



FARM CREDIT

**Testimony of
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Southern AgCredit,
Before the
U.S. Senate Subcommittee on Commodities, Risk Management, and Trade
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Madam Chair, Ranking Member Hyde-Smith, and other distinguished members of the Subcommittee, thank you for calling this hearing today to discuss credit conditions for U.S. agricultural producers and for allowing me to testify. My name is Phillip Morgan, and I am the President and Chief Executive Officer of Southern AgCredit, based in Ridgeland, Mississippi.

Southern AgCredit is an Agricultural Credit Association and provides financing and other services to over 4,200 farmers, ranchers, and rural homebuyers in 50 central and southern Mississippi counties and 11 parishes in northwest Louisiana. We serve agricultural producers through Mississippi branches in Brookhaven, Greenville, Greenwood, Gulfport, Hattiesburg, Meridian, Newton, and Ridgeland. We serve Louisiana producers from branches in Ruston and Shreveport.

Southern AgCredit is a member of the Farm Credit System, which was created by Congress in 1916 and charged with a mission to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

In 2022, our 69 employees made 903 loans for nearly \$263 million. At year end, Southern AgCredit had \$1.38 billion in loans outstanding.

Cooperative Value Proposition

As a cooperative, we are owned by our customers and exist to support their farms and ranches. Our customers elect our board of directors, who guide our organization and ensure that Southern AgCredit always remains aligned with the needs of its customer-owners. Southern AgCredit's board consists of eight agricultural producers elected by customers and two appointed members chosen by the elected board members for their unique expertise. The farm operations owned by our elected board members reflect the wide range of Southern agriculture, including cattle, poultry, soybeans, corn, timber, vegetables, cotton and more.

Our cooperative provides unique value to our customers. As owners, our customers share in the success of their cooperative. Near the end of each fiscal year, Southern AgCredit's board of directors analyzes the financial strength of the cooperative. The board then votes to retain a certain amount of income to increase the association's capital for making more loans to producers and/or to distribute a portion of the income to borrowers through patronage dividends. Last year, Southern AgCredit returned a record \$11.9 million in cash patronage dividends to our customer-owners. In the past 5

years, Southern AgCredit returned \$53.5 million in cash patronage dividends to its customers.

Serving Young, Beginning and Small Farmers

At Southern AgCredit, we understand the future of American agriculture and rural areas depends on a new generation of farmers and ranchers. We are committed to meeting the needs of young, beginning, and small farmers through our lending programs, educational sponsorships, and scholarships.

Our years of experience in rural lending provide the expertise needed to finance young, beginning, and small farmers. Through flexible loan terms and working closely with other organizations and governmental agencies, including USDA's Farm Service Agency, we tailor loans to fit the unique situations of these producers.

In 2022, 23% of the loans made by Southern AgCredit went to young farmers and ranchers, 61% went to beginning farmers and ranchers, and 75% went to small farmers and ranchers. Overall, 59% of our loans outstanding are to beginning farmers.

At Southern AgCredit, we believe supporting young and beginning farmers is an important part of encouraging people from diverse backgrounds to enter production agriculture. Our experienced lenders in the Mississippi and Red River deltas provide the initial land financing, operating capital, and expert guidance to start or continue many young and beginning soybean, corn and cotton producers beginning their next growing season.

Poultry operations offer a great opportunity for families that want to begin agriculture production. For example, we were approached by a brother and sister early this year and neither of them had previously owned any agricultural property, but both wanted to get started in farming. With the support of FSA guarantees, we financed the construction and launch of poultry farms for each of them. Similarly, we are financing an agri-tourism facility to a small and beginning farming family who are using their new farm to promote awareness of agriculture and educate the next generation in the joys and challenges of farming.

At Southern AgCredit, we know the future of agriculture is only as strong as the diverse set of voices leading our industry. To build a strong and inclusive future for agriculture, Southern AgCredit is proud to partner with and provide scholarships to Alcorn State University and Jackson State University — two Historically Black Colleges and Universities (HBCUs). These scholarships are offered to full-time students at their respective HBCU who are studying agriculture, business, or a combination of both. Since 2005, we have awarded more than \$30,000 in scholarships under the program.

In addition, Southern AgCredit is participating in Farm Credit's Launching Leaders program. Farm Credit will award any HBCU student or recent graduate hired to intern at Farm Credit a \$3,500 Launching Leaders stipend in addition to their wages. Interns may rely on Launching Leaders funds to offset living costs, such as housing, transportation, and groceries associated with the internship.

