National Sustainable Agriculture Coalition

Written Remarks of
Ferd Hoefner, NSAC Policy Director

Prepared for Farm Credit Administration Symposium on
Consolidation in the Farm Credit System:
The Factors Influencing Consolidation and the Potential Impact on Mission

Commercial Farmers and Ranchers Panel

January 16, 2014

My thanks to the Farm Credit Administration for the invitation to participate in today's symposium. I am Ferd Hoefner, Policy Director for the National Sustainable Agriculture Coalition. NSAC is an alliance of 100 grassroots, regional, and national organizations that advocate together for federal policy reform to advance the sustainability of agriculture, food systems, natural resources, and rural communities. NSAC is a leading voice in Washington, D.C. for federal policy reform to support sustainable and organic farmers. Established in 1988, NSAC has focused over the years on conservation issues, farm program reform, credit, marketing and rural development, agricultural research policy, and increasingly food system work.

For several decades now, we have given major priority to beginning farmer issues. Agriculture is of course a vibrant sector of our nation's economy, yet high barriers to entry make farming and ranching one of the hardest careers to pursue. Limited access to land and markets, hyperinflation in land prices, high input costs, farm and tax policy disadvantages, and lack of training can be discouraging to new producers and those who aspire to be new producers.

In light of those problems and our desire to address them, we have led the charge on a variety of policy initiatives. For instance, we developed and won passage and funding for the USDA Beginning Farmer and Rancher Development Program. We worked to get beginning farmer and farm entry and transition issues addressed in USDA research and risk management programs. We worked with Congress years ago to start up FSA's Down Payment loan program, and improved the rules for that program in recent farm bills. We fought for beginning farmer target participation rate measures for FSA loan programs and have been supportive of the YBS policies of the Farm Credit System. We helped convince policymakers to offer financial incentives to landowners leaving the Conservation Reserve Program to work with beginning farmers and ranchers as land goes back into production. We helped champion the idea that beginning farmers may need an advance to make conservation cost share accessible to them, a concept now authorized by the farm bill. We are also hopefully about to help win passage of the authorization and enhancement of the new FSA microloan program. We are also working now to make new farming opportunities a more central part of farmland preservation efforts.

Over the course of these efforts, we have come to learn and appreciate that the face of beginning farmers is an increasingly varied one -- young and old, women and men, farm-raised and first generation farmer, full-time and part-time, veterans, immigrants, second careers, urban farmers, and more. As part of that process, we also have helped secure funding for USDA programs for socially disadvantaged farmers and ranchers, and have been working in the current farm bill deliberations to provide greater attention to recently returned veteran farmers or would-be farmers.

Whatever the outcome may be on merger and consolidation proposals, we would strongly encourage an ongoing and enhanced commitment to the YBS activities. We are pleased to see the growth in lending to beginning farmers over the past decade and the recovery in lending volume the past two years following the dip in 2009-2011. Going forward, careful attention should be paid to the roughly third or more of associations who have not met their YBS goals in recent years.

We would urge all associations to take strong, proactive steps to be in close contact with the full range of potential YBS borrowers in their region, including but not limited to the use of advisory committees. In this regard, we would urge very close attention to reaching and hearing from the full, very diverse range of YBS farmers and ranchers, with strong steps to reach those who may have been underserved in the past, including sustainable and organic farmers, farmers of color, women, local food farmers, and the burgeoning number of young farmers entering agriculture without having grown up on farms. We realize there are many ongoing System efforts in this regard, but more can be done we would hope, and with the strong growth and even more growth potential in some of these segments of agriculture, the time would seem ripe for a redoubling of efforts. FCS institutions can have a huge impact on growing the next generation of farmers by incorporating more diversity and inclusion into their lending portfolio.

Given NSAC's role in its creation, I would call special attention to the FSA Down Payment program. The program plays a small but very important part in getting new farmers on the land, particularly those who might otherwise be hard to reach or to serve. To date, it has helped over 8,000 farmers get a foothold by acquiring farms. The rate of growth has accelerated since improvements (lowering the FSA interest rate and the size of the borrower down payment) made in the 2008 Farm Bill; nearly half the total loans have been made in just the past five years. A further improvement in the program -- increasing the limit on the size of the land value that can be FSA-financed to $677,000 -- is coming with the new farm bill whenever it gets finished and signed into law. We also hear that the FSA interest rate for participation loans outside of the Down Payment program will be vastly improved in the new farm bill, making that a second option once again for joint financing.

Currently the FCS accounts for slightly more than a third of total active FSA guaranteed loans and a bit less than a third of loan principal, with commercial banks making up most of the rest of the total. Roughly half those FCS loans with FSA guarantees are real estate loans. We cannot tell from USDA data how many of those guaranteed loans are to beginning farmers, but of that roughly half that are real estate loans, we know that in FY 13, 14 percent were made in conjunction with down payment loans. That by the way was a slightly higher percentage than was true for commercial banks. This FCS interest in participating as the primary lender in the down payment loan program is light years ahead of where it was in the 1990s, when FCS lagged far behind, and is to be commended. However, it would appear that both the percentage of guaranteed loans for YBS borrowers in general, and the percentage done in conjunction in particular with either the Down Payment program or the more generic participation loan program could be improved upon further in the future, helping the System in reaching its goals to serve diverse borrowers.

For not quite as long as NSAC has worked on beginning farmer issues, but nonetheless for quite some time now, we have also put major time into policies to develop local and regional food, farms and market infrastructure. As you know, local and regional agriculture has become an important driver in the farm economy. The FCC has issued many excellent reports and presentations on this subject. Producers are responding to skyrocketing demand for local and regional food by increasing production, creating new markets, and launching new businesses. Despite these opportunities, significant infrastructure, marketing, and information barriers continue to limit growth in local and regional agriculture.

