REVIEW OF CREDIT CONDITIONS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON COMMODITY EXCHANGES,
ENERGY, AND CREDIT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

NOVEMBER 19, 2019; DECEMBER 11, 2019

Serial No. 116–24

Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PUBLISHING OFFICE
42–146 PDF WASHINGTON : 2020

COMMITTEE ON AGRICULTURE

COLLIN C. PETERSON, Minnesota, *Chairman*

DAVID SCOTT, Georgia
JIM COSTA, California
MARCIA L. FUDGE, Ohio
JAMES P. McGOVERN, Massachusetts
FILEMON VELA, Texas
STACEY E. PLASKETT, Virgin Islands
ALMA S. ADAMS, North Carolina
Vice Chair
ABIGAIL DAVIS SPANBERGER, Virginia
JAHANA HAYES, Connecticut
ANTONIO DELGADO, New York
TJ COX, California
ANGIE CRAIG, Minnesota
ANTHONY BRINDISI, New York
JEFFERSON VAN DREW, New Jersey
JOSH HARDER, California
KIM SCHRIER, Washington
CHELLIE PINGREE, Maine
CHERI BUSTOS, Illinois
SEAN PATRICK MALONEY, New York
SALUD O. CARBAJAL, California
AL LAWSON, Jr., Florida
TOM O'HALLERAN, Arizona
JIMMY PANETTA, California
ANN KIRKPATRICK, Arizona
CYNTHIA AXNE, Iowa

K. MICHAEL CONAWAY, Texas, *Ranking Minority Member*
GLENN THOMPSON, Pennsylvania
AUSTIN SCOTT, Georgia
ERIC A. "RICK" CRAWFORD, Arkansas
SCOTT DesJARLAIS, Tennessee
VICKY HARTZLER, Missouri
DOUG LaMALFA, California
RODNEY DAVIS, Illinois
TED S. YOHO, Florida
RICK W. ALLEN, Georgia
MIKE BOST, Illinois
DAVID ROUZER, North Carolina
RALPH LEE ABRAHAM, Louisiana
TRENT KELLY, Mississippi
JAMES COMER, Kentucky
ROGER W. MARSHALL, Kansas
DON BACON, Nebraska
NEAL P. DUNN, Florida
DUSTY JOHNSON, South Dakota
JAMES R. BAIRD, Indiana
JIM HAGEDORN, Minnesota

ANNE SIMMONS, *Staff Director*
MATTHEW S. SCHERTZ, *Minority Staff Director*

SUBCOMMITTEE ON COMMODITY EXCHANGES, ENERGY, AND CREDIT

DAVID SCOTT, Georgia, *Chairman*

JEFFERSON VAN DREW, New Jersey
FILEMON VELA, Texas
STACEY E. PLASKETT, Virgin Islands
ABIGAIL DAVIS SPANBERGER, Virginia
ANTONIO DELGADO, New York
ANGIE CRAIG, Minnesota
SEAN PATRICK MALONEY, New York
ANN KIRKPATRICK, Arizona
CYNTHIA AXNE, Iowa

AUSTIN SCOTT, Georgia, *Ranking Minority Member*
ERIC A. "RICK" CRAWFORD, Arkansas
MIKE BOST, Illinois
DAVID ROUZER, North Carolina
ROGER W. MARSHALL, Kansas
NEAL P. DUNN, Florida
DUSTY JOHNSON, South Dakota
JAMES R. BAIRD, Indiana

ASHLEY SMITH, *Subcommittee Staff Director*

CONTENTS

Page

Tuesday, November 19, 2019

REVIEW OF CREDIT CONDITIONS
(REPORT FROM THE FARM CREDIT ADMINISTRATION)

TUESDAY, NOVEMBER 19, 2019

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMODITY EXCHANGES, ENERGY, AND CREDIT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:02 a.m., in Room 1300 of the Longworth House Office Building, Hon. David Scott of Georgia [Chairman of the Subcommittee] presiding.

Members present: Representatives David Scott of Georgia, Van Drew, Vela, Plaskett, Spanberger, Delgado, Craig, Axne, Peterson (*ex officio*), Austin Scott of Georgia, Crawford, Bost, Rouzer, Marshall, Dunn, Johnson, and Baird.

Staff present: Isabel Rosa, Ashley Smith, Luke Theriot, Josh Maxwell, Callie McAdams, Ricki Schroeder, Patricia Straughn, Dana Sandman, and Jennifer Yezak.

OPENING STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

The CHAIRMAN. This hearing of the Subcommittee of Commodity Exchanges, Energy, and Credit, which is entitled, *Review of Credit Conditions: Report from the Farm Credit Administration,* will now come to order.

Good morning to everyone, and thank you for joining us at today's hearing to review credit conditions in rural America. This is a very, very important and critical hearing for us to examine the condition in rural America for credit and access to capital, and quite honestly, for the survival of so many of our smaller communities.

We have held several hearings across multiple Subcommittees that do speak to the economic landscape in rural America, and all have underscored the same key factors. Depressed investment as a result of lower crop prices and reduced demand; land and input prices that haven't come down accordingly; a tight labor market; and very significantly, limited access to capital and credit. And as we all know in our system, we are a credit-based economy, and this is one of the most significant points that we want to cover today in this hearing. These factors all combine to point to one thing: for all the bluster we hear about the greatest economic recovery ever, the greatest economy ever, the facts show that for far too many Americans living in small rural communities, their economic reality is very, very different. The folks that live in these small communities, whether they are farmers, whether they are small business owners, they are not experiencing the same chance at success as many of their counterparts in the urban and suburban communities. It is my hope that through Chairman Smith's update this morning, and we are certainly delighted to have a man of his knowledge to really open this up, so we can figure out how we can make sure that not only are we doing everything we know we can do now, but the things that we can do in the future, as well, to help.

We will be able to get a bigger and better picture of our rural economic trend lines so that we can continue a conversation on how best to help these individuals from our positions here in Congress. And specifically, I want to look today at the credit conditions facing all of our farmers, but our younger farmers as well, and small and beginning African American farmers.

As everyone on this Committee knows, I have taken a keen interest in making sure that we are combating the rising average age of farmers with all the tools we have available. And that is why, as I said in speaking with the Chairman earlier this morning, when you combine all that we have said with the pressures on our farmers, the average age of our farmers now is right at 60 years of age, and going up. This is our future. Agriculture is the single-most important industry we have. We can do without everything else, but we cannot do without food or shelter or clothing. That is agriculture.

And everyone knows that we must do all we can to ensure that there are young folks to take over when current farmers retire. It is a matter of national security, and is, in my own opinion, it is a national crisis. And we are going to have to look at it within that landscape.

The Farm Credit Administration is uniquely positioned to keep a finger on the pulse of the rural economy. The Farm Credit System that it oversees comprises nearly 70 local and regional lending entities that serve farmers and small businesses in our rural communities in all 50 states, and also in Puerto Rico. Our FCA also oversees Farmer Mac, which serves as a nationwide provider of agriculture credit. This coverage and access means that FCA has the ability to see trends in the rural economy at their early stages, and it is worth noting that out of this is the first time we have had the chance to sit down with Chairman Smith since his appointment by President Trump in July, and our first hearing with Farm Credit since the passing of our dear friend and colleague, Dallas Tonsager. We continue to miss his voice and his counsel, and we look forward to continuing his advocacy, his strong advocacy for people living in small communities across our great country.

[The prepared statement of Mr. David Scott of Georgia follows:]

PREPARED STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Good morning, and thank you for joining us at today's hearing to review credit conditions in rural America. With us is Glen Smith, Chairman and CEO of the Farm Credit Administration.

We have held several hearings across multiple Subcommittees that speak to the economic landscape in rural America. All have underscored the same key factors:

depressed investment as a result of lower crop prices and reduced demand, land and input prices that haven't come down accordingly, a tight labor market, and limited access to capital and credit.

These factors all combine to point to one thing: for all the bluster we hear about "the greatest economy ever," the facts show that, for far too many Americans in small, rural communities, their economic reality is very different. Whether these folks are farmers or small business owners, they are not experiencing the same chance at success as many of their counterparts in urban and suburban communities.

It is my hope that through Chairman Smith's update this morning, we'll be able to get a bigger and better picture of the rural economic trendlines, so that we can continue a conversation on how best to help those folks from our posts here in Washington.

Specifically, I want to look today at the credit conditions facing younger farmers as well as smaller, beginning, and minority operators. As everyone on this Committee knows I have taken a keen interest in making sure that we are combating the rising average age of the farmer with all tools available. We must do all we can to ensure that there are young folks to take over when current farmers retire, it is a matter of national security and could evolve into a national crisis if we aren't careful.

The Farm Credit Administration is uniquely positioned to keep a finger on the pulse of the rural economy. The Farm Credit System that it oversees comprises nearly 70 local and regional lending entities that serve farmers and small businesses in rural communities in all 50 states and Puerto Rico. FCA also oversees Farmer Mac, which serves as a nationwide provider of agricultural credit. This coverage and access means FCA has the ability to see trends in the rural economy in their earliest stages.

It's worth pointing out that this is the first time we've had the chance to sit down with Chairman Smith since his appointment by President Trump in July, and our first hearing with Farm Credit since the passing of our friend and colleague Dallas Tonsager. We continue to miss his voice and his counsel, and we look forward to continuing his advocacy for folks in small communities across this great country.

With that I want to again welcome Chairman Smith and recognize my colleague and Ranking Member Austin Scott for any opening comments that he would like to make.

The CHAIRMAN. In consultation with the Ranking Member, and pursuant to Rule XI(e), I want to make Members of the Subcommittee aware that other Members of the full Committee may join us here today. I now recognize my distinguished Ranking Member, Austin Scott, for his opening statement. Mr. Scott?

OPENING STATEMENT OF HON. AUSTIN SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Mr. AUSTIN SCOTT of Georgia. Good morning, and thank you to my friend, Chairman Scott, for holding today's hearing.

Our Committee has an obligation to proactively review the Farm Credit System to ensure its soundness. To help us do that today, we have brought representatives from the Farm Credit Administration, the independent agency tasked with regulating the Farm Credit institutions, to ensure that they fulfill their mission and stay within the scope of that mission.

The importance of the Farm Credit System is largely unknown to those outside of the agricultural community, so I am thankful that we have an opportunity today to highlight the System and its century-long mission of providing credit to agriculture in rural America during the good times and the bad, as well as the role of the Farm Credit Administration in ensuring the soundness of the System, and its lending practices.

Agriculture today is far more complex than it was 100 years ago. Providing credit to America's farmers and ranchers is a necessary and serious challenge for many lenders in the United States. That challenge is heightened with current struggles in the farm economy. Net farm income is at all-time lows, and farm debt is forecast to climb near an all-time high of $416 billion, up $100 billion in just the last 6 years. The value of farmers' land also stopped gaining value over that time. Add to that the concerns about increasing Chapter 12 farm bankruptcies, which have reached their highest level since 2011, and we have good cause for a renewed focus on farm lending and oversight of our Farm Credit System.

In my home State of Georgia, we have had to deal with hurricanes, other natural disasters, and low prices that have added to farmers financial difficulties. I strongly encourage the USDA to ensure that the WHIP+ payments and state block grants are dispersed in a timely and efficient manner, and that farmers who have been impacted by our trading partners' poor behavior receive complete payments, MPF payments for 2019.

It is in times like these that our farmers and ranchers are most in need of reliable sources of credit at competitive rates. Thankfully, we have a network of commercial and community banks, USDA loan programs, and the Farm Credit System that each play a crucial role in providing that access.

While we in Congress have generally outlined the authority by which the Farm Credit System may fulfill its ultimate mission of ensuring dependable sources of credit for agriculture in rural America, I realize that the authority is not necessarily delineated with bright line rules. Therefore, we largely rely on the Farm Credit Administration as the regulator to ensure that the System banks are doing their part to stay within the bounds of the Farm Credit Act.

Today, we will hear from Mr. Glen Smith, CEO and Board Chairman of the Farm Credit Administration. Thank you, Mr. Smith, for being here today. I appreciate you taking time to appear before the Committee. Rural America is facing some unique, but I would say not unprecedented, challenges and we now, more than ever, are in need of an efficient and effective Farm Credit System.

With that, Mr. Chairman, I yield the remainder of my time.

The CHAIRMAN. Thank you very much, Ranking Member.

The chair would request that other Members submit their opening statements for the record so the witness may begin his testimony to ensure that there is ample time for questions.

I would like to certainly welcome our witness, Farm Credit Administration Chairman Glen Smith. Thank you for being here. And Chairman Smith, as a native of Atlantic, Iowa, which is in our colleague, Mrs. Axne's, district, I would like to yield to Mrs. Axne to introduce you, our distinguished witness.

Mrs. AXNE. Thank you, Chairman Scott. It is my great pleasure to introduce Mr. Glen Smith, Chairman and CEO of the Farm Credit Administration. Mr. Smith, of course, is a native of Atlantic, Iowa, I say from the best district in this country, Iowa's third district. Glen was raised on his family's farm in Atlantic and graduated from Iowa State University, an incredible agriculture college, with a degree in agriculture business. Shortly after college, he moved back to his hometown with his wife to start farming and to develop his ag service business. Today, his family farm encompasses 2,000 acres devoted to corn, soybeans, and hay. He is also the founder and co-owner of Smith Land Service Company, an ag service company specializing in farm management, land appraisal, and farmland brokerage, which serves about 30 counties in Iowa. Glen has been serving on the Board of the Farm Credit Administration since December 2017, and then was designated Chairman and CEO of the Farm Credit Administration in July of this year.

But, with all of the great history and the wonderful honors that he has received, he has an incredible wife, a lovely person, a great couple, and he also cares a lot about rural Iowa. He has served on school boards and has made sure that his community is successful.

I am so glad that you are here today, Glen. Thank you for joining us, and it is an honor to have you here with us.

The CHAIRMAN. Thank you, Mrs. Axne.

We will now proceed to hearing the testimony. Chairman Smith, you will have 5 minutes to present your testimony, and when 1 minute is left, the light will turn yellow, signaling it is time to close and your time will be expiring. However, as Chairman, I do have the opportunity to extend that, because this is a very important hearing. I want you to really make sure, because you have critical information here and our farmers, our rural communities need to hear from you, so I will be very considerate of points that you want to make. Please don't leave any points on the table. I will make sure you have the time. Thank you.

Chairman, you may begin.

STATEMENT OF HON. GLEN R. SMITH, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FARM CREDIT ADMINISTRATION, McLEAN, VA; ACCOMPANIED BY ROBERT COLEMAN, CHIEF OPERATING OFFICER, FCA; CHARLES R. RAWLS, J.D., GENERAL COUNSEL, FCA; DAVID GRAHN, J.D., DIRECTOR, OFFICE OF REGULATORY POLICY, FCA

Mr. SMITH. Well first, thank you for that kind introduction, Congresswoman Axne. It is really neat to be from the same district.

Chairman Scott, Ranking Member Scott, Members of the Committee, it is a privilege to appear before you today. I will be reporting to you on the operations of the Farm Credit Administration and its oversight as regulator of the Farm Credit System and Farmer Mac. I have a written statement that I have submitted for the record.

I would like to introduce FCA staff with me here today. To my right, Chief Operating Officer Robert Coleman; to my far left, Director of Regulatory Policy, David Grahn; and immediate left, General Counsel Charlie Rawls. And also behind me, I would like to introduce my fellow Board Member, Jeff Hall, who is Chairman of the Farm Credit System Insurance Corporation, and my wife, who is Fauzan.

I became Chairman and CEO of FCA 4 months ago, after the unexpected passing of former Chairman Dallas Tonsager. His death was quite a shock to all of us at FCA, but his lifelong dedication to agriculture and rural America will serve as a great inspiration for us for years to come.

The Farm Credit System is the nation's oldest government-sponsored enterprise, GSE, established in 1916. It is a nationwide cooperative of four banks and 68 associations that provides 41.4 percent of the nation's agriculture credit. My highest priority as Chairman is to ensure the safety and soundness of the System, and I am pleased to report that the System is, in fact, safe and sound. Although we are very concerned and closely monitoring some weakening in credit quality, our institutions are well capitalized with solid current earnings.

By structuring the System as a cooperative, Congress helped ensure that the System institutions would remain true to their mission. It later established provisions to protect the rights of System borrowers. As a regulator, we routinely examine institutions to ensure they comply with those provisions.

Congress also established features to protect the System's safety and soundness, like *joint and several liability* among System banks, and requirements to ensure adequate capital. To implement these requirements, we established minimum capital levels that each bank and each association must hold. The requirement to hold capital at both the bank level and the association level is particularly reassuring to investors during difficult economic times in agriculture.

This is very important, because as you know, the System does not obtain its funds from depositors, but relies on the sale of its securities to those investors in the financial markets. Protecting the good reputation of the System credit and obligations is extremely important in maintaining interest rates as reasonable and as low as possible to the American farmer and rancher.

Congress continues to take measures to strengthen the System, and at this point, I would like to thank the House, and in particular this Committee, for granting FCA several much-needed enforcement authorities in the last farm bill. It makes us that much more effective a regulator.

This Committee also has provided valuable guidance to our agency. Mr. Chairman, I had the privilege to meet with you about a month ago, and we had a good conversation about your relationship with our former Chairman, Ken Spearman, and your mutual goals of improving the diversity and inclusion efforts at FCA. Mr. Spearman's legacy in those areas continues today, and I am proud to report that for our support of diversity last year, the Partnership for Public Service ranked FCA second among all small agencies in the Federal Government.

I would like to conclude my remarks with one of my priorities at FCA, and it sounds like it parallels the Chairman's comments as well. That is the young beginning and small farmers, what we call our YBS programs. My wife and I started out as beginning farmers in Iowa 37 years ago. The difficulty and challenges that existed for us then are no different today. The advancing age, as the Chairman mentioned, of the American farmer and rancher is a concern of both Congress and us here at FCA. We need to do everything we can to encourage and help new entrants to agriculture, and our Board this year has initiated efforts to strengthen the System's YBS program. We look forward to reporting our progress in this area in years to come.

This concludes my remarks, and I am happy to answer your questions.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF HON. GLEN R. SMITH, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FARM CREDIT ADMINISTRATION, MCLEAN, VA

Chairman Scott, Ranking Member Scott, and Members of the Subcommittee, I am Glen R. Smith, Board Chairman and CEO of the Farm Credit Administration (FCA or agency). On behalf of my board colleague, Jeffery S. Hall of Kentucky, and all the dedicated men and women of the agency, I am pleased to provide this testimony. Mr. Hall also serves as Chairman of the board of directors of the Farm Credit System Insurance Corporation (FCSIC).

In my testimony today, I will discuss the agency's responsibilities, the current state of the farm economy, and the condition of the Farm Credit System (FCS or System) and Farmer Mac.[1] I would also like to take a moment to thank the Subcommittee Members and staff for their assistance during the development of the 2018 Farm Bill. The provisions included in the credit title modernized our governing authorities and added to and enhanced our enforcement powers; the provisions also updated and clarified FCSIC's conservator and receiver authorities. Your efforts are very much appreciated and will help us in our oversight of the System and Farmer Mac.

FCA's Responsibilities

FCA is an independent agency responsible for examining and regulating the banks, associations, and related entities of the System. The FCS is a government-sponsored enterprise created by Congress in 1916 to provide American agriculture with a dependable source of credit. The System's banks and associations form a nationwide network of cooperatively organized lending institutions that are owned and controlled by their borrowers, serving all 50 states and Puerto Rico. The System is currently made up of four banks, 68 associations, five service corporations, and the Federal Farm Credit Banks Funding Corporation. FCA is also responsible for the oversight of the Federal Agricultural Mortgage Corporation (Farmer Mac), which was established in 1988 under Title VIII of the Farm Credit Act.

As directed by Congress, FCA's mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. We accomplish this mission in two important ways.

First, we protect safety and soundness by examining and supervising all FCS institutions and Farmer Mac, and we ensure that they comply with applicable laws and regulations. Our examinations and oversight strategies focus on an institution's financial condition and any material existing or potential risks, as well as on the ability of its board and management to direct its operations. We also evaluate each institution's compliance with laws and regulations to ensure it serves all eligible borrowers. If an institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to take appropriate corrective action.

Second, we develop policies and regulations that govern how System institutions and Farmer Mac conduct their business and interact with customers. Our policies and regulations protect safety and soundness; implement the Farm Credit Act; provide minimum requirements for lending, related services, investments, capital, and mission; and ensure adequate financial disclosure and governance. We approve the corporate charter changes of System institutions, System debt issuance, and other financial and operational matters.

Challenges Facing the Farm Economy

Many U.S. farmers and ranchers are facing a more challenging economic environment than in past years. Trade uncertainties, large commodity supplies, and weather extremes have suppressed farm prices and producer returns for key commodities. USDA estimates net cash farm income in 2019 will remain well below record levels set 6 to 7 years ago. With the large payments provided by USDA's Market Facilitation Program, net cash farm income will likely be close to the average for the past 2 decades.

Debt is also rising. U.S. farmers have taken on an estimated $41 billion in additional farm debt over the past 3 years. Adjusted for inflation, total farm debt outstanding is nearing the record set almost 40 years ago. Income shortfalls have cut working capital and elevated borrowing needs. With cash flows tight, the number of producers finding it difficult to repay their loans is growing, albeit at a modest

[1] Although Farmer Mac is an FCS institution under the Farm Credit Act, we discuss Farmer Mac separately from the other institutions of the FCS. Therefore, in this testimony, unless Farmer Mac is explicitly mentioned, the Farm Credit System refers only to the banks and associations of the System.

pace. Increasingly, producers are restructuring their debts to improve their cash flow.

High-cost producers and those with significant leverage are feeling financial pressure. Producers most vulnerable to financial stress are farmers with crop losses (particularly corn and soybeans in parts of the Midwest in 2019). The combination of low prices and crop losses is creating a significant challenge for some producers. Smaller or higher-cost dairy farms represent another segment experiencing stress despite the improvement in milk prices.

Crop insurance indemnities and disaster funds continue to provide financial support to farmers and ranchers as they strive to overcome the weather-related calamities of the past 18 months, including multiple hurricanes, wildfires in the West, and record-setting spring rainfall in the Midwest. Recently, heavy snow has affected fall harvest in the Northern Plains, while drought across parts of the South has damaged feed supplies and late-harvested crops.

Despite production losses resulting from poor weather in these regions, supplies of corn, soybeans, wheat, and livestock commodities remain relatively high as markets await resolution of trade disruptions. Cotton production will likely exceed use for the third consecutive season, elevating stocks and weakening prices.

Trade Impacts

Trade disruption from retaliatory tariffs has affected much of agriculture. The short-run impact has been negative for producers of export-dependent commodities, particularly soybeans, cotton, pork, dairy products, and tree nuts.

Longer-term, the Administration expects the focus on trade policy will benefit the U.S. economy and international trade in general by addressing foreign practices that damage U.S. economic interests. Additional gains for U.S. agriculture are expected as trade agreements are implemented, such as the pacts with Japan and Mexico/Canada.

The Market Facilitation Program compensates producers for economic shortfalls caused by temporary export losses. This compensation has been critical to shoring up profitability and underpinning the finances of producers impacted by market losses from trade disputes. Rolling out the remaining portions of the 2019 payments will further help producers meet their financial commitments and plan cash flows for next year.

Farmland Values

Farmland values are generally holding up but with some notable regional weaknesses and strengths. While farmer interest and financial ability to purchase land have waned, the limited amount of land for sale, solid nonfarmer demand, and low interest rates have contributed to the stability in land markets. Farmland accounts for over 80% of total farm assets and hence serves as the primary source of collateral for farm lenders.

Stability in farmland markets has enabled borrowers to restructure their balance sheets with longer-term debt and freed up working capital. It has also allowed some borrowers to sell land parcels, if needed, to shore up their finances.

Amid the current stability in land values, however, lies a major concern. If larger amounts of land were to be put up for sale, greater downward pressure on land values would likely ensue. With declining land prices, farm balance sheets could deteriorate more quickly, and a farm borrower's ability to restructure debt or obtain additional financing could weaken.

Today's government farm safety net authorized in the 2018 Farm Bill continues to provide a strong underpinning to the farm economy. The combination of farm commodity programs, disaster assistance, crop and livestock revenue insurance programs, and the 2018 and 2019 Market Facilitation Program payments puts a floor under farm income and helps stave off a potential collapse.

Credit Conditions

Although overall farm finances have declined in recent years, most farms remain financially strong. Census of Agriculture data show only about ⅓ of all U.S. farm operations owe debt during a given year. For small farms (those with less than $250,000 in annual farm sales), loan repayment often depends more on off-farm income than farm income. A strong economy and labor market are helping support the incomes of these producers as well as larger producers.

Many producers continue to find ways to cut costs and make the most of the marketing opportunities when prices rise temporarily. Still, the financial pressure can be significant for individual producers, particularly those who suffered yield losses in recent years.

Larger farms are more likely to carry debt. They owe most of the total U.S. farm debt. Some of these large operations are highly leveraged and more likely to experience financial stress following weak commodity prices or below-normal production. Because of their size, very large producers can have an outsized impact on local land markets and credit providers.

Credit stress within the System's farm loan portfolio remains low, but loan weakness continues to creep up. Financial stress is regionalized and most prevalent in commodities such as dairy and grain (corn, soybeans, and wheat). Of the ten states with the highest levels of less-than-acceptable loans, six states are in the Midwest, and only Texas and California are outside key grain-production regions.

Some farmers will continue to restructure their balance sheets (to the extent they are able) and/or make changes in their operations to reduce production costs. FCA encourages System lenders to work with borrowers to help navigate current financial conditions without jeopardizing the long-term viability of the borrower or the System institution.

Fortunately, both the Farm Credit System and the Farm Credit Administration are laser-focused on cash flow and loan repayment. This approach contrasts with "collateral lending," which contributed to the 1980s farm financial crisis. Lenders are also much more proactive with borrowers encountering difficulty, encouraging them to adjust their operations before it is too late. Importantly, in the most recent farmland price run-up, System institutions used lending caps and other practices to mitigate lending risks associated with higher land prices. Current FCA examination activities include a focus on institutions that have a higher risk profile based on the commodities produced in their territory.

System institutions have indicated that, as lenders, they will work with customers if they are willing and able to make changes to their operations to restore profitability. Fortunately, System institutions have the financial capacity to work with their customers. Other lenders may not have this capacity, or some borrowers may have already used up their opportunities to restructure their balance sheets. Either case creates concern if farm stress intensifies in the coming years.

Condition of the FCS

The System's agricultural financing capacity remains strong during this period of large commodity supplies, retaliatory tariffs, weak returns, and weather difficulties. Overall, the System is safe and financially sound. Through June of 2019, the System reported strong earnings and sound capital levels. While credit stress in the System's loan portfolio is increasing, System institutions have strong risk-bearing ability and are well-positioned to respond to the credit needs of U.S. agriculture.

The System's strong capital base enhances its risk-bearing capacity at a time when System borrowers in certain agricultural sectors face significant financial challenges. As of June 30, 2019, total System capital equaled $61.2 billion, up from $57.3 billion a year before. The System's total capital-to-assets ratio at June quarter-end was 17.4% as compared with 17.2% a year ago. Overall, almost 80% of total capital is in the form of retained earnings. Growth in System capital is due in large part to the System's strong earnings. For the 6 months ended June 30, 2019, the System reported net income of $2.7 billion, up from $2.6 billion for the same period a year ago. Net interest margin was 2.40% compared with 2.44% for the 6 months ended June 30, 2018.

The System continues to grow at a manageable pace. Gross loans as of June 30, 2019, totaled $276.2 billion, up $14.2 billion or 5.4% year over year. Real estate mortgage lending was up $4.8 billion or 3.9%. Overall, real estate mortgage loans represent just over 46% of the System's loan portfolio. Production and intermediate-term lending increased by $3.2 billion or 6.5% from the year before, and agribusiness lending for processing and marketing increased by $3.5 billion or 14.8%.

Despite the challenges facing agriculture, loan credit quality is sound, and the System's portfolio continues to perform well. Non-performing assets totaled $2.5 billion, or 0.92% of loans and other property owned as of June 30, 2019. This is up from $2.3 billion or 0.83% at year-end 2018. Loan delinquencies (accruing loans that are 30 days or more past due) increased to 0.36% of total accruing loans from 0.31% at year-end 2018. While credit risk in the System's portfolio has increased, the System's risk-bearing capacity remains strong. The allowance for loan losses at June 30 was $1.8 billion and amounted to 69% of the System's non-performing assets.

The System continues to have reliable access to the debt capital markets. Investor demand for all System debt products remains positive, allowing the System to continue to issue debt on a wide maturity spectrum at competitive rates. Risk spreads and pricing on System debt securities remain favorable relative to corresponding U.S. Treasuries.

With a balance of $5 billion as of June 30, the Farm Credit Insurance Fund further enhances the financial integrity of the System. Administered by FCSIC, this fund protects investors in System-wide consolidated debt obligations. System banks also maintain liquidity reserves to ensure they can withstand market disruptions. As of June 30, the System's liquidity position equaled 178 days, significantly above the 90 day regulatory minimum required for each FCS bank.

Young, Beginning, and Small Farmers and Ranchers

Congress requires each System association to have a program to provide credit and related services to young, beginning, and small (YBS) farmers and ranchers. In the late 1990s, FCA established a system to monitor the associations' YBS programs and activities and to receive reports regarding the associations' YBS lending. We compile data from these reports into our annual reports to Congress.

Using some of the increased resources recently approved by Congress, we have examined the System's data on YBS farmers and ranchers in a more sophisticated manner and have found potential areas for improvement in data collection, quality, and granularity. We are working to identify ways to improve the accuracy of YBS data and reporting. We are also reviewing the definitions of the young, beginning, and small categories, which have not been updated since the 1990s.

On February 21, 2019, we published an advance notice of proposed rulemaking to seek public comment on ways to improve the YBS data collection process and definitions. Currently, we are reviewing and considering the comments received from the public, and we will use this input to help us improve our ability to measure service to YBS producers.

Condition of Farmer Mac

Congress established Farmer Mac in 1988 to create a secondary market for agricultural real estate and single-family rural housing mortgage loans. Farmer Mac has authority to purchase agricultural real estate mortgages and rural home loans, USDA-guaranteed farm and rural development loans, and rural utility cooperative loans. It is also authorized to create and guarantee securities and other secondary market products that are backed by such loans.

