



FARM CREDIT

**Testimony of
Jase Wagner, President and Chief Executive Officer,
Compeer Financial,
Before the
U.S. Senate Subcommittee on Commodities, Risk Management, and Trade
May 4, 2023**

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 Jase Wagner. I am the President and Chief Executive Officer of Compeer Financial, headquartered in Sun Prairie, Wisconsin.

Compeer Financial is a financial cooperative providing financing, crop insurance and related services to more than 73,000 farmers, ranchers, agribusinesses and rural homeowners in Minnesota, Wisconsin and Illinois. We provide more than \$29.7 billion in loans throughout our 144 counties in our territory and have more than 1,300 team members. Last year, Compeer made 12,300 loans to farmers and ranchers for over \$3.5 billion.

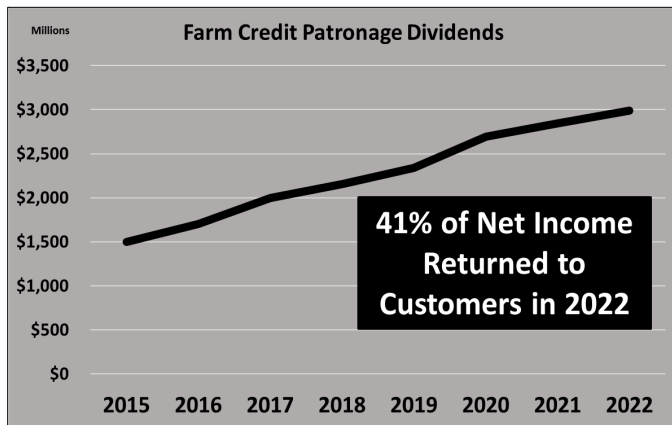
Most importantly, we are a member-owned, locally-governed cooperative and a proud member of the Farm Credit System. Along with 62 other Farm Credit institutions, Compeer shares a critical mission to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

A nationwide network of borrower-owned lending institutions, Farm Credit lenders were assigned a vital mission by Congress a century ago. These independent institutions include four wholesale banks and 58 retail lending associations, all of which are cooperatively owned by their customers: farmers, ranchers, cooperatives, agribusinesses, rural utilities and others in rural America.

Our mission is to ensure rural communities and agriculture have a reliable, consistent source of financing irrespective of cycles in the economy or vagaries of the financial markets. Hundreds of thousands of farmers around the country developed a farm operating plan this year knowing that Farm Credit has the financial strength to finance that plan and the strong desire and ability to help them succeed.

There is no federal funding provided to Farm Credit. Instead, the four Farm Credit System banks own the Federal Farm Credit Banks Funding Corporation, which markets debt securities to the investing public that funds the lending operations of all Farm Credit institutions.

Farm Credit's unique cooperative structure means that the customer-owners who sit on our boards of directors are living, working and raising their families in rural communities. They are deeply invested in the success of those communities and are interested in finding more ways for Farm Credit to contribute to that success.



Farm Credit’s cooperative structure also means the profits generated by our institutions directly benefit our customer-owners. Farm Credit profits are used only two ways — either retained in the institution to build financial strength and support more lending to our customers or returned to our customers via patronage dividends, which provides a return back for the business they do with the cooperative. Last year, Farm Credit returned over \$3 billion in patronage dividends to its customers, representing just over 41% of its

