

Agriculture by Suzanne Rose

Nebraska farmer sues 'investors'

Organized crime-linked speculators milked the government-backed farm loan system, thanks to deregulation.

We have reported that government guarantees on loans made to farmers through commercial banks or the government-founded Farm Credit System (FCS) have often worked to enrich speculators like Minneapolis organized crime-linked financier Carl Pohlad, or the Dutch giant agricultural Rabobank, rather than help the farmer for whom the guarantees were meant to provide access to credit. These circles speculate in international markets with loans which by government guarantee are prime speculative paper, while liquidating and looting the farmer and the farm bank.

EIR has learned of a lawsuit filed in Nebraska which illustrates a new wrinkle in the uses to which organized crime-tainted speculators have put government-guaranteed farm loans. It becomes clear why many are endorsing the call made by farmers associated with Food for Peace for a full probe of fraud in farm lending, a moratorium on farm foreclosures, and a return to a policy of regulating farm lending through a national bank accountable to Congress.

On July 6, Elgin, Nebraska farmer Larry Andersen, represented by the New York law firm Hecht and Goldston, and DeCamp Legal Services of Lincoln, Neb., filed a class action lawsuit against 28 brokerage houses and securities firms, the Nebraska Investment Finance Authority (NIFA), Norwest Bank of Minneapolis, the law firm Kutak, Rock of Nebraska, and Executive Life Insurance Co. of Los Angeles, charging them with violations of the Racketeer Influenced

and Corrupt Organizations Act (RICO). The action was filed on behalf of Andersen and any other small farmer or rancher in Nebraska who might have benefitted from municipal bonds which were sold on behalf of the NIFA to provide low-interest credit to farmers; the money was instead diverted to the purchase of junk bonds to benefit organized-crime networks associated with junk bond swindler Michael Milken.

The Nebraska legislature established the Nebraska Investment Finance Authority in 1983 for the purpose of issuing municipal bonds at low interest rates to provide money to debt-strapped farmers. Plaintiff Andersen was paying interest on his loan at 18%, the rate for farm borrowers considered high risk, the designation given to many farmers because of low prices and the collapse in the farm real estate bubble in the mid-1980s. It was borrowers like Andersen whom the NIFA funds were supposed to help. The suit charges that Milken, working with his associates at Executive Life, came up with a scheme "to create and sell municipal bonds as a device for raising inexpensive capital for trading in junk bonds being underwritten or traded by Drexel, making millions on the spread between the low-interest cost of their money and the high-yield junk bond investments."

Drexel Burnham Lambert and other leading brokerage houses operated as underwriters for the bonds. They used the gimmick that the loans they would purchase would be Farmers Home Administration guaranteed to

obtain an AAA rating from Standard and Poors. The lawsuit alleges that Executive Life could never have gotten funds for its dealings on such terms, because over 65% of its portfolio was invested in junk bonds. Meanwhile, a program was written by the Kutak, Rock law firm detailing the eligibility requirements for the loans, which ensured that no Nebraska farmer or rancher could get a loan. For example, the offerings made to the public stated that the funds raised could be used to refinance existing agricultural debt, yet the lending source had to certify to NIFA that the farmer or rancher could not obtain credit from any source.

According to the suit, there were other disincentives for banks to participate, with the net result that not a penny of the funds raised through the sale of the municipal bonds went to any Nebraska farmer or rancher. Executive Life went bankrupt in 1991 after diverting the funds to its own uses and other investors associated with Milken. According to the suit, the principals generated annual profits of over \$100 million, through legislature-backed financing authorities set up in Nebraska and six other states.

Other finance authorities whose investors and designated beneficiaries were defrauded by this network, include an authority to finance housing for the elderly in El Paso, Texas, housing for the poor in Memphis, Tennessee, and low-interest capital to Louisiana.

The plaintiffs claim that they were injured in an amount believed to be in excess of \$100 million. It asks that defendants be required to "disgorge their profits estimated at \$135 million per year from issues of municipal bonds from seven authorities, plus the underwriting and trading commissions and profits earned by the broker-dealer defendants."