

# New directions given to keep farm borrowers

WASHINGTON — A representative of The Farm Credit Council told congressmen today that the Farm Credit System "is clearly on record that loan restructuring is the preferred alternative for working with troubled borrowers. Foreclosure is the last alternative and the least preferred."

Also in his testimony before a House Agriculture subcommittee, Douglas D. Sims, chief operating officer of the Farm Credit Banks of St. Louis, cited a pricing philosophy resolution recently adopted by Farm Credit leadership that would enable system institutions to bring interest rates to more competitive levels.

"The system must operate with a view to long-term profitability. We're not just preparing ourselves to receive federal financial help. That means we've got to get interest rates back to competitive level," he told the lawmakers.

Sims, who is a member of the Washington-based Farm Credit Council's legislative committee, a trade association for the farmer-owned lending system, said, "Contrary to what you often read,

the decision to foreclose on a farmer is not a decision easily and quickly made by any of our farmer-board members of any Farm Credit System institution."

He said, "It is on this basis that the Farm Credit System—its banks and associations—are making the commitment to administer troubled loans with the objective of utilizing loan restructuring measures, including participating in federal or state-funded interest rate buy-down programs and FmHA loan guarantees, as preferred alternatives to foreclosure."

Sims said this commitment was one of several important resolutions unanimously adopted recently by the Farm Credit bank presidents and recommended by the system directors to the board of the Farm Credit Corporation of America, the umbrella policy-making body of the Farm Credit System. The FCCA board approved all the resolutions on April 3.

Sims made his remarks in testimony before the House Agriculture Subcommittee on Conservation, Credit and Rural

Development which held a hearing today on general agricultural credit conditions and on credit-related legislation.

While restructuring of loans is the preferred alternative, decisions to do so must be made on a case-by-case basis, Sims said. Key elements essential for a decision to restructure are:

- The borrower has acted in good faith to manage his business affairs.

- The borrower can present a plan which demonstrates realistic prospects for returning to financial viability.

- The restructuring would minimize losses which must have been borne by other farmer-borrower-stockholders of the bank or association involved.

On the subject of interest rates, Sims told the House subcommittee that Farm Credit leadership adopted a resolution to put into effect a new pricing philosophy to make its interest rates competitive. Currently the system sets rates on its average cost of funds—which includes recently sold securities and bonds sold months or years ago—rather than on the

present lower rates. Consequently, Farm Credit interest rates have been running higher than its competitors in many instances.

Sims pointed out to the congressmen that no interest rate changes can be made by a Farm Credit district without approval of the Farm Credit Administration (FCA).

Sims said, "To achieve long-term profitability the Farm Credit System must price products and services to its customers on a locally competitive and differential basis, considering risk and costs incurred on each loan."

He said, "Like any other financial institution, we must be able to competitively serve our best farmer and cooperative borrowers and pursue marketing strategies which will attract new credit-worthy farmers, teachers and cooperatives."

Sims said that because of FCA's recent directive concerning capital sufficiency, "every institution in the system now has questions about the extent to which FmHA programs and other restructurings can be undertaken, or whether any state interest buy-down programs

can be used."

Other resolutions approved included one that stated the system would seek quick implementation of the Farm Credit Amendments Act of 1985.

Last year Congress passed the Farm Credit Amendments Act which was designed to provide an improved means for Farm Credit to manage its losses and mobilize its capital, to establish the Farm Credit Administration as an arm's-length regulator, and to put in place a backup mechanism for seeking federal assistance if the system's best efforts to manage its financial problems are unsuccessful.

Another resolution calls for development of a business plan to return the system to long-term profitability.

The Farm Credit System, which makes approximately one-third of all the agricultural loans in the country, is owned by its farmers-borrowers, and funds for its loans are raised on Wall Street through the sale of Farm Credit System securities. No federal dollars are involved. In 1985, the combined banks and associations of the Farm Credit System reported a net operating loss of \$2.7 billion. This is the largest loss ever reported by a financial institution.

Sims said, "Our 1985 financial results mirrored another devastating economic year suffered by many of our borrower-owners."

The Farm Credit System's officers and directors have a "very strong commitment to operate the system on a businesslike basis but with the expectation that we will deal with compassion toward those who have no reasonable prospect for financial viability," Sims said.

He said that "farmers and their lenders are faced with the most difficult situation that have faced since the Great Depression. The challenge before the system is to work through the most troubled loans, loan by loan, in an attempt to help as many of our farmer/borrowers through this difficult transition as we possibly can while striving to maintain the system as a sound, dependable, and competitively viable provider of credit and related services to U.S. agriculture for the future."

## Youth Forestry Camp

CREAMERY — The Montgomery County Soil Conservation District is offering a scholarship to attend a session of the Youth Forestry Camp to be held at Stone Valley Engineering Camp in Huntingdon County, July 22 to 25.

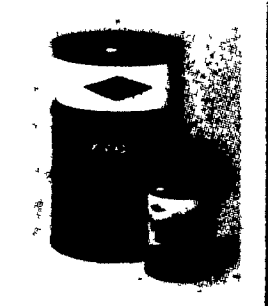
Young people, ages 11 to 13, with an interest in learning about forest resources may apply for the scholarship. In order to participate in the program, an applicant must receive a Youth Forestry Camp Scholarship.

The sponsor's scholarship is \$80 of the registration fee and the student's tuition is \$35. The fee covers meals, lodging, insurance and program materials.

Youth Forestry Camp offers youth an opportunity to learn about forest resources. The purpose of the camp is to serve as an introduction to basic forest management skills, the forest products industry and careers in the field of forest resources.

The camp program consists of four days of classroom and field exercises during which campers are exposed to various aspects of forest management. Instructors are professional foresters volunteering their time and expertise.

For more information and an application for the scholarship, contact Nancy M. Kadwill, Box 20, Route 113, 1015 Bridge Road, Creamery, PA 19430. Phone is 489-4315. Application deadline is May 23.



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