

**COMMODITY PROGRAMS, CREDIT, AND CROP  
INSURANCE—PART 2: INDUSTRY PERSPECTIVES ON  
RISK MANAGEMENT AND ACCESS TO CREDIT**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
COMMODITIES, RISK MANAGEMENT, AND TRADE  
OF THE  
COMMITTEE ON AGRICULTURE,  
NUTRITION, AND FORESTRY  
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FIRST SESSION

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## **COMMODITY PROGRAMS, CREDIT, AND CROP INSURANCE—PART 2: INDUSTRY PERSPEC- TIVES ON RISK MANAGEMENT AND ACCESS TO CREDIT**

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**Thursday, May 4, 2023**

U.S. SENATE  
Subcommittee on Commodities, Risk Management, and Trade  
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 106, Dirksen Senate Office Building, Hon. Tina Smith, chairwoman of the subcommittee, presiding.

Present: Senators Smith [presiding], Stabenow, Gillibrand, Hyde-Smith, Boozman, Ernst, Tuberville, and Grassley.

Also present: Senators Klobuchar and Hoeven.

### **STATEMENT OF HON. TINA SMITH, U.S. SENATOR FROM THE STATE OF MINNESOTA**

Senator SMITH. The Subcommittee on Commodities, Risk Management, and Trade will come to order. Welcome to our witnesses. Senator Hyde-Smith, thank you again to you and your staff for working so closely together with us to organize this hearing all this week, and I know that Chair Stabenow and Ranking Member Boozman will be joining us at some point. I want to thank them and the full Committee staff for their help and support in convening these committee hearings this week. Thanks to everyone for attending.

This morning we conclude our two-part hearing. Earlier this week we focused on Title I of the farm bill, the commodity title, and we had a very useful and productive discussion with producers and farmers, as well as with the presidents of the American Farm Bureau and the National Farmers Union. Today we will be talking about Title X, the credit title, and Title XI, the crop insurance title. We are going to have an opportunity to hear directly from practitioners and implementers of crop insurance and Farm Credit programs.

As I mentioned earlier this week, hearing directly from you is incredibly important, as the folks that are closest to the work you know best what is working and what we can do to make it work better. I know that all the members of this Committee share the goal of passing a bipartisan farm bill authorization this year, a bill that meets the needs of American farmers and ranchers and pro-

ducers in every part of the country and a bill that meets the moment.

Farmers, ranchers, dairy farmers, poultry and livestock producers are at the center of our economy, our food system, and our national security. There is nothing more important to our country than a stable, secure, healthy food supply, and we need to support farmers with credit and risk management tools that help them weather the inevitable ups and downs that happen in agriculture.

Today, although commodity prices are good, farmers face a lot of challenges. Too many producers are struggling to cover their operating costs, and this is especially true for small and medium-sized farms. According to the USDA, nearly 50 percent of farms in the United States have negative farm income. The high levels of concentration in the ag sector, combined with supply chain disruptions has driven up input costs, which are now outpacing commodity prices and putting farmers, again especially small and medium-sized farmers, in a real bind.

Climate change and extreme weather events are increasing risks for farmers as well, as they deal with drought and floods and wind and hail and also increased pest threats. Last of all, global disruptions, both wars and trade disputes, add to the uncertainty.

Farmers are creative and adaptable, but they need access to credit to grow their operations, and they need sound risk management options to help mitigate the losses that are out of their control. Credit and crop insurance programs are essential all across the country, and in my home State of Minnesota. Last year, Minnesota farmers insured 17.8 million acres and participated in many of RMA pilot programs and dollar liability programs.

Over the last year, my staff and I have held, it feels like dozens, of farm bill listening sessions across the State, and we have heard from everyone that crop insurance needs to be there to help secure operating loans as well as when there is some other kind of risk that they are facing. We have also heard that there are sometimes gaps, that not all risk management programs are working well for smaller operations and specialty crop farmers, especially produce farmers. Some programs are sometimes hard to use, and a tweak here or there could really help.

And when it comes to accessing credit through Farm Credit institutions or community banks, smaller operations, beginning farmers, farmers of color, and Indigenous farmers often struggle to find a way to access that opportunity.

That is what this hearing is all about. It is an opportunity for this subcommittee to hear directly from you about what is working, what is not working, and what we need to do to improve insurance and credit programs.

There are a few issues, in particular, that I am interested in hearing about today. I am going to ask you what are your top one or two priorities for the farm bill's credit title or crop insurance title. I am interested to hear you talk about what we can do to make risk management and credit programs work for beginning farmers, smaller producers, and non-traditional producers. I would like to hear your perspective on how consolidation in agriculture, from everything from seed and fertilizer to processing, affects the farmers that you are working with.

I really look forward to hearing from all of you about these issues and more, and I look forward to a productive discussion.

I now turn to Senator Hyde-Smith.

**STATEMENT OF HON. CINDY HYDE-SMITH, U.S. SENATOR  
FROM THE STATE OF MISSISSIPPI**

Senator HYDE-SMITH. Well said. I could not agree more. Good morning and thank you also for holding this very important hearing today. I want to thank Senator Boozman, our Ranking Member, for your interest in the Subcommittee, and I think we will be joined by Senator Stabenow as well.

I am pleased that we are meeting again to continue the hearing from stakeholders about their priorities for the 2023 Farm Bill. When people have asked me about the farm bill I have said, “Well, we flip the coin. The games have not begun yet,” but now they have. We are at a different stage. It is clear from the producer input we received on Tuesday, that Title I and Title XI of the farm bill need to be protected and strengthened.

Today we will hear more about the importance of crop insurance. Additionally, we will hear about access to credit, which I say all the time is what makes the world go round in our farming world. The private sector is the cornerstone in the delivery system of crucial risk management tools and credit options. I look forward to hearing from our witnesses who will play vital roles in the private sector helps farmers access these tools.

I would also like to extend an especially warm welcome to our two Mississippians here today, Mr. Phillip Morgan of Ridgeland, and Mr. William Cole of Batesville.

Agriculture is the largest industry in Mississippi, and every American, whether they know it or not, has a vested interest in agriculture because every American has to eat, the last time I checked. Farmers face many challenges in managing risk and securing credit. As we heard from our producers on Tuesday, market fluctuations and rising input costs have significantly affected the ability to run a business and to stay afloat.

With transportation and logistics systems disrupted by recent global crises, farmers and ranchers have faced a number of challenges in getting our products to market. This has resulted in significant losses for many agriculture producers who have been unable to sell their products or are forced to sell them at a reduced price.

Another challenge has been labor shortages. Boy, I hear this from everyone. With many people unable or unwilling to work, agriculture producers have been left without the necessary labor to plant, harvest, and process their crops. This has resulted in significant losses for many farmers, and this is very real, as they have been unable to get their crops to market or forced to pay significantly higher wages to attract workers.

All of these challenges have highlighted the importance of risk management and credit in the agriculture industry. With increased uncertainty and volatility in the marketplace, we must ensure our farmers and ranchers have access to the necessary tools and resources to manage these risks effectively.

Similarly, in light of inflation, it is more important than ever for agriculture producers to have access to affordable and flexible credit options. Farming is a risky business, especially in Mississippi. Mississippi farmers are faced with floods, tornados, and some of the worst weed and pest threats in the entire country. This is why risk management is so essential.

When I talk to Mississippi farmers, I am always inspired by their resilience. Farming is not just a job for us. It is our way of life. They want to produce more affordable food and fiber for our country now and be able to pass down their way of life to the next generation. Farmers have to borrow a lot of money. They lose sleep at night, thinking about the debts they incur to start or continue farming. In order for the American food supply to remain abundant and for the farmers to stay in business, credit must be accessible and it must be flexible as well.

In order for more young people to start farming, they must have access to credit. As this Committee considers the 2023 Farm Bill, we must remain mindful of the needs of the next generation, not just ourselves.

Our witnesses will provide valuable insight into the challenges and opportunities ahead for our agriculture producers and the industry professionals who support them.

Thank you again, Chairwoman Smith, for convening this hearing. I look forward to a productive discussion on how we can work together to ensure that the livelihood of the American farmer remains viable in the face of these challenges and opportunities.

Senator SMITH. Thank you so much, Senator Hyde-Smith, and I would like to welcome to the Subcommittee our Chair, Senator Stabenow, and also our Ranking Member, Senator Boozman. Thank you so much for joining us.

And we will now begin with witness introductions, and I believe that Senator Ernst is going to be introducing Mr. Barker, your fellow Iowan.

Senator ERNST. Thank you, and I want to welcome all of our witnesses today, but I have the honor and privilege of introducing Mr. Gus Barker, Verlin "Gus" Barker. Gus serves as President and Chief Executive Officer of First Community Bank in Rockwell City, Pomeroy, Fonda, and Newell. Gus also serves as Chairman of the Independent Community Bankers of America's Rural America and Agriculture Committee, which represents community bankers serving rural America and agriculture across the Nation.

Over the years, Gus has been active with numerous civic and charitable organizations. Gus grew up on a family farm in northwest Iowa, just south of Pomeroy, and graduated from Pomeroy Community High School. He went on to get his B.A. in accounting from Buena Vista University and graduated from the Graduate School of Banking in Madison, Wisconsin.

Mr. Barker is a career banker with over 46 years of experience. As a survivor of the 1980's ag crisis, Gus has experienced the ups and downs of agriculture's cyclic nature firsthand. He has worked tirelessly to maintain that sacred trust between the bank and the customer, no matter what the economic conditions are at the time.

Gus's passion for community banking is staunchly evident as he has consistently sought to defend the importance of preserving the community bank model.

Thank you, Gus, for being with us today.

Thank you, Madam Chair.

Senator SMITH. Thank you. Now Senator Hyde-Smith will introduce Mr. Morgan.

Senator HYDE-SMITH. I am excited to introduce Mr. Phillip Morgan, the President and CEO of Southern AgCredit, based in Ridgeland, Mississippi. I get a lot of mail from you. Southern AgCredit serves farmers and ranchers in 50 Mississippi counties and 11 parishes in Louisiana. Phillip is a certified public accountant and has been with Southern AgCredit since 2008. He began his career in public accounting in 1998, in Ridgeland, providing services to small businesses and Farm Credit institutions.

Welcome, Mr. Morgan, and I will look forward to hearing your testimony today.

Senator SMITH. Thank you. I would like to introduce Mr. Jase Wagner, who is President and CEO of Compeer Financial. Mr. Wagner is also representing the Farm Credit Council today.

Compeer Financial is a Farm Credit cooperative serving agriculture and rural communities. Compeer provides financial services throughout 144 counties in its service area, which includes Illinois, Minnesota, and Wisconsin. Jase was named CEO of Compeer in September 2022, and officially began that role in just January of this year. Prior to serving as CEO, Mr. Wagner served as Compeer's Chief Financial Officer. Jase lives in Minneapolis with his wife and children, probably less than two miles from where Archie and I live.

Welcome, Mr. Wagner.

Now Senator Hyde-Smith will introduce Mr. Cole.

Senator HYDE-SMITH. It is also my pleasure to introduce today Mr. William Cole from Batesville, Mississippi. William is the Chairman of the Crop Insurance Professionals Association and has served as a crop insurance agent for 28 years. He also owns and operates the family farm where he grows rice and soybeans and runs a cow-calf operation. William is the Director of the National Cutting Horse Association and an elder in his church. He lives in Batesville with his wife Karen and has two adult sons.

Thank you, Mr. Cole, for being here today, and I certainly look forward to your testimony.

Senator SMITH. I would now like to introduce Mr. James Korin, who is President of NAU Country Insurance. Mr. Korin is representing the American Association of Crop Insurers today. Headquartered in Ramsey, Minnesota, NAU Country is a national leader in supporting farmers through risk management. NAU Country is currently licensed in 48 States and employs over 750 field and office staff across the country.

Mr. Korin's background includes 22 years as CPA, and as President of NAU he is involved with the board of directors for National Crop Insurance Services, where he is past chair. The American Association of Crop Insurers is active with the Midwest Council on Agriculture.

And next we have Mr. Meador. I am saying your name correctly?

Mr. MEADOR. Meador.

Senator SMITH. Meador. Pardon me. Mr. Jason Meador, who is head of Rural Community Insurance Services for Zurich North America. Mr. Meador is representing the Crop Insurance and Reinsurance Bureau.

Headquartered in Schaumburg, Illinois—Senator Durbin sends his regards, by the way—Zurich North America's Rural Community Insurance Services helps farmers manage risks by offering a wide range of products. Through the Rural Community Insurance Services, Zurich helps farmers in all 50 States with a network of 3,600 agents.

Mr. Meador splits his time between Anoka, Minnesota, and Schaumburg, Illinois, and is responsible for driving the overall strategic direction of Zurich North America's crop insurance business. Earlier in his career, Mr. Meador served as a lieutenant in the United States Navy.

You will each now have five minutes for your opening Statements. There is a clock in front of you to help you keep track of time. Know that your full written statement will be made part of the record.

Mr. Barker, you are recognized for your opening statement.

**STATEMENT OF GUS BARKER, PRESIDENT AND CEO, FIRST  
COMMUNITY BANK, NEWELL, IA,**

**TESTIFYING ON BEHALF OF THE INDEPENDENT COMMUNITY BANK-  
ERS OF AMERICA**

Mr. BARKER. Chairwoman Smith, Ranking Member Hyde-Smith, and distinguished members, as Senators Ernst and Grassley know, Iowa's 86,000 family farms average 350 acres. Those over \$250,000 in sales average 1,000 acres. In Iowa we are the largest producer of corn, pork, eggs, ethanol, and biodiesel, and we are second largest in soybeans.

Today ICBA's key principles include a well-funded safety net and crop insurance program; we want to enhance USDA guaranteed loan programs; and we would like to reject the Farm Credit System's proposals to engage in non-farm lending.

Crop insurance is essential for farmers and lenders as it allows producers to qualify for operating loans. With extremely tight margins and incredible risk in agriculture, bank regulators insist borrowers have crop insurance to repay their loans. Insurance payments may not be large enough to make farms whole, but they are enough to keep farmers intact to survive another year. That is why community banks say whatever you do, do not harm crop insurance.

Regarding USDA loans, farmland in my area sells for an average of \$12,000 an acre. A 1,000-acre farm costs \$12 million. A 350-acre farm costs over \$4 million, which is twice what a USDA loan provides. We urge Congress to raise the guaranteed real estate loan limits to \$3.5 million on owning, and guaranteed operating loans to \$3 million, indexed to inflation.

Now can guaranteed loans help farmers, particularly young, beginning farmers? We worked with a struggling young family using a guaranteed loan to restructure their debt. Since the guarantee we have had two exams, and examiners could not believe the progress

this struggling farm made. They are now one of our strongest customers, and without that USDA guarantee and our local USDA officer, that family would likely not have survived.

Today, on behalf of ICBA, I am excited to propose a new program to speed up loan approvals with USDA called a "USDA Express" program, modeled after the SBA's Express program, which has worked very well. A 50 to 75 percent guarantee could be used instead of USDA's 90 percent, but USDA would approve the loans within 36 hours, because lenders would make the credit decision, and loans could total a cap of \$1 million.

Finally, we urge Congress not to expand the powers of the Farm Credit System by sidestepping their regulators' case-by-case approval and open the floodgate to making essential community facility loans. USDA defines community facilities as a public improvement operated on a nonprofit basis, but FCS seeks to loan to facilities, whether operated on a nonprofit or for-profit basis. These loans could be fire stations, schools, health care facilities, housing, apartment complexes, restaurants, sports facilities, stadiums, gas stations, and more. This broad authority could drive community banks right off Main Street.

FCS proposal only requires a single non-FCS lender to participate. That could be a large megabank or a large credit union implementing a national program with no local bank involvement. An Illinois banker commented the past three years their bank funded the school district for buses, hospital for infrastructure, Economic Development Corporation for building a daycare facility for 185 kids. They used leading arrangements, USDA Rural Development guarantees, local financial institutions, and the Federal Home Loan Bank of Des Moines. These funding sources, plus the municipal bond market, were fully sufficient to fund all of those projects.

A Virginia banker stated, "Community banks fund these projects. The bank loaned to every single community facility in the area. The community facility's lending space is full of lenders who step up, in a bid process, typically, to finance these projects daily across the United States." Now will FCS pay taxes on these loans, as the bank community does?

FCS also is aggressively using tax-advantaged, cash management accounts to undermine the deposit base of community banks. Driving community banks out of rural America by leveraging GSE tax and funding privileges, decimating loan portfolios, and pilfering customers and deposits is akin to taking a wrecking ball to the economic vitality of our small, rural communities.

Thank you.

[The prepared statement of Mr. Barker can be found on page 34 in the appendix.]

Senator SMITH. Thank you.

Mr. Morgan.

**STATEMENT OF PHILLIP D. MORGAN, CHIEF EXECUTIVE  
OFFICER, SOUTHERN AGCREDIT, RIDGELAND, MS**

**TESTIFYING ON BEHALF OF THE FARM CREDIT COUNCIL**

Mr. MORGAN. Thank you. Madam Chair, Ranking Member Hyde-Smith, and other distinguished members of the Subcommittee, thank you for your hearing this morning. My name is Phillip Mor-

gan. I am the President and Chief Executive Officer of Southern AgCredit, based in Ridgeland, Mississippi.

Southern AgCredit provides financing and other services to over 4,200 farmers, ranchers, and rural home buyers in 50 central and southern Mississippi counties and 11 parishes in northwest Louisiana. Southern AgCredit is a member of the Farm Credit System, created by Congress in 1916, and charged with a mission to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

As a cooperative, we are owned by our customers and exist to support their farms and ranches. As the owners, our customers share in the success of their cooperative. Last year, Southern AgCredit returned a record \$11.9 million in cash patronage dividends to our customer owners. In the past five years, Southern AgCredit returned \$53.5 million in cash patronage dividends to its customers. The remainder of our income was retained as capital in the co-op to support more lending to customers.

The future of American agriculture and rural areas depends on a new generation of farmers and ranchers. We are committed to meeting the needs of young, beginning, and small farmers. Our years of experience in rural lending provide the expertise needed to finance young, beginning, and small farmers. Through flexible loan terms and working closely with other organizations and government agencies, including USDA's Farm Service Agency, we tailor loans to fit the unique situation of these producers.

Last year, 23 percent of the loans made by Southern AgCredit went to young farmers and ranchers, 61 percent went to beginning farmers and ranchers, 75 percent went to small farmers and ranchers. Overall, 59 percent of our loans outstanding are to beginning farmers.

The future of agriculture requires a diverse set of voices leading our industry. We are proud to partner and provide scholarships to Alcorn State University and Jackson State University, two historically Black colleges and universities in our area. Scholarships are offered to full-time HBCU students studying agriculture, business, or a combination of both.

Southern AgCredit recently hosted two summer interns from Alcorn State as part of the Farm Credit's Launching Leaders program. In addition to their regular wages, Farm Credit awards a \$3,500 stipend to an HBCU student or recent graduate hired to intern at a Farm Credit institution. Our goal is to attract more HBCU students interested in careers in the agriculture industry.

Presently, farmers and ranchers in our area face elevated operating costs in all commodities. Inflated expense from seed, fertilizer, fuel, feed, technology, equipment, interest, and energy are tightening margins for our producers. A shortage of available workers also continues to create farm wage inflation.

Agriculture producers in Mississippi and Louisiana need a strong farm bill, including a robust farm safety net to manage the ongoing risks presented by weather, markets, supply chain pressure, rising input prices, and declining profit margins.

Crop insurance remains the key part of the farm safety net, and we strongly support efforts to improve this program.



Livestock Risk Protection for Feeder Cattle is a USDA insurance program widely used in our area for the protection of declining cattle market prices.

We work closely with the Farm Service Agency and its loan guarantee program. These guarantees help us to work with customers who face difficulties with their operations and provide an opportunity for young and beginning farmers. FSA loan limits have not kept pace with current prices. We strongly support increasing these limits in the 2023 Farm Bill.

The construction cost of a modern poultry house in Mississippi and Louisiana is up 37.5 percent from those built three years ago. Today's young and beginning poultry farming family would need at least six poultry houses to earn a \$75,000 annual living. Six poultry houses have a total price tag of \$3.3 million, not including the cost of the land or other necessary improvements or equipment. FSA guarantee limits are less than two-thirds of the capital requirement for this size poultry farm. Young, beginning farmers almost always require an FSA guarantee to mitigate credit risks.

Important credit-related recommendations are detailed in my written statement for the Subcommittee to consider as it reviews the farm bill's credit title.

Thank you very much, Madam Chair and Ranking Member Hyde-Smith, for allowing me to testify today.

[The prepared statement of Mr. Morgan can be found on page 47 in the appendix.]

Senator SMITH. Thank you so much, Mr. Morgan.

Mr. WAGNER.

**STATEMENT OF JASE WAGNER, PRESIDENT AND CEO,  
COMPEER FINANCIAL, SUN PRAIRIE, WI,**

**TESTIFYING ON BEHALF OF THE FARM CREDIT COUNCIL**

Mr. WAGNER. Good morning, Madam Chair and members of the Subcommittee. The good news is there is a lot going on positively in rural America today. I would like to use this time to talk about how we make it even better.

Our vision is to help enrich ag and rural America through teamwork and action. My name is Jase Wagner. I am the Chief Executive Officer of Compeer Financial. Compeer is a member of the Farm Credit System. We provide loans, leases, and other financing products as well as crop insurance and financial services, primarily in the Midwest. We are farmer led and farmer owned.

Today's hearing offers a timely look at risk management products and credit availability in agriculture as Congress prepares for a farm bill. Let's start with the positives and then we can talk about ways to improve our actions.

First, Federal risk management programs are well-suited to their purpose. Our crop and livestock insurance programs are inclusive and consistent. They create stability and certainty in an uncertain world. Good risk management equals good access to credit. Those two are inextricably linked. We should strongly support continuation of the crop insurance programs, but as my wife tells me often, "You are not perfect." Many on this panel will have great ideas. Let's use them.

Another positive is access to capital for underserved communities. This is expanding quickly. We cited several examples in our written testimony, and they include significant investment into underserved communities and young, beginning farmers by Compeer and others in the ag lending market. Additional teamwork and ideas are needed to best support these sets of clients.

Now let's talk about the opportunities to further enrich ag in rural America. Credit is available across a wide spectrum of providers—public programs like USDA and FSA, State programs, private providers like community banks, Farm Credit, Farmer Mac, and insurance providers—and also non-traditional providers like ag retailers, investment funds, and other participants. Together these providers, along with the Senate Ag Committee, are part of the rural capital team. This is an essential team to best support agriculture long term. Together we can help America thrive.

Access to traditional agriculture credit is stable, but it is still full of holes. Too many of our young and underserved farmers fall through the gaps before they can become stable, long-term farmers. Traditional ag credit is plentiful for traditional, well-served farmers. Young and beginning need more help.

FSA loan programs are effective but need to be updated and streamlined to best support producers, and in particular, small, young, and beginning farmers whose needs and financial structures are changing. Succession planning is a real issue. We need FSA to be adaptable to that issue.

Serving in the traditional ag market is a team sport. All of us on this panel contributed in some way. Public and private partnerships, as well as private-to-private partnerships demonstrate what is possible when the rural capital team works together.

If we take a broader view and look at a broader credit availability across the country, beyond senior debt we have rural business investment companies. They provide equity capital to small businesses. They are an essential part. Fast Ag, based in Windom, Minnesota, is an RBIC junior capital recipient, who has grown to over 50 full-time employees and distributes products globally. Midwest Ag, an RBIC, partners closely with CEO and owner, Cody Fast. Cody could not accomplish his goals with the support of RBICs. Let us continue to build on that success and break down artificial barriers to help that happen.

As we talk with ag producers and people like Cody, the pain points they tell us about, beyond inflation and capital, are finding a work force, basic health care availability, and the ability to earn off-farm income for other members of the family. Senator Smith highlighted those in her statement. Essential community facilities provide basic health care, public safety, and daycare to help solve these problems. Our research suggests the need for capital in this area is bigger than the existing private and public capital available today.

Notably, several members of the rural capital team are not present or engaged. We believe creating further access to this capital through clarification of existing authorities can help create the partnerships that have proven so helpful in ag. Let's work on this together. When we do it right, everybody wins.

More generally, breaking down artificial barriers to capital should be a goal of the Committee. We see examples of that from this Committee across the work that you are doing in the bills that you are introducing. We support those. Compeer is invested in ag and rural America, and we know you are, too. Please take action, and together we can further enrich ag and rural America which supports our clients and all members of the rural capital team.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Wagner can be found on page 52 in the appendix.]

Senator SMITH. Thank you so much, Mr. Wagner.  
Mr. Cole.

**STATEMENT OF WILLIAM COLE, OWNER AND AGENT, COLE  
AGENCY, BATESVILLE, MS,**

**TESTIFYING ON BEHALF OF THE CROP INSURANCE PROFESSIONALS  
ASSOCIATION AS CHAIRMAN**

Mr. COLE. Thank you, Chairwoman Smith and Ranking Member Hyde-Smith, for the opportunity to testify before this Subcommittee today. My name is William Cole. I am a crop insurance agent from Batesville, Mississippi, and my family and I grow corn and soybeans and have a small cow-calf operation.

I serve as the Chairman of the Crop Insurance Professionals Association, or CIPA. It is an association of premier crop insurance agents wring policies all over the country. As agents, we are very proud to be the primary financial advisors of our farmer and rancher customers. We not only advise farm and ranch families on crop insurance coverage options tailored to their individual operations, but we run a full suite of USDA programs including the commodity title choices ad hoc programs along with private risk management products, including wind and hail coverage.

Though we are not compensated for services beyond advising on crop insurance, we go beyond our mission area to help our producers because we love agriculture, care about our American farmer and rancher customers. They are what Federal crop insurance, and we, as agents, are all about.

The stakes today for agriculture could not be higher. In recent years, farm and ranch families have had to weather retaliatory Chinese terrorists, pandemic impacts on supply chains and markets, a string of severe and often chronic natural disasters, and high inflation and other factors driving up costs of production.

Through all of them, Federal crop insurance has been not only the cornerstone of the farm safety net but arguably the only safety net for producers, given that the commodity title has really lost its relevance to producers because support levels are set based on 2012 costs of production, and so much has changed in 12 years. I believe that farmers and ranchers are truly grateful that the farm bill discussions have focused substantially on strengthening the safety net that undergirds the whole agricultural economy.

Relative to crop insurance, I think it is extremely important to note that the coverage does not just help farmers recover after a natural disaster. It means so much more than that. Yes, indemnities are a measure of support, but the biggest value to crop insurance is the \$200 million liability protection that is in force. This is

the element of crop insurance that allows farmers and ranchers to obtain credit, invest in their operations, to better market their crops, and to avoid the kind of asset base ending that contributed to the 1980's farm financial crisis. Imagine a world you live in without something as basic as insurance, and that is where farm and ranch families would be without Federal crop insurance. As vital as crop insurance is to farmers and ranchers, I submit that it is also good for the taxpayer. Farmers and ranchers have real skin in the game, paying some \$6.7 billion in premiums alone last year.

As you begin the important work of crafting the 2023 Farm Bill, we would respectfully suggest ways to strengthen the safety net in ways that are both meaningful to producers and taxpayers. First, let us work to narrow the deductibles that farmers and ranchers face to increase participation at higher levels to avoid ad hoc disaster programs.

Second, surge RMA, private sector developers, and producer groups to work in a concerted way to use current legal authorities, including R&D and the 508(h) submission process, to help ensure that crop insurance works effectively for all producers, regions, and commodities. This, too, will help avoid expensive ad hoc programs.

Finally, let us correct the serious and unsustainable flaws in our A&O system to ensure that agents and loss adjusters can continue to provide the excellent service that is one of the core pillars of Federal crop insurance.

As Congress noted in the Omnibus Bill last fall, USDA has the legal authority to provide annual inflation adjustment and equitable relief for specialty crop policies without opening the SRA, and the Department must exercise this authority. From 1938 to 1980, crop insurance struggled, but in 1980, when crop insurance was turned over to the private sector, it began to take off and became the vital program to farmers and ranchers that it is today. Fixing this A&O issue is critically important for the infrastructure, companies, adjusters, and agents that will support this vital program to meet the needs of the producers in the future.

Thank you again for the opportunity to testify before you today. I cover more issues in greater detail in my written testimony, and I am certainly happy to answer all of your questions on these issues. On behalf of CIPA, we are grateful for all that you do for the hardworking ranch and farm families across this country who feed, clothe, fuel the Nation and so much of the world in a manner that is truly unrivaled in history. Thank you.

[The prepared statement of Mr. Cole can be found on page 61 in the appendix.]

Senator SMITH. Thank you, Mr. Cole.  
Mr. Korin.

**STATEMENT OF JAMES KORIN, PRESIDENT, NAU COUNTRY  
INSURANCE, RAMSEY, MN,**

**TESTIFYING ON BEHALF OF THE AMERICAN ASSOCIATION OF CROP  
INSURERS**

Mr. KORIN. Chairwoman Smith, Ranking Member Hyde-Smith, also Chairwoman Stabenow and the members of the Subcommittee on Commodities, Risk Management, and Trade, thank you for the

opportunity to testify on Federal crop insurance and the vital role it plays in America today.

My name is James Korin. I am the President of NAU Country Insurance Company, insuring nearly \$45 billion of liability on behalf of America's farmers and ranchers. I am speaking today on behalf of my company and the American Association of Crop Insurers, a trade association with membership that includes companies, agents, reinsurers, and others involved in the marketing and servicing of Federal crop insurance.

I am truly honored to be here today, and I am thankful for the support you have provided America's farm and ranch families, and in turn the rural communities in which they live. Without crop insurance, many rural communities across our great nation would not exist as they do today.

NAU's roots go back to the beginning of crop insurance, when they company's founder, James Deal, working with Congress and the Carter Administration, helped craft and pass the Federal Crop Insurance Act of 1980. Today, crop insurance covers over 90 percent of production agriculture in America.

Crop insurance succeeds through the tenets of flexibility, affordability, and availability. On flexibility, last year farmers paid nearly \$7 billion in premiums to purchase both individual and group-rated coverages they felt fit their operation and risk management needs. Farmers have a considerable amount of flexibility in tailoring coverage that best fits their operation, and while this variety adds complexity, it is essential to ensure the program is available to all.

On affordability, without the safety net for our farmers and ranchers, grocery shelves could quickly empty after a bad growing season across America's heartland. Through the public-private partnership that is Federal crop insurance, farmers can better afford coverages they need. In addition, farmers shoulder a significant share of premiums, offsetting costs to the taxpayer, ensuring crop insurance can survive and expand.

On availability, private sector delivery and capital are key components to the success of crop insurance. NAU and our competitors invest billions of dollars in rural communities, shouldering the costs of operating crop insurance in its entirety. In addition, we put billions of dollars of capital at risk annually. For this actuarially sound program to stay viable it is important that the formula provides enough return to cover our costs and a reasonable, long-term rate of return on the billions of dollars of capital we invest.