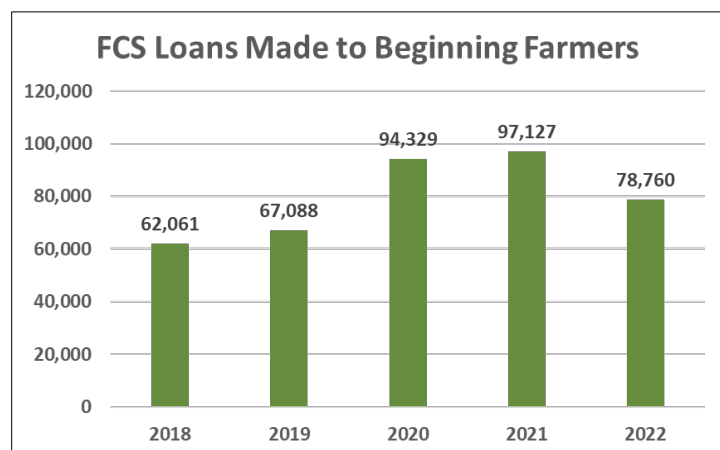
earnings. Since 2015, Farm Credit has returned nearly \$19 billion in patronage to its customers. With this year’s distributions, Compeer Financial will have returned over \$1 billion to clients since the cooperative was formed in 2017.

The portion of Farm Credit’s earnings not returned to customers provides the critical support for more lending to the agricultural producers, agribusinesses, rural infrastructure providers and rural homebuyers we serve. Farm Credit’s lending has grown by an average of 7.5% per year for the past 5 years as demand for loans has increased and farmers and ranchers relied more heavily on Farm Credit to meet their credit needs. USDA estimates that Farm Credit’s market share of farm and ranch lending increased to over 45% in 2021, up from just under 41% in 2016.

Congress assigned Farm Credit a mission to serve all sectors of agriculture, and we fulfill that mission every day. From the largest producers to the more specialized local producers, Farm Credit offers a wide range of loan products to support specific needs. We make loans in all 50 states and Puerto Rico.

Congress also directs Farm Credit specifically to serve the needs of young and beginning farmers and ranchers. In 2022, Farm Credit made:

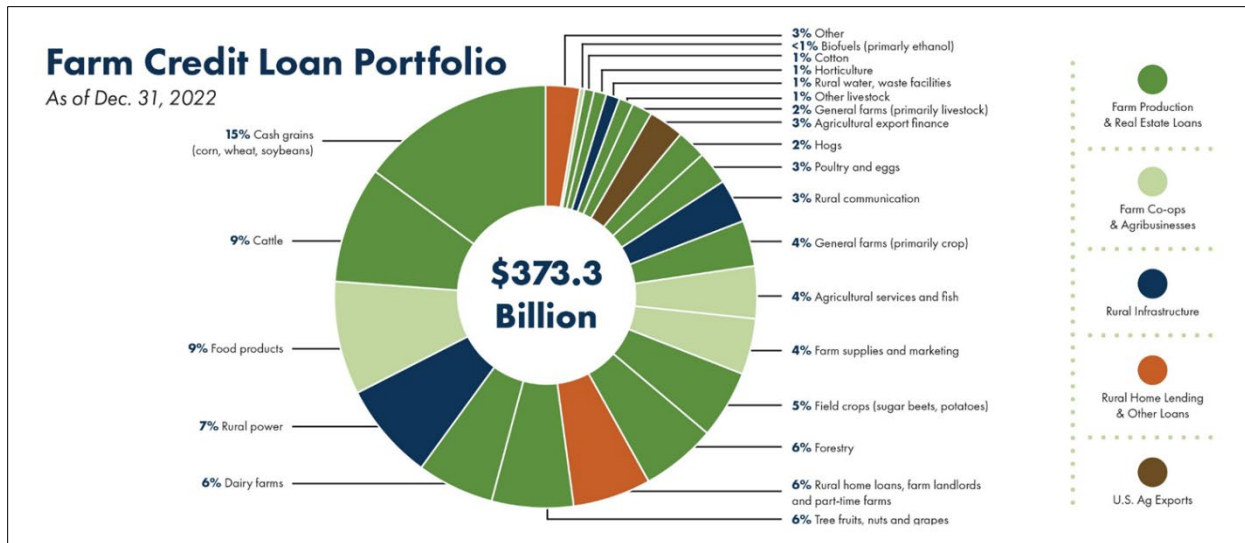
- 78,760 loans to beginning farmers (those with less than 10 years of experience) for \$21.5 billion; and
- 56,105 loans to young farmers (under age 35) for \$13.1 billion.