According to the last Census of Agriculture, farmers that grow food for local markets tend to be younger, operate on a smaller scale, and have more diversified production systems. They are also more likely to come from a non-farming background and typically have fewer initial assets, such as land, crops and livestock, to invest into their start-up farming enterprise. For this reason, access to credit is absolutely critical to these emerging businesses, and obtaining sufficient start-up capital represents one of the biggest challenges for small and mid-sized farmers who wish to expand their operations to better serve local markets, or young farmers who desire to enter the profession of farming.

We were very pleased to see the FCA Bookletter in October 2012 calling special attention to opportunities to lend to YBS farmers and related businesses that market product through local or regional food systems. Through our membership organizations around the country we find a very strong and growing correlation between beginning farmers and interest in these new and expanding short supply chain markets. We were particularly pleased to see in that Bookletter the clarifications provided supporting lending to part-time farmers – so important for beginning farmers as they get started up –to the financing of processing and marketing operations that are directly related to the farm operation, and to farm-related service businesses under certain conditions, including to farmer-based food hubs and certain types of processors.

The Bookletter states that a strong YBS program will have policies and procedures in place to market and lend to local food farmers, with dedicated capital committed and a variety of credit enhancement programs available. In our view, those policies and procedures should include securing good data on baseline data on current lending to local and regional food farmers, as well as to socially disadvantaged farmers and ranchers. They should also include robust investment goals, innovative support products and services, and strong outreach plans.

We would recommend that the local food farmer policies and procedures of all associations not only include strong loan making, but also include a variety of initiatives and grants to support current and future borrowers by helping to organize, build, expand, or improve infrastructure and markets for locally or regionally produced agricultural food products.

The learning from these initiatives, successes and failures, should be communicated regularly. We would be very interested in seeing regular, detailed status reports on the creation of these policies and procedures as well as the actual outcomes that flow from them with respect to loans, credit enhancements to local food farmers, eligible processing and marketing operations, and eligible farm-related service businesses as well as from broader local and regional food system initiatives and grants.

On this topic as well as for YBS in general, there are some existing farm bill-related opportunities, and more that will emerge once the new farm bill is completed and becomes law. For instance, based on the best available information to date, it would appear the new farm bill will invest $100 million in Beginning Farmer and Rancher Development Program activities and $300 million in Farmers Markets and Local Food Promotion Program activities over these next five years. While small in comparison with the mega farm bill programs, this nonetheless represents an unprecedented level of federal investment in these two areas.

Yet the need is far greater still, and thus these two renewed and enhanced farm bill investments represent very ripe and significant matching opportunities for the Farm Credit System. In addition to matching opportunities, there will also no doubt be opportunities to pick up and help fund strong applicant proposals from these programs for which there is insufficient farm bill funding available, as demand will no doubt exceed supply. Such matching opportunities or direct project investments would surely meet a major need among YBS and local and regional food farmers, help grow new borrower members for the System, and both directly and indirectly help fulfill YBS and local food farmer targets and goals.

Another already existing farm bill opportunity is the Value-Added Producer Grant program at USDA Rural Development. Most VAPG-awarded projects would fit within the processing and marketing directly related to the farm operation category of eligible System lending. Moreover, a special category of VAPG projects exists for "mid-tier value chains" in which a farmer or group of farmers are key participants in marketing and pricing decisions. This mid-tier value chain category includes many though not all types of food hubs and supply aggregation businesses.

Care of course would be needed in cross-referencing specific VAPG projects to the criteria for System lending to eligible borrowers, but the vast majority should be eligible, and certainly System loans have in the past been made to businesses receiving VAPG grants, so we know it works. Keeping a careful eye out for the current and future credit needs of businesses receiving VAPG planning grant or working capital awards would be another profitable area for ongoing and future investigation. In addition, grants and other forms of assistance are also very much needed to fund portions of VAPG-related projects that USDA Rural Development is not allowed to assist with due to their legal restrictions. This is another area of opportunity that deserves serious consideration.

In the 2008 Farm Bill, Congress created a Local and Regional Food Enterprise subprogram within Rural Development's Business and Industry Guaranteed Loan Program. Under the omnibus appropriations bill that is hopefully about to pass Congress, the minimum (floor, not ceiling) loan volume for local and regional food enterprise loans will be close to $50 million for 2014. Within the B&I program overall, there are opportunities for FCS lending, even though the overlapping footprint between System lending and B&I opportunities may not be quite as large as it is with VAPG. Nonetheless, the Local and Regional Food Enterprise subprogram would be particularly well suited for the FCS lending.

According to our review of USDA data, since passage of the 2008 Farm Bill, less than 3 percent of B&I loans and less than 2% of B&I lending volume has been with FCS associations. The balance has been with CDFIs, state agencies, credit unions, insurance companies, finance corporations, and especially with community banks. We do not have access to USDA data on how many of the relatively small volume of FCS loans guaranteed by the B&I program have been to Local and Regional Food Enterprises since 2008, but our own cursory review of the last two years of local food enterprise awards does not seem to turn up any FCS loans. If true, this is a missed opportunity for the type of lending that was supported and encouraged in the 2012 Bookletter. Of course, not all loans in this local and regional food system space will require a loan guarantee and we are not suggesting that. But in cases where it is appropriate, we hope to see a more robust FCS interest in the subprogram.

Thank you for the opportunity to share these thoughts about how the mission of the FCS can be enhanced as consideration is given to various consolidation proposals.