Despite the effectiveness of crop insurance, opportunities do exist for improvement. No. 1, the crop insurance industry continues to work with producers and commodity groups to enhance and/or expand coverages for crops on all producers. With higher participation, we can reduce the need for ad hoc assistance in case of a disasters. Importantly, investing in crop insurance is more efficient for taxpayers and provides a level of security to our farmers that ad hoc programs simply do not.

No. 2, crop insurance has been operating on administrative reimbursements that have been stagnant since 2015. This has occurred during a time of significant inflation in every aspect of our business. Discussions are taking place regarding an inflationary im-

provement that would help keep our program strong for the American farmer.

No. 2, the American farmer has already embraced many environmentally friendly practices, too many to mention in my short time with you today. While we believe further adoption of carbon-sequestering farming practices will help guide a better future for farming, we caution that non-market incentives should come from separately funded initiatives that do not detract from the current crop insurance program.

In closing, I want to leave you with a reflection that I heard several years ago while attending a meeting of an Australian group called Thankful for Farmers. The program developer said, and I paraphrase, "The typical person may occasionally need a doctor, or an attorney once or twice in a lifetime, but that same person, three times a day, every single day, needs a farmer."

I am proud to be part of a program that supports such a noble and important cause. I appreciate the support the industry has had from Member of Congress on both sides of the aisle, and with your support we have created a public-private partnership that helps protect the American farmer and truly is the envy of the world.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Korin can be found on page 74 in the appendix.]

Senator SMITH. Thank you so much, Mr. Korin.

Mr. Meador.

**STATEMENT OF JASON MEADOR, HEAD, RURAL COMMUNITY INSURANCE SERVICES, ZURICH NORTH AMERICA, ANOKA, MN, AND SCHAUMBURG, IL**

**TESTIFYING ON BEHALF OF THE CROP INSURANCE AND REINSURANCE BUREAU**

Mr. MEADOR. Chairwoman Smith, Ranking Member Hyde-Smith, Chairwoman Stabenow, Ranking Member Boozman, and members of the Subcommittee, thank you for allowing me the opportunity to testify today on the importance of crop insurance and the vital role it plays providing risk management for farmers and ranchers.

My name is Jason Meador. I am the head of Rural Community Insurance Services, one of 14 approved insurance providers that sell crop insurance to farmers and ranchers across the country. Our company has a national footprint, with more than 1,400 employees across the United States, partnering with over 3,500 agents, and protecting more than 100,000 farmers.

I believe that crop insurance is the best tool available to farmers to manage the risks they face and to protect their livelihoods. Crop insurance provides a rapid response when losses occur. Private companies are typically able to deliver indemnity payments to farmers in fewer than 30 days after completing loss adjustment.

Additionally, private sector delivery of crop insurance allows farmers to choose the company and local agent that best meets their needs. Crop insurance is inclusive. Our industry protects farmers of all types and sizes, covers over 130 different commodities, including the major row crops, specialty and organic crops, as well as dairy and livestock.

The crop insurance program functions as a “three-legged stool” where risk is shared by farmers, private sector companies, and the American taxpayer. Farmers pay premiums and are billed to purchase crop insurance and must meet a deductible before indemnity payments are made. Private insurance companies deliver the program and bear a portion of the risk. The Federal Government discounts premium, making crop insurance affordable for more farmers, and bears a portion of the risk with private insurance companies. The result is crop insurance being affordable and accessible for a wide range of farmers and ranchers.

Crop insurance is flexible. Farmers can tailor their coverage to fit their specific needs, and if a farmer or commodity organization does not believe there is an existing policy that works for them, those farmers can utilize the 508(h) process to develop a product that does. To this end, more than 40 policies have come to farmers through the 508(h) process over the last 20 years. Crop insurance successfully meets the needs of hundreds of thousands of farmers today, and we believe can address additional challenges going forward.

With that as an overview, I would like to address three topics as we look ahead to the 2023 Farm Bill—climate and crop insurance, disaster assistance, and the 508(h) process.

First, as the Committee continues to evaluate the intersection between agriculture and climate change, it is important to note that a farmer’s first line of defense against climate change is crop insurance. As weather patterns change, having a strong insurance product is critical for farmers. Additionally, there are studies that show that farmers who purchase crop insurance are more likely to undertake climate-smart agricultural practices.

As this Committee looks ahead to the farm bill, I would like to share the criteria by which we evaluate proposals in this area. First, the intersection between climate-smart agriculture and crop insurance must maintain the actuarial soundness of the program. This is what maintains the program’s integrity. Second, intersections between climate and crop insurance should be incentive based, not mandated. Finally, new climate initiatives should be funded on their own terms. Money from the crop insurance program should not be used.

In terms of meeting these criteria, we believe the 508(h) process, when used as intended, can enhance the intersection between climate and crop insurance. We have seen recent examples of this process at work with the approval of both the Sprinkler Irrigated Rice Endorsement and Split-Application Nitrogen Endorsement.

My second topic is crop insurance and disaster assistance. The last several years have seen a drastic increase in ad hoc disaster payments. It is only prudent for this body to be looking at the next farm bill for ways to plug these gaps in the safety net. We ask that you consider crop insurance as a primary tool. We know we cannot solve every problem that exists in agriculture, but crop insurance has a track record of delivering assistance to farmers in a predictable and timely fashion.

Regarding disaster proposals, we discourage the creation of any disaster program that would disincentivize farmers from purchasing crop insurance or that would directly compete with existing

crop insurance products, and we would oppose the creation of any disaster package that is funded by cuts in crop insurance.

Finally, regarding the 508(h) new product development process, we are interested in working with Congress to ensure industry engagement during new product development and rollout. Our goal is to have a functional process that will bring innovation to farmers, and for the process to be consistent with the sound business practices that ensure we continue to be good stewards of the taxpayer dollar.

In the past, companies have been faced with implementing new crop insurance products over a compressed time period, with no advanced evaluation or input on the product and possible implementation hurdles. The result is that some new product launches have not been as successful as we would like. For the sake of our farmers, we want to see successful product launches in the future that meet their changing needs.

In conclusion, I would like to thank the Subcommittee for your continued support of crop insurance and for your willingness to seek the perspective of the crop insurance industry. We stand ready to work with each of you as we head into the next farm bill. Thank you.

[The prepared statement of Mr. Meador can be found on page 78 in the appendix.]

Senator SMITH. Thank you so much to all of our panelists. We will now begin a round of questions from the Senators. Each Senator will have about 5 minutes, and I will defer my first questions to Chair Stabenow.

Senator STABENOW. Well thank you very much, Chairwoman Smith and Ranking Member Hyde-Smith. Always wonderful to be here with my Ranking Member, Senator Boozman. I appreciate you allowing me to go ahead. I am juggling two committees, as all of us do at various times this morning.

First I have to say welcome to all of you, and the good news is overwhelming we hear that crop insurance is the No. 1 risk management tool for farmers. You are doing a good job of whoever you are talking to. It is overwhelmingly what we hear, and I happen to agree with that as well.

Throughout my time on the Committee I have been extremely supportive of crop insurance and have worked really hard to expand it. Certainly for us in Michigan, specialty crop insurance has been really important over the years. In 2014, I created a Whole Farm Revenue Protection Plan, which has been a key option for diversified producers, so I would like to start with that. Mr. Cole, I would like to ask you to dive in a little bit deeper on the question of how we go about this type of insurance. You talked about how the workload relative to specialty crop policies generally has increased dramatically, and noted your organization has specific suggestions to help simplify coverage and make it more accessible.

Could you talk about the workload connected in selling Whole Farm policies, and if the workload affects what type of policies that agents are selling and any suggestions that you would have for simplifying that process.

Mr. COLE. Yes, Senator. As you know, I am from Mississippi, so we do not have a lot of specialty crops in our area.



Senator STABENOW. You have got a lot of catfish.

Mr. COLE. That is right. Through our association, my fellow agents that are in specialty crops, really work hard, and the unique thing about crop insurance is through the 508(h) process anyone that has a good plan or proposal can submit it and it goes through the process. It is continuously evolving and improving in the specialty crop area, and we are reaching out to more crops. As these guys have noted, there are more crops being insured, more programs being added every year.

Recently—this has been a big success—they improved the hurricane assistance in the coastal areas to include tropical storm coverage, and that has been a big help. That is a new issue that we have had, or a new program that we have had that has been added.

One thing on the Whole Farm, especially in your area of specialty crops, that has really been embraced, and some of our agents that we have been talking to have noted that the coverage cap on WFRP might need to be removed or raised substantially to include the bigger specialty crop operations, which, in turn, would lower the cost and the rates for a lot of the specialty crop areas.

Senator STABENOW. Thank you very much.

I want to ask a broader question now because I am very confident that we are going to be able to work together on this Committee and be able to move forward a bipartisan farm bill that works for those across the country. My bigger worry right now is just the economic environment in which we are in, with all of the discussion about default and so on.

We heard that the Fed Reserve Chair, Jerome Powell, said yesterday no one should assume that the Fed can really protect the economy and financial systems and our reputation globally from the damage that a U.S. default might inflict. We should not even be talking about a world in which the U.S. does not pay its bills.

Mr. Wagner, Mr. Morgan, and Mr. Barker, could you talk a little bit about the implications to farmers and our ag credit system generally, in terms of interest rates and credit availability, if, in fact, the Federal Government were to default on its debts?

Mr. MORGAN. Sure. Thank you, Senator. As far as interest rates, the rapid rise in interest rates over the last 12 months will impact every operator that we have. Any operator we have with an annual operating loan, whether that be cattle, whether that be row crops, right now is facing interest rates that are more than two times where they were at the beginning of last year.

We also have a number of long-term real estate loans that will be repriced this year as their original pricing expires and there is an opportunity to reprice their loan. They will be facing much higher interest rate costs. In some cases, we will have a number of producers that will face both higher operating line costs plus real estate interest rate costs.

Through that Farm Credit remains very well-positioned to be able to weather that adversity with those borrowers as we continue.

Senator STABENOW. Thank you. Mr. Barker?

Mr. BARKER. Yes. Senator, that is a big topic for as well. Our friends in the Farm Credit System have a better funding source

than we do, using the bond market, where ours is the local savings and CD rates that we have to pay.

We are proposing a new bill. We have an acronym of ACRE. Some of you may have heard that. We have been on Capitol Hill promoting that. What we are asking for is that the interest on all rural ag real estate loans and home loans in towns of 2,500 or less be tax exempt. We have calculated that could mean the difference of 1.5 to 2.5 percent lower rates for our folks, and that is another tool that we would love to use for beginning farmers and our lower-income families in our towns.

Senator STABENOW. Mr. Wagner, did you want to respond?

Mr. WAGNER. I will take a little bit different tact. I think the risk-free rate, which is what is driving our borrowing costs, impacts farmers every day. The higher that goes, the more they are impacted, and it tends to compound because that drives other risk-free rates in borrowing for other parts of ag as well—cost of fertilizer, cost of seed, all of those things are impacted by that risk-free rate. The higher that goes, the harder it gets, and that is something we are actively trying to work against, as I am sure you are as well.

Senator STABENOW. We are. Is it fair to say no one thinks that the U.S. defaulting is a good idea for farmers and ranchers? Okay.

Thank you, Madam Chair.

Senator SMITH. Thank you very much, Chair Stabenow. Senator Hyde-Smith.

Senator HYDE-SMITH. Thank you very much, and my question is to Mr. Morgan. Can you please expand on the importance of crop insurance and livestock risk protection to your borrowers?

Mr. MORGAN. Thank you, Senator, for the question. First of all, Farm Credit strongly supports the crop insurance program, and every year that our row crop farmers, go in and they plant their seed, and they grow whatever the commodity is, they are risking the full equity or material equity of their farm in that crop. Without that crop insurance, any one year that they have a disaster or a disease or a market issue, that crop insurance will cover them and assure that they will be able to continue the next year to plant that same crop.

The livestock risk protection is well-used in our area, very popular. Farmers use that. Cattle producers use that to hedge against a decline in market prices, which also is very important to us as a lender.

Senator HYDE-SMITH. Thank you. Mr. Cole, you have a pretty unique perspective here as both a crop insurance agent and a producer. What are some of the unique challenges faced by producers in the mid-South, and how does crop insurance meet those challenges specifically to the mid-South?

Mr. COLE. As you well know, we are blessed with the amount of rainfall. Sometimes we are overly blessed with the amount of rainfall. Our crop insurance customers are primarily worried about flood damage, planting a crop and then losing the crop. We are constantly working with whatever their crop mix, because as you well know, in the mid-South, we could rotate three to four crops on the same farm. We have to sit down, depending on what the market drives, and work with our farmers every year to custom tailor the

best coverage for them, where their loans with these guys would be collateralized to an amount where everybody is protected.

Senator HYDE-SMITH. Yes, they say 55 inches annual, but I think we may have to go up on that one.

Mr. COLE. Yes, ma'am.

Senator HYDE-SMITH. Mr. Meador, one reason it is critical to preserve access to risk management tools in this farm bill is that these tools help preserve family farms for the next generation, which I think is so critically important. I am pretty passionate about getting young people involved in both hands-on farming and industry-type jobs like yours. Please share more about the RCIS apprenticeship program, which I think is so interesting.

Mr. MEADOR. Thank you, Senator. RCIS, as part of Zurich has an apprenticeship program for young adults or people returning from the military, so you could be a high school graduate, a military veteran, or shucks, somebody that wants to change careers. We have a program where you can come join RCIS and you are able to get an agriculture degree from Northeast Iowa Community College. We pay for the degree. While you get that degree you work part-time for us, doing a job, getting exposure to fields such as underwriting, claims handling, finance or marketing.

Then after your two years, you have a full-time job working for RCIS. We require you to work for us for one year, and hopefully many, many years beyond that. It does allow a path for new people to come into the industry, young people, diverse people. It is a wide range that we are really looking for.

This year we are hiring 18 individuals across the United States in different locations, in many different fields. That is really our focus, to bring people into the industry.

Senator HYDE-SMITH. I just really want to commend you for that. Thank you so much.

Mr. MEADOR. Thank you.

Senator SMITH. Thank you so much.

I want to dive in a little bit into some of the comments that several of you made about the work we need to do to make these risk management tools more readily available, work better for small farmers, beginning farmers. Mr. Wagner, could you just go into a little bit more detail? You talked about some of the examples that you have about the work that Compeer does, to think about how we can help to overcome some of the hurdles that young farmers and beginning farmers face, and what you have seen that works.

Mr. WAGNER. We are actively involved in this area. I think there are a couple of things that I would say are required. First, you have to be engaged in that work. We have a dedicated team, our Emerging Markets team, that is dedicated to that. Sai Thao and Paul Dietmann lead Compeer's Emerging Market team, and do a great job of working in the communities. You have focus.

You have to then build trust. These communities do not just accept you and say, "Give me your money." They want to work in a sustainable fashion. You have to build trust, sharing knowledge, talking about the programs, helping get them networked around the country and with these programs to help them understand what is possible. We have to have commitment. You have to continue to show up, and you have to continue to do that.

I think what it comes down to at the end of the day is flexible programs, so it is incumbent upon capital providers to have the flexibility to adjust to those communities and work through those issues to try and find ways to support them.

Reggie, who is our producer in the written testimony, did not have much of a credit balance, did not have much of a credit history. We were able to work with him, get him started. He brought others into the community, and they are operating a regenerative poultry farm near the Twin Cities. It is a great story. It is an example of how you can get introduced, you can build trust, you can create flexible programs, and now they are off and running, and we hope that they continue to succeed as a traditional farmer, where they have more access to capital.

Senator SMITH. I think you mentioned something about how we need to make sure that FSA has the flexibilities as we are looking at this big generational transition in farms. Could you just talk a little bit more about what you think that ought to look like?

Mr. WAGNER. Absolutely. There are specific items within the FSA programs which require kind of an owner-operator issue. When you have extended families, these operations often times have multiple kids. I am from a family of three, so you get that. How do you pass that land on and maintain somebody on the farm? There are many different ways that farmers are choosing to do that, but oftentimes many of those legal structures they are selecting force them out of the FSA programs.

It is really about structuring something that is flexible for the new age around liability protection with LLCs and partnerships, but also just that flexibility around family and partnerships in those programs and not having it be kind of one farmer, one piece of land. I think that is where the flexibility really is needed, and I think we can do that pretty easily and still stay within the intent of the original programs.

Senator SMITH. Thanks so much.

Mr. Korin, I want to followup a bit on a question, and you are welcome to respond to this as well, but followup on a question that Senator Stabenow was asking about Whole Farm insurance. That Whole Farm revenue protection is nearly a decade old. I think that USDA's Risk Management Agency has been championing this. We are seeing that there is still some work to do there, and I have heard that because of administrative requirements and some of the financial information required it just can be sort of burdensome.

Could you just talk a bit about that and anything you think we ought to be doing to make that work better?

Mr. KORIN. Yes. Thank you, Senator, and we appreciate the work that the Committee did to get Whole Farm active. One of the tenets of crop insurance is to make sure we get the pool as large as we can so we can spread risk and get everybody in the program, benefiting all, and in some of the specialty crop areas there was a need, especially in the Northwest and in the Northeast parts of the country, where specialty crops like apples and grapes and things like that are grown, there was a need for additional coverage. Because it does not apply itself to the normal APH kind of coverage that is in crop insurance, Whole Farm did make a push to get more people in the program, and for that it was successful.

I think last year we wrote, as an industry, about \$125 million of coverage on Whole Farm. I can tell you that this year, with the changes that we worked with RMA to put into place with regards to the micro Whole Farm and some of those things, we are already over that number.

I looked at our own book of business, and from last year to this year we are up 18 percent on Whole Farm.

It is maybe slow to grow, but it fills a void that we needed in crop insurance, and I think it is working, Senator.

Senator SMITH. Thank you so much. Senator Ernst.

Senator ERNST. Thank you, Madam Chair and Ranking Member, and thanks again to the witnesses for being here today. Gus, Mr. Barker, thanks for being here. In your testimony you did do a very nice job of describing how productive Iowa farmers are, but you did also, in your remarks, mention the high cost of land in Iowa. That makes it particularly difficult for our young and beginning farmers, and small farmers.

There was a 2022 study from Iowa State University that gave the land value. It was called the Land Value Survey, and it gave the cost of an average price per acre of Iowa farmland. The average was around \$11,000 or so per acre, but it ranged up to \$30,000 for a high, up in northwest Iowa. I know you are familiar with some of those costs.

According to the most recent USDA census data, which came out in 2019, and I have heard this before, but the average age of an Iowa farmer is just over 57 years old. My sister and her husband are those average Iowa farmers right there.

Mr. Barker, from your experience how can we better help and incentivize young and beginning farmers so that they start and stay in agriculture? We get a lot of these young people. They will start in farming, but they find that they cannot often stay in farming.

Are there special financing terms or other unique programs that are being offered to keep these young people in agriculture?

Mr. BARKER. You know, we use a variety of programs, Senator. We have used a partnership with USDA where they provide a down payment and we provide the funding for a purchase of hog facilities, and the young man is willing to work. They have to be willing to work. It is not something you can just sit in the office and manage. They have got to be willing to do that.

We use the programs that have the guarantees. We feel the new USDA Express program would fill a niche. Some of the opportunities my young farmers have had come up are under a deadline, because there are multiple people willing to pay the price, and for a young farmer who applies for a USDA loan, they do not come through very fast. If that is delayed, that seller is going to go somewhere else where he knows he can get the money fast.

Senator ERNST. And Gus, if I could interrupt there, just so folks know, how long does it typically take for that process?

Mr. BARKER. We estimate 60 days, minimum, to get that done. In a worst-case situation, at times when funding is low, it could be six months. It is really a pretty tough time. The paperwork is intimidating, so if the lender can use their own forms, have a 36-hour turnaround, that young person has the best shot of getting some-

thing purchased for them. Not everybody has family members that are willing to help.

The State of Iowa does have a program, that may be tailored at the Federal level, that gives a tax break to the seller of the farm to the young farmer. For a five-year term they get a tax break on their income taxes, a tax credit, and that has worked well for some of the beginning farmers in Iowa.

Senator ERNST. Yes, that is good. Thank you. Mr. Wagner, how about you?

Mr. WAGNER. We like the Express program, by the way. I think that is a great idea. It is something that we would definitely support.

I think where we look at it is we do a lot of different structuring around young and beginning farmers. Down payment assistance tailored the cash-flows to the right thing. More broadly we want to provide off-farm income opportunities for the partner or the spouse who is working in that rural community, and if we can do that and have that off-farm income and contribute to them getting on their feet as full-time farmers, then as their operation grows they can come back and be full-time.

It is a whole look. Much of the farm income around the country is off-farm, and we need that support and that strong rural community in order to help those producers start and stay on that farm, as you said. It is a key item to look at it holistically versus just on the farmer aspect, because that is just not broad enough.

You cannot get started the way it is with ag today, and the prices that we have to pay. It has to be kind of a collective working hard and working, you know, and two jobs or one job to try and make that work, that is quite often the solution. I think that is something we are producing. We are trying to support that growth in those rural communities as well as providing specific programs for young and beginning farmers.

Senator ERNST. Yes. Thank you both very much. I think it is important that folks out there in non-ag country understand how difficult it is to really get into farming and to be able to thrive in farming. Thank you very much. I appreciate that. Thank you, Madam Chair.

Senator SMITH. Thank you, Senator Ernst. Senator Tuberville.

Senator TUBERVILLE. Thank you, gentlemen, for being here today and helping with this all-important farm bill that we are getting ready to attack. I guess that is the way we would call it.

As we heard during Tuesday's hearing, protecting the farm safety net is the top priority for commodity groups across the country. For this farm bill, crop insurance programs represent only seven percent of the total \$1.5 trillion package. We cannot have an effective and functional safety net without stabilized crop insurance coverage for our producers. It is not going to happen.

Also, we must ensure our producers have access to capital and risk management tools to weather rising input costs and skyrocketing prices for farmland and equipment.

Mr. Wagner and Mr. Morgan, I hear from Alabama poultry producers about the rising cost of poultry houses. Four houses can cost up to \$2.5 million, or more. In your testimony, you mentioned the

need to increase FSA-guaranteed loans. What is the appropriate level of FSA-guaranteed loan limits?

Mr. MORGAN. Thank you, Senator. Farm Credit is asking for an increase of up to \$3.5 million for ownership, and up to \$3 million for operating. In my statement I indicated a similar example of what it takes for a poultry farmer to make \$75,000. According to the U.S. Census Bureau, household median income for the last two years has been about \$70,000. For a poultry producer, they have got to go in and make a \$3.3 million investment in order to achieve the same level of median income. An increase in the guarantee amount, which is currently a little over \$2 million, would significantly cover the cost of those houses, and be an entry point for so many young, beginning, and small farmers.

If I could, in Mississippi and Louisiana, we have a concentration of integrators in poultry houses and great opportunity there. That is just a really key item for us with this farm bill.

Senator TUBERVILLE. Thank you. Mr. Wagner, have you got anything to add?

Mr. WAGNER. Just quickly, a broader perspective. When you have an ownership loan and an operating loan and those two things combine, that limit still applies. I think where we have young, beginning farmers who may have some help on the land loan, may not have that same help on the operating loan. That limit is real, and as the cost of inputs and the cost of land move up, as Senator Ernst indicated, you run into those limits really fast. Updating is important.

Senator TUBERVILLE. Thank you. Mr. Barker, thanks for wearing the appropriate blue and orange tie today, by the way.

I was co-sponsor of ECORA last Congress and look forward to support ACRE this Congress. Mr. Barker, can you share with the Committee how ACRE could allow community banks like yours to better serve rural communities in your market?

Mr. BARKER. It is a lower interest rate. With those interest income tax-free to the bank we could pass that on to our borrowers. Any cost savings that we could provide those beginning farmers is essential. We cannot control the input costs or anything else. The only thing we can control is the interest, and that is one way we could do that, by having that interest tax-free to the bank on the ag side of things. Also in my markets, my towns are all under 2,500 people, and the housing situation is very, very difficult there. It would really benefit my folks who have very limited means of income in making a purchase and affording the houses, rather than the double and triple interest rates they see now.

Senator TUBERVILLE. Thank you.

Mr. Cole, Mr. Korin, or Mr. Meador, to any of you working in the crop insurance industry, as you know, half of the 14 approved insurance providers have parent companies that are owned by foreign entities. I know that some AIPs have subsidiaries in China. Do Chinese entities have significant ownership stakes in any AIPs or their parent companies?

Mr. MEADOR. I will take that one, Senator. At RCIS, Rural Community Insurance Services, our parent company is Zurich. Zurich is a Swiss-based company. Just a little bit of background on who Zurich is and what our role is with RCIS. Zurich purchased RCIS

in 2016. Prior to the purchase in 2016, Zurich was a reinsurance partner with RCIS going back to 1998, so providing capital to RCIS to be able to support crop insurance in American agriculture.

If I go back further, Zurich in North America has been doing business in the United States going back to 1912, providing insurance for many infrastructure projects over time, everything from the Hoover Dam, Chesapeake Bay Bridge, and the update to LaGuardia Airport. There is a lot of capital that comes from Zurich globally to be able to support North America.

From a business perspective, broadly, globally, roughly 90 percent of Zurich's property and casualty business is in North America and Europe, so Western economies. When I look at the life business there is not as much in North America, but it is more in Latin America. Asia-Pacific makes up only about 10 percent of the business or a little bit less. Major markets there are Australia and Japan. We do not do business in China.

The one caveat to the China question—so we do not have subsidiaries in China, to answer your question very directly—the one caveat to China is we do insure multinational companies. If they have business in China, we carry our insurance through an international program to give them protection while they are doing business in China, but we do not do it directly in China.

Senator TUBERVILLE. Thank you. Thank you, Madam Chair.

Senator SMITH. Thank you, Senator Tuberville. Senator Gillibrand.

Senator GILLIBRAND. Thank you, Madam Chairwoman. Over the past few months we have seen three of the four largest bank failures in American history. Quick action by regulators in the private sector have allowed for stabilization to a point, but it is clear that Congress must act with some banking reform to guarantee long-term economic stability in the banking sector or risk similar future events.

For all the panelists, do these banking disruptions pose a risk to our rural lenders and rural creditors?

Mr. BARKER. Well, from our standpoint in rural Iowa, and in talking to my ag committee, which is scattered across the United States, we have not seen an impact. Those megabanks were not typical bank management, and we just feel there needs to be a distinguished line drawn in the sand between the risk of those megabanks who are investing in far-out ways of doing business compared to what the community bank model has always been. It has been stable. It has survived everything from world wars to the ag crisis and survived that bank model. We just feel that we are stable. We have not seen withdrawals of major deposits or anything like that. We just think there needs to be risk-based fees to those big places. We should not have to be tagged on to paying for those failures of those people. We get monitored—

Senator GILLIBRAND. Can I just interrupt you for a second? I am not concerned about the large banks right now. I am concerned about community banks, regional banks, smaller banks. Specifically—and maybe it is not happened to you in Iowa—for the other panelists, have you seen capital flight to larger institutions? Are you concerned with the rising interest rates, that it will destabilize your regional banks or your community banks or your partners?



Because we have data and information that they have not reached stability. It started at Silicon Valley Bank, but then it went to regional banks in New York, it went back to a regional bank in California, now all these regional banks are having a reduction in their stock price, as much as 50 percent loss.

There is enormous instability in the regional banking system today because of interest rates and because of misaligned investments. You may have had very prudent investments, and you may be extremely stable, and there are many banks like that I know in New York as well. For the rest of you, have you seen any flight of capital? Are you worried about misalignment with interest rates, and are you seeing any impacts that affect your business?

Go ahead, Mr. Morgan.

Mr. MORGAN. Yes. Thank you, Senator. I mean, community banks are an integral part of our small towns and rural communities in Mississippi. Of course, any time there is discussion of a credit crunch, whether it is ag or non-ag, that bothers all of us.

I will say that there is conversation among our communities regarding those concerns. I cannot necessarily speak to them because I am in Farm Credit, but I can tell you that Farm Credit is well positioned right now, well capitalized, and does not have the same concerns, and we are well positioned to continue to support local agriculture.

Senator GILLIBRAND. Thank you. Mr. Wagner?

Mr. WAGNER. The impact is real. When you have contagion like you have, I think you start to see increase in spreads. People require more for the risk that is being taken. Farm Credit is part of that. Our GSE spreads have expanded because of that, which is costing our farmers money. We are trying to do what we can to move through that.

I would say the impact is not real acute right now. It is around the edges, newer producers coming in, newer loans that are being funded. It is something we are actively watching. We are working with our district bank, AgriBank, to monitor their risk and understand what is going on there so that we can protect what is going on.

I think what you are seeing more broadly, initially, is everyone talking about risk, and when everyone is talking about risk you tend to get more conservative. It is immediately impactful to your young, beginning farmers.

Senator GILLIBRAND. For the rest of you three, has it increased your costs? Has it increased the cost of access to capital? How is it impacting your customers? Mr. Cole?

Mr. COLE. Yes. Our customers were able to secure, for the most part, without any issues, production loans for this year. Now it is just apparent that the high rates are going to have a severe impact, especially with the cost of production just dramatically rising. It is going to be an issue. There is no doubt.

Senator GILLIBRAND. Mr. Korin?

Mr. KORIN. Yes, Senator, there is no doubt the change in the banking industry has impacted capital, and as such, for example, this year our reinsurance costs are up probably 40 percent. You see it more in property and casualty because the crop industry has bet-

ter performance. Everyone was hit with that this year. We are seeing our cost of capital really go up.

Mr. MEADOR. Yes, I agree with Jim on the reinsurance costs. From our perspective, being part of a large, multinational company, I do have access to broader capital, so it probably impacts me a little bit less given what we actually do.

The other point that I want to make, from a banking versus insurance sector, is in the insurance sector, our investments were focused on assets matching liabilities, so some of the liquidity issues that banks have, insurance companies naturally do not have, given how we manage our business. I just wanted to make sure that point is out there as well.

Senator GILLIBRAND. Thank you, Madam Chairwoman. Thank you, witnesses.

Senator SMITH. Thank you, Senator Gillibrand. Senator Boozman.

Senator BOOZMAN. Thank you, Madam Chair, and we do appreciate you all so much. I apologize for running in and out. We have all got about three or four hearings. In fact, I was with the NIH and folks like that. I am trying to get a question in there about the high rate of suicide amongst the ag community and what we are doing to try and focus on that and do a little bit better job.

Mr. Wagner, a theme we have heard come up more than once in testimony is how producers are getting squeezed by higher costs, due in part to persistently high inflation, interest rates, cost of production has increased. How important is it that we ensure farmers and ranchers have access to a level of credit needed to keep pace with the current inflationary environment? I would add, how important it is, especially to make sure that our risk management tools, crop insurance, all of the other risk management tools are up to date in this really generational inflation rate, generational high interest rate, generational high input costs. The list just goes on and on.

Mr. WAGNER. It is very important that farmers have that access to capital. As we talked about, that rural capital team is important, so building up and having access to many different options across the spectrum is very important to help alleviate some of those issues that you have with specific sectors, specific groups that may have problems as inflation moves up.

I think we are very focused on trying to also adapt the programs. We have not had significant inflation since the 1980's, and many of the programs and structures were not set up with those in mind. I think this is a great opportunity to relook at some of those options and provide that flexibility, up and possibly down, as you see things move over time. Things like FSA loan limits, as we look at crop insurance and some of the things that are moving around within those products as well.