As a ready source of liquidity for primary lenders, Farmer Mac is committed to enhancing the availability of reasonably priced credit to agriculture and rural America through its secondary market activities. Farmer Mac provides wholesale portfolio funding, credit guarantees, and other products for its network of lenders, including agricultural banks, insurance companies, Farm Credit System institutions, non-bank lenders, and rural utility cooperative lenders. Since its inception, Farmer Mac has helped fund farmers, ranchers, rural electric cooperatives, and agribusinesses in all 50 states and has provided more than $53 billion of investment in rural America.

As of June 30, 2019, Farmer Mac's outstanding program volume reached an all-time high of $20.7 billion. Net income available to common stockholders for the 6 months ended June 30, was $50.2 million, up 2.7% from the same period in 2018. Farmer Mac's core capital totaled $786.6 million as of June 30, which exceeded its statutory minimum requirement of $594.9 million by $192 million.

Despite recent stress in the agriculture sector, Farmer Mac's credit quality remains sound. No delinquencies exist in Farmer Mac's institutional credit, USDA Guarantees, and rural utilities lines of business, which represent 65% of program volume. The Farm and Ranch portfolio represents the remaining 35% of outstanding volume. As of June 30, 2019, substandard loans were 3.3% of the total Farm & Ranch portfolio, up 0.2% from a year earlier, and loans more than 90 days delinquent decreased to 0.38% from 0.62% as of June 30, 2018.

Conclusion

We at FCA remain vigilant in our efforts to ensure that the Farm Credit System and Farmer Mac remain financially sound and focused on serving agriculture and rural America. We will continue our commitment to excellence, effectiveness, and cost efficiency and will remain focused on our mission of ensuring that System institutions and Farmer Mac are safe, sound, and dependable sources of credit for agriculture and rural America.

This concludes my statement. On behalf of my colleagues and the staff at the agency, I thank you for the opportunity to share this information.

The CHAIRMAN. Thank you very much, Chairman Smith. Now I would like recognize Chairman Peterson, our distinguished Chairman of the Agriculture Committee, to give us an opening statement.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Well, I don't know if I need to make an opening statement. Can I ask one question and then I will turn it back to you?

The CHAIRMAN. Oh, please do.

Mr. PETERSON. Okay. What I am interested in is I get a lot of concern from the biofuels industry, both ethanol and biodiesel in terms of a bunch of plants that have shut down and I have talked to some of them. But, I would like your take on what you think the conditions of the industry are. There are concerns out there in the ethanol industry that what was promised in the RFS is not being followed through. And regarding biodiesel we have this tax credit issue.

Are you folks following that pretty closely and what do you think about where this thing is at? What needs to be done to get it back on track?

Mr. SMITH. Thank you, Mr. Chairman. I am following that extremely closely, since 2 weeks ago I was in an 18-wheeler delivering corn at an ethanol plant that borders one of our farms in western Iowa. I have seen firsthand what that plant has done for the rural community, for the jobs, for the infrastructure, and certainly to keep that ethanol industry viable and growing as promised is critical. The significant part of our corn crop goes into those ethanol plants now, and that market is there and needs to be maintained.

Mr. PETERSON. What do you think about what is going on? Do you think the Administration revised their plan—and I am still getting a lot of pushback from just about everybody in the ethanol industry about what they have done.

Mr. SMITH. Yes.

Mr. PETERSON. Is that what you are hearing?

Mr. SMITH. Yes, certainly.

Mr. PETERSON. How much stress are these folks under? I have some plants that suspended operations because they are losing money and they just shut down until this thing gets stabilized back into some kind of reasonable shape.

Where is the future here? Do you have a crystal ball?

Mr. SMITH. Crystal ball, no, but as far as feelings on the ethanol industry, Congress and this country called upon agriculture to serve a need, and that is a need for energy security. And agriculture responded to that need. The plant that borders one of our farms, the total cost was $140 million, a tremendous investment in that plant, and that is just a microcosm of what has happened in the industry.

Agriculture has responded to that need, and to Congress' desire, and it is only fair that they return the favor to make sure that industry is maintained at a profitable level.

Mr. PETERSON. Do you have any plants that are in arrears, default, or close to default that you are aware of that you guys are financing? I mean, you financed a lot of these operations.

Mr. SMITH. We do finance. It is within our authority to finance ethanol plants. It is a small part of our portfolio, and to my knowledge—I will defer to our Chief Operating Officer—but to my knowledge, we currently do not have any loans that are in default in that area. But certainly, we are a player in that market.

Mr. PETERSON. That is good to hear. I hope it continues to be that way.

Mr. SMITH. I hope so too.

Mr. PETERSON. Thank you very much for being here and your testimony and for your leadership. Farm Credit is doing a great job out there, and keep it up.

Mr. SMITH. We will. We will, sir.

Mr. PETERSON. I yield back, Mr. Chairman.

The CHAIRMAN. Thank you very much.

I would like to open up with questions, and then recognize our Ranking Member.

I, first of all, would like to hear from you on what do you feel that we in Congress can do, or should be doing to help increase capital opportunities? And if you could just explain why—I know we have Farm Credit in my part of the country. We call it Ag South. And they are really a life line. And so, I am trying to figure out what we here in Congress can do. What types of legislation should we be putting forward to address this issue of being able to increase the capitalization of our farmers?

Mr. SMITH. Well, Mr. Chairman, if I look ahead, my number one concern is profitability in agriculture. I think we would all agree, the agricultural trade, that restoring our markets would be critical to looking at a long-term solution to bringing us back to profitability.

We received MFP payments, short-term payments, which have helped shore up short-term deficits. It has been welcome. Long-term, though, we need those markets back. We need to depend on those markets and I know what is immediately in front of us. You asked what Congress can do. We have some trade issues out there right now, USMCA in front of us, possible bilateral with Japan. I think passage as soon as possible on those two issues would build a strong case and build a good situation for us——

The CHAIRMAN. Could you repeat that again?

Mr. SMITH. I said the two big issues of trade that appear to be in front of agriculture right now is USMCA and a possible bilateral with Japan, and swift passage of those, I believe, would certainly assist us in our negotiations with China. The more allies we can bring into this whole trade negotiation, this global trade negotiation, the stronger our position is.

Certainly, I would hope that is a goal of Congress.

The CHAIRMAN. Okay, very good. You are saying quick passage of USMCA would be one of the things we can do.

Mr. SMITH. Yes, sir. It would be wonderful, sir.

The CHAIRMAN. Now, I want to ask you, because we have had a series of suicides with our farmers.

Mr. SMITH. Yes.

The CHAIRMAN. And from the information that I have been able to get so far, it is because they are losing their farms. Do you have any insight on what—how does this proceed? I am trying to find out where we could intercede in this chain to try to prevent this drastic ending? Is there some kind of function we can do here within our Agriculture Department that we can communicate out so people will have a help line that we could get something to them if there is some pattern that they are having difficulty? We have to stop the suicide and it is because they are losing their farms. What can we do?

Mr. SMITH. Well, FCA and the Farm Credit System needs to be an empathetic lender, and in a lot of cases, that loan officer, that lender is in the front line of recognizing potential problems that could lead to, as you say, the suicides. And of course, we started farming in the early 1980s. We had a lot of friends who lost their farms, and we saw first-hand a farm isn't just a job. Your whole identity is in that piece of land, and I saw first-hand what that will do to the psyche of that father, their son, or whoever that loses it.

I know some of your Representatives today have been engaging in potential legislation that would assist in looking at this issue. My time is about up, but I know the Farm Credit Council has also contributed to grants to educate mental health providers on the challenges in agriculture.

The CHAIRMAN. But do you think that if we established a help line here within the Agriculture Department and get it out, that that could be a help?

Mr. SMITH. Anything that could be done would be of help, and anything that FCA as regulator of the System in the way of guidelines to the System, if we could be of assistance, we would like to be part of that conversation.

The CHAIRMAN. Right. Thank you, Chairman Smith.

I yield 5 minutes to our distinguished Ranking Member, Mr. Austin Scott.

Mr. AUSTIN SCOTT of Georgia. Thank you, Chairman Scott.

Gentlemen, thank you for being here, and I represent the 8th District of Georgia, 24 counties. My family has farmed through that area for many generations. I suppose my generation is the first of the family that doesn't have anybody farming today, and that is one of my concerns. The risk of being in agriculture today has gone up. The profitability has gone down, and many people who have access to land and equipment are simply choosing a different way to make a living, I would say.

We as a Committee, as we write the next farm bill, we have to find a way, while we can never eliminate all of the risk of involved in agriculture, we certainly need to find a way to help reduce the risk to make it a better investment for people who are from the farm to stay on the farm.

We have had a downturn in farm income for the last several years. I get phone calls from people who I know are exceptionally good farmers who have—when they have called in the past, it has not been to express their concern about the future. And I have serious concerns, especially for my area, with cotton trading where it is, and if cotton futures come mid-February or December are in the 62¢ range, what that does to a tremendous amount of industry. Not just the cotton grower, but the ginners and the trucking industry and everybody else revolves around that.

And so I agree with you. The trade agreements are important and the sooner they get done, the more likely the faster those crop prices will stabilize and that has an important function in our insurance system.

My question for you specifically, we thought about capitalization. What steps have you taken under the authorization of this Committee to keep the Farm Credit System properly capitalized and diversified for the foreseeable future?

Mr. SMITH. Thank you. As far as capital, the System currently is well-poised to be able to deal with a struggling ag economy. Several years ago, new requirements for capital, new higher requirements of capital were instituted, and I am glad to report that on the average, associations are running considerably above what the minimum capital requirements are. So, that is a starting point to be able to weather some tougher times.

Strong capital, I would equate to a savings account. It may not be as efficient use from a return standpoint of capital, but it is there in case you need it. And keep in mind we are a cooperative, and so the decision on capital levels is decided largely on the local level, local directors, and most of them are farmers and ag businessmen. And so, they believe in keeping that safety net. Capital, and our emphasis on capital, is a strong indication of the long-term viability of the System.

Mr. AUSTIN SCOTT of Georgia. Let me do this. I have 1 minute left, and I assume we can come back for more questions, but the four of you up there, the issues that you worry about the most from the standpoint not just of the Farm Credit System, but the agriculture industry as a whole and rural America as a whole, would each of you simply give us the one thing that you worry about the most in the 40 seconds that I have left?

Mr. Coleman, we will start with you and then we will go down that way.

Mr. COLEMAN. Thank you. Trade and the policies for agricultural products, as the Chairman mentioned.

Mr. AUSTIN SCOTT of Georgia. Mr. Smith?

Mr. SMITH. Fragile land values.

Mr. AUSTIN SCOTT of Georgia. Mr. Rawls?

Mr. RAWLS. I wouldn't have anything to add, other than what has been said, trade and——

Mr. AUSTIN SCOTT of Georgia. I am sorry, I can't hear you.

Mr. RAWLS. I wouldn't have anything to add. I think trade is the most significant thing right now.

Mr. AUSTIN SCOTT of Georgia. Sir?

Mr. GRAHN. Interest rates.

Mr. AUSTIN SCOTT of Georgia. Interest rates?

Mr. GRAHN. Yes.

Mr. AUSTIN SCOTT of Georgia. The fact that they are as low as they are?

Mr. GRAHN. No, the fact that they could go up. One of the things that is helping right now in the ag community is the fact that unlike in other periods when we have had difficulty in the ag sector, our interest rates as a whole are generally very low. What I am concerned about is if that were to change.

Mr. AUSTIN SCOTT of Georgia. Gentlemen, thank you for your time, and I look forward to a second round of questions if we have time.

The CHAIRMAN. Yes, we certainly will.

And now I would like to recognize the distinguished Congresswoman from Iowa, Mrs. Axne, 5 minutes.

Mrs. AXNE. Thank you, Mr. Chairman and Ranking Member, and thank you for holding this Subcommittee hearing. And of course, to Mr. Smith, again, it was an honor to introduce you and I appreciate the great work you have done. We have had plenty of conversations, and I thank you for the conversation we had about holding capital to make sure that we could help farmers in need. I appreciate that.

I am glad you are here today to inform us. You know as well as I do that it has been a really tough year, not just in Iowa, but farmers across the Midwest and the country, with low commodity prices, of course, the trade war that was just mentioned. We have harmed our export markets, devastating weather and flooding has occurred, and recently, the propane shortage that is preventing farmers in Iowa from drying their harvest. I have heard it time and time again. I visit every county every month, all 16. Whether I am there or sitting in my office in Des Moines, folks are coming and saying they just don't know if they are going to be able to hold out much longer.

I have serious concerns about the debt that we are seeing. Farm debt is projected to hit $416 billion this year. Unfortunately, the $19 billion of farm debt that Iowans have is the highest in the nation, and this level of debt absolutely has consequences. The Farm Bureau reports that farm bankruptcies rose 24 percent compared to a year ago, and a recent study from Iowa State University classifies 44 percent of Iowa farms as financially vulnerable.

And I am really grateful that you are here. I am glad for the good work that you do to make sure that the Farm Credit System is safe and sound. However, you noted in your testimony that the farmers who are at the most risk are farmers who are dealing with major crop losses, and especially corn and soybean farmers, like yourself and other Iowans. Those are my constituents, of course, and I am concerned about the stress they are facing.

A little clarification: In your written testimony, Mr. Smith, you stated that the FCA encourages System lenders to work with borrowers to help navigate current financial conditions without jeopardizing long-term viability of borrower or the System institution. Identifying and working with farmers that are financially stressed is critically important, and I am glad that the FCA is encouraging that. Can you describe to us, though, what that assistance looks like? I would like a little more detail.

Mr. SMITH. Thank you, Congresswoman Axne. The actual loan decisions and the risks they are assuming are up to the individual associations. At FCA, we can offer guidance, but the actual decision is up to the associations. But you will recall, when there are natural disasters like the flooding, and we met for the first time last May to talk about the flooding that was in the western part of your district and how catastrophic that was to farmers in that area. No different from wildfires, hurricanes, other natural disasters that we have had in other areas of the country. And what we can do is through guidelines encourage those associations. As the regulator, we have a lot of influence. We can encourage those associations to be proactive in working with those farmers to come up with a plan, and for the best possible solution.

You have heard of foreclosures being up percentage-wise, and percentages, the numbers aren't alarming, but the percentage increases are. Foreclosure should be a last resort. I mean, it is just a tremendously trying, terrible thing for a rural family to go through. And so, by exerting our influence through these guidelines, hopefully those associations will hang in there and maybe step up efforts, outreach, finance efforts to those troubled families. But mainly, encourage the associations to be proactive in working out a plan.

Mrs. AXNE. Okay. If you have an opportunity to provide us any more information down the road what those associations might be doing specifically, I would really appreciate that.

Mr. SMITH. Certainly, certainly.

Mrs. AXNE. Next, I just want to ask you real quick. I recently read an article in the *Wall Street Journal* that outlined how some farmers in the Midwest are turning to alternative lenders due to mounting financial stress, and one such lender has noted their volume has grown over 40 percent in the last 3 years.

While in some cases these loans can provide what are essential life lines, I am concerned that these farmers are borrowing at unsustainable high interest rates. And based on your knowledge and expertise, or anyone here, have you seen an increase in farmers going outside of traditional banks or the FCS for loans?

Mr. SMITH. Yes, unfortunately we have, and I describe them as maybe payday lenders, because of some of the interest rates that have been charged are over half of prevailing rates.

Right now, I feel we have a good balance. The System is at 41 percent; which is less than one percent of the same market shares of what the commercial banks are. We have good alternatives out there between commercial banks and the System. FSA comes in there maybe at a lower level. FSA should be the lender of last resort. Unfortunately, it isn't always, and these operators are looking to alternative sources, as they have no choice. It is deeply concerning. It is deeply concerning the security interests that these alternative lenders are taking that might have an influence, impact on long-term lending that banks and the System might be holding as well.

Yes, in answer to your question, we are seeing an increase and it is a concern.

Mrs. AXNE. Thank you.

The CHAIRMAN. I will come back to that.

And now, I would like to recognize the distinguished Congressman from Arkansas, Mr. Crawford.

Mr. CRAWFORD. Thank you, Mr. Scott.

Mr. Smith, continuing on that, you used the term *payday lenders.* Who are some of those lenders that you reference?

Mr. SMITH. Specifically, I cannot name them right off the top of my head. I read some articles about them. I have seen some perspectives. We could possibly provide you some information at a later point, Mr. Crawford, on that.

Mr. CRAWFORD. Sure. That would be appreciated.

You and I have had a chance to visit offline and had a good conversation about a topic that Chairman Scott referenced. Obviously, that is the young, beginning farmers and the programs available to them. Farm Credit lending associations, each one of them is supposed to have a program in place focused on serving the needs of young, beginning, and small farmers. What does FCA do to ensure that each institution has these programs and that they are actively serving these market segments?

Mr. SMITH. Well, you are correct in that FCA and the farm bill, the mission does provide that each association must have a YBS Program, and they report annually to FCA and we, in turn, report to Congress directly on those numbers. However, since I came to FCA and our board has decided we needed to step up the efforts on that, not only to improve the report writing, which needs to be improved, but also encourage more uniformity, sharing of best practices, and the third factor of the program is examination for effectiveness.

Of course, our first step is to get the numbers right, and we are working on that with the new rulemaking that we just instituted here this past year.

Mr. CRAWFORD. To Chairman Scott's point, the trajectory is going in the wrong direction with regard to an aging farm population. These operators are getting older instead of younger, and so I don't know that it is necessarily enough. I appreciate the fact that you guys are sort of redoubling your efforts and stepping that up. That is appreciated.

I am wondering if you can speak to some of the other things that we might be able to do, because it is not just about credit. In fact, the barrier to entry for young farmers, in many cases, is the basic element of land. How do you bridge that gap, number one? Number two, are we working with other institutions in the ag world to create mentorships and guidance for young farmers so they can get the best management practices and be sort of guided along? Because going in and asking for a loan can be a pretty daunting task in and of itself for something as big as an ag enterprise, even a small-scale ag enterprise. Can you comment on that?

Mr. SMITH. Yes. What you mentioned about collaboration with other programs, I had a trip to North Dakota, a tri-state conference they had with Mandan, North Dakota, and AgCountry. It will be a year in a couple weeks. I was a junior member of the board, so I drew the short straw to go to North Dakota in December. But it was a great conference, and I enjoyed—one of the things that struck me—and when I take these trips, I ask not to see the big, shiny, multi-generation operations. I want to see the young and beginning farmers out there, the ones that you are truly helping as entry-level farmers. It may not be quite as shiny. It may not be quite as impressive. They might not drive new trucks, but that is the future of agriculture and that is the future of the System, quite frankly.

One thing that struck me that those associations were doing very well is collaborating the information that FSA, Farm Credit, and state agencies to help promote beginning farmers. There are a lot of programs out there, but there is not a lot of education on how to combine those programs.

Mr. CRAWFORD. Let me add this in the remaining time that I have. I would be remiss if we are talking about young and beginning farmers, if we didn't talk about student loan debt and what we are doing to address that. Broadly, I think it is a topic of discussion. What can we do in the ag industry to sort of, to take a different perspective on how we address student loan debt and how we can quickly liquidate student loan debt and get our young people in a more productive role on the farm as opposed to continuing to carry student loan debt for 10, 15, 20 years?

Mr. SMITH. I guess my best answer to that question, Mr. Crawford, is I am not sure. It is as it stands a burden. It is a burden to the ability of that young operator to repay those loans. It is a consideration over making long-term commitments, which land, livestock, and machinery can be. I guess I am drawing a blank there on what the System can——

Mr. CRAWFORD. Well, and that really points to a problem, quite frankly, that we are all having. We are all kind of drawing blanks on what do we do to address what is going to be potentially the next financial bubble that this country faces, and that is certainly true as you mentioned the rate of defaults. This is going to be a contributing factor as we try to bring young people into agriculture, and we don't adequately address that underlying debt problem.

I thank you for your time, and I look forward to working with you on those issues.

Mr. SMITH. Thank you.

The CHAIRMAN. And now I would like to recognize the distinguished Member of Congress, Ms. Craig from Minnesota, who is doing great work in agriculture and helping out farmers. Ms. Craig?

Ms. CRAIG. Thank you so much, Mr. Chairman, and Mr. Smith, thank you for being here. It was great to meet you last week.

It is always a pleasure to talk about the important work of the Farm Credit System. As farm country continues to struggle through the trade war, a tough harvest, and record low farm incomes, the Farm Credit System is more important now than many of the previous years.

However, Farm Credit also plays an important role in building the infrastructure that improves rural quality of life, and so that is what I would like to ask you here about this morning.

Time and again, I hear from farmers about the need for accessible healthcare. Many of my farmers work off farm for subpar health insurance and drive long distances to see a doctor. In parallel, we continue to see a decline in the health infrastructure of our rural communities, jeopardizing access when families need it most. There is a need for healthcare facilities, hospitals, emergency services, and nursing homes across rural America.

In my district, Compeer Farm Credit has joined with local banks, credit unions, and USDA to finance these facilities. We need more of these partnerships.

What is FCA doing to encourage Farm Credit and other lenders to partner in support of these vital projects?

Mr. SMITH. Thank you, and what you are referring to is our authority and mission-related investment, and we feel that is a very important component of our service to rural America. And certainly, we have been active in your district, in your state, nursing homes, healthcare facilities, and so, it makes a lot of sense for the System. It makes a lot of sense for rural areas because there is a definite—there is a huge need for capital, and with the Farm Credit System, we are tapping into that global financial capital and doesn't it make sense to channel that? We want to make sure that those investments are sound, because it represents capital, and capital has to have quantity as well as quality from the safety and soundness standpoint.

But certainly, we are quite proud, and our former Chairman, who was an Under Secretary for Rural Development, he was a strong advocate for our mission-related investments. And I have been to Minnesota and visited some of those facilities, and I believe in them.

We were actually able to buy groceries and pay our light bill in the 1980s because my wife had a job in that local county hospital, so keeping those hospitals, keeping those schools, keeping those ag businesses viable is critical to our rural communities.

Ms. CRAIG. That is really great to hear. I hope you visited Minnesota in the summer unlike North Dakota.

Mr. SMITH. I did.

Ms. CRAIG. I understand that as the regulator, you have an obligation to make sure that institutions are being used appropriately. I would like to emphasize to this Committee that planning large healthcare infrastructure projects sometimes means the government needs to get out of the way and provide some regulatory certainty as well, so these projects can continue without delay.

Thank you so much for being here. Mr. Chairman, I yield back.

The CHAIRMAN. Thank you very much, and now we will recognize Mr. Rouzer from North Carolina, our distinguished colleague.

Mr. ROUZER. Thank you, Mr. Chairman.

I appreciate Mr. Smith and your colleagues being here today. In fact, as I look over the dais here, I see a couple former colleagues from a previous life, and Charlie, great to see you, and David, great to see you again. As I look at both of you, I have flashbacks to 20 years ago and 15 years ago respectively, to our various endeavors we were a part of, and it is hard to believe time moves that fast.

Speaking of time moving fast, so I have a lot of farmers back home in my district. Obviously, it is a very difficult time, a lot of struggles. Oftentimes, they will mention this is just as bad as it was in the 1980s. And so, I would like for you to comment briefly, if you can, on the strength of the Farm Credit System now *versus* the situation in the 1980s. Obviously, interest rates were part of it, but there are other aspects of it, too.

Mr. SMITH. Certainly. Number one, and I guess I am going to continue to repeat myself because it is very important. The quantity and quality of our capital is so important for the continuing viability and strength of the System, and being able to serve borrowers in troubling times.

I would say that is probably the number one factor, probably was not there in the 1980s.

We had an interesting discussion with senior staff the other day, and maybe it was you, David, had said, "Well, this isn't the 1980s." And I said, "Which part of the 1980s?" Because when we got to the mid 1980s and the late 1980s, we were in a crisis situation. But I made the comment that we are at a level that is comparable to the early 1980s. Decreasing farm incomes, decreasing margins, eroding current ratios. And at that time in the Midwest, we had lost 15 to 20 percent of our land values. Guess what? Today we have lost 15 to 20 percent of our land values in the Midwest. There are a lot of, and the late 1970s and early 1980s were typified by trade wars, right? At that time it was the Soviet Union with the grain embargo.

I think we have learned from the 1980s. A lot of us have been there, been around. We are getting fewer and fewer, but we have learned some lessons there, and again, getting back to the capital and conservative attitudes in our regulatory posture is extremely important.

But back to your original question, how does it compare to the 1980s? There are some real similarities with the late 1970s, early 1980s, without the high interest rates, but we have high land values, we have high machinery values, we have high principle payments as paid back with after-tax dollars.

Mr. ROUZER. Yes, if I can interject. One of the observations that I have had is whenever the general economy is doing well, the ag economy usually is suffering. And usually when the agriculture economy is doing well, the general economy is suffering. A lot of that has to do with strength of the dollar, but there are other factors as well, obviously.

If you look at the fundamentals of the economy today, I think this economy remains pretty strong. I am not talking about the ag economy; I am talking about the general economy.

Mr. SMITH. Right.

Mr. ROUZER. Here is my question: Five years from now, the farm income remains at its current level. What type of financial situation are we in? How does your balance sheet look then? And of course, the follow up to that is what do we need to be doing now to help shore these things up? Obviously, trade is a big component, but I would like to throw that out.

Mr. SMITH. So, back to that crystal ball, right?

But as a regulator, we do need to look forward, and we need to look at scenarios in our risk modeling. What if interest rates were higher 5 years from now? How would that affect the overall condition of the System? And we are safe and sound today, but what happens if credit continues to erode?

The answer to that is we continue to have conservative attitudes towards lending. In some respects, we are making progress today in that we are having pay down of a lot of those maybe not great decisions that were made back in good times. And in some cases, we are making a little progress there, and if that was to continue, maybe that would help mitigate that unknown 5 years down the road.

As far as crystal ball and knowing where we are at, I am sorry, I am not there. I am an optimist, and we own land. We own land not for one generation; we own land for many generations, and you learn to get by in the tough times so you can prosper in the good times. And I would say that characterizes ag in general.

Mr. ROUZER. Mr. Chairman, I yield back. My time has expired.

The CHAIRMAN. Thank you very much, and now I will recognize for 5 minutes the distinguished Congresslady from the Virgin Islands, Ms. Plaskett.

Ms. PLASKETT. Thank you very much, Mr. Chairman, and thank you, sir, for coming to speak with us and share the information. I was really grateful for the time that you and your staff came to my office. I thought it was very informative, and I am grateful for the support that you have given to farmers, particularly young farmers and those who have, in some ways, been forgotten.

I wanted to ask you about something that I believe is very important to farming, to rural areas, and that is high-speed internet. Do you see an impact on the lack of affordable and reliable internet, both on your staff working in the field, as well as the ability of rural America to attract younger generations to live and work for American agriculture?

Mr. SMITH. It is critical. Broadband is critical for rural areas to maintain competitiveness.

There was an article in the *Washington Post,* just this past weekend about how isolated rural areas that got into medical scenarios, a lot of times in a trauma emergency ward, that they didn't have access to the expertise needed to save lives, and via their internet, via high-speed internet, they were able to communicate with some of the better medical minds in the country. That is just one example.

I look at our schools and the ability of our schools to stay competitive in rural areas as being critical also to broadband development, as well as our businesses and developing those cottage industries that are very, very able to survive in rural areas.

I was in Colorado a month ago, and sampled a YBS operation that was producing bison sausage and specialty meats, and they live in the country. I don't know, it was about 60 miles from Fort Collins. And all their marketing, everything, was via the internet.

Ms. PLASKETT. Wow.

Mr. SMITH. Extremely valuable to that little cottage business that is going to grow. The sausage is pretty good.

Ms. PLASKETT. Yes, I think also about precision farming in some areas how important that is going to be for them, and the connectivity that these farmers need for the great apps that are available for them to support their agriculture and the marketing, as well as just recordkeeping.

Mr. SMITH. Yes, yes. It is, and in our operation in western Iowa, fortunately we have access to internet that runs a lot of our GPS equipment, but our GPS equipment allows us to precision apply fertilizer, exactly what we need. We have the economies available to that. It enables us to change our population with our seed to optimize each acre of corn. It allows us to see the areas that are productive and the areas that aren't.

That access to broadband to enhance those technological capabilities that we are quite fortunate to have out there in ag, and a key to survivability is very important.

Ms. PLASKETT. Sure. I wanted to talk about a new area of the farm bill. We have done some work and now there are proposed rules on hemp. And I wanted to know, are there any challenges or restrictions that you have in lending to producers of hemp?

Mr. SMITH. Well, it seems like most of the country, we are excited about the potential for a new crop, because when I was a child in Iowa, soybeans were a new miracle crop.

Ms. PLASKETT. Okay. You are dating yourself, sir.

Mr. SMITH. Yes, ma'am, I am.

There are challenges that go along with new crops. So far, as far as FCA's standpoint, we have put out guidelines that roughly parallel USDA's. As far as the actual loan decisions, it is up to the individual associations. And I know a lot of them are looking into it. The only cautionary statement, probably number one, is make sure there is a market, and we talked about value-added facilities and how important it is to develop those so there is a market for it. And possibly that can be a role that the System can fill.

But just like any new crop, there is inherent risks with it, but as far as encouraging compliance with USDA, and what USDA has put out for guidelines, we closely parallel that.

Ms. PLASKETT. Okay, and one last thing.

In the Farm Credit Act, it calls for ten or more producers to form a lending association that is certified. What does that mean for rural areas that cannot meet the demand for having ten or more producers under Section 2.0(b)(1)?

Mr. SMITH. I am sorry, I didn't quite get the question.

Ms. PLASKETT. Under the Farm Credit Act of 1971, Title II, Section 2.0(b)(1), it calls for ten or more producers to form a lending association that is certified. What if in certain rural areas they can't meet the demand of ten or more?

Mr. SMITH. I am not personally familiar with that.

Ms. PLASKETT. Is someone on your staff——

Mr. SMITH. Can I defer to counsel, please?

Ms. PLASKETT. Yes, please.

Mr. RAWLS. Well, I can comment on it just briefly. There is the provision in the Farm Credit Act, as you said, for producers to get together to form a lending institution that the Farm Credit Administration would then charter to operate. Honestly, that authority has not been utilized in many, many years, and I suppose part of that is due to the fact that the country is pretty well covered through the existing Farm Credit System and chartered institutions. But the provision is in the law, and is available if farmers wish to get together and have capital to try to charter an institution.

Ms. PLASKETT. Great, thank you.

I yield back. Thank you for your indulgence, Mr. Chairman.

The CHAIRMAN. Yes, thank you, Ms. Plaskett.

Now I would like to recognize for 5 minutes our distinguished Congressman from Kansas, Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman, and welcome, Mr. Smith.