Since 2018, Farm Credit lenders made 399,365 new loans to beginning farmers for \$97.7 billion and 285,027 new loans to young farmers for \$61.3 billion.

Farm Credit’s mission also focuses on supporting small farmers. Last year, Farm Credit made 129,208 new loans to producers with \$250,000 or less in gross farm revenue for \$19.1 billion. Loans to small agricultural producers made up 41% of the number of loans made by Farm Credit institutions in 2022. Since 2018, Farm Credit’s cooperative lending associations have made 701,540 new loans to small producers for \$95 billion.

[Note: The numbers above cannot be combined. A single loan to a 25-year-old rancher in her third year of ranching with annual sales of \$100,000 could be counted in the young, beginning, and small categories. We report this way for two reasons: our regulator requires it and, more importantly, it is the most accurate portrayal of who we serve.]



Farm Credit’s mission extends well beyond the farm gate. Our mission includes financing for farmer-owned cooperatives and other agribusinesses that farmers depend on to succeed. Farm Credit finances more than \$10 billion in exports of U.S. agricultural products. We also supply nearly \$7 billion in loans for families to buy homes in very rural areas. Because a steady flow of credit means more jobs and economic growth, Farm Credit helps ensure the vibrancy of communities throughout rural America.

Strong, reliable and resilient rural infrastructure remains critical to the success of rural communities and a key component of Farm Credit’s mission. Farm Credit finances more than \$44 billion in rural infrastructure, including rural electric cooperatives, water systems, telecommunications and broadband providers. These loans improve the quality of life in our rural communities, providing clean drinking water, broadband for schools and farms, and reliable energy for rural families and businesses. Farm Credit’s mission is as vital today as it has ever been.

Current Outlook

The Subcommittee hearing today offers a timely look at the farm economy, as Congress prepares for a new Farm Bill. Agricultural producers continue managing with tightening margins and the volatile financial markets present numerous challenges. Fortunately, farmers began 2023 following several profitable years. And overall, net cash income has held strong, setting a new record in 2022. USDA predicts income will fall a bit in 2023 but remain solid. However, please remember national-level statistics do not reflect individual farm-level circumstances, and pockets of difficulty exist around the country.

Many of our farm and ranch customers plan for tighter margins in 2023, as some believe commodity prices will likely soften while input prices will remain elevated across the board for some time. Additionally, interest rates continue to make a steep ascent.

Farmers and other businesses and homebuyers continue to cope with a nearly 500 basis point shock to interest rates as the Federal Reserve battles inflation in the economy. As you are aware, when the Federal Reserve increases interest rates, the cost of borrowing for farmers and ranchers increases.

Fortunately, Farm Credit has worked with producers over the past several years to lock in very low, long-term interest rates on farm mortgage loans. The recent rise in rates has predominantly impacted short-term operating loans, though those purchasing new farm ground face higher interest costs as well. While impossible to predict, the path of interest rates looks to remain elevated in the near term.

Stress in the banking industry likely will complicate credit availability in the coming year. Many analysts predict regulators will force banks to conserve capital and curtail loan growth in the wake of this year's high-profile bank failures. Recent statistics show a flood of deposits fleeing commercial banks.

Farm Credit, however, does not take deposits. Instead we issue debt securities on the public markets and use proceeds from the sale of those securities to fund our lending activities. While the interest rates we pay for our funding have risen sharply, funding remains plentiful. Farm Credit's mission requires us to serve agriculture and rural communities irrespective of economic cycles. Our access to funding, along with our financial strength, means that Farm Credit is well-positioned to continue providing competitively priced credit. We will continue to fulfill our mission.

Compeer Financial Ag Outlook

Production agriculture comprises a significant portion of the overall Compeer portfolio, especially the grain, dairy and swine industry segments. As mentioned above, elevated inflation coupled with higher interest rates have lowered expected profitability in some portfolio segments. While the margin outlook is generally less favorable, most producer financial positions strengthened due to favorable economics in recent years. Those practicing sound risk management may also benefit with stronger than average results in 2023.