We want to serve our farmers. We want to serve them in the best way, and flexibility is oftentimes the best way to adjust to rapidly changing markets like inflation and input costs.

Senator BOOZMAN. Very good. Thank you, Mr. Wagner.

Mr. Morgan, over the past several years the debt-to-asset and debt-to-equity ratios have increased while working capital is expected to decrease by more than 10 percent in 2023, according to

USDA forecasts. Meanwhile land values have continued to climb, and farm incomes are set to decrease by double digits. While these statistics do not rise to the level of the 1980's farm debt crisis, what can we do to minimize the risk of returning to that type of environment?

Mr. MORGAN. Thank you, Senator. As we see growers and producers, as we see their balance sheets begin to decline, as we see that the equity begins to deteriorate based on high costs and declining margins and so forth, it is just critical that we continue to have the safety net in the farm bill, that those producers are, in some ways, assured that that safety net is there, that they are going to be able to continue. As that equity declines, so does the risk of a smaller loss causing a greater issue in the future.

I would also say for entry-level farmers, for our young, beginning, and small farmers, they need a guarantee that there is going to be a living there, that they can earn as they continue to see the risks increase in agriculture.

Senator BOOZMAN. As lenders, Mr. Barker, Mr. Morgan, whoever, do you see increased scrutiny by the bank examiners with the banking system a little bit shaky right now? You are seeing these balance sheets, and then again, you are having to be a little, you know, scrutinize things a little bit more because of the nature of the beast with the farm economy. Do you see people scrutinizing you more as a result, and that making it even that much more difficult, and another reason that we make sure that our safety nets are in place and up to date?

Mr. BARKER. We have always been scrutinized pretty heavily, Senator.

Senator BOOZMAN. You do not know that you can have any more.

Mr. BARKER. Yes, I do not know that there has ever been a lull in my banking career, but I did survive the 1980's, so I guess that is an accomplishment. I just finished a State exam, one of the best exams I ever had. Our files are up to date, we have our lenders that are trained, and our customers are well positioned. They have had some very good years, and we hope to keep that sustained, even though I am in the severe drought area of the State of Iowa. We worry about that every year, and the last couple of years we did not think we would have a crop, and we had such timely rains that it made a big difference. We had the safety net, and that is a question we get asked on every customer from the examiners, do they have Federal crop insurance? As long as we can tell them yes, they feel much more comfort in that.

Senator BOOZMAN. Good. Thank you, Madam Chair.

Senator SMITH. Thank you, Senator Boozman. My colleague from North Dakota, Senator Hoeven.

Senator HOEVEN. Thank you, Madam Chairman. Thanks to both of you, you and the Ranking Member, for holding this hearing. Thanks to our witnesses.

For Mr. Barker, in the 2018 Farm Bill I worked to increase loan limits for both FSA direct and the guaranteed loans, and I am looking to work on that again in the 2023 Farm Bill. Do you believe that the current FSA loan limits provide producers with adequate access to credit relative to their cost of the production?

Mr. BARKER. Actually, Senator, our opinion is no, that they need to be adjusted upward. The price land and inputs have just skyrocketed for us, and we are proposing \$3.5 million for the ownership and \$3 million limit on the operating line for USDA guarantees. We feel we could live with that, but we would like it indexed to inflation to keep up in the future. I think some of my colleagues also mentioned those same numbers.

Senator HOEVEN. Does anybody disagree that the cost of production agriculture has gone up and we need to increase those loan limits? Just if you disagree, say so. Otherwise I will figure you all agree, because it is obviously that is the case. Okay.

Then to Mr. Cole, Mr. Korin, and Mr. Meador, what would it mean to your producers if crop insurance were weakened? In fact, don't we need to continue to strengthen it? Is it not, in fact, our producers' No. 1 risk management tool?

Mr. COLE. Yes, thank you, Senator. I would submit that it is the only viable risk management tool that our farmers have today. It is so important to our small, rural communities, not just the farmers relying on it, these lenders here rely on it heavily, the tractor dealerships, the seed and chemical dealerships. It is the underpinning of all of our rural communities, to a certain extent.

Mr. KORIN. Yes, Senator, the higher input costs have definitely put the risk at a higher level in rural America, and our farmers invest more to get their crop in the ground. You know, in your area we have seen a flight to higher coverages through ECO, SCO, some of those plans. The reason is that the margins are tight on the farm. Input costs are expensive, and farmers cannot afford a year where they cannot pay their bills.

Senator HOEVEN. Yes, and you make a really important point there. You know, as they get up to higher levels of coverage it gets prohibitively expensive. What can we do to enable them to get those higher levels of coverage, as well as what role can supplemental coverage options and enhanced coverage options play? Thank you for bringing that up.

Mr. KORIN. We, three years back, NAU piloted or sponsored the EDO product, which is a 95 to 86 cover, and we did that through the 508(h) program. When we see the need, you know, I think as an industry we need to go and see if we can get that coverage expanded.

Unfortunately, with ECO, when we went through the process there was a statutory cap on how much subsidy or premium support the government could provide, and it would be helpful to get that increased, similar to STAX and the FCO. That would help a lot.

To be honest with you, I think just about everybody up here, in their opening comments, said that it is more efficient for taxpayers to put money into the crop insurance program, where the farmer is shouldering some of the cost. I think it is prudent to look at those ideas and see if we can get there.

Senator HOEVEN. Really good point. Thanks for making it.

Mr. MEADOR. I agree with everything Mr. Cole and Mr. Korin said. Crop insurance is the No. 1 risk management tool for farmers and ranchers, to be able to support their loans or their livelihood

and stability in agriculture going forward. I think it is critically important.

I will echo a little bit of what Mr. Korin said around the 508(h) process and being able to bring new and different products to enhance the program. That is really what growers would be looking for. He brought up a great example that allows for coverage at a slightly lower cost. ECO/SCO allows them to get a bit higher coverage, moving from your specific farm to an area-based coverage plan. Those types of things can be done. I would also highlight things like index products. When we talked earlier about the hurricane insurance protection, wind index product, the program just added tropical storm coverage this February. Those types of things give additional coverage.

I would be remiss not to echo again the point on premium discounts. Premium discounts for some of these products as you get to higher levels of coverage do potentially make it cost-prohibitive for some growers to be able to get that. If you are able to increase it, that will or should be able to help address some of the ad hoc disaster assistance that has been needed over the past several years.

Senator HOEVEN. Thank you. Mr. Cole, I want to ask you about the A&O reimbursement for insurance companies that provide Federal crop insurance. USDA has the authority to provide inflationary adjustments. They have not done that since 2015. They did it before. That authority did not magically disappear. They have it.

Mr. COLE. Yes, sir.

Senator HOEVEN. Talk to me about why they need to use it and provide an inflationary increase for the insurance. We just got done talking about crop insurance being the No. 1 risk management tool for our producers out there. They need a network of insurance companies out there across rural America, a lot of them small companies, that are willing to provide service to them, right, people that actually know the farmer or rancher they are dealing with, right?

Mr. COLE. Yes, sir. Yes, sir. I 100 percent agree. First, I want to start by thanking you and your colleagues for bipartisan support in the Omnibus that actually Stated just what you said. The Department does have the authority to implement the A&O inflation indexing without opening the SRA. As you well know, crop insurance program is extremely complicated, and we have very skilled workers that deal with this, and our agencies, most agencies provide benefits—health insurance, retirement accounts.

The problem that, especially in the specialty crop areas, it is very complicated. We work very hard every year to add more coverage, add more policies, but it is very risky proposition to not be able to pay those employees. As we are adding to the program, we run the risk of not being able to provide the service to that program.

Yes, I 100 percent agree. We have got to urge the Department to add indexing on the A&O. Thank you, sir.

Senator HOEVEN. Thank you. Thank you, Madam Chair. Sorry for going over my time.

Senator SMITH. No. No worries. Thank you, Senator Hoeven.

We have now completed our first round of questions by the panel. I believe that Senator Ernst has one more question, and I have one more question, then I think we will be done.

I want to just open it up to the panel and get at something that several of you have referred to, which is how important these risk management tools, crop insurance and other risk management tools, certainly they are important to farmers and producers, but they are also really important to rural communities, you know, more broadly. Strong agriculture equals strong rural communities equals just more opportunity, flat out, in small towns and rural places.

Would anybody like to comment about how you are partnering with rural communities to support local economic development growth?

Mr. BARKER. Well, I am in some pretty small communities, so the bank is the majority of the economic development there. Whatever we do impacts our community directly. The next thing we have would be a grain elevator, and maybe a small convenience store. One of my communities was lucky enough to have a grocery store built by a regional chain, and that serves every community within a 30-mile radius now.

It is a devastating thing not having the agriculture community around, and they support everything we have.

Senator SMITH. It is people.

Mr. BARKER. It is, and at the gas stations you are going to see 15 or 20 pickup trucks every morning, for coffee and comparing notes on what they know and do not know.

Senator SMITH. That sounds familiar. Mr. Wagner?

Mr. WAGNER. The rural community is obviously a big part of where we are at. We are doing some specific things around rural vitality. This is a new initiative for me, as a CEO, and for Compeer. We are adding extra oomph to this. We are building networks.

We are working with a group called CEDA, which is locally, to build networks around small businesses to, one, identify what they need, two, to try and work regionally versus locally. We believe that is really an important factor for us is to work regionally. Then bring capital. We are providing capital to these groups to get started. We are providing low-interest loans to try and help them do what they can do to work within those communities to build those. We are also being a voice. We are here talking about rural communities and how we can help them.

Between those three things we believe we are really focused on driving that rural vitality. Further, we would love to support rural health care. We are building hospitals. We are building senior care facilities through case-by-case approval. We would really like to streamline that process and utilize that existing authority more fully.

Senator SMITH. Thank you very much. Thank you. I will turn to Senator Ernst.

Senator ERNST. Thank you, Madam Chair. For our lenders that are here, in my home State of Iowa, our turkey and our egg producers have been hit hard by avian influenza, and I think we all vividly remember 2015, when it swept through many of our States. That was my first year in the Senate, and it left a lasting impression.

As you know, once that flock is infected, that farmer producer has to depopulate the entire flock. Thankfully the USDA does have an indemnification program. The farmer has a loss for income that was expected in outlying years from that flock.

Mr. Wagner, why don't we start with you. Those poultry and livestock producers are very focused on foreign animal diseases. We had the avian influenza. God forbid if we ever have an African swine fever episode. They are focused on those foreign animal diseases, so the preparedness and the biosecurity that comes with that. Can you walk through what you, as a lender, can do for those producers, when the avian influenza or another foreign animal disease strikes?

Mr. WAGNER. Yes. Thank you, Senator, for the question. It is unfortunately happening more often, and so our plan is we increase the voice of the customer. Spend time on their farm trying to understand that individual situation. Every one seems to be a little bit different, and each producer is in a different situation when that arrives. Between working with the USDA and those programs and the insurance providers that they may have, we try and find ways to structure the cash-flows to keep that farmer farming out into the future.

It is a consistent thing that Farm Credit does. We work with our borrowers. We try and engage with their cash-flows and their opportunities. We look for other programs that may be able to support that, and work with them to keep them farming over time.

Typically they have been able to recover, and that has been a really positive sign of both the work of this Committee and the support that we have from the government, but also just the support they have from those communities. They will oftentimes have neighbors and friends help them out as you go through that process. That is something we like to see and have a network to build around.

Senator ERNST. Thank you. Anything different, Mr. Barker or Mr. Morgan?

Mr. MORGAN. Thank you, Senator. I would just say that whether it is avian flu disaster, whether it is tornados, whether it is anything that would knock out the cash-flow of that borrower, we have the tools and the availability to move that timing around of when they can get cash-flow back and when they can make their payment.

Senator ERNST. Thank you.

Mr. BARKER. Same thing with us. We make use of any tool we have. It may or may not involve USDA-guaranteed programs, but usually they have to restructure and stretch some payments out over a number of years.

Senator ERNST. Yes. Something always to be aware of. Thank you very much, Madam Chair.

Senator SMITH. Thank you so much, Senator Ernst, and I really appreciate you bringing up avian influenza. It is an issue that affects both of our States so intensively, yes, probably all of our States. Exactly. Thank you.

Colleagues, does anybody else have any other questions that you would like to ask?

In that case I want to thank our witnesses again for being here today and for providing testimony, and thank you again to Senator Hyde-Smith and to your staff for working with us on these committees this week. Thanks to Ranking Member Boozman and Chair Stabenow for joining our Committee hearing this morning.

You know, we mentioned several times that the Ag Committee is lucky to work in a space where there is strong bipartisanship. We are not as partisan as in some other spaces, and I hope that this hearing this week, all of the hearings that we did this week, will help to inform us as we build a bipartisan farm bill that meets the needs of farmers and ranchers and small towns and rural places all across the country.

For Senators who wish to submit questions for the record, these questions are due one week from today, which will be Thursday, May 11th. For our witnesses, you will have two weeks to respond to any questions for the record.

Thank you again, and with that this hearing is adjourned.

[Whereupon, at 11:40 a.m., the hearing was adjourned.]



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# **A P P E N D I X**

MAY 4, 2023

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Testimony of  
**Verlin “Gus” Barker**  
President & CEO, First Community Bank  
On Behalf of the  
**Independent Community Bankers of America**  
Before the United States Senate  
Agriculture, Nutrition, & Forestry Committee’s  
**Subcommittee on Commodities, Risk Management, and Trade**  
Hearing on  
**Commodity Programs, Credit, and Crop Insurance - Part 2:  
Industry Perspectives on Risk Management and Access to Credit**  
  
March 4<sup>th</sup>, 2023  
Washington DC

## Testimony of Gus Barker

**Subcommittee on Commodities, Risk Management, and Trade  
Commodity Programs, Credit, and Crop Insurance - Part 2:  
Industry Perspectives on Risk Management and Access to Credit  
May 4, 2023, Washington, D.C.**

Thank you. Chair Smith and Ranking Member Hyde-Smith and Subcommittee members, I am Gus Barker, President and CEO of First Community Bank of Newell, Iowa. Our bank has approximately \$117 million in assets. I am also chairman of the ICBA's Rural America and Agriculture committee.

This morning I would like to begin by discussing the agricultural economy in my state of Iowa and also share several recommendations ICBA has made for the farm bill and rural America.

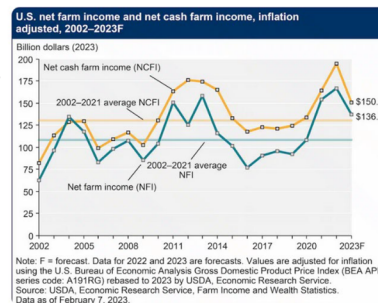
### A Look at Iowa Agriculture

Iowa is home to 86,000 farms, which are 90% family owned. One of our largest contiguous farms is the Amana Farms near Iowa City. They have 26,000 acres with award winning crop fields, a 2,400 cow/calf herd, 4,000 head cattle feedlot, an anaerobic digester, and Iowa's largest privately held forest of hardwood trees.

In spite of this, the average size of an Iowa farm is reported to be 350 acres. However, those farms above \$250,000 in annual sales average slightly less than 1,000 acres. Iowa is the largest producers of corn, pork, eggs, ethanol and biodiesel and the second largest producer of soybeans in the United States. Over 147 million pounds of cheese are made in Iowa each year. There are 19.2 million hogs, 4 million cattle, 260,000 sheep and approximately 67 million chickens in Iowa.

Land values have reached \$30,000 per acre in Northwestern Iowa. Locally, in my area the cost per acre of farmland averages about \$12,000. This high cost of land makes it extremely difficult to buy a farm, particularly for young and beginning farmers.

After two strong years of growth, net farm income is forecast to decrease by almost \$26 billion (16 percent) from 2022 to slightly less than \$137 billion



in calendar year 2023. Farm sector debt is expected to increase 6.2 percent and overall production expenses 4.1 percent.

Obviously, the farms in Iowa and the products they produce are very diversified. The same is true for the rest of the nation's agricultural production. That's why the next farm bill needs to be flexible enough to serve a broad variety of farmers and ranchers and those who depend upon them. I believe we can accomplish this task while also coming up with some ways to help meet the challenges that our young, beginning and small farmers face.

### **ICBA's Key Farm Bill Principles**

ICBA has laid out six key principles for a new farm bill which are attached to my written statement. These principles include:

- Adequately funding our commodity programs and farm safety net to accommodate a high inflation and high input cost environment.
- Ensuring producers have access to crop insurance and risk management tools.
- Enhancing USDA guaranteed loan programs by raising loan limits, streamlining applications and speeding up USDA approvals.
- Rejecting proposals to broadly expand FCS authorities into **non-farm** lending.
- Providing community banks access to credit programs available to other lenders; and
- Ensure regulatory fairness.

### **Other Essential Proposals for the Ag Sector**

ICBA strongly supports passage of the Access to Credit for our Rural Economy (**ACRE**) **Act** which will lower mortgage payments for farmers and ranchers and rural home buyers. This would be especially important for young, beginning and small farmers trying to purchase farms or who desire lower mortgage rates.

- Adopt the ACRE Act which provides banks tax exemptions on interest earned in two areas of rural lending, i.e., agriculture real estate and rural home loans. The home loan exemption would apply to small towns of under 2,500 population. This would allow community banks to provide lower interest rates to these important segments of rural America. This exemption would be similar, but not as broad, as the exemptions other types of lenders already utilize.
- ICBA also supports minor changes to Farmer Mac's secondary market activities.

## **Importance of Crop Insurance**

Crop insurance is an essential element of farming or ranching operations and a necessity for ag lenders as it allows producers to shield their crops from yield and revenue losses either due to natural disasters or from revenue loss resulting from commodity price declines.

Let me give you a perspective from our bank. Our farmers don't want to file a claim against their Multi-Peril Crop Insurance (MPCI) policies unless necessary. However, crop insurance is a tool we absolutely depend on to take the risk out of weather events that could harm our farmers. Over the years, the most important claims we've seen are not the widespread weather events that affect large production areas but rather the claims against weather disasters affecting small production areas. Mother nature isn't fair, and the small claims don't get a lot of attention sometimes but can have significant impact when they occur, both on producers and lenders.

The coverage and claims under the MPCI Policies are not comprehensive enough to make the operation whole but are a partial fix to help keep family farms intact to survive another year.

## **Key Aspects of Crop Insurance**

With crop insurance, premium rates are set by the government and farmers cannot be refused a policy. Producers generally pay approximately 35 to 40 percent of the costs of premiums. Crop insurance policies now protect nearly 450 million acres, a significant increase over the past decade, partly due to an expansion in the variety of commodities that crop insurance now covers.

By statute, crop insurance is actuarially sound, thus requiring a large and diverse risk pool to make premiums affordable. Removing some farmers from the risk pool via means testing or

other proposals, will impact the rates for every single farmer still participating in crop insurance. About thirty percent of policies pay an indemnity in an average year. It is not unusual for farmers to pay their crop insurance bill for years without receiving an indemnity payment.

Crop insurance is a rapid response solution to disasters. Private sector delivery allows farmers to receive indemnity payments in less than thirty days. By contrast, ad hoc disaster assistance cannot be relied upon by lenders and isn't delivered in a timely manner. Crop insurance is the only safety net available to all types and sizes of producers in all regions that is delivered on a timely basis.

## **Why Crop Insurance Matters to Lenders**

Like community banks, crop insurance is critical to the rural economy. Without crop insurance most producers simply cannot qualify for operating loans. Due to the extremely tight margins and incredible risk in agriculture, bank regulators examining ag lending portfolios typically insist borrowers have crop insurance to ensure repayment of loans.

Increasing the cost of farmer-paid premiums or disqualifying some farmers from participating in the crop insurance program will increase premium costs, forcing farmers to decrease coverage, making it more difficult to qualify for operating capital and loans. Crop insurance enables farmers to rebound quickly after disaster and allows producers to pay credit obligations and other input expenses, such as fertilizer or farm equipment. Crop insurance protects jobs, both on and off the farm.

These facts illustrate why community banks say, "whatever you do, don't harm crop insurance."

## **Enhancing USDA Farm Loan Programs**

ICBA has a number of recommendations to enhance USDA farm loan programs and we would be happy to work with Congress on these recommendations. We believe these recommendations will help beginning farmers and ranchers as well as more established producers.

A key enhancement would be increasing guaranteed loan limits to address the rapid rise in land values across many agricultural regions of the U.S.

In addition, we urge Congress to consider a potentially exciting new program that could speed up loan approval times, thereby enhancing access to credit much more quickly. This “**USDA Express**” program would be modeled after SBA’s Express program that lenders have used successfully.

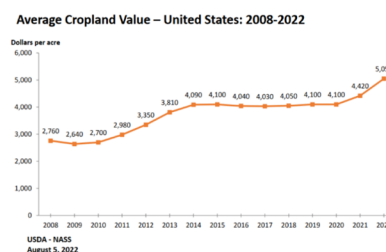
I would like to share with you an example of the role a guaranteed loan can play in helping create successful producers. A few years ago, we had a young farm family come to us for help. They had been working with a loan officer who changed jobs and they followed him to his new bank. Unfortunately, the farm family continued to struggle. In order to make ends meet, they had a trucking business to supplement the farming operation. We analyzed their financials. It was our opinion their debts were not structured properly.

We worked with the local USDA loan officer and put together a restructured guaranteed loan that helped ease their financial burden. Since they struggled at their previous lender, the examiners had them on their radar and worried about their long-term viability. Since we did the USDA guarantee, we’ve had two exams and our examiners could not believe the progress they’ve made. They are now one of our strongest customers. Without the USDA guarantee and the help of our local USDA loan officer, this family would likely not have survived.

We try to work very closely with beginning farmers and ranchers by using all the USDA tools at our disposal. One example is our work with a young man who desired to enter farming and utilized the USDA Downpayment loan program. Under that program the farmer puts down 5 percent of the purchase price of the farm, USDA finances 45 percent and the lender finances 50 percent. USDA assumes a secondary lien position. Without this program it would have been very difficult for this young man to begin his journey into the farming community.

We also do loan participations with USDA in financing farmers. Working with our USDA loan officer, we were able, for example, to finance a young farmer’s purchase of 3 hog buildings while also building a fourth.

**Increase loan limits on USDA guaranteed farm loans** by raising loan limits to at least \$3.5 million for guaranteed real estate loans and \$3 million for guaranteed operating loans. Both programs should continue to be indexed to inflation. Loan limits need to be raised to address significant increases to land values. Current loan limits are often not adequate to address the needs of family farmers.



In addition, given the likelihood of significant changes in the farm economy going forward and the normal changes families experience in operating their farms, such as buying land,

expanding livestock numbers, building facilities, incorporating family held entities between siblings or bringing younger members into the family farm operation, there will be ongoing changes that need flexibility from available programs. Producers will need flexibility to restructure their land holdings and operating needs. Higher loan limits will help accommodate changes in their operations and this includes for beginning producers.

The USDA guaranteed **farm ownership (FO)** loan program is a no-cost program in terms of budget outlays. Therefore, raising loan limits should have no cost to the FO program.

*Table FPAC-3. ACIF Program Level (PL) and Budget Authority (BA) (millions of dollars)*

Item	2022 PL	BA	2023 PL	BA	2024 PL	BA
<b>Discretionary:</b>						
Farm Operating Loans:						
Guaranteed Unsubsidized .....	\$2,118	\$17	\$2,118	\$11	\$2,118	\$1
Direct .....	1,633	40	1,633	24	1,633	28
Total, Operating Loans .....	3,752	\$7	3,752	35	3,751	29
Farm Ownership Loans:						
Guaranteed Unsubsidized .....	3,500	-	3,500	-	3,500	-
Direct .....	2,800	-	3,100	-	3,100	-
Total, Ownership Loans .....	6,300	-	6,600	-	6,600	-

USDA guaranteed **farm operating** loans are projected to provide \$2.1 billion in credit at a negligible cost of only \$1 million during fiscal year 2024, meaning loan limits could be raised with a de minimis outlay.

**Adopt a “USDA Express” Loan Program** – Many borrowers have complained of slow processing and approval times on loan applications. ICBA recommends Congress authorize new authority for a guaranteed loan program that functions similarly to SBA’s “Express” program. SBA’s Express program provides a 50 percent guarantee for a \$500,000 in loan with a 36-hour turnaround time for approvals. USDA’s Express guaranteed loan program could provide a 50–75 percent guarantee compared to USDA’s regular 90 percent guarantee (95 percent for young, beginning, small farmers), in exchange for loans receiving USDA approval within 36 hours with a cap of \$1 million.

The quick turn-around can be achieved because the lender would make the credit decision. The loans would receive careful scrutiny due to lenders having greater exposure in case of defaults. The approved loans would be smaller than other guaranteed loans with a cap of \$1 million. Loans would only be for eligible agricultural purposes. Components include:

- Lender makes the credit decision.
- 36-hour turnaround time on USDA loan approval.
- 50 - 75 percent guarantee in event of loan default. An option would be to guarantee 75 percent at \$500,000 and 50 percent at \$1 million.



- \$1 million loan cap for Express loans.
- Lender would have the option to use their own forms and procedures or have the option to use a streamlined pre-approved sample form created by USDA.

**Term Limit Flexibility** – Term limits stipulate that an eligible applicant must have a direct **operating** loan (DOL) obligated in 6 or fewer calendar years. The years need not be consecutive, and producers can utilize an additional DOL in the 7th year. The limitation does not apply to beginning farmers through their first 10 years of farming. Waivers allow an additional 2 years of eligibility are provided on a case-by-case basis if borrowers meet other eligibility criteria. Borrowers also have a 10-year restriction after which borrowers are not able to receive a subsequent FSA farm **ownership** loan.

Producers should have access to direct loans if they cannot qualify for guaranteed loans but ultimately should work towards graduation to commercial credit. Options for providing direct loan borrowers greater flexibility while working towards a stronger financial position and graduation to commercial credit include:

- Not counting direct loans in years where producers also have guaranteed loans, which evidences an effort to move to commercial credit.
- Allow for a 3-year waiver if producers are at the limit but still need direct loans.
- Allow producers to receive a combination of a direct loan and a guaranteed loan with the percentage for each category determined by what is necessary for the producer to continue their farming operation.
- Allow a blend of the above proposals.

**Streamline Guaranteed Farm Loan Applications** – The Inflation Reduction Act (IRA) required USDA to streamline direct farm loan applications, resulting in USDA reducing applications for direct loans from 29 pages to 13 pages. The IRA only required a reduced application for direct loans, not guaranteed loans.

- The credit title should likewise require USDA to review, and streamline where possible, the guaranteed loan application.
- The final streamlined guaranteed loan application must result in an easier loan approval process for both borrowers and their lenders.

- USDA could be required to review and streamline all loan applications including farm and rural development loans.

**Ensure Direct Loans Complement, Not Undercut, Guaranteed Loans** – Direct loans can be important to both lenders and their farm customers as a source of lower cost financing, particularly when used to complement guaranteed loans provided by lenders.

Funding levels should ensure existing loan programs can meet borrower demand while meeting the needs of young, beginning and small farmers. USDA direct loan limits should be sized appropriately to ensure they complement, not undercut, guaranteed loans made by private-sector lenders.

**Ensure Community Bank Access to All General Credit Programs** – Maintain the ability of community banks to serve rural America without enhancing the competitive advantages of privileged, non-bank competitors. Community banks should have access to all general financing or credit assistance programs.

- Community banks should be eligible for the Heirs Relending Program.
- Any effort to exempt the Farm Credit System (FCS) and/or other lenders from **section 1071 (Small Business Data Collection)** regulations of the Dodd-Frank Act should also apply to community banks by simply exempting **all ag and/or rural loans** without targeting specific lenders. This wording also maintains the agriculture committees' jurisdiction.
- All Farmer Mac programs should be available to community banks.
- Fund the Interest Assist program which buys down loan interest rates.

**Reduce Regulatory Burden and Ensure Fairness** – Require federal agencies to implement regulations fairly and equitably while minimizing regulatory burdens.

## **Deny Expanded Powers Proposals by the FCS**

The Farm Credit System (FCS) is seeking blanket authorities to further expand into **non-farm** lending activities even though the FCS was granted tax and funding privileges as a government sponsored enterprise (GSE) specifically established to serve agricultural producers and businesses closely related to their **on-farm** production needs.

1. **Do Not Expand Farm Credit System (FCS) Authorities** – FCS seeks to expand into **non-farm** lending through loans they label “investments” for “essential community facilities” without the case-by-case approval of their regulator, the Farm Credit Administration (FCA). The FCS’s proposal does not define ‘essential community facilities’ other than referencing the Consolidated Farm and Rural Development Act. USDA notes that an “essential community facility is defined as a public improvement, **operated on a non-profit basis**, needed for the orderly development of a rural community<sup>ii</sup>. . .”. Yet, FCS proposes they should lend to facilities “**whether operated on a profit or nonprofit basis.**” While USDA’s focus on essential community facilities seeks to exclude private, commercial or business undertakings, the FCS’s approach appears to embrace loans for these purposes, hardly the role of a GSE.
2. This authority could apparently allow FCS to make loans, called ‘investments’, for fire stations, schools, health care facilities, housing and apartment complexes, restaurants, sports facilities, stadiums, roads, and bridges and much more. Such broad authorities could push community banks off of Main Street.
3. **Questions that Need to be Asked** – Would restaurants, grocery stores and movie theaters be eligible?’ Would football and basketball stadiums qualify? Will FCS be required to pay taxes on this category of ‘investment’ lending? If not, why not? Would FCS be able to lend to MainStreet businesses deemed essential to the community? FCS would grant themselves the ability to determine who qualifies for their loans (investments) under this authority.
4. **FCS’s legislation only requires a single “non-FCS” lender** to also participate in the loan. FCS could partner with a single large bank or large credit union to handle this business activity all across the United States. There is no requirement to participate in these loans with local community banks. Conceivably the FCS could simply partner with the USDA excluding private sector participants.
5. Although FCS states there would be a 15 percent of assets limitation per institution, this amounts to nearly \$75 billion in addition community facility loans. Given USDA’s budget of \$2.8 billion in direct loans and \$650 million in guaranteed loans for these projects, the FCS’s suggested ‘limitation’ is irrelevant.
6. **Could Severely Damage Community Bank Loan Portfolios** – Due to the significant tax and funding privileges the FCS enjoys over the private sector, FCS could undercut community banks in all of these loans. Community banks would not be able to compete on these deals due to the tax-exempt lending status of the FCS, which had only a 2.2 percent effective tax rate in 2022.

7. **What Proof Exists that FCS Needs These Authorities?** Community banks, either individually or jointly through loan participations, already finance essential community facilities.
8. **Removes the FCA from Close FCS Oversight Increasing Risks** – FCA’s review of FCS investments for this broad category of lending would be circumvented. The FCA has allowed the FCS to circumvent the lending parameters of the Farm Credit Act (Act) by allowing investments beyond the lending constraints of the Act. By removing the regulator’s oversight with case-by-case approvals of such questionable loans, this proposal raises risks within the FCS and opens the floodgates for non-farm lending.

