



FRONTIER
F A R M C R E D I T

**Testimony of
Gena Ott, Financial Officer
Frontier Farm Credit
Before the
Senate Committee on Agriculture, Nutrition & Forestry
Field Hearing
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Mr. Chairman and Ranking Member Stabenow, thank you for the opportunity to testify today on behalf of Frontier Farm Credit. My name is Gena Ott, and I am a financial officer serving borrower-owners of our eastern Kansas cooperative lending Association, based in the Emporia, Kansas, office. I am a 32-year employee of the Farm Credit System, having served in both lending and crop insurance roles.

My testimony today will provide an overview of the credit conditions across the Frontier Farm Credit territory in eastern Kansas. I will share examples of some of the decisions producers are facing and the ways our Association is working with them to make the most of their options. I will highlight the role that crop insurance plays as a safety net for customers and provide information regarding the role of Frontier Farm Credit in serving diverse needs in agriculture and rural communities. Moreover, I will share the ways in which my Association collaborates with other organizations to fulfill our mission.

Frontier Farm Credit is part of the nationwide Farm Credit System, serving the eastern third of Kansas. The Association has \$2 billion in loan volume, which increased by 3.4% in 2016. The Board of Directors declared a \$9 million cash-back dividend from 2016 earnings that will be paid to cooperative members this spring. Loan repayment capacity in our portfolio is largely dependent upon income from corn, soybeans, wheat and cattle. Many of our customers are also dependent on off-farm income, though the level varies widely. Government program payments related to corn, soybeans, wheat, the Conservation Reserve Program, and the Conservation Stewardship Program are also a source of income for many customers.

As my colleagues in our risk management and credit roles assess the ag economy, they view Midwest agriculture conditions as follows. Generally, the upper 50 to 60 percent of our grain producers are and have been holding their own if not showing some level of profitability, though minor. The bottom 15 to 20 percent of grain producers are those with a combination of higher debt load, higher cost of production, and overall lack of profitability; they are having to make considerable adjustments to try to put them in a position of viability to weather this change in the ag cycle. The lower performing percent, after two to three years now of losses, are in a position of vulnerability and their adjustments are more significant – including major changes to the scope of their operation, selling of assets, and for some,

considering exiting production agriculture. Those in between the upper 60 percent and lower 20 percent present a mixed bag of situations, but generally still have options due to their overall equity position.

Cattle producers continue to brace for the future. After a 3 percent increase last year, cow numbers are expected to grow another 3.5 percent by year-end – back up to 1995 levels. Fed cattle prices and margins will continue to be under pressure, although cattle feeders will continue to see relief from lower calf prices. Fed cattle prices in the \$1 - \$1.20/lb. range are most probable, and packer margins will narrow.

Those of us who work with farmers and ranchers have been in a mode of talking with our customers to help them assess their operations and have been encouraging them to manage their risk. In return, we hear from our customers the importance of strong markets and regulatory reform for the viability of their farms and ranches.

As a financial officer, I have been having conversations about the four “Rs” of overhead and/or fixed costs. When a producer owns land, it may be a good time to look to Re-amortize it. For machinery and equipment, now may be the right time to Refinance. With rented land, leases and terms of the lease may lead to conversations with landowners to Renegotiate. And, for family living expenses, it’s a time to Re-assess.

For many customers, as the previous numbers would indicate, the cycle we are in will allow them room to adjust. However, some may make more far-reaching decisions. In all cases, these conversations are individual to the customer and to the operation, and we will work with them every step of the way.

Growing a farm or ranch is a significant financial commitment and can be especially challenging for less-established producers. Frontier Farm Credit makes extraordinary efforts to support young, beginning and small farmers and ranchers. There are 3,871 individual young, beginning and small customers at Frontier, comprising more than 58 percent of our customers and representing \$630 million lent to this segment. Of those, 1,219 are young and beginning, representing \$206 million in credit. Specialized lending programs, such as our AgStart program, include a full line of products with customized underwriting and modified credit approval standards for farmers age 35 or younger or with 10 years of experience or less.

Frontier Farm Credit also offers a unique Development Fund that provides both business planning assistance and working capital loans to young and beginning farmers and ranchers. Young producers haven’t enjoyed earnings to build the working capital that is crucial in building an operation and sustaining a cushion for adversity.

The development fund injects cash (working capital) into an operation and requires only interest payments for five years. The customer at the end of five years then establishes a repayment plan for any balance remaining on the note. Participating producers have completed a five-year cash flow, a business and market analysis, and a detailed business plan complete with mission statement, objectives and strategies to achieve their objectives. The business plan also includes a risk management plan (including calculating break-evens and utilizing crop insurance Revenue Protection at a 75 percent level). Participants also establish a financial plan that helps keep them focused and includes working capital goals.