I want to talk about input costs for a second, and I am sure that that is something that you all are looking at when you are speaking to farmers and their loans. When I go out, and I have spoken to hundreds, probably thousands of farmers, one of the first things they talk to me as a line item is the cost of healthcare. And I am just wondering how much the cost of healthcare is impacting some of your folks you are lending money to, and what I see, Kansas

Farm Bureau is rolling out an association health plan, Land O'Lakes is rolling out an association health plan that goes across state lines, which I sure am hopeful will start impacting that.

Anything else going across the nation, other people trying to do it? And going back to the original question, just the impact of healthcare on producers today?

Mr. SMITH. Certainly, what you are hearing and what we are seeing, it is a major, major impact on an average farm family's budget. And many times, it almost forces one of the family members to work off-farm to support that. Certainly, our family had the advantage of that, of getting healthcare.

As far as any solution, I know that the aspect of deductibility would be helpful. You mentioned input costs, and I know right now currently some operations can allow deductibility if they have an LLC or corporation or some other legal form, but I don't think that is probably available to individuals. But certainly, deductibility would be a help in offsetting those healthcare costs.

But, it is a major item, major item out of that farm budget, and a major hurdle.

Mr. MARSHALL. Okay. Talk about other input costs.

I was looking at some of the information supplied to us, and farm income is down. The other input costs, what have they done over the past 5 or 10 years, fertilizer, seed, the cost of a tractor, the cost of a combine. What do those look like, and how are they impacting your portfolio?

Mr. SMITH. Generally, fertilizer costs, one of your primary costs, tends to be seasonal depending on supplies at the time. Right now you are hearing about propane shortage, and that potentially could affect anhydrous ammonia prices here next spring, which would be significant, as it is a significant input, as you know, for corn.

Operators have become a little more astute at defensive buying, meaning when times are good—we had 10 years of unprecedented prices and profitability, and it seemed like the more you spent, the more you made. Not so much today, right? I think you are seeing them price competitively among seed corn companies. I have seen seed companies get much more competitive in the last several years, and certainly that astute farm operator is out there taking advantage of all the volumes, of all the combination, everything he can to keep those input costs.

The trajectory is higher, particularly machinery input. If you price the cost of a new tractor——

Mr. MARSHALL. Excuse me. Could you get us some type of a graph on the overall big picture of those input prices, what costs look like for the farmer over the past 20 years?

Mr. SMITH. I sure can, yes.

Mr. MARSHALL. I think it has gone up significantly.

Mr. SMITH. Yes.

Mr. MARSHALL. Certainly, the price of tractors never came down when the price of wheat went down, near as I can tell.

Last, let's go back to Chairman Peterson's comments about the biofuels industry a little bit.

Mr. SMITH. Yes.

Mr. MARSHALL. One of the things I hear over and over from the biofuels industry—and for any business, for that matter—is a problem when there is uncertainty.

Mr. SMITH. Yes.

Mr. MARSHALL. And the uncertainty that I am specifically talking about is whether you like biofuels or not, the mandate was for 15 million gallons of ethanol to be blended, and for what, the last 2 years we have not done that. How does that uncertainty impact the ethanol plants or biofuel plants?

Mr. SMITH. Well, that uncertainty means in looking at your budget for next year, might make the difference between profitability and not. When you don't have that market there for ethanol as was originally mandated by Congress, you can take many, many cents off that price that that bushel of corn sells for.

Certainly, I think that is what the ag industry is looking for is some degree of certainty that that ethanol demand is going to be there year after year.

Mr. MARSHALL. Okay. All right, thank you, and I yield back.

The CHAIRMAN. Thank you very much, and now I would like to recognize for 5 minutes our distinguished Congressman from Florida, Mr. Dunn.

Mr. DUNN. Thank you very much, Chairman Scott.

Chairman Smith, I represent the second Congressional district of Florida. That is the panhandle and kind of over into the north central portion of the state. Very, very agricultural district, and it was ravaged by Hurricane Michael in 2018. Caused billions of dollars in ag damage, and most of it was to timber. About 83 percent of the Florida ag loss was timber. You mentioned in your testimony a lot about the Midwest. I would like to know if you are seeing some issues in the Southeast on the areas where they are recovering from the 2018 hurricanes, specifically Michael and Florence most overwhelmingly. And what issues are you seeing? What advice do you have to offer the producers there, and vitally, what advice do you have to offer to Congress that we can be doing to help?

Mr. SMITH. Certainly the same issues that we faced most recently in the Midwest in the way of flooding you have experienced in the Southeast, and again, we don't have the ability to say yes or no work out on that loan, but we can encourage those local associations to work with people that have been damaged in the case of Hurricane Michael. And we did. We did put guidelines out to suggest that the associations work with those——

Mr. DUNN. I am going to suggest loans don't really help much on timber. It is much better on annual crops, but if you have a 20 year crop you are wiped out.

Mr. SMITH. Yes.

Mr. DUNN. I mean, so just a thought. I mean, loans help, but they don't make it if you have lost everything——

Mr. SMITH. I can't imagine waiting 50 years or buying an investment of 50 years and in a day it is wiped out. We saw a little of that with flooding, with the ravages of Missouri River that farms were destroyed from a production standpoint, but yes, from the timber aspect, I don't know what type of insurance is available.

Mr. DUNN. There is no crop insurance.

Mr. SMITH. No crop insurance.

Mr. DUNN. And nobody is insuring their forest. You can't do it. It is too expensive.

Mr. SMITH. Any degree of disaster insurance that helps cover that?

Mr. DUNN. Very little. We did some novel things this year in the disaster bill for block grants to help them clean up the timber that is on the ground and replant in a much larger way than ever has happened before.

Having said that, you have 3 million acres of timber on the ground, and a lot of it is still on the ground. We are looking for help to get that picked up so we don't have forest fires and beetle infestations.

Mr. SMITH. Well, and particularly, if that loan is based on collateral, on the value of that timber land.

Mr. DUNN. I am at the wrong place here. We are talking about grants, not banks.

Mr. SMITH. Oh, yes, right. I am sorry, Congressman. I don't have a solution to it. I can't——

Mr. DUNN. That's—Congress here. You represent the farmers all the time.

Mr. SMITH. Yes.

Mr. DUNN. But you have some—have you ever seen any programs in Congress or seen programs you think Congress should do that could help people who have lost vast amounts of timber? A lot of it is family timber plots. You are looking at 100 acre, 200, 300 acre plots. That was their IRA, if you will, they have been picking at it for 20 years, 30 years. All of a sudden, it is gone.

Mr. SMITH. The only thing that I think would possibly have relevance would be some long-term low interest loans, SBA. I don't know if FSA has that available to allow to repopulate and allow those timber lands to come back, but it is a long, long-term solution. And unfortunately, Florida is extremely diversified, so the portfolio in general, is in pretty good shape in those associations due to that diversification. But in those isolated small areas, it has got to be devastating.

Mr. DUNN. Well, you are right in your observation. I think you are right, by the way, with our diversifying. There is a lot of good news out there as well; but, we are struggling with this one.

Mr. SMITH. Yes.

Mr. DUNN. I am learning a lot about disasters along the way. If you have any wisdom you think you could share with me and with some of the other victims like Austin Scott there, Dave Rouzer over in North Carolina, Florence got him. We would be all ears.

Mr. SMITH. Yes.

Mr. DUNN. Thank you very much, Mr. Chairman.

I yield back, Chairman Scott.

The CHAIRMAN. Sure, thank you. And now I would like to recognize for 5 minutes our distinguished Congresslady from Virginia, Ms. Spanberger.

Ms. SPANBERGER. Thank you so much, Mr. Chairman, and it is good to see you, Chairman Smith. Good to see you. Thank you for being here with us today before this Subcommittee.

Last week, the U.S. Trade Representative and the U.S. Department of Agriculture announced that China will lift its ban on the import of U.S. poultry products. This bodes well for the long-term financial security of central Virginia poultry farmers. Poultry is Virginia's largest agricultural commodity and the Commonwealth's producers are well-positioned to service the expanding market as China accepts our imports.

As poultry producers in Virginia and across the United States look to export their goods to China, what role do you expect the Farm Credit System will play in helping them navigate this process and best take advantage of this new business opportunity and market?

Mr. SMITH. Well, that is very exciting for the poultry producers, and the entire red meat complex, that is one bright spot of possibly filling that void in China's swine herds. I mean, the latest estimate is they are at 50 percent reduction in their swine production, expected to be 55 percent by the end of the year. And certainly, that demand for protein is a worldwide demand, and to be able to fill that need by direct exports to China is tremendous for our producers here.

Hopefully beef can come close to maybe somewhat filling that void as well. The only dark swan and other side of this story, is if that African Swine Fever should happen to spread to this country, the results would be devastating and it wouldn't affect just the pork industry, but it would affect your corn producer, your soybean producer, the whole industry-wide, if that was to make it to the U.S. I am glad for the short-term benefit for the poultry producers. I certainly hope it doesn't get to this country.

Ms. SPANBERGER. And within the Farm Credit System, is there any role or expected aid that you all can lend both for those producers who are looking to find these new markets, but also to do so in a safe manner to ensure that, in fact, the concerns you mentioned related to ASF doesn't flow back to the United States?

Mr. SMITH. Yes. Well—and maybe backing up and answering your question as far as what we can do as a System in terms of encouraging those exports. We do have authority under Title III to loan, and it does include authority to finance exports. Certainly, that is a step in the right direction.

As to the African Swine Fever, it is my understanding that we have expanded on our inspectors at the border. Certainly, increased scrutiny of products coming from China and those infected countries are measures that need to be undertaken, because there are many different means ranging from feed byproducts to pet food where potentially that virus could be spread. Certainly, stepping up efforts from the inspection standpoint and regulations on products coming into this country would be advisable.

Ms. SPANBERGER. Across central Virginia, I have had the opportunity to meet with farmers and producers, some of them new to agriculture themselves. And while we are looking at reports that indicate that the current agriculture economy is having a particularly adverse effect on young and beginning producers. At the national level, is the Farm Credit Administration seeing this same trend, some of the challenges facing young farmers looking to get into the agriculture economy, and do you believe the current economy is potentially deterring young people from exploring a future in agriculture? What are some of the steps or some of the things you would want us to know about what you all are doing, what the Farm Credit Administration sees as the future in this landscape, and what you all are doing to help mitigate some of these economic challenges?

Mr. SMITH. Yes. In our meeting, we talked about that as a priority. And I have mentioned it before here earlier today, it is a priority. It is a need that we focus on young, beginning, and small farmers. And from FCA's standpoint, we have identified that need and as a regulator, I feel we can exert a strong influence on each of our 68 associations, and are in the process of doing so. Every opportunity I get to engage in the public, I mention the importance of YBS.

Just a week ago, I attended a YBS conference in St. Louis that was hosted by Farm Credit Council, and also hosted by local associations. And almost half of the System's associations, 33 out of the 68 associations, were at this conference. And a lot of it was sharing best practices, best ideas, what is working. I mentioned the Dakotas and how the Farm Credit offices work as clearinghouses for information for different avenues of financing for young farmers. But it was a good learning experience for me. The group that I went with engaged in all the roundtable discussions, the break outs, and we continue to do that and will continue to exert our influence as a regulator in moving those programs along.

Ultimately, examining each of those associations for effectiveness, because what program is good unless you eventually evaluate it for effectiveness? And fortunately with our examination team that makes up a majority of our agency, we are in a position to be able to do that.

Ms. SPANBERGER. Excellent. Thank you so much for you time. Thank you for being here. Thank you for your accessibility for Members of Congress.

Chairman Scott, thank you for letting me go over on time. I yield back.

The CHAIRMAN. No problem. Thank you.

Now I would like to recognize Mr. Johnson for 5 minutes from South Dakota.

Mr. JOHNSON. The warmer, balmier Dakota. You have impugned North Dakota today, sir.

Diversity used to be the hallmark 2 and 3 generations ago of almost any successful ag operation, and then obviously in the last couple of generations, there has been more of a push toward a focus. In the eastern half of South Dakota, that would be a corn and beans rotation. In the western part of South Dakota, that would be beef. That doesn't come as any surprise to you. You have seen a certain amount of that in Iowa as well.

I get the sense, just anecdotally and talking to my friends in production agriculture, that diversity is coming on strong again. Producers in recent years, particularly in the livestock arena, got more into swine, more into cattle.

First off, sir and Mr. Chairman, have you seen that in the portfolios of those entities you regulate?

Mr. SMITH. Yes, sir, we have, and I mentioned being proactive in areas that are having duress, like corn and beans. And part of that is coming up with a plan of diversification. Whether it means bringing some other enterprises, like livestock, into it, or working off the farm. And I hate to keep repeating myself on our young, beginning, and small farmers, but again, I would rather have ten small loans than one large one from a risk orientation, and those operations that are diversified in a number of different enterprises, or working off the farm, from a risk factor are preferable.

Yes, sir, I am, and yes, we do encourage that.

Mr. JOHNSON. And so it seems to me that kind of buy down the risk profile in two ways. First, it is a hedge against corn and beans, right? If you can't sell for a good price, you can put in the animals and try to add some value. And of course, any time you have multiple products coming off the assembly line or off an ag production, if you have two different products, if the price for one is high and the other is low, well then that balances out.

Are there other aspects that I should keep in mind, either beneficial or detrimental, to this push into greater livestock diversification?

Mr. SMITH. Well, you shouldn't focus entirely on livestock, because sometimes that involves significant investment and capital. And that is what a lot of young and small producers may not have access to.

If I was encouraging your young operators, I would encourage them to put in as many tools in their tool-belt as they can. If they are a good mechanic, to get a part-time job as a mechanic, and that—we need a good dealership close to be able to do that. But it isn't just livestock. It is taking your strengths and leverage those strengths to help diversify your operation.

And when you speak of diversity, really the System is an example of diversity. Right now, cash grains make up about 16 percent of our portfolio. Dairy makes up about seven percent of our portfolio. All told, 23 percent of our portfolio, but that is the strength of the System. It doesn't dominate the whole System, either geographically or from an enterprise standpoint.

To encourage diversification is certainly encouraging risk mitigation.

Mr. JOHNSON. Yes, that is a good point. I mean, I was sort of thinking about on-farm diversification.

Mr. SMITH. Sure.

Mr. JOHNSON. You are talking about the value of off-farm diversification as well.

As I was preparing for the hearing, a lot of the data that you have spoken about is not a shock to me, right? People who are connected to ag country know that so much of what you are saying is accurate, because they are hearing it elsewhere.

One thing that was a surprise to me, the memo that staff had put together, and I don't expect you to see it from here, Mr. Chairman, but the green bars are on-farm income and then the tannish-beige ones are off-farm income.

Mr. SMITH. Yes.

Mr. JOHNSON. I will admit to being a little surprised at how much bigger the off-farm piece of the pie is. Obviously that is one way to diversity. Are there down sides to having producers that are maybe focusing that much more attention off-farm?

Mr. SMITH. Well, there is, and certainly as you look ahead to concerns and worries about the general economy, that affects the off-farm income component of that. And we have seen that. Associations right now with the general economy going well, and associations that have a high level of part-time farming are doing quite well. Ten years ago during the financial crisis and housing crisis, it was the opposite and agriculture tended to carry the risk within the association.

Your observation is very astute on that.

Mr. JOHNSON. My time has expired. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, and now we will recognize Mr. Baird, from Indiana, for 5 minutes.

Mr. BAIRD. Thank you, Mr. Chairman, Ranking Member Scott, and Mr. Smith, thank you and all your staff for being here.

I represent Indiana's 4th District, which is the northwest or west side of the state, and I just couldn't help when my colleague was talking about warm weather. If you are planning a trip to bring low interest loans or loan applications, Indiana is usually warmer than South Dakota.

Mr. SMITH. Okay.

Mr. BAIRD. But, you mentioned something else that I found interesting that is—I went through the 1980s and you mentioned that. One of the things or maybe two of the things that I think we did much better as a result of going through that, we kept our loan or debt-to-asset ratios less than 36 percent when we came out of that. We tried to do that, and I see some agreement there.

Mr. SMITH. Yes.

Mr. BAIRD. And we placed an increased emphasis on cash-flow and financial analysis, significantly more than we had done prior to that maybe.

I thought that was a good thing, and so maybe to help get through the current times, we ought to find some of us old folks that went through that period, and we could help out.

And then the other area that you mentioned and has been talked about a couple of times, the African Swine Fever certainly impactful on the Chinese pork industry. And the civilian population needs to be interested and concerned about that, because as you mentioned, pet food or pigs ears or some of those kind of things can bring that virus. It is a virus. It can survive freezing. It doesn't survive cooking. It is not a real danger to humans, *per se,* but it sure could be devastating to the livestock industry.

And so, I am finally going to get around to a question here, my colleague. But I am concerned about the credit quality of the portfolio that we are maintaining, because a lot of times I do think young farmers tend to be in livestock and poultry as another option. My question really is to you and any of your staff, deals with what is the credit quality for those livestock producers, livestock and poultry? And what is your perception of how they stand?

Mr. SMITH. As far as overall credit quality, and we track it very closely on a quarterly basis, if you were to look at third quarter, we just had information last week in the third quarter, and the percentage of total loans within the System that are non-performing, 90 days overdue, acquire property, couple other categories in there, it is at .92 percent, less than one percent. Which in itself doesn't seem alarming, given our levels of capital and given our costs as regulatory attitude. What concerns me is in 2018, that number was .83. In 2017, that number was .67. I call it the creep, the creep of deteriorating financial quality. The numbers aren't alarming. We are not at a crisis situation, but it is not improving.

As far as the livestock sector, and when you see situations in the poultry where the export markets have opened up, the livestock sector has done pretty well. And one thing that you look at the valuable entry into agriculture, a lot of times for that next generation is to put up a poultry building, hog building with a contract that pays for that building in 10 years. And I had posed the question to staff, because I know in my home area, that vertical integrated enterprise is very important, and that Farm Credit finances a lot of those buildings. But what would be the situation if the African Swine Fever were to reach our shores and those buildings, what type of allegiance does that contractor have to that farmer if they should contract it? I don't know. It is a good question, but it is certainly a cautionary statement to make out there on it.

But as a general rule, livestock has performed pretty well in the whole portfolio.

Mr. BAIRD. Thank you. My time is up. I yield back.

The CHAIRMAN. Thank you very much, Mr. Baird. And now, as we approach the closing, and you have been very informative. I would like to recognize our Ranking Member, Mr. Scott, for any closing comments he would like to have.

Mr. AUSTIN SCOTT of Georgia. Gentlemen, I am going to make a brief closing comment, and then I have another appointment and will slip out.

But first, I want to thank you for being here and what you do for rural America. Second, I want to reiterate a comment that Ms. Craig was trying to hit on with regard to the cost of healthcare in rural America. As someone who represents 24 counties, and in over half of the counties that I represent, there is only one health insurance carrier available. In many cases, they don't have contracts with the providers, and while insurance carriers cannot underwrite the individual citizen, they can underwrite a ZIP Code. And I am not sure that *discrimination* against rural America is necessarily the right term at this stage, but in large parts of rural America, we don't have access to health insurance because carriers have, for some reason or another, found a way not to underwrite in those ZIP Codes.

And so, as we talk about how we get young people back to the farm and we talk about the cash-flow of the farm, the truth is, it is the cash-flow of the farm family. And so, farm families are forced to pay thousands of dollars a month more for health insurance because they don't have competition in their markets for that product. And obviously, that drives people into other areas. Many of the farmers in my area, their spouses now work for a school system or some other entity where that is the only access they have to health insurance, which is something that is important to keep in mind with rural America, because if we are going to have farmers, then the farm family, not just the farm, has to be able to cash-flow.

And so, I want to thank you for what you do. You play an important role in it. I think we have some bumps ahead, hopefully not too bad. Hopefully we will learn from them, and hopefully we will find ways in the next farm bill through crop insurance and lending and other areas to actually reduce the risk of being in farming, and hopefully allow our farmers to find ways to increase their revenue.

Thank you for what you do, and Mr. Chairman, as always, a pleasure to see you, and I look forward to working with you.

Mr. SMITH. Yes.

The CHAIRMAN. Thank you, Mr. Scott.

Chairman Smith, thank you. You have indeed opened our eyes to much of what we were only dimly aware, and I thank you for that.

And I want you to know that as you could see from the Committee on both sides of the aisle, we are very concerned about improving the credit status of our farmers. And I would hope that you would look to our Committee as your spear to make sure that we in Congress are doing everything we can. And when I say at the point of the spear, I mean that, because this is the Subcommittee for agriculture dealing with credit. Well, as Doc Holliday said it at the gun fight at the O.K. Corral, he said when he looked at the bad guys, he said, "I am your huckleberry." So, look to us as that.

Now, I just want to ask you a series of questions. First of all, are you getting the budget from us that you need to do the job?

Mr. SMITH. Yes, Mr. Chairman. What we have requested and the current needs that we see, as far as our labor force, we are a FIRREA institution so we feel we have a great pool of very talented people that work for FCA. Certainly, as people in my age group, two of these gentlemen here at the table are new to our senior management team as of the last year, so retirements can be a challenge. And our examination force makes up 55 percent of our total workforce. We had mentioned in our previous conversations that we interview at 30 different colleges and universities, many of them land-grant universities, and we talked about the importance of that, the importance of diversity with that.

I believe yes, we do have the resources, but if we see continued deterioration, we need to see a continued involvement of FCA and what is going on out there. We appreciate the opportunity to expand on that at some point.

The CHAIRMAN. Yes, please let us know. As you know, you mentioned the land-grant colleges and universities. That is one of the areas that we have expanded on, and with the last farm bill, we were able to get $80 million put in there for scholarships, and we want that to grow, and we want it to be permanent. Secretary Perdue and I worked very closely on that, as you know, and the Agriculture Department. That will start in 2020.

And finally, our job is to really get funding out, and I want to ask you to give us your opinion on Congress' performance given the emergency funding process. I really want you to give us some answer to what did we do? What did we do to contribute to the additional hardship of our farmers by dragging our feet up here and not getting the emergency funding down to our farmers in time? What role did that play in our farmers not having the capital to succeed? What role did that play, as you and I talked about the mental anguish of not getting?

You see, I know that several of those suicides, they had nothing, and then the storms came. They are going to come again.

Mr. SMITH. Yes.

The CHAIRMAN. We don't know. We have not done what we should be doing in getting the professionals, the scientists, the people who have the information of what is going on. And so, I would love for you to just give me your opinion on how devastating an impact we had in not getting this aid to our farmers in time as a result of this series of hurricanes.

Mr. SMITH. Well, Mr. Chairman, disaster situations like that with farmers that are in a bad position anyway just exponentially catapults it. And certainly, every day that that is delayed gets closer to that operation failing, which nobody wants. I mentioned that we try to be proactive in working with our borrowers. We send out guidelines to the associations to be proactive, to enlist the help of additional loan staff, financial staff to help these farmers with plans to get over these deficiencies. But the clock is ticking, and a lot of times, that interest bill continues to tick.

Certainly, it is a bad situation and it is a bad situation on top of a situation that may not be that stable anyway.

The CHAIRMAN. Yes. Well, several of us are very determined that that never happens again.

Mr. SMITH. Yes.

The CHAIRMAN. We need to, as Members of Congress, know what we are doing to not only help the problem, but are there things that we are doing and not doing that exacerbate it as well? And that was one of them, and we hope it doesn't happen again.

Well, we got your marching orders on what we need to do most, and as I understand it, it is get these trade deals moving, particularly USMCA and the China trade. And Mr. David Grahn spoke eloquently of the interest rates, and we will see what we can do on that. I think somebody also mentioned the fragile land values. I don't know what we can do about that one, but we can certainly do all we can.

But, you have my commitment as Chairman of this Committee, and I think I speak for all of us, that we will use every energy we have to get these trade deals moving. Because that is something that is in our ballpark. We will do it.

With that, I believe now, I am to thank you, my dear, Ms. Ashley Smith. I would say give her a hand. She is my long-time partner, and as we know, with child, and I am doing all I can to get her home, but she won't go. She is so dedicated to her work. So, thank you, Ashley.

Under the Rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witness to any questions posed by a Member.

This hearing of the Subcommittee on Commodity Exchanges, Energy, and Credit is adjourned. Thank you all.

[Whereupon, at 11:46 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED QUESTIONS

Response from Hon. Glen R. Smith, Chairman and Chief Executive Officer, Farm Credit Administration

Questions Submitted by Hon. David Scott, a Representative in Congress from Georgia

Question 1. I'm wondering, what has FCA done to encourage diversity in its own ranks and among lenders? Do you see increased diversity among lenders as a possible step to ensuring more inclusive agricultural lending practices?

Answer. Diversity and inclusion are critical business imperatives directly linked to achieving our mission. We provide direction to our management and staff for acting in this critical area. For example,

- **Tone At the Top**—The FCA Board annually reaffirms its commitment to EEO and diversity by reissuing policy statements related to equal employment opportunity.
- **Strategic Plan**—Created with a goal of cultivating an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.
- **Employee Programs**—Robust employee run special emphasis programs which provide diversity-related awareness programs and aid with targeted recruiting and outreach efforts.
- **Accountability**—performance evaluations include EEO/diversity element for all employees.
- **Recruiting**—we strive to increase the diversity of our applicant pool through targeted outreach efforts at selected universities and events. FCA regularly recruits from 1890 Land Grant Institutions, Historically Black Colleges and Universities, Hispanic Serving Institutions, and high minority enrollment schools.
- **Recognition**—a diversity leadership award is given annually to recognize an individual who demonstrates a significant commitment to enhancing diversity and inclusion

With regard to System diversity, a diverse workforce could aid in the effort to ensure more inclusive agricultural lending practices. Our regulation require and we examine to ensure that each System board has adopted a strategic business plan to include, among other things, outreach toward diversity and inclusion.

Each business plan must contain a:

- **Human Capital Plan**—that describes the institution's workforce and management and assesses their strengths and weaknesses; describes succession programs; and includes strategies and actions to strive for diversity and inclusion within its workforce.
- **Marketing Plan**—that discusses how the institution will further the objective that the System be responsive to the credit needs of all eligible and creditworthy agricultural producers and other eligible persons, with specific outreach toward diversity and inclusion.

The regulation also requires annual reporting to the board on progress.

Question 2. I recently introduced H.R. 4257, a bill to improve the Office of Minority and Women inclusion at the CFTC and bring it up to standards set in Dodd-Frank. Does the Farm Credit Administration have an Office of Minority and Women Inclusion?

Answer. FCA has a full-time Director of the Office of Equal Employment Opportunity and Inclusion that reports only to the Chairman to ensure independence. The Director provides counsel and leadership to the Chairman and management on carrying out our continuing policy and program of nondiscrimination, affirmative action, and diversity. While not called by the same name, the functions of FCA's Office of Equal Employment Opportunity and Inclusion are very similar to the functions of an Office of Minority and Women Inclusion. It is worth noting that in 2018, we continued to rank near the top among the Best Place to Work in the Federal Government. For our support of diversity, we ranked second for small agencies.

Questions Submitted by Hon. Collin C. Peterson, a Representative in Congress from Minnesota

Question 1. The Market Facilitation Program is not a Congressionally-mandated program and as such could be discontinued or modified at any time. Does that uncertainty factor into how the Farm Credit System assesses the quality of agricultural credit? Is FCA including MFP in their farm income projections and if so, does FCA's modeling assume continued MFP payments into the future?

Answer. Because the MFP payments are viewed as temporary until trade issues are resolved, we have not seen institutions including any future MFP payments (beyond what has already been announced and paid by USDA). While institutions typically factor in government program payments that are part of the farm bill and designed to be ongoing (*e.g.,* ARC and PLC in the current program), the MFP payments have not been handled in that way. While the MFP has had a significant effect on actual 2019 income, System institutions have considered MFP as part of farm income as tranches have been authorized by the Administration. Forward-looking analysis does not assume a new round of MFP payments for 2020 production, nor for subsequent years. Therefore, MFP payments are not being included in 2020 borrower income projections.

Question 2. Can you remind me of the options available under the Farm Credit Act and related regulations regarding forbearance or loan restructuring options?

Answer. The Farm Credit Act and related regulations grant considerable flexibility to Farm Credit System institutions to provide restructuring assistance to System borrowers, including forbearance of borrower loans. The Act has very few specific restrictions regarding an institution's loan servicing authority. Among them are placing limitations on when distressed loans may be foreclosed upon and requiring safe and sound decision making. Additionally, FCA regulations require that loans be serviced fairly and equitably in compliance with an institution's underwriting standards, but also in a manner minimizing the risk of loss for the lender.

System farm borrowers are provided further protections when their loans are identified as distressed. The Act and our regulations require that on determination that a loan is or has become a distressed loan, the borrower must be sent written notice explaining: (1) the loan is distressed and may be suitable for restructuring, (2) how to file an application for restructuring, and (3) the borrower may ask to meet with the lender to discuss the situation. The Act also specifically provides that a System lender may present a proposed restructuring plan to the borrower, whether or not the borrower has filed an application. Once there is a final restructuring plan, the lender must conduct a credit analysis to determine if the cost of restructuring the loan is less than or equal to the potential cost of foreclosure. The Act requires the loan to be restructured in accordance with the restructure plan if that is the least cost alternative to foreclosure. If the restructuring plan is denied, the Act and our regulations provide the opportunity for the decision to be reviewed by a Credit Review Committee (CRC). The CRC is composed of members of the System institution, including one stockholder-elected member of the board of directors who is a farmer-borrower of the institution. Those involved in making the credit decision under review may not serve on the CRC but may be present at the CRC meeting to answer questions. The Act and our regulations also provide that the borrower may also attend the CRC meeting to present his or her reasons why the decision should be reversed. The CRC decision on the matter is the final decision.

FCA encourages institutions to work with borrowers experiencing financial stress.

For example, FCA Board Policy Statement 71—*Disaster Relief Efforts by Farm Credit Institutions* * states that the efforts of institutions to work with borrowers in disaster areas will be considered consistent with safe and sound business practices. Also, the Policy Statement encourages institutions to use their considerable flexibility under the existing regulations to provide appropriate disaster relief. Such relief efforts may include, but would not necessarily be limited to, extending the terms of loan repayment or restructuring a borrower's debt obligations. In addition, a Farm Credit institution may consider temporarily easing some loan documentation or credit-extension terms for new loans to certain borrowers or requesting the FCA to grant temporary relief from specific regulatory requirements. Our January 21, 2016, *Informational Memorandum on Servicing Loans to Borrowers in Distressed Industries* * further explains that we expect institutions will work with borrowers consistent with the System's mission to furnish sound, adequate, and constructive credit.