Compeer's portfolio continues to experience relatively low delinquencies and is navigating this period from a strong financial position. Our core credit objectives of working with clients in all types of agriculture to promote risk management, ensuring high quality financial statements and production reports, encouraging disciplined marketing plans, and providing individualized servicing plans and strategies remain core characteristics of being a financial partner. Compeer also remains committed to being an advocate for positive legislative changes that improve prospects for agriculture and rural America.

Serving All of Agriculture

Compeer has a diverse portfolio that covers a wide array of farmer and agribusiness types and sizes. Steadfast in our commitment to serve ALL of agriculture and rural America, we're continually evolving our services and team to reach new, emerging and underserved markets.

Meeting the needs of underserved and non-traditional agriculture is a key component to accomplishing our mission. We created an Emerging Markets program dedicated to serving this small but rapidly growing segment of agriculture. Borrowers under the program include first-generation, minority and women farmers.

These groups account for more than just a fraction of our business. We started the Emerging Markets program in 2017 with an empty portfolio. Today, we have nearly 200 loans with a total loan obligation of \$28 million.

Over the past year or more, we've been working to help revitalize Pembroke Township in Kankakee County, Illinois. Pembroke Township was once home to the largest Black farming community north of the Mason-Dixon Line. Farmers there grew vegetables to sell in Chicago and other nearby urban areas. Over the years, the farms were passed down but today, most of the families connected to the area live in Chicago. An effort is underway to attract descendants back to Pembroke to farm the land as their ancestors did. Compeer is proud to partner with the Black Oaks Center, USDA and NRCS to provide financing for farmers who have responded to the call. In addition to the "assignment of payment" financing from Compeer, Pembroke farmers are utilizing federal dollars under EQIP and the Climate Smart Agriculture program to build high tunnel greenhouses and plant perennial fruit crops.

On the other side of our lending territory in Northfield, Minnesota, we remain a reliable partner for Salvatierra Farms – a business relationship that began back in 2018. Founder Reginaldo Haslett-Marroquin was a new citizen and a new farmer when he set out to start a 40-acre experimental research and training farm five years ago. He and three local farmers put up \$100,000 of their own equity and secured an operating loan from Compeer. They initially applied for a loan through SBA, but didn't qualify because they were considered a start-up with no financial history and insufficient collateral.

Since then, Salvatierra Farms has been growing, teaching other farmers about their regenerative poultry production model and contracting with them to raise chickens. They've also worked with Compeer on a new operating loan to finance an expansion so they can capitalize on an opportunity to produce, freeze and ship chickens to the West Coast.

Our dedication to supporting underserved and non-traditional agriculture is clear – seen through robust investments spanning all parts of our organization. These groups are not an afterthought, but rather a priority in ensuring the vitality of rural America.

Moreover, Compeer's support for farmers who are just starting out is equally important. Beginning farmers alone have made up 21 percent of Compeer's total volume since 2017. We firmly believe that beginning farmers are the future and as more farms close every year, we must invest in this group to keep rural America thriving.

Christine Leonard in Norwood Young America, Minnesota, returned to the family dairy after earning her degree in food science and technology. She had to convince her parents to let her come home and farm full time with them, because they know farming isn't easy. "I'm facing a lot of the same issues that other young farmers are facing," Christine says. "It's the high input costs of farming – from the price of land, equipment, input costs, fuel, fertilizer and labor. When you add it all up, these things are expensive and can be a barrier to entry."

Christine's answer was The Grater Good – a cheese-focused business that connects people to the dairy industry through locally sourced charcuterie boards and cheese tasting classes. "...when I came back to the farm, I knew I needed to find some kind of a niche, and that's how The Grater Good came to be."

