

SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE
Wichita Field Hearing, Thursday, August 25, 2011
Jeff Whitham, Conferee

I would like to address three topics related to farming in western Kansas that could be helpful as the Ag Committee works on the 2012 Farm Bill. I will address the topics from the perspective of a commercial banker and representing the Kansas Bankers Association. Those topics are the general condition of farming in recent years, the effectiveness of some Farm Service Agency (FSA) and Natural Resources Conservation Services (NRCS) programs and the capacity of Kansas banks to finance our agricultural businesses.

1. Recent Farming Conditions. 2008, 2009 and 2010 have been good revenue years for the great majority of our farm customers. Crop yields have been average or better and crop prices have steadily improved. Grain prices have increased partially because we have improving demand nationally and internationally and partially because our lower valued dollar makes it easier to export grain. Alfalfa prices are much higher because about all of Texas and Oklahoma are in exceptional, extreme or severe drought, according to the USDA's on-line drought monitor, and are short of livestock feed.

The effect on our bank has been a steady improvement during 2008 through 2010 in our farm borrowers' financial condition. Debt levels are down and liquidity has improved. Our bank's loan volume is lower than normal as our customers have had profitable years and reduced their debt.

Because of the present drought, 2011 will be a year with significantly less production, although prices are higher. Kansas Agricultural Statistics Service estimated on August 11 the state's 2011 wheat crop would be down 24%, corn down 15%, grain sorghum down 28%, soybeans down 28% and alfalfa hay production down 21%, which will be the lowest alfalfa hay production since 1956. South central and southwest Kansas are experiencing exceptional or extreme drought. The northern one third of Kansas farms are experiencing normal moisture levels.

I expect 2011 farm profitability for our southwest and west central Kansas customers decline substantially because of the drought. I believe gross revenue will decline for many borrowers because their crop production will fall more than can be made up with higher prices. These are the times when the USDA's commodity price and income support programs are most valuable.

2. Farm Bill Programs. Ag producers are the primary contributors to economic activity in western Kansas. The commodity support programs, disaster programs and conservation programs provide valuable support to our farm customers, and therefore to our communities. Our farm program policy will need to consider providing support to crop producers in difficult years while balancing the federal budget, which will probably require less spending in about all of the federal spending programs. One of the important issues for any federal spending program, as we work towards balancing the budget, is the efficiency of each program.

I think the most efficient program is the crop insurance program. Producers pay about 40% of the premium and do not receive benefits unless they experience revenue less than the level they have selected and paid for. They receive insurance proceeds when they need the assistance, not when they are experiencing average revenue years or better.

A less efficient program is the direct payment program that delivers a level set of payments whether the producer has had a good year or a poor revenue year. If our intent is to provide support to farmers when they have had a difficult revenue year, the direct program is not as effective as other programs.

The Supplemental Agricultural Disaster Assistance program, or SURE, makes payments to producers in counties that have suffered a disaster, usually a weather event, and it makes payments to producers in counties contiguous to the counties that experienced a qualifying disaster. I have noticed a number of our producers that had a good revenue year in 2008 received SURE payments because there was a disaster in an adjoining county. I think this program could be tightened up in the contiguous counties to provide taxpayers' money or our borrowed money to the producers that are more in need of assistance.

The Environmental Quality Incentives Program, called EQUIP, is an effective program that improves soil conservation practices and water useage processes. Producers pay a portion of approved changes in practices. Some of the activities I see completed are placing terraces in fields and transitioning from irrigation to dry land farming.

3. Commercial Bank Lending Capacities. Commercial banks and the Farm Credit System both have a 40% to 45% share of total farm debt in the country. (See Congressional Research Service; Agricultural Credit: Institutions and Issues; 2010) Our bank and many other bankers I talk with have a good amount of capacity to increase farm loan volume.

Those farm loan totals have been decreasing with good farm operating results during 2008, 2009 and 2010. As an example, our bank operated with a loan to deposit ratio of 80% to 85% for many years until about 2009. Our loan to deposit ratio is presently 64%.

Our bank could increase loans to ag customers around \$45 million. We, and most other community banks in Kansas, are ready to increase credit to our farm customers.

Thank you for the opportunity to present my thoughts on a few programs that will be considered in the next farm bill. Although I have appeared at the request of the Kansas Bankers Association, the views expressed are my own and may not necessarily be supported by the association.