Distressed Borrower Loan Restructuring Rights Under the Farm Credit Act

- The Farm Credit Act uniquely mandates that System lenders work with distressed System borrowers by providing the right to restructure distressed loans.
- Under FCA regulations, the restructuring of a loan allows a re-amortization, renewal, deferral of principal or interest, monetary concessions, or the taking of any other action to modify the terms of, or forebear on, a loan.

* **Editor's note:** the documents referred to are retained in Committee file.

- System institutions must notify a borrower when it determines that a loan is a distressed loan and that the loan may be suitable for restructuring—at least 45 days before foreclosure proceedings begin.
- Institutions must address a request for restructuring before continuing with foreclosure.
- Least-Cost Test: Must restructure if the cost of restructuring is less than or equal to the cost of foreclosure.
- Borrowers have the right for a secondary review (Credit Review Committee) of an adverse restructuring decision.
- Borrowers also have the right of first refusal to repurchase a foreclosed property.
- FCA reviews borrower rights complaints and investigates each complaint made to us to ensure that the System institutions follow the law. Borrower complaints received by the Agency have increased marginally.

Question Submitted by Hon. Cynthia Axne, a Representative in Congress from Iowa

Question. In your written testimony, Mr. Smith, you stated that the FCA encourages System lenders to work with borrowers to help navigate current financial conditions without jeopardizing long-term viability of borrower or the System institution. Identifying and working with farmers that are financially stressed is critically important and I am glad that the FCA is encouraging that. Can you describe to us, in more detail, what that assistance looks like? Also, what are the associations that you mentioned in your testimony doing specifically?

Answer. The System has used a wide range of approaches to assist borrowers navigate the current financial environment. The most common approach we have seen used is "rebalancing" debt to move short-term debt (which may involve the purchase of longer-term assets that were financed through an operating line or losses from operations) to term debt and borrowing against longer-term assets. This has been used to provide additional working capital in situations where debt levels were not already high, and the additional term debt could be adequately serviced. Other methods have included interest-only payments, covenant waivers or adjustments; principal deferments; term debt re-amortizations; and operating loan extensions. In distressed situations, institutions will compare the cost of granting concessions and formally restructuring the loan to foreclosure and restructure the loan if the cost is lower.

Institutions have also increasingly provided consulting services to borrowers regarding important considerations for the borrower such as need for off-farm employment, selling of excess or under-utilized assets, and competitiveness comparisons to peers. Additionally, FSA guarantees have been used to reduce institution risk while providing time for borrowers to implement changes improving the viability of their operations. In cases where maintaining the current operation is not a reasonable alternative, institutions have worked with borrowers in finding alternative approaches to improve viability including selling assets to downsize operations and reducing debt to a sustainable level. Regardless of the servicing action taken, institutions first complete an evaluation of the borrower's financial condition and performance and prospects for repayment using realistic projections.

Questions Submitted by Hon. Austin Scott, a Representative in Congress from Georgia

Question 1. Earlier this year, your agency submitted a report to this Committee in response to Section 5414 for the Agriculture Improvement Act of 2018. Your report found that the "1,000 acre rule" established for Farmer Mac in the Agricultural Credit Act of 1987 added transaction costs for borrowers and concluded that the rule "does not provide any safety and soundness protections for Farmer Mac." Your report suggested that Congress direct the agency to use its regulatory authorities to adequately address safety and soundness concerns.

How would the agency adequately address safety and soundness concerns without the statutory limitation?

Answer. As noted in the report submitted to the Committee, the 1,000 Acre Rule is a two-part test to determine if a loan can be accepted by Farmer Mac. The first part of the test is whether the loan is under the established dollar limit ($2.5 million indexed for inflation since 1987 or $12.9 million for calendar year 2018). If the loan exceeds that amount, then a determination is made whether the acreage that is pledged to secure the loan exceeds 1,000 acres (revised to 2,000 in the 2018 Farm Bill). If the loan does not exceed the acreage exception, it is still subject to an internal policy-based limitation set by Farmer Mac but is not constrained by the 1,000 Acre Rule.

Because of the interplay between the dollar limitation and acreage exception in the 1,000 Acre Rule, Farmer Mac's larger [1] individual loan exposures are sometimes concentrated in farms with aggregate acreage at or under 1,000 acres, which effectively creates highly localized geographic credit risk concentrations, as well as potentially large individual borrower concentrations. Many high-value crops are grown on acreage with valuations that are more than $50,000 per acre and some above $100,000 per acre (*e.g.,* permanent planting crops including wine grapes and certain berries and nuts). The table below provides examples of four borrowers seeking mortgage loans at 50% of their property values.

Application of 1,000 Acre Rule to Four Farms

	Scenario A Napa County Vineyard	Scenario B Georgia Timberland	Scenario C NW Iowa Corn	Scenario D SW Iowa Corn
Aggregate acres pledged as security	1,000	13,000	3,000	3,000
Value/acre	$300,000	$2,000	$10,000	$8,000
Total value	$300,000,000	$26,000,000	$30,000,000	$24,000,000
Loan Application				
Loan-to-value ratio	50%	50%	50%	50%
Loan amount	$150,000,000	$13,000,000	$15,000,000	$12,000,000
Under 1,000 Acre Rule	Permitted	Not permitted	Not permitted	Permitted
Reason permitted, or not ($ in millions)	≤1,000 acres	>1,000 acres and >$12.9	>1,000 acres and >$12.9	>1,000 acres but <$12.9

As the table shows, the 1,000 Acre Rule can allow very large individual borrower exposures. The vineyard loan at $150 million (*scenario A*) would be greater than 20% of Farmer Mac's core capital at year-end 2017 and yet be permitted under the Act. Further, according to the rule, if the vineyard loan were secured by just 1 additional acre, the loan would not be permitted.

The 1,000 Acre Rule can also prohibit more moderate exposures, such as the Georgia timberland loan (*scenario B*) and the northwest Iowa corn loan (*scenario C*). Conversely, the rule would permit the southwest Iowa loan (*scenario D*), which is secured by farmland of lower value than in *scenario C,* but it is not clear why the *scenario C* loan would present a greater challenge to safety and soundness than the loan for the northwest Iowa cropland.[2]

These scenarios, taken together, illustrate the basis for the conclusion of this study that the 1,000 Acre Rule does not provide any safety and soundness risk protections for Farmer Mac because the risk inherent in loans is rarely, if ever, based solely on the number of acres involved in the activity. The 1,000 acre rule provides a barrier to large-acreage financing for Farmer Mac but does not prevent large-acreage or large-dollar exposure concentrations in a single borrower. This is true both because (1) many farms under 1,000 acres are very high-value farms with eligible financing needs well above the $12.9 million inflation-adjusted loan limit today and (2) some borrowers with more than 2,000 acres are willing to accept multiple loans on less than 1,000 acres that cumulates to more than $12.9 million to take advantage of Farmer Mac's financing options.

In the absence of the statutory "1,000 acre rule," the agency could address safety and soundness through its rulemaking authorities and the direct examination and oversight of Farmer Mac. Through the rulemaking process we would consider alternative credit concentration exposure limits relative to capital as replacement for the dollar limit and acreage exception to the limit.

FCA oversees Farmer Mac's safety and soundness through its Office of Secondary Market Oversight. As part of our ongoing examination and oversight of Farmer

---

[1] In this study, we use the terms "large" and "larger" in reference to acreage solely as a concise way to identify farms and farmers large enough to be subject to the acreage exception. Importantly, we do not intend to imply that such farms are inordinately large or risky. FCA does not consider 2,000 acres to be an unusually large farm in today's agricultural economy.

[2] The cropland prices used in *Table 2* * are reasonably representative of values in these areas as published in the following: "Trends in Agricultural Land Lease Values," 2018,** by the California Chapter of American Society of Farm Managers and Rural Appraisers (Napa Vineyard); National Council of Real Estate Investment Fiduciaries Timberland Index third quarter 2018,** Oct. 24, 2018, release (Georgia Timberland); and *2018 Farmland Value Survey,*** Iowa State University Extension Service, Wendong Zhang, *https://www.extension.iastate.edu/agdm/wholefarm/html/c2-70.html* (Iowa Corn).

* **Editor's note:** the table referred to was not included in the FCA's responses to the Committee's question.

* **Editor's note:** the documents referred to are retained in Committee file.

Mac's underwriting, servicing, and loan portfolio risk management, we evaluate the effectiveness of Farmer Mac's credit exposure policy limits relative to its regulatory capital base and overall risk-bearing capacity. More specifically, we evaluate Farmer's Mac's effectiveness at managing risk concentrations to single borrowers, industry segments and geographic regions. Farmer Mac's current loan underwriting policy limitations have been effective in mitigating credit risk as indicated by relatively low historical loan loss rates. In addition, FCA's annual examination of Farmer Mac includes the analysis of credit risk in large loans by the agency's credit specialists.

Question 2. The FCA withdrew a proposed "Rural Community Investments" pilot project program and a related proposed rule in 2013. But in September of 2014, the FCA released an informational memo providing guidance for investment requests.

As I understand it, a key question relating to the investments issue is whether the financing is labeled as a loan or as an "investment." Can you explain the distinctions between loans and investments

Answer. Correct. FCA concluded the Rural Community Investments pilot programs in 2013. In September 2014, the FCA provided guidance to System institutions for case-by-case investment requests. This guidance communicated a return to the approval process authorized by FCA regulations, which were followed prior to the pilot programs.

Investments are fundamentally different from loans. Under the Farm Credit Act of 1971 (1971 Act) and FCA regulations, System institutions may make investments in a variety of instruments for the purpose of holding capital and maintaining the liquidity of the institution. Separately, the 1971 Act and FCA regulations authorize System institutions to make loans for farmers, ranchers, agricultural cooperatives and other related enterprises to support agricultural-based activities, and in some cases the activities of rural utilities. The loan making activities represent the predominate share of the System's assets. Rural Community Investments are a small subset of the investments of the System.

As part of our analysis of each investment request presented under the case-by-case authority, we evaluate whether the requested investment would be considered an investment from legal, accounting, and market perspectives. The vast majority of the investments approved by FCA (on a case-by-case basis) have been in the form of bonds issued to support the construction, renovation, acquisition, or expansion of healthcare facilities (hospitals or medical clinics) and senior living facilities (skilled nursing or assisted living facilities, and continuum of care campuses for seniors).

Bonds are distinguishable from loans from a legal standpoint, with case law support; from an accounting standpoint under Generally Accepted Accounting Standards; and from a marketplace perspective, specifically regarding the rights and privileges of lenders compared to investors.

Each case-by-case investment approved was subject to about 13 conditions of approval, including that the bond issuer also offer commercial banks the opportunity to invest in the project. Prior to investing in a bond issuance, the FCS institution must certify that the investment bond meets the legal, accounting, and marketplace definitions of a bond investment.

Question 2a. Can you provide examples of the investment projects FCA has approved?

Answer. The vast majority of the 14 case-by-case investments approved by FCA (since conclusion of the pilot programs in late 2014) were bonds issued by not-for-profit entities or municipalities. These bonds were issued for healthcare-related and senior and assisted living facilities that fall within the definition of essential community facility under the U.S. Department of Agriculture (USDA) rules and regulations. Most projects were assigned a USDA guarantee following construction.

Since the conclusion of the pilot programs, the FCA Board has approved investment requests from six FCS institutions to purchase investment bonds issued by 11 rural healthcare entities, two agribusinesses, and one for rural home mortgage-backed securities.

The following are summaries of the investments in rural healthcare projects approved:

- Bonds issued by Critical Access Hospital and Skilled Nursing Facility, serving the needs of a rural Minnesota area. The next closest critical access hospital is located 83 miles away and the nearest tertiary hospital is 110 miles away. The hospital also operates a home health agency and an ambulance service. The bonds were to fund the cost for constructing additional space and to make facility improvements to the existing hospital and nursing facility to meet the growing demand of the county's population. Bonds issued carry a USDA guarantee under the Essential Community Facility program.

- Bonds issued by a Regional Healthcare Center providing clinical care to residents in rural South Dakota with limited healthcare options within a 100 mile radius. The bonds provided financing for facility renovations and expansion and carry a USDA guarantee under the Community Facilities program.
- Bonds issued by a Community Medical Center in rural California, which would provide financing for relocating and replacing the existing outdated hospital. The bonds would carry a USDA guarantee under the Community Facilities program following construction.
- Bonds to provide funds for construction and permanent financing for the development of senior independent living units added to an existing senior living campus in rural Wisconsin. The existing campus includes a skilled nursing facility, two senior care or assisted living facilities, and a children's learning center.
- Bonds issued for construction and permanent financing for the expansion of an existing continuous care facility in rural Texas. The existing campus includes a skilled nursing facility and assisted- and independent-living facilities. The bonds financed rehabilitation space for therapy; space for the hospice staff; office space for management and nursing staff; and several independent- and assisted-living units. The bonds carry a USDA guarantee under the Community Facilities program.
- Bonds issued for renovations to update a nursing home and provide 16 additional memory care units in rural Minnesota. On two separate campuses the bonds would add 21 assisted living units, a new ten unit assisted living facility and a ten unit memory care building. The bonds carry a USDA guarantee under the Community Facilities program.
- Bonds issued by a Community Hospital in rural Colorado to acquire an adjacent financially struggling senior health care and living service provider to maintain quality care for residents. While the facility would quality as an essential community facility, the small amount of bonds were not USDA-guaranteed.
- Investment securities issued by a rural South Dakota Healthcare Center and the rural community in the form of Certificates of Participation. The funds were to provide the rural community with a new medical clinic and renovate the existing hospital and nursing home facility.
- Bonds issued to provide permanent financing and construction funding for a local community organization to acquire an existing medical center in rural Illinois and to make improvements to the existing hospital and highway entry points. The bonds would carry a USDA guarantee under the Community Facilities program following construction.
- Bonds issued by a nonprofit rural hospital corporation that owns and operates a 25 bed Critical Access Hospital and two medical clinics in northwestern Wisconsin. While the current facility had been adequately maintained, it did not meet the modern healthcare requirements of residents in and near the rural community. The bond proceeds were to finance the construction of a new hospital on a new site and refinance existing debt. The bonds were to be guaranteed under the USDA Community Facilities Program.
- Bonds issued by a skilled nursing and rehabilitation facility in rural Wyoming. Bond proceeds would renovate the existing 60 bed senior care facility to update patient rooms for enhanced accessibility, including a roll-in shower; provide 24-hour skilled nursing care; and replace the fire and sprinkler system along with the building's HVAC system. The bonds would carry a USDA guarantee under the Community Facilities program following construction.

REVIEW OF CREDIT CONDITIONS
(REPORT FROM AGRICULTURAL LENDERS)

WEDNESDAY, DECEMBER 11, 2019

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMODITY EXCHANGES, ENERGY, AND CREDIT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 2:45 p.m., in Room 1300 of the Longworth House Office Building, Hon. David Scott [Chairman of the Subcommittee] presiding.

Members present: Representatives David Scott of Georgia, Van Drew, Vela, Spanberger, Delgado, Craig, Kirkpatrick, Axne, Austin Scott of Georgia, Crawford, Marshall, Dunn, Johnson, and Baird.

Staff present: Emily German, Isabel Rosa, Lisa Shelton, Luke Theriot, Josh Maxwell, Ricki Schroeder, Patricia Straughn, Dana Sandman, and Jennifer Yezak.

OPENING STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

The CHAIRMAN. This hearing of the Subcommittee on Commodity Exchanges, Energy, and Credit entitled, *Review of Credit Conditions: Report From Agricultural Leaders,* will come to order.

Good morning, and thank you for being here today as we continue our review of credit conditions. Our farmers are facing challenging times, from trade wars to weather events, low commodity prices, and general uncertainty. Rural America is indeed being tested. Access to credit is critical for farmers' success, and it is important for us to understand how traditional agricultural lenders, commercial banks, the Farm Credit System, Farmer Mac, and the Farm Service Agency work, both independently and collaboratively, to address the needs of our farmers and ranchers. Therefore, it is imperative that all lenders work with farmers and rural America during these tough times. Earlier today, Farm Credit announced a new program that will train individuals who work with farmers and ranchers to recognize signs of stress, and connect those farmers with professional help.

Uncertainties regarding foreign market access and higher ending commodity stocks, among other factors, have contributed to lower prices for many agricultural commodities in recent years. While delinquency rates on residential and all commercial loans have steadily decreased since the 2008 financial crisis, agriculture-related commercial loan rates are experiencing an increasing trend. The witnesses before us today know the pulse of rural America, and work with farmers on the ground every day. They can speak to the face to face interactions they have had with farmers, and how that has changed in the last several months with the ongoing low commodity prices, and the trade uncertainties.

How much longer can farmers continue under these conditions? What happens if there isn't a trade deal with China until after next year's election, as President Trump alluded to the other day? Our distinguished panel here today works with farmers to offer the absolute best assistance to help continue their businesses, and I am very much looking forward to this discussion about how we all can best help rural America.

And, in consultation with the Ranking Member, pursuant to Rule XI(e), I want to make Members of the Subcommittee aware that other Members of the full Committee may join us today for this very important hearing.

[The prepared statement of Mr. David Scott of Georgia follows:]

PREPARED STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Good morning and thank you for being here today as we look to review credit conditions.

Our farmers are facing challenging times. From trade wars, weather events, low commodity prices and general uncertainty, rural America is being tested.

Credit is critical for farmers' success. It is important for us to understand how they work both independently and together.

It is also important for all lenders to work with farmers and rural America during this tough time. Earlier today Farm Credit announced a new program that will train individuals who work with farmers and ranchers to recognize signs of stress and connect those farmers with professional help.

Uncertainties regarding foreign market access and higher ending commodity stocks, among other factors, have contributed to lower prices for many agricultural commodities in recent years. While delinquency rates on residential and all commercial loans have steadily decreased since the 2008 financial crisis, agriculture related commercial loans rates are experiencing an increasing trend.

The witnesses before us today know the pulse of rural America, and work with farmers on the ground every day. They can speak to the face to face interactions they've had with farmers and how that has changed in the last several months with the ongoing low commodity prices and trade uncertainties.

How much longer can our farmers continue under these conditions? What happens if there isn't a trade deal with China until after the election, as President Trump alluded to the other day?

You all work with farmers to offer the best assistance to help continue their businesses and I am very much looking forward to this discussion today about how we all can best help rural America.

The CHAIRMAN. And now I recognize the Ranking Member, Austin Scott, for his opening statement.

OPENING STATEMENT OF HON. AUSTIN SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Mr. AUSTIN SCOTT of Georgia. Thank you, Chairman Scott, for calling today's hearing, and allowing the Subcommittee to continue its review of credit conditions in rural America. Last month we had the opportunity hear from the Farm Credit Administration, who reviewed the safety and soundness of the Farm Credit System. We heard that farm debt is forecasted to climb to near all-time highs, reminiscent of the 1980s farm financial crisis. We heard about the dire situation for farmers' incomes and cash flow. Despite this, we learned from the Farm Credit Administration that the System remains strong, and continues to be a source of credit to farmers and ranchers during these tough economic times.

Due to the state of the rural economy, access to credit is even more essential to keep farmers and ranchers producing a safe, affordable, and abundant supply of food and fiber for America, and the rest of the world. It is in times like these that our farmers and ranchers are most in need of reliable sources of credit at competitive rates. Thankfully, we have a network of commercial and community banks and the Farm Credit System each playing a crucial role in providing that access. I might add that after Hurricane Michael, our ag lenders in Georgia worked hard to help keep our farmers afloat. I want to thank the financial regulators for providing flexibility to our lenders during the disaster, and those tough times.

The Farm Services Agency operates as a lender of first opportunity, as well as a direct lender for producers in good standing, who may have trouble qualifying for credit elsewhere. FSA is not represented here today, however, it is important to highlight the USDA loan programs, which provide targeted funding for beginning and socially disadvantaged farmers and ranchers to assist in developing the next generation of producers. FSA direct and guaranteed loans enable farmers and ranchers to gain or continue financing, despite volatile commodity markets.

Our farmers and ranchers in the United States borrow more money each year to produce a crop than most Americans will borrow in a lifetime. It is impossible to overstate their need for capital, and the investment and return that it brings to rural America. In addition to ensuring access to credit, the 2018 Farm Bill improves the credit title by updating credit authorities to meet the capital needs of modern production agriculture, with an emphasis on beginning farmers and ranchers. The need for agricultural credit, given the status of the farm economy, is clear. Net farm income has fallen over $44 billion in inflation-adjusted dollars from its peak in 2013 due to lagging prices and growing world supplies. The crop insurance safety net is in place to help farmers recover from many losses, but it is not designed to address the current issue of multiple years of low prices. Further, while MFP payments that farmers receive are much needed, given the unfair trade practices from other countries, farmers would rather be able to sell their crops simply for a fair price. With current economic conditions, I am encouraged that Speaker Pelosi is going to allow the consideration of the USMCA. I hope this comes next week. It is an important trade agreement that will bring more certainty, and open new markets to American farmers and ranchers.

I want to take a second to thank Ambassador Lighthizer for working with those of us from the Southeast to address the unfair trade practices that we have seen impact the fruit and vegetable industries in Georgia, Florida, and some other states around the United States, and I am glad that we will hear from several of the financiers who work with producers every day. They can give us valuable insight of the credit conditions that exist today, and I thank each of you for being here, and look forward to hearing your testimony.

The CHAIRMAN. The chair would request that other Members submit their opening statements for the record so the witnesses may begin their testimony, and to ensure that we have ample time for questions.

And I would like to welcome our witnesses, and thank you for being here, but first I want to recognize Representative Roger Marshall from Kansas, who will introduce our first witness. Representative Marshall?

Mr. MARSHALL. Thank you so much, Chairman Scott. Today I am very proud and honored to welcome a fellow Kansan, a close friend of mine, and the pride of Elkhart, Kansas, Shan Hanes, as a witness today. I remember the very first day I met Shan. It was an icy, cold, wintry Kansas day. I was still delivering babies. I had people in labor, and Shan asked if he could come up and see me, drove some 3 or 4 hours on icy roads. He should have been in trouble for driving in such bad conditions. And what impressed me with the conversation was Shan and I talked about the struggles of rural America, and where Shan lives down there, in the very southwest corner, several hours away from any major metropolitan area. And, of course, we all know the struggles of rural America are the same challenges that any community bank would have, and I look forward to his testimony.

Shan has 25 years of experience as a banker in rural Kansas. He brings a deep knowledge and understanding of the unique challenges facing small rural communities and agricultural producers. Since 1993, Mr. Hanes has worked at First National Bank in Elkhart, a town of just 2,000 people located, as I said, in the very tip of southwest Kansas, just north of that Oklahoma panhandle area. The bank works closely with ag producers and small businesses in the region, facilitating both private, government guaranteed, and residential real estate loans, as well as crop insurance products. His experience in this role taught him firsthand about the need for strong consumer protections, especially in rural America, where options for financial service providers are limited.

In addition to his many years of service at First National Bank in Elkhart, Mr. Hanes has been an active member of the Kansas Bankers' Association, serving on various Kansas Banker Association committees related to agricultural, rural development, and education. He is a strong voice for rural and under-served areas at the Federal level, often joining the American Bankers' Associations fly-ins to advocate for policies and regulations that impact financial institutions in his community, and similar communities across the state. Shan, I want to thank you again for being here today, and I look forward to your heartfelt testimony, and I yield back.

The CHAIRMAN. Thank you very much, Representative Marshall. Our second witness is Mr. Steven J. Handke—I hope I got that correct, good—the Chief Administrative Officer of First Option Bank in Horton, Kansas, and he is testifying today on behalf of the Independent Community Bankers of America. Mr. Handke's family has been farming in Kansas for four generations. He holds a bachelor's degree in agriculture economics from Kansas State University, yes, give him a hand, and a master's degree in economics from Oklahoma State University.

And our final witness is Mr. Marc Knisely—what a name—President and CEO of AgCountry Farm Credit Services in Fargo, North Dakota, and he is testifying on behalf of the Farm Credit System. Mr. Knisely began his Farm Credit career in the spring of 1981 as a loan officer with the Production Credit Association in Michigan. He is a graduate of Michigan State University, where he obtained a bachelor's degree from the College of Agriculture and Natural Resources.

We will now proceed to hearing the testimony. Each of you will have 5 minutes to present your testimony, and when 1 minute is left, the light will turn yellow, signaling time to close is nearing. Mr. Hanes, please begin when you are ready.

STATEMENT OF SHAN HANES, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HEARTLAND TRI-STATE BANK; MEMBER, BOARD OF DIRECTORS, AMERICAN BANKERS ASSOCIATION, ELKHART, KS

Mr. HANES. Chairman Scott, Ranking Member Scott, and Members of the Subcommittee, I would first like to start out by saying your information was very well done, and very accurate, so that was very helpful. My name is Shan Hanes, President and CEO. We were First National Bank, we changed charters, we are now Heartland Tri-State Bank. Same bank, different name. We are a $125 million locally owned community bank in southwest Kansas. We have $51 million in ag loans, however, by comparison, that represents 78 percent of the bank's loan portfolio. I appreciate the opportunity to present the views of ABA, our customers, and ag bankers on ag credit conditions in rural America.

Ag credit conditions depend heavily on weather. If you guys could control weather, let it rain when it needs to, dry up when it needs to, that would be helpful. However, since that is not the case, I would say that weather has amplified an already tenuous ag situation. Today I would like to outline the current credit situation as it relates to our customers, and opportunities in which Congress could offer solutions which would reduce stress on all borrowers and lenders.

The ag economy has been slowing since 2012. According to the FINBIN database at the University of Minnesota, the median gross farm income in 2012 was $189,000. Now, bear in mind that is before taxes, living, debt, service, and such. However, by contrast, that same median farm income in 2018, using the same farm database, was $189,000 in 2012 was $28,600 in 2018. Over a 6 year timespan, those farmers' net farm income declined an average of 85 percent. I dare say many of us could not survive if our paychecks were cut by 85 percent. This drop continues to cause considerable stress within the industry.

While interest rates continue to be near record lows, of great concern is a comparison of total debt to earnings before interest, taxes, and capital, which is as high as it was in the 1980s. However, in the 1980s interest rates were at all-time highs, thus, when rates began to fall, repayment became easier, and cash flows stronger. The opposite is the case now. This is important because ag borrowers have a limited number of tools in which to lower debt and cash flow requirements without negatively affecting their overall operation. However, this Committee has an opportunity to assist the entire ag industry, and provide another tool to ag borrowers.

I would encourage Congress to hold hearings and approve H.R. 1872, Enhancing Credit Opportunities in Rural America Act, also known as ECORA. ECORA would lower the cost for borrowers to get an ag real estate loan. This will help them make it through the slow times in agriculture. I would like to personally thank Mr. Marshall and Congressman Van Drew for cosponsoring this bill. This bill will directly help all ag borrowers. It would allow banks to lower interest rates on ag real estate loans to borrowers, and help ease cash flow during these most stressful times.

I would like to remind this Committee of the importance of banks and serving the financial needs of America's farmers. In 2018 farm banks, as defined by ABA, as any bank with more than 16 percent of their loans to farmers or ranchers, those loans increased by 5.3 percent, and now banks provide over $108 billion in total farm loans, which makes banks the largest ag lender in the industry. Small farmers also rely on banks for funding, as farm banks hold $50 billion in small farm loans. Farm banks are healthy, and continue to be forward-looking, growing capital, and increasing reserves. This provides flexibility to serve our nation's farmers, and manage risks associated with any downturn in the ag sector.

I would like to thank Congress, especially the Agriculture Committees, for increasing borrower limits on USDA FSA guaranteed loans in the last farm bill. Banks work closely with the USDA to make additional credit available by utilizing the guaranteed farm loan programs. Lenders would agree that the increased limits help, but farm operating needs continue to increase. While we are confident these low prices will eventually improve, the reality is lenders must work with borrowers through extended low prices.

I would also like to thank Congress for the changes made in ARC and PLC in the last farm bill. Congress should support any programs that help producers become better business managers. Banks like mine are proud of the work we do to support our nation's farmers and ranchers. The ag community is a critical part of our economy, and America's banks remain committed to serve it through good times and bad. Thank you, and I would be happy to answer any questions you might have.

[The prepared statement of Mr. Hanes follows:]

PREPARED STATEMENT OF SHAN HANES, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HEARTLAND TRI-STATE BANK; MEMBER, BOARD OF DIRECTORS, AMERICAN BANKERS ASSOCIATION, ELKHART, KS

Chairman Scott, Ranking Member Scott, and Members of the Subcommittee, my name is Shan Hanes, and I am the President and CEO of Heartland Tri-State Bank in Elkhart, KS. Heartland Tri-State Bank is a family owned and locally controlled community bank with $125 million in assets and $51 million in agricultural lending. We have 28 employees and have four locations serving Kansas.

I am also a past Chairman of the American Bankers Association's Agricultural and Rural Bankers Committee. I appreciate the opportunity to present the views of rural bankers on credit issues in rural America

The American Bankers Association is the voice of the nation's $18 trillion banking industry, which is composed of small, regional and large banks that together employ more than two million people, safeguard $14 trillion in deposits and extend over $10 trillion in loans. ABA is uniquely qualified to comment on agricultural credit issues as banks have provided credit to the agriculture industry since the founding of our country. Nearly 5,000 banks—83 percent of all banks nationwide—reported agricultural loans on their books at year-end 2018 with a total outstanding portfolio of more than $186 billion.

The topic of today's hearing is very timely. There have been many successes within the 2018 Farm Bill that have directly affected agricultural lenders. However, the agricultural landscaped has changed considerably since the passage of the last farm bill. Agricultural lenders have often been the first group to feel the effects of the changing agricultural landscape, and the role that public policy has played in shaping that landscape.

The agricultural economy has been slowing, with farm sector profitability expected to decline further in 2019. However, farm and ranch incomes have been some of the best in history. ABA would like to thank the Committee for it's hard work and dedication to completing the 2018 Farm Bill. With the 2018 Farm Bill in place, farmers, ranchers, and their bankers achieved a level of certainty from Washington about future agricultural policy. Interest rates continue to be at or near record lows, and the banking industry has the people, capital and liquidity to help American farmers and ranchers sustain through the turbulence in the agricultural economy.

Banks continue to be one of the first places that farmers and ranchers turn when looking for agricultural loans. Our agricultural credit portfolio is very diverse—we finance large and small farms, urban farmers, beginning farmers, women farmers and minority farmers. To bankers, agricultural lending is good business and we make credit available to all who can demonstrate they have a sound business plan and the ability to repay.

