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Congressional Oversight Panel Releases Special Report on Farm Credit

July 21, 2009

For Immediate Release

Report lays out several options for farm loan restructuring

WASHINGTON, D.C. - The Congressional Oversight Panel today released its "Special Report on Farm Loan Restructuring" fulfilling a mandate under the Helping Families Save Their Homes Act of 2009 to analyze "the state of the commercial farm credit markets and the use of loan restructuring as an alternative to foreclosure by recipients of financial assistance under the Troubled Asset Relief Program (TARP)."

The Panel's report first examines the state of the agricultural sector and notes that, in general, it has fared somewhat better than the broader economy. The balance sheets of farmers and agricultural lenders have remained relatively strong, though some parts of the agricultural economy, most notably dairy are in crisis. Rural areas were generally less exposed to the housing bubble, providing some protection for rural community banks from the shock of the financial crisis, until more recently.

Recent trends and projections in farm lending are troubling. The U.S. Department of Agriculture (USDA) expects net farm income to decline by 20 percent in 2009, which may reduce some farmers' ability to repay loans later in the year, although the impact may be mitigated by an increasing reliance on off-farm income. Demand for direct operating loans from the agricultural lender of last resort, the Farm Service Agency (FSA), increased 81 percent over the last year, and demand for direct ownership loans increased 132 percent.

Congress asked the Panel to examine the possibility of establishing a farm loan restructuring mandate for TARP-recipient commercial banks in order to prevent agricultural foreclosures. The Panel looked at several existing programs: the Farm Service Agency's process, the Farm Credit System and the Home Affordable Modification Program (HAMP) as possible models for actions under TARP to aid farmers.

The report notes that the effects of any loan restructuring mandate for TARP recipient commercial banks could be limited, as TARP-recipient banks only hold about 10 percent of total farm real estate debt. That share could shrink when more banks exit TARP.

In addition to actions under TARP, the Panel noted that Congress could also choose to help struggling farmers by creating a voluntary restructuring program, funded through TARP, and open to wider participation, or by expanding existing farm assistance programs to target assistance to struggling sectors.

The full report can be found at cop.senate.gov. The Panel held a field hearing on July 7 in Greeley, Colorado to take testimony from local farmers and agriculture lenders - including the USDA, the Farm Credit System and commercial banks - in order to gain a better understanding of farm credit markets. Testimony from the hearing can be found on the Panel's website.

The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are: Congressman Jeb Hensarling (R-TX), Richard H. Neiman, Superintendent of Banks for the State of New York, Damon Silvers, Associate General Counsel of the AFL-CIO, former U.S. Senator John E. Sununu (R-NH) and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.

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