Since the start of the program in March 2020, Farm Credit awarded Launching Leaders stipends to 39 interns from HBCUs. Earlier this year, Farm Credit announced it was expanding its Launching Leaders program to include students who are members of Minorities in Agriculture, Natural Resources and Related Sciences (MANRRS) in addition to HBCU students.

Southern AgCredit had the honor of hosting two summer interns from a local HBCU as part of the Farm Credit Launching Leaders Program. These two students were business/agriculture majors at Alcorn State University, an HBCU in our service territory. The students spent eight weeks of their summer learning about financing agriculture and Farm Credit's mission to support agriculture and rural communities. Both expressed a deep interest in continuing an agriculture focus as they pursued their careers. We hope to attract more HBCU students interested in Farm Credit careers or careers in the agriculture industry.

Current Outlook for Southern AgCredit Customers

Like farmers and ranchers across our nation, Southern AgCredit's resilient customer-producers remain optimistic about the success of their individual farms. They understand the risks taken with each production cycle, but they also understand the importance of producing safe high-quality food and fiber for a nation. However, these ag producers continue to shoulder an increasing complexity of challenges, including elevated operating costs across all commodities. Inflated expense from seed, fertilizer, fuel, feed, technology, equipment, interest, and energy among many production input costs continue to be the profit headwinds for our producers. Additionally, a shortage of available workers also continues to create farm wage inflation.

The rapidly rising interest rate environment we witnessed over the past twelve months either has or will impact all farm production. Crop and livestock producers currently renewing annual operating loans are facing the significant challenge in interest costs that will more than double this year as compared to last year. Many borrowers with existing agriculture land loans will face expiring interest rates this year with renewal rates double the previous rate. The current interest rate environment is also a roadblock to many producers to expand their operation as needed and will certainly be a challenge to many young and beginning farmers and ranchers starting the farm production of their desired commodity.

2023 Farm Bill

Agricultural producers in Mississippi and Louisiana need a strong Farm Bill, including a robust farm safety net, to manage the ongoing risks presented by weather, markets, supply chain pressures, rising input prices and declining profit margins. We pledge to work with this subcommittee and Congress to pass a new Farm Bill this year that maintains an adequate farm safety net and reflects the current situation in agricultural and rural communities.

Crop insurance remains the key part of the farm safety net and we strongly support efforts to improve the program. We appreciate your ongoing support of this important program.

Livestock Risk Protection for Feeder Cattle is a USDA insurance program widely used in our area for the protection of declining cattle market prices. This program is leveraged by many of our producers as part of their production management. We appreciate your ongoing support for this important program a well.

In Mississippi, the Commodity Title holds particular importance and serves as another critical risk management tool for our customers. As this Committee reviews Title I, we encourage you to ensure there is a strong farm safety net for all producers.

Broadband is a growing necessity in rural farming areas across this nation. The need for broadband for health and education is acute and generally well-recognized. However, I would also draw your

attention to the need for broadband in agriculture production and resource conservation. As agriculture equipment and greater technology merge, the ability to improve efficiency and control of land preparation, planting, spraying, fertilizing, irrigation, harvest, feeding, and water create opportunities for greater conservation of our natural resources and lessen climate impact. Broadband availability to our farmers and production facilities remains key to their continued success.

Frequently, we work closely with the Farm Service Agency and its loan guarantee program. These guarantees help us work with customers who face difficulties with their operations and provide an opportunity for young and beginning farmers. A guarantee on an existing loan strengthens that loan, mitigating concerns from our federal regulator as we stand by our customers facing adversity. The guarantee helps us provide additional time for a customer to chart a course back to profitable territory again. A guarantee also provides an opportunity for us to support a beginning farmer who may have limited capital or assets when beginning operation.

We appreciate the increased FSA loan limits in the 2018 Farm Bill, and we have used them to farmers' benefit, as Congress intended. However, the limits have not kept pace with the prices that farmers currently face, particularly with increasing land prices and input costs. According to USDA, since 2018, land values have grown more than 25% nationally and USDA projects production expenses to be up 34%. Meanwhile, FSA's guaranteed loan limits have only increased 16%. At Southern AgCredit we strongly support increasing these limits in the 2023 Farm Bill.