These elevated risks arise as the economy appears to be slowing and potentially entering a potentially severe recession. Congress should reject this proposal and have a series of substantive hearings to reform and refocus the FCS.

**Real World Experiences Providing Essential Community Facility Loans** – I would like to share comments from a couple of community banks financing essential community facilities.

**Illinois Banker Comments on FCS Essential Community Facilities Proposal** – “The past three years our bank funded credit to our local school district for new buses, our local hospital for infrastructure expansion, and our Economic Development Corporation for building a day care facility servicing 185 kids. We did this by using leasing arrangements with a correspondent bank, USDA Rural Development guarantees, the involvement of other financial institutions and funding from the FHLB-Des Moines. The combination of this financing plus the municipal bond market is more than sufficient to meet the needs for “essential community facilities”.

“Involvement in any of this by the FCS could have actually slowed down the process creating more costs in an inflationary economy.

**Virginia Banker Comments** – “Community banks are at the core for providing funding for these projects. Our bank has made loans to every single community facility being financed during the past two years. FCS’s attempted move into this area is contrary to their mission and is an effort to diversify into tax exempt loans outside of their core agriculture business.

“The municipal and essential community facilities lending space is full of potential lenders who step up, in a bid process typically, to meet the needs of communities and happens daily across the U.S. Allowing FCS to make these kinds of loans invites the questions as to why community banks should not also be allowed to receive tax breaks on funding ag loans like FCS does.

“I do not support FCS lending in this space given how closely I personally work with many of these projects. This issue is about roles in the industry, benefits and advantages currently afforded to the FCS in the agriculture financing space that puts other lenders at a competitive disadvantage, and it’s about maintaining a fair market.”

## Proposals to Refocus the Farm Credit System

The FCS is also siphoning **deposits** from community banks and in doing so, stealing away their best customers.

AgriBank’s aggressive offering of tax-advantaged ‘cash management accounts’ leverage FCS’s tax advantages into higher paying deposit-like accounts that threaten to undermine the deposit base of community banks.

### WHEN THE FUTURE IS UNCERTAIN, THE FUNDS YOU HAVE AVAILABLE DON'T HAVE TO BE.

#### Farm Cash Management® account

The Farm Cash Management®, brought to you by AgriBank combines the availability of a revolving line of credit with the high return of a short-term investment account. The program can save you money by putting your funds to work where they generate the best return.

Farm Cash Management current rate **3.05%** as of December 21, 2022. Rate is subject to change.

- Interest earned is exempt from state and local income tax.
- Investment remains liquid, and account can be accessed at any time.
- No limits or fees on transactions.
- Product is sponsored by AgriBank.



#### FCM Pays Good Interest Without Tying Up Your Funds

AgriBank Money Market investments earn an interest rate that is comparable to a 3-6 month CD, but your money stays liquid and is always available to you. You can reclaim your money at any time in the same way you might otherwise access your revolving line of credit – online, telephone, local office, or Credit Line draft.

#### FCM Interest Earnings are Exempt from State & Local Income Taxes

Since the funds you invest are used by AgriBank to fund loans under the Farm Credit Act, your earnings are not subject to state or local income taxes. This feature may significantly increase the return on your investment.

#### Establishing an FCM Account is Easy

We can show you how to establish a Money Market investment account at AgriBank, FCB, in St. Paul, MN, and link it to your local, revolving line of credit.

These accounts promise that borrowers, not FCS institutions, will be exempt from **all** state and local taxes on these deposit/money market accounts.

**Questions** – Where does the Farm Credit Act (Act) authorize FCS to provide money market (deposit) accounts, particularly since FCS institutions are not supposed to take deposits? Where does the Act allow FCS lenders to exempt borrowers from taxation? What lender in the private sector can promise their customers exemptions from state and local taxes on MMAs?

Are FCS MMAs or MMDAs subject to SEC oversight?

**ICBA Recommendations** – We urge Congress to deny the FCS’s push for expanded powers and their efforts to siphon potentially enormous amounts of deposits from community banks. Community banks are the sole banking presence in approximately one-third of all U.S. counties. Driving community banks out of rural America by leveraging GSE tax and funding privileges; decimating community bank loan portfolios; and stealing their customers and their customers’ deposits is akin to taking a wrecking ball to the economic vitality of our rural communities. Remember, the FCS will be selective in choosing to whom they provide loans or “investments” leaving the remaining rural Americans with fewer financial institutions. Our recommendations:

- Clarify that the Act’s investment authorities are to facilitate the agricultural lending purposes of the Act and not for **non-farm** lending.
- Prohibit FCS from stealing community bank deposits through the use of cash management and MMA accounts.

## Conclusion

I appreciate the opportunity to testify today. We urge Congress to incorporate our key principles and recommendations into the next farm bill. It is crucial that we help our family farmers and ranchers, including beginning farmers and ranchers, through a strong farm safety net, a robust crop insurance program and access to ample credit for rural borrowers with the help of streamlined USDA loan programs.

It’s also “essential” Congress ensures any actions taken to assist rural America reflect the important role community banks play in providing credit to farmers, ranchers and Main Street businesses. Thank you.

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<sup>i</sup> With nearly 50,000 locations nationwide, community banks employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding \$5.8 trillion in assets, \$4.8 trillion in deposits, and \$3.8 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers’ dreams in communities throughout America. For more information, visit ICBA’s website at [www.icba.org](http://www.icba.org).

<sup>ii</sup> <https://www.rd.usda.gov/programs-services/community-facilities/community-facilities-guaranteed-loan-program>



# FARM CREDIT

**Testimony of  
Phillip D. Morgan, President and Chief Executive Officer,  
Southern AgCredit,  
Before the  
U.S. Senate Subcommittee on Commodities, Risk Management, and Trade  
May 4, 2023**

Madam Chair, Ranking Member Hyde-Smith, and other distinguished members of the Subcommittee, thank you for calling this hearing today to discuss credit conditions for U.S. agricultural producers and for allowing me to testify. My name is Phillip Morgan, and I am the President and Chief Executive Officer of Southern AgCredit, based in Ridgeland, Mississippi.

Southern AgCredit is an Agricultural Credit Association and provides financing and other services to over 4,200 farmers, ranchers, and rural homebuyers in 50 central and southern Mississippi counties and 11 parishes in northwest Louisiana. We serve agricultural producers through Mississippi branches in Brookhaven, Greenville, Greenwood, Gulfport, Hattiesburg, Meridian, Newton, and Ridgeland. We serve Louisiana producers from branches in Ruston and Shreveport.

Southern AgCredit is a member of the Farm Credit System, which was created by Congress in 1916 and charged with a mission to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

In 2022, our 69 employees made 903 loans for nearly \$263 million. At year end, Southern AgCredit had \$1.38 billion in loans outstanding.

## **Cooperative Value Proposition**

As a cooperative, we are owned by our customers and exist to support their farms and ranches. Our customers elect our board of directors, who guide our organization and ensure that Southern AgCredit always remains aligned with the needs of its customer-owners. Southern AgCredit's board consists of eight agricultural producers elected by customers and two appointed members chosen by the elected board members for their unique expertise. The farm operations owned by our elected board members reflect the wide range of Southern agriculture, including cattle, poultry, soybeans, corn, timber, vegetables, cotton and more.

Our cooperative provides unique value to our customers. As owners, our customers share in the success of their cooperative. Near the end of each fiscal year, Southern AgCredit's board of directors analyzes the financial strength of the cooperative. The board then votes to retain a certain amount of income to increase the association's capital for making more loans to producers and/or to distribute a portion of the income to borrowers through patronage dividends. Last year, Southern AgCredit returned a record \$11.9 million in cash patronage dividends to our customer-owners. In the past 5



years, Southern AgCredit returned \$53.5 million in cash patronage dividends to its customers.

#### **Serving Young, Beginning and Small Farmers**

At Southern AgCredit, we understand the future of American agriculture and rural areas depends on a new generation of farmers and ranchers. We are committed to meeting the needs of young, beginning, and small farmers through our lending programs, educational sponsorships, and scholarships.

Our years of experience in rural lending provide the expertise needed to finance young, beginning, and small farmers. Through flexible loan terms and working closely with other organizations and governmental agencies, including USDA's Farm Service Agency, we tailor loans to fit the unique situations of these producers.

In 2022, 23% of the loans made by Southern AgCredit went to young farmers and ranchers, 61% went to beginning farmers and ranchers, and 75% went to small farmers and ranchers. Overall, 59% of our loans outstanding are to beginning farmers.

At Southern AgCredit, we believe supporting young and beginning farmers is an important part of encouraging people from diverse backgrounds to enter production agriculture. Our experienced lenders in the Mississippi and Red River deltas provide the initial land financing, operating capital, and expert guidance to start or continue many young and beginning soybean, corn and cotton producers beginning their next growing season.

Poultry operations offer a great opportunity for families that want to begin agriculture production. For example, we were approached by a brother and sister early this year and neither of them had previously owned any agricultural property, but both wanted to get started in farming. With the support of FSA guarantees, we financed the construction and launch of poultry farms for each of them. Similarly, we are financing an agri-tourism facility to a small and beginning farming family who are using their new farm to promote awareness of agriculture and educate the next generation in the joys and challenges of farming.

At Southern AgCredit, we know the future of agriculture is only as strong as the diverse set of voices leading our industry. To build a strong and inclusive future for agriculture, Southern AgCredit is proud to partner with and provide scholarships to Alcorn State University and Jackson State University — two Historically Black Colleges and Universities (HBCUs). These scholarships are offered to full-time students at their respective HBCU who are studying agriculture, business, or a combination of both. Since 2005, we have awarded more than \$30,000 in scholarships under the program.

In addition, Southern AgCredit is participating in Farm Credit's Launching Leaders program. Farm Credit will award any HBCU student or recent graduate hired to intern at Farm Credit a \$3,500 Launching Leaders stipend in addition to their wages. Interns may rely on Launching Leaders funds to offset living costs, such as housing, transportation, and groceries associated with the internship.

Since the start of the program in March 2020, Farm Credit awarded Launching Leaders stipends to 39 interns from HBCUs. Earlier this year, Farm Credit announced it was expanding its Launching Leaders program to include students who are members of Minorities in Agriculture, Natural Resources and Related Sciences (MANRRS) in addition to HBCU students.



Southern AgCredit had the honor of hosting two summer interns from a local HBCU as part of the Farm Credit Launching Leaders Program. These two students were business/agriculture majors at Alcorn State University, an HBCU in our service territory. The students spent eight weeks of their summer learning about financing agriculture and Farm Credit's mission to support agriculture and rural communities. Both expressed a deep interest in continuing an agriculture focus as they pursued their careers. We hope to attract more HBCU students interested in Farm Credit careers or careers in the agriculture industry.

#### **Current Outlook for Southern AgCredit Customers**

Like farmers and ranchers across our nation, Southern AgCredit's resilient customer-producers remain optimistic about the success of their individual farms. They understand the risks taken with each production cycle, but they also understand the importance of producing safe high-quality food and fiber for a nation. However, these ag producers continue to shoulder an increasing complexity of challenges, including elevated operating costs across all commodities. Inflated expense from seed, fertilizer, fuel, feed, technology, equipment, interest, and energy among many production input costs continue to be the profit headwinds for our producers. Additionally, a shortage of available workers also continues to create farm wage inflation.

The rapidly rising interest rate environment we witnessed over the past twelve months either has or will impact all farm production. Crop and livestock producers currently renewing annual operating loans are facing the significant challenge in interest costs that will more than double this year as compared to last year. Many borrowers with existing agriculture land loans will face expiring interest rates this year with renewal rates double the previous rate. The current interest rate environment is also a roadblock to many producers to expand their operation as needed and will certainly be a challenge to many young and beginning farmers and ranchers starting the farm production of their desired commodity.

#### **2023 Farm Bill**

Agricultural producers in Mississippi and Louisiana need a strong Farm Bill, including a robust farm safety net, to manage the ongoing risks presented by weather, markets, supply chain pressures, rising input prices and declining profit margins. We pledge to work with this subcommittee and Congress to pass a new Farm Bill this year that maintains an adequate farm safety net and reflects the current situation in agricultural and rural communities.

Crop insurance remains the key part of the farm safety net and we strongly support efforts to improve the program. We appreciate your ongoing support of this important program.

Livestock Risk Protection for Feeder Cattle is a USDA insurance program widely used in our area for the protection of declining cattle market prices. This program is leveraged by many of our producers as part of their production management. We appreciate your ongoing support for this important program a well.

In Mississippi, the Commodity Title holds particular importance and serves as another critical risk management tool for our customers. As this Committee reviews Title I, we encourage you to ensure there is a strong farm safety net for all producers.

Broadband is a growing necessity in rural farming areas across this nation. The need for broadband for health and education is acute and generally well-recognized. However, I would also draw your

attention to the need for broadband in agriculture production and resource conservation. As agriculture equipment and greater technology merge, the ability to improve efficiency and control of land preparation, planting, spraying, fertilizing, irrigation, harvest, feeding, and water create opportunities for greater conservation of our natural resources and lessen climate impact. Broadband availability to our farmers and production facilities remains key to their continued success.

Frequently, we work closely with the Farm Service Agency and its loan guarantee program. These guarantees help us work with customers who face difficulties with their operations and provide an opportunity for young and beginning farmers. A guarantee on an existing loan strengthens that loan, mitigating concerns from our federal regulator as we stand by our customers facing adversity. The guarantee helps us provide additional time for a customer to chart a course back to profitable territory again. A guarantee also provides an opportunity for us to support a beginning farmer who may have limited capital or assets when beginning operation.

We appreciate the increased FSA loan limits in the 2018 Farm Bill, and we have used them to farmers' benefit, as Congress intended. However, the limits have not kept pace with the prices that farmers currently face, particularly with increasing land prices and input costs. According to USDA, since 2018, land values have grown more than 25% nationally and USDA projects production expenses to be up 34%. Meanwhile, FSA's guaranteed loan limits have only increased 16%. At Southern AgCredit we strongly support increasing these limits in the 2023 Farm Bill.

In our part of the country, FSA guarantees help tremendously when financing poultry farmers. Established growers also face significant expenses for required environmental, biosecurity and animal welfare upgrades to their facilities. At the other end of the spectrum, poultry farming offers many producers their start in agriculture. FSA guarantees play a critical role in financing these beginning farmers.

To put the importance of FSA guarantees in perspective within our lending territory, the construction cost of a modern poultry house in Mississippi and Louisiana is up 37.5% from those built in mid-2020. A typical young and beginning poultry farming family would need at-least six poultry houses to earn a \$75,000 annual living. Six poultry houses have a total price tag of \$3.3 million, not including the cost of the land and other necessary improvements. Yet current FSA guarantee limits are less than two-thirds of the capital requirement for this size of family poultry farm. The financing of these facilities to young and beginning farmers almost always requires an FSA guarantee to mitigate credit risks.

Additionally, we are aware that decisions on how long a guarantee would be in force are made at the state level. In our lending territory across Louisiana and Mississippi, Louisiana allows for a twenty (20) year guarantee, however, the same guarantee is limited to fifteen (15) years in Mississippi. Given the capital-intensive commitment to construct today's grower poultry facility for a young and beginning farmer in either state, Mississippi growers are placed at a disadvantage as compared to a neighboring state due to the difference in the coverage period for the same FSA guarantee commitment. In the development of the 2023 Farm Bill, we ask that the FSA guarantee coverage period be standardized across all States.

Regarding the importance of FSA guarantees to our poultry growers, the recent court ruling in *Dakota Rural Action v. USDA* has placed poultry farmers and others in animal agriculture in limbo. The court ruling has paused all direct and guaranteed loans to mid-size confined animal feeding operations (CAFOs), causing significant confusion for lenders who work with FSA and its customers. Additionally, no clear timeline exists for restoring FSA's ability to approve these loans.

Restricting capital for these farmers will make it more difficult for growers to start or continue farming.

We have a few specific credit-related recommendations for the Subcommittee to consider as it reviews the Farm Bill's Credit Title. We encourage Congress to support rural communities and agriculture by:

- Boosting development of vital rural community facilities (hospitals, rural clinics, skilled nursing facilities, etc.) by clarifying Farm Credit institutions' authority to invest in rural community facilities projects and encouraging partnerships on these projects with community banks;
- Expanding access for rural businesses to equity capital investment by eliminating unnecessary restrictions on Rural Business Investment Companies (RBICs) and allowing RBICs to access federal leverage funding, similar to how small business investment companies operate;
- Supporting the U.S.-based commercial fishing industry by allowing certain fishing-related businesses to borrow from Farm Credit, similar to how farm-related businesses borrow from Farm Credit;
- Increasing the loan limits on FSA direct and guaranteed loan programs to better reflect the increasing costs of purchasing land and operating farms and ranches;
- Strengthening rural water systems by ensuring CoBank's existing water lending activities are available in communities eligible to receive USDA-guaranteed water loans; and
- Promoting U.S. ag exports by increasing the amount of export financing CoBank may provide.

We also continue to work on additional proposals to:

- Update and streamline FSA loan guarantee programs to make them more accessible to young, beginning and small farmers and ranchers;
- Reduce the cost of credit to U.S. farmers and ranchers by reducing the regulatory burden on Farm Credit System institutions while maintaining the financial safety and soundness necessary to provide credit in all economic cycles; and
- Improve the transparency and safety and soundness of the Federal Agricultural Mortgage Company (Farmer Mac) by requiring the company to obtain and maintain ratings on its debt securities.

While we understand that it is not a typical Farm Bill issue, and we know you are aware of the situation, we ask for your help in completing the Yazoo Backwater pumps. We are grateful for Senator Hyde-Smith's leadership on this important issue. In the flooding during 2019 and 2020, we had a high point of 550,000 acres flooded in Mississippi, and a combined 425,000 acres of crop production area under flood waters over the two-year period. Southern AgCredit's land and production financing risk exposure in this impacted area for both years was over \$58 million. For the residents and farmers in the Yazoo Backwater area, the completion of the Yazoo Backwater pumps remains critical.

Thank you very much, Madam Chair and Ranking Member Hyde-Smith, for allowing me to testify today. Southern AgCredit continues to support rural communities and agriculture in Louisiana and Mississippi, and we look forward to working with the Subcommittee as it develops the Farm Bill.



# FARM CREDIT

**Testimony of  
Jase Wagner, President and Chief Executive Officer,  
Compeer Financial,  
Before the  
U.S. Senate Subcommittee on Commodities, Risk Management, and Trade  
May 4, 2023**

Madam Chair, Ranking Member Hyde-Smith, and other distinguished members of the Subcommittee, thank you for calling this hearing today to discuss credit conditions for U.S. agricultural producers and for allowing me to testify. My name is Jase Wagner. I am the President and Chief Executive Officer of Compeer Financial, headquartered in Sun Prairie, Wisconsin.

Compeer Financial is a financial cooperative providing financing, crop insurance and related services to more than 73,000 farmers, ranchers, agribusinesses and rural homeowners in Minnesota, Wisconsin and Illinois. We provide more than \$29.7 billion in loans throughout our 144 counties in our territory and have more than 1,300 team members. Last year, Compeer made 12,300 loans to farmers and ranchers for over \$3.5 billion.

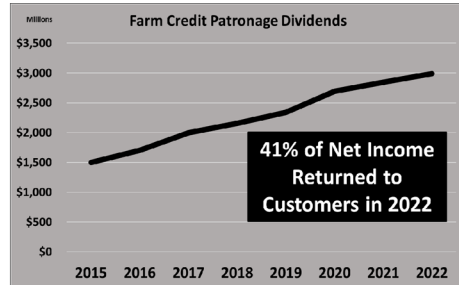
Most importantly, we are a member-owned, locally-governed cooperative and a proud member of the Farm Credit System. Along with 62 other Farm Credit institutions, Compeer shares a critical mission to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

A nationwide network of borrower-owned lending institutions, Farm Credit lenders were assigned a vital mission by Congress a century ago. These independent institutions include four wholesale banks and 58 retail lending associations, all of which are cooperatively owned by their customers: farmers, ranchers, cooperatives, agribusinesses, rural utilities and others in rural America.

Our mission is to ensure rural communities and agriculture have a reliable, consistent source of financing irrespective of cycles in the economy or vagaries of the financial markets. Hundreds of thousands of farmers around the country developed a farm operating plan this year knowing that Farm Credit has the financial strength to finance that plan and the strong desire and ability to help them succeed.

There is no federal funding provided to Farm Credit. Instead, the four Farm Credit System banks own the Federal Farm Credit Banks Funding Corporation, which markets debt securities to the investing public that funds the lending operations of all Farm Credit institutions.

Farm Credit's unique cooperative structure means that the customer-owners who sit on our boards of directors are living, working and raising their families in rural communities. They are deeply invested in the success of those communities and are interested in finding more ways for Farm Credit to contribute to that success.



Farm Credit's cooperative structure also means the profits generated by our institutions directly benefit our customer-owners. Farm Credit profits are used only two ways — either retained in the institution to build financial strength and support more lending to our customers or returned to our customers via patronage dividends, which provides a return back for the business they do with the cooperative. Last year, Farm Credit returned over \$3 billion in patronage dividends to its customers, representing just over 41% of its

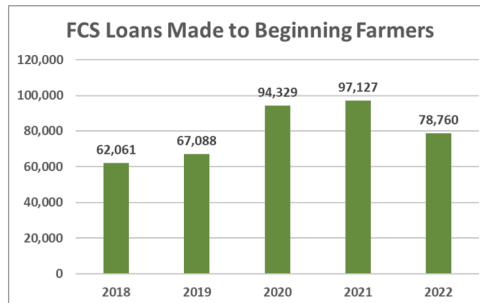
earnings. Since 2015, Farm Credit has returned nearly \$19 billion in patronage to its customers. With this year's distributions, Compeer Financial will have returned over \$1 billion to clients since the cooperative was formed in 2017.

The portion of Farm Credit's earnings not returned to customers provides the critical support for more lending to the agricultural producers, agribusinesses, rural infrastructure providers and rural homebuyers we serve. Farm Credit's lending has grown by an average of 7.5% per year for the past 5 years as demand for loans has increased and farmers and ranchers relied more heavily on Farm Credit to meet their credit needs. USDA estimates that Farm Credit's market share of farm and ranch lending increased to over 45% in 2021, up from just under 41% in 2016.

Congress assigned Farm Credit a mission to serve all sectors of agriculture, and we fulfill that mission every day. From the largest producers to the more specialized local producers, Farm Credit offers a wide range of loan products to support specific needs. We make loans in all 50 states and Puerto Rico.

Congress also directs Farm Credit specifically to serve the needs of young and beginning farmers and ranchers. In 2022, Farm Credit made:

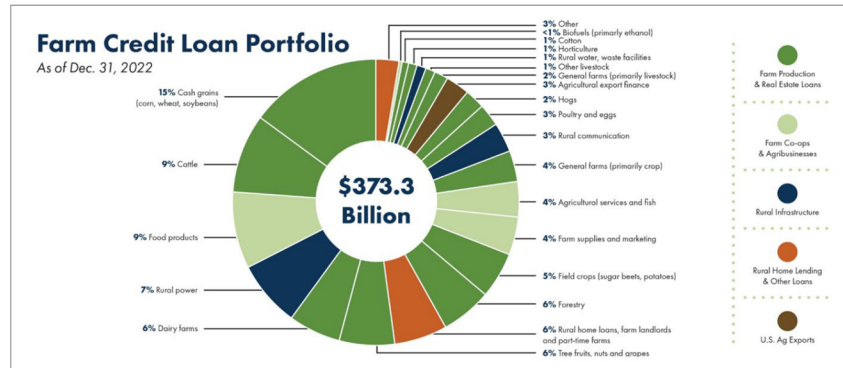
- 78,760 loans to beginning farmers (those with less than 10 years of experience) for \$21.5 billion; and
- 56,105 loans to young farmers (under age 35) for \$13.1 billion.



Since 2018, Farm Credit lenders made 399,365 new loans to beginning farmers for \$97.7 billion and 285,027 new loans to young farmers for \$61.3 billion.

Farm Credit's mission also focuses on supporting small farmers. Last year, Farm Credit made 129,208 new loans to producers with \$250,000 or less in gross farm revenue for \$19.1 billion. Loans to small agricultural producers made up 41% of the number of loans made by Farm Credit institutions in 2022. Since 2018, Farm Credit's cooperative lending associations have made 701,540 new loans to small producers for \$95 billion.

*[Note: The numbers above cannot be combined. A single loan to a 25-year-old rancher in her third year of ranching with annual sales of \$100,000 could be counted in the young, beginning, and small categories. We report this way for two reasons: our regulator requires it and, more importantly, it is the most accurate portrayal of who we serve.]*



Farm Credit's mission extends well beyond the farm gate. Our mission includes financing for farmer-owned cooperatives and other agribusinesses that farmers depend on to succeed. Farm Credit finances more than \$10 billion in exports of U.S. agricultural products. We also supply nearly \$7 billion in loans for families to buy homes in very rural areas. Because a steady flow of credit means more jobs and economic growth, Farm Credit helps ensure the vibrancy of communities throughout rural America.

Strong, reliable and resilient rural infrastructure remains critical to the success of rural communities and a key component of Farm Credit's mission. Farm Credit finances more than \$44 billion in rural infrastructure, including rural electric cooperatives, water systems, telecommunications and broadband providers. These loans improve the quality of life in our rural communities, providing clean drinking water, broadband for schools and farms, and reliable energy for rural families and businesses. Farm Credit's mission is as vital today as it has ever been.

#### **Current Outlook**

The Subcommittee hearing today offers a timely look at the farm economy, as Congress prepares for a new Farm Bill. Agricultural producers continue managing with tightening margins and the volatile financial markets present numerous challenges. Fortunately, farmers began 2023 following several profitable years. And overall, net cash income has held strong, setting a new record in 2022. USDA predicts income will fall a bit in 2023 but remain solid. However, please remember national-level statistics do not reflect individual farm-level circumstances, and pockets of difficulty exist around the country.

Many of our farm and ranch customers plan for tighter margins in 2023, as some believe commodity prices will likely soften while input prices will remain elevated across the board for some time. Additionally, interest rates continue to make a steep ascent.

Farmers and other businesses and homebuyers continue to cope with a nearly 500 basis point shock to interest rates as the Federal Reserve battles inflation in the economy. As you are aware, when the Federal Reserve increases interest rates, the cost of borrowing for farmers and ranchers increases.

Fortunately, Farm Credit has worked with producers over the past several years to lock in very low, long-term interest rates on farm mortgage loans. The recent rise in rates has predominantly impacted short-term operating loans, though those purchasing new farm ground face higher interest costs as well. While impossible to predict, the path of interest rates looks to remain elevated in the near term.

Stress in the banking industry likely will complicate credit availability in the coming year. Many analysts predict regulators will force banks to conserve capital and curtail loan growth in the wake of this year's high-profile bank failures. Recent statistics show a flood of deposits fleeing commercial banks.

Farm Credit, however, does not take deposits. Instead we issue debt securities on the public markets and use proceeds from the sale of those securities to fund our lending activities. While the interest rates we pay for our funding have risen sharply, funding remains plentiful. Farm Credit's mission requires us to serve agriculture and rural communities irrespective of economic cycles. Our access to funding, along with our financial strength, means that Farm Credit is well-positioned to continue providing competitively priced credit. We will continue to fulfill our mission.

#### **Compeer Financial Ag Outlook**

Production agriculture comprises a significant portion of the overall Compeer portfolio, especially the grain, dairy and swine industry segments. As mentioned above, elevated inflation coupled with higher interest rates have lowered expected profitability in some portfolio segments. While the margin outlook is generally less favorable, most producer financial positions strengthened due to favorable economics in recent years. Those practicing sound risk management may also benefit with stronger than average results in 2023.

Compeer's portfolio continues to experience relatively low delinquencies and is navigating this period from a strong financial position. Our core credit objectives of working with clients in all types of agriculture to promote risk management, ensuring high quality financial statements and production reports, encouraging disciplined marketing plans, and providing individualized servicing plans and strategies remain core characteristics of being a financial partner. Compeer also remains committed to being an advocate for positive legislative changes that improve prospects for agriculture and rural America.

#### **Serving All of Agriculture**

Compeer has a diverse portfolio that covers a wide array of farmer and agribusiness types and sizes. Steadfast in our commitment to serve ALL of agriculture and rural America, we're continually evolving our services and team to reach new, emerging and underserved markets.

Meeting the needs of underserved and non-traditional agriculture is a key component to accomplishing our mission. We created an Emerging Markets program dedicated to serving this small but rapidly growing segment of agriculture. Borrowers under the program include first-generation, minority and women farmers.

These groups account for more than just a fraction of our business. We started the Emerging Markets program in 2017 with an empty portfolio. Today, we have nearly 200 loans with a total loan obligation of \$28 million.

Over the past year or more, we've been working to help revitalize Pembroke Township in Kankakee County, Illinois. Pembroke Township was once home to the largest Black farming community north of the Mason-Dixon Line. Farmers there grew vegetables to sell in Chicago and other nearby urban areas. Over the years, the farms were passed down but today, most of the families connected to the area live in Chicago. An effort is underway to attract descendants back to Pembroke to farm the land as their ancestors did. Compeer is proud to partner with the Black Oaks Center, USDA and NRCS to provide financing for farmers who have responded to the call. In addition to the "assignment of payment" financing from Compeer, Pembroke farmers are utilizing federal dollars under EQIP and the Climate Smart Agriculture program to build high tunnel greenhouses and plant perennial fruit crops.

On the other side of our lending territory in Northfield, Minnesota, we remain a reliable partner for Salvatierra Farms – a business relationship that began back in 2018. Founder Reginaldo Haslett-Marroquin was a new citizen and a new farmer when he set out to start a 40-acre experimental research and training farm five years ago. He and three local farmers put up \$100,000 of their own equity and secured an operating loan from Compeer. They initially applied for a loan through SBA, but didn't qualify because they were considered a start-up with no financial history and insufficient collateral.

Since then, Salvatierra Farms has been growing, teaching other farmers about their regenerative poultry production model and contracting with them to raise chickens. They've also worked with Compeer on a new operating loan to finance an expansion so they can capitalize on an opportunity to produce, freeze and ship chickens to the West Coast.

Our dedication to supporting underserved and non-traditional agriculture is clear – seen through robust investments spanning all parts of our organization. These groups are not an afterthought, but rather a priority in ensuring the vitality of rural America.

Moreover, Compeer's support for farmers who are just starting out is equally important. Beginning farmers alone have made up 21 percent of Compeer's total volume since 2017. We firmly believe that beginning farmers are the future and as more farms close every year, we must invest in this group to keep rural America thriving.

Christine Leonard in Norwood Young America, Minnesota, returned to the family dairy after earning her degree in food science and technology. She had to convince her parents to let her come home and farm full time with them, because they know farming isn't easy. "I'm facing a lot of the same issues that other young farmers are facing," Christine says. "It's the high input costs of farming – from the price of land, equipment, input costs, fuel, fertilizer and labor. When you add it all up, these things are expensive and can be a barrier to entry."

