



FARM CREDIT

**Testimony of Greg Cole
on behalf of the Farm Credit Associations of Arkansas and the Farm Credit System before the
U.S. Senate Committee on Agriculture, Nutrition, and Forestry
June 17, 2022**

Madam Chairwoman, Ranking Member Boozman, thank you for calling this hearing today to discuss the 2023 Farm Bill. My name is Greg Cole, and I am the President and Chief Executive Officer of AgHeritage Farm Credit Services, based in Little Rock, Arkansas.

AgHeritage Farm Credit Services, Farm Credit of Western Arkansas, and Farm Credit Midsouth comprise the Farm Credit Associations of Arkansas. We are financial cooperatives, providing financing, crop insurance and related services to more than 22,000 farmers, ranchers, agribusinesses, and rural homeowners in the Natural State. As of year-end 2021, we have provided more than \$4.8 billion in loans through our 38 locations throughout Arkansas and have nearly 280 employees. So far this year, the Farm Credit Associations of Arkansas have made 2,978 loans to farmers and ranchers for over \$686.7 million.

Most importantly, we are member-owned, locally-governed cooperatives and proud members of the Farm Credit System. Along with 65 other Farm Credit institutions, the Farm Credit Associations of Arkansas share a critical mission to support rural communities and agriculture with reliable, constructive credit and financial services, today and tomorrow.

Farm Credit is a nationwide network of borrower-owned lending institutions that share a critical mission assigned to them by Congress a century ago. These independent institutions include four wholesale banks and 64 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 that rural communities and agriculture have a reliable, constructive source of financing irrespective of cycles in the economy or the volatility of the financial markets. Hundreds of thousands of farmers around the country developed their farm operating plan this year knowing that Farm Credit has the financial strength to support that plan and the strong desire and ability to help them succeed.

Today, Farm Credit provides about 44% of the financing for farm businesses and serves more than 600,000 customers across all our lines of business, including agribusiness, rural infrastructure, rural housing, and agricultural export finance.

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 serve. 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 reverses the normal flow of capital, by raising money in urban financial centers and bringing it to rural communities. 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 fund the lending operations of Farm Credit institutions.

Diversification of lending portfolios is a source of Farm Credit's financial strength. Through diversification of our lending – by geography, industry and loan size – Farm Credit manages risk and insulates itself against the cyclical nature of the industries we serve.

We believe we can play a more significant role in rural development, revitalizing rural infrastructure, strengthening the rural economy and creating good jobs for rural families. We are prepared to continue working with the committee and our partners in the community banking sector to find ways that all of us can contribute more to the vitality and success of our rural communities.

We greatly appreciate this committee's commitment to agriculture and rural America, and we offer the following views as you write a new Farm Bill.

Arkansas farmers are realizing higher prices for crops and other farm products. However, these higher prices are being offset by the significant rise in inflation which has had a significant impact on the cost of production. Arkansas farmers are being negatively impacted by high fuel costs, increasing interest rates, increased labor costs, and reduced government payments. Supply chain disruptions are making it difficult to obtain the equipment, parts, and other inputs required to produce crops and livestock and to operate the farms in general. Farmers and the rural economy need additional infrastructure, such as broadband and access to healthcare to ensure future viability. The Farm Credit Associations of Arkansas are well capitalized and in a strong position to serve Arkansas agriculture in this volatile environment. We remain committed to working with our borrower owners throughout all economic cycles.

Farm Credit is deeply committed to serving young, beginning, and small (YBS) farmers and ranchers and makes extraordinary efforts to do so. According to the most recent Farm Credit Funding Corporation's Annual Information Statement (AIS) the overall volume of Farm Credit lending to YBS farmers again increased from 2020 to 2021. In addition, the number of new loans Farm Credit made to YBS farmers also increased from 2020 to 2021. The following is from the 2021 AIS:

- Farm Credit made 67,647 loans to young producers (under age 36) in 2021 for a total of \$14.9 billion, up from \$13.8 billion of loans made in 2020.
- Farm Credit made 97,127 loans to beginning producers (10 years or less experience) for \$26.2 billion in 2021, up from \$22.5 billion of loans made in 2020.
- Farm Credit institutions made 167,729 loans to small producers (less than \$250,000 in annual sales) for \$25.6 billion in 2021, up from \$23.4 billion of loans made in 2020.

To put Farm Credit's lending to small farmers and ranchers into perspective, at year-end 2021 Farm Credit had 963,530 loans of all kinds outstanding, and just under half (478,672) were to small farmers and ranchers.

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 institutions have a deep commitment to YBS farmers beyond providing loans. In Arkansas, the Farm Credit Associations of Arkansas come together to host the Future Legacy Young & Beginning Farmers Conference every other year. The conference is a two-day, one-night opportunity for young and beginning farmers to network with their peers across the state and gain valuable insight into a range of agricultural topics. We encourage farmers of all types of agricultural production to attend, including full-time and part-time farmers. The Farm Credit Associations of Arkansas offer special interest rate programs and reduced underwriting standards for young, beginning, and small farmers. Additionally, we sponsor Future Farmers of America and 4-H programs. As of yearend 2021, loans to young farmers accounted for nearly 18% of the associations' total loan portfolio, over 29% is beginning farmer loans, and more than 26% is small farmer loans.

We engage across the spectrum with those entering agriculture, whether they are focused on conventional, organic, sustainable, indoor, farm-to-market operations, or other emerging business models.

