Farm Credit Administration
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Written Testimony On Enhancing Farm Credit System Service To Young, Beginning, and Small Farmers and Ranchers

by

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Mr. Chairman and Members of the Board,

On behalf of the 32,000 grower members of the National Corn Growers Association, I want to thank you for this opportunity to appear before the Board and comment on the Farm Credit Administration's consideration of regulatory changes intended to improve the Farm Credit System's service to young, beginning, and small (YBS) farmers. I don't need to remind you that access to affordable, reliable credit is critically important to the nation's corn growers that I represent today. Providing this critical service while adhering to 'safe and sound banking practices' is understandably a difficult balance to strike for lending institutions subject to a myriad of regulations, guidelines, and policies. NCGA recognizes that the challenge is even greater for bankers in the Farmer Credit System whose services for YBS farmers and ranchers range from loan programs with special underwriting standards or waivers of coverage ratios to educational training.

If we are to maintain a strong and viable future for U.S. agriculture, our young and beginning farmers will need better access to credit to meet the rising capital requirements for building successful commercial operations. The Farm Credit Administration, through more effective regulatory oversight and forward thinking policies, can play a very valuable role encouraging lenders in the FCS to enhance their services for this higher risk group of borrowers. Your agency's Advance Notice Proposed Rulemaking marks the starting point for achieving this goal.

Two years ago, the National Corn Growers Association organized the **Task Force on the Future Structure of Agriculture** to determine how changes in the corn industry would impact family farmers in the first decade of the 21st Century. Comprised of members representing a broad range of interests, the Task Force examined the economic forces changing agriculture and rural communities. A number of their observations and conclusions are worth mentioning here as you consider suggestions for enhancing the Farm Credit System's service to YBS farmers and ranchers.

First, Corn Belt agriculture is becoming two agricultures - one focused on commodities and one focused on value-added products. Larger, efficient family-owned farms dominate commodity agriculture, with roughly 10 percent of farms producing 90 percent of the food supply. In contrast, value-added agriculture is now delivering a panoply of high quality, consistent specialty products to more demanding consumers. Growing these products opens up new markets to both small and large farms, but in many cases these operations will have to consider alliances to take advantage of these opportunities.

Secondly, demand for identity-preserved food systems from the farm to the table may well increase these opportunities for quality conscious growers, but changes are likely to be required in government, private industry, and the financial institutions that serve rural America. Let me suggest that the Farm Credit System needs to evaluate how it can facilitate investments in these new opportunities and meets its obligations to our young, beginning and small farmers looking for ways to reduce their financial risks and grow their operations. Commodity agriculture will remain the rural economic anchor for the foreseeable future, however, strategic investments in value-added agriculture can offer new choices for farmers and a brighter future for our rural communities. So, as this Board weighs the costs and benefits of new regulatory approaches and policy initiatives, NCGA recommends that the final rule offers incentives and establishes goals for FCS institutions to facilitate these kinds of investments through their lending practices and related services. The Farm Credit System has an opportunity here to refocus on its Congressionally mandated mission and support investments that leverage U.S. agriculture's competitive advantage over other countries.

Let me specifically address a number of questions posed by the Advance Notice of Proposed Rulemaking regarding YBS Loan Policies and Operations. NCGA is pleased that the FCA is actively addressing the findings and recommendations of the General Accounting Office. For the FCS to adequately serve YBS farmers and ranchers, the GAO has cited a number of areas that require significant improvement and/or reforms. As you proceed toward developing and implementing the necessary regulatory changes, NCGA urges the FCA to give serious consideration to the new economic realities in our agriculture economy and recognize the different circumstances and objectives even among young, beginning and small farmers. Yes, there needs to be more transparency and improved documentation of YBS programs if we expect to achieve greater accountability. We also support changes that establish what the GAO describes as defined "standards and clarify what constitutes an acceptable YBS program. The goals and expectations must be clearly understood by the FCS lending institutions and their prospective customers. As with any regulatory regime, we caution the FCA that in the end, though, results are what matter to our growers and to the taxpayer. The monitoring of compliance and ensuring appropriate collection of qualitative and quantitative data clearly need greater attention. We simply encourage oversight that promotes mission based activities and tangible goals; meaningful and attainable standards that can make a real difference for YBS farmers, but avoids unproductive regulatory overkill.

As I have previously stated, the needs and goals for young, beginning and small farmers can vary significantly. We believe that any new guidelines promulgated by the FCA should recognize the differences in these needs and the market opportunities being sought by these farmers. A one size fits all program approach for special credit treatment or outreach activities for these groups of producers is not likely to succeed given the many changes occurring in production agriculture and our rural economy. To better measure the success of the YBS program, NCGA supports data collection that focuses more on loans while protecting the privacy of borrowers. Further, regulatory and non-regulatory incentives, should vary among these categories of farmers and ranchers. Also, accountability and the establishment of clear, reasonable goals for individual lending institutions would be further served by conducting demographic studies that identify gaps between YBS farmers in a particular market and how well this market has been served.

Overall, NCGA is very concerned by the General Accounting Agency's findings on the disappointing level of Farm Credit System participation in activities dedicated to the YBS mission. Unless the Farm Credit System is held to a higher standard of compliance and embraces more innovative policies, we are not likely to see a greater level of special underwriting standards and risk pools for extending credit, outreach activities, or other services for the very farmers who can benefit most from these programs. NCGA applauds this first step by the Farm Credit Administration to gather input on how to develop constructive guidelines, better performance measurements, and more adequate public reporting and disclosure rules. We look forward to working with you as the FCA begins to evaluate the suggestions you receive from the various stakeholders throughout this process.