Statement by
Russ Kremer
at the
Farm Credit Administration Public Meeting
on
Enhancing Farm Credit System Service to
Young, Beginning, and Small Farmers and Ranchers
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Mr. Chairman and members of the Farm Credit Administration, I appreciate the opportunity to speak before you about a subject that is critically important to me, the organization I represent, and to the future viability of rural America. My name is Russ Kremer and I am a diversified family farmer from central Missouri and President of the Missouri Farmers Union. I taught agriculture education and directed a 200 family Young Farmers program for 12 years at Westphalia, Missouri.

As the agriculture sector continues accelerated trends of market concentration and industry consolidation, I see the decimation of rural communities throughout Missouri. Dwindling competitive markets have led to lower prices of all commodities and this, coupled with declining access to credit, has limited opportunities for our farmers. Limited financially viable start-up opportunities and market options are major reasons why rural America is losing its most valuable resource – its young people. Today, in Missouri, there are nearly twice as many farmers over the age of 65 as there are under the age of 35. Besides young and beginning farmers, the number of minority and under-served farmers also continues to decline rapidly.

Despite these overwhelming limitations, family farmers look to capture profit by engaging in new strategies such as alternative crop and livestock production and farmer-controlled, value-added cooperatives. These activities show much promise as a means of restoring agricultural wealth. Unfortunately, most often they are restricted to those larger operations that have more resources and leverage.

Greater consolidation within the agriculture lending sector is also disproportionately benefiting large-scale operations and shutting out our young, beginning and small farmers. As a Young Farmer advisor and agricultural leader, I have experienced first hand the barriers YBS farmers face when seeking credit. Many of the young farm families that I have worked with, when seeking financing, have been told that a contractual arrangement with a large agribusiness firm was required. Others, when seeking federal guaranteed loans, were denied because of unwillingness to process paperwork. Recently, a group of small farmers wanting to participate in an organic vegetable cooperative approached a financial institution with a solid business plan and a firm, committed marketplace. They were denied by the lender who was “uncomfortable” with organic production. Many of the young farmers who do receive credit from an institution with multi-tiered finance rates are often unfairly charged the worst rate which is as much as 4% higher than the best rate.

The trends of consolidation and restructuring in both production agriculture and agriculture lending grew rapidly as a result of the credit crisis in the late 1980's. Structural and operational adjustments made by commercial banks and FCS, consolidation of financial institutions in recent years, and credit guarantees through the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) improved the financial strength of commercial lenders and gives the appearance that an adequate level of credit is available for borrowers. However, credit remains tight for beginning farmers, socially disadvantaged farmers, and family farmers, particularly as they seek financial backing for new enterprises, such as alternative production and value-added cooperatives. This limited or denied access to credit prevents our young, beginning and small farmers from participating in these opportunities.
We must help remove these barriers that deny the successful development of innovative and progressive ideas by young, beginning and small farmers.

The Farm Security and Rural Investment Act of 2002 (the Farm Bill) greatly improved credit options through USDA programs for young, beginning and small farmers. The programs include:

- An increased down payment loan program, in which a beginning farmer pays 10 percent of a farm's purchase price as down payment, FSA pays 40 percent, and a commercial lender or private seller finances the remainder.
- A pilot program for a guaranteed loan program for the purchase of farm land by a beginning farmer on a contract land sales basis, with commercial lenders as the escrow agent
- Permanent the USDA authority to contract with regulated financial institutions to service farmer program loans.
- USDA's guarantee of loans made under a state beginning farmer or rancher program, including a loan financed by the net proceeds of a qualified small issue agricultural bond pursuant to the federal tax code.

Unfortunately, FCS has made little use of FSA's programs focused on YBS farmers, particularly compared to commercial banks. In fact, according to an FSA report, since 1993, FCS has made only one guaranteed loan to beginning farmers in Ohio, Indiana, and Montana**.**

In response to these concerns, Farmers Union makes the following recommendations:

- FCA should more aggressively develop, provide and promote risk management education for YBS farmers and financial institutions. Crop insurance, marketing options, and forward contracting can be useful tools to provide investment security.
- FCA must develop a means to educate and strongly encourage institutions to facilitate guarantee loan applications for YBS farmers. These applicants should not be denied because of the unwillingness of banks to fill out paperwork.
- Government farm loan programs such as FSA programs should target underserved farmers who are unable to obtain credit from conventional sources.
- YBS and other underserved farmers with a solid business plan should be charged a more reasonable interest rate that provides greater opportunity for success.
- FCA should develop more low interest, micro lending opportunities for YBS farmers.
- Geographic disparity of lending to YBS farmers should be remedied. According to an FSA report, commercial banks in the Mississippi Delta and the western Corn Belt

have been more active in providing credit to beginning farmers than banks in the west and eastern Corn Belt.

- We support expanding credit programs to include financing value-added enterprises, and encourage the Agency to explore additional means to provide initial capital for the creation of value-added cooperatives.
- Farm Credit System (FCS) must become more engaged in making use of guaranteed loan programs and other USDA lending programs for young farmers.
- Finally, potential programs to encourage the intergenerational transfer of farming operations should be explored. We support fully utilizing programs such as “aggie bonds” and private sales contract guarantees for farm purchases by beginning farmers.

Young, beginning, and small farmers are in a most vulnerable position today. The captive nature of agribusiness activity today can easily close the door to opportunity for them. Farm Credit Administration today, as they have in the past, should recognize the important role these farmers have in the efforts to reenergize rural America and, hence, target them as your primary customers. I appreciate your consideration of this timely matter.