



Ag Banker



***A quarterly summary of news that affects ag bankers.***

### **FARMERS REMINDED ABOUT BORROWER TERM LIMITS**

Agriculture Secretary Tom Vilsack on Dec. 13 issued a statement reminding farmers participating in the USDA's Farm Service Agency guaranteed loan program that their access to financing may be affected if Congress does not pass legislation this year to suspend borrower term limits. At press time, prospects for the passage of such legislation looked bleak, despite ABA's unrelenting efforts.

"The expiration of this [term-limit] suspension on Dec. 31 ... will result in 4,200 borrowers, including 1,600 borrowers with current guaranteed farm operating loans through FSA, becoming ineligible for further loan assistance from USDA," he said.

Vilsack's statement is a follow-up on a letter the FSA sent on Dec. 6 to affected borrowers. The USDA originally suggested that banks send such a letter, but ABA insisted it was the agency's responsibility to break the bad news to the borrowers.

Meanwhile, ABA will continue to intensely lobby lawmakers in the 112th Congress to pass the sorely needed legislation to suspend the term limits, so that affected farmers can receive critical FSA financial assistance.

**[Read Vilsack's statement.](#)** **[Read the FSA letter.](#)** For more information, contact ABA's **[Seaver Sowers.](#)**

### **VILSACK DEFERS TO STATES ON POULTRY GROWERS' FUNDS**

Since the state agriculture departments are administering distributions from the U.S. Agriculture Department's Poultry Loss Contract Grant Assistance Program -- or PGAP -- the "USDA's assignment of payment policies cannot be imposed," Agriculture Secretary Tom Vilsack told ABA and nine state bankers associations in a Dec. 8 letter.

ABA and the state associations told Vilsack in a Nov. 5 letter that PGAP distributions should be payable jointly to poultry growers and banks, so that funds are not improperly diverted away from lien holders. But the ag secretary threw the issue back to the nine states that are administering the funds.

The PGAP will provide up to \$60 million in assistance to poultry growers in the states -- represented by the bankers associations -- that lost contracts because of Pittsburg, Texas-based Pilgrim Pride Corp.'s 2008 bankruptcy.

ABA and the state associations had pointed out that jointly payable distributions through the PGAP would be consistent with USDA practice on guaranteed poultry loans as well as other programs such as crop insurance. ABA recommends that all bankers with poultry loans guaranteed by the USDA keep a copy of Vilsack's letter in the credit file.

**[Read Vilsack's letter.](#)**

**[Read the ABA/state associations' letter.](#)**

**[Read about the PGAP.](#)**

For more information, contact ABA's **[John Blanchfield.](#)**

### **FDIC: PRUDENTLY MANAGE AG CREDIT THROUGH CYCLES**

While the agricultural sector's outlook is generally positive, it remains susceptible to shocks, and banks

making ag loans must enforce sound underwriting principles and establish effective risk management procedures, the FDIC said Dec. 14 in a financial institution letter.

Such institutions should implement a prudent risk management process that places strong emphasis on borrower cash flow and repayment capacity, and does not rely unduly on collateral, the FDIC said. Banks also shouldn't rely on cyclical factors, such as land-price appreciation, when making credit decisions. They should, however, be sensitive to evidence of speculation in agricultural land prices or commodities that are influencing the market, and stay focused on repayment ability and borrower underwriting, the agency said.

The FDIC added that the guidelines in the Oct. 30, 2009, Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts should be adapted to ag lending relationships. [Read more.](#)

### **TWO FARM CREDIT SYSTEM BANKS TO MERGE**

U.S. AgBank and CoBank, two of the five banks that make up the Farm Credit System, plan to merge next year, the institutions said Dec. 16 in a joint press release. The merger would add to the banks' geographic diversity. CoBank has \$60 billion in assets and serves lenders in Washington, Alaska, Montana and the eastern coastal states from New Jersey to Maine. U.S. AgBank has \$25 billion in assets and provides loan funding for farm credit associations in Kansas and the Western states. The merged institution would operate under the name CoBank and be based at CoBank's headquarters outside Denver. U.S. AgBank's operations in Wichita, Kan., where it is headquartered, and in Sacramento, Calif., would remain. [Read more.](#) For more information, contact ABA's [John Blanchfield](#).