In 2018, farm banks—banks with more than 16.07 percent of their loans made to farmers or ranchers—increased lending by 5.3 percent to meet the rising needs of farmers and ranchers, and now provide over $108 billion in total farm loans. Farm banks are an essential resource for small farmers, holding more than $50.1 billion in small farm loans, with $12.4 billion in micro-small farm loans (loans with origination values less than $100,000). Farm banks are healthy, well-capitalized, and stand ready to meet the credit demands of our nation's farmers large and small.

In addition to our commitment to farmers and ranchers, thousands of farm dependent businesses—food processors, retailers, transportation companies, storage facilities, manufacturers, *etc.*—receive financing from the banking industry as well. Agriculture is a vital industry to our country, and financing it is an essential business for many banks, mine included.

Banks work closely with the USDA's Farm Service Agency (FSA) to make additional credit available by utilizing the Guaranteed Farm Loan Programs. The repeal of borrower limits on USDA's Farm Service Agency guaranteed loans has allowed farmers to continue to access credit from banks like mine as they grow, ensuring credit access for farmers across the country.

Entities like Farmer Mac provide another avenue for banks to increase credit availability. By purchasing guaranteed loans from banks, Farmer Mac allows banks to lower interest rates for their customers and provide better loan products.

We remain concerned with certain areas of the agricultural credit market. In particular, we are worried that the Farm Credit System—a government sponsored entity—has veered away from its intended mission and now represents an unwarranted risk to taxpayers. The Farm Credit System was founded in 1916 to ensure that young, beginning, and small farmers and ranchers had access to credit. It has since grown into a $352 billion behemoth offering complex financial services. To put this in perspective, if the Farm Credit System were a bank it would be the seventh largest in the United States, and larger than 99.9 percent of the banks in the country.

Our nation's farmers and ranchers are a critical resource to our economy. Ensuring that they continue to have access to adequate credit to thrive is essential for the well-being of our whole nation. America's banks remain well equipped to serve the borrowing needs of farmers of all sizes.

In my testimony today I would like to elaborate on the following points:

➢ Banks are a primary source of credit to farmers and ranchers in the United States;

➢ In addition to protecting crop insurance, the 2018 Farm Bill provided a much-needed change to Farm Service Agency (FSA) guaranteed loan programs, changes to ARC and PLC, and a small change to Farmer Mac;

➢ There are some much needed changes needed in the agricultural credit space. The most important are the passage of the Enhancing Credit Opportunities in Rural America Act (ECORA), increasing staffing within FSA loan programs, and monitoring NEPA regulations within agricultural loans[; and]

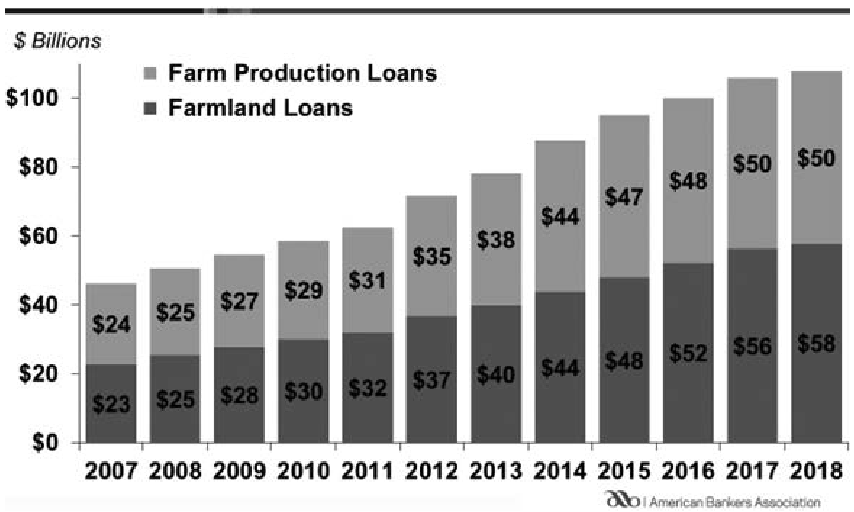
➢ The Farm Credit System continues to grow in size and scope, while not having to adhere to the same regulatory frameworks as banks[.]

I. Banks Are a Primary Source of Credit to Farmers and Ranchers in the U.S.

For my bank and for many of ABA's members, agricultural lending is a significant component of their business activities. ABA has studied and reported on the performance of "farm banks" for decades and, we are pleased to report that the performance of these highly specialized agricultural lending banks continues to be strong. ABA defines a farm bank as one with more than 16.07 percent farm or ranch loans (to all loans).

At the end of 2018, there were 1,772 banks that met this definition. Farm lending posted solid growth during 2018. Total farm loans at farm banks increased by 5.3 percent to $108 billion in 2018 up from $102.1 billion for these banks in 2017. Approximately $1 in every $3 lent by a farm bank is an agricultural loan.

Farm Banks Exhibit Solid Farm Loan Growth

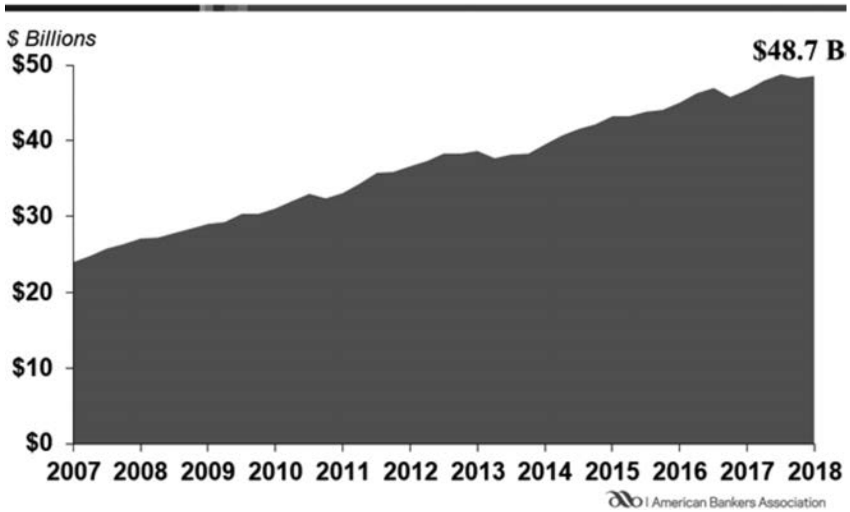


Source: Federal Deposit Insurance Corporation & American Bankers Association analysis.

Farm real estate loans grew at a faster rate than farm production loans. Outstanding farm real estate loans grew at a pace of 2.8 percent, or $1.6 billion, to a total of $58 billion. Farm production loans rose by 0.24 percent, or $120 million, to $50 billion. Farm banks are a major source of credit to small farmers—holding more than $50.1 billion in small farm loans (origination value less than $500,000) with $12.4 billion in micro-small farm loans (origination value less than $100,000) at the end of 2018. The number of outstanding small farm loans at farm banks totaled 771,641 with the vast majority—over 497,574 loans—with origination values less than $100,000. Farm banks are healthy, well capitalized, and stand ready to meet the credit demands of our nation's farmers large and small.

Equity capital—often thought of as the strongest form of capital—at farm banks increased by 0.2 percent to $48.7 billion in 2018. Since the end of 2008, farm banks have added $22.2 billion in equity capital, building strong high-quality capital reserves. These capital reserves will enable flexibility amongst farm banks, as the agricultural sector adjusts to lower commodity prices—allowing bankers to work with and serve the needs of our nation's famers—and will also act as a buffer, proving insulation from the risks associated with any downturn in the agricultural sector.

Farm Banks Increase High-Quality Capital



Source: Federal Deposit Insurance Corporation & American Bankers Association analysis.

One area of concern for farm bankers and their customers for several years was rapid appreciation in farmland values in some areas of the country. The run up in farmland values was not a credit-driven event. Farm banks are actively managing the risks associated with agricultural lending, and underwriting standards on farm real estate loans are very conservative. The key consideration in underwriting any loan is the ability of the customer to repay regardless of the collateral position in the loan. To further manage risk, banks regularly stress test their loan portfolios to judge repayment capacity under different scenarios.

After several years of large increases in farmland values, the consensus view among bankers, through ABA surveys, is that the increase in farmland values has slowed. ABA continues to watch the farm real estate market very closely. In recent years, over 4⁄5 of the agriculture sector's asset values were held in real estate. Farm land values rose slightly in 2018 and the USDA ERS projects farm land values to rise again slightly in 2019. However, in the most recent ABA Agricultural Lenders Survey, a higher segment of respondents indicated expectation that farm land values will begin to decline in coming years.

II. The Agricultural Improvement Act of 2018 Had Many Successful Components

One success of the 2018 Farm Bill was the continued support of crop insurance programs. Agricultural lenders use crop insurance as a guarantee to help secure financing for operating credit. With crop insurance, a lender has the ability to provide support based on individual producers' proven crop yields. This allows lenders to tailor a loan to a producer's operation and allow for year-to-year adjustments within that operation. Without crop insurance acting as a safety net, producers would be in a much more challenging financial situation in the event of disaster. Crop insurance has allowed lenders to provide the best possible terms for operating loans because it helps to lower the risk for the lender. ABA has been a long-time supporter of crop insurance programs and would like to see the programs expanded to help as many producers as possible, including industrial hemp.

I would like to thank Congress, especially the Agricultural Committees, for increasing borrower limits on USDA Farm Service Agency guaranteed loans in the 2018 Farm Bill. The prior borrower limits restricted farmer access to capital, and the limits did not reflect the growing cost of agriculture in the United States. The USDA's Farm Service Agency guaranteed loan program has been a remarkable success. Today, nearly $12 billion in farm and ranch loans are made by private-sector lenders like my bank and are guaranteed by the USDA. There are nearly 43,000 loans outstanding—of course some farmers have more than one guaranteed loan, so this number is not to be confused with the number of individual farmers and ranchers, but the numbers of individuals accessing credit under this program is very significant.

The loans made by banks like mine under this program are modest in size. The average outstanding guaranteed real estate loan is $517,000 and the average outstanding guaranteed non-real estate secured loan is $289,000. Clearly, we are reaching customers who have modest-sized operations, who are in the process of starting their farm or ranch operation, or who are recovering from some sort of financial setback. Despite the fact that these customers do not have either the earnings or collateral to qualify for conventional credit, losses in the program have been extremely small. Over the last 5 fiscal years losses have ranged from a high of 1.6 percent in FY19 to a low of 1.1 percent in FY15. These are extremely low losses—especially for customers who are perceived to be a higher risk than other customers, hence the need for the USDA credit enhancement. Bankers who utilize the guaranteed farm loan programs offered by USDA know what they are doing and work very closely with their farm and ranch customers to properly service these loans. The Farm Service Agency deserves a great deal of credit for administering such a successful public-private partnership. We urge you to continue to support this very worthwhile program.

Another success of the 2018 Farm Bill are the changes to ARC and PLC programs. Being able to use Risk Management Agency data has given us a much better platform to work from when determining potential ARC and PLC payments for producers. Additionally, by changing the producer election on whether to be ARC or PLC, there is much more flexibility for producers to use the program that makes the most sense in their operation. Lastly, using the physical location of ARC-County payments will provide a more accurate read on production.

Last, I would like to thank Congress for allowing changes to be considered within Farmer Mac. Farmer Mac is a valuable tool in the toolbox for agricultural bankers because it provides another avenue for banks to increase credit availability. By purchasing guaranteed loans from banks, Farmer Mac allows banks to lower interest rates for their customers and provide better loan products.

ABA still believes the most needed change is the removal of the current 1,000 acre limitation. The 1,000 acre limitation was put in place in the 1987 Farm Credit Act and has become outdated with the increasing size and scope of modern agriculture. Other bankers and I have been working with the Farm Credit Administration on the best possible path forward for potential changes to Farmer Mac.

III. Changes Needed in Agricultural Credit

Agricultural credit provided by the banking industry often has very different set of rules than the Farm Credit System, which serves the same customers as banks. The most striking difference is within taxation levels between the Farm Credit System and banks. When a farm real estate loan is made, the Farm Credit System will pay no tax on the income from that loan. Banks, however, will pay a 21 percent Federal tax and various state and local taxes across the country. This means a farm real estate loan will cost more for a producer from a bank than the Farm Credit System. I am encouraging all Members of Congress to support H.R. 1872, the Enhancing Credit Opportunities in Rural America Act (ECORA). ECORA would allow banks like mine to provide farm real estate loans at a lower interest rate. This is good for the farmer, plain and simple.

Another example of differences between banks and the Farm Credit System is when interest only loans are made. Within the Farm Credit System, their regulator, the Farm Credit Administration, has ruled that Farm Credit System institutions can make interest only loans without any punishment. When a bank changes a loan to interest only, it is filed as a troubled asset. This is a serious black mark on a bank and too many troubled assets can force the regulators hand on punishing a bank.

There needs to be serious consideration for increasing staff levels at FSA. As veteran staff retires, there isn't enough new staff being trained to take over their loan portfolios. This is creating a knowledge gap within FSA loan programs and is making it much harder to turn around loans in a timely fashion. When it comes to financing agriculture, especially operating loans, loans need to be made as quickly as possible so farmers can get back into the field. As the Agriculture Committee is aware, windows for planting or harvesting can close very quickly and our loan programs need to keep pace.

Last, the Agriculture Committee should examine the National Environmental Policy Act (NEPA) regulations that have been put in place for Confined Animal Feeding Operations (CAFO) for FSA loan programs. I fully understand why the regulations have been put in place, but there needs to be serious examination on potential changes to the regulations. Additionally, I have found that the regulations can vary from state to state and county to county, making it very difficult to properly put together the loan. The Agriculture Committee should consider offering changes to the NEPA regulations on CAFOs so lenders can better serve this constituency into the future.

IV. The Farm Credit System Is a Large Government Entity That No Longer Serves Its Primary Mission

I mentioned earlier in my testimony that the market for agricultural credit is very competitive. I compete with several other banks in my service area, finance companies from all of the major farm equipment manufacturers, several international banks, credit unions, life insurance companies and finance companies owned by seed and other supply companies, to name a few. The most troublesome competitor I face is the taxpayer-backed and tax-advantaged Federal Farm Credit System (FCS). The FCS was chartered by Congress in 1916 as a borrower-owned cooperative farm lender at a time when banks did not have the legal authority to make long-term farm real estate loans. Over the ensuing 100 years the FCS has received numerous charter enhancements and has ventured into areas that are not appropriate for a farmer-owned farm lending business.

Today ***the FCS is a large and complex financial services business with $352 billion in assets.*** If it were a bank, it would be the seventh largest bank in the United States. It is tax-advantaged and enjoyed a combined local, state, and Federal tax rate in 2018 of only 2.3 percent (a significant decrease from the effective tax rate of 4.5 percent just 5 years prior). Additionally, FCS had a net income of $5.332 billion in 2018.

Congress created the Farm Credit System as a public option for farm finance when farmers were having trouble getting the credit they needed from non-government sources. The conditions that led to the creation of the Farm Credit System nearly 100 years ago no longer exist, and yet we continue to have a government-assisted, tax-advantaged farm lender providing credit to customers who would be able to easily borrow from taxpaying institutions like mine. In fact, the heavily subsidized credit that FCS lends goes to those who need it least. Despite amendments to the Farm Credit Act of 1980 requiring each FCS lender to have a program for furnishing credit to young, beginning and small farmers and ranchers (YBS), the share of new YBS loans to total new FCS loans continues to ***be dismal***—even as the assets of the System have expanded enormously. Loans to small farmers have steadily dropped over the past several years, with small farm loans declining from a high of 30 percent of total new loan volume in 2003 [1] to just 14.4 percent in 2018. Clearly, those who would benefit the most from the highly subsidized credit made available by the FCS are not receiving the benefits that Congress intended them to receive.

Conclusion

The banking industry is well positioned to meet the needs of U.S. farmers and ranchers. U.S. agriculture has begun to adjust to lower commodity prices after enjoying one of the longest periods of financial prosperity in history. However, the banking industry remains cautious as it looks forward to the next few years. There is a very real concern that declining commodity prices will negatively affect the farm economy and make credit situations tighter. This is why the banking industry will continue to offer assistance to Congress as we work through these economic times. With the changes that have been outlined earlier, the banking industry will continue to help producers be strong into the future. Bankers still see great opportunities in agriculture, and they will stand with their partners in agriculture going forward.

Thank you for the opportunity to express the views of the American Bankers Association. I would be happy to answer any questions that you may have.

The CHAIRMAN. Thank you very much. And now, Mr. Handke, you are next.

[1] "FCA's Annual Report on the Farm Credit System's Young, Beginning, and Small Farmer Mission Performance: 2013 Results". Office of Regulatory Policy, June 12, 2014 Board Meeting.

STATEMENT OF STEVEN J. HANDKE, REGIONAL PRESIDENT AND CHIEF ADMINISTRATIVE OFFICER, FIRST OPTION BANK; CHAIRMAN, AGRICULTURE-RURAL AMERICA COMMITTEE, INDEPENDENT COMMUNITY BANKERS OF AMERICA, HORTON, KS

Mr. HANDKE. Chairman Scott, Ranking Member Scott, and Committee Members, thank you for the opportunity to appear before you today. I am Steven Handke, Regional President and Chief Administrative Officer for First Option Bank in Osawatomie, Kansas. We are a nearly 100 year old institution, and we have nine locations across the eastern counties of Kansas and northwest Missouri.

Community bank credit is critical to the ag economy. Banks provide 42 percent of all ag credit, more than any other type of lender, and the 1,315 farm banks across Kansas, which is really only ¼ of the FDIC insured institutions, hold 70 percent of ag credit of the $184 billion in ag loans. Community banks like mine are four times more likely to operate in rural counties than other lenders, and in 600 counties across the United States, nearly 20 percent are the only lender in those counties.

We recently surveyed nearly two dozen ag bankers who serve on the Agriculture-Rural Community Committee for ICBA, and we asked them four important questions. The first question is, have you seen deterioration in the portfolios, and if so, to what degree? Second, have the Market Facilitation Payments helped, and how long should they continue? And third, will you rely more on USDA guaranteed loans? And finally, the fourth question, beyond the ag trade agreements, beyond the farm bill, beyond crop insurance, what can Congress do? The results of the survey, and my personal observations, will be the basis of my testimony today.

First, ag portfolios do remain stable, but are deteriorating. Net farm income should improve ten percent this year, and should climb up to $92.5 billion, but ¼ of that, $22.4 billion, is coming from government payments. Credit is plentiful, competition is intense, interest rates near historically low levels, are all benefitting our farm customers. Banks are restructuring loans with real estate, but bad weather has reduced real estate values locally in some markets, and that makes it difficult to restructure and inject working capital. Banks are starting the loan renewal process this spring, and the outlook will be better known as we work through all these renewals in the spring.

Second, on the Market Facilitation Payments, yes, they are helpful. Often it is the difference between losing money *versus* a slight profit, difference between making all their payments and not. There should be a predictability in the planning process so that we can incorporate those payments into farmers' cash flows for regulatory purposes next year, and they should continue until prices become stable and rebound. My written statement also highlights a recent article of how community banks have kept one Wisconsin dairy family back on the farm.

Third, the USDA guaranteed loan programs have been critical to the farm economy. One banker on our committee stated, without the USDA guarantees, we would've had to liquidate 25 percent of our ag real estate portfolio. However, demonstrating positive cash flow is difficult in today's prices. Unfortunately, this has limited access to some of our farmers to the USDA programs, even when they have equity in their real estate. The new loan limit of $1.75 million is helpful, but with the farm debt increasing to $416 billion, and the average cost of a farm crop acre at $4,000, we would encourage that that limit be increased modestly.

Community bankers still say the greatest threat to the farm is the Farm Credit System. This government-sponsored enterprise enjoys significant tax and funding advantages over community banks. FCS cherry picks their best loans, increasing risk profiles for the bank's remaining loan portfolio. In a ten-state survey conducted by Creighton University, it still lists Farm Credit Service's competition as banks' biggest challenge of the next 5 years, greater than negative or slow growth, greater than farm loan delinquencies.

FCS continues to introduce products and services that exceed their statutory authority. For example, FCS now offers a so-called Work Smart line of credit, a checking account with remote deposit features that allows customers to "avoid taking checks to the local bank". FCS was not supposed to be offering checking account products, or take deposits. Doing so threatens the existence and the charter value of community banks in rural America. My written testimony also lists some of the other issues that we have with the Farm Credit Services. We strongly urge your vote for the Enhancing Credit Opportunities of Rural America, the ECORA Act, which creates a tax exemption for interest on bank loans secured by real estate and home mortgages in rural America. This will lower the cost of interest for farmers.

In conclusion, community banks work with their producers, both in good times and bad, and let's work creatively to enhance solutions that assist our nation's rural communities. Thank you, and I look forward for your questions.

[The prepared statement of Mr. Handke follows:]

PREPARED STATEMENT OF STEVEN J. HANDKE, REGIONAL PRESIDENT AND CHIEF ADMINISTRATIVE OFFICER, FIRST OPTION BANK; CHAIRMAN, AGRICULTURE-RURAL AMERICA COMMITTEE, INDEPENDENT COMMUNITY BANKERS OF AMERICA, HORTON, KS

Introduction

My name is Steve Handke. I serve as the Regional President and Chief Administrative Officer of the First Option Bank. I am testifying today on behalf of the Independent Community Bankers of America (ICBA) where I serve as the Chairman of ICBA's Agriculture-Rural America Committee.

On behalf of the more than 52,000 community bank locations across the nation represented by ICBA, we thank you Chairman Scott and Ranking Member Scott and the Members of this Subcommittee for convening today's hearing: "*Review of Credit Conditions: Report from Agricultural Lenders.*"

The nation's community bankers have been closely monitoring the ongoing challenges facing our agriculture sector. The availability of credit to rural America is vital for our nation's farmers and ranchers and the thousands of community banks that serve rural America.

First Option Bank

First Option Bank was chartered nearly 100 years ago in Osawatomie Kansas and today has nine locations offering a variety of financial products to the communities we serve. We offer livestock and crop loans, operating lines of credit, and equipment and agricultural real estate loans. We are a $425 million asset bank in eastern Kansas and northwestern Missouri.

Since the moment we opened our doors in 1923, First Option Bank's top priority has been to serve our customers by providing them with the best banking services while serving as a steward of the community. We believe it's our job to help our customers thrive financially and to make the communities we serve a better place to call home. There have been many changes in the banking industry during our decades of existence. But even with all the changes, First Option Bank has thrived with the dedication of the owners and staff and the support of our customers. Community involvement, superior customer service, honesty and integrity are longstanding traditions of First Option Bank. Those traditions will continue as we look forward to serving our communities both during these difficult times in agriculture and into the future.

Mr. Chairman, on a personal level, agriculture and the availability of credit is very important to me. I was born and raised on a farm in northeast Kansas near Atchison. Our family farm raised crops and livestock, specifically a small cattle feedlot. I worked on the farm while attending college at Kansas State University and the farm remains in our family today.

Community Banks' Presence in Rural America

You may be surprised to know the banking industry, fueled by community banks, is the largest ag lender supplying about 42 percent of all ag credit. The Farm Credit System (FCS, System) supplies slightly over 41 percent as of year-end 2018. The FCS is the largest ag real estate lender due to their tax exemption on income from real estate loans allowing FCS to choose predominantly the very best loans while ignoring lower quality credits. Banks are the largest non-real estate lender (production loans).

To emphasize the important role community banks play in serving agriculture, as of the first quarter 2019, there were 1,315 farm banks representing nearly ¼ of all FDIC-insured institutions. Agriculture loans held by FDIC-insured institutions totaled $184 billion. Community banks hold nearly 70 percent ($127 billion) [1] of total agriculture loans from the banking sector. When including all community banks of less than $10 billion in asset size, these banks hold approximately 80 percent of all ag loans from the banking sector.

There are thousands of community banks in rural areas. Community banks are four times more likely to operate offices in rural counties.[2] Community banks remain the only banking presence in more than 600 counties (nearly 20 percent of all U.S. counties) and they hold the majority of banking deposits in rural counties and small cities.[3]

The bottom line is community banks are vital to the health of hundreds of thousands of farmers and ranchers as well as millions of other customers in rural America. It is vital to ensure these banks survive to ensure our rural communities survive. Congressional actions can play an important role in determining the fate of community banks in rural areas.

Focus of Testimony

We recently asked our Agriculture-Rural America Committee, comprised of two-dozen bankers from across the nation, four general questions:

(1) Have you seen deterioration in your ag loan portfolio over the past year? Is this causing you to deny financing and if so, to what degree?

(2) Have Market Facilitation Payments (MFP) kept your farmers in business and how long should these payments continue?

(3) Will you rely more on USDA guaranteed loans to keep producers in business?

(4) In addition to agricultural trade agreements and maintaining a robust farm bill, are there other actions Congress can take to keep farmers afloat? What is your greatest worry?

The results of this survey inform the content of this statement.

Ongoing Concern Regarding the Farm Economy

With the farm economy now in its sixth year of low commodity prices and reduced farm incomes from the 2013 peak and with ag exports under pressure from the China trade dispute, it is extremely important to have the 2018 Farm Bill's safety net in place including commodity price protections and crop insurance.

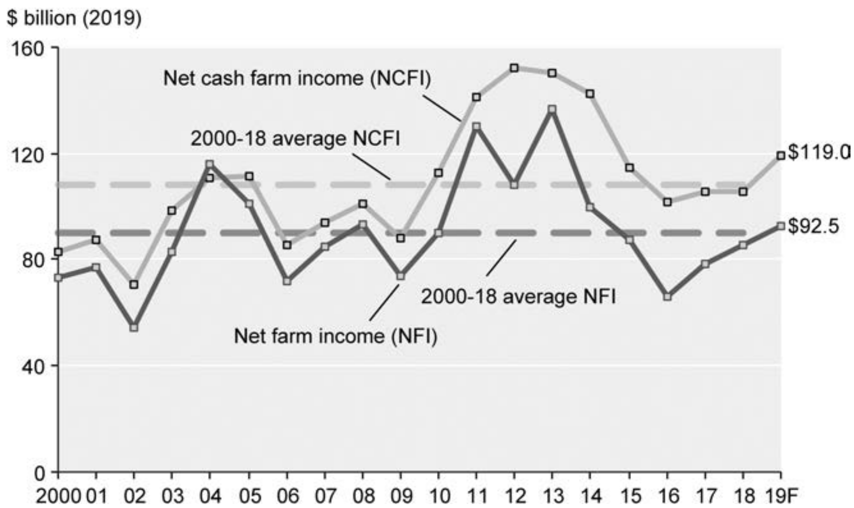
USDA's November forecasts [4] of net farm income suggests net farm income will increase $8.5 billion (slightly over ten percent) to $92.5 billion in 2019, after increas-

---

[1] FDIC 2019 ANNUAL RISK REVIEW—*Section III—Key Bank Risk Issues: Agriculture;* page 17.
[2] FDIC *Community Bank Study,* December 2012, page 4.
[3] Federal Reserve Bank of St. Louis *Review,* May/June 2013, page 201.
[4] *https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast/.*

ing in both 2017 and 2018. In inflation-adjusted 2019 dollars, net farm income is forecast to increase $7.0 billion (8.2 percent) from 2018. If realized, in inflation-adjusted terms, net farm income in 2019 would be 32.3 percent below its peak of $136.6 billion in 2013.

Net Farm Income and Net Cash Farm Income, 2000–19F



F = forecast. Values are adjusted for inflation using the chain-type GDP deflator, 2019 = 100.

Source: USDA Economic Research Service, Farm Income and Wealth Statistics.

Data as of November 27, 2019.

The 2019 net farm income level is slightly above its 2000–18 average of $90 billion. A significant portion—$22.4 billion—of farm income in 2019 is being driven by government payments which may be unsustainable.

Regarding whether ag lending portfolios are deteriorating, many community banks are concerned about the negative impact of low commodity prices. Most bankers have found ag portfolios remaining stable but with some deterioration. Credit is plentiful, competition for loans intense, and interest rates remain near historically low levels, benefitting farmers.

We may be witnessing the beginning of an uptick in the number of farm loans being considered sub-standard. Banks have been able to lend using real estate as collateral. But the impact of catastrophic weather conditions in several states may reduce real estate values locally making it more difficult to restructure debt or inject working capital into the operation. According to the FDIC, the number of ag banks considered unprofitable has reached 3.5 percent as of Sept. 30, up from 2.19 percent during the same period a year ago.

Many producers who have been hit hard by the flooding in the Midwest and weather calamities in other regions have found it difficult or impossible to plant all of their crop acreage or fully breed for cow/calf herds. As a North Dakota banker commented, “We currently have the majority of our corn crop still in the field. Wet conditions, poor grain quality and excessive drying costs have many contemplating leaving the crop in the field until spring conditions dry the crop further. We anticipate a sharp reduction in net farm income for 2019 with uncertain abilities to underwrite some 2020 farm operations.” Many banks are just starting their loan renewals so the true outlook for ag loans will be better known in coming months.

The MFP payments have been very helpful to many producers and their local communities, but not all producers. Farmers who are small grain producers, for example, receive less than producers of other crops and producers of some commodities will not qualify although they believe their markets have been impacted. For farmers who do qualify, bankers have stated these payments should be more predictable for planning purposes so they can be included into cash-flow projections.

Many bankers suggest these payments should continue until prices impacted by reduced trade with China rebound as there could be a lag between any agreement with China and the time it takes for certain commodity markets to respond. Bankers suggest that MFPs for many customers have been the difference between losing money *versus* making a slight profit and paying bills.

Reducing debt loads, delaying new purchases, controlling production costs, utilizing wise marketing strategies and ensuring overall sound management practices are keys to producers' long-term success.

Make no mistake, community banks are making every effort to keep their farm and ranch customers in business. An article from the *Milwaukee Journal Sentinel,*[5] for example, depicts how a Wisconsin community banker worked with a dairy farm to keep it operating so the family could pass the farm on to the next generation. The family had invested more than 3 decades of hard work into the operation. The bank helped them restructure the farm instead of selling out. The banker's actions ensured the dairy farm would be transferred from one generation to the next instead of witnessing the loss of another Wisconsin dairy.

USDA Guaranteed Farm Lending Programs

Generally stable farmland prices in many states have allowed producers to restructure their loans and shore up working capital. USDA's guaranteed farm loan programs have also assisted in allowing community banks to continue working with family farmers and ranchers. However, in some cases borrowers will need to liquidate a portion of their assets to continue farming and we could witness an increase in farmland sales due to financial stress.

