

The Impact of the Farm Credit System on Rural America
Statement of
Mary Evans Sias, Ph.D., President
Kentucky State University
at the
Farm Credit Symposium on
Consolidation in the Farm Credit System
McLean, Virginia
February 19, 2014

Overview

There are few factors as important, both in the past and in the future development of rural America, as what happens when rural residents have access to credit. This paper examines some of the economic trends in rural America, as well as possible changes in how the Farm Credit System operates and their impact on rural America.

It was the absence of credit that led to the initial creation of the Farm Credit Administration (FCA), the independent federal agency which provides oversight over the banks and other related entities of the Farm Credit System (FCS), in the early 1900s. The FCS is the largest agricultural lender in the United States. It provides loans for a broad array of agriculturally related activities ranging from funding rural utilities and farm housing to funding agriculture and aquatic cooperatives, from funding agriculture processing and marketing to funding the development of certain farm-related domestic and international businesses involved in agricultural trade. In 2007 the FCS accounted for 37 percent of total farm debt, with 42 percent of the portfolio in real estate and 31 percent in non-real-estate holdings.¹

The FCS, through all of its activities, provides dependable and affordable credit; it also helps build strong and more competitive farms. Any substantial changes in the FCA and its related entities—like consolidation—will have a substantial impact on rural America. Today, with roughly one-third of the farm business debt, the FCA must consider the impact any further consolidation has on its system entities and the farmers it serves.

The first concern must be to do no harm to the flow of reliable and available credit to help the essential but changing needs of agriculture in rural America.

Where Are We Today?

During the last 100 years, rural farmers have been significantly impacted by several key trends: the increasing use of farm machinery and the development of farm chemicals for use on crops and government price support. These trends have led to increased capital outlays, fewer farms, a large reduction in farm labor and increased farm and ranch acreages.²

While there has been a steady decline in the number of farms in the last 10 years, recently there has been some movement in a positive direction from 2.1 million farms to just slightly more than 2.2 million farms, as reported by the last Census of Agriculture. The increase comes largely from small farms. These small farms now account for roughly 91 percent of

the total 1.99 million farms. Large farms account for a little more than 73,000 of that total. With nearly 590 million acres devoted to small farming, most of the declines are in the mid-size, traditional, full-time family farms (148 million acres).³

If one looks below the surface at who is farming, it quickly becomes clear that the demographics of farming are changing. Native Americans operate about 35,000 farms with just under 50 million acres, and African Americans operate about 30,600 farms with just under 3.2 million acres; other socially disadvantaged groups operate just over 12,500 farms with 1.8 million acres. Of these groups, only 8,300 report incomes over \$50,000. Only a few farms reach the mid-size to large-scale farming size. Additionally, there are also just over 300,000 women operating farms, totaling 64.3 million acres; of these, 25,600 report incomes over \$50,000.⁴ Many of these farmers cannot afford to go beyond their communities to borrow.

Data from the 2007 Census of Agriculture indicates that 26.5 percent of farm operators are beginning farmers. This percentage has been trending downward since 1982. If one looks at the age of new beginning farmers (operations started between 2003 and 2007), data indicates that the average beginning farmer's age is 47.6 years, with 9 percent being from socially disadvantaged groups, 19 percent are women, 79 percent work off the farm and only 33 percent list farming as their primary occupation.⁵

These demographics give the FCA information that is important with regard to who the new beginning farmers are:

- younger than the average farmer
- most are part-time
- diversity has become a critical issue

What, then, does this mean? **Quite simply, the Farm Credit System must evaluate the rapidly expanding need to focus programs on small farms whose owners are becoming increasingly diverse. This diversity often means they traditionally have had less access to reliable credit.**

Also of note is that within the past 10 years there has been an increase in the number of very small farms, but the number of farms with sales between \$100,000 and \$250,000 decreased about 7 percent. While the percentage of large farms is increasing, there is a widening gap between small farms and the large commercial-scale farms. Traditional, full-time, mid-size family farms are decreasing and may become a relatively small segment of American agriculture.⁶

The 2007 Census of Agriculture indicates that greenhouse, nursery and floriculture account for more than 20 percent of all hired farm labor expenses, followed in order by fruit and tree nuts, dairy cattle and milk production, vegetables and melons, oilseed and grain crops, other crops, beef cattle, aquaculture, poultry/eggs and, lastly, by other animal agriculture/livestock production. It is interesting and important to note that large farms hired approximately 40

percent of the workers, and small farms (under \$250,000 in sales) also hired roughly 40 percent of the workers. Very small farms with less than \$50,000 in sales hired another 20-⁷ plus percent of the workers.

Largely due to weather conditions, the livestock numbers are generally down, and farmers are trying to rebuild their herds or flocks or have left the industry. Cattle and calf operations are generally down as well as dairy operations and hog and pig production. This industry decline has resulted in prices escalating in 2013 throughout the livestock industry as prices and numbers attempted to adjust.

Farm real-estate values have improved nationwide from 2012 to 2013, with farm real-estate values nationwide going up 9.4 percent from 2012. Only seven states show declining farm real-estate values. Except for those states impacted by severe weather- related events, cropland values are up significantly.

