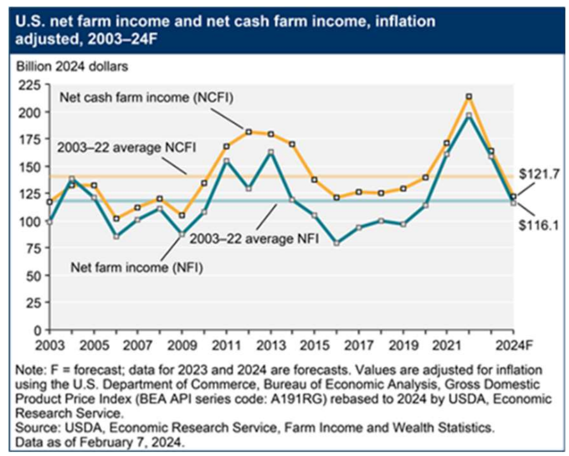
One Mission. Community Banks.

June 4, 2024

Pathways to Farming: Helping the Next Generation of Farmers

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing by the Subcommittee on Commodities, Risk Management and Trade. The hearing on '**Pathways to Farming: Helping the Next Generation of Farmers**' is very appropriate given the economic challenges facing agriculture.

Agriculture has been in a time of declining farm income. According to the USDA, farm sector income is forecast to continue to fall in 2024 after reaching record highs in 2022. Net farm income, a broad measure of profits, reached $185.5 billion in calendar year 2022 in nominal dollars. After decreasing by almost $30 billion (16.0 percent) from 2022 to a forecast $156 billion in 2023, net farm income in 2024 is forecast to decrease further from the 2023 level by almost $40 billion, over 25 percent, to $116.1 billion. In inflation-adjusted 2024 dollars, net farm income is forecast to decrease by over $43 billion, or over 27 percent) from 2023 to 2024.[1]



Reversing this trend would be extremely important for assisting our nation's young, beginning and small (YBS) farmers and ranchers. We believe the next farm bill can help address some of the issues facing YBS farmers by updating the USDA's farm loan programs, particularly the guaranteed farm loan programs. Several recommendations were made by four national trade groups, including the ICBA, on how to improve these programs. These included raising the guaranteed farm loan limits and including a new program (USDA Express) to mirror the Small Business Administration's (SBA)'s Exress loan program. This program provides loan approvals within 36 hours but with a reduced guarantee level.

This type of program would help all guaranteed producers, including YBS farmers and ranchers, by providing quick access to credit when they need it for purchases of farm inputs, land at auction, and other needs so they do not miss out on opportunities to enhance their farming operations. However, this type of program needs to go beyond just the 'preferred lenders' participating in USDA guaranteed loan program and needs to apply to all guaranteed borrowers. The farm bill needs to set goals to ensure USDA accomplishes a quicker approval process for all USDA guaranteed borrowers.

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[1] https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast/

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One lender, which does approximately one-half of all farm loans is the Farm Credit System (FCS), a government sponsored enterprise (GSE) with tremendous tax and funding advantages over the private sector. The FCS was established to fill market niches in agriculture at a time in the past century when there were not as many financial tools available in the marketplace, such as credit for long-term, fixed-rate financing. However, today the FCS has morphed into a giant financial behemoth, now with over $500 billion in assets, which seeks to step away from its original purpose of serving farmers and ranchers, and step into commercial lending.

Yet, the congressional agriculture committees and the general public have no real idea of what the FCS is doing or not doing in servicing the YBS marketplace. This is due to the clever way their regulator, the Farm Credit Administration (FCA), collects data on FCS's YBS lending.

One of the challenges to the FCA's reporting requirements is the FCA allows for the counting of loan "participations". One FCS lender can make a loan to a YBS producer and sell a portion (participation) to another FCS lender and the one YBS loan now counts as two YBS loans. If the YBS borrower qualifies for all three YBS categories – young – beginning – small, then this loan counts as three YBS loans made by the FCS lender. Again, if the FCS lender participates in the loan with another lender, it now counts as six YBS loans. How does this give Congress or the public an accurate reading as to what FCS is doing to "help the next generation of farmers"?

But this misrepresentation doesn't stop there. If a YBS producer takes out a 30 year mortgage should that producer still be considered a YBS producer 30 years later? Should they still be considered a "young" or "beginning" farmer 20 or 30 years later? Of interest would be knowing how many unique or individual YBS farmers/ranchers does the FCS actually serve? The FCS claims to have over 400,000 small farm loans, but if this number were to exclude participation loans and not triple count YBS loans, how many unique or individual YBS farmers/ranchers are truly served by the FCS? This is an important question Congress needs to know the answer to since the FCS is a GSE with special advantages not provided to the private sector. Additionally, 'small' farmer/rancher loans make up only 8 percent of all FCS loan dollar volume.

Community banks make 80 percent of banking industry agricultural loans. We support enhancing the farm bill, particularly the USDA guaranteed loan programs to better meet the needs of farmers and ranchers. We do not believe the FCS merits the granting of new non-farm and non-YBS lending powers for non-farm business purposes at a time of great challenges in agriculture.

ICBA also supports the ACRE Act (HR 3139 & S 2371) to help community banks offer lower rates to certain rural borrowers and homeowners. This important legislation will help revive and sustain rural economies struggling to overcome the impact of higher interest rates while allowing community banks to pass benefits on to customers, similar to other rural credit providers. ICBA looks forward to working with Congress on these important issues in the weeks and months ahead. Thank you.