

The Farm Credit System:

Who it was created to serve ...



... and who it's serving today



Where's the "farm"
in Farm Credit?

GET THE FACTS

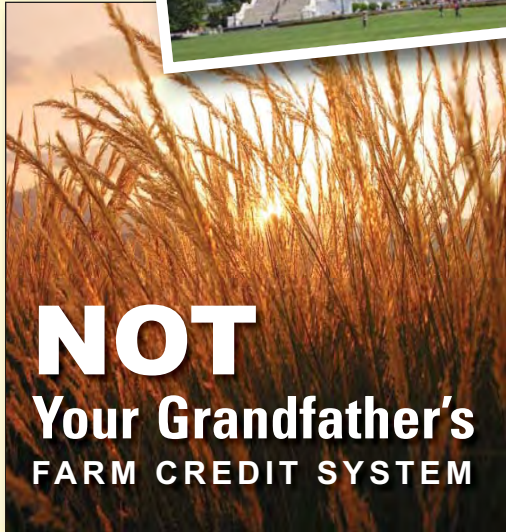
Congress Creates a Mission for the FCS ...

The Farm Credit System (FCS) was created to provide farmers with convenient and reliable access to credit. As a government backed enterprise, the FCS issues bonds that carry an implied taxpayer guarantee. In 1980, Congress amended the Farm Credit Act to specifically require FCS institutions to serve young, beginning and small farmers.

MISSION:

THE FACTS

- ✓ The FCS is serving larger, wealthier and older farmers and ranchers
- ✓ The FCS is expanding its geographic territories and allowing individual institutions to lend across the country instead of maintaining cooperative local control
- ✓ The FCS is aggressively exploiting its government-backed status and preferential tax treatment to gain market share
- ✓ The FCS's lending activities go far beyond meeting the needs of local farmers and ranchers



NOT
Your Grandfather's
FARM CREDIT SYSTEM

"[A] growing portion of [FCS] lending activity focuses on owners of recreational properties, part-time operators, [and] absentee landlords."

Source: Charles E. Gilliland and Michael Mays, "Not Your Grandfather's Farm Credit System," Tierra Grande, July 2002.

... FCA Mission Oversight Lacking

In 2002, the General Accounting Office (GAO) concluded that oversight of the FCS's special mission to serve young, beginning and small farmers and ranchers was needed. In contrast to other government-backed enterprises, GAO found that "[a]ll of the regulators except [Farm Credit Administration (FCA)] had issued regulations with specific standards describing what constituted an acceptable program and/or setting quantifiable goals."

IGNORED

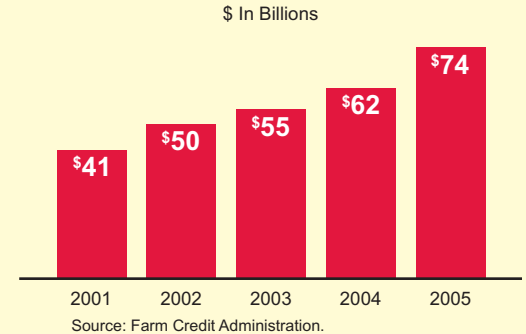
"The Farm Credit System was chartered to serve all creditworthy farms and rural residents, not just the most profitable segments of the agricultural credit market."

**U.S. Treasury Assistant Secretary
Gregory A. Baer**

Remarks to the House Committee on Banking
and Financial Institutions, October 3, 2000

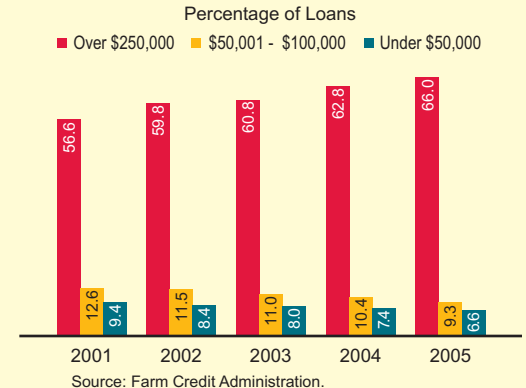
FCS Making More High-End Loans ...