Compeer works closely with USDA's Farm Service Agency offices across our operating territory to ensure our clients have access to the most affordable and flexible credit available to them, particularly our beginning farmer clients. The FSA's guaranteed loan program, as well as their programs for beginning farmers and ranchers, are valuable tools in helping our clients get their start

or stay in operation. We view the FSA as a key partner as we work to fulfill our mission of supporting U.S. agriculture and the next generation of farmers and ranchers. Compeer clients currently utilize approximately \$560 million in FSA loan guarantees.

As the Committee is well aware, land values and input costs for farmers continue to increase, and current FSA loan limits have not kept pace with the rising costs that farmers are currently facing. Compeer and the Farm Credit System, as well as other commercial lenders, support increasing the loan limits for these critical programs in the next Farm Bill.

In addition to seeing increased costs, we are also seeing increased complexity of farm business structures amongst our clients. Family farm operations adopt modern business structures for a variety of reasons, foremost among them are for liability protection and to ease intergenerational farm transfers within a family. However, FSA's understanding of how modern family farm businesses are structuring themselves have not kept pace with the times. As a result, many family farms that could benefit from these programs have been denied access simply due to how they have decided to structure their operations. As a participant in FSA's preferred lender program, we also recommend that FSA modernize their understanding of family farms and provide more flexibility to accommodate the growing complexity of family farm business structures and intergenerational farms.

Community Facilities

For Christine, Reginaldo and the many other Compeer member-owners in rural America, having a strong community is critical to their success. It's important for the needs of their business, their family and their own health and wellbeing. Likewise, successful businesses – including local farms and agribusinesses – are critical to a community's success.

Simply put, agriculture and rural communities are interdependent. Each needs the other to function and thrive. This has become increasingly true through the years as populations have shifted geographically and the needs of both have evolved. That's why Compeer Financial has been committed to investing in rural America to support our family farm clients since our inception.

In 2023, rural vitality became an official focus and elevated priority for our organization. The concept of rural vitality — wherein rural communities are active, strong and can support a thriving economy — means an improved quality of life for Compeer Financial clients and their communities, and a stronger voice for rural issues on the national stage.

Our Mission Financing team is uniquely positioned to help rural communities prosper by partnering with the USDA, other Farm Credits and local banks to provide financing for essential community infrastructure needs. There is no question facilities in rural communities are in dire need of updates and upgrades, including structural improvements and technology. We believe the capital need is so great that community banks will not be able to fill the gap by themselves and, with over \$300 billion in capital and complex lending expertise, Farm Credit lending institutions are well positioned to partner with them to tackle the issue.

Local banks and Farm Credit have strengths that complement each other. Working together, they have an opportunity to make a meaningful impact for farm families living and working in rural America. As in the case of farm lending, having the ability to offer capital in many forms (private, public, non-traditional) is the best – and sometimes the only – option for supporting our clients and communities.

In the Farm Bill, we ask that you codify Farm Credit's ability to partner with local banks and credit unions to meet this need. Currently operating under a cumbersome, case-by-case approval process, Compeer Financial has collaborated with community banks 63 times to meet the needs of rural communities. Through \$510 million of investment purchases, Compeer's Mission Financing has been a partner in funding 25 senior care facilities and 26 hospitals throughout the upper Midwest. If certainty in these types of projects was provided in the Farm Bill, we feel more Farm Credit institutions could partner with more commercial lenders to provide more essential facilities to rural communities across the nation. It is truly a win for everyone.

The projects we fund deliver essential services while also creating jobs, adding economic strength and diversity, and contributing to the vitality of rural communities.

In Galena, Illinois, Midwest Medical Center is expanding to provide enhanced behavioral health services and an updated surgery department with new procedure and endoscopy rooms. Their Specialty Clinic also is expanding due to lack of space and high demand, including from a large number of Medicaid patients who lack the means to travel long distances for care. Compeer is partnering with the USDA and local banks to finance the \$34.5 million project.