### **WINERY DEBACLE EXAMPLE OF INAPPROPRIATE FCS LENDING**

In related news, Farm Credit of the Virginias -- a \$1.5 billion Farm Credit System association -- failed to find a bidder to take over the Charlottesville, Va.-based Kluge Estate Winery and Vineyards. The FCS lender held an auction to recover what it could on its \$34.8 million loan but no one matched the opening bid of \$19 million.

Industry analyst Bert Ely spotlighted the absurdity of the FCS lender's predicament in the November issue of Farm Credit Watch. "FCW readers may reasonably ask what is the taxpayer-subsidized FCS doing lending to a billionaire, much less taking a loss on such lending given that the FCS was created to provide credit to struggling farmers and ranchers unable to get credit elsewhere," Ely wrote.

The loan, and FCS's likely loss, "is an excellent example of inappropriate FCS lending that the next Congress should examine," Ely said. "Wealthy estates are not the type of lending Congress envisioned when it created the FCS." ABA has long argued that the mission of the FCS should be limited to the purpose Congress intended -- providing agricultural loans to farmers and ranchers with limited resources. [Read more about the auction.](#) [Read Farm Credit Watch.](#) For more information, contact ABA's [John Blanchfield](#).

### **HOUSE AG SUBCOMMITTEE CHAIRMEN NAMED**

House Agriculture Committee Chairman-elect Frank Lucas (R-Okla.) on Dec. 21 named the panel's subcommittee chairmen for the 112th Congress. They are: Reps. Glenn Thompson, Conservation, Energy and Forestry Subcommittee; Jeff Fortenberry (R-Neb.) Department Operations, Oversight and Credit Subcommittee; Mike Conaway (R-Texas), General Farm Commodities and Risk Management Subcommittee; Tom Rooney (R-Fla.), Livestock, Dairy and Poultry Subcommittee; Jean Schmidt (R-Ohio), Nutrition and Horticulture Subcommittee; and Timothy Johnson (R-Ill.), Rural Development, Research, Biotechnology and Foreign Agriculture Subcommittee. [Read more.](#)

### **NET FARM INCOME UP 31 PERCENT IN 2010**

Net farm income will be \$81.6 billion in 2010, up 31 percent from 2009 and 26 percent higher than the 10-year average of \$64.8 billion for 2000-2009, according to the USDA's Economic Research Service. Net cash income is expected to be a record \$92.5 billion, 2.3 percent above the previous record in 2008. Net

value-added is expected to increase by almost \$20 billion in 2010 to \$132 billion. [Read more.](#)

#### **AVERAGE VALUE OF IOWA FARMLAND INCREASED IN 2010**

The average value of an acre of farmland in Iowa increased 15.9 percent in 2010, according to an annual survey conducted by Iowa State University Extension economist Mike Duffy. Duffy said the statewide average land value as of Nov. 1 this year was \$5,064 an acre, up \$693 per acre from 2009. The increase follows a drop in 2009 land values.

“We need to watch the land values and be prudent, but I don’t think we need to be overly pessimistic there will be a crash in values anytime soon,” he said. “The rate of increase in 2010 appears high, but it is half the yearly increases in 1973, 1974 and 1975.” [Read more.](#)

---

#### **Your ABA Ag Team:**

**ABA Ag Banker Editor:** [Patrick Dalton](#), Phone: 202-663-5447

**Ag Banking Center:** [John Blanchfield](#), Phone: 202-663-5100

**Conferences, products:** [Cynthia Watkins](#), Phone: 202-663-5291

**Regulatory Agencies:** [Vincent Barnes](#), Phone: 202-663-5230

**Legislation:** [Seaver Sowers](#), Phone: 202-663-5436

**Agricultural Economist:** [Keith Leggett](#), Phone: 202-663-5506

---

*ABA Ag Banker* is a service of the American Bankers Association. ABA Members: To unsubscribe and to manage your subscriptions, please visit [ABA E-mail Bulletins](#) and check or uncheck the appropriate boxes.

American Bankers Association, 1120 Conn. Ave. NW, Washington, DC 20036