Supporting people of color in agriculture and rural communities is an integral part of Farm Credit's mission. The Farm Credit System has worked to support people of color in agriculture through various partnerships, including taking the HBCU Partnership Challenge. As part of the Challenge, Farm Credit created our Launching Leaders program for current HBCU students or recent graduates who intern at Farm Credit. The \$3,500 Launching Leaders stipend is designed to help defray housing and/or relocation costs, which are often a barrier to entry for agricultural internships and careers. Farm Credit also partners with Minorities in Agriculture, Natural Resources and Related Sciences (MANRRS) to help grow the next generation of agriculture. Going forward, there is still much work to be done, but Farm Credit is committed to working toward a more diverse and equitable future of agriculture.

Farm Credit has partnered with the University of Arkansas on a research project to identify people of color in agriculture and their credit needs. It is our hope that with armed with that information, Farm Credit can further support diversity in agriculture. In Arkansas, the Farm Credit Associations participate in National Black Growers Council events and launched a pilot program at a local high school to educate minority youth regarding careers in agriculture. We have outreach programs to the Hmong and Marshallese farmers, and we are committed to recruiting at local universities with a diverse population.

Farm Credit has been supporting innovative, climate-smart agriculture since our inception over 100 years ago. We all know that storms are getting more severe and costly, and farmers and rural communities are bearing the brunt of this impact. Farm Credit is committed to working with our customers as they adapt to a changing climate. Farmers and ranchers are the original conservationists, and they are continuing to improve their operation's sustainability, as they have for generations.

As this Committee looks at climate-smart agricultural policy, we urge you to craft solutions that are voluntary, incentive-based, market-based, and reflective of sound science. From a lending perspective, financing options must be based on repayment capacity. Lenders are not the appropriate avenue to determine efficacy of practices or penalize/incentivize producers based on their farming practices. Simply put, lenders cannot be a referee in this area.

Here in Arkansas, the Farm Credit Associations sponsor the USA Rice-Ducks Unlimited Rice Stewardship Partnership, which works to improve working ricelands, water, and wetland wildlife. We provide financing of climate smart practices such as solar, water conservation and drone utilization for precision agricultural applications. The associations actively participate in the Arkansas Agriculture Water Quality Loan Program.

Crop insurance is the cornerstone of the farm safety, and it is an integral risk management tool for farmers and ranchers. Crop insurance covers well over 100 different crops nationwide and is a tool for all farmers and ranchers, regardless of size. Farmers pay for coverage they can count on when inclement weather decreases production and cushions the impact of falling commodity prices – to a degree. Thank you for your work to provide and improve this vital tool to U.S. farmers and ranchers, and we urge you to do no harm to crop insurance as you formulate the 2023 Farm Bill.

Another tool in our toolbox is the Farm Service Agency (FSA) loan guarantee program. These guarantees help us work with customers with troubled loans and provide an opportunity for young and beginning farmers. A guarantee on an existing loan strengthens the loan, making our regulator less wary of us standing by our customers to provide additional time for a customer to find a way to make their operations profitable again. We rarely have to collect on these guarantees.

We appreciate the increased FSA loan limits in the 2018 farm bill. We are using the new limits to farmers' benefit, as Congress intended. We also strongly support The BALE Act, HR. 2186, introduced by Representative Mike Bost. The bill would further raise the caps on FSA loan guarantees providing greater flexibility to better serve farmers and ranchers. Given the significant inflation we are seeing, the guarantee limits should be raised. The current limit is too low, especially as it relates to construction costs of poultry facilities.

Further, Farm Credit is working collaboratively with commercial bankers and FSA to streamline FSA's loan guarantee processes to improve the customer experience for farmers and ranchers, especially young, beginning, and small producers. Streamlining these processes is a win-win-win for producers, lending institutions, and the federal government. Currently, FSA is analyzing our recommendations to differentiate what the agency has the authority and funding to do, and what may need to be addressed in the Farm Bill. We look forward to working with the Committee if any of the recommendations need statutory changes.

The Covid-19 pandemic only exacerbated the emotional and mental stress among farm families and rural communities that started from six long, difficult economic years in agriculture. Farm Credit has been working to provide resources to help farm families cope with these kinds of stress by partnering with Michigan State University (MSU) to create an online training course focused on mental and emotional health. The course provides support and advice for loan officers having difficult or stressful conversations, while also offering tips for strengthening their own mental well-being. The training will also help Farm Credit System employees identify signs of stress in customers and provide techniques to get customers the help they might need to manage that stress.

As I mentioned earlier, Farm Credit is a customer-owned cooperative. Significant amounts of our operating expenses go toward better serving our customers through new technology, helping them grow their businesses through educational programs and supporting our communities through charitable giving. The net income we generate can be used in only two ways: retained within a Farm Credit institution as capital to build financial strength that ensures continued lending **OR** paid to customer-owners by way of cooperative dividends, which effectively lowers the cost of borrowing for our customers. In 2021, Farm Credit returned approximately \$3.4 billion in patronage dividends to our customers, and over the past five years, Farm Credit returned more than \$13 billion to our customers. Across the three Arkansas Farm Credit associations, we returned more than \$25.3 million to our customers for 2021. These dollars are reinvested into the local economies of the rural communities 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. In 2021, Farm Credit financed more than \$7 billion in exports of U.S. agricultural products. We also make nearly \$6.9 billion in loans to 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 is critical to the success of rural communities and a key component of Farm Credit's mission. Farm Credit finances more than \$37 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 our schools and reliable energy for rural families and businesses. Farm Credit's mission is as vital today as it has ever been. We support rural communities and agriculture with reliable, constructive credit and financial services. We provide farmers, ranchers and agribusinesses with the capital needed to make their businesses grow and succeed.

Thank you again for the opportunity to testify, and I would be happy to answer any questions.