Through an 80,000 square-foot expansion, Lakeview Methodist Health Care Center transformed its outdated Fairmont, Minnesota, nursing facility into a community offering care for nearly all stages of life. The campus includes a 24-hour nursing care facility, an independent living residence for seniors and assisted living apartments. A unique town center includes space for a daycare center to expand childcare options in the community and provide phenomenal opportunities for the generations to learn from each other. The project moves their mission of care into the 21st century. "With the help and support of Compeer Financial, we made our nursing home dream a reality right here in rural America," said Mae DeWar-Aust, Lakeview's foundation director.

With outdated facilities, local providers have told us they are constrained to provide the level of service our rural communities deserve. They're unable to attract nurses, doctors, first responders, caregivers and other workers, resulting in overworked crews and underserved residents. Essential service providers limp along indefinitely or close their doors – leaving remotely located citizens and businesses without immediate access to health, safety and caregiving services. When rural communities can't offer essential services, residents' quality of life suffers and the community becomes stagnant. Attracting and retaining residents is not just a challenge, it's nearly impossible.

Cumberland Healthcare in Cumberland, Wisconsin, has seen firsthand what a difference updated facilities can make when it comes to filling staffing needs. The medical provider recently completed a three-level, 96,000 state-of-the-art hospital with 18 beds and emergency, imaging and surgery services – a project financed by Compeer in partnership with two local banks and the USDA. Construction of the state-of-the-art facility aided the hospital in their hiring efforts. Following the project's approval, they were able to recruit three new family practice physicians and a new general surgeon.

RBIP – Rural Business Investment Program

Another way Compeer invests in rural communities is by collaborating with the U.S. Department of Agriculture (USDA), financial institutions, private investors and other Farm Credit associations to build a portfolio of investment funds licensed by the USDA under the Rural Business Investment Program (RBIP). Under RBIP, private investors form a Rural Business Investment Company (RBIC) to raise funds to make equity investments in rural businesses. Since its inception, RBIP has surpassed \$1 billion in commitments to rural businesses and Farm Credit institutions have

committed more than 70% of the total. The program supports innovation and entrepreneurs in rural communities, including Fast Ag Solutions.

Fast Ag Solutions has served the needs of farmers by manufacturing liquid fertilizer application and spraying equipment since 1990. The company is located in rural Windom, Minnesota, and started out small. Fast Ag has been able to expand over the years with financing provided through an RBIP investment by Midwest Growth Partners. Today, the company has more than 50 full-time employees and their products can be found all over the United States as well as in Ukraine and Australia. One of the reasons the owner chose to build his business in Windom decades ago was to provide jobs and contribute to the rural community's economy.

Compeer is invested in agriculture and in rural America, and we know you are too. As farmers and ranchers face tighter margins, they'll make decisions that impact the communities in which they live. At a minimum, their grocery lists will become shorter as they cut out the "extras" and their visits to local restaurants will decline. In some cases, farmers may opt out of agriculture and move out of the community for a job with a regular paycheck in an area with updated healthcare, education and public safety facilities. When farmers struggle, local businesses struggle and eventually, a community's future becomes at risk. The reality is, agriculture and rural America are interdependent and supporting one is supporting the other. We need continued partnerships and increased visibility regarding the importance of feeding, fueling and clothing the world.

2023 Farm Bill

We urge 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.

We greatly appreciate this Committee's efforts to pass a strong Farm Bill, including improvements to the federal crop insurance program. Crop insurance clearly underpins the farm economy today. The program functions as intended. Farmers pay for coverage they can count on when weather decreases production and crop insurance cushions the impact of falling commodity prices – to a degree. Thank you for your work to provide this vital tool to U.S. farmers and ranchers.

Farm Credit is a member of the Food and Agriculture Climate Alliance and supports FACA's Farm Bill recommendations, including voluntary and incentive-based conservation programs.

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 some 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.

Thank you very much, Madam Chair and Ranking Member Hyde-Smith, for allowing me to testify today. We continue to fulfill the mission Congress charged us with 107 years ago, and we look forward to working with the Subcommittee as it develops the Farm Bill.