FCS loans and loan commitments over \$250,000 increased by more than 81 percent, reaching over \$74.4 billion between 2001 and 2005.



... Share of Small Loans Falling

The share of loans over \$250,000 has gradually increased, while the share of loans under \$100,000 has gradually decreased.





Colonial Farm Credit advertises:

**"When You Want It,
We Can Finance It"**

They boast financing for:

"loans for all kinds of purposes."

Colonial FC has financed, "vehicles,
ponds ... recreational properties,
... and more!"

Going Way Beyond Agriculture ...

While the FCS is supposed to serve bona fide farmers and ranchers, it now wants to lend to anyone, anywhere, for any purpose.

Carolina Farm Credit advertises that "[i]f your home is located in a rural area or a small town, you probably qualify to take advantage of Country Mortgages products and services."

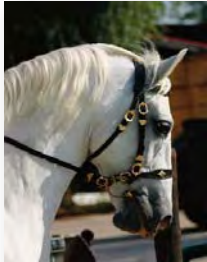


"Now, I'm not a farmer. In fact, the closest thing to a South 40 I have is a slightly weed-infested flower garden. But when I needed financing for my new house, I found Country Mortgages by Carolina Farm Credit."

Carolina Farm Credit Radio Ad

... Financing the High Life

The FCS increased its per-borrower limit to **\$750 million** in 2005, allowing it to finance lavish real estate projects that are a far cry from actual farming. For example, Mid-Atlantic Farm Credit is financing a 658-acre development of 42 “equestrian-themed farmettes” on Maryland’s Eastern Shore.



First Pioneer Farm Credit lent Sons of the Wind, a highly regarded school of equestrian arts, funds to purchase and refurbish a \$1.2 million facility in Merrimac, Massachusetts. Sons of the Wind’s core business is classical dressage instruction, but it also offers horse training and boarding, as well as an elegant bed-and-breakfast.

Cape Fear Farm Credit financed the Five Points Pet Resort near Pinehurst, North Carolina, stating it is “another example of how Cape Fear Farm Credit can provide financing for purposes outside traditional agriculture.”



“Should you be funding a Ted Turner if he wanted to create car lots all over the United States? He’s a farmer-rancher. Is that the purported role of a GSE?”

Mike Reyna

Former Chairman of the Farm Credit Administration,
June 2003

Who is the FCS Serving Now?



Bernie Ebbers

Bernie Ebbers, the former CEO of WorldCom — and one-time member of *Forbes* list of the top 400 richest people in the world — received funding from several FCS associations to purchase timberland in Alabama, Mississippi and Tennessee.

Country Club Financed by Carolina Farm Credit

Carolina Farm Credit loaned \$4.5 million to Fox Den Development Company, L.L.C. The loan was secured by 400 acres of prime property, including Fox Den Country Club, and the loan proceeds are presumably for further development of the golf course community.



Big Toys?

East Carolina Farm Credit advertises:

**"Want Some New Toys
In Your Toy Box?"**



"We can tell you how to do it."

Vacation
Homes?



Carolina Farm C

"From Pasture

The ad offers

"Buying or building a home, lots
land and farms, recreational p
and machinery, eq

"For 90 years, Carolina Farm
for homes, land an



credit advertises:
"... to Porches."

financing for:
... and home sites, second homes,
... property, pasture and timberland
... equipment, vehicles."

Credit has been making loans
and so much more!"

Everything The ~~Farm~~ Credit System

Where's the "farm" in Farm Credit?

Hunting
Preserves?

AgCredit advertises:
"Away from it all."

