Statement by
Ed Schenk, Chairman, The Farm Credit Council Board
Before Farm Credit Administration
Public Meeting on Scope and Eligibility
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McLean, Virginia

Chairman Reyna and Board Members Flory and Pellet, my name is Ed Schenk. I am appearing here this morning as the board chairman of The Farm Credit Council. Thanks for the opportunity to discuss how you can help the Farm Credit System improve its service to farmers and ranchers by revising current regulations.

It is important that the record is clear about the mission of the Farm Credit System. Many outside Farm Credit like to offer their views about whom the System was set up to serve and whether we should be doing this or that. In reality, they would prefer that we go away and do neither this nor that. When Congress rewrote the Farm Credit Act in 1971, they made clear their intent. Quoting from Section 1.1(b) of the Act, it says, "It is the objective of this Act to continue to encourage farmer- and rancher-borrowers participation in the management, control, and ownership of a permanent system of credit for agriculture which will be responsive to the credit needs of all types of agricultural producers having a basis for credit."

This simple declarative sentence captures what Farm Credit is all about. First, it talks about the role of folks like me as farmer- and rancher-owners of the System. Congress knew that if agriculture was to have a continuing source of reliable credit, then that source of credit had to have the direct input of and be controlled by farmers and ranchers. Farmer control was pre-eminent because Congress knew we would watch out for the System to ensure it remains there for us and for future generations of farm families. They chartered a System that is to focus on serving agriculture, not on generating returns for investors.

Second, that sentence declares that Farm Credit is to be a permanent system of credit for agriculture. The System was not established as a lender of last resort, not as an entity that serves agriculture just in good times, but as an on-going, active competitor in the marketplace.

Finally, that sentence declares that Farm Credit is to serve all types of agricultural producers having a basis for credit. It doesn't say that we are to serve just small, young or beginning farmers, or only those that get the majority of their income from farming, or only those that have been rejected by commercial banks, or any of the other limitations some would place on which farmers and ranchers the System should serve. It says we are to serve <u>all</u> types of agricultural producers.

These three ideas – farmer control and ownership, permanence in service to agriculture, and a mission to serve all types of agricultural producers -- are the relatively simple concepts that are fundamental to what Farm Credit is.

The issues before you this morning go right to the heart of the System's ability to meet its mission. You have asked what is a bona fide farmer, who should be considered a part-time farmer and how much credit both of these groups should be able to get from the Farm Credit System.

For the record, I consider myself a full-time, bona-fide farmer and rancher. My operation involves wheat, alfalfa, and stocker cattle produced on approximately twenty two hundred acres with annual gross agriculture sales of $600,000. I therefore clearly meet the definition of what is a farmer and rancher under the Agency's eligibility regulations. But I am also a practicing small animal veterinarian, a board member of US AgBank, and a board member of the Farm Credit Council, all of which are income generating off-farm employment for me.

Some might suggest I am a part-time farmer and that, therefore, under FCA's scope of lending regulations, interpreted literally, I'm not eligible to get all of my financing needs met by the Farm Credit System. However, I have an investment in and am an owner of my local Farm Credit institution just like a farmer-borrower who might not have off-farm employment. Should the financial institution I rely on be forced to tell me they are not permitted to meet all of my credit needs just because I have off-farm employment? This makes no sense. I am a bona fide veterinarian, a bona fide System and Council director and also a bona fide farmer and rancher. And I am not unique.

According to data published by the US Department of Agriculture –

- Almost 55% of all US farm operators work off the farm and 80% of these individuals work at full-time jobs. In the mid 1940's, about 25% of operators worked off the farm.
- According to USDA, when you look at farm households, about 92% of farm households made the majority of their income from off-farm sources in 2001.
- Nearly 90% of total farm household income in 1999 originated from off-farm sources.
- In 1998, for more than 60% of farm households, their farm business was actually a detriment to the household's before-tax-income.
- A recent USDA report indicated that the incidence of off-farm employment was higher amongst young farmers than the population of farmers in general.
- And that same report indicated that between 1969 and 1999 the number of farm operators who were self-employed in off farm businesses increased by almost 60% and the number of self-employed farm spouses increased by 95%.

This is just a tiny sample of the data available from USDA on this subject. The facts are clear that today's farm families are engaged in many different enterprises. Modern agricultural technology has allowed each farmer to be more productive not only on a per acre basis but also on a per hour basis. Who would have thought twenty years ago that a poultry farmer would have his chicken house call him on his cell phone when the environment in the chicken houses is not optimal, or that a green house operator might have the same with his green houses while the computer controls the environment for optimal growth of plants, or that a row crop producer could apply just the right amount of fertilizer in a field guided by a computer in the tractor that is communicating with satellites orbiting the earth.

While some have used the efficiency gained from these innovations and technological advances to expand their operations, others have decided they now have time for work off the farm. They may have become expert in some portion of this new technology and used this knowledge to become an entrepreneur as a service provider to other farmers. They may have started a business totally unrelated to their farm, providing an income source for them, others in their family and others in their community. Some have found off-farm jobs that provide health, retirement and other benefits that they might not otherwise be able to afford. Farmers are natural entrepreneurs who aren't afraid of hard work. These off-farm jobs bring the household a steady income that reduces the family's credit risk profile and increases their chances to stay on the farm when weather or price disasters impact farm income. Yet FCA's regulations say we should penalize the farmer and farm family that diversifies their income in this way by holding back on the credit we can provide them.

FCA's regulations just have not kept pace with reality. The Agency looked at this issue several years ago. What FCA said then still holds true today. Quoting the Agency from 1995, "the evolution of agriculture has made part-time producers an increasingly important sector of the agricultural industry and rural America, and existing regulations restricting the scope of lending to them may not serve the purposes of the Act, which does not distinguish between full-time and part-time farmers. The applicant's creditworthiness, not eligibility criteria, would determine the availability of System loans to part-time farmers, as it does with full-time farmers." The Agency went on to say, "Furthermore, the FCA believes that its interpretation of these statutory authorities must take into account changing conditions in the agricultural and financial sectors. The FCA's role as a safety and soundness regulator requires that it openly recognize changing conditions and respond accordingly."

We urge you to make a change. You should not be concerned that by changing this regulation somehow Farm Credit institutions would lose their focus on serving agriculture. Speaking as a System owner, please remember that each System institution remains governed by an elected board of directors. These boards set the policies that guide the activities of these institutions. Our focus is on making sure agriculture is served. We are perfectly capable of keeping the System focused on serving farmers, ranchers and all of modern agriculture. There is no compelling reason for FCA to step in the place of a local board and continue to place limits on how the System can serve 92% of all farmers and ranchers.

Thank you again for the opportunity to appear before you.