Bankers emphasize the difficulty in restructuring debt with an FSA economic emergency loans or guarantees will be in proving a positive cash flow at today's commodity prices. Even if farmland collateral is available, cash flow will often be negative. Bankers have commented there needs to be some **flexibility in cash flow determination.**

We expect community banks will increase their use of USDA guaranteed loans. The farm bill's increased **loan limits to $1.75 million will be helpful but** given the rise in farm debt to $416 billion (up ⅓ in the last 7 years) and the average cost of cropland at $4,000 per acre, **we believe this limit may need to be increased modestly.** Additionally, new producers also need guaranteed loans as they begin their farming operations or grow in size.

As one banker noted, "without USDA guarantees we would have been in liquidation with 25 percent of our ag portfolio!" In some geographical areas that suffered flooding, payment deferrals will be necessary due to the lack of planted acres and poor yields. The loan guarantees allow bankers and their customer additional time to work through these temporary setbacks.

Some producers seek to avoid using USDA guarantees due to paperwork burdens and slow approval times. In some counties, bankers report that USDA is very "picky" about which loan applications get approved and won't approve loans of struggling farmers. One banker stated, "a young farmer with no net worth and little cash flow can obtain a guarantee with ease, but an established farmer going through a tough cash flow situation will be denied."

Bankers are concerned about the decline in USDA field office staff which could grow much worse in the next few years as many USDA field office employees become eligible for retirement. Could some of these retirees be rehired temporarily to deal with seasonal peak workloads? Funding for USDA staffing needs to be adequate to ensure enough employees are available to administer programs.

FCS Expansion Threatens Rural Communities

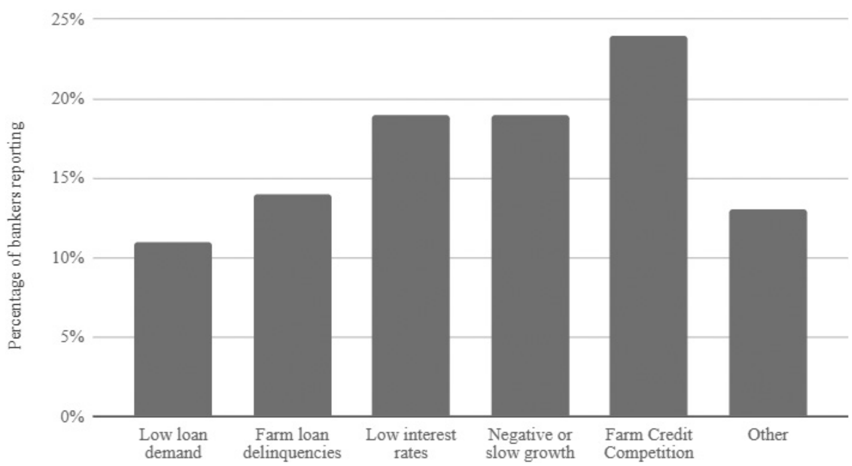
For a healthy rural America, we must have a competitive environment based on a level playing field among lenders, one which allows community banks to remain viable. It is particularly important to ensure that community banks are not disadvantaged *vis à vis* the competitive landscape with institutions such as the FCS. The FCS is a huge financial conglomerate with over $276 billion in total loans and $354 billion in total assets.

As a government sponsored enterprise (GSE), the System enjoys significant tax and cost of funds advantages over private-sector, tax-paying community banks. Although commercial banks hold slightly more of the overall agricultural credit (42 percent *versus* 41 percent) compared to the FCS, the FCS has a significantly higher percent of the farm real estate loan volume. The latter reality is due to the FCS's tax exemptions on income from real estate/mortgage loans which allow FCS lenders a huge advantage when competing to lend money to the same borrowers for the same financial purposes.

[5] *Milwaukee Journal Sentinel,* Nov. 15, 2019, Glauber, *https://pulitzercenter.org/reporting/wisconsin-leads-nation-dairy-farm-closures-meet-banker-who-tries-help-her-fellow-farmers.*

The FCS often utilizes these advantages to cherry pick the best customers from community banks' loan portfolios. This weakens community banks' ongoing viability. A recent survey [6] of bankers in a ten-state region conducted by Creighton University's Heider College of Business lists the threat of FCS competition as banks most significant challenge over the next 5 years. The threat of FCS competition was a larger challenge than 'negative or slow growth' or 'farm loan delinquencies.'

The Biggest Economic Challenges



Due to FCS's significant competitive advantages as a unique governmentally privileged retail GSE, ICBA opposes expansion of the FCS into non-farm lending, realizing such expansion comes at the expense of community banks and the viability of our rural communities. Members have introduced legislation to allow banks some, but not all, of the tax benefits the FCS and credit unions enjoy.

The "*Enhancing Credit Opportunities in Rural America (ECORA)*" Act (S. 1641 and H.R. 1872) exempts from taxation interest income on farm real estate loans and also rural home mortgages in towns of less than 2,500 residents. We urge you to cosponsor this legislation which would allow community banks to continue working with their farm and ranch customers in these perilous times.

A Few Key Issues Pertaining to the FCS

FCS lenders apparently wish to become the equivalent of commercial banks but with a much-reduced regulatory burden.

Checking Account Product Offering. A recent example is the offering of a checking account product by Farm Credit Services of America, which promotes a "WorkSmart Line of Credit" or LOC. Their website [7] features videos stating the LOC offers a **checking account** product **with a remote deposit feature** allowing customers to "**avoid taking a check to the local bank**" and then transferring funds into the LOC. The financial product also provides a Mastercard feature with a one percent "cash-back" benefit drawn from the LOC and a patronage-related dividend of 0.90 percent of a customer's eligible daily loan balance. FCS institutions are not supposed to offer checking accounts or take deposits. The FCS's venture into the world of banking products threatens the future existence of many community banks.

This Committee is concerned with the question of how to keep farmers in business and ensure credit access to rural Americans. If FCS lenders become the equivalent of commercial banks then our rural communities will see a further decline in the number of community banks and many rural Americans could lose access to banking services. All because the FCA is being given too much latitude in allowing the unbridled expansion of the FCS. Ultimately, this is not good for farmers and ranchers or for rural America.

---

[6] *October Rural Mainstreet Index Climbs Again: Trade War and Stalled USMCA Batters Economic Confidence; https://www.creighton.edu/economicoutlook/mainstreeteconomy/;* Chart from *Farm Journal*'s *AgWeb: https://www.agweb.com/article/rural-bankers-economic-confidence-dips-two-year-low*.

[7] *https://www.fcsamerica.com/products-services/ag-loans-leases/worksmart-line-of-credit*.

Young-Beginning-Small (YBS) Farmers. The FCA recently published a Notice of Proposed Rule Making regarding the FCS's YBS programs. The FCA asked numerous questions regarding how to best design the metrics for determining YBS access to FCS lending. ICBA pointed out the FCA's current methodology allows numerous ways to inflate the YBS lending statistics.

ICBA recommends that the methodology be revised to clarify the actual number of individual YBS borrowers, regardless of how many categories each borrower may qualify in. Under the current methodology, if two FCS lenders share a YBS loan, the same borrower can be counted three times by each lender. Thus, one YBS borrower can be counted at least six times in the FCA's YBS numbers if the loan is shared between two FCS institutions.

This type of distortion for YBS lending activity doesn't give Congress a meaningful yardstick to measure FCS's YBS lending. As FCS institutions consolidate and merge, how great will the decline be if YBS numbers are reported accurately without multi-counting? We suspect the decline, if recorded accurately, could be considerable.

Buying, Selling or Holding USDA Guaranteed Loans from Non-FCS Lenders. FCA recently published a proposed rule to allow FCS lenders to buy, sell and hold the guaranteed portion of USDA loans.

ICBA opposes this proposal and believes it needs to be withdrawn or limited. We believe it allows FCS to duplicate the secondary market activities of Farmer Mac, the actual secondary market created by Congress to increase liquidity in rural America. We do not believe Congress intended for FCS to create a duplicate secondary market that could undermine Farmer Mac's ability to serve this sector of the market.

We question whether the statute actually allows FCS to engage in such transactions with non-FCS lenders as the statute doesn't reference non-FCS lenders. We have asked FCA to withdraw the proposal or allow such transactions only between FCS lenders and ensure such transactions occur only with USDA and Farmer Mac. Limiting these transactions to FCS lenders selling to or buying from Farmer Mac will actually enhance the secondary market as it would increase business volume conducted by Farmer Mac rather than undermine Farmer Mac's business by duplicating their mission.

FCS Proposal for Blanket Self-Approval of Investments. The FCS seeks to skirt the case-by-case oversight of the FCA for approving "investments." Although Congressional Agriculture Committees wisely rejected such proposals during the 2018 Farm Bill debate, the FCS has appealed to the Appropriations Committees seeking report language urging such laxity.

ICBA opposes removal of the FCA's up-front case-by-case approval and oversight of risky FCS investment activities. Further, we oppose the investment scheme generally as it allows lending for non-agricultural purposes if labeled as "investments." We believe FCS investments need to be limited to the lending constraints of the Farm Credit Act (Act).

Conclusion

A strong farm bill and well-funded crop insurance program are essential to help farmers survive. Bankers are concerned the growing world supply of grain stocks will keep downward pressure on grain prices. It is important for Congress to pass the USMCA trade agreement.

Congress should help ensure the efficient functioning of USDA guaranteed farm loan programs and consider increasing loan limits above the $1.75 million level. Bankers are concerned that banking examiners will be too strict when examining farm loans.

Thankfully, community banks are not fair-weather lenders but seek to work with their producers in both good times and bad. Community banks have worked with their farm and ranch customers in past economic downturns and have excellent skills at risk mitigation as they work to keep producers in business.

Mr. Chairman and Members of the Subcommittee, thank you once again for conducting this hearing. Let's work together creatively to enhance solutions to assist our nation's farmers and ranchers and the community banks that serve them.

The CHAIRMAN. Thank you very much, Mr. Hanes, we appreciate your comments. Mr. Handke, please proceed. I am sorry, my mistake. Mr. Knisely.

STATEMENT OF MARCUS L. KNISELY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AGCOUNTRY FARM CREDIT SERVICES, FARGO, ND; ON BEHALF OF FARM CREDIT SYSTEM

Mr. KNISELY. Mr. Chairman, Ranking Member Scott, 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 on behalf of the Farm Credit System, and, most importantly, advocate for our members. My name is Marc Knisely. I am President and CEO of AgCountry Farm Credit Services based in Fargo, North Dakota. AgCountry Farm Credit Services is a financial services cooperative providing financing, crop insurance, related services to more than 18,000 ranchers, farmers, agribusinesses, and rural homeowners across northeastern North Dakota, western Minnesota, and central Wisconsin. We currently provide $7.6 billion in loans through our 37 branch office locations, and have nearly 600 employees across the three states.

The impact of trade disputes, disastrous weather, and low commodity prices are being felt by farmers everywhere. Many producers are struggling to even make a small profit, and many others are unprofitable at current commodity price levels. Net farm income, although projected to be up in 2019, remained far too dependent on direct government payments, and with the amount of crop we still have in the field up in the Northern Plains, that projection is far from a done deal at this point. We greatly appreciate the Committee's efforts to pass a strong farm bill, including improvements to the Federal Crop Insurance Program. Crop insurance is underpinning the farm economy today. That is especially true this year, as farmers had difficult times planting, faced very challenging growing conditions, and have unprecedented harvest issues this fall.

Similarly, we would like to thank you for your help in enacting disaster assistance earlier this year. Disaster payments are helping many farmers in areas hit by hurricanes, fires, flooding, snow, and other natural disasters. Farm balance sheets that were strong in 2013 are far weaker today. Most worrisome, after 6 difficult years, working capital has declined sharply. Working capital is the cushion against tough times for producers. For many farm producers today, that cushion no longer exists, and increasing debt and decreasing cash flow is not a sustainable model in rural America for farmers.

Producers across the board have seen their share of challenges, but perhaps none more than dairy producers. Since the beginning of 2017 Wisconsin has lost nearly 1,700 dairy operations. In Minnesota, one in ten dairies went out of business in 2018 alone. As we speak, AgCountry is working with a third-generation family dairy in Minnesota. We are doing everything within our power to help out, but if markets continue to struggle, two families on this farm will lose their livelihood, an older generation will see their retirement nest egg disappear, and 20 part-time employees will have to look for employment elsewhere. This is the reality facing farmers today.

Farmers are becoming more financially stressed, and Farm Credit loan portfolios are beginning to show it. Fortunately, three important factors are combining to give farmers and ranchers a chance to survive this downturn, low interest rates, stable land values, and a non-farm economy that continues to provide job opportunities outside the farm gate. Farmers are proving to be highly skilled at cutting costs and taking advantage of narrow marketing windows to keep their operations going. Extending the life of their equipment, managing input costs, cutting family living expenses, are all helping farmers continue, despite low commodity prices. This expert management by farmers only goes so far, however, and soon many farmers will need to see better price levels to survive.

Farm Credit is leaning in to support farmers and ranchers. Since the beginning of the downturn in 2014, Farm Credit has increased its real estate and farm production lending by more than $36 billion. We are working with our farm and ranch operations and customers to provide the time and space they need to stabilize their operation and adapt to the reality of an extended downturn in the commodity prices. Our loan officers proactively reach out to customers on their farms to work through options that provide the best possible outcomes.

The continuing low commodity price environment is impacting young beginning and small farmers as well. Young and beginning operators especially are likely to have much lower equity levels, and be more vulnerable to market volatility, and the swings and cycles in agriculture. Like the producers we serve, Farm Credit builds financial strength in anticipation of challenging economic cycles by being proactive. We have been fulfilling our mission for more than 100 years, and have deep experience in the economic cycles of agriculture. The bottom line is that farmers and ranchers across our three states, and the country, are struggling, regardless of the commodity, experience level, or size of the farm operation.

Again, thank you for calling this important hearing. I look forward to your questions.

[The prepared statement of Mr. Knisely follows:]

PREPARED STATEMENT OF MARCUS L. KNISELY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AGCOUNTRY FARM CREDIT SERVICES, FARGO, ND; ON BEHALF OF FARM CREDIT SYSTEM

Mr. Chairman, Ranking Member Scott, 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 on behalf of the Farm Credit System. My name is Marc Knisely. I am the President and Chief Executive Officer of AgCountry Farm Credit Services, based in Fargo, North Dakota.

AgCountry Farm Credit Services is a financial cooperative providing financing, crop insurance and related services to more than 18,000 farmers, ranchers, agribusinesses, and rural homeowners in eastern North Dakota, western Minnesota, and central Wisconsin. We provide $7.6 billion in loans through our 37 locations throughout our territory and have nearly 600 employees. So far this year, AgCountry made 6,700 loans to farmers and ranchers for over $2.1 billion.

Most importantly, we are a member-owned, locally-governed cooperative and a proud member of the Farm Credit System. Along with 71 other Farm Credit institutions, AgCountry shares 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 68 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 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.

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 reverses the normal flow of capital, raising money in urban financial centers and bringing it to rural communities.

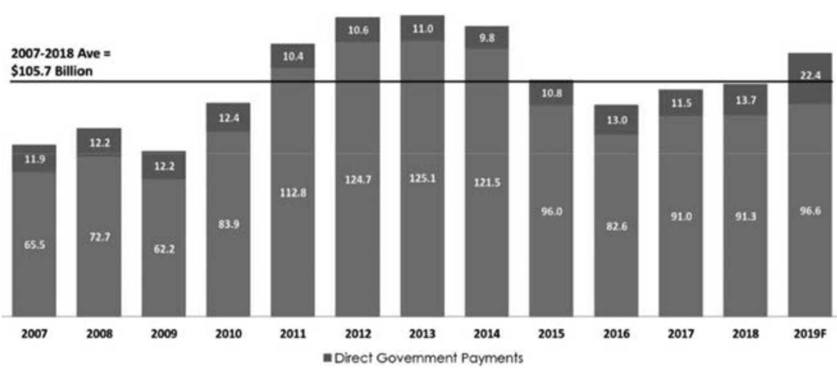
There is no Federal funding provided to Farm Credit. Instead, the four Farm Credit System banks own the Federal Farm Credit Banks Funding Corporation, which markets debt securities to the investing public that fund the lending operations of all Farm Credit institutions. Diversification of lending portfolios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

Credit Conditions Update

Today's Subcommittee hearing is timely. Farmers across the country continue to feel the impact of trade disputes, disastrous weather, and low commodity prices. Many producers are struggling to make even a small profit and many others are unprofitable at current price levels. Net farm income, although projected to be up this year from 2018, remains far too dependent on direct government payments, which might not continue. I will also note that due to harvest delays, there is a lot of crop still remaining in the fields making this projection far from a done deal.

Farmer's Net Cash Income, 2007–2019



** Forecast Dec. 2019.
Source: USDA.

We greatly appreciate this Committee's efforts to pass a strong farm bill, including improvements to the Federal Crop Insurance Program. Crop insurance clearly is underpinning the farm economy today.

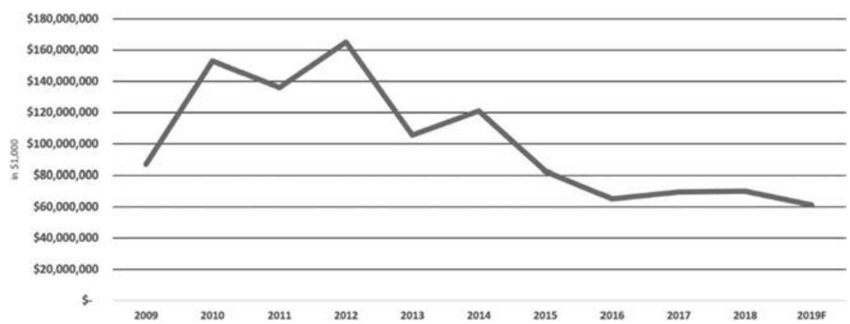
The program is functioning as intended. Farmers pay for coverage they can count on when weather decreases production and cushions the impact of falling commodity prices—to a degree. Thank you for your work to provide this vital tool to U.S. farmers and ranchers.

Last spring we had thousands of acres in Minnesota, North Dakota and Wisconsin that could not be planted due to excess moisture from persistent spring rains. The prevented planting coverage of the crop insurance policy paid claims on those acres to help farmers cover some of their fixed costs and input costs already committed to those acres. This fall we have had unprecedented harvest conditions of snowstorms, fall flooding and more persistent rains. Thousands of acres of good crops in northern Minnesota and northern North Dakota were flooded and destroyed by the rising Red River and its tributaries. Over 100,000 acres of sugar beets were left frozen in the fields because the ground was too wet to get in with harvesting equipment. Crop insurance will help to reduce the losses by covering much of the input expenses and cost of production. However, crop insurance will not make those acres or the farm profitable. Unfortunately, most of these farmerswill experience net operating losses this year.

Similarly, thank you for helping to enact disaster assistance earlier this year. Disaster payments are helping many farmers in areas hit by hurricanes, fires, and other natural disasters survive to plant another year. The recent trade adjustment assistance payments are helping farmers who have no other alternative to cope with trade interruptions brought on by ongoing tariff disputes. We hope that the President, with support from Congress, will continue to make these payments so long as the present trade situation continues.

While disaster assistance and trade adjustment assistance are very welcome, farmers and ranchers need markets they can plan for and on which they can depend. We strongly support swift passage of the U.S.-Mexico-Canada trade agreement. USMCA will provide certainty for trade with our two largest agricultural trade partners. We urge your support for passage this year.

Farmers' Working Capital



** Forecast Dec. 2019.
Source: USDA.

Since farm income peaked in 2013, profitability for most farmers and ranchers has been on a long decline. Despite some stabilizing over the past 2 years, most farmers are feeling the compounding effects of multiple years of low profits or even losses. As a result, the farm balance sheets that were strong in 2013 today are far weaker. Most worrisome, after 6 difficult years, working capital levels—the difference between current assets and current liabilities—have declined sharply. Working capital is the cushion against tough times. For many producers today, that cushion no longer exists.

Similarly, debt-to-asset ratios for most farmers are climbing. Overall, farm balance sheets remain leveraged at a comparably low rate, with USDA's 2019 forecast predicting an overall debt-to-asset ratio of just less than 13.5%. Farm sector debt-to-asset ratio, however, is climbing rapidly, up from just over 11% in 2013.

These debt ratio figures are somewhat misleading however, as most farms—and most of the farm real estate—carry no debt. As a result, the industry leverage ratio, which represents the overall average, does not reflect the uneven distribution of debt and its impact on commercial producers. For those producers with debt, who make up most of the farms that produce most of the food and fiber in the U.S., debt ratios are climbing perilously high.

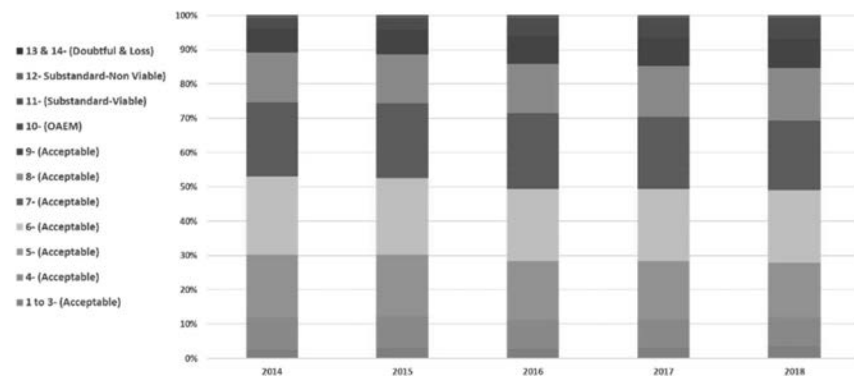
USDA forecasts agree with most private forecasts that commodity prices likely will remain at or near current levels for several years to come. In this price environment, it will be very difficult for farmers to recover the economic losses of the past few years and rebuild their financial strength. That's even more reason that we encourage Congress and the Administration to settle trade disputes, pass USMCA, and pursue other advantageous trade agreements so markets can recover, and farmers can rebuild from the current difficulties.

Media stories over the past year noted a rise in farm bankruptcies and those reports are true—although perhaps a bit misleading. While the bankruptcies are rising, the actual number of farm bankruptcies remains very low. Continuing strong land values, low interest rates, and aggressive cost cutting by farmers all help avoid more bankruptcies. For now, farmers have options, lenders like Farm Credit and community banks, are proactively working with farmers to rebalance loans. Farmers are selling some assets voluntarily and taking other steps to position their operations to withstand the low-price environment.

Despite these efforts, however, financial stress is rising for many producers. An analysis of Farm Credit's loan portfolio demonstrates the current financial stress under which many farm families operate today.

There is little question that commodities across that board have seen their share of challenges, but perhaps no other commodity has suffered as much as the dairy industry in the past few years. Since the beginning of 2017, the state of Wisconsin—which is commonly referred to as America's Dairyland—has lost nearly 1,700 dairy operations. In neighboring Minnesota, one in ten dairies went out of business in 2018 alone.

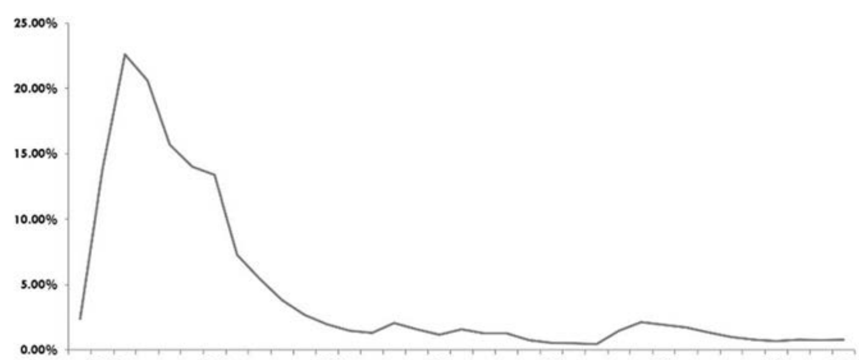
Farm Credit Loan Probability of Default Ratings



Farm Credit, like most lenders, assigns a credit risk rating for each of its loans. The ratings, on a 1–14 scale, are an accumulation of the many factors impacting the financial standing of a farm operation. The higher the numerical rating, the more stressed the operation. The chart adjacent shows how these risk ratings—which measure the probability that a loan will default—are migrating upward across the past 5 years. Loans that were rated as 6—a very strong rating—are now rated as 8—still good but weaker. Loans that were an 8 are now pushing toward 10—the beginning of the troubled loan category. Loans rated 10 and above increased from 4.2% in 2014 to 7% at the end of 2018.

As difficult economic conditions continue, farmers are becoming more financially stressed and Farm Credit loan portfolios are beginning to show that stress. Fortunately, three important factors are combining to give farmers and ranchers a chance to survive this downturn—low interest rates, continuing strong land values, and a non-farm economy that continues to provide job opportunities outside the farm gate.

FCS Non-Performing Loans % of Total Loans



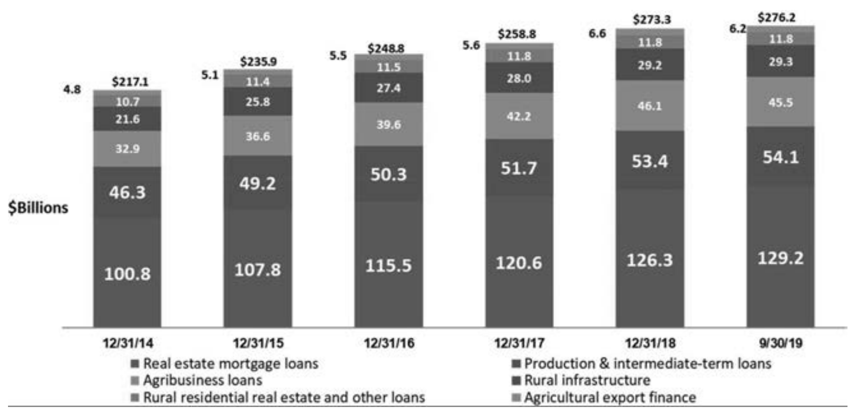
Probably most importantly, farmers themselves are proving to be highly skilled at cutting costs and taking advantage of narrow marketing windows to keep their operations going. Extending the life of equipment, precisely targeting input supplies, and cutting family living expenses all are helping farmers continue despite low prices. This expert management by farmers only goes so far, however, and soon many farmers will need to see better price levels to survive.

We are also seeing a rise in voluntary exits from farming, particularly among older farm operators. As the outlook for prices remains low, many older farmers are selling or renting land and pulling out of direct operation. Continuing strong land prices are providing much flexibility, both to exiting farmers and to farmers rebalancing their operations.

Fulfilling Farm Credit's Mission During a Downturn

We have a simple philosophy as we approach difficult economic circumstances farmers are experiencing now—we know our customers well, understand and respond to their needs and work cooperatively with them to analyze and structure our transactions to provide them with the best possible outcome.

Farm Credit System Loans, 2014–2019



Farm Credit is a responsible lender. We understand that credit cannot be a substitute for income. We work proactively with customers to explore a wide range of options to give them the best possible chance to succeed.

Farm Credit is leaning-in to support farmers and ranchers. While overall loan growth slowed somewhat this year, we continue to increase our lending to farmers. Since the beginning of the downturn in 2014, Farm Credit increased its farm real estate and farm production lending by more than $36 billion.

Today, Farm Credit provides about 40% of the financing for production agriculture and serves nearly 500,000 customers across all our lines of business, including agribusiness, rural infrastructure, rural housing, and agricultural export finance.

We are working with our farm and rancher customers to provide the time and space they need to stabilize their operations and adapt to the reality of a long-term downturn in commodity prices. Our loan officers proactively reach out to customers—on their farms—to work through options that might provide an opportunity to succeed.

As we speak, AgCountry is working with a third generation family farm in Minnesota. This particular dairy farm has been extremely successful in the past, but the tough economic environment of the last 4 years has led to yearly losses reaching as high as $500,000. We are doing everything in our power to help out, including working with the Farm Service Agency, allowing interest-only payments and extending the repayment terms. The reality of this situation, and many situations like it, is that our options are starting to run low. If markets continue to struggle, two families on this farm will lose their livelihood, an older generation will see their retirement nest egg disappear, and 20 part-time workers will have to look for other employment.

I want to expand a little more on Farm Service Agency guarantees, which help us work with troubled customers and provide an opportunity for young and beginning farmers. A guarantee on an existing loan strengthens the loan, making FCA examiners less wary of us continuing with the loan, and providing additional time for a customer to find a way to operate profitably. We rarely collect on these guarantees. The value of the guarantee for these customers is the regulatory relief it provides us so we can continue to seek that best possible outcome for our customer. We are grateful that this Committee changed the FSA loan limits in the last farm bill. We are using that new authority to farmers' benefit as intended. We also strongly support The BALE Act, H.R. 2797, introduced by Representative Mike Bost. The bill would further raise the caps on FSA loan guarantees providing greater flexibility to serve farmers.

Farm Credit is fortunate that our independent Federal regulator, FCA, has deep knowledge of agriculture and considerable experience in the inevitable business cycles our members face. Their ability to look holistically at a customer's operation and understand an individual customer's risk-bearing capacity and equity position will, in many cases, determine whether we can continue with that customer. If the FCA is overly restrictive in its approach, it might tie our hands as we work to help members through this cycle. We are optimistic about the FCA's continued good judgment.

While the focus of our testimony today is the financial stress many producers face, we cannot ignore the emotional and mental stress building in among farm families and rural communities resulting from 6 long, difficult economic years in agriculture. Farm Credit is working to provide resources to help farm families cope with these kinds of stress as well.

Unfortunately, mental health resources in rural communities are lacking and, in many areas, there remains some level of stigma associated with seeking help with mental health issues. Farm Credit is partnering with Michigan State University (MSU) to create an online training course focused on mental and emotional health. It will help provide 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.

The Farm Credit training curriculum is modeled on a successful program funded by Congress and created by MSU for USDA's Farm Service Agency personnel. It will be made available to all Farm Credit institutions beginning next February. The training is made possible by a grant to MSU from Farm Credit.

Farm Credit will provide a version of this program to regional and state leaders at the American Farm Bureau Federation and National Farmers Union at their respective annual conventions. These trainings offer additional resources to rural communities across the country to help reach additional individual farmers and ranchers. We hope to make the program available to more farm and rural organizations in 2020.

The training builds on other Farm Credit System efforts to support rural mental health. We are partnering with AgriSafe Network to educate rural health professionals on the mental health risks faced by farmers and ranchers and trains them to integrate basic mental health screenings into their primary care practices. The "Total Farmer Health" campaign helps address the limited mental health services in many rural areas and trains primary care practitioners to better understand and recognize the challenges agricultural producers face and how they might manifest. Farm Credit also is partnering with the Progressive Agriculture Foundation to develop a new curriculum focused on the mental well-being of rural youth ages 4–13, as part of "Ag Safety Days" it hosts across rural America. This curriculum launches in January 2020.