Christine's answer was The Grater Good – a cheese-focused business that connects people to the dairy industry through locally sourced charcuterie boards and cheese tasting classes. "...when I came back to the farm, I knew I needed to find some kind of a niche, and that's how The Grater Good came to be."

Compeer works closely with USDA's Farm Service Agency offices across our operating territory to ensure our clients have access to the most affordable and flexible credit available to them, particularly our beginning farmer clients. The FSA's guaranteed loan program, as well as their programs for beginning farmers and ranchers, are valuable tools in helping our clients get their start



or stay in operation. We view the FSA as a key partner as we work to fulfill our mission of supporting U.S. agriculture and the next generation of farmers and ranchers. Compeer clients currently utilize approximately \$560 million in FSA loan guarantees.

As the Committee is well aware, land values and input costs for farmers continue to increase, and current FSA loan limits have not kept pace with the rising costs that farmers are currently facing. Compeer and the Farm Credit System, as well as other commercial lenders, support increasing the loan limits for these critical programs in the next Farm Bill.

In addition to seeing increased costs, we are also seeing increased complexity of farm business structures amongst our clients. Family farm operations adopt modern business structures for a variety of reasons, foremost among them are for liability protection and to ease intergenerational farm transfers within a family. However, FSA's understanding of how modern family farm businesses are structuring themselves have not kept pace with the times. As a result, many family farms that could benefit from these programs have been denied access simply due to how they have decided to structure their operations. As a participant in FSA's preferred lender program, we also recommend that FSA modernize their understanding of family farms and provide more flexibility to accommodate the growing complexity of family farm business structures and intergenerational farms.

#### **Community Facilities**

For Christine, Reginaldo and the many other Compeer member-owners in rural America, having a strong community is critical to their success. It's important for the needs of their business, their family and their own health and wellbeing. Likewise, successful businesses – including local farms and agribusinesses – are critical to a community's success.

Simply put, agriculture and rural communities are interdependent. Each needs the other to function and thrive. This has become increasingly true through the years as populations have shifted geographically and the needs of both have evolved. That's why Compeer Financial has been committed to investing in rural America to support our family farm clients since our inception.

In 2023, rural vitality became an official focus and elevated priority for our organization. The concept of rural vitality — wherein rural communities are active, strong and can support a thriving economy — means an improved quality of life for Compeer Financial clients and their communities, and a stronger voice for rural issues on the national stage.

Our Mission Financing team is uniquely positioned to help rural communities prosper by partnering with the USDA, other Farm Credits and local banks to provide financing for essential community infrastructure needs. There is no question facilities in rural communities are in dire need of updates and upgrades, including structural improvements and technology. We believe the capital need is so great that community banks will not be able to fill the gap by themselves and, with over \$300 billion in capital and complex lending expertise, Farm Credit lending institutions are well positioned to partner with them to tackle the issue.

Local banks and Farm Credit have strengths that complement each other. Working together, they have an opportunity to make a meaningful impact for farm families living and working in rural America. As in the case of farm lending, having the ability to offer capital in many forms (private, public, non-traditional) is the best – and sometimes the only – option for supporting our clients and communities.

In the Farm Bill, we ask that you codify Farm Credit's ability to partner with local banks and credit unions to meet this need. Currently operating under a cumbersome, case-by-case approval process, Compeer Financial has collaborated with community banks 63 times to meet the needs of rural communities. Through \$510 million of investment purchases, Compeer's Mission Financing has been a partner in funding 25 senior care facilities and 26 hospitals throughout the upper Midwest. If certainty in these types of projects was provided in the Farm Bill, we feel more Farm Credit institutions could partner with more commercial lenders to provide more essential facilities to rural communities across the nation. It is truly a win for everyone.

The projects we fund deliver essential services while also creating jobs, adding economic strength and diversity, and contributing to the vitality of rural communities.

In Galena, Illinois, Midwest Medical Center is expanding to provide enhanced behavioral health services and an updated surgery department with new procedure and endoscopy rooms. Their Specialty Clinic also is expanding due to lack of space and high demand, including from a large number of Medicaid patients who lack the means to travel long distances for care. Compeer is partnering with the USDA and local banks to finance the \$34.5 million project.

Through an 80,000 square-foot expansion, Lakeview Methodist Health Care Center transformed its outdated Fairmont, Minnesota, nursing facility into a community offering care for nearly all stages of life. The campus includes a 24-hour nursing care facility, an independent living residence for seniors and assisted living apartments. A unique town center includes space for a daycare center to expand childcare options in the community and provide phenomenal opportunities for the generations to learn from each other. The project moves their mission of care into the 21<sup>st</sup> century. "With the help and support of Compeer Financial, we made our nursing home dream a reality right here in rural America," said Mae DeWar-Aust, Lakeview's foundation director.

With outdated facilities, local providers have told us they are constrained to provide the level of service our rural communities deserve. They're unable to attract nurses, doctors, first responders, caregivers and other workers, resulting in overworked crews and underserved residents. Essential service providers limp along indefinitely or close their doors – leaving remotely located citizens and businesses without immediate access to health, safety and caregiving services. When rural communities can't offer essential services, residents' quality of life suffers and the community becomes stagnant. Attracting and retaining residents is not just a challenge, it's nearly impossible.

Cumberland Healthcare in Cumberland, Wisconsin, has seen firsthand what a difference updated facilities can make when it comes to filling staffing needs. The medical provider recently completed a three-level, 96,000 state-of-the-art hospital with 18 beds and emergency, imaging and surgery services – a project financed by Compeer in partnership with two local banks and the USDA. Construction of the state-of-the-art facility aided the hospital in their hiring efforts. Following the project's approval, they were able to recruit three new family practice physicians and a new general surgeon.

#### **RBIP – Rural Business Investment Program**

Another way Compeer invests in rural communities is by collaborating with the U.S. Department of Agriculture (USDA), financial institutions, private investors and other Farm Credit associations to build a portfolio of investment funds licensed by the USDA under the Rural Business Investment Program (RBIP). Under RBIP, private investors form a Rural Business Investment Company (RBIC) to raise funds to make equity investments in rural businesses. Since its inception, RBIP has surpassed \$1 billion in commitments to rural businesses and Farm Credit institutions have

committed more than 70% of the total. The program supports innovation and entrepreneurs in rural communities, including Fast Ag Solutions.

Fast Ag Solutions has served the needs of farmers by manufacturing liquid fertilizer application and spraying equipment since 1990. The company is located in rural Windom, Minnesota, and started out small. Fast Ag has been able to expand over the years with financing provided through an RBIP investment by Midwest Growth Partners. Today, the company has more than 50 full-time employees and their products can be found all over the United States as well as in Ukraine and Australia. One of the reasons the owner chose to build his business in Windom decades ago was to provide jobs and contribute to the rural community's economy.

Compeer is invested in agriculture and in rural America, and we know you are too. As farmers and ranchers face tighter margins, they'll make decisions that impact the communities in which they live. At a minimum, their grocery lists will become shorter as they cut out the "extras" and their visits to local restaurants will decline. In some cases, farmers may opt out of agriculture and move out of the community for a job with a regular paycheck in an area with updated healthcare, education and public safety facilities. When farmers struggle, local businesses struggle and eventually, a community's future becomes at risk. The reality is, agriculture and rural America are interdependent and supporting one is supporting the other. We need continued partnerships and increased visibility regarding the importance of feeding, fueling and clothing the world.

#### **2023 Farm Bill**

We urge Congress to pass a new Farm Bill, this year, that maintains an adequate farm safety net and reflects the current situation in agricultural and rural communities.

We greatly appreciate this Committee's efforts to pass a strong Farm Bill, including improvements to the federal crop insurance program. Crop insurance clearly underpins the farm economy today. The program functions as intended. Farmers pay for coverage they can count on when weather decreases production and crop insurance cushions the impact of falling commodity prices – to a degree. Thank you for your work to provide this vital tool to U.S. farmers and ranchers.

Farm Credit is a member of the Food and Agriculture Climate Alliance and supports FACA's Farm Bill recommendations, including voluntary and incentive-based conservation programs.

We have a few specific credit-related recommendations for the Subcommittee to consider as it reviews the Farm Bill's Credit Title. We encourage Congress to support rural communities and agriculture by:

- Boosting development of vital rural community facilities (hospitals, rural clinics, skilled nursing facilities, etc.) by clarifying Farm Credit institutions' authority to invest in rural community facilities projects and encouraging partnerships on these projects with community banks;
- Expanding access for rural businesses to equity capital investment by eliminating unnecessary restrictions on Rural Business Investment Companies (RBICs) and allowing RBICs to access federal leverage funding, similar to how small business investment companies operate;
- Supporting the U.S.-based commercial fishing industry by allowing certain fishing-related businesses to borrow from Farm Credit, similar to how farm-related businesses borrow from Farm Credit;

- Increasing the loan limits on FSA direct and guaranteed loan programs to better reflect the increasing costs of purchasing land and operating farms and ranches;
- Strengthening rural water systems by ensuring CoBank's existing water lending activities are available in communities eligible to receive USDA-guaranteed water loans; and
- Promoting U.S. ag exports by increasing the amount of export financing CoBank may provide.

We also continue to work on some additional proposals to:

- Update and streamline FSA loan guarantee programs to make them more accessible to young, beginning and small farmers and ranchers;
- Reduce the cost of credit to U.S. farmers and ranchers by reducing the regulatory burden on Farm Credit System institutions while maintaining the financial safety and soundness necessary to provide credit in all economic cycles; and
- Improve the transparency and safety and soundness of the Federal Agricultural Mortgage Company (Farmer Mac) by requiring the company to obtain and maintain ratings on its debt securities.

Thank you very much, Madam Chair and Ranking Member Hyde-Smith, for allowing me to testify today. We continue to fulfill the mission Congress charged us with 107 years ago, and we look forward to working with the Subcommittee as it develops the Farm Bill.

**Hearing on Commodity Programs, Credit, and Crop Insurance – Part Two: Industry Perspectives to Risk Management and Access to Credit**

**Subcommittee on Commodities, Risk Management, and Trade**

**Committee on Agriculture, Nutrition, and Forestry**

**United States Senate**

**May 4, 2023**

Chairwoman Smith, Ranking Member Hyde-Smith, and Members of this Subcommittee, thank you for the opportunity to provide testimony today concerning the cornerstone of the farm safety net: Federal Crop Insurance.

My name is William Cole, and I am an independent agent and business-owner from Batesville, Mississippi. I'm now in my 28<sup>th</sup> year of providing the farm and ranch families of my region risk management tailored to their operations. My wife, Karen, and I also farm rice and soybeans. We also raised two sons.

I think the Members of this Subcommittee might appreciate that to get the short distance from our home to our farmland, we drive down Pride Road, named after the legendary Charley Pride whose hometown of Sledge we also drive through, and we cross the Tallahatchie Bridge made famous by the singer Bobbie Gentry.

I am here today on behalf of CIPA – the Crop Insurance Professionals Association – the nation's top crop insurance agents. CIPA works hard every day to bring together all segments of the industry and our nation's farm and ranch families in order to improve, promote, and protect Federal Crop Insurance.

CIPA agents write crop insurance in all 50 states, and we take great pride in our work. Our goal is to walk alongside our farmer and rancher customers, helping them through all of their critical financial and risk management decisions. While our job is certainly to counsel our farmer and rancher customers about risk management options under crop insurance, we believe our duty goes beyond this: at CIPA, we take a very holistic approach to helping our farm and ranch families with all of their financial and risk management needs.

Our focus and pride, individually and collectively as an organization, is doing our job the right way – fully knowing our customer's needs and the risk management options available to them and doing so with the highest ethical standards in order to meet each season's needs and to advance crop insurance for the future.

I am honored and humbled to be here today. The role that our farm and ranch families play in providing for our country's basic needs is a vital one. And, in turn, the policies crafted by this Subcommittee and the full Committee that support our producers are also essential.

I hope my testimony – based on my 28 years of experience as an agent and a lifetime of experience as a producer interacting with hard working farm and ranch families – will be a help as you craft the 2023 Farm Bill.

#### **Importance of the Farm and Ranch Sector and the Growth in Crop Insurance**

We have come through a lot in the last few years.

Through a period of extreme market volatility resulting from trade wars and the global pandemic, most Americans have become much more aware of the interconnectedness of the world – and the extraordinary importance of safeguarding fundamental sectors, including agriculture.

U.S. farmers have endured this incredible volatility in amazing ways – carrying on their work, day in and day out, right through it all, and boosting productivity as a “critical industry” even when much of the world was shut down.

Despite a streak of severe natural disasters, skyrocketing production costs, supply chain disruptions, and a myriad of other challenges, U.S. farm and ranch families were called upon once again to step up to the plate and give it their all in feeding a growing and hungry world, while also clothing and fueling those both at home and abroad.

Chairwoman Smith, Ranking Member Hyde-Smith, and Members of this Subcommittee, I very respectfully submit to you that crop insurance is the most important tool that our farm and ranch families have at their disposal for making the kinds of investments and taking on the level of risks that we all need them to in order to meet these growing demands the country and the world place on them and to carry on the legacy of their family farms and ranches.

Crop Insurance empowers farm and ranch families to purchase equipment and inputs, to plant the seed, to nurture and harvest their crops, to raise their livestock, and to get to market with confidence because they have something as basic as insurance – something they would not have without Federal Crop Insurance. We have Federal Crop Insurance today because the risks of farming and ranching are so great that multiple peril crop insurance available to all comers – all farmers and ranchers, whatever the size of their operation, the crop, or the region – would otherwise be prohibitively expensive and therefore unavailable.

Very notably, crop insurance fills the role of providing collateral to agricultural lenders. Without crop insurance, agriculture would likely have to return to asset-based lending which contributed to the farm financial crisis of the mid-1980s. We certainly do not want to repeat that crisis which impacted the economies of even the largest U.S. cities. Crop insurance is

especially vital to young and beginning farmers and ranchers, socially disadvantaged producers, producers farming new crops, and producers farming or ranching in areas that frequently experience a mercurial Mother Nature.

Crop Insurance offers producers the ability to be nimbler and more dynamic in dealing with a highly volatile market and weather events. Thanks to crop insurance, the American farmer and rancher is much better positioned to meet the challenges ahead in feeding, clothing, and fueling the country and a great many around the world.

Crop Insurance's vital importance has not grown overnight. It has developed over time thanks in no small part to the steady leadership and stewardship of this Subcommittee and the full Committee.

From its inception in 1938 until 1980, Federal Crop Insurance barely limped along.

But, in 1980, when the Agriculture Committees created a public-private partnership with private companies and agents selling and servicing policies and private claims adjustors settling claims, crop insurance began its meteoric rise.

The 1994 crop insurance reforms, advanced by the Agriculture Committees, and the approval of revenue insurance by the Department of Agriculture in the mid-1990s continued to propel crop insurance forward.

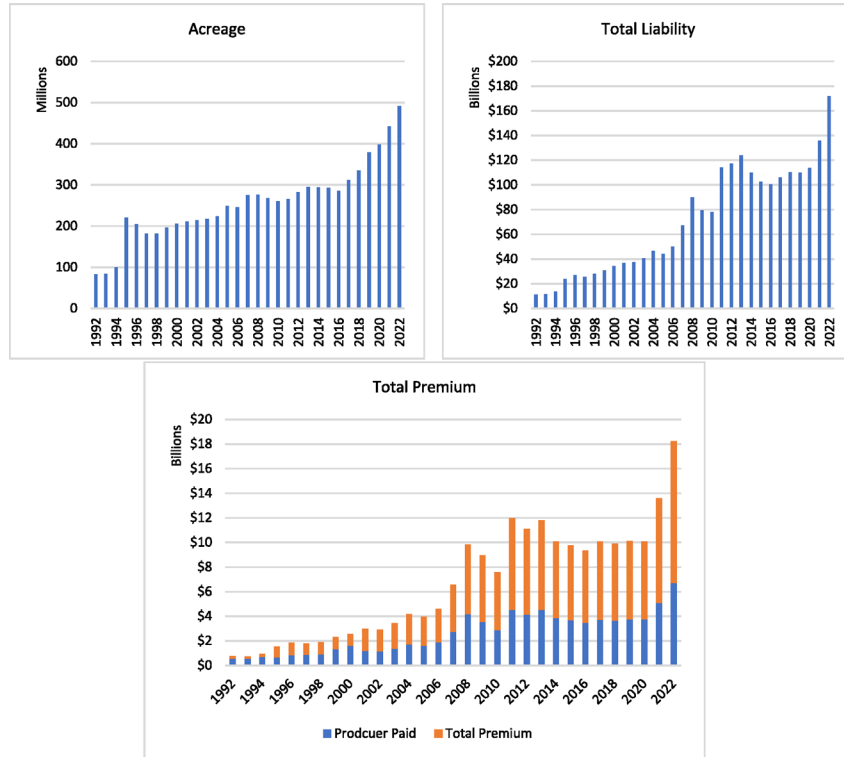
And, finally, the 2000 crop insurance reform legislation, also advanced by the Agriculture Committees, became the legislative capstone of the remarkable achievement that Federal Crop Insurance is today.

Each of these legislative efforts was the result of a lot of hard, bipartisan work in both chambers of Congress and it's my sincere hope that this Subcommittee will continue to build upon this firm foundation.

When the 2000 crop insurance bill passed, total premium under crop insurance was just over \$2 billion, with 200 million acres insured and with total coverage or liability at around \$35 billion.

This past year, farmers and ranchers spent more than \$6 billion out of their own pockets to insure nearly 500 million acres with what is now approaching \$200 billion in total coverage or liability. Thank you all so much for serving on the Subcommittee and the Committee that helped make this happen. You are a part of a legacy that has saved millions of American farm and ranch families.

The charts below illustrate this remarkable growth. It is something we, as CIPA – your boots on the ground – take a great deal of pride in. I hope it is also something that you will take great pride in and continue to steward this success story going forward.



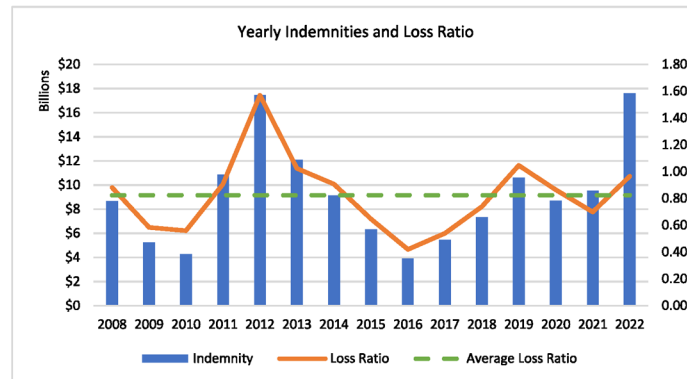
A couple of final points before I leave my introductory remarks.

First, while indemnities in crop insurance are an important measure of protection and support provided to farmers and ranchers in their time of need, and while a timely and efficient indemnification of losses is also fundamental to companies and agents competing for producer business through exceptional service, it is not the best measure of the economic value of crop insurance to the farm sector or to our nation as a whole. This is because indemnities grossly understate the value of crop insurance to producers and the country.

Nevertheless, I do provide the following chart that illustrates the nationwide indemnities paid, as well as the loss ratios over time. This chart illustrates that crop insurance has responded well in times of need, while also balancing out the needs of particular regions in any given year



in order to meet the statutory loss ratio of 1.0 which is designed to protect the taxpayer who is also investing in crop insurance.



But, again, this illustration is a low bar in terms of measuring crop insurance's overall value to producers and the country. The best measure of the actual full value of crop insurance is the broader economic impact of the producer investments protected and dollars leveraged in order for producers to sustain and improve their operations. This has value well beyond the farm to communities across the country.

While CIPA does not currently have a quantitative assessment on this broader value, we believe economic analysis to measure the full effect of covering, through crop insurance, nearly \$200 billion in producer investment that is at risk would be very useful indeed. What precisely has this protection done for agriculture in terms of advancing technology adoption, implement and storage sales, investment in conservation, and so on? We are confident that, in the end analysis, a powerful return on taxpayer dollars invested would be evidenced. As we near the 2023 Farm Bill debate, CIPA will work to ensure that the full benefit of crop insurance is quantified through expert economic analysis.

Second, again, while not the best measure of the overall value or economic value of crop insurance, indemnities paid are a good measure of efficiency. Here, we believe it is remarkable that total indemnities paid consistently exceed total taxpayer cost.

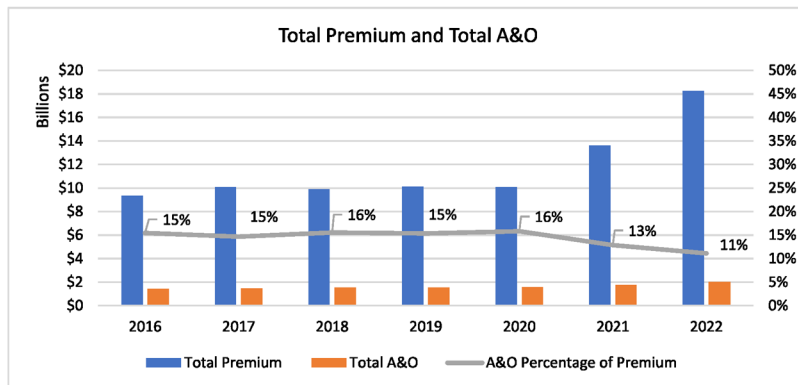
The following table compares total indemnities paid per year to the total Congressional Budget Office (CBO) costs associated with crop insurance (including premium cost-share, financial risk-sharing with private sector companies, and administrative and operating (A&O) expense reimbursement over the past ten years).

(Dollars in Millions)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total	Average per Year
CBO Cost	\$13,734	\$8,244	\$7,280	\$4,157	\$4,208	\$6,445	\$12,290	\$9,358	\$4,591	\$8,727	\$79,034	\$7,903
CY Indemnities	\$12,108	\$9,146	\$6,345	\$3,934	\$5,445	\$7,338	\$10,687	\$9,193	\$9,613	\$16,798	\$90,607	\$9,061

Thus, under crop insurance, we have a tailored risk-management tool that leverages private investment in the farm and ranch and which, on a national basis, is consistently paying 20 percent more than the total taxpayer investment in the program. This is a remarkable record of success.

Third, it is important to note the direct impact our crop insurance delivery system has on rural communities across the country. Based on industry data, more than 20,000 people are employed in the sales and servicing of crop insurance nationwide – including another 12,000 in office staff; some 5,000 claims adjusters; and more than 2,000 staff among the 14 current companies. This workforce dots the small and mid-sized communities throughout the United States. These are folks who keep rural communities economically viable not only by keeping farm and ranch families – who are often the economic lifeblood of rural communities – in business but by directly paying good salaries and wages, and good benefits, to thousands of employees.

The data on crop insurance delivery also shows a remarkable positive trend toward greater efficiency. The chart below shows total A&O costs of premium paid overtime. There are some serious problems in this area that simply must be addressed and addressed quickly – including the punitive impact of the 2011 cap on specialty crop policy A&O. But in the big picture it should not be overlooked that the agents, loss adjusters, and companies that deliver crop insurance to farmers and ranchers are doing so with incredible efficiency.



### Key Reasons for the Success of Crop Insurance

As the Committee takes stock of the needs of producers and the policies that serve them, I want to briefly lay out three unique qualities of crop insurance that we, as CIPA, believe are critical to its success and serve as important guideposts for the future.

1. Crop insurance coverage is highly relevant to each farm and ranch. When farmers or ranchers buy insurance, they tailor coverage to the needs of the farm or ranch, and they know they can rely on that contract. Crop insurance policies are financial risk management tools that provide security and peace of mind unique to each family farming or ranching operation so that producers can take care of their land and crops and make investments that will allow them to farm or ranch better each year. Crop insurance is all-inclusive, serving all farm and ranch families. Coverage is based on each producer's own history and risk profile, and producers control how much risk, and which risks they want to cover. By including all comers into Federal Crop Insurance and by avoiding arbitrary restrictions on participation, the crop insurance risk pool is vastly improved and this, in turn, results in lower premiums paid by all producers. Policies such as pay limits and adjusted gross income (AGI) means testing on crop insurance may, at first blush, sound favorable to smaller producers but such policies result in the loss of good risk in the risk pool, resulting in higher premiums for all producers who are left in the pool. In the end analysis, this would harm small farmers and ranchers.
2. Crop insurance is dynamic, changing to meet the needs of producers. As of 2021, Federal Crop Insurance policies were available on 130 crops, often with multiple kinds of insurance options available relative to these crops. These options are owing to the good work of a very high-quality Risk Management Agency (RMA) staff in Washington and Kansas City and to the private sector which has brought forward, through the 508(h) process, many new and important risk management products. Thankfully, Congress has time and again shown great wisdom in protecting and promoting the 508(h) process. Without such a process, we would not have revenue products, area-based products, margin coverage, special endorsements that cover unique perils, and many other products – especially for specialty crops – that might otherwise have no coverage at all. As the law is currently written, crop insurance is able to continue to adjust in order to better meet needs of all producers, regions, and crops. This has long been and should remain the goal.
3. The delivery system is responsive. As an agent, I compete for business with other agents in my area, some of whom are fellow CIPA agents who may be listening to this hearing today. Generally, we all are on a level playing field – selling the same products at the same price – and so our means of competing for market share are purely based upon service. Thus, the delivery system, whether among agents or among the companies, is highly focused on providing the best service and always improving – including through better understanding of customer needs, better information on what is available to address those needs, better technology, and better flow of data that

ultimately redounds to the benefit of the producer customer. Congress has never had to allocate dollars for system upgrades for crop insurance delivery because the private sector does this. Because of the competitive nature of the business, we have continually implemented upgrades to better meet the needs of more and more producers. This model has worked so well that now crop insurance data is being used in the delivery of Farm Service Agency (FSA) programs, and is even being used as farmers participate in carbon markets to reduce greenhouse gas emissions. In short, this public-private partnership in Federal Crop Insurance, that was first established by Congress back in 1980 and which makes the industry compete for the trust of the producers we serve, has proved to be highly, highly successful and it is a model that is worth building upon.

However, as briefly noted earlier in my testimony, there is a very urgent and serious problem in the structure of A&O for specialty crop policies that must be addressed. This flawed structure has resulted in deep, deep cuts in A&O relative to specialty crop policies in 2021 and very likely in 2022 even as workload relative to specialty crops has increased dramatically. This problem is further explained in a one-pager that is attached to this testimony.

We are very pleased that targeted relief to address this problem was included in the agricultural provisions of the Consolidated Appropriations Act of 2023 with the strong, bipartisan backing of the leaders of the Agriculture Committees and the leaders of the Agriculture Appropriations Subcommittees. Thank you very much for your strong support of specialty crop farmers and the agents, loss adjusters, and AIPs who serve them.

Insuring specialty crops is complicated, and the labor and time involved to cover such a book of business is very intensive. Many of these customers are smaller, more specialized, and historically underserved producers. Yet, because of the flawed design of the Standard Reinsurance Agreement's cap and its disproportionate impact on specialty crop A&O, the crop insurance policies for these producers and crops are being deeply cut – beyond levels that are sustainable.

In my agency, where we are mainly writing policies for row crops, the cuts in A&O per policy are at least somewhat offset by rising overall premiums that translate into higher gross A&O before the deep factor (40% reduction in 2021 and anticipated at 55% for 2022). We are still facing cuts but nowhere near the cuts being felt on specialty crop policies where prices and overall gross premium have not kept pace. If left unaddressed, I fear these cuts to specialty crop policies will greatly undermine the risk management delivery system for specialty crops and the producers who grow them. It is worth noting that overall A&O has been frozen at 2015 levels, despite inflation, meaning crop insurance is doing more and more for less in terms of real dollars.

This is why CIPA has made it a priority to address this problem facing specialty crops and why we worked with the Agriculture Committees and Agriculture Appropriations Subcommittees to at least restore specialty crop A&O for 2021 back to 2020 levels, before the run up in row crop

prices. This provides somewhat of a bridge to the 2023 Farm Bill where we hope this issue – and the need for an inflation adjustment for all A&O – may be addressed, absent USDA administratively addressing both issues which Congress has stated USDA has the legal authority to do.

As Congress noted in the Consolidated Appropriations Act, USDA has the authority to index A&O for inflation and provide equitable relief without reopening the Standard Reinsurance Agreement (SRA) because the inflation adjustment put in place from 2011-2015 was not a part of the SRA but rather implemented through a separate manager's bulletin and annual informational memoranda thereafter. Therefore, this is entirely outside of the SRA. Importantly, as serious as they are, these matters can be addressed with relatively modest adjustments.

What will not solve these problems is another radical change to A&O that got us to these problems in the first place. The \$8 billion in OMB-imposed cuts to A&O realized over 10 years beginning in 2011 – and which carry forward today – have risked irreparable damage to the private sector delivery system.

#### **Needs Looking Forward to the 2023 Farm Bill**

As we look beyond the basic structural qualities of crop insurance, and more at the particular needs of producers and how we might meet those needs in the most constructive ways, we would first turn to the question of supplemental disaster assistance and the prospects for a standing disaster program going forward.

It is and always has been the policy of CIPA that the producer comes first. The whole reason we are able to participate in Federal Crop Insurance is based on the need to support and provide meaningful risk management tools to our nation's farmers and ranchers. Therefore, on matters of how and whether to provide supplemental assistance, we are deferential to the wisdom of Congress, and simply want to be available to assist in the design and delivery of any program.

With that said, however, CIPA firmly believes that of the options available to Congress in the next Farm Bill – providing ad hoc disaster assistance, authorizing a permanent disaster program, or further strengthening crop insurance to increase participation rates at higher levels of coverage in order to narrow deductibles – history has shown that strengthening crop insurance is the best route for the farmer, rancher, and the taxpayer.

In regard to recent ad hoc programs, CIPA appreciates that the 2017 Wildfire and Hurricane Indemnity Program (WHIP), the 2018 and 2019 WHIP+, and Phase I of the 2020 and 2021 Emergency Relief Program (ERP) have all generally been crafted to build upon crop insurance and rely on crop insurance data rather than disincentivizing or undermining participation in crop insurance, though there is always room for improvement here. Phase II of ERP is the outlier which simply does not appear to be working for farm and ranch families and does not build on crop insurance as Congress had envisioned. We are hopeful that USDA recalibrates

and returns to the very successful Phase I model – both for finishing the outstanding '20 and '21 shallow-loss obligations, and certainly for the '22 crop year roll out. For '22 where Congress provided a smaller amount of funds relative to the scale of national losses, CIPA has offered specific recommendations to USDA on how best to tailor the Phase I model to target the funds where they are most needed.

As to whether additional ad hoc support should be provided, CIPA would note that the political response by Congress in providing additional aid in response to natural disasters is consistent with what we perceive as a real need of producers on the ground.