Why are these numbers important? **In the short-run, the Farm Credit System should have a positive outlook for real-estate and production lending.**

If we look at Kentucky, my home state, the situation is mainly positive. Farm real-estate values have gone up 8.2 percent in the past year to a \$3,300 average. Cropland values are up by 8.7 percent to a \$3,750 average. The thoroughbred industry is showing significant improvements in prices over 2012, as herds have been significantly reduced and values adjusted over the past five years. Weather has impacted corn production, reducing the sales value from a high of \$1.14 billion in 2011 to \$750 million in 2012. While tobacco has been reduced, soybeans experienced a large increase. Beef cattle and the broiler industry, along with horses, led the livestock industry, with goats, sheep and aquaculture making inroads and providing income to roughly 8,000-10,000 producers.⁸ Aquaculture is Kentucky State University's program of distinction. We continue to get calls to help farmers get started in this area. The majority of all these are small farmers wanting to have direct market operations.

Of the 87,000 farms in Kentucky, 84,700 are small farms. Of these, 56,500 are very small farms of less than \$10,000 income. Kentucky State University's Small Farm and Beginner Farmer Outreach programs estimate that there are 1,550-2000 socially disadvantaged farmers, 5,500-7,500 women farmers and 2,500-3,500 beginner farmers in Kentucky. Some produce commercial commodities and tobacco, but many have small horticulture, livestock, small livestock and equine operations. Again, as the numbers indicate, most are small farmers.

There is a need for rural development farmers' markets, support of community-supported agriculture, local food systems and local processing plants and facilities particularly targeting local and direct sales within the Commonwealth of Kentucky. Other states are showing similar patterns.

Implications for the Farm Credit System

Clearly, we have to acknowledge that agriculture is changing and that the rural agriculture banks and the Farm Credit System are facing new challenges. However, the Farm Credit System under the Farm Credit Act has a federal mandate for all Farm Credit System banks to develop “sound and constructive credit services for young beginning and small farmer borrowers. This can be a challenge because the modern agricultural market system does not usually favor small operations.”

So, how does the Farm Credit System help provide borrowing access to the demographic groups of diverse, young, beginning and small-farmer clients? The FCS should consider:

1. Lower interest rates for young, beginning and small farmer clients. Young farmers are defined as those 35 years and under, and beginning farmers are those who have farmed for 10 years or less—96 percent of beginning farmers operate small farms and face difficulties getting access to affordable credit, an essential ingredient for success in the first few years of operation.
2. Easier underwriting standards
3. Lower loan rates
4. Higher loan-value ratios, allowing lower down-payment requirements
5. Guaranteed lending programs from both federal and state sources. Recently, 2,265 guaranteed loans went to young farmers, 2,439 guaranteed loans to beginning farmers and 2,811 guaranteed loans to small farmers.
6. Training programs for young, beginning and small farmers must be implemented (programs like Annie’s Project, a risk-management training program for women in agriculture, particularly women farm operators). 4-H and FFA programs continue to be important, as well as partnering with the American Farm Bureau Federation to design programs to help young farmers develop their leadership skills and knowledge of agricultural and public policy—that is, the Partners in Agricultural Leadership Program.

Finally, one has to ask what is on the horizon if there is further consolidation. Will there be emerging liquidity problems caused by the declining deposit base in rural America? One has to look at the reasons for the loss of deposits. During economic downturns, there has been a movement to mutual funds from direct deposits. That movement does not support liquidity for land purposes. You also have an aging population, with estates often being divided up among children as the parents die.

These factors suggest that the Farm Credit System has to look more closely at where economic opportunity lies for farmers. Further consolidation may have several impacts on

access to bank credit for rural residents. The Farm Credit System will become an even more important source of credit to sectors of the rural community not served by commercial organizations.

Consolidation might also restrict the availability of bank lending to small businesses and to rural areas. The FCS must continue to play a key role in private credit to rural communities served by them. The FCS may have to change, however, to fulfill its changing and, perhaps, growing role. It has to become a problem solver—one willing to address issues of liquidity, changing demographics and consolidation, while understanding that consolidation does not always yield improved profitability or create efficiency.

The Farm Credit Administration and the Farm Credit System must look carefully at the economic benefit and the cost of efforts like consolidation. They must understand the important role that the new crop of diverse, young and beginning farmers—and their access to affordable credit—plays in the sustainability of this country's agricultural production.

References

1. Research on the Economic Impact of Cooperatives. Report prepared by the University of Wisconsin Center on Cooperatives. Source: <http://reic.uwcc.wisc.edu/farm>.
2. The Farm Credit System's Financing of Rural America. 2014 White Paper, page 1. Marion Simon and Sid Dasgupta, agricultural economists, College of Agriculture, Food Science and Sustainable Systems, Kentucky State University.
3. The U.S. Department of Agriculture's National Agricultural Statistics Service (2007 Census of Agriculture and Yearly Tabulations).
4. The Farm Credit System's Financing of Rural America. 2014 White Paper, page 1. Marion Simon and Sid Dasgupta, agricultural economists, College of Agriculture, Food Science and Sustainable Systems, Kentucky State University.
5. The USDA National Agricultural Statistics Service (2007 Census of Agriculture and Yearly Tabulations).
6. The Farm Credit System's Financing of Rural America. 2014 White Paper, page 1. Marion Simon and Sid Dasgupta, agricultural economists, College of Agriculture, Food Science and Sustainable Systems, Kentucky State University.
7. The USDA National Agricultural Statistics Service (2007 Census of Agriculture and Yearly Tabulations).
8. The Farm Credit Administration and Farm Credit System's annual reports and interviews with AgCredit officers in Kentucky.