In addition, we and several other Farm Credit institutions are offering our customers access to a free, confidential resource service that had previously been available to Farm Credit employees. We felt it right that given the struggles our customers are facing, they, too, could benefit from the support and guidance of trained professionals when facing increased challenges and the emotional difficulties that follow.

The stress that our customers are facing right now can be further reflected in the faces of our employees. There have been times over the course of the past few years where you can walk into one of our offices and see the emotional weight our staff is carrying with them. As the CEO, this greatly pains me.

We are also concerned that the continuing low commodity price environment is impacting young, beginning, and small farmers. Young and beginning operators especially are likely to have lower equity and be more vulnerable to profitability swings. Smaller operations oftentimes have fewer options for cost-cutting and other managerial changes to help the bottom line. Offsetting this somewhat is the continuing strong non-farm economy that is providing off-farm employment.

Farm Credit's service to young, beginning, and small farmers is increasing. FCA's 2018 annual report reveals that overall volume of Farm Credit lending to YBS farmers increased from 2017 to 2018. In addition, the number of Farm Credit loans made to young, beginning, or small farmers as a percentage of total Farm Credit loans made increased from 2017 to 2018.

Farm Credit makes extraordinary efforts to support young, beginning and small (YBS) farmers and ranchers. Each year, the FCA, our independent Federal regulator, compiles data on Farm Credit YBS lending and reports it to Congress. Based on FCA's report:

- Farm Credit made 46,680 loans to young producers (under age 36) in 2018 for a total of $9.7 billion, up from $9.07 billion of loans made in 2017.
- Farm Credit made 62,323 loans to beginning producers (10 years or less experience) for $13.3 billion in 2018, up from $12.45 billion of loans made in 2017.
- Farm Credit institutions made 114,817 loans to small producers (less than $250,000 in annual sales) for $12.5 billion in 2018, up from $11.69 billion of loans made in 2017.

To put Farm Credit's lending to small farmers and ranchers into perspective, at year-end 2018 Farm Credit had 910,113 loans of all kinds outstanding, and just over ½ (456,305) 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. Our regulator, the Farm Credit Administration, is engaged now to better define data requirements surrounding YBS lending.*
>
> *Note: The number of loans made to YBS farmers during 2018 cannot be directly compared to the number of loans made to YBS farmers in prior years due to a change in the technical counting procedures used in multi-lender loan participations. The change in counting procedure does not impact the counting of $ volume of loans made and, as a result, $ volume figures are comparable year-over-year. The Farm Credit Administration's* ***2018 annual report*** *explains this in more detail.*

Farm Credit institutions have a deep commitment to YBS farmers beyond providing loans. At AgCountry, we provide scholarships to young farmers and their spouses for farm-related education programs, marketing classes and conferences. We provide succession and retirement planning to help young farmers develop transition plans with their parents. We greatly reduce or waive fees for farm accounting and tax planning services. In addition, we host a young and beginning farmer advisory committee to help provide feedback to our association and identify areas to better meet the needs of those within this demographic.

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.

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 2018, Farm Credit returned $2.3 billion in patronage dividends to our customers and over the past 5 years, Farm Credit returned nearly $9 billion to our customers. At AgCountry, we returned $42.5 million last year, lowering our customers' average interest expense by just more than ½ of a percentage point (54 basis points).

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 has financed more than $6 billion in exports of U.S. agricultural products. We also make nearly $12 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 is critical to the success of rural communities and a key component of Farm Credit's mission. Farm Credit finances more than $29 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.

Like the producers we serve, Farm Credit built financial strength in anticipation of this challenging economic cycle. We have been fulfilling our mission for more than 100 years and have deep experience in the inevitable cycles of agriculture. Like most, we could not predict with accuracy when this cycle would begin, nor can we predict when it will end. But experience told us it was coming, and our institutions proactively prepared for it.

When it comes to the present conditions facing agriculture, the bottom line is this: farmers and ranchers across our three states and the country are struggling. This holds true regardless of the commodity, experience level of the farmer or size of the operation. To their credit, and the credit of financial lenders, all parties are working hard to do the things necessary to survive this economic cycle and ensure the vibrancy of communities throughout rural America.

Thank you again for calling this important hearing. I would be pleased to respond to your questions.

The CHAIRMAN. Thank you very much. Thank you for all of your views. Members will be recognized for questioning in order of seniority for Members who were here at the start of the hearing. After that Members, will be recognized in order of arrival, and I will start off. I recognize myself for 5 minutes.

Earlier today several Members of Congress joined with me in getting a very impressive and very informative hearing of the effort by Farm Credit to provide mental health assistance to our farmers, our ag producers, and I would like to start out by giving each of you a little time to talk about this effort by Farm Credit, who are working to support farmers as they suffer multiple elements of stress. The weather, the prices, China and other unknown uncertainties with the trade conditions. If you could just tell the Committee about the initiative, as you see it, and how Farm Credit is grappling with this, and just what is the American Bankers' Association doing to help this mental health situation that we see a record number of suicides among our farmers. It is just absolutely heartbreaking.

And so I wanted, to start, to give each of you a little time to talk about that, because I really think we need to lay this on the table. This Committee is determined to help the farmers with the stress that they are going through. And may I start with you, Mr. Knisely, because Farm Credit is initiating this, and we are determined to make sure this word gets out, what is happening, and I would like to hear from each of you on how the community banks can get involved with this. How can the, we had the community banks, who was the other group we had—and the American Bankers' Association? Yes, go ahead.

Mr. KNISELY. Mr. Chairman, Farm Credit, obviously, lending to agriculture is our primary and sole business. We are a farmer-owned cooperative. We are deeply passionate about what we do in serving agriculture in rural America. We are really going at this from a two-pronged approach. We think it is important for our staff to be well trained, and recognize financial stress and mental health, opportunities to help with mental health as they meet with their customers and their clients, and also providing—a number of the Farm Credits are under a collaboration where we are actually offering third party confidential services for our customers to access free of charge, to just deal with the stigma of mental health, and making sure that we are reducing any barriers.

We often talk with our staff and our customers, when we have meetings, around the fact that physical health—everybody's kind of focused on physical health, and we actually want to make sure that we have as much focus on mental health because of the stress that is out there in agriculture today. We just think that is an important role that we can play, and we have enough interaction, and do enough with our customers that hopefully we can recognize that.

The CHAIRMAN. Thank you very much. Mr. Handke?

Mr. HANDKE. Chairman Scott, that is a great question. I am a farm family, and I went through the 1980s, started my career in banking, and so a good deal—at least we haven't got to the stress that we did in the 1980s, but I can speak from experience on that, and it starts first with relationship banking. And you are a loan officer, you had relationships with your customers. We have deep relationships with those customers, and those families, as you exited from agriculture. At the time we had great resources from the universities, Kansas State University. We also are privileged in northeast Kansas to have Kansas Mental Health, and that when we had borrowers that were having stress, we sent them to those services, but more important, we were a compassionate lender. And it is that relationship.

As you get into large banks, and it becomes less relational, you will have more problems with that creditor and the harshness, but I can just speak from the community banking presence. And I, you know what I am really proud of is when I go to family events in my community. When we lose one of our elders, at a funeral, and that is a person that I helped through agriculture to exit, and we still bank with all of his children, his grandchildren, and his friends. I really think the answer is in relationships. And then we do have robust land-grant universities that helped us through that. But it starts with the lender.

The CHAIRMAN. Yes. Thank you very much. We have that. My time has gone.

Mr. HANES. Could I offer a quick part to that?

The CHAIRMAN. Yes, please.

Mr. HANES. What you are really talking about is the non-financial factors that go into an operation. We can look at the numbers, and what Steve was talking about is we spend time with each customer, we figure out their break-even, we figure out what direction they are going, as far as an earned network process and progress. What ABA started a year ago is an ag lending school. There are a number of ag lending schools around the country that focus on these non-financial factors, the mental side of it, the emotional side of it, and train lenders to recognize that, to see that, and to then be able to send them to someplace that—hey, talk—let's get together with somebody.

What we don't have a national program like Farm Credit. What we do is we have a Farmer Focus Day once a year. Cooperative with crop insurance and a farm equipment dealer, we bring in a number—well over 100 farmers. This last year we actually brought the middle school kids, and so dads got to eat lunch with their middle school kids. And we bring in a speaker, whether it is an economist, last year we brought in a weather guy. And so you are bringing generations together to learn together, and so that communication is important, and so it is between the education of the lenders, and the communication with the borrowers, is what will help us work through that in a relationship.

The CHAIRMAN. Well, that is really good to hear, and we are going to get back to that. I am going to be very lenient with time with everyone, because we really want to get to some answers to this. We want to solve this. Our farmers are suffering drastically, and the suicide rate is off the chart, so thank you for that. And now let me yield for his questions, our Ranking Member, Mr. Scott.

Mr. AUSTIN SCOTT of Georgia. Thank you, Mr. Chairman, when Hurricane Michael hit our state, the first phone calls were from the farmers. The next phone calls were from the banks. And in our part of the world, we have a lot of irrigated cropland, and if you are irrigated, you know you are going to be able to grow the crop. We have not seen the scenarios in the past where we were not able to harvest the crop. We have dealt with price fluctuations and other things, but the last couple of years the combination of not being able to harvest the crop and the price fluctuations have certainly taken its toll, and our lenders are feeling the pressure. And had there not been some flexibility granted from the Feds on some of the lending, I think that there are a lot of our people that would not be able to farm this year, and they were able to farm because of a couple of things. The state legislature, and former Governor Deal, now Governor Kemp, through the Georgia Development Authority, loaned some money to some farmers that allowed the banks to reduce the debt that was on their books, and that helped with the interest rates with the farmers, and obviously that has—when you are talking about big numbers, small percentages end up making a difference.

But, my question gets back to the collateral, and how we are going to handle things, going forward. Do you expect changes in what banks require, from the standpoint of crop insurance, to be carried by the producer, or other types of products that provide cash protection? Because the banks don't want the land. But what changes do you expect with regard to requirements on the loans with crop insurance and other things?

Mr. HANES. Crop insurance is a huge part of the puzzle, and I appreciate Congress keeping crop insurance whole in the last farm bill. It is—that is a huge component, and so I can't underestimate and understate that. What I would say is, because there is that number there, we know that number before we know the base acres, we know the base price, so those producers that have crop insurance—and that is something they had bought prior to the commodity being put in the ground. They can come to the bank, and they can say, here is my guarantee. Here is the bottom line. Regardless of what else happens, I can get that. Our bank, we put that as a part of the collateral.

Now, there is still a lending percentage there, but if you don't come to the bank, you may still be able to get a loan, but your collateral's going to be shorter, because there is no guarantee there. And so that is something that a farmer can make a responsible business decision, take that crop insurance, bring that to the bank, and then that is exactly what it is. It is loanable collateral to our borrowers.

Mr. AUSTIN SCOTT of Georgia. How are you calculating—obviously, I mean, you all testified that farm income is up this past year, but without the MFP payments, farm income would not be up for this past year, and expenses are also up on the farm. If income is up, and expenses are up, the net can be down, but income's only up because of the MFP. My question is, if there is going to be an MFP payment next year, can you use that calculation in a revenue calculation for the loan?

Mr. HANES. No, you can't, and those *ad hoc* programs are very challenging. From a standpoint of a cash flow and an operating note, I can tell you what the number is that we are—we can put in. It is zero. Regulators would get pretty excited. We use FSA. We are proud of our relationship with them. They would kick it out, because we don't know. And so it kind of created a two-fold problem, especially this year, in that we couldn't put it in there, we can't put it in going in for next year. The payments came, and, as was testified by the other gentleman, necessary, but it also created a tax hit this year, because that is going to be taxable this year, can't be rolled into next year, where sometimes they would roll their grain sales into next year. And so, while necessary, one, we can't put anything on next year's cash flow, and we have a tax liability situation.

Mr. AUSTIN SCOTT of Georgia. Sure. Mr. Chairman, my time has expired. I have two things I want to mention. One is, as someone who represents 24½ counties, that I represent, there is only one health insurance company, and in many cases they don't have a contract with the local health care providers. What we are paying rural America for health care, in comparison to what is paid in the metropolitan areas, is a—it is a significant disadvantage to the farm families.

And the fact that we are forced to purchase individual products, and that product does not—in most cases forced to purchase individual products, and the tax law that surrounds that product is not equitable for the farmer, in—meaning we have to pay that premium with after tax income, that is something that I hope we can look at from a cash flow standpoint. I realize it is not in our jurisdiction as a Committee, but in the 30—next 30 seconds that I have gone over, 1 minute, I am going—but you went over 2½, I want to say this.

The CHAIRMAN. Go right ahead.

Mr. AUSTIN SCOTT of Georgia. I do believe that when we write the next farm bill, we need to take a serious look at a step-up provision on the poundage that the farmer is able to insure, because right now you are only able to insure to your 10 year average. Well, when you have a bumper crop, there is no reason that we should not allow the farmer to have that poundage appraised, and allow that farmer 4 weeks, 6 weeks before the harvest to insure, at their option, the additional poundage that has actually been grown. And if we could do that, I believe that might get us out of some of these disaster payments. But, you know as well as I do it is unacceptable.

My farmers waited over 12 months, our farmers waited over 12 months, to receive any type of disaster payment at all after Hurricane Michael hit the State of Georgia. They can't survive that.

The CHAIRMAN. Yes.

Mr. AUSTIN SCOTT of Georgia. They can't survive that. Gentlemen, I appreciate you being here, and I look forward to continuing the hearing.

The CHAIRMAN. Well, thank you for that point, and I would think that Committee, while I wish it was ours, we could move with it. But if I am correct, it will probably be Ways and Means, is that correct? I would think Ways and Means, and we can talk to Chairman Richard Neal about that. There is so much we want to get over, so many other points I want to make, but I have others that want to go first, but we will go for another round, if anybody would like that, as we go forward, because we really want to get all of our Members' positions out on that.

And you see, gentlemen, our Committee is very determined to deal with mental health, and stressors, and suicides. There is no reason for this, and the answer rests with us right here, with what we are doing in this room right now. And, with that, I would like to recognize the gentlelady from Arizona, Mrs. Kirkpatrick, for 5 minutes.

Mrs. KIRKPATRICK. Thank you, Mr. Chairman.

The CHAIRMAN. If you need more time, please feel free.

Mrs. KIRKPATRICK. Thank you.

And I thank the panel for being here. I grew up on Apache Tribal land in Arizona. I am not Native American, but my father's family came to that part of Arizona in the early 1900s, initially to grow food for the cavalry at Fort Apache, and then my mother's family were ranchers in the area, so I have a long family history with farming and ranching. But my question, because of my Tribal connection, is have any of you worked with Native American farmers, or Native-owned lenders? Or just what has been your experience, with any, with Native Americans?

Mr. KNISELY. If I could, Congresswoman, Farm Credit does have, and has made loans to Native Americans. It oftentimes depends on the reservation, whether they are an open or closed reservation. It depends sometimes on whether the property is located on the reservation, or on Tribal lands, or off Tribal lands. We make an effort to lend every eligible farm customer that is out there—farmer out there, and we continue to work in a work group with a number of other Farm Credits across the country, trying to make sure that we are taking down whatever barriers we can, and making sure that we are getting word out as to what can be done to make it easier to lend money to farmers and farm producers, Native Americans.

And we have also really tried to get involved with various conferences, and that type of thing. And I know last year we were a cosponsor, along with Compeer Financial, of an indigenous agricultural conference on the White Earth reservation in Minnesota. And just, again, trying to investigate and do whatever we can to break down those barriers, and make sure that we have availability of credit on the Tribal lands.

Mrs. KIRKPATRICK. Thank you. Any other comments?

Mr. HANDKE. In northeast Kansas we have three Native American reservations. One of the reservations is the Kickapoo Tribe, which is right next to our location. That Tribe does their farming collectively, and so, in the 35 years I have been an ag banker, and truly we are the town right next to the reservation, I have never seen an ag loan application. Lots of consumer housing and consumer loans; but, it is probably because the Tribe collectively does the farming.

Mrs. KIRKPATRICK. Thank you. One of the problems we have in Arizona—we have 22 Tribes, and there is very little fee simple land on Tribal land. Most of it is held in trust by the Federal Government, so finding the collateral for the loans has been a real barrier for the Native American farmers. Any thoughts on how we can address that?

Mr. KNISELY. Congresswoman, the jurisdiction over the collateral is kind of an important issue, although I will tell you that, in Farm Credit, collateral's not the first thing we look at, from a credit factor standpoint, but it does become potentially an issue with Tribal land. There are ways that financial institutions can work with various trusts and various Tribal entities, possibly, to provide funding at that level, and allow them to administer programs within the Tribe. I do think there are ways around this, we just need to get creative, and really try and put our minds to it. And, working together collaboratively with others in the Farm Credit System, and our banking friends, we can continue to make progress in that area.

Mrs. KIRKPATRICK. Thank you. Yes?

Mr. HANES. I have not personally made one. One of my loan officers did work with Tribal lands for a while, and one of the things that I think would be helpful, and if I understood it correctly from him, different Tribes have different rules, and that is really what makes it difficult for any lending institution to walk in there, when you are not sure what are the rules, and I don't know how to fix that, but I do know that sometimes becomes a barrier, when you are not sure what the rules you are going to be playing by when you get in there.

Mrs. KIRKPATRICK. It is a unique problem. In Arizona, the Tribes are considered sovereign nations, so you are doing a government to government kind of loan on building that kind of relationship, which is very unique. Mr. Chairman, I just want you to know that this is a special area of interest to me, and I yield back.

The CHAIRMAN. And I thank you for that interest, Mrs. Kirkpatrick. As so many Members of this Committee have expressed, we are determined to help our farmers with this mental stress, and the many other issues that they are facing. With that, let me now recognize for 5 minutes Mr. Marshall, the distinguished gentleman from Kansas.

Mr. MARSHALL. Thank you again, Mr. Chairman. I will start with Mr. Hanes. Mr. Hanes, how would the ECORA Act assist your ag borrowers during these very challenging times with prolonged commodity price down cycles?

Mr. HANES. Thank you for that. The ECORA Act is a very simple Act that would lower the borrowing cost for all borrowers, regardless of who they choose to bank with. What it would do is it would make the income earned from—on interest from ag real estate loans and residential real estate loans in communities less than 2,500, that interest would then be income-tax free. While that sounds like a specific carve-out, it is, it just matches what Farm Credit has, and so we are not asking for anything in addition to. We are just asking for the same, because this would allow our borrowers to have the same borrowing costs as other borrowers, and, at the end of the day, would lower credit costs.

The simplest example, a six percent real estate loan, which isn't out of line, and that would make sense, we could lower that same interest rate to 4.6. If we could save, as Congressman Scott alluded to earlier, a lot of dollars, it becomes a little bit, makes a lot of difference: 1.4 percent lower interest rate helps the cash flows a lot in these low times. And to put some numbers behind it, that is what it would do. It would lower borrowing costs by 21 percent on ag real estate.

Mr. MARSHALL. Got it. Okay. Let's go on to Mr. Knisely next. Are there things that Congress can do to reduce the burdens of customers, and encourage more access to credit? What are things Congress can do to reduce the burdens, and encourage more access to credit?

Mr. KNISELY. There are plenty of providers out there for credit, so I don't really see that as a hurdle. I think what Congress can do to eliminate trade barriers, and really help with the income levels, and the profitability of farm operations is probably the most important thing that Congress can stay focused on. The banks and Farm Credit all deal with regulations, and things that get a bit cumbersome at times; but, for the most part there is adequate providers of credit. Just making sure that we are doing all that we can do to help producers, and that Congress can do all that it can to reduce barriers to trade and other things, and open markets for our customers, that is the most help you can provide.

Mr. MARSHALL. Okay. Well, thanks. When we talk about the challenges of rural America—and Mr. Handke, I am coming to you next—when we talk about the struggles, the challenges of rural America, very much they seem to be the same challenges of the agriculture economy. As agriculture goes, so goes those rural communities. You find me a hospital that is struggling in a rural community, and I will show you an economy that is struggling as well. And Shan started kind of going in that direction about the community challenges there a little bit.

When I sit down with small producers, and big producers, for that matter, they describe to me these are the challenges they have. First, just the price of wheat, or whatever the commodity is. Second, the cost of health care is a huge cost, especially to a small mom and pop operation. Next, agriculture talks about the lack of people for the jobs that we do have, and then input costs is the next thing. What really matters is giving farmers certainty, and giving them a strong economy. Talk about your bank, and your role in that community, and just expand—am I missing something, or—what would you add to my list that farmers are telling me?

Mr. HANDKE. That is a great question, because my home is in northeast Kansas, but part of our bank is also located in Miami

County, which is south of Johnson County, and what you see in that—it all comes back to jobs. Jobs, jobs, jobs.

Mr. MARSHALL. It is the economy.

Mr. HANDKE. In Miami—we have five locations in Miami County, urban, jobs, vibrant economy. In my community—I spent my lifetime in these rural counties, and we haven't been able to produce jobs, and so what happens is you see an erosion of your population. And as the jobs leave, the housing stock goes down. As the housing stock goes, then it eventually becomes difficult to sustain your hospital. And, unfortunately, I spent 12 years on our local hospital board, and we just lost that hospital.

Mr. MARSHALL. That is right.

Mr. HANDKE. Now, there was fraud involved with that. It is a difficult situation, but that was a major employer in our small town. It gets back to developing rural America, and if I can stress anything, I would love to have your vote for the ECORA Act, because that helps—Farm Credit has done a good job in Kansas in rebating back money to their operators. Frontier Farm Credit is the largest ag lender in Kansas. They have a $2 billion portfolio. This year they expect to send $16 million back to their farm customers.

Banks on the other hand, in Kansas—we have twice the loan portfolio in Kansas, 260 banks, but we have about a $4 billion portfolio in Kansas. If we just had the same benefit, that $15 million that Farm Credit sent in, we could send another $30 million back to farm rural communities. I think it would be a good thing. Maybe that is what stimulates that. Maybe that is what helps bring jobs back. I would highly encourage the ECORA Act.

Mr. MARSHALL. Thank you. I am over my time, and I yield back, Mr. Chairman. Thank you so much.

The CHAIRMAN. All right. Thank you. I now would like to recognize our distinguished colleague from Virginia, Ms. Spanberger, for 5 minutes.

Ms. SPANBERGER. Thank you very much, Mr. Chairman. Thank you for being with us today. In my home state of Virginia, 26 percent of producers are new and beginning farmers. And we know it is difficult to start a farm, and to start farming, especially if you do not come from a farming family, and even more so when the farm economy is where it is today. Given this context, the 2018 Farm Bill made some changes to improve access to credit for new farmers, and one of those changes was creating flexibility so that military experience, and other relevant experience, could fulfill a portion of, or all of the 3 year experience requirement for loan applicants. Mr. Hanes, has that change resulted in an increase in the number of loans to new and beginning farmers, from your experience, and how about the other changes in title V of the 2018 Farm Bill? Have they affected the new and beginning farmers, as you have seen it?

Mr. HANES. I will say the 2018 Farm Bill is still kind of—we are opening it, and we are trying to figure out what all is in it, and how to best utilize that. The hemp provisions were probably the first one that everybody's excited about, but we are still unraveling some of those. Those are some great additions to the farm bill, and we encourage anything with FSA. What I would say with FSA is they need to update some technology, and they really need additional staffing. We can overwhelm them already with the applications we have now, and they do a good job, and they work hard. It is not a derision to FSA at all, it is just they need more support there.

We were submitting, with the new farm bill, with the 175, and from 300 to 600 on the direct, we were submitting applications before they had the software. I mean, the farm bill is approved, and it was going, but their software wasn't updated to accept them. And so we were sending applications that they said, we cannot process, don't send these to us. And so—not a slam to farm—to FSA at all. It comes down to, I think they need more support, and they need probably some help from Congress with some money to update their system so that we can implement some of those provisions.

Ms. SPANBERGER. Thank you very much, Mr. Hanes, for your answer, and also for teeing up my next question.

Mr. HANDKE. Could I respond to that?

Ms. SPANBERGER. Yes, sir.

Mr. HANDKE. I actually have a good report from USDA on it. I was surprised by this report, and actually, it is good news, because there is great utilization of the USDA loan guarantee programs and direct lending. And so this report is for Fiscal Year 2019, Beginning Farmers and the USDA Obligations Report. USDA has obligated $5.7 billion, and of that, across the states, $3 billion went to those beginning farmers, and the USDA applicants: 53 percent of the funding went to the exact applicants.

But the interesting—and what Shan's saying, it also is interesting—if you go—the budget for 2017, we didn't use all the money in 2018. In 2019 we used less money than 2018. There is a lot of funding appropriation that is not being utilized, and maybe that is because of staffing reductions in our county offices. But it looks like the funding's there, looks like the programs are being administered well. We just need to get more of those loans through.

Ms. SPANBERGER. Thank you very much. Thank you for adding to that. And, Mr. Hanes, you did tee up my next question well, which is focused on industrial hemp, and the emerging market of industrial hemp does provide new opportunities. In 2019 farmers in Virginia planted 2,200 acres of hemp, and we saw increasing interest in both growing and processing this crop. And, simultaneously, the Commonwealth, and many other states, are working to implement the provisions of the 2018 Farm Bill.

Mr. Knisely, do you believe that your institutions have received clear guidance from USDA and the Farm Credit Administration on lending to hemp producers, processors, or other businesses in the industrial hemp supply chain, and what guidance could be made to help ensure that that is more useful and clearer for you all?

Mr. KNISELY. I think the rules are still being written, and there does need to be a little more clarity with that whole area. Each state has a little different approach. Some states have had pilot programs out there in the past. We have had some producers that are involved with this early program, but it is far from being kind of certain as to all of the specifics of the program and kind of that whole implementation piece.

Ms. SPANBERGER. Yes.

Mr. KNISELY. I don't know that anybody is holding up our ability to lend money as a System to the industry; but, everybody is really going to be really cautious about going in and financing those operations until we have a little more clarity from the USDA.

Ms. SPANBERGER. Wonderful. Thank you very much. Yes, Mr. Hanes?

Mr. HANES. We actually had three producers try to grow some hemp this year, and it kind of gets back to Congressman Scott's comments earlier. There was no crop insurance available for that. They were doing that out of pocket. And when you are looking at the seed costs can be upwards to $2,000 per acre, you are not going to plant a whole lot of that on your own. And so crop insurance—I know they are working on it, but we are just not there yet, and where we farm, you are going to do wholesale, you are going to do 160 acres at a time, you are going to have to have crop insurance on that, so we need to get those rules out.

Ms. SPANBERGER. Thank you very much.

Mr. KNISELY. Congresswoman, if I could add, the reason there is so much interest in it is farmers are very innovative, and they are just looking for new avenues to generate revenue, particularly in this farm economy. Anything we can do to open up new markets, whether it is hemp or anything else, I think that is a very important step forward for agriculture. And, anytime you offer those types of opportunities, you are going to see interest in rural America to address that, and try and leverage that in their operations.

Ms. SPANBERGER. Thank you very much to the witnesses for a good conversation about new industries and new farmers. I yield back, and thank you for letting me go over, Mr. Chairman.

The CHAIRMAN. No problem, and I will thank you. And now we will call on Mr. Johnson from South Dakota, for 5 minutes.

Mr. JOHNSON. Thank you, Mr. Chairman. Mr. Hanes, in your testimony you noted the importance of us helping producers become better business managers, and, of course, you mentioned that can come through lenders, and ag groups, and extension offices, of course. You particularly called out the importance of hedging as a good business approach, good business strategy, so I want to think about a little bit, and I will ask about both farmers and ranchers, because the answers may be different.

Talk to me about how, with your farmers, row crop guys, and others, what are the trends? What is the evolution of these hedging practices, from a risk management and a buying down volatility perspective? Where is the next frontier, if you will?

Mr. HANES. Something the—actually, my mentor, I guess, he pushed marketing 20 years ago, and so our bank in particular, if you were our customer, you came—we still do the face to face renewal. You come, sit down, we do your cash flow together. But when that borrower leaves our office, they know their break-even per bushel, per pound, and when they leave, they know exactly—I have to sell this calf for 68¢, or 88¢, or whatever, I have to get $3.48 for this bushel of wheat.

Mr. JOHNSON. And they have a plan about how to kind of move different product through different price points?

Mr. HANES. And so then—like, for cattle, for example, in South Dakota—so when they go to the auction, they are looking to buy stocker cattle, or fat cattle, whatever, they can have two or three break-evens there in front of them. If I buy a six-weight, I can pay up to this. If I buy a four-weight, I can pay up to this, but part of that break-even, we factor in a hedge, a put against it. And so we are not—we are setting a floor. We are not limiting the top side. Part of the break-even is the hedging portion, and we are pretty proud of the way we do that for our—we give that information, at least, for our borrowers.

Mr. JOHNSON. I get the sense that the level of sophistication is higher on the farming side than it is on the ranch side. I think there is some data to suggest that. What has your experience been?

Mr. HANES. There may be. I would say they are catching up.

Mr. JOHNSON. Yes.

Mr. HANES. We have moved into a time where everything costs more, and the margins are smaller, and so everybody is having to get more efficient, more knowledgeable. After 25 years, what I have been able to see, and probably all panelists, going from one generation to the next, that first generation may not have to market, and they may do it however they want, and they may hold the grain for 5 years, but as you move to newer generations, they are—they want to learn, they want to understand, but they also have higher debt levels, so they don't have the room, they can't make the mistakes. As I see this transition, generational transition, it is fascinating to watch these younger guys coming in, because they want to understand it. They don't want to take the risk because they have enough debt level out there already.

Mr. JOHNSON. I have introduced the Livestock Risk Management Education Act, and there are others, including Ms. Spanberger, who are showing some interest, and wanting to show some leadership. As we try to build the right bill, and create the right mechanism, are there things we should keep in mind with regard to building a higher level of success within the livestock arena for hedging?

Mr. HANES. It is just going to come to education.

Mr. JOHNSON. Yes.

Mr. HANES. Where the education part has to get, and I don't know how to do this from your side, is we need to get it down to the farm level. And we can come with programs, but getting it all the way down to the guys. Whether it is extension, whether it is land-grant universities, whether it comes through the financial side, somehow to push that all the way through. FSA would be a great avenue to do that as well, but get that education down to the producer. We hold farmer meetings, and that is what we talk about. We will bring in a speaker, and let them explain that to them. I think that would be a great avenue.

Mr. JOHNSON. Mr. Handke, Mr. Knisely, are there other things that either of you would want to mention with regard to hedging?