In our part of the country, FSA guarantees help tremendously when financing poultry farmers. Established growers also face significant expenses for required environmental, biosecurity and animal welfare upgrades to their facilities. At the other end of the spectrum, poultry farming offers many producers their start in agriculture. FSA guarantees play a critical role in financing these beginning farmers.

To put the importance of FSA guarantees in perspective within our lending territory, the construction cost of a modern poultry house in Mississippi and Louisiana is up 37.5% from those built in mid-2020. A typical young and beginning poultry farming family would need at-least six poultry houses to earn a \$75,000 annual living. Six poultry houses have a total price tag of \$3.3 million, not including the cost of the land and other necessary improvements. Yet current FSA guarantee limits are less than two-thirds of the capital requirement for this size of family poultry farm. The financing of these facilities to young and beginning farmers almost always requires an FSA guarantee to mitigate credit risks.

Additionally, we are aware that decisions on how long a guarantee would be in force are made at the state level. In our lending territory across Louisiana and Mississippi, Louisiana allows for a twenty (20) year guarantee, however, the same guarantee is limited to fifteen (15) years in Mississippi. Given the capital-intensive commitment to construct today's grower poultry facility for a young and beginning farmer in either state, Mississippi growers are placed at a disadvantage as compared to a neighboring state due to the difference in the coverage period for the same FSA guarantee commitment. In the development of the 2023 Farm Bill, we ask that the FSA guarantee coverage period be standardized across all States.

Regarding the importance of FSA guarantees to our poultry growers, the recent court ruling in *Dakota Rural Action v. USDA* has placed poultry farmers and others in animal agriculture in limbo. The court ruling has paused all direct and guaranteed loans to mid-size confined animal feeding operations (CAFOs), causing significant confusion for lenders who work with FSA and its customers. Additionally, no clear timeline exists for restoring FSA's ability to approve these loans.

Restricting capital for these farmers will make it more difficult for growers to start or continue farming.

We have a few specific credit-related recommendations for the Subcommittee to consider as it reviews the Farm Bill's Credit Title. We encourage Congress to support rural communities and agriculture by:

- Boosting development of vital rural community facilities (hospitals, rural clinics, skilled nursing facilities, etc.) by clarifying Farm Credit institutions' authority to invest in rural community facilities projects and encouraging partnerships on these projects with community banks;
- Expanding access for rural businesses to equity capital investment by eliminating unnecessary restrictions on Rural Business Investment Companies (RBICs) and allowing RBICs to access federal leverage funding, similar to how small business investment companies operate;
- Supporting the U.S.-based commercial fishing industry by allowing certain fishing-related businesses to borrow from Farm Credit, similar to how farm-related businesses borrow from Farm Credit;
- Increasing the loan limits on FSA direct and guaranteed loan programs to better reflect the increasing costs of purchasing land and operating farms and ranches;
- Strengthening rural water systems by ensuring CoBank's existing water lending activities are available in communities eligible to receive USDA-guaranteed water loans; and
- Promoting U.S. ag exports by increasing the amount of export financing CoBank may provide.

We also continue to work on additional proposals to:

- Update and streamline FSA loan guarantee programs to make them more accessible to young, beginning and small farmers and ranchers;
- Reduce the cost of credit to U.S. farmers and ranchers by reducing the regulatory burden on Farm Credit System institutions while maintaining the financial safety and soundness necessary to provide credit in all economic cycles; and
- Improve the transparency and safety and soundness of the Federal Agricultural Mortgage Company (Farmer Mac) by requiring the company to obtain and maintain ratings on its debt securities.

While we understand that it is not a typical Farm Bill issue, and we know you are aware of the situation, we ask for your help in completing the Yazoo Backwater pumps. We are grateful for Senator Hyde-Smith's leadership on this important issue. In the flooding during 2019 and 2020, we had a high point of 550,000 acres flooded in Mississippi, and a combined 425,000 acres of crop production area under flood waters over the two-year period. Southern AgCredit's land and production financing risk exposure in this impacted area for both years was over \$58 million. For the residents and farmers in the Yazoo Backwater area, the completion of the Yazoo Backwater pumps remains critical.

Thank you very much, Madam Chair and Ranking Member Hyde-Smith, for allowing me to testify today. Southern AgCredit continues to support rural communities and agriculture in Louisiana and Mississippi, and we look forward to working with the Subcommittee as it develops the Farm Bill.