The business of farming and ranching is increasingly involving higher and higher stakes and tighter and tighter margins. With increasing frequency of severe weather and market volatility, most farmers and ranchers very much wish to reduce their deductibles with higher levels of coverage. Crop insurance is making great strides in this area with products such as the Supplemental Coverage Option, Enhanced Coverage Option, Stacked Income Protection Plan, Margin Protection, Hurricane and Wind Index, and so forth. And one of the greatest areas of growth in crop insurance is coverage for our dairy farmers and livestock producers. Building anything worthwhile takes time and effort and this is true in the case of crop insurance. But CIPA believes strongly that continued investment and growth in crop insurance to optimize coverage for all producers, all crops, and all regions of the country is the best path forward for farmers, ranchers, and taxpayers. History demonstrates that this approach provides eminently greater certainty and control to producers in managing their risk than ad hoc disaster or even a permanent disaster program. Crop insurance is simply the fastest, most efficient way of indemnifying producers for their losses and ensuring that the indemnification is precisely tailored to those losses. Maintaining and strengthening premium support and the development of new and innovative policies to mitigate unique risks are two avenues to achieving stronger crop insurance.

CIPA understands that funding will be a limiting factor in the farm bill, just as it has been with every farm bill in the past. But we also believe that the cuts made in the 2014 Farm Bill that carried into the 2018 Farm Bill have rendered U.S. farm policy incapable of meeting the needs of U.S. producers.

For this reason, CIPA supports strengthening the farm safety net to ensure that the 2023 Farm Bill is up to the task of supporting our nation's farm and ranch families – and the national security interest of food, fiber, feed, and fuel independence.

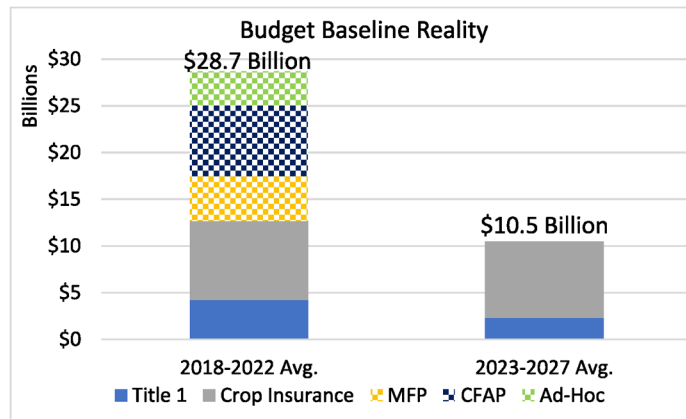
We support a strong Crop Insurance Title that helps farmers weather what Mother Nature and market volatility unleash. We support a stronger Commodity Title that provides a safety net to mitigate the impacts of high and rising foreign subsidies, tariffs, and non-tariff trade barriers. And we support a strong Conservation Title that provides conservation cost-share assistance to help producers continue to advance soil health, water and air quality, wildlife and wildlife habitat, and other important natural resource and conservation objectives. In regard to conservation, it is worth noting that farmers and ranchers must be profitable in order to carry

out important conservation initiatives. Crop insurance is vital in this regard. There is from time to time a temptation to blur the lines between an actuarially sound Federal Crop Insurance and certain public policy objectives, such as promoting conservation. The prudent route is to keep crop insurance as purely insurance and address other public policy objectives separately. For instance, climate initiatives fit best within the conservation title to the Farm Bill. It is best not to mix program purposes because, in the end, it could weaken both mission areas rather than strengthen them.

All titles to the Farm Bill are very important. However, combined, these three titles provide the basic safety net for farmers and ranchers, a safety net that still accounts for less than two-tenths of one percent of the total federal budget. We believe our nation's farm and ranch families are a worthy investment and we would certainly support additional investments in these areas. A fully budgeted investment in these programs could very well obviate the need for future ad hoc assistance. The full Committee's budget views and estimates letter was on target in making this very point. Thank you.

The following chart demonstrates this budget reality, showing our average per year assistance to farmers in the past 5 years compared to the budget baseline going forward.

In the case of Title 1, we believe a portion of the ad hoc dollars that were spent under the Market Facilitation Programs and the Coronavirus Food Assistance Programs could be allocated toward strengthening the Commodity Title. And, by the same token, we believe the roughly \$3 billion per year that has been spent under the ad hoc programs of WHIP, WHIP+, and ERP could provide better, more equitable, and more reliable assistance if used to strengthen crop insurance.



Finally, moving beyond the topic of disaster assistance, we want to briefly touch on a few areas within crop insurance that we believe merit attention. These are outlined in the following bullets, and we look forward to working with you on these issues.

- We would specifically request that **Whole Farm Revenue Coverage** be expanded and premium cost-share increased to provide higher levels of coverage in specialty crop areas especially. The current limit on coverage is too narrow for the high-value specialty crops that use this product. Allowing larger growers to access this program would increase diversification and improve actuarial soundness and rates for all. If the limit is maintained, it should be allowed to be a band of coverage that can be placed at a lower level of deductible. We have many other more specific suggestions to help simplify the coverage and make it more accessible. Along these lines, we are encouraged by some of the simplifications that have been embodied in RMA's Micro Farm roll-out.
- For row crops, we believe top up policies like SCO and ECO can be a cost-efficient way to close a portion of the large deductibles farm families face. We think these should be expanded and premium cost-share increased. We would also encourage other ways of encouraging higher levels of buy-up, including the potential for in-season buy-up once the crop is established and the risk of a complete loss is reduced. Increased premium support for individual coverage where area-wide policies are not effective is another means of helping producers.
- Relative to **Prevented Planting (PP)** coverage, many improvements have been made but it still has problems. Care must be taken to ensure the assistance is meaningful when needed, but not excessive. It must work in prolonged drought conditions (like those in CA recently) and in flooding conditions alike with appropriate planting windows and dates. We are grateful RMA has shown some flexibility on this front.
- Regardless of budget allocations, we would encourage Congress to continue to support a robust **508(h) submission process**. The 508(h) and other product development authorities should be aggressively used to craft policies that provide all producers, crops, and regions with optimal coverage, including opportunities to narrow deductibles by purchasing higher levels of coverage.

### Conclusion

Thank you again for this opportunity to offer testimony as you prepare for the 2023 Farm Bill.

Again, I want to offer my sincere thanks for your careful stewardship and support of policies that support our nation's farm and ranch families.

Please know how much we appreciate what you do.

On behalf of all CIPA agents from all corners of our country – thank you and we look forward to working with you on strengthening Crop Insurance and U.S. farm policy.



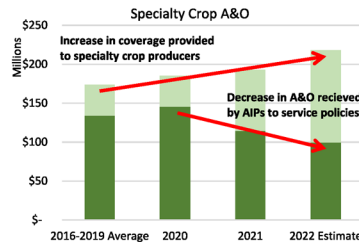
**Crop Insurance Professionals Association**  
 2023 Washington, D.C. Fly-In  
 Crop Insurance for Specialty Crops is At Risk



**The Problem:** Crop insurance needs of specialty crop producers are growing — but resources to service specialty crop producers are plummeting. Crop insurance is the only safety net for specialty crop producers — but their closest advisors helping them manage rising risks are struggling to stay in the business. If left unaddressed, the squeeze is going to harm specialty crop producers because with diminished A&O the sales, servicing, and adjustment infrastructure will be badly damaged.

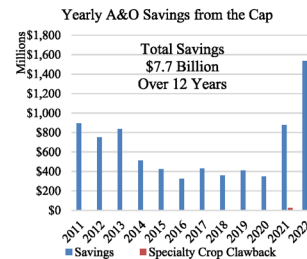
**Background:**

- The problem is the result of a flawed design in the **2011 cap** on administrative and operating (A&O) expense reimbursement that affects the entire system.
- When commodity prices for major crops like corn, wheat, soybeans, or cotton, go up, the **factor** used to squeeze A&O under the cap goes down, affecting all crops and **disproportionately affecting specialty crops**.
- Specialty crop A&O decreased \$31 million in 2021, even as premium and acres covered increased. It is expected to decrease an additional \$15 million in 2022 — a 2-year decrease of 32%.
- In the near term, this is harming the small businesses that deliver crop insurance to specialty crop producers, who face rising fixed costs. While year-to-year marginal changes are expected, sharp downward swings like the current one are extremely difficult to manage in a single year and impossible to manage over a sustained period of time. For 2021 and 2022, the average agency serving specialty crop clients would have grown roughly 5% in sales and volume, but had their compensation slashed by 32% only because of the flawed design of the A&O cap.
- In short, the volatility marked by steep decreases for specialty crop areas is not sustainable and needs to be fixed, especially in the midst of current inflation.



**The Solution:**

- Legislation is needed to put a floor under specialty crop A&O. The \$25 million improvement for 2021 was crucial, but a more permanent fix is needed.
- USDA should also reinstate the inflation index used from 2011-2015. These solutions will not affect other crops or parts of the crop insurance industry.
- This legislative solution will not reopen the Standard Reinsurance Agreement (SRA), nor cause any disruption to the business of crop insurance.
- The solution will claw back a tiny fraction of the savings achieved by the cap since 2011 to fix the disproportionate negative impact the cap is having on specialty crops.
- This solution will not make anyone whole — but it will help save a vital risk management tool for specialty crop producers and the thousands of people who advise specialty crop farmers, help them manage risk, and adjust their claims.



**Testimony of James R. Korin**

**Commodity Programs, Credit, and Crop Insurance – Part Two: Industry Perspectives to Risk Management and Access to Credit**

**United States Senate  
Committee on Agriculture, Nutrition, and Forestry  
Subcommittee on Commodities, Risk Management, and Trade**

**May 4, 2023  
Washington, D.C.**

Chairwoman Smith, Ranking Member Hyde-Smith and members of the Subcommittee on Commodities, Risk Management, and Trade, thank you for the opportunity to testify on Federal Crop Insurance and the vital role it plays in rural America today. My name is James Korin, and I am the President of NAU Country Insurance Company, the country's second largest crop insurer, insuring nearly 45 billion dollars of liability on behalf of America's farmers and ranchers. I am speaking today on behalf of my company and the American Association of Crop Insurers (AACI), a trade association with membership that includes the companies, agents, reinsurers, and others involved in marketing and servicing Federal Crop Insurance. I am truly honored to be here today and am thankful for the support you have provided to America's farm and ranch families and, in turn, the rural communities in which they live. Without crop insurance, many rural communities across our great nation would not exist as they do today.

NAU's roots go back to the beginning of crop insurance, when our company's founder, James Deal – working with Congress and President Carter's Administration, including then Secretary of Agriculture Bob Berglund – helped craft and pass the Federal Crop Insurance Act of 1980. At the heart of this legislation was a partnership between the Federal Government, the private sector, and the American farmer. Through these relationships and the addition of the important principles of insurance, Federal Crop Insurance has grown and prospered, providing meaningful and necessary insurance coverage on approximately 135 crops covering nearly 400 million acres of production agriculture across the United States. Today, with the support of all the companies competing to write the business, our many great independent agents, and thousands of employees, crop insurance covers over 90% of production agriculture in America.

Crop insurance succeeds through the tenants of flexibility, affordability, and availability.

- **Flexibility:** Last year, farmers paid nearly \$7 billion in premiums to purchase both individual- and group-rated coverage that they felt best fit their operational and risk management needs. Farmers have a considerable amount of flexibility in tailoring coverage to their operation, including options that range from individual-field to whole-farm to county-based coverage along with covering yield or revenue losses or both. Plans are available that provide coverage from 50% up to 95% within these selections, offering a plan for most farmers regardless of their size or financial situation. While this variety adds complexity, it is essential to ensure crop insurance is available to all.

- **Affordability:** Maintaining a safe and affordable food supply is an essential part of our country's national security. We all remember the stress and turmoil created when store shelves started to empty during the initial months of COVID. Without a safety net for our farmers and ranchers, grocery shelves could quickly empty after a bad year or growing season across America's heartland. Crop insurance on its own would be difficult – if not impossible – to administer without the support of the Federal Government. Because the government shares in the risk, provides premium support, and offsets a portion of the administrative costs, farmers can better afford the coverages they need. In addition, farmers shoulder a significant share of the premium, supporting the program and offsetting costs to the taxpayer, ensuring crop insurance can survive and expand.
- **Availability:** Private sector delivery and capital are important to the continuing success of Federal Crop Insurance. NAU and our competitors invest billions of dollars in rural communities, including contracting with agents and hiring employees, purchasing and expanding technologies, and shouldering all the other costs of operating a crop insurance company. In addition, we put billions of dollars of capital at risk when we write the business. There are no guarantees – just the potential to receive a return in the long run. All of these investments provide coverage to our nation's producers that is the envy of the world. At our company, many of our producers are paid within days of making a claim, a stark contrast to the months or years it takes to deliver unbudgeted ad hoc disaster assistance to impacted producers. This provides the resources they need to make operating and equipment loan payments or to pay operating costs to their local co-ops and suppliers. For this actuarially sound program to stay viable, it is important that the formula provides for enough return to cover a company's costs and reasonable long-term return on the billions of dollars of capital that we invest each year.

Despite the effectiveness of crop insurance, opportunities for improvement exist:

- The Crop insurance Industry continues to work with producers and commodity groups to enhance and/or expand coverages on crops that are needed to protect the future of production agriculture. For example, my company partnered with a developer and USDA's Risk Management Agency (RMA) to launch the Enhanced Coverage Option (ECO) policy in 2018. This county-level policy allows farmers to purchase higher coverage levels, reducing their deductibles and their exposure to natural disasters. Similarly, the Hurricane Insurance Protection-Wind Index (HIP-WI) endorsement has helped policyholders gain access to additional coverage when widespread disasters such as hurricanes occur. While both are recent additions to crop insurance through the 508(h) process authorized in the Federal Crop Insurance Act, farmers purchased over \$500 million in coverage under these two policies in 2022 with the expectation of further increases for 2023. Making these policies more affordable will provide coverage for producers during future disasters and reduce the need for ad hoc assistance. Importantly, investing additional resources in crop insurance is more efficient for taxpayers and provides a level of security to our farmers that ad hoc programs do not.

- The 508(h) process is flexible and opens the door to offering new innovations in crop insurance. On the other hand, further refinement to the 508(h) process could help improve the delivery and effectiveness of the program. We continue to work with RMA on refining the timing of new crop insurance policies coming to market and to improve the development of new 508(h) products. Further refinement of the 508(h) process will ultimately lower the cost of new product introduction and facilitate implementation resulting in increased market uptake.
- Crop Insurance has been operating on administrative reimbursements that have been stagnant since 2015. This has occurred during a time of significant wage inflation and cost increases in every aspect of our business. The industry is appreciative of the equitable relief for insurance contracts for the 2021 reinsurance year that was included in the Consolidated Appropriations Act of 2023. A simple inflationary adjustment is being discussed and such an adjustment would benefit program delivery for all farmers.
- The American farmer has already embraced many environmentally friendly practices, including no-till farming, cover crops, variable-rate fertilizer and chemical application, and cleaner burning tractors that utilize DEF fluid to substantially reduce diesel exhaust emissions. Farmers who purchase crop insurance must certify their compliance with land management practices on highly erodible lands and wetlands that are commonly known as the “sodbuster” and “swamp buster” provisions that are administered by the USDA’s Natural Resources Conservation Service (NRCS). While we believe further adoption of carbon-sequestering farming practices will help guide a better future for farming, we caution that non-market incentives should come from separately funded initiatives that do not detract from the current crop insurance program. After all, farmers and ranchers can only implement these practices to the extent that they remain in business, and just about every farmer will tell you that crop insurance is vital to the continued survival of their operation.

I would be remiss if I did not also take an opportunity to weigh in on some of the ideas that are often offered during farm bill deliberations. As I noted above, crop insurance is successful because it is guided by key insurance principles. Some of the suggested changes to crop insurance – namely, those that would exclude individuals from eligibility – would undermine the actuarial soundness of the program. Insurance works because of the diversity of the risk pool. It includes farmers and ranchers, both big and small, from virtually every county in the country. Diluting the risk pool threatens to undermine the effectiveness of crop insurance, inadvertently driving up the cost of premiums for those who remain.

In closing, I want to leave you with a reflection that I heard several years ago while attending a meeting of an Australian group called Thankful4Farmers. They raise funds to provide a helping hand to farmers facing tough times like the drought and massive fires that were raging in Australia at the time. The program developer said (paraphrased):

“The typical person may occasionally need a doctor or an attorney once in a lifetime, but the same person, three times a day, every single day, needs a farmer.”

Crop insurance is the premier risk management tool for the American farmer, and it works. I am proud to be a part of a program that supports such a noble and important cause. I appreciate the support the industry has had from members of Congress on both sides of the aisle. With your support, we have created a public-private partnership that helps protect the American farmer and is truly the envy of the world. And, with the leadership of this Committee, crop insurance has been able to grow and evolve, adapting to new challenges in agriculture and providing farmers and ranchers with the risk management tools they need to succeed.

I am happy to answer any questions you may have and am always available for consultation in the future.

**Jason Meador Testimony**  
**Senate Committee on Agriculture, Nutrition and Forestry**  
**Subcommittee on Commodities, Risk Management and Trade**  
**Hearing on Crop Insurance and Credit**  
**May 4, 2023**

Chairwoman Smith, Ranking Member Hyde-Smith and other Members of the Subcommittee on Commodities, Risk Management and Trade – thank you for allowing me the opportunity to testify today on the importance of crop insurance and the vital role it plays in providing risk management to farmers across the country.

My name is Jason Meador, and I am the Head of Rural Community Insurance Services (RCIS), which operates one of the 14 Approved Insurance Providers that sell crop insurance policies to farmers and ranchers across the country. My background is a bit different for this sector as I haven't spent the majority of my career working in crop insurance. I began my career in the United States Navy, enlisting after high school and then following completion of college on an ROTC scholarship working as an engineer at the Headquarters for the Naval Nuclear Propulsion Program down the street at the Navy Yard eventually ending my service as a lieutenant. Following my service, I moved into management consulting focusing on Financial Services and Insurance before moving to an insurance company and my current role. RCIS delivers crop insurance nationally, so we serve farmers in each state represented on this Subcommittee. We are also a member of the Crop Insurance and Reinsurance Bureau, which spearheads the Crop Insurance Coalition, working diligently with a cross-section of stakeholders to protect and preserve the program.

Although Federal crop insurance has been available since 1938, it wasn't fully utilized until almost 60 years later. Prior to 2000, natural disaster management typically came in the form of ad hoc disaster bills, which were slow in delivering assistance, very costly, and relied completely on taxpayers to fund. After spending billions in unbudgeted dollars, Congress decided that it was time to find a better way to help farmers across the country, so this body worked to make crop insurance more widely available and affordable to farmers and ranchers. The legislation enacted in 1994, 2000 and 2014 amplified the involvement of the private sector, made the program more actuarially sound, encouraged farmer participation, and improved the availability of coverage. The program has become the cornerstone of risk management on the American farm. With the continued bipartisan support for crop insurance and the public-private partnership, farmers are able to receive a reliable and cost-efficient safety net to protect both themselves and the future of farming.

The Federal Crop Insurance Program is a "three-legged stool" design. The risk insured under crop insurance policies is shared by crop insurance companies; the farmers, who pay a premium for the policy and must meet a deductible before receiving assistance for a confirmed loss; and the Federal government, which offers premium support to farmers and reinsures part of the risk. Each player has a vested interest in the success of the crop insurance program, helping to ensure the success of the program over the long-term.

As an Approved Insurance Provider, we underwrite crop insurance policies - which means we share in bearing the risk of policies, so the taxpayer is not solely responsible for covering losses. We contract with agents to sell policies and employ claims adjusters to assess and verify losses. We invest in technology, training and services to promote efficiency, foster innovation and ensure the highest

integrity of the program. This investment helps to ensure one of the lowest improper payment rates amongst USDA programs.

Crop insurance is a big tent. Our industry protects farmers of all sizes and covers over 604 varieties of 134 different agricultural commodities including a significant number of specialty and organic crops. For those crops without individual policy coverage, Whole Farm Revenue Protection insurance is available. And more recently, the program has been expanded to include dairy farmers and additional options for livestock producers.

We believe that crop insurance is one of the best tools available to farmers to protect against Mother Nature, because crop insurance provides a rapid-response solution to disasters and is a farmer's first line of defense against climate change. Private companies, like RCIS, typically are able to deliver indemnity payments to farmers in fewer than thirty days after a loss occurs and the claim finalized – not months or years later. The private sector delivery of crop insurance also means that farmers have a choice in who they do business with, and this choice ensures that a farmer is able to find an agent and a company that can provide them with the best service for their operation.

The cost-sharing with the Federal government helps to keep crop insurance affordable for most farmers, while also ensuring that the program is fiscally responsible. It's important to note that Congress requires crop insurance to be actuarially sound and that premium rates are set by the Risk Management Agency (RMA) at USDA. Companies do not set rates. Instead of competing on price, we compete on the service we provide to farmers. Premium discounts are also dictated by statute and are outside the control of companies but are within your purview. Again, any changes to crop insurance must ensure that the program remains actuarially sound to ensure long-term stability.

Crop insurance companies have worked with RMA and other stakeholders to find innovative ways to provide different types of less expensive risk management options to those farmers that may face affordability issues. For example, crop insurance companies now offer Hurricane Insurance Protection – Wind Index Endorsement policies, which pays part of a farmer's deductible when a county or adjacent county sustains hurricane-force winds from a named hurricane. It is an inexpensive way for a farmer to supplement an underlying policy where high coverage levels may be unaffordable. Similarly, we now sell products such as STAX, the Supplemental Coverage Option (SCO) and Enhanced Coverage Option (ECO) policies, all of which allow farmers to supplement an underlying policy on their individual farm with less expensive county coverages. While not perfect, these options demonstrate the industry's ability and willingness to adapt within the boundaries provided by statute to offer more affordable risk management tools to farmers.

Crop insurance is also flexible. Farmers can tailor their coverage to fit the needs of their specific operation. The program is continuously evolving and improving to meet the needs of America's farmers and ranchers. Some recent advances have included an endorsement for farmers who choose to split-apply nitrogen on their field, improved livestock insurance options and margin insurance to assist farmers in a volatile input pricing environment.

If a farmer or commodity organization doesn't believe there is an existing policy that works on their farm, the Federal government will provide significant reimbursement to them to develop a product under section 508(h) of the Federal Crop Insurance Act. Most 508(h) changes don't require a Farm Bill or any other legislation. The development of these policies requires only an interested party willing to

work with the Federal Crop Insurance Corporation Board to design a better product in an actuarially sound and marketable way.

The crop insurance program and crop insurance companies have also worked hard to serve producers in all regions. In addition to offering policies for 134 different commodities, we've strongly supported additional benefits for veterans and beginning farmers and ranchers as included in the 2014 statute. As an industry, we have utilized risk management grants to partner with the Southern Risk Management Education Center at the University of Arkansas to conduct outreach to the 1890's institutions, including hosting 9 workshops in FY 22, and gathering stakeholder feedback on ways to better reach socially disadvantaged farmers with crop insurance policies. Through National Crop Insurance Services, the industry has sponsored 40 annual scholarships for students to attend 1890's universities since 2010 and beginning in 2023 industry will fund scholarships at all 1890 institutions.

In addition, industry has instituted the 1890 Internship Program, and I've personally had discussions with RMA about what more we can be doing as an industry. Our industry, through NCIS, is working with USDA and their partners on the Building Resiliency initiative. The two-year pilot program aims to identify, train, and equip individuals interested in working in the crop insurance industry. The NCIS Board of Directors approved formation of a Diversity, Inclusion, Equity, and Belonging Advisory group, consisting of Board members and senior AIP leadership to assist with facilitation of the program, of which I am a member. We realize and appreciate that there is no end to this journey and know that in order to make sustained progress on Diversity, Inclusion, Equity, and Belonging we must continue to refine our programs and initiatives and continue to collaborate. We, at RCIS, have also been in regular contact with our regulator at RMA since the announcement of their "Navigators" project at the University of Arkansas and the "Resiliency" project focused on diverse agent and adjuster development with the Intertribal Agribusiness Council. As these efforts continue to mature, RCIS and the industry look forward to contributing to these efforts in meaningful ways.

We know that crop insurance has not solved every problem that America's farmers have faced in recent years. The program simply isn't designed to address every type or cause of extreme loss. The statute prevents the program from covering some losses, such as those that occur after the harvest of a crop. But for those losses that can be appropriately covered by crop insurance – such as in-season commodity price decreases, yield losses due to Mother Nature, and even squeezes in farmer margins – there is no more effective means of providing to farmers in a timely fashion than through crop insurance.

Ultimately, the crop insurance program successfully meets the needs of thousands of farmers who can tailor their risk management needs to serve them best with the help of a local agent and the backing of an efficient private sector delivery system. Crop insurance is fiscally sound and protects America's taxpayers, especially when compared to other alternatives for addressing losses suffered by American farmers.

#### **Crop insurance complements climate-smart agriculture**

As the Committee continues to evaluate the intersection between agriculture and climate change, it is important to note that a farmers' best tool in defense against climate change is crop insurance. Crop insurance and climate-smart agriculture intersect in positive ways. For example, to be eligible for crop insurance, farmers must follow Good Farming Practices, as defined by local agronomic experts. Farmers who follow those Good Farming Practices that help mitigate climate change, such as no-till farming and planting cover crops, can see lower production costs, better soil health and increased yields, all of which



can lower their crop insurance rate and increase their production guarantees in an actuarially sound way.

By promoting Good Farming Practices that can help lead to lower premiums, crop insurance helps complement healthy soil and conservation efforts. The *Journal of Environmental Management* published a peer-reviewed study that credited crop insurance with encouraging the adoption of conservation practices. In fact, one key takeaway from that study is that farmers who purchase crop insurance are *more* likely to undertake climate-smart agricultural practices than those who do not.

The 508(h) process is another tool that can be used to enhance the intersection between climate and crop insurance. As mentioned, Section 508(h) allows for individuals or groups who would like to add additional insurance products into the marketplace a pathway for getting those products considered and approved by the Federal Crop Insurance Corporation Board of Directors. Products considered under this process are farmer-driven and must be actuarially sound and follow sound insurance principles. Recent examples of products approved by the FCIC Board, which highlight the effectiveness of the 508(h) process in driving adoption of climate-smart agriculture practices, include a policy to support split-application of nitrogen and the Sprinkler Irrigated Rice Endorsement, with other climate-related policies currently under consideration.

For any legislative proposal linking climate policy and crop insurance, we believe the most successful proposals will have the following attributes:

- The proposal should provide farmers with incentives, rather than mandates or regulation, to adopt climate-smart agriculture.
- Incentives must be designed so that insurance policy premiums continue to be set at actuarially sound rates to ensure the integrity and long-term success of the crop insurance program.
  - By statute, crop insurance premiums must align with the risk associated with the policy, and because of the self-correcting nature of crop insurance, premiums adjust to reflect farmers' individual risk and production.
  - The methodology for setting premium rates inherently takes climate into account. For example, premium rates are determined from more recent years of loss experience, thereby reflecting changes in weather and weather patterns. The program performs well, with premiums continuing to match indemnities paid to farmers, thereby ensuring the financial stability of the program for farmers, taxpayers, and the private sector providers of policies.
  - Agronomic data is critical to making changes to total crop insurance premiums, whether those premium changes are for climate-smart agriculture practices or other reasons.
  - Lawmakers seeking to reward farmers for climate-smart practices should first look to the flexible 508(h) process that offers potential for new and creative solutions for addressing the intersection of climate change and risk management. It is important that farmers be incentivized for the adoption of Good Farming Practices that are climate-smart, and that the crop insurance program not be turned into a policing mechanism for

these practices. If incentives are provided, they should be evaluated to ensure that they do not encourage practices that could harm yields and that they are appropriate for the crop and region.

- New climate initiatives should be funded independently and not at the expense of the crop insurance program.
  - Crop insurance is vital to America's farmers and has been working well for them over the last few decades, especially considering the changes this committee has made through previous Farm Bill's to strengthen this public private partnership in 1994, 2000, and 2014. It is a critical tool for farmers as they adapt to the changing climate pressures. Weakening the program in any way will do more harm to farmers coping with climate change and will only increase the need for ad hoc disaster programs.
  - The program must be adequately funded to continue to provide this timely and effective risk management tool for farmers.

#### Crop insurance and disaster assistance

Crop insurance provides certainty to farmers and their lenders, and it directly corresponds to actual losses incurred by a farmer. If a farmer has a loss, they will typically receive a crop insurance payment within 30 days of a claim being finalized through an efficient private-sector delivery system. By contrast, other types of assistance can often take a year, or oftentimes more than a year, after a disaster before a farmer receives a payment. Farmers get to choose their level and type of coverage, which provides a predictable financial backstop for lenders in times such as these where input costs are rising rapidly, and farmers are borrowing more to purchase these inputs.

The last several years have seen a drastic increase in ad hoc disaster payments as unprecedented crises have hit rural America. As an industry, we are continuously evaluating where the gaps in the program exist and what we can do to help more farmers better manage their risk through the Federal crop insurance program. This has been particularly true in the last few years of turbulence. For example, as ad hoc assistance was required to address increasingly intense hurricanes, the Risk Management Agency developed, and the industry implemented a simple, inexpensive coverage for hurricanes that is based on wind speed and can help to address the concerns of many southern farmers who have often felt that more traditional coverage is too expensive for their needs. This product has since received a Tropical Storm endorsement announced in early 2023 for damages caused by strong weather systems that are not categorized as hurricanes.

Policies have also been developed to assist micro farms that are contributing to the diversification and strengthening of our supply chains and better options for our nation's livestock producers have been implemented. Existing margin insurance policies are also being evaluated to ensure the best coverage possible for farmers during these tumultuous times.

This is not to say that crop insurance can solve, or should be used to solve, every problem confronted by America's farmers. However, if this Committee considers a permanent disaster program, this legacy of improvement should lead the Committee to pose several questions during the development of the next Farm Bill. Where are there gaps in the safety net? Can and should these gaps be filled by crop

insurance? What gaps would not be appropriate to cover through the crop insurance program? How do you prevent overlap in payments between crop insurance and other programs? How do you ensure that any new programs that are created do not compete with the efficient and already-successful program that is crop insurance?

Regarding any proposals considered by this Subcommittee and the full Committee, we:

- Discourage any disaster assistance program that would disincentivize farmers from purchasing crop insurance. Often crop insurance and disaster programs work together through purchase requirements to ensure that crop insurance participation is encouraged. However, even the existing ad hoc programs created by USDA and authorized by Congress, as they are designed today, discourage farmers from purchasing the highest levels of crop insurance coverage available to them.
- Oppose double paying farmers for the same loss. In addition to indirectly discouraging crop insurance purchases, a duplicative policy design is not in the best interest of the taxpayer or the farmer over the long-term.
- Oppose any disaster package that is funded by cutting crop insurance.
- Encourage the use of the 508(h) process for the creation of additional policies that can better address existing gaps. Your predecessors on this Committee understood the ever-changing agricultural landscape and designed mechanisms within the crop insurance program, including 508(h), that would help agriculture adjust to changing times. These processes should be protected and utilized moving forward.

#### **Improvements to 508(h)**

Given the multiple references to section 508(h), I would be remiss not to mention that we are working actively with the Risk Management Agency and look forward to working with this Subcommittee to ensure transparency and timeliness in the rollout of future products submitted through the 508(h) process. In the past, crop insurance companies have been faced with the implementation of new crop insurance products at such a late date and with so little information that it has been difficult to support a successful product launch for our farmer customers.

