

Statement by

Ron Bach, Farmer and Director

High Plains Farm Credit

Before the

Senate Committee on Agriculture, Nutrition and Forestry

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Madame Chairman and members of the Committee; thank you for the opportunity to testify here today. My name is Ron Bach, and I am a first generation farmer from Jetmore, Kansas. I am also an elected member of the Board of Directors for High Plains Farm Credit. My statement will provide some background on the Farm Credit System, comments on the current drought conditions, and your theme for this hearing "Looking Ahead: Kansas and the 2012 Farm Bill."

### **Background on the Farm Credit System**

High Plains Farm Credit is a part of the nationwide Farm Credit System, established by Congress in 1916 to provide a dependable source of credit and other related financial services to farmers, ranchers and others consistent with the eligibility criteria set out in the Farm Credit Act.

High Plains Farm Credit is headquartered in Larned, Kansas, where the first loan was booked for the Farm Credit System. We are one of 89 private institutions, including five funding banks (four Farm Credit Banks and one Agricultural Credit Bank) and direct-lending associations, all of which are cooperatively owned by the farmers, ranchers, agricultural cooperatives, rural utilities and others in rural America that borrow from them.

High Plains Farm Credit is owned by 1,086 farmers that borrow from us here in Kansas. Every Farm Credit association is organized as a cooperative that is owned and governed by its farmer-members. I serve with 7 other elected directors and one appointed director. In Farm Credit, employees are not allowed to serve as directors of our lending institutions.

Each Farm Credit association obtains funds for their lending programs from one of the five System banks. At High Plains, we get our funding from U.S AgBank, FCB (headquartered in Wichita, Kansas), which is cooperatively owned by 26 local associations. The five System banks own the Federal Farm Credit Banks Funding Corporation (located in Jersey City, NJ), which, serves as an agent for the banks and

markets to the investing public the System-wide debt securities that are used to fund the operations of all Farm Credit System institutions.

### **Regulatory Oversight by the Farm Credit Administration**

All Farm Credit institutions are regulated by the Farm Credit Administration (FCA), which was created by Congress and is subject to oversight by both House and Senate Agriculture Committees. The Farm Credit Administration is an arm's-length, independent safety and soundness regulator. FCA's three board members are nominated by the President and confirmed by the Senate. The FCA has all of the oversight and enforcement powers that every other Federal financial regulatory institution has to ensure that Farm Credit institutions operate in a safe and sound manner.

The Farm Credit System's mission, ownership structure and authorizing legislation is unique among financial institutions. For farmers, rancher and the cooperatives that they rely on, it is critically important that Farm Credit's safety and soundness regulator understands our unique mission and what it takes to be successful in accomplishing that mission. Changing our regulatory oversight would threaten our ability to accomplish the mission set out for us by this Committee in the Farm Credit Act.

### **Looking Ahead: Kansas and the 2012 Farm Bill**

We recognize that our Nation is facing a significant budget crisis and that this will have a significant impact on the work of the Committee as you put together the next Farm Bill. We understand that allocating precious resources among numerous deserving priorities will make the task before you that much more difficult. I am pleased to say that the Farm Credit System is one of those entities under the jurisdiction of your Committee that costs taxpayers nothing in Federal resources – in fact in addition to paying taxes we pay for the cost of our Federal regulatory oversight and we pay insurance premiums that are counted as Federal revenues as well – and yet we deliver an extremely valuable service to agriculture and rural America. Further, by returning earnings in the form of patronage payments to the farmers and cooperatives that own the System, we make sure that capital is flowing to rural areas. Last year those patronage distributions came to almost \$800 million across the country of which High Plains Farm Credit returned \$725,000 to Kansas farmers. That's not a bad rural development program in itself.

We are not coming to you today with a specific request for any direct Federal spending; however, we would like to underscore several actions the Committee might take that will have a positive impact on those we finance and help make available to them the tools they need to manage the risk of a very volatile agricultural economy.