I recently met with one of our Development Fund customers. He's in the second year of the program, and we are about to update his five-year plan. He has picked up additional ground for 2017, which is exciting, and requires more working capital. It's our desire to be his financial partner and help him succeed by not only providing funds but also helping him develop business and financial management skills that will help him fulfill his dream to have a career in agriculture that provides for him and his family.

Mr. Chairman and Ranking Member Stabenow, I want to thank both of you for your commitment to crop insurance. It is an important public-private partnership, and a critical risk management tool for farmers. The strength of the current crop insurance partnership rests in the ability for a farmer, or rancher, to select products that meets their needs for individualized risk management.

As an example, the foresight of producers who purchased crop insurance in 2012 mitigated the direct financial impact on their operations even though final corn and soybean yields were significantly below trend lines for both crops as a result of drought that year. Farmers bought revenue protection coverage at levels of 70 percent or greater on more than 90 percent of insured corn acres within Frontier Farm Credit's territory. Of the 128 crops covered by crop insurance, the categories that suffered the most damage in 2012 were corn, wheat, cotton, soybeans, pasture, rangeland and forage.

Crop insurance performed as it was intended: though each case is different, farmers who purchased crop insurance generally received income that would at least cover their investment in the 2012 crop. That means most were able to plant again in 2013, continuing to produce feed, food and energy and averting consumer inflation. They also were able to make purchases at their neighbors' stores and other businesses, which helped support the economy in every local community. That insurance meant that producers were able to maintain obligations with their creditors. Finally, the insurance program also averted the need for ad hoc disaster assistance.

As a lender in the Flint Hills of Kansas, I would also call your attention to Livestock Risk Protection (LRP) and the Pasture, Rangeland and Forage Product (PRF). LRP and PRF have been important products for cattle producers. Frontier Farm Credit has been regionally active with these products in the marketplace.

The culture of Frontier Farm Credit encourages collaboration in the communities we serve and within the industry. Our Working Here Fund provides grants for projects and organizations that make a positive impact in the eastern Kansas counties we serve. Grants are focused on the areas of ag education, young and beginning producers, and hunger and nutrition. Grants are also considered for essential services and disaster relief needs in rural communities.

Recently, Greenwood County, Kansas, used this program to enhance their fairgrounds. When a storm damaged the livestock barns there in 2014, the aftermath revealed the need for not just repair, but new facilities altogether. Dollars helped spur additional fundraising, and assisted in growing not only the new building, but also excitement with two new 4-H clubs in the county.

Frontier Farm Credit also provided Working Here Fund support for the FFA garden in Marion, Kansas. Students there engage local residents and provide fresh produce to a local food pantry. Students are learning and helping to feed others in their community.

More than a decade ago, leaders from Kansas ag organizations and Kansas State University established the Women Managing the Farm Conference to encourage women to come together and develop the knowledge and skills needed for success in a competitive agricultural environment. Women represent central roles in the agricultural heritage that builds and sustains communities throughout the world. According to the 2012 Census of Agriculture, women are the principal operators of 6,783 farms in Kansas, and there are 25,611 total women farm operators in the state. Further, women have a variety of other roles in farming operations, including those who inherit ag land.

I've had the privilege with my Farm Credit colleagues to be involved on the steering committee and as a presenter for Women Managing the Farm. Demand for this statewide program remains strong, and local groups continue to emerge. We recognize the support and engagement of USDA in these programs and welcome their continued involvement.

Frontier Farm Credit assisted in formation of the Kansas Farmer Veteran Coalition, and provides credit education when needed for veteran training events. We welcome opportunities for involvement in future events and commend the veterans who have taken on leadership roles in these organizations. Similarly, Frontier Farm Credit has been a partner with the SAVE Farm (Servicemember Agricultural Vocation Education). Financial Officers provide participants with credit training as they make decisions regarding their future opportunities in agriculture.

Collaborative opportunities are important, and we would hope that the spirit of public policy encourages federal agencies to be at the table as we engage with all segments of agriculture. Thank you for the opportunity to share the ways in which Frontier Farm Credit is involved in supporting the next generation of producers, rural communities, and diverse agriculture across Eastern Kansas.

We know that you, the leadership of this committee, understand the challenges facing rural communities and agriculture, the challenges that lie ahead with respect to the Farm Bill, the importance of crop insurance as a safety net to farmers and ranchers. We thank you for your support and ask that you share your knowledge and experiences with your colleagues to help them understand, too, as you work through the process of another Farm Bill.

Chairman Roberts, it is always great to have you back home and we are proud of the work you do every day on behalf of our state. Thank you, Ranking Member Stabenow, for coming to Kansas to listen. Thank you, again, for this opportunity to share the story of Farm Credit in eastern Kansas and I look forward to your questions.