For example, we recently implemented a 508(h) product that was released two months after our training programs were completed and just weeks before sales closing date. We spent hundreds of thousands of dollars to rework our IT systems and rushed to publicize this product to our internal team, our agents, and our farmer customers. But because the product was introduced so hastily, agents and our farmer customers were not comfortable with the product, and we only sold 8 policies 2022 Reinsurance Year.

While we fully support the development of new products for our farmer customers, we believe that it is in the best interest of farmers and taxpayers to ensure that product rollouts are done in a way that ensures success. A positive showcase of the innovation in the Federal Crop Insurance Program through the 508(h) process was the development and subsequent rollout of Dairy Revenue Protection (DRP). DRP was developed collaboratively with all appropriate stakeholders, ensured enough lead time for Approved Insurance Providers to develop trainings and educate agents in order to ensure dairy producers were provided sufficient product knowledge to understand its value, and its success is

demonstrated by its year over year growth, with over 25,000 policies sold since its introduction in 2019, according to RMA.

Crop insurance companies are also asked to provide support for the development of a new 508(h) product at the early “concept” phase of a proposal. However, after a crop insurance company has given its initial support for a concept, as changes are made from concept to completion, sometimes the final product that is approved is significantly different from the concept and would not have received crop insurance company support because of concerns about design, marketability, complexity, or other factors. It is our perspective that active Approved Insurance Provider input in the final stages of development would increase successful marketability of newly introduced products.

**Ultimately, we want what is in the best interest of our farmer customers and the program, and we believe more transparency and timeliness in the 508(h) process is critical to these interests.**

#### **Administrative and Operating Expenses**

The Federal Crop Insurance Program provides A&O to Approved Insurance Providers to off-set some of the program delivery costs. While A&O is capped per the 2012 Standard Reinsurance Agreement (SRA), it was increased annually for inflation until 2015. Beginning in 2016, RMA no longer adjusted A&O for inflation. While A&O has not been adjusted for inflation over the past seven years, costs have continued to rise. It is the industry’s view that the SRA allows for A&O to be adjusted to account for inflation. The crop insurance industry, through its trade organization, has corresponded with RMA to make them aware of our concerns regarding inflation and view of the SRA. While the agency has responded, it is our view that their objections to this request are inconsistent with the SRA and statutory authority granted by Congress. We look forward to working with the Committee on finding a resolution to this issue that restores equity between agents and creates a durable path forward should a similar economic situation arise.

#### **Concluding Remarks**

Crop insurance is the premier risk management tool for the American farmer. Multiple factors combine to make crop insurance the cornerstone of many farmers’ financial and risk management plans: the ability to tailor coverage to their own operation at a meaningful level and affordable price, the comfort of working with a local and trusted insurance professional and the knowledge that losses will be covered in a timely manner and before operating loans must be repaid. Over time, these crop insurance benefits have accounted for the success and acceptance of the program and will continue to do so well into the future.

Again, thank you for inviting me to speak today and for your continued support of the crop insurance program. I look forward to answering any questions you have, and I am happy to be a continuous resource for you during the upcoming Farm Bill discussions.

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**DOCUMENTS SUBMITTED FOR THE  
RECORD**

MAY 4, 2023

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**Testimony  
of  
Campaign for Family Farms and the Environment**

**Before the  
U.S. Senate Subcommittee on Commodities, Risk Management and Trade**

**Commodity Programs, Credit, and Crop Insurance – Part 2:  
Industry Perspectives on Risk Management and Access to Credit**

The Campaign for Family Farms and the Environment (CFFE) is a coalition of state and national organizations, including Dakota Rural Action, Iowa Citizens for Community Improvement, Land Stewardship Project, Missouri Rural Crisis Center, Food & Water Watch and Institute for Agriculture and Trade Policy. Our organizations work together to change policies that promote consolidation in animal agriculture at the expense of independent family farms, rural and urban economies, workers and public health.

It has been clear for decades that lack of enforcement of the Packers and Stockyards Act (PSA), along with unchecked mergers of meat and poultry companies, has allowed large buyers to exercise extreme market power at the expense of livestock producers and contract growers. This has led to devastating changes in the structure of livestock and poultry markets around the country, and removed any chance for economic viability for many independent producers.

The dramatic consolidation of the U.S. livestock industry that has resulted in the loss of thousands of independent family-scale operations and the rise of vertically-integrated industrialized operations was fueled in part by the meat and poultry industry's use of taxpayer funding, specifically federally guaranteed loans. The U.S. Department of Agriculture's Farm Service Agency (FSA) plays a critical role in providing access to credit for independent family farms, but FSA guaranteed loans also finance a significant number of corporate-controlled poultry and hog operations that produce animals through production contracts or through long-term marketing agreements with meatpackers. The production contracts and marketing agreements used by the dominant companies in these sectors contain terms that put growers at extreme financial risk, yet taxpayers are underwriting these loans. And federal guaranteed loans have contributed to frequent periods of over-supply that often result in massive federal commodity purchases to lessen the impact of low prices.

A key piece of the poultry industry's business model is that contract growers finance the barns they use to raise birds owned by the companies, most often by taking out loans that are guaranteed by FSA or the U.S. Small Business Administration. This creates an imbalance of power because the companies are not responsible for millions of dollars of debt tied up in specialized, single-use structures which do not have the ability to generate revenue or contribute to a property's value in the absence of an active contract. Contract growers have reported that because the federal government guarantees the loans for houses, many private lenders do not properly scrutinize the contracts that underlie the operations.

The relationship between poultry farmers and large poultry companies (commonly called integrators due to the vertically integrated system in which the companies own the birds that contract growers raise, as well as supplying feed and other inputs and exercising tight oversight of the contract growers' daily activities) deserves special scrutiny and a unique process to evaluate the appropriateness of guaranteeing a loan to a contract growing operation. The extreme level of control by the integrator over a contract poultry operation, combined with high levels of debt held by the contract grower, call into question whether these are truly independent small businesses. An investigation of guaranteed loans to contract poultry growers by the SBA's Office of Inspector General (OIG) found that the poultry industry is highly locally concentrated, and that large poultry companies exercise comprehensive control over the growers, calling into question the classification of these contract growers as independent businesses, rather than affiliates of the integrators.<sup>1</sup> And the nature of the one-sided, short-term contracts that are standard in the poultry industry call into question whether these can be actually offer reasonable reassurance of repayment. Standard contract terms give the poultry grower no protection against being cut off or suspended, even for reasons outside of their control. And with federal guarantees, taxpayers bear the risk of a cut-off contract grower defaulting on their loan.

Guaranteed loans also drive similar concerns in the pork sector. Over just a few decades, the structure of the hog industry in the U.S. has changed dramatically. CFFE members have lived through this transition, particularly in hog markets, which in the 1980s offered small independent producers in the Midwest flexibility and the potential for profitability by including livestock in their farming operations. But by the mid-1990's, Midwestern farmers saw the rise of buyer power by the largest packers shift the market away from cash sales and limit or eliminate market access for smaller sellers. Producers who lived through the upheaval of the hog market collapse in the late 1990's describe how the buying stations they depended on to purchase hogs disappeared, leaving them to deal directly with very large packers who openly stated that they would pay producers with smaller herds less per head. This drove out independent producers, to be replaced with large, industrialized operations raising contracted hogs, to devastating effect for rural communities.

Now, there is essentially no cash market for hogs. As a recent USDA proposed rule points out, today, "in effect, the only production/marketing choice for a hog producer is to enter a contract."<sup>2</sup> Many of these contract hog operations are backed by FSA guaranteed loans, and the

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<sup>1</sup> Small Business Administration Office of Inspector General. "Evaluation of SBA's 7(a) Loans to Poultry Farmers." Report 18-13. March 6, 2018. <https://www.sba.gov/document/report-18-13-evaluation-sbas-7a-loans-poultry-farmers>

<sup>2</sup> Agricultural Marketing Service, U.S. Department of Agriculture. Proposed Rule. "Inclusive Competition and Market Integrity Under the Packers and Stockyards Act." October 23, 2022. Federal Register. Pg. 60040.

disappearance of cash markets that could respond to fluctuations in supply and demand mean that producers do not respond to market signals and often end up in a period of over-supply. When over-supply circumstances have existed in the past, the FSA has placed restrictions on or suspended issuance of federal direct and guaranteed loans. For example, in May 1984, USDA's Farmers Home Administration (FmHA) issued a directive to its State Directors, District Directors and County Supervisors requiring that poultry loan guarantees be closely scrutinized to assure that the loans were not contributing to the problem of overexpansion and oversupply of poultry houses in the area. In 1999, citing concerns that FSA loans could exacerbate the crisis of oversupply and low prices that were affecting the hog industry, FSA issued a directive suspending all direct and guaranteed loan financing for the construction of specialized facilities for hog production. This suspension of lending was extended through numerous subsequent directives.

In the next Farm Bill, Congress should direct the FSA to stop issuing any direct or guaranteed farm ownership or operating loans for the construction or expansion of a specialized hog or poultry production facility.



**Testimony Submitted for the Hearing Record  
from  
Aaron Johnson, Senior Program Manager, Challenging Corporate Power Program  
Rural Advancement Foundation International - USA  
to the**

**SUBCOMMITTEE ON COMMODITIES, RISK MANAGEMENT, AND TRADE  
COMMODITY PROGRAMS, CREDIT, AND CROP INSURANCE**

**for the hearing entitled**

**PART 2: INDUSTRY PERSPECTIVES ON RISK MANAGEMENT AND ACCESS TO  
CREDIT**

**held on May 4th, 2023**

Chair Smith, Ranking Member Hyde-Smith, and Members of the Subcommittee

Thank you for the opportunity to submit testimony on behalf of Rural Advancement Foundation International - USA. RAFI-USA's Challenging Corporate Power Program (formerly known as our Contract Agriculture Reform program) has worked with contract poultry growers for more than 30 years to fight for better treatment from, and regulation of, giant meatpacking companies. In that time period we have only seen horizontal consolidation and vertical integration within the poultry industry worsen. Giant poultry corporations ("integrators") have honed a business model in which the cost and risks associated with poultry production and the capitalization of new poultry operations are externalized onto farmers and their communities.

Within the current industry structure, contract poultry growers are not, in reality, independent economic entities selling livestock into markets, but rather are going into debt to contract their labor, land, and built infrastructure to integrator corporations to grow livestock they do not own. For many contract poultry growers, the integrator (who owns the chickens, delivers the feed, supplies the chicks, and provides the transportation which picks up the grown birds) may be the only integrator in an area, making them literally the sole possible "buyer" for a flock. The impact of this is that a farmer rarely has other options for making money with the facilities they have gone into debt to construct. Even in areas with multiple integrator companies, shifting between integrators is not always a good or viable option: new integrators may require expensive updates to equipment, and many farmers report informal no-poach agreements, where companies decline to take on "each other's" growers.

We acknowledge that in many cases it is vitally important for the federal government to expand financial opportunities for family farmers to help make farming more viable. However, in the poultry industry, the ease of replacing existing growers with the aid of federally guaranteed loans makes existing growers disposable to integrators; and the new growers entering the industry are not given all the information they should be about the risk and vulnerability of their investment. Over the years, we have repeatedly observed integrators cutting off farmers' contracts (often in retaliation after farmers speak out against unfair practices) and leaving them with millions of

dollars of debt tied up in specialized, single-use structures which do not have the ability to generate revenue, or contribute to a property's value, in the absence of an active contract.

One of the arguments put forward by poultry integrators and some lenders in support of the use of the FSA loan programs for poultry production loans is that it is very difficult for these operations to secure conventional loans. However, the reason for this is that the contracts of adhesion typical in the poultry sector are so economically unsustainable for the farmer that lenders are extremely reluctant to lend to these operations, unless there is a federal guarantee, either from FSA or the SBA. This itself is evidence of the problem. In a fully functioning capital market, the lenders' reluctance to finance contract poultry operations would put pressure on poultry integrators to improve terms of the production contracts to make them more economically viable for the farmer. However, the federal loan guarantees allow lenders to make very large loans for these operations, without the lender performing typical due diligence to scrutinize the contracts that underlie the loans.

This overall imbalance of power allows integrators to treat farmers like they are disposable. The abandoned poultry houses that litter the rural landscape across the Southeast testify to this pattern. As a result, it is increasingly common for us to hear feedback from current or former contract growers in our network about the need for strengthened rules to ensure fair contract terms and protect growers from contract discontinuation, as well as reforms to current lending practices that currently allow integrators to proliferate new poultry operations at will and without sufficient scrutiny.

Considering these concerns, we urge the Subcommittee to support the inclusion of a provision in the 2023 Farm Bill to require Farm Service Agency (FSA) to establish minimum fairness and economic viability standards for poultry or swine contracts as a prerequisite for approving a loan or loan guarantee for construction of a contract poultry facility. Congress should enact reforms regarding the Farm Service Agency's lending practices in the poultry industry to ensure that live poultry dealers are not able to exploit their regional monopsony control to extend unconscionable contracts. Our recommendations (below) are primarily directed at lending policy reforms for *new poultry operation applications*. One common practice of integrators in the industry is to require existing growers to implement expensive upgrades (which perpetuates the debt cycle) under threat of losing their contracts. Indeed, this often begins to happen to existing growers after new poultry operations are constructed nearby. For this reason, it is important that FSA take a more nuanced approach to approving loan guarantees for existing contract growers who need to secure capital for upgrades to avoid losing their contracts. RAFI-USA recommends the following reforms to the FSA lending standards when lending to new poultry operations:

1. For contract income to be considered dependable, FSA should require that the integrator be bound to the underlying contract for the entire length of the loan term, rather than allowing a transition to flock-to-flock contract after three years.
2. For contract income to be considered dependable, FSA should require contracts to include sufficient minimum guarantees of animal placement frequency and stocking density to ensure dependable annual income. Flock-to-flock contract structures should not be considered dependable income.

3. Income and expense projections considered during appraisal should be based on USDA required poultry contract transparency disclosures.
4. FSA should not consider a loan application based on contract income to be viable unless the contract includes provisions guaranteeing that the contract cannot be revoked if upgrades aren't made (aside from upgrades required to comply with state and federal law). Appraisals should seek to evaluate that the life of the equipment funded by the loan has an expected service life (with standard maintenance) that extends past the term of the loan.
5. For approval of applications for new poultry operations, FSA should require integrators to supply written justification for their need for overall capacity increase within a complex as a component of market analysis obligations, to ensure that new operations are not being sought to allow integrators to discriminate against or shutter other existing poultry operations within a given region.

Sincerely,

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*Rural Advancement Foundation International - USA (RAFI-USA) is a nonprofit organization based in North Carolina that challenges the root causes of unjust food systems, supporting and advocating for economically, racially, and ecologically just farm communities. We envision a thriving, sustainable, and equitable food system: where farmers and farmworkers have dignity and agency; where they are supported by just agricultural policies; and where corporations and institutions are accountable to their community. We help farmers find markets, advocate for and with farmers who are experiencing financial crisis, convene a Farmers of Color Network (primarily in the Southeastern United States), work with farmers markets and rural faith communities to increase food access, provide infrastructure and emergency grants to farmers, and help coordinate a seed breeding cooperative. Our Challenging Corporate Power Program (formerly known as Contract Agriculture Reform program) has worked primarily with contract poultry growers for more than 30 years to fight for better treatment from, and regulation of, giant meatpacking corporations. In that time period we have seen the trend of corporate consolidation (both vertical and horizontal) within industrial animal agriculture continue unchecked. RAFI-USA now works with both contract and independent livestock and poultry producers to reverse the rampant negative effects of corporate concentration across the food system.*



Testimony Submitted for the Hearing Record  
from  
Steven Etka, Policy Director  
Campaign for Contract Agriculture Reform  
to the

SUBCOMMITTEE ON COMMODITIES, RISK MANAGEMENT, AND TRADE  
COMMODITY PROGRAMS, CREDIT, AND CROP INSURANCE

for the hearing entitled  
"PART 2: INDUSTRY PERSPECTIVES ON RISK MANAGEMENT AND ACCESS TO CREDIT"

held on May 4th, 2023

Chair Smith, Ranking Member Hyde-Smith, and Members of the Subcommittee

Thank you for the opportunity to submit testimony on behalf of the Campaign for Contract Agriculture Reform (CCAR) on the important topic of how best to provide farmers with viable risk management and credit options to facilitate a strong agricultural and rural economy. The Campaign for Contract Agriculture Reform is a national alliance of organizations working to provide a voice for farmers and ranchers involved in contract agriculture.

In many cases it is vitally important for the federal government to expand financial opportunities for family farmers to help make farming more viable. However, in the case of contract poultry and swine operations, the FSA and SBA loan guarantee programs are underwriting questionable contracting practices that allow large poultry and swine integrators to use their control to shift economic liabilities onto farmers who have few, if any, alternatives. We believe those circumstances should be addressed as part of the 2023 Farm Bill.

#### **Reform Federal Guaranteed Loan Programs for Specialized Poultry and Hog Facilities**

A significant number of swine and poultry operations that produce animals through production contracts with integrator companies, or for sale through long-term marketing agreements with packers, are financed with federal guaranteed loans through USDA's Farm Service Agency (FSA) or through the Small Business Administration (SBA). Because the terms of many of these production contracts and marketing agreements place contract growers at extreme financial risk, it is doubtful that banks would be willing to extend loans based on these contracts in the absence of the federal loan guarantee.

Normally, the scrutiny by lenders of the economic viability of a borrower's operation, and the contract terms that underlie the operation, would result in pressure on the poultry or swine integrator firm to revise its contract terms to enable the grower to get access to the capital needed to build their growout houses. In short, lenders do not want to lend to risky operations. However,

the federal loan guarantees change the equation and remove most of the risk to the lenders, and therefore also greatly reduce the due diligence of the lender in scrutinizing the economic viability of the contract poultry or swine arrangement.

Despite the risky nature of the production and marketing contracts from which the producers earn their income, taxpayers are underwriting guaranteed loans, without adequate assurance the contract terms will provide the producers with sufficient income to repay the loans. Because the federal guaranteed loans programs have made financing too readily available to producers using these risky production and marketing contracts, they have contributed to the over-supply of poultry and swine.

#### ***Poultry Industry Background***

Prior to the COVID-19 pandemic, the poultry sector had over-expanded production, fueled in part by the federal loan guarantees for new poultry houses. Production contracts in the poultry sector are notoriously unstable for individual growers. Growers are required to make very large investments to build specialized, sole-purpose chicken houses on their property to service a poultry production contract and have few, if any, protections against premature contract cancellation, suspension of flock delivery, and/or unexpected and unaffordable capital upgrade requirements. The birds raised by contract poultry growers are owned by the poultry processor firms that control their growers' contract, not by the growers themselves. Growers must often tap into their own savings to avoid defaulting on the loans, as many of the contracts do not cash flow.

When the poultry company needs to ramp up production again, it is easy for them to convince a new grower to get a federally guaranteed loan to start the cycle all over again. Without the establishment of basic standards for the poultry contract terms that must be in place prior to granting of an FSA loan guarantee, the guarantee program is perpetuating an unfair and economically unstable contracting relationship between poultry growers and poultry integrator firms.

#### ***Pork Industry Background***

Since the 1990s, the hog industry has rapidly consolidated and vertically integrated. As a result of this industry consolidation and integration more and more hogs are produced in single-use facilities specially designed to produce large volumes of hogs under production contracts or to be sold through marketing agreements with packers. The changing structure of the industry and the use of specialized hog production facilities make it very difficult for pork producers to respond to market signals such as cutting-back production during periods of prolonged low prices or processing plant disruptions, as evidenced during the COVID-19 outbreak.

Continuing the availability of credit through guaranteed loan programs for farmers using specialized hog production facilities would cause an expansion of production capacity that is not responsive to market signals causing further detriment to hog farmers. Continued financial stress on hog farmers may result in numerous loan defaults and further accelerate concentration of the production, processing, and marketing of hogs into fewer hands.

In recognition of these concerns, both USDA's Farm Service Agency (FSA) and the Small Business Administration have attempted to place some guardrails on their guaranteed lending programs for poultry and hog facilities. However, more is needed to address the concerns.

#### **Farm Service Agency (FSA) Guaranteed Lending**

On June 9, 2009, the Farm Service Agency issued FSA Notice FLP-540 providing guidance for making and servicing direct and guaranteed loans to poultry producers. Notice FLP-540 paved the way for greater scrutiny of these contracts by FSA lenders prior to making direct and guaranteed loans based on these contracts.

FSA Notice FLP-540 has resulted in some changes in poultry contracts. For instance, FLP-540 includes a requirement that new guaranteed poultry loans should not be approved unless there is a demonstration of a "dependable source of income or a reasonable projection of income" from the poultry production contract, including a requirement that the contract term be for a minimum of 3 years. This requirement appears to have resulted in the many new poultry contracts being for at least three years if the poultry operation is financed through FSA direct or guaranteed loans. However, it also appears to be the case that once the 3-year period is done, the contracts often revert to a flock-to-flock basis, which is extremely risky for growers. In addition, since the Small Business Administration does not have defined "dependable source of income or reasonable projection of income" standards for its guaranteed poultry loans, those operations financed through SBA guaranteed loans are less likely to have any effective minimum term guarantee in their contracts.

Therefore, CCAR has recommended that FSA Notice FLP-540 be revised to require that the poultry contract that underlies a direct or guaranteed FSA poultry loan be for the life of the loan itself, and that SBA take steps to impose a similar requirement. The same should be required for loans to build specialized swine facilities. Not only would this provide more protection for the taxpayers who are backing these loans, it would also provide greater stability in the poultry or swine production sector. It is unrealistic to think that growers can recoup their investments, which often far exceed \$1 million per grower, within 3 years.

#### **Small Business Administration Office of General Counsel (OIG) Report About Inappropriate Use of SBA 7(a) Loan Program for Poultry Farm Loans**

While the lending programs of the Small Business Administration are outside of the scope of the Farm Bill, it is important to note that the SBA 7(a) loan guarantee program has become a major source of lending to contract poultry operations, in large part because the SBA loan limits are higher than those of the Farm Service Agency. We view the high loan limits of the SBA 7(a) program, without any guardrails on the contracts that underlie the poultry operations, to be a significant problem. Therefore, the analysis that the SBA Office of Inspector General has conducted of the use of 7(a) loan for contract poultry operations should be considered by the Subcommittee because it sheds light on the risky nature of those operations, the total control by the poultry integrator of these "independent" contract growers, and the need for FSA to establish more robust guardrails in its lending to poultry operations.

On March 6, 2018 SBA Office of Inspector General (OIG) issued a report entitled “Evaluation of SBA’s 7(A) Loans to Poultry Farmers.” The evaluation was conducted because of concerns that the SBA 7(a) loan guarantee program is essentially subsidizing large poultry companies (integrators) who use production contract mechanisms to control the poultry growers who are the direct recipients of the loans.

The OIG summarizes their main finding as follows:

“We found that 7(a) loans made to growers did not meet regulatory and SBA requirements for eligibility. The large chicken companies (integrators) in our sample exercised such comprehensive control over growers that the SBA Office of Inspector General believes that the concerns appear affiliative under SBA regulations. Therefore, SBA and lenders approved 7(a) loans that were apparently ineligible under SBA size standard regulations and requirements. Specifically, in our review of a sample of 11 7(a) loans made to growers, as well as review of defaulted 7(a) loans to growers, we found integrator control exercised through a series of contractual restrictions, management agreements, oversight inspections, and market controls. This control overcame practically all of a grower’s ability to operate their business independent of integrator mandates.”

Integrators exert extreme power over the poultry growers’ farming operations through one-sided contracts of adhesion that are often not economically sustainable to the farmer. One telling data set in the OIG report shows that the final sale prices of a poultry growing facility without a production contract was 69 to 94 percent less than the appraised market value of a contract poultry facility at loan origination (assuming a production contract). As the OIG report explains,

“...the reduction of flock placements, the withholding of flocks, or the outright cancellation of the contract directly affected the viability of the grower’s business. Therefore, the integrator requirements appeared to have overcome the ability of the growers to operate an independent business.”

In other words, the poultry company exerts a massive degree of control over the farm, which is in no way independent of the poultry company.

The steady pipeline of new SBA-backed capital to build newer and bigger poultry operations is enabling poultry integrators to curtail their contract arrangements with existing growers and shift their production to the newer SBA-backed operations. In this manner, the SBA loan guarantee is contributing to the stranded investments that are common in many poultry-dependent communities.

One of the arguments put forward by poultry integrators and some lenders in support of the use of the FSA and SBA 7(a) loan programs for poultry production loans is that it is very difficult for these operations to secure conventional loans. However, the reason for this is that the contracts of adhesion typical in the poultry sector are so economically unsustainable for the farmer that lenders are extremely reluctant to lend to these operations, unless there is a federal guarantee, either from FSA or the SBA. This itself is evidence of the problem.



In a fully functioning capital market, the lenders' reluctance to finance contract poultry operations would put pressure on poultry integrators to improve terms of the production contracts to make them more economically viable for the farmer. However, the federal loan guarantees allow lenders to make very large loans for these operations, without the lender performing typical due diligence to scrutinize the contracts that underlie the loans.

Considering these concerns, we urge the Subcommittee to support the inclusion of a provision in the 2023 Farm Bill to require Farm Service Agency (FSA) to establish minimum fairness and economic viability standards for poultry or swine contracts as a prerequisite for granting a loan or loan guarantee for construction of a contract poultry or swine facility.

Specifically, we are recommending that FSA require that the contract that underlies a direct or guaranteed FSA poultry or swine facility loan be at least for the life of the loan itself, and that SBA take steps to impose a similar requirement. Not only would this provide more protection for the taxpayers who are backing these loans, it would also provide greater stability in the poultry or swine production sector.

Thank you for the opportunity to provide this input.



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## **QUESTIONS AND ANSWERS**

MAY 4, 2023

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U.S. Senate Committee on Agriculture, Nutrition, and Forestry  
Subcommittee on Commodities, Risk Management, and Trade  
*Commodity Programs, Credit, and Crop Insurance – Part 2:*  
*Industry Perspectives on Risk Management and Access to Credit*  
May 4, 2023  
Questions for the Record  
**Mr. Gus Barker**

**Senator John Boozman**

1. An issue that comes up repeatedly in the context of the Farm Bill, is the need to streamline the application process for a number of USDA programs. As you point out in your testimony, the Inflation Reduction Act (IRA) required USDA to streamline direct farm loan applications, but not for guaranteed loans. How would modernizing and simplifying the application process improve program accessibility for young, beginning and small producers?

**Answer** – Many producers, including young, beginning and small farmers (YBS), prefer not to use FSA loan programs due to the paperwork and lag times in getting their loans approved. Streamlining the programs would allow producers to spend their valuable time on other aspects of their farming operations and would reduce regulatory burdens resulting from longer than necessary applications. Streamlining paperwork and application processes would help all farmers but especially YBS farmers and if combined with a faster turnaround on loan applications, would make the programs more user friendly. ICBA has proposed a USDA Express loan program to speed up loan approvals, as mentioned in our testimony.

**Senator Tommy Tuberville**

1. How do you accommodate a borrower who needs to borrow more than the current USDA Guaranteed Loan limit allows?

**Answer** – If a borrower needs more than allowed under the loan limit, we will try to work with the borrower to help them obtain needed financing to meet their farming obligations. This could include trying to help the borrower also get a direct loan or taking on more risk for our bank by supplying additional loan funds. However, borrowers seek guaranteed loans when they do not qualify for direct loans, perhaps due to their financial strength, yet are not yet financially able to qualify for traditional credit from a financial institution.

A final option would be exploring with the borrow whether they should reduce the scope of their farming or ranching operation to match available funding. This would likely result in lower farm income to the borrower which doesn't benefit their need to become

financially viable by increasing the farm or ranch's productive capacity and growth in revenues. If these options are not enough, the producer may not have access to the full credit amount they need.

ICBA and other lender organizations are proposing to increase the loan limit on USDA guaranteed farm operating loans to \$3 million and on guaranteed farm ownership loans to \$3.5 million. Raising the loan limits as proposed would benefit farmers and ranchers in an era of increasing input costs and farmland costs and would ensure the USDA loan programs are keeping pace with producers' rising costs.

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**Mr. Phillip Morgan**

**Senator John Boozman**

1. Rural communities in Arkansas, like many across the country are experiencing population loss. In fact, more than half of the counties in Arkansas have lost population and many young people are leaving for opportunities elsewhere. This is, in part, due to lack of economic activity. Access to credit is vitally important to revitalizing these communities and encouraging young people to take over the family farm or start a new business. What suggestions do you have from your work with young and beginning farmers and ranchers and how can we improve the farm bill to ensure rural communities can thrive?

Farm Credit is strongly committed to supporting the next generation of farmers and ranchers. All Farm Credit associations have tailored programs to support the specific needs of young, beginning, and small producers in their service territory. These producers often struggle to have sufficient equity, credit history, or operating records to qualify for traditional credit, so at Southern AgCredit, we offer relaxed underwriting standards and utilize other flexibilities to get these producers started in agriculture. One of the tools we use is the Farm Service Agency (FSA) guaranteed loan program. To better serve today's farmers, we recommend the Farm Bill increase loan limits for this program as well as clarify FSA's ability to serve farmers regardless of how their farm business is structured. For all our farmers to succeed – young and beginning or established – we must have a strong farm safety net, including a strong crop insurance program.

Despite these difficulties, Farm Credit has great success helping new producers get started. In the past 5 years, Farm Credit has made 399,365 loans to beginning farmers for nearly \$98 billion. To put that in perspective, during those same 5 years, FSA – which has a specific mandate to support beginning farmers – made 70,567 loans to beginning farmers for about \$10 billion.

Beyond the farm gate, to attract families to rural America, our rural communities must have the same quality of essential services Americans can find in suburban or urban communities. These include rural hospitals, critical care clinics, and childcare to name a few. The capital needs in rural areas for these facilities far exceeds the amount of capital currently available. In the Farm Bill, we urge Congress to codify Farm Credit's ability to invest in these essential community facilities in partnership with community banks and credit unions.

Lastly, many agriculture families rely on off-farm income to make ends meet. Another way to spur economic activity in rural America is through Rural Business Investment Companies (RBICs), which are certified through USDA and provide equity investments into rural businesses. Farm Credit has made investments into several RBICs that are creating and saving jobs throughout rural America. Last fall, we were proud to announce over \$1 billion in commitments for RBICs. Of that, over 70% of the commitments came from Farm Credit institutions. In the Farm Bill, we encourage you to ease the flow of capital into rural businesses by eliminating unnecessary restrictions and allowing RBICs to access federal leverage, similar to how Small Business Investment Companies (SBICs) operate.

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Questions for the Record

**Mr. Jase Wagner, CEO, Compeer Financial**

**Senator Tommy Tuberville**

1. Mr. Wagner, I have heard from my constituents that some family farms that could benefit from FSA Beginning Farmer Programs have been denied access due to how they structured their operations. How would you recommend FSA modernize their approach to accommodate the growing complexity of family farm business structures and generational farms?

**Response:**

Compeer Financial's family farm clients are increasingly adopting modern business structures, including but not limited to, general partnerships, LLCs, limited liability partnership, and trusts. Farmers choose to structure their business in a variety of ways, for a variety of reasons, including liability protection and to assist with intergenerational farm transfers. Often this includes one farm family adopting multiple structures for individual members of the family or for each generation.