At this time when many commodities are experiencing price levels that allow farmers to realize profits in their operations, it is critically important to remember the simple adage that what goes up does tend to go down. If there is one thing our farmers have demonstrated time and time again is their ability to increase their productive capacity beyond what the marketplace can absorb. When they successfully respond to market

signals to increase production, most often, the result is lower prices, and those prices often sink below what farmers need to cover expenses. My point is that just because some commodity prices may be high now please do not abandon the safety net that ultimately will protect farmers when prices fall. As a Nation we continually ask farmers to make the significant capital investments that are necessary to increase their productive capacity to meet increasing world demand for safe food. As we have seen what Mother Nature can do this year to destroy the hard work of many farmers, it would be wrong to demand that producers take on the total risk of providing our Nation and a fair part of the world with food security.

The drought in Western Kansas has put many farmers without a crop this year. My experience has left me with less than half a wheat crop and a expected below average milo crop. The lack of rainfall has left my cow-calf operation in jeopardy. The pastures are dry and brown. I have sold off some of the cows and the remaining pairs, some of which are on CRP grass, will be split and then sold earlier than usual leaving me with a down-sized herd.

As I stated I grow wheat and milo. A very important part of the safety net is an effective, well-managed crop insurance program. I am grateful to have crop insurance as I have already collected a wheat claim check and will be filing for a milo loss. As you know crop insurance already has shouldered significant cuts. Despite the adjustments in the standard reinsurance agreement, we in Farm Credit continue to work hard to ensure that our customers and others have access to the crop insurance policies they need to protect their investment in their crop and farming operations. We urge that should there be a need to achieve savings in any of these programs that the industry and those that serve it be provided the opportunity to comment on proposed changes to programs so that unintended consequences can be avoided. Those that are experts in the day-to-day delivery of these programs must be allowed to help design changes so that the greatest risk management benefit can be achieved for every dollar spent.

At Farm Credit we continue to utilize all available authority and program resources that permit us to make credit available to the broadest group of producers. The guaranteed loan programs of the Farm Services Agency help us work with farmers that may not be as sound financially or that present a greater risk for some other reason as compared to our normal customers. We urge you to review these programs to ensure that they reflect the needs of today's farmers. It is essential that the caps on loan size be allowed to increase to reflect continued inflation in land values and the cost of production. Farmers must be able to obtain sufficient financing for them to have a viable sized operation. This is especially important in the case of young and beginning farmers who may bring outside investment into their operation by those not actively engaged in agriculture. If we are truly interested in promoting young and beginning farmers, we need to allow them to be as creative as they need to be to make their operation viable.

We recognize that rural development continues to be a key focus of the farm bill. Having a vibrant rural economy that provides job opportunities for farmers and members of their families and amenities such as quality education and health care facilities and access to

broadband remain critically important to the rural quality of life. It is important that programs be maintained that assist rural communities in addressing their necessary community facility needs. Some have suggested that innovative approaches that some institutions in the Farm Credit System have been using to make private capital available for critical community facilities be curtailed or eliminated. At this time of tight budgets those truly interested in rural areas should be seeking to encourage all sources of private investment instead of fighting to lock some sources out. We would encourage you to support creative ideas that cost taxpayers nothing.

Finally, as you may be aware the Farm Credit System continues to operate under a statute that last had significant changes about twenty-five years ago. While other Committees in Congress are struggling with reform of the housing GSEs, it is important for the Agriculture Committee to recognize that you have done a good job overseeing the Farm Credit System. There is a reason that farmers did not suffer the same dramatic decline in their access to credit that many small businesses have during this recent financial crisis. That is because the Farm Credit System stood firm in ensuring that farmers would have continued access to the credit they needed. Despite this success, we continue to identify areas where this old statutory infrastructure may constrain our ability to meet the credit and related service needs of today's agriculture and where the Farm Credit Act may need some adjustment to reflect the realities of today. As you look for opportunities to assist agriculture without the need for direct Federal outlays, we stand ready to work with you to see if there are areas where Farm Credit might utilize its experience and proven success to help or where adjustments in the Farm Credit Act may be necessary so that we can continue to efficiently and effectively meet our mission.

Thank you for the opportunity to provide you some background on how Farm Credit is meeting the needs of farmers in Kansas and some thoughts about the next Farm Bill. We appreciate your commitment to agriculture and look forward to working with you as you move forward in developing the next Farm Bill.