Mr. HANDKE. Well, you have three approaches. You develop the program, or the legislation, you have the education, but then you have to have the utilization. So getting the utilization of the farm customer, I mean, that is the last step of it, utilization.

Mr. JOHNSON. Yes.

Mr. KNISELY. It has been hit on, but really helping producers understand what their break-even costs are, and really positioning that operation so they know when good marketing opportunities are available out there. And, in regards to livestock in particular, if you look at the value that Federal crop insurance has provided for rural crop operations and small grain operations, if you were able to target a program for livestock similar to that to provide that kind of revenue coverage, which has been worked on, I think that would pay big dividends long-term as well. It really allows people to market, not knowing what their production's going to be.

Mr. JOHNSON. Yes, well said. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Ok. Thank you, Mr. Johnson. Next the chair will recognize Mr. Baird of Indiana, for 5 minutes.

Mr. BAIRD. Thank you, Mr. Chairman, and I appreciate all of you being here, giving us your expert testimony. In Indiana one of the things that we have seen is that the land values have declined, say, about 10½ percent, ten percent. They seem to be holding steady right now, but at some point the demand on the net investor side is probably going to be able to make up for the lack—or not going to let us make up for the lack of interest and ability of farmers to purchase that land, which is an extremely important part of the process for them. What are you able to do to mitigate the effects of potential decreases in land prices, and the effect that would have on the credit for the farmers?

Because I remember very well the 1980s, and going through that, and I can tell you that you cannot pay 20 percent interest on operating loans and come out ahead. I think that we have, from that experience in the 1980s, and I hope that is transferring over to our younger generation, we have interest in keeping our debt to asset ratio less than, say, .36, or less than 36 percent. And, to my knowledge, that has been true. Anyway, I am asking how the impact of the land values, and our debt load on these young farmers, because they are more likely to be highly leveraged, and they are going to have to take over the industry for the future.

Mr. HANES. All of us on this panel know Dr. Coll, right? I heard him speak just the other day, and he compared land values to Swiss cheese, meaning some of the land values is the same number as it was before, and you have cheese, and then all of a sudden you have a hole where it is declined substantially. And, there is some truth to that. Farmers are now making not only a quantity decision, there is a piece of ground for sale, and I want to buy it, but they are making a quality decision, and they are looking—what is the irrigation, what is the water in that, what is the quality of the dirt? And so farmers are now being very selective, and they are paying the same price for good ground, but ground that shouldn't have been broke out, or isn't as good of ground, or isn't as good of water, those prices have dropped.

What you will hear is you will hear stories of the same land price, and considerably lower land prices, and it probably would wind up being a quality of land decision, which is the reason we really appreciate your interest and your support of ECORA, because that is exactly what ECORA would do. It would allow us to lower interest rates on farm real estate in times when we need it.

And I just can't stress that enough of what it would allow us to be able to do for our produces.

Mr. HANDKE. I think, also, a lot more fixed rate lending now. I mean, Farmer Mac allows us to lock those rates in. But that is a good axiom. That is an axiom in our area, is nothing goes up faster than poor ground, and nothing falls faster than the poorest ground. We are probably at that cycle, where you are starting to see those—some of those poor farms plummet. Luckily, in northeast Kansas, our farm real estate values have maintained, and that is the one key that is different than the 1980s. We couldn't refinance and sell. But as long as real estate's staying strong, it gives us a source of collateral to restructure.

Mr. KNISELY. Congressman, the most important thing we can do to support real estate values is to be prudent in our lending practices, and not let real estate values get out of hand, and the financial institutions across the country have done that. We all look at long-term averages of commodity prices, and we lend into the cash flow of those farms. We don't lend on collateral value. I think prudent lending's probably the most important first step.

And in regards to young and beginning producers, really, being able to leverage the FSA programs, the guarantees, and the Young Farmer Direct Loans are really a big deal. And I know even within some of the state programs that we deal with, with the Bank of North Dakota, and the Rural Finance Authority, the RFA, in Minnesota to do partial financing, we are able to get buy-down on interest rates for some of those young producers as well, and so we are able to get young operators on those farms, and make better use of that, from a generational transfer perspective.

Mr. HANES. And I would like to give a little shout-out to Farmer Mac, because that is another tool we can use on farm real estate that allows us to push some of that interest rate risk off of the bank's balance sheet, and allows us to offer terms that we couldn't offer on our own. And so Farmer Mac is another tool that you guys have put in place for lenders, but really for ag producers, and so I would like to say thank you to you guys, and thank you to them.

Mr. BAIRD. Thank you very much, and I see I am out of time, so I yield back.

The CHAIRMAN. Thank you very much, and thank you for your line of questioning on the beginning farmers. We have so many issues, so many critical issues facing our farmers and our agriculture industry. But we are going to have a little second round here in case anybody wants to come back. But we would like to hear from Ms. Axne. She just got in, and she is one of our outstanding Representatives. She stands up and loves farmers. Mrs. Axne from Iowa.

Mrs. AXNE. Thank you, Mr. Chairman and Ranking Member, and thank you to the great witnesses for being here today, really appreciate it. It is important that we are holding this second Subcommittee hearing to review credit conditions for our farmers, so I am glad to be here so you can share your expertise. My job here is to listen directly to you all, because we have a lot, as the Chairman just explained, happening to our farmers, so I will cut right to it.

As many of us are sharing today, I share the concerns of my constituents who are worried about the state of the farm economy. I mentioned during our last hearing with FCA Chairman Smith, that my home State of Iowa has the highest level of farm debt in the country, and nearly $19 billion, and that a recent study classified 44 percent of Iowa farmers as financially vulnerable, so that is very deeply concerning to me and our state. As you all represent the majority of ag lending, can you quickly describe the tools you have to help identify distressed borrowers, and how, if at all, you work with them to find a solution?

Mr. KNISELY. Well, I will start, and it has been mentioned earlier, Congresswoman, it is really about relationships, and understanding, and have a deep understanding of your customers, and what their financial operation is, what their goals and objectives are, and making sure that we are leveraging all the tools that we have to educate and share that information with our customers.

For the most part, and I know that we have had producers that have struggled primarily because of yields. We have had pockets of the country that have had really good yields over the last couple of years, and we have had pockets that have not had such good yields, and that seems to be the determining factor where that stress is showing up. I have to do a shout-out for our customers in the Northern Plains. We had a really rough spring trying to get crops in, way too much moisture, a very poor growing season this summer, and a harvest that won't end. We can't seem to even get the corn out of the fields. We left over 100,000 acres of sugar beets and potatoes in the ground this fall up in the Red River Valley, which are not harvestable at this stage.

When you add those kinds of factors in, even with crop insurance as a safety net, you are still not getting the level of profitability that you need to maintain that working capital for your customers. We look at working capital quite heavily. We have been promoting working capital with our customers and clients for an awfully long time. Even when it doesn't appear that they need working capital, making sure that they are building working capital, and maintaining that cash position, so when they run into a difficult time, they have that safety net there, is really important.

And, again, just making sure that we are lending money to operations based on the long-term averages of commodity prices and those types of things, not overreacting to price swings in the market, and possibly over-lending. Everyone at this table is very cognizant of making sure that we are not—sometimes saying no to customers is the most important thing you can do for them to try and keep those debt levels in check.

Mrs. AXNE. Okay. I wanted to ask a couple more questions, so thank you for that answer. I got relationships, working capital, not overreacting, and certainly not over-lending, so thank you. Were there any other additional pieces to that?

Mr. HANES. Well, when you were saying that, I was reminded of the wise word from my wife, *communication.* Get in to talk to your banker, talk to your customer, it is that relationship, but it is that early signs of this isn't going the right direction. And so I won't take up your time, but, early communication, and constant communication between the borrower and the lender is the way we get through these situations.

Mrs. AXNE. Okay.

Mr. HANDKE. We have a little different approach. In my testimony I talked about the ICBA Ag Committee that I chair, and one of those great leaders on that is Larry Whitham, and he says hello, so he represents you well on that committee.

Mrs. AXNE. He is great.

Mr. HANDKE. But one of the things is we came through this golden age from about 2006, and our farm customers, all of them, booked a lot of capital. And so all of our farmers are well capitalized. Tight cash flow, well capitalized, lots of equity. But in order to have the time to use those tools, we have to make sure that our regulators don't expect us to solve a farm problem in 18 months. And for the banking—we are on an 18-month cycle. Yes, we have those relationships identified, and we are working with them, but we have to make sure that we keep our regulators realizing that this may take a 3 year process, it may take a 5. Farmers will get their way out of it. It may take a while for the markets to rebound, but agriculture is not solved in one operating cycle. We have the tools, we have the equity, just need time to work with and through it.

Mrs. AXNE. Very good. Last question, when FCA Chairman Smith was here before, he noted a rise in farmers going outside of traditional banks. I call them *payday lenders.* Have any of you also seen a rise in this, and do you share those same concerns?

Mr. HANES. Yes, we do. We have seen that rise, and it is concerning not because of the competition. What is concerning is a lot of times those are kind of point-of-purchase. Might be a tractor, might be some specific piece of equipment, piece of their operation. Well, as we do our renewal, we look at the entire operation. We look at capital/debt repayment ratios, and a lot of information that payday lender, I love the way you said that, is looking at one thing, and they are saying, here's the piece of equipment, or here's the whatever I am selling. And so they are looking at their item, and not the relationship, and not the entire operation.

And so the stress and the concern to me, as a lender, isn't the competition. It is how that one extra, the straw that broke the camel's back. Then they come in to us, and they can't figure out why they didn't break-even. And so that is the struggle that I have with that.

Mr. KNISELY. Congresswoman, we have not seen as much of that in the Northern Plains, so I am not familiar with that. Again, in working with customers, having a good relationship with them, understanding that whole business operation is kind of critically important, and we just—we haven't seen an abundance of that up in the Northern Plains.

Mrs. AXNE. I am glad you are not——

Mr. HANDKE. I would agree with Shan, is that it is not the subprime lender, it is John Deere Credit pushing out equipment that they just can't cash flow.

Mrs. AXNE. Yes.

Mr. HANDKE. So that is probably more, the intermediate lenders, not the payday, in our market, anyway.

Mrs. AXNE. I appreciate that. It ends up impacting, though, the operating loan, and—that they are working with their bank on, okay, thank you for that. I very much appreciate it.

The CHAIRMAN. Thank you, Mrs. Axne. Now the Ranking Member and I, Mrs. Axne, if you are still here, I am opening it up for a second round, because I want to really get to some real things that we can do.

First of all, I want you to know that I have asked the staff on this Committee—because you have to realize that our Committee, this Subcommittee, is the financial arm of the Agriculture Committee. There are things we can do. There is legislation that we can do as well. I am so proud of what Farm Credit is doing, and they are sort of opening the door to something we have only been dimly aware, and that is the financial plight in and of itself, and challenges that are facing our farmers, and our rural communities. My Ranking Member, Austin, was just talking about this need, and we are going to go with that. And I want you to talk about that just a little more. And we can put that to Richard Neal, our Chairman of Ways and Means, to get that legislation moving.

I have asked our staff to look at two very important areas that we are glossing over. I mean, there is something going on that is causing so much anguish with our farmers that I think is contributing massively to this mental stress and suicides that we can do something about. The first one is the weather patterns. There is something going on, where we have had back to back storms, fires. Half of the West Coast, fires. Lava spewing in Hawaii. Back to back hurricanes and floods. They cause massive damage. But here is the greatest damage. The greatest damage is that we in Washington failed immensely in getting the aid to them. And I am convinced that that played a role in the high suicide rate of our farmers.

So one of the two things that I have asked our Subcommittee to do is that. We have experts. We have scientists. We have space programs. We have great knowledge of the universe, its past, its present, and yet, with the havoc that our weather patterns are causing our farmers, we have yet to get our scientists, our knowledge, into this agricultural hearing, and let them educate us, and the farmers, of what they know. And I am hopeful that our staff—we have some great scientists out there. You have some great people out there. It's no politics in this, to whether there is climate change or whether there is not. I know one thing, we need to know what is happening out there so we can help our farmers prepare for the hurricane before the storm is raging. And I hope we can get that hearing. That will help everything.

And the second thing is, we have to do something more to set up what is an emergency contingency fund that is set up here, in the Federal Government, so that, when the storms happen, and then you have to say, "Well, we will get emergency aid down, and you are going to put it through the CR process, the appropriations," and it takes 2 or 3 years to even get the help down. Now, we need to do that, gentlemen. Now, if we do that, then we are serious. You can't do that. You don't have—Farm Credit, bless their heart, they don't have as much money as we do. It is our response.

Now, I have watched this television program, and I ask you to watch it, maybe over the holidays. Our own Smithsonian Institution puts it together. It traces America's development, and it is called *America in Color*. It the 1920s, the 1930s, the 1940s, the 1950s. You talk about challenges that our nation had, and at the center of those challenges was agriculture. Whether it was the dust bowls, the boll weevils, the Depression. We had magnificent leadership here in the Federal Government and Congress, in the White House, to respond. We are not doing that now. And so we want to really get to the bottom of it on that.

And then the other fact, that I am so glad that many of you already mentioned, is beginning farmers. Our farmers, not only are they suffering, not only are they committing suicide, but the average age of the farmer is 60 years now. We are not nearly doing enough to get this new generation, younger generation, into agriculture, but we responded in a small way to show you what we did do, and bipartisan Democratic/Republican way. We got scholarships to the 1890 land-grant African-American colleges and universities. That is out the box. I just wanted to lay that out.

My staff is going to go to work and get these two hearings into here so we can—we have so much advanced knowledge out there, even with our space program to be able to help us, what is coming down the road, so we can prepare for it. I just wanted you to know that, and I have a couple other things, but I want to share my time here with Mr. Scott, who wants a second round as well.

Mr. AUSTIN SCOTT of Georgia. Just to reiterate one of the things that my friend and colleague mentioned, it took so long for Georgia to get disaster relief. The question is should we have an account sitting at USDA with rules and parameters around how disaster relief would be appropriated in the event of—in our case it was a hurricane, in the Midwest it was floods.

The CHAIRMAN. Yes.

Mr. AUSTIN SCOTT of Georgia. It could be droughts, it could be excessive moisture. But if there was—should we establish an account at the USDA specifically for ag-related disasters that would keep what happened to us from happening in the future? And that is easier said than done. Anytime there is a pot of money sitting somewhere in Washington, D.C., someone does their best to dip their hands in and get it out, and oftentimes it doesn't go to the intended parties. But that is something that I think we will continue to discuss as the Agriculture Committee. The farmers simply can't wait a year to get the disaster relief. If it had not been for our Governor in the State of Georgia, our farmers wouldn't have been farming. We would've missed this crop year had they not done what they did through the Georgia Development Authority.

One question I have, we have talked a lot about the 1,000 acre limitation with Farmer Mac, and you mentioned slight increases in the $1.75 million authority. I know you all use Farmer Mac in different ways. Can you explain the relationship with Farmer Mac, and what suggestions, for those of you in the private banking—the relationship with Farmer Mac, how that works in allowing the lower interest rates, and the 1,000 acre limit, and the loan limit, the challenges with that?

Mr. HANES. I can, and Chairman Scott, when you were talking—I would like—Farmer Mac actually provides—they actually give us economic data. They help us with some of those trends, and some of that—those things that are out there, and so Farmer Mac provides a number of services. But, Representative Scott, the 1,000 acre rule, while well-intended, has just outlived its usefulness, and now has become almost a barrier.

And so what has happened—and I have not done this. I want to make sure the regulators know, if they are listening, I have not done this, but what financial institutions had to do is they have ended up taking that one loan that would've violated the 1,000 acre rule, and the limit, then they have broken that loan into four or five new loans, individual loans, to stay under the 1,000 acre rule. And so all of a sudden then we have five loans on the books that we have to track, we have five payments. It nets the same, but it doesn't make sense.

It is a simple fix. We looked at it, the farm bill. As a financial institution, we lend as a percent of capital. Farmer Mac has a capital. Just change it so that they can lend as a percentage of capital. They were even offering ten percent, whereas we can loan up to 15 or 25 percent of capital, depending on our charter. They were just asking for ten percent, and so that eliminates—when Farmer Mac started, the 1,000 acre rule was there, they didn't have much capital. But now flash forward a number of a years, they developed a substantial capital amount. Just making that small change would get—would make a long-term—and a fix for the 1,000 acre rule, and would be much more beneficial to both financial institutions and Farmer Mac, frankly.

Mr. AUSTIN SCOTT of Georgia. Okay. Mr. Chairman, I appreciate the Committee being here, and the experts that have testified before us. I yield the remainder of my time, and I don't have any further questions.

The CHAIRMAN. Mrs. Axne, would you have any closing questions you would like to ask?

Mrs. AXNE. Thank you. I did have one question that I wanted to get to as well that I am concerned about. Outside of bankruptcy rates, have any of you seen an increase in farmers having to sell off their assets to pay down their debt at this point?

Mr. HANES. We have not gotten there in our area. What we have seen, for the first time ever, generally there were those producers in the area that—didn't matter where the land was, they would buy it. We are, for the first time in my 25 years—those individuals—and so you had a floor. You knew that so and so would always buy the land if it went cheap enough. We are now seeing those individuals starting to sell acres. And so, as the Chairman referred to, we are about to see a large number of acres change hands, and it is a great opportunity for the young beginning farmers to have a shot at ground, because we have some large landowners selling.

Now, it is not forced. It is more of a retirement and getting their estate in order, but the next few years are going to be an opportunity, as we transition to the next generation of farmers.

Mr. HANDKE. I would comment that probably the borrower class that we have the most difficulty with are the farmers that were within 10 years of a life event and still farming. You can imagine a 70 year old farmer that is going to continue to have his cows, he has high net worth, doesn't really care what he is, it is what I call the farm reverse mortgage. And those farmers are going to do that until either their health leaves them, or they have an estate sale.

But unfortunately, you know what, the regulators call those substandard loans. If they don't cash flow over a 2 or 3 year period, it makes it difficult for us. Even if they have a 20 debt to asset ratio, there will be liquidity event. What you are seeing is maybe some of those customers selling off some of their assets. But in our market, I haven't really seen the large—the production farms—and in our neighborhood, production farms are five—that 1,000 to 5,000 acres. Our family's always farmed about 2,000 acres. Twenty years ago that is a big farm, right now that is a small farm.

Mr. KNISELY. Congresswoman, I think that farmers operate, and ranchers operate, as businesses, and we are not seeing forced sales, we are seeing voluntary sales, in some cases, where maybe they want to restructure a balance sheet, maybe they want to transition something to the next generation. We are not seeing an abundance of that, but it is surely a tool that farmers will use to help better prepare their balance sheet, or improve working capital. Farmers today look at assets just like any business would, and maybe aren't as attached to them as previous generations were. Farmers are willing to make changes of their operation as they see fit to make sure that they have a good sustainable structure, going forward.

Mrs. AXNE. Thank you. And just closing, I would like to reiterate what both Mr. Scotts', our Chairman and our Ranking Member, said about ensuring that the USDA would be able to get funding out as quickly as possible after a disaster. Mine is the flooded district in Iowa from the Missouri River. We are still waiting on funding. I would say that many of the departments, the Federal organizations we are working with, USDA's doing a pretty darn good job, compared to some of the others at this point, but there is plenty of room for improvement.

One of the things I would—I am glad we are talking about this, is an opportunity to try and work with them that I would like to see is put some standard operating procedures in place for a disaster. I notice that that is not across the board anywhere in government, no matter what disaster it is. Obviously different disasters will have variables, a flood is different than a fire, but you know what, we really kind of go through the same standard set of things that we need to be doing to get the funding out to the folks in need. I am glad you brought that up.

I would like to see us continue to work on that with you folks to see what might be the best opportunity, but, right now we don't know. We have still got silt on our land, in many cases several feet deep. We know that the high probability of the majority of our farmers in that area won't be planting next year, but I would like to get them into the fields as quickly as possible if not next year, the following. And, hearing stories about how so many people have had to wait years to be able to start regrouping, and getting some market share, is unacceptable. Anything that we can do to move that agenda forward, people literally are falling by the wayside as a result of government practices that aren't moving in a timely fashion. If you do have any last minute response on that, that'd be great.

Mr. HANES. I just want to complicate an already complicating challenge. For the Congressman from South Dakota, like, the MFP is valuable and necessary, but there were no provisions for the livestock producers in the MFP Program. And so, while you think of all the potential disasters, and then put a fund there to keep people from getting their hand in the cookie jar, don't forget about the livestock people as well. That is a great challenge. Maybe you guys could knock that out by Friday, but that'd be great.

Mr. JOHNSON. Which Friday?

Mr. KNISELY. Congresswoman, if I could add, speed and getting disaster assistance out is just critical. Farmers operate on a production cycle, and they don't have years, quite often, to put that disaster money to use, so speed in getting disaster money out. And I also think, if you are able to build in some flexibility with things, even, like, crop insurance, where you need to make decisions in the spring, and that information about prevented plant, and maybe there is a situation that developed that wasn't anticipated. Having the flexibility for USDA, and the Risk Management Agency, to make adjustments to things like crop insurance could help soften that disaster blow as well. Not only speed at getting the disaster money out there, but also flexibility with some of these other programs that could address this maybe in advance, and be more proactive.

Mr. HANES. There is one that—kind of going along with that, that we did look at that farm bill, and it ultimately did not get put in the farm bill, that might help with these disasters. We moved ARC and PLC from the NASS to RMA data, and that was helpful, but what would've even been more helpful, that price is still a post-harvest price, and is some 12 to 18 months after the operating year. If we could just move that price to be the same as the crop insurance price, and so then farmers would know—prior to planting they would know their crop insurance price, and they would know where their ARC PLC price would be, and they could make more informed, educated planting decisions, prior to getting that money out there. And then even if the money, for budget purposes, couldn't come until later, then, as a lender, we could also put that in the cash flow. Here is a number, we could use that for FSA guaranteed loan applications, we could use that with regulators. And so it doesn't really change anything, as far as the timing, but what it does, it takes some uncertainty out of the—out of it for both the banks and the producers.

Mr. KNISELY. Well, and it allows producers to do a better job of marketing because they know that in advance. They aren't—it isn't retro all the time, so——

Mrs. AXNE. Good information. Thank you very much.

The CHAIRMAN. Thank you, and I thank the entire Committee. And, as you can see, we are, both Democrats and Republicans, here are very committed to this. And I close with a reminder of the good word from the Lord, when he said: "Get wisdom, get knowledge, but with that wisdom, with that knowledge, get understanding." We don't have understanding until we can get the scientists in here, we get our space people, we get people with knowledge about these changing weather patterns so we know what is happening. Something is going on, and our farmers are suffering. And, again, I ask my staff to put that together.

Then, second, we need to get back together on a contingency fund. We have to hear from people. My idea of a contingency fund, having something there, because I will tell you the truth, as long as we try to say we are going to get emergency relief down to people, when the floods are flooding, the fires are firing, the lava is doing everything it is doing to our country, and it goes through the appropriations process—you all follow us up here, and that is not the way to do it. All I am saying is, if anything comes out of this meeting today, the two great things coming out of this hearing, what the bankers are doing, the independent community bankers, the American Bankers Association, and, of course, our great pioneers in moving forward with their mental program, Farm Credit. You all are our soldiers out there on the front lines. We sit here in Congress with massive resources, and we need to get the Franklin Delano Roosevelt instinct, and the Dwight David Eisenhower instinct.

Dwight David Eisenhower said, "Hey, we are tired of running on these muddy roads, let's build the interstate highway system." Look what we did. And what Franklin Delano Roosevelt did, responding, lifting up farmers, and prove that farmers were the backbone and the soul of this nation. And we have to stop letting them down. Thank you all very much.

I have to read this properly. Under the Rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member. This hearing of the Subcommittee on Commodity Exchanges, Energy, and Credit is adjourned. And thank you all very much.

[Whereupon, at 4:32 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED QUESTIONS

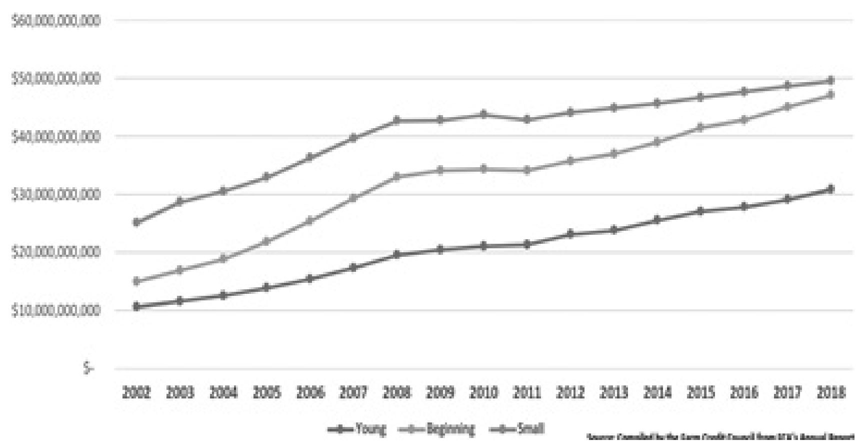
Submmitted Questions by Hon. David Scott, a Representative in Congress from Georgia

Response from Marcus L. Knisely, President and Chief Executive Officer, AgCountry Farm Credit Services; on behalf of Farm Credit System

Question 1. Mr. Knisely, your testimony spoke about the volume increase of farm credit lending to young, beginning, and small (YBS) farmers. Can you speak about how you all count those loans? If an operation has multiple loans or multiple parties to a loan, how would that be accounted for in these numbers?

Answer. Thank you for the question Mr. Chairman. Lending to young, beginning, and small farmers is a critical part of Farm Credit's mission to support rural communities and agriculture. As the chart below demonstrates, the volume of FCS lending to young, beginning and small (YBS) farmers has increased consistently since 2002.

Farm Credit System's Outstanding Loan Volume to YBS Farms



Source: Compiled by the Farm Credit Council from FCA's Annual Reports.

Farm Credit Administration regulations specifically establish the rules Farm Credit institutions must follow when reporting loans to young, beginning, and/or small farmers. These FCA rules establish the definition of each category and specifically define under what circumstances a loan is required to be counted in a specific category or categories. Each year, FCA compiles data on Farm Credit YBS lending and reports it to Congress.

Very importantly, the number of loans reported in each of the three categories (young, beginning, and small) cannot be combined. For example, a single loan to a 25 year old rancher in her third year of operation with annual sales of $100,000 would be counted as a single loan in each of the young, beginning, and small categories.

In addition, if that same rancher had multiple loans with Farm Credit, each of those loans would be counted in each eligible category. However, if that rancher had partners in the operation who also qualified as young, beginning, or small, it would not impact the loan count in any of the categories. Irrespective of how many individuals are part of an operation, the loan only counts as a single loan.

For 2018 reporting, FCA made technical changes regarding how certain multi-lender loan participations were required to be counted for tracking purposes. As a result, the number of loans made to young, beginning, or small farmers in 2018 cannot be directly compared to the number of loans made to young, beginning, or small farmers in prior years. This regulatory change in counting procedure does not impact the counting of the dollar volume of loans made and as a result, the dollar volumes continue to be comparable year-over-year.

Question 2. What are the trends you all have seen among YBS farmers that have been able to access credit *versus* YBS farmers who have not? What barriers do they face and how have you all as lenders worked to make credit more accessible to these farmers?

Answer. Thank you again for your interest in this issue Mr. Chairman. Farm Credit works hard to serve young, beginning, and small farmers all across the country. We are very concerned that the current economic environment for agriculture is making it even more difficult than usual for young and beginning farmers.

The continuing low commodity price environment is impacting young, beginning, and small farmers. Ultimately all businesses (of all sizes and maturity) need profitability to survive and prosper. Beyond that, accumulated equity and net worth provides a cushion to sustain those businesses in weak economic cycles. Young and beginning farmers often are working with a lower equity level which limits the financial tools available to assist with corrective activities during sustained economic downturns. The result is that often times young and beginning farmers are more vulnerable to business failure during extended downturns.

Smaller operations oftentimes have fewer options for cost-cutting and other managerial changes to help the bottom line. Offsetting this somewhat is the continuing strong non-farm economy that is providing opportunities for off-farm employment for many YBS farmers.

Farm Credit's service to young, beginning, and small farmers is increasing. FCA's 2018 annual report reveals that overall volume of Farm Credit lending to YBS farmers increased from 2017 to 2018 despite the weakened farm economy. In addition, the number of Farm Credit loans made to young, beginning, or small farmers as a percentage of total Farm Credit loans made also increased from 2017 to 2018.

In addition, Farm Credit institutions have a deep commitment to YBS farmers beyond providing loans. To make credit more accessible, we work with them as an advisor to help better manage their costs to achieve profitability. At AgCountry, we offer young and beginning farmers our best interest rate, regardless of their Probability of Default (PD) or risk rating. We also provide scholarships to young farmers and their spouses for farm-related education programs, marketing classes and conferences. We provide succession and retirement planning to help young farmers develop transition plans with their parents. We greatly reduce or waive fees for farm accounting and tax planning services. In addition, we host a young and beginning farmer advisory committee to help provide feedback to our association and identify areas to better meet the needs of those within this demographic.

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

Submitted Question by Hon. Collin C. Peterson, a Representative in Congress from Minnesota

Response from Shan Hanes, President and Chief Executive Officer, Heartland Tri-State Bank; Member, Board of Directors, American Bankers Association

Question. We've seen the lending community use either cash flow lending or equity-based lending over the years, what will your loan officers be looking at for 2020 financing?

Answer. For the most part, banks moved away from equity-based lending following the challenges during the 1980's. Cashflows are vitally important and banks spend a considerable amount of time developing those projections. At our institution, we complete a monthly based "Cashflow" with input from the borrower during the renewal interview. This renewal includes updating the financial statement to determine earned net worth progress, completing a projected cashflow for the upcoming year, and a review of overall collateral position.

When examiners complete their safety and soundness exam, they expect to see realistic and justifiable cashflows. They would be critical of equity-based lending during these challenging times. I would ask for leniency by examiners for banks who re-balance the balance sheet. The goal is to reduce annual debt service obligations and allow farmers to work through low prices as long as the collateral substantiates the re-structure. One example would be to allow an interest only payment for a year as long as the collateral position is not put in jeopardy without having to classify the relationship.

SHAN HANES,
President/CEO,
Heartland Tri-State Bank.

Response from Steven J. Handke, Regional President and Chief Administrative Officer, First Option Bank; Chairman, Agriculture-Rural America Committee, Independent Community Bankers of America *

Question. We've seen the lending community use either cash flow lending or equity-based lending over the years, what will your loan officers be looking at for 2020 financing?

Answer.

○

* There was no response from the witness by the time this hearing was published.