FSA's eligibility requirements for the farm loan programs have not kept pace with the evolving landscape of modern family farm businesses due to FSA's interpretation of "farm operator." Family farmers and ranchers who would otherwise be eligible for these vital programs are denied access simply due to how they have decided to structure their operations. These eligibility requirements need targeted, technical changes to ensure family farms can access FSA loan programs yet also prevent investors from taking advantage of these programs.

Below is a recent example from Compeer Financial clients who faced this issue.

- Two brothers organized an LLC to run their new farm operation together and take over the family farm from their parents. One of the brothers would like to buy their



parents' farm site independent of the other brother as he would like to keep it in the family. The brothers' bins and buildings needed to operate their farm are located on this farm site. FSA did not allow him to use the farm loan program to buy the family farm site individually. Under FSA's current eligibility interpretation, he would not be the "operator" of the farm because it is "operated" by the LLC that is comprised solely of the two brothers.

Compeer Financial, other Farm Credit associations, and commercial lenders have faced several similar issues when trying to use FSA loan programs to benefit their family farm customers. With the large amount of family farms expected to transition to the next generation in the coming years, coupled with the increasing amount of family farmers adopting multiple more complex business structures, we are concerned that if this issue is not addressed now, more beginning farmers and family farms will continue to be denied access to these programs.

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**Mr. William Cole**

**Senator John Boozman**

1. A ten farmer witnesses panel was before the Subcommittee the same week that you testified. I raised my concern about tying climate or conservation practices to the federal crop insurance program and none of them disagreed. As an agent and a farmer, how would incentivizing specific climate or conservation practices through the crop insurance program impact producer's flexibility, impact markets, and start us down a very slippery slope?

Federal Crop Insurance has a very specific and important purpose – to provide reliable financial protection to farms and ranches covering the immense financial risks (market and weather related) that these essential businesses face. The financial instruments are built to insure farmers in season, and over the decades they may be in business where their insurability is intrinsically linked to their individual performance along with the performance of all producers in their area. All data indicates Federal Crop Insurance is financially strong, and increasingly relevant to producers. To complicate this financial protection with bureaucratic ideas of how farmers should farm is well described as a slippery slope. The good news is, where farmers use their own wisdom to improve soil health or productivity on their land by the better management of resources, the current system rewards that behavior through improved individual APHs and rating.

2. As a small business owner and agent in rural Mississippi, can you elaborate on the impact a sound and affordable crop insurance program has on the broader community surrounding farmers and ranchers?

Crop Insurance is vital to rural communities in three ways. First and foremost, it provides security and certainty to farms and ranches that are the source of most economic activity in rural America. Second, it leverages the dollars in the rural economy: as farmers can spend more to farm better; as rural businesses make investments to better serve the farmers; as rural lenders can allocate secured capital to other ventures. Third, Federal Crop Insurance relies upon a network of private companies and agencies that have become a very important source of good and demanding jobs in rural America.

3. What impact would adjusting the Administrative and Operating expenses cap for inflation have on our farmers and our rural communities?

A&O was capped for most policies in 2011. Since that time, as crop insurance sales have more than doubled, the A&O expense related to those policies and acreages under the cap

have been cut in half. The fact that the inflation adjustment on A&O was allowed to lapse after 2015 has only increased the problem. The Crop Insurance industry is a good source of jobs, but it is technology heavy and always needing to make investments for the future. Providing room for growth and investment by reinstating the inflation factor would create more jobs, and improve the framework that facilitates the success of the Federal Crop Insurance system for the future.

**Senator Cory Booker**

1. We are in a climate emergency and farmers are standing on the front lines. Damaging extreme weather events are frequent risks to farm businesses and to American food security. To make their farms more resilient, protect their livelihoods, and participate in new markets, farmers are implementing climate-smart agriculture methods – like including cover crops or diversifying their crop rotations with small grains – that improve soil health and mitigate disaster.

But farmers using these practices to de-risk their crops and make their farms more resilient in the future are often out there on their own. The crop insurance program's rating model has not evolved to consider the scientifically proven risk-reduction benefits of climate-smart practices. Further, evidence-based analysis shows that the Federal Crop Insurance Program, which covers 90 percent of American cropland, has actually encouraged farmers to expand onto environmentally sensitive lands, use more inputs even when unnecessary, and use fewer risk-reduction practices.

How can we ensure that crop insurance program continues to function as a safety net for farmers while it also supports the farmers who are actively working to de-risk their farms against disaster?

Thank you for this question. Farmers who de-risk their operations against disaster are rewarded for these activities in two ways. First, with certain investments that are proven over time to actually de-risk, they can move into a different practice or rating category. A good example of this would be installing irrigation facilities to mitigate the impacts of drought. Second, as farmers prove they have de-risked resulting in improved yields, their individual APH (Actual Production History) will improve, and as their APH improves relative to others in the area, their rating will improve as well. Perhaps all of these systems could be improved to provide better rewards more quickly, but in all cases it should be based on real experience and sound actuarial science. CIPA would be very eager to engage in such discussions.

With respect to the perspective that Federal Crop Insurance has encouraged farmers to expand onto environmentally sensitive lands, this does not comport with our experience. Even as world population has grown and demand for food and fiber has grown, U.S. farmers who are the most productive and efficient and environmentally conscious farmers in the world have reduced their total acreage. For the major commodity crops like corn, soybeans, wheat, cotton, etc., we have gone from 273 million

acres in the early eighties when crop insurance was developing, to just 245 million acres in 2022.

**Senator Tommy Tuberville**

1. As we all know, crop insurance works well as a public-private partnership. What are the potential impacts if the U.S. were to completely forgo the private sector delivery system and revert to a government-run insurance program through FSA?

A good comparison would be how is Federal Crop Insurance working relative to the ERP and other disaster programs in USDA. In the case of ERP for the 2020 and 2021 crop years, farm families are still waiting for final settlements and the USDA is still sitting on almost \$2 billion of funding that was provided by Congress in the Omnibus Appropriations bill of 2021. In contrast, Crop Insurance has settled all relevant claims for 2020, 2021 and 2022, and is providing reliable protection and certainty for the 2023 crop that is going in the ground. In addition to providing timely indemnities – typically paid within 30 days – crop insurance also provides liability protection that allows the producer to invest in their operation and make long-term plans for their family farm. Crop insurance also ensures a producer can secure operating and ownership loans and to better market their crops. There are other advantages to crop insurance over ad hoc and permanent disaster programs. A look at the performance of the last standing disaster program and the most recent series of ad hoc programs shines a light on their shortcomings. We are certainly grateful that Congress has provided help to producers when it is needed. However, we strongly believe that fortifying federal crop insurance for producers is the better bet for both producers and taxpayers.

2. As you know, half of the 14 Approved Insurance Providers (AIPs) have parent companies that are owned by foreign entities. I know that some AIPs have subsidiaries in China. Do Chinese entities have significant ownership stakes in any AIPs or their parent companies?

From a CIPA perspective as agents, what we want in an AIP is financial strength and reliability. The insurance industry has always relied upon international reinsurance markets, but the real beneficiaries of that leveraging of risk are the all-American farmers and ranchers in rural communities that are made better because of the financial certainty provided by Federal Crop Insurance. As CIPA represents insurance agents, we would defer this question to the Approved Insurance Providers to answer as we are unsure of their financial statements and don't represent AIPs.

3. Can you explain the dangers of using crop insurance rates as a tool to change farmers' behaviors – in the name of climate change – or to incentivize certain practices that have unproven yield benefits?

This is an excellent question. Senator Boozman also posed this question and here was our answer to it that we would also submit to you. Federal Crop Insurance has a very specific and important purpose – to provide reliable financial protection to farms and ranches covering the immense financial risks (market and weather related) that these

essential businesses face. The financial instruments are built to insure farmers in season, and over decades they may be in business where their insurability is intrinsically linked to their individual performance along with the performance of all producers in their area. All data indicates Federal Crop Insurance is financially strong, and increasingly relevant to producers. To complicate this financial protection with bureaucratic ideas of how farmers should farm is well described as a slippery slope. The good news is, where farmers use their own wisdom to improve soil health or productivity on their land by the better management of resources, the current system rewards that behavior through improved individual APHs and rating.

### **Senator Charles Grassley**

First, I want to say that my long held belief is that farm policy should provide a limited safety net that helps farmers weather the storm of natural disasters and unpredictable commodity markets. However, if commodity programs become a profit guarantee program then markets will become distorted and the agricultural community could be at risk at becoming dependent on farm subsidies rather than market forces. Additionally, if farm programs continue to encourage large farms over smaller farms, we will see more consolidation of family farms and continued loss of population in rural communities. The biggest danger to the farm safety may be an American public who view farm subsidies as a handout to the wealthiest farmers.

This past week, USDA [released updated data](#) on Chapter 12 bankruptcies. The data showed that Chapter 12 bankruptcy reached the lowest level in nearly two decades. This data shows that the farm safety net is working. As the ranking member of the budget committee, I am deeply concerned about how we are saddling future generations with our debt. The fundamental problem we have in the federal budget is not one of under taxation, but of overspending.

The last time the federal budget was balanced in 2001, revenues were 18.9 percent of our gross domestic product. Last year, federal revenues amounted to 19.6 percent of GDP. Yet, we still managed to run a deficit of \$1.4 trillion. That's because even though tax collections have increased by \$2.9 trillion since 2001, spending has grown by \$4.4 trillion.

1. To that end, please share with me ways we can improve the farm safety net without increasing spending.

Since 2017, Congress has enacted ad hoc assistance bills to address adverse weather events each year, with appropriated spending on these bills totaling \$20.6 billion over the 6 years – that is \$3.4 per year. In the 2023 Farm Bill, we think Congress would be wise to invest a portion of these dollars into a more efficient and reliable means of protecting farmers and ranchers. We believe investments in crop insurance should definitely be part of those discussions. A good place to start would be toward increasing levels of coverage for all crops in all regions so that all farmers from all regions would have viable options to purchase quality coverage. As CIPA, we believe we can get there and would look forward to working with you toward this end.

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**Mr. James Korin**

**Senator John Boozman**

1. A ten farmer witnesses panel was before the Subcommittee the same week that you testified. I raised my concern about tying climate or conservation practices to the federal crop insurance program and none of them disagreed. How would incentivizing specific climate or conservation practices through the crop insurance program impact producer's flexibility, impact markets, and start us down a very slippery slope?

**Answer:** I'm reluctant to offer general thoughts – because the details of any proposed incentive would matter a great deal – but as I noted in my written testimony, we firmly believe that any non-market incentives should come from separately funded initiatives that do not detract from the current crop insurance program. To the extent that any of the hundreds of management decisions a producer makes during the growing season are risk-inducing or risk-reducing, all of them ultimately are accounted for in the final yield realized by the producer. To single out one practice (or one set of practices in the case of climate or conservation) could be fraught with problems or potentially force producers out of crop insurance and undermine the actuarial integrity of the Federal Crop Insurance Program.

2. What impact would adjusting the Administrative and Operating expenses cap for inflation have on our farmers and our rural communities?

**Answer:** Crop insurance has been an enormous success story in part because of the hard work that our crop insurance agents do to serve our nations farmers and ranchers. Just like agricultural producers and crop insurance companies, crop insurance agents have seen their costs increase. We utilize the A&O reimbursements to cover these important expenses and unfortunately these reimbursements have remained stagnant for 8 years, making it increasingly difficult for agents to maintain high-quality levels of service. The problem is exacerbated for specialty crop agents who have seen further reductions in the reimbursements for their crops. Adjusting the A&O cap for inflation and removing the cap for specialty crops would help ensure that agents have what is needed to deliver crop insurance to all farmers across the country. Not doing so could put parts of crop insurance at risk.

**Senator Tommy Tuberville**

1. As you know, half of the 14 Approved Insurance Providers (AIPs) have parent companies that are owned by foreign entities. I know that some AIPs have subsidiaries in China. Do Chinese entities have significant ownership stakes in any AIPs or their parent companies?

**Answer:** Neither NAU Country Insurance nor any other QBE entity has any Chinese ownership.

The crop insurance industry does utilize foreign reinsurers to gain access to billions of dollars of capital to spread the catastrophic risk of the program rather than keeping it all domestically. This practice is healthy for the crop insurance industry and brings capital to the table to help our farmers.

2. Can you explain the dangers of using crop insurance rates as a tool to change farmers' behaviors – in the name of climate change – or to incentivize certain practices that have unproven yield benefits?

**Answer:** As I noted in my written testimony, we firmly believe that any non-market incentives to affect climate change behaviors should come from separately funded initiatives that do not detract from the current crop insurance program. Changing a rate will affect the actuarial soundness of the crop insurance program and likely hurt the important concept of insurance pooling. Crop insurance must be properly rated for all crops and coverages, or the crop insurance program could fail.

#### **Senator Charles Grassley**

First, I want to say that my long held belief is that farm policy should provide a limited safety net that helps farmers weather the storm of natural disasters and unpredictable commodity markets. However, if commodity programs become a profit guarantee program then markets will become distorted and the agricultural community could be at risk at becoming dependent on farm subsidies rather than market forces. Additionally, if farm programs continue to encourage large farms over smaller farms, we will see more consolidation of family farms and continued loss of population in rural communities. The biggest danger to the farm safety may be an American public who view farm subsidies as a handout to the wealthiest farmers.

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The last time the federal budget was balanced in 2001, revenues were 18.9 percent of our gross domestic product. Last year, federal revenues amounted to 19.6 percent of GDP. Yet, we still managed to run a deficit of \$1.4 trillion. That's because even though tax collections have increased by \$2.9 trillion since 2001, spending has grown by \$4.4 trillion.

1. To that end, please share with me ways we can improve the farm safety net without increasing spending.

**Answer:** Thank you for this question. I wake up every morning and go to bed every night – as do most of my colleagues throughout the crop insurance industry – thinking of ways to improve the farm safety net. While this might come as a surprise to some, the 2008, 2014, and 2018 Farm Bills collectively reduced crop insurance spending by an estimated \$1.2 billion at the time of passage. Over that same time period, crop insurance companies have invested billions of dollars of private-sector funds to make improvements – for example, using the 508(h) process, NAU Country Insurance Company created and piloted the Enhanced Coverage Option (ECO) a few years ago. ECO allows farmers to purchase additional coverage that provides assistance during a time of losses in larger geographic areas.

While I appreciate the sentiment behind the comments and the question, we cannot ignore the fact that our country has spent billions (more than \$90 billion in the last 6 years alone) providing unbudgeted, ad hoc assistance to growers to address perceived weaknesses in the safety net. In this farm bill, I would suggest that making reasonable investments/improvements to the safety net now would help obviate the need for ad hoc spending later, ultimately saving taxpayers in the long run. While I know the committees of jurisdiction are focused on making improvements to Title 1, I would encourage them to explore all opportunities for (1) improving crop insurance coverage levels across the country and/or (2) reducing the deductible/exposure producers face. Both of these changes could add more coverage for farmers and eliminate the need for additional assistance should another disaster occur. We stand ready to assist in those efforts.



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May 4, 2023

Questions for the Record

**Mr. Jason Meador**

**Senator John Boozman**

1. RCIS writes in every state represented on the Subcommittee, how important is it to have a flexible federal crop insurance program that provides risk protection for producers across all crops, regions, and sizes?

*Providing risk protection for all producers is of tremendous importance to the overall health of our farm system in this country. As you mentioned, Rural Community Insurance Services (RCIS) provides coverage in every state represented on the Subcommittee, and notably, RCIS writes in all 50 states across the country. This breadth provides RCIS with a unique perspective on the risks that any given producer, regardless of region, crop, and size, may face in any growing season. Flexibility for producers is critically important as the unique circumstances of each producer will drive their risk management needs. Crop insurance has continuously evolved to provide new coverage or new options to better meet the needs of producers.*

*While more can be done to increase coverage and cover “gaps” for certain producers across the country, we believe, at its core, the Federal Crop Insurance Program is the most responsive, flexible, and inclusive program within the farm safety net. Our respective services touch more growers than any other support program offered to American farmers and ranchers and, moreover, the program is granular enough to provide coverage down to the individual farm. We look forward to working with this committee through the Farm Bill process to make this program even more accessible to producers across the country.*

*Below are some specific examples around breadth and flexibility within the current crop insurance program.*

- ***Specialty crop coverage:*** *A wide range of specialty and organic crops have coverage options today with around twenty-two billion dollars in liability for Specialty Crops and over two billion covered for organic crops in 2022, according to the Risk Management Agency. Expanded options are consistently being made available to further accessibility through viable coverage options, such as recent improvements to Pecan Revenue coverages that better accommodate the needs of these producers furthering accessibility into this valuable program.*

- **Margin coverage:** Margin Protection was a 508(h) product originally developed by the rice industry to help better cover declines when production costs are volatile. This has been expanded to other crops and regions over time.
- **Specific practice coverage:** To support sustainability and agronomic needs of rice growers, a Sprinkler Irrigated Rice Endorsement was developed, which provides growers coverage in new practices managing water quantity.
- **Expanding risk coverage:** The Hurricane Index Protection- Wind Index (HIP-WI) Endorsement option, which covers a portion of the deductible of the underlying policy when the county or county-adjacent suffers sustained hurricane force winds from the Atlantic to Gulf of Mexico and Hawaii was recently expanded to include a Tropical Storm endorsement for tropical storm force winds. These endorsements designed to cover specific perils that growers face often prove to be more cost-effective than broad policies designed to cover multiple causes of loss.

2. In Arkansas, I often hear that crop insurance at higher levels of coverage is simply unaffordable. You mentioned that the crop insurance companies often work with RMA and others to develop more affordable risk management tools for producers. How can the farm bill help address affordability issues within crop insurance?

*During the question-and-answer portion of my testimony, I offered some initial suggestions that could address this issue. However, before providing additional thoughts, it is important to underpin a critical point regarding pricing.*

*Rating is the foundation for pricing any crop in any area of the country where farmers are looking to utilize risk management options to protect their operations. USDA sets these rates through the Risk Management Agency and takes a multitude of factors into consideration to determine the risks for production based on those factors. The rates determine the price a farmer pays and are reviewed every three years to incorporate more recent production and loss experience. Approved Insurance Providers do not play a role in that process.*

*With that as a baseline, we have identified the following levers aimed at addressing affordability that Congress and the Administration could utilize:*

- **Area-based coverage:** Area-based coverage plans generally cost less than individual coverage options. This can range based on available products for a given state or county and unit structure elections for individual producer or operation. The committee could consider exploring policy options that would make area-based coverage options more accessible and attractive for producers across the county to expand the pool of risk and thereby lower the price of coverage.
- **Premium discount:** Congress has the authority to change the premium discount structure for any product available to producers across the country.

*If there is a particular policy that has potential to provide viable coverage options but is perceived as inaccessible due to rates in a particular area, Congress could alter the premium discount in that specific case to lower the premium paid by the producer.*

- **Innovation:** *Creation of new products can alleviate cost pressure associated with purchasing crop insurance policies. The 508(h) process, while in need of some reforms to improve timeliness and transparency, is a catalyst for innovation within the Federal Crop Insurance Program that can enhance affordability through the creation specific endorsements that attach to existing policies, such as HIP-WI as mentioned above.*

3. Your testimony mentioned working with the Southern Risk Management Education Center at the University of Arkansas on outreach to socially disadvantaged farmers. What hurdles to accessing the federal crop insurance program for beginning farmers and socially disadvantaged farmers have been identified throughout this partnership?

*RCIS, through our industry association, National Crop Insurance Services (NCIS) has been an active participant in the USDA RMA's funded Risk Management Education Program and Targeted States Program. Since 2014, NCIS has been awarded seven contracts with the Southern Extension Risk Management Education Center at the University of Arkansas. Through these programs, NCIS has been able to host workshops targeting underserved areas and Young and Beginning and socially disadvantaged farmers and ranchers, in total more than 300 participants have been reached across the Midsouth and Southeast. The group held nine workshops alone in FY22 focused on helping producers develop and better understand their risk exposure, marketing plans, and operational guidelines for running their operations.*

*Through these experiences, these farmers and ranchers were empowered to embrace more risk management tools on their farms, including assessing and adopting a product mix to fit their operations and utilizing crop insurance to better borrow against their operations and to market their crops.*

4. What impact would adjusting the Administrative and Operating expenses cap for inflation have on our farmers and our rural communities?

*Administrative and Operating (A&O) Expenses, as defined by the Standard Reinsurance Agreement, are intended to offset delivery costs incurred by the private sector. In practice, A&O pays for agent commissions offsetting a portion of the private sector delivery cost. Since the A&O Cap has not been adjusted since 2015, the effective reimbursement has decreased. Additionally, as the crop insurance program has continued to evolve, adding new products and coverage options, it has continued to become more complex, thus increasing administrative and operating costs for AIPs and agents.*

*Adjusting Administrative and Operating (A&O) expenses for inflation would be a step in the right direction. It would increase the commissions agents earn, allowing them to continue to service producers of all sizes, those growing different crops, and those in all regions of the country. Without this increase, there is a risk that in the future some producers may not have the same level of access and support that they do today.*

*While adjusting A&O will support delivery through agents, as noted above, it does not offset the non-agent costs incurred by AIPs that are continuing to increase. The added coverage options and continued popularity, while of great benefit to farmers and taxpayers, require a tremendous amount of continued investment by AIPs in IT infrastructure, software programming, and human capital just to maintain existing services while simultaneously investing in training and marketing on emerging products and services.*

#### **Senator Tommy Tuberville**

1. As we all know, crop insurance works well as a public-private partnership. What are the potential impacts if the U.S. were to completely forgo the private sector delivery system and revert to a government-run insurance program through FSA?

*In short, RCIS and the industry believes forgoing private sector delivery of crop insurance and relying on FSA to deliver the Federal Crop Insurance Program would result in disruption to our farm economy and innovative services that the overwhelming majority of farmers and ranchers have come to rely on. As you allude to in your question, the government did have the responsibility of delivering and administering crop insurance before the Federal Crop Insurance Act of 1980. When this legislation was being developed, Congress understood and appreciated that USDA was not capable of delivering the program as efficiently as the private sector due to the need for a dedicated sales and loss adjustment workforce, which were necessary to adequately expand and deliver the program to farmers and ranchers across the country and in remote areas.*

*To elaborate further, the effects of disbanding private sector delivery would be evident to farmers and ranchers in additional ways, including:*

- *Reduced level of service. Approved Insurance Providers compete on service and not price which is established by the RMA. To be successful, AIPs must invest in continued innovation to remain relevant to our agent network and the farmers and ranchers we serve. This includes reinvestment of resources into areas such as software programming to accommodate newly developed products to help producers better transfer their risks, human capital and expertise to dedicate to emerging trends, such as the increase in the utilization of livestock coverage options, and precision agriculture technologies to improve timeliness of the claims process.*

- Reduced advice on risk management. *The private sector (Approved Insurance Providers and agents alike) invests in a skilled and dedicated workforce to service farmers and ranchers in their risk management needs. AIPs continuously provide training to both their staff as well as agents to ensure the industry can provide appropriate advice to producers. If the government were to takeover administering Federal Crop Insurance, the government would need to dramatically increase its federal workforce with individuals who possess these skills. Additionally, the government would need to build a training capability to maintain and enhance the knowledge of these resources over time.*
- Slower claims payments. *AIPs have proven over many years the ability to quickly adjust and pay a large number of claims. Since AIPs do not compete on price, this is another area where AIPs compete. The result is AIPs focused on having sufficient claims resources that are trained and able to adjust claims quickly and accurately. These claims payments are used to ensure operating loans can be repaid. Without claims being handled in a timely fashion, lenders may be less willing to extend the same level or terms of credit as today.*

*In summary, the points above underpin our view that if Congress were to revert to government delivery of crop insurance, there would be dramatically increased taxpayer investment in the federal workforce; disruption of both the farm and rural American economy; a degradation in risk management services that farmers and ranchers have come to rely on.*

2. As you know, half of the 14 Approved Insurance Providers (AIPs) have parent companies that are owned by foreign entities. I know that some AIPs have subsidiaries in China. Do Chinese entities have significant ownership stakes in any AIPs or their parent companies?

*Rural Community Insurance Company (aka Rural Community Insurance Services or "RCIS") is licensed and domiciled in Minnesota and all of its officers and directors are based in the United States. RCIS is a wholly owned indirect subsidiary of Zurich Insurance Group Ltd ("ZIG"), a publicly traded Swiss company listed on the SIX Swiss Exchange.*

*It should be noted that RCIS' relationship to a well-capitalized, global insurer benefits American farmers and ranchers. ZIG's global access to capital and deep relationships with global reinsurers allows it to transfer risk to free up additional underwriting capacity for RCIS. This, in turn, allows RCIS to extend services and coverage to more farmers and ranchers throughout the United States.*

*ZIG, like any publicly traded company, may have shareholders throughout the world, including in China. However, there are no individuals or entities based in China that own an amount of ZIG shares that would trigger any reporting requirements of the*

*SEC or any other global exchange, or that would allow such individuals or entities to influence RCIS business.*

*Zurich is a global leader in providing insurance coverage and services to U.S.-based and other multinational corporations to protect their commercial interests in countries around the world, including in China. Zurich operates Zurich General Insurance Company (China) Limited, which is a wholly owned indirect subsidiary of ZIG, and places business through existing insurance broker relationships. Other than common ownership with ZIG, RCIS has no other relationship with Zurich General Insurance Company (China) Limited.*

*With respect to other AIPs, we are not familiar with their corporate structures and, therefore, do not believe it is appropriate for us to comment on their ownership.*

3. Can you explain the dangers of using crop insurance rates as a tool to change farmers' behaviors – in the name of climate change – or to incentivize certain practices that have unproven yield benefits?

*In testimony, we stated that crop insurance is the best tool for the farmer against extreme weather events. Crop insurance is also already a partner in encouraging conservation efforts on the farm. For example, to be eligible for crop insurance, farmers must follow Good Farming Practices, as defined by local agronomic experts. Those Good Farming Practices often include management practices that help mitigate climate change, such as no-till farming and planting cover crops. By using these practices, some farmers can also see lower production costs, better soil health and increased yields, all of which can lower their crop insurance premiums and increase their production guarantees in an actuarially sound way. By promoting Good Farming Practices that can help lead to lower premiums, crop insurance helps complement healthy soil and conservation efforts. It is worth noting here that the Journal of Environmental Management published a peer-reviewed study that credited crop insurance with encouraging the adoption of conservation practices.*

*For any legislative proposal linking conservation and climate policy to crop insurance, we believe any such proposal should have the following attributes:*

- *The proposal should provide farmers with incentives, rather than mandates or regulations, to adopt climate-smart agriculture.*
- *Incentives must be designed so that insurance policy premiums continue to be set at actuarially sound rates to ensure the integrity and long-term success of the crop insurance program.*
  - *By statute, crop insurance premiums must align with the risk associated with the policy, and because of the self-correcting nature of crop insurance, premiums adjust to reflect farmers' individual risk and production.*

- *The methodology for setting premium rates inherently takes climate into account. Premium rates are adjusted for more recent years of loss experience, thereby reflecting changes in weather and weather patterns. The program performs well, with premiums continuing to match indemnities paid to farmers, thereby ensuring the financial stability of the program for farmers, taxpayers, and the private sector Approved Insurance Providers.*
- *Lawmakers seeking to incentivize farmers for climate-smart practices should first and foremost look to the flexible 508(h) process that offers potential for new and creative solutions for addressing the intersection of climate change and risk management.*
- *Should new climate initiatives come from Congress, they should be funded independently and not at the expense of the crop insurance program.*
  - *Crop insurance is vital to America's farmers and has been working well for them over the last few decades, especially considering the changes this committee has made through previous Farm Bills to strengthen this public-private partnership in 1994, 2000, and 2014. It is a critical tool for farmers as they adapt to the changing climate pressures. Weakening the fundamentals and actuarial soundness of the program in any way will do more harm to farmers coping with climate change and will only increase the need for ad hoc disaster programs.*
  - *The program must be adequately funded to continue to provide this timely and effective risk management tool for farmers.*

#### **Senator Charles Grassley**

First, I want to say that my long held belief is that farm policy should provide a limited safety net that helps farmers weather the storm of natural disasters and unpredictable commodity markets. However, if commodity programs become a profit guarantee program then markets will become distorted and the agricultural community could be at risk at becoming dependent on farm subsidies rather than market forces. Additionally, if farm programs continue to encourage large farms over smaller farms, we will see more consolidation of family farms and continued loss of population in rural communities. The biggest danger to the farm safety may be an American public who view farm subsidies as a handout to the wealthiest farmers.

This past week, USDA [released updated data](#) on Chapter 12 bankruptcies. The data showed that Chapter 12 bankruptcy reached the lowest level in nearly two decades. This data shows that the farm safety net is working. As the ranking member of the budget committee, I am deeply concerned about how we are saddling future generations with our debt. The fundamental problem we have in the federal budget is not one of under taxation, but of overspending.

The last time the federal budget was balanced in 2001, revenues were 18.9 percent of our gross domestic product. Last year, federal revenues amounted to 19.6 percent of GDP. Yet, we still

managed to run a deficit of \$1.4 trillion. That's because even though tax collections have increased by \$2.9 trillion since 2001, spending has grown by \$4.4 trillion.

1. To that end, please share with me ways we can improve the farm safety net without increasing spending.

*In testimony, we discussed several ways to better serve America's farmers and ranchers through the new product development mechanism known as 508(h). Additionally, we addressed the need to improve this process so that better products reach our farmers and ranchers and that we are being better stewards of taxpayer dollars. Specifically, we would recommend a handful of common-sense changes:*

- *Ensuring adequate timing between the approval and release of a new 508(h) product and the sales closing date for that product. Once a product is approved, RMA requires time to develop handbooks, training materials and other resources that are needed to sell a product. Once these materials are developed, crop insurance companies need time to make IT changes, train the agents who will be responsible for explaining and selling the product to farmers, and market the new product. Without this time, the initial rollout of products can create confusion with farmers and can harm the reputation of agents, companies, and RMA for a poor product rollout.*
- *The regular review (strict adherence of this review would be beneficial) of 508(h) products for actuarial soundness, including an action plan for obtaining actuarial soundness if this underlying standard of the program is not being met by a crop insurance product developed through 508(h). This will support products having sustainable loss ratios reducing loss costs incurred by the government and maintaining program viability.*
- *If a company has provided a letter of support for a product concept, involvement of that crop insurance company throughout the 508(h) development process should be required. The existing 508(h) process requires a letter of support for the concept from at least two companies, but then these companies are often cut out of the development process, during which concepts can change dramatically in ways that may cause concern to these same companies. The result can be a final product that is no longer supported by the companies that have a letter of support on file for the concept. If a company is willing to support a concept for a new product, their input throughout the remainder of the process can only lead to a better, more marketable policy for America's farmers and ranchers.*

*RCIS and the industry do not believe that any of these recommendations would cost money and would improve the stewardship of taxpayer dollars by better ensuring the quality of the products that are reaching our farmers and ranchers.*