The ad discusses:
**"A place to farm, to hunt,
to fish ... to get away."**

It goes on to state:
**"Whether you want a little
or a lot, building now or later,
we know where to begin."**

Capital Farm Credit advertises:

**“Bigger to Serve
You Better.”**

“Capital Farm Credit, the state’s largest rural lender, is now even larger. We recently merged with Southwest Texas ACA, which doubled the size of our territory in Texas.”

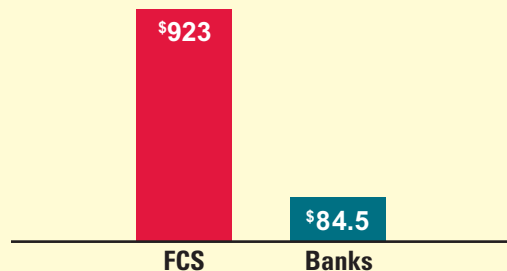
There are Only 95 FCS Lending Associations Today

Since 1987, the FCS has consolidated from eight district credit bands to five and from 390 associations to only 95.

Ag Banks, as Defined by the FDIC, Are Much Smaller Than the FCS

The typical FCS association is 13 times larger than banks that specialize in agricultural lending.

Asset Size in Millions of Dollars



Source: FCA and FDIC.

FCS Getting Bigger and Bigger ...

Consolidation has resulted in very large and powerful associations like FCS of Mid-America and FCS of America, each of which have over \$10 billion in assets. Currently, 23 individual FCS associations each exceed \$1 billion in assets.

FCS associations now serve large geographic areas. For example, FCS of America services Iowa, Nebraska, South Dakota, and Wyoming — a geographic area more than one-and-a-half times the size of France.



Expanding Its Reach

FCS associations are funding deals outside of their charter territories. For example, Farm Credit of Northwest Florida made a \$21 million mortgage secured by a 23,155-acre ranch located in Wyoming.

“[C]onsolidation may weaken the original cooperative concept of local borrower control and close many local offices at which farmers had established relationships.”

CRS Report for Congress, Farm Credit System
Updated August 24, 2004

... Benefiting Insiders



The FCS's failure to adhere to its special mission has resulted in a boon for 83 directors of the Farm Credit Banks. **Collectively, these 83 directors had borrowed a total of \$1.546 billion in 2004, an average of \$18.6 million per director.**

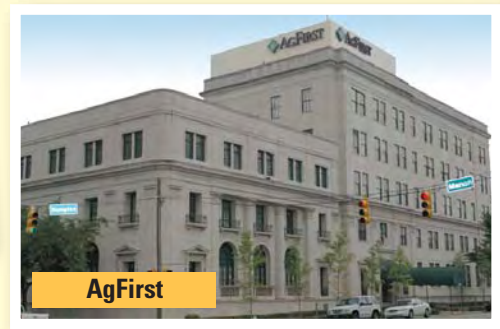


Farm Credit Bank of Texas boasts roughly \$12.5 billion in assets.

FCS Directors Take Huge Loans

FCS Institution	Number of Directors	Average Borrowed
AgriBank	18	\$10.9 million
AgFirst	19	12.4 million
CoBank	26	17.2 million
Farm Credit Bank of Texas	6	22.7 million
U.S. AgBank	14	37.9 million

Source: Federal Farm Credit Banks Funding Corporation.

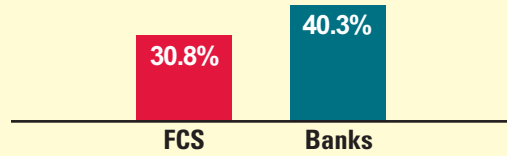


With over \$16 billion in assets, AgFirst is the largest financial institution headquartered in South Carolina. Photo courtesy of South Carolina Bankers Association.

Serving Fewer Farm Loans Than Banks ...

