromise safety and soundness. The farmers and ranchers benefit through greater access to financial products and services," Jorgensen said.

Noted Ag Economist Shares Vision on Agriculture in the 21st Century

Neil Harl, professor of economics at Iowa State University and director of the Center for International Agricultural Finance, presented his insights on "Agriculture in the 21st Century" during a special briefing October 19 for FCA Board members and staff.

As we enter the 21st century, Harl said the world is poised on the edge of what could be the era of accomplishing the elusive goals of peace, prosperity, and victory over hunger.

Harl offered four overarching features of the transition to the more prosperous and better-fed world of the 21st century:

- more reliance on the worldwide market in allocating society's scarce resources and less on government strictures;
- a gradual elimination of trade barriers;
- more emphasis on food safety and the environment; and
- unprecedented consolidation in both input supply and output processing sectors.

Harl said the recent controversy over genetically modified organisms (GMOs) would grow, posing challenges for seed producers, farmers, and food processors. "The consumer is now on the central pedestal," Harl warned. "Producers must take the high road on food safety and protection of the environment."

On farm structure, Harl believes that while farming will continue for some time to be dominated by families, a great deal of consolidation will occur over the next few decades for three primary reasons:

- the pressure to achieve economy of scale by spreading costs over more acreage;
- the desire to achieve higher income levels; and
- the present concentration of land ownership in the hands of older farmers.

New developments in agricultural technology, particularly in biotechnology, have been pushing out supply much faster than demand, Harl said. The trend is likely to continue, especially abroad, as other countries adopt new technologies. Consumers are the ultimate beneficiaries of the new advances, but input suppliers are capturing a growing share of the revenue pie through mergers and acquisitions.

On agricultural policy, Harl believes Congress, with its recent infusion of payments to the farm sector, has blunted the downside supply adjustment that normally occurs with falling commodity prices. "Marginal crop land needs to go out of production before we will see much of a decline in supplies or strengthening of prices," Harl said.

His suggestions for future farm policy initiatives include: farmer-owned reserves for major commodities; long-term land idling programs; standby authority for land set-asides; and adequate funding for USDA's Farm Service Agency loan programs.

Harl also stressed the importance of global trade issues, because the U.S. depends on foreign markets as outlets for its abundance. "We may produce locally but we market, and, therefore, must think globally," Harl said. Factors that will affect global trade are: China's ability to meet its stated goal of self sufficiency in food production; supply response from South American competitors, especially Brazil and Argentina; and economic prosperity of developing countries.

The *FCA Newsline* is a publication of the Farm Credit Administration. It is published 10 times a year. Suggestions, comments or questions should be sent to:

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The Farm Credit Administration is the Federal agency responsible for the regulation and examination of the Farm Credit System, a nationwide network of cooperatively owned agricultural lending institutions and their service organizations.