FCS Makes Fewer Loans to Farmers Than Banks

(As a percentage of total farm debt)

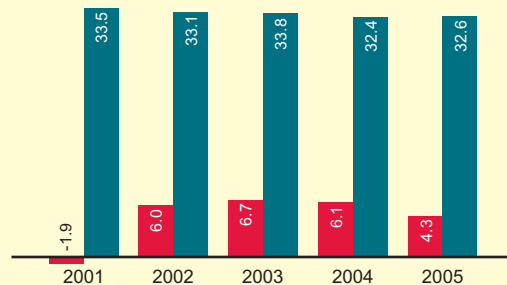


Source: U.S. Department of Agriculture, 2005.

Banks Have Much Higher Tax Rates Than the FCS

Tax Rate Percentage

■ FCS ■ Banks



Source: FCA and FDIC.

Banks Make More Loans to Farmers

As a government-sponsored enterprise, the FCS can borrow money at interest rates that are significantly lower than banks. And because FCS institutions enjoy a lower income tax rate, they can more aggressively price real estate loans.

Despite the FCS's favorable position and its mandate to ensure that farmers, especially those of modest means, have convenient access to credit, banks actually hold a greater share of total outstanding farm debt. In fact, commercial banks are responsible for roughly 40 percent of all farm-related loans, while FCS institutions are responsible for just over 30 percent.

Exploiting Their Government-backed Status

Their government-backed status has helped FCS institutions become extremely profitable. From 2001 through 2005, the FCS earned over \$10 billion in profits — a 40 percent increase over the previous five years. In fact, FCS institutions are now more profitable than banks.



... Straying Further From the Farm



AgStar Financial Services

currently advertises:

**“Tax Services
Accounting Services
Cash Management
and Family Business
Consulting.”**

Shifting From Agriculture To Businesses

AgStar Financial Services touts its Business Solutions Group, which offers tax and accounting services, and business consulting. In the first six months of 2005, the Business Solutions Group enjoyed double-digit increases. Tax preparation and planning increased by 29 percent while the accounting and consulting area jumped 39 percent.

In July 2006, AgStar acquired Salisbury Management Services, adding it to the Business Solutions Group as a part of a broader plan to increase its financial management and business planning services.

FCS Earns \$10 Billion in Profits In Last Five Years

\$ In Billions



Source: FCA and FDIC.

Taking the “Farm” Out of Farm Credit

ArborOne

Pee Dee Farm Credit officially became ArborOne Land & Home on September 1, 2006. Its Web site states, “We believe the new name better represents the full range of services we are able to provide to our customers. Whether you are in the market for a home purchase, home construction, planning some remodeling or just looking to refinance your existing mortgage, we can help. There’s never been a better time to make your dreams come true. We also provide a full range of other financial services for our customers.”

FC Wisconsin

The Wisconsin Farm Credit System recently rebranded itself as FC Wisconsin. According to a spokeswoman for the group, the name change was “meant to counter the misconception that these lenders serve only full-time farmers.”

FCS Financial

Farm Credit Services of Missouri recently changed its name to FCS Financial. In a press release the association stated the new brand will allow it to “[r]each into a marketplace that extends beyond the farm gate into the businesses and infrastructure that comprise rural America.”



The Farm Credit System Has Lost Its Way

- The FCS increasingly favors large, commercial loans and lending for country estates rather than serving farmers and ranchers. FCS institutions are serving larger and larger geographic areas and getting further away from the idea of local cooperative control.
- FCS institutions no longer wish to be identified as farm lenders, deliberately removing farm references from their names.
- Farm Credit institutions have become large, multi-billion dollar businesses. FCS profits, over \$10 billion in the last 5 years alone, should be directed toward accomplishing a socially responsible mission.
- Congress must act to restore a mission focus to the FCS. Farmers and ranchers, for whom the FCS was created, should again become its primary beneficiaries.
- The FCS should be directed to focus on young, beginning and small farmers and ranchers, and lending to farmer-owned cooperatives.



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1-800-BANKERS
www.aba.com

Put the "farm"
back in Farm Credit