Testimony of
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Northwest Farm Credit Services
on behalf of the Farm Credit System
before the U.S. Senate Committee on Agriculture, Nutrition and Forestry
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Mr. Chairman, Ranking Member Stabenow, and members of the committee, thank you for allowing me to testify today on behalf of the Farm Credit System. My name is Mandy Minick. I am the Washington state president of Northwest Farm Credit Services, which is headquartered in Spokane, Washington.

Northwest Farm Credit is a financial cooperative providing financing, crop insurance and related services to farmers, ranchers, agribusinesses, commercial fishermen, timber producers, and rural homeowners in Montana, Idaho, Oregon, Washington and Alaska. We serve our customers through 45 branch offices located throughout the Northwest.

I will briefly describe Farm Credit and then focus on the coming Farm Bill.

In particular, I'll talk about the importance of a robust farm safety net, the immediate need to expand our export markets, and the challenges many farmers have in securing an adequate workforce. I also will discuss specific credit title topics including the need to modernize Farm Service Agency (FSA) loan limits and the challenges rural communities face as they look to rebuild their infrastructure.

Northwest FCS is part of the nationwide Farm Credit System. Farm Credit's mission is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

Farm Credit is a nationwide network of 74 borrower-owned lending institutions that share a critical mission assigned to them by Congress a century ago. These independent, institutions include four wholesale banks and 70 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 that 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.

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 reverses the normal flow of capital, raising money in urban financial centers and bringing it to rural communities.

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 fund the lending operations of all Farm Credit institutions. Diversification of lending portfolios is a source of Farm Credit's financial strength. Through diversification of our lending – by geography, industry and loan size – Farm Credit manages risk and insulates itself against the cyclical nature of the industries we serve.

We believe we can play a more significant role in rural development, revitalizing rural infrastructure, strengthening the rural economy and creating good jobs for rural families. We are prepared to continue working with the committee and our partners in the community banking sector to find ways that all of us can contribute more to the vitality and success of our rural communities.

Farm Credit also makes extraordinary efforts to support young, beginning and small (YBS) farmers and ranchers. Each year, the Farm Credit Administration (FCA), our independent federal regulator, compiles data on Farm Credit YBS lending and reports it to Congress. Based on reports from the Federal Farm Credit Banks Funding Corporation and the Farm Credit Administration:

- Farm Credit made more than 64,000 loans to young producers (under age 36) in 2016 for a total of $9.3 billion. Those are new loans originated in 2016. When Farm Credit first began reporting this specific information in 2001, new loan levels that year were at 33,000 loans to young producers for $3.1 billion.

- Farm Credit made more than 81,000 loans to beginning producers (10 years or less experience) for $12.7 billion in 2016. This is double the number and triple the dollar amount of beginning farmer loans in 2001 when Farm Credit made 37,000 loans for $4.2 billion to beginning farmers.

- Farm Credit institutions made more than 155,000 loans to small producers (less than $250,000 in annual sales) for $12.2 billion in 2016, a substantial increase from the 114,000 loans for $7.6 billion made in 2001.

To put Farm Credit's lending to small farmers and ranchers into perspective, at year-end 2016 Farm Credit had more than one million loans of all kinds outstanding, and slightly more than 500,000 of those loans outstanding were to small farmers and ranchers.

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 institutions have a deep commitment to YBS farmers beyond providing loans. In many cases, we offer incentives, education, mentoring, family business planning facilitation and other support to these producers. Farm Credit organizations nationwide provide training and host seminars on topics such as intergenerational transfer of family farms, risk management practices and developing effective business plans.

We engage across the spectrum with those entering agriculture, whether they are focused on conventional, organic, sustainable, indoor, farm-to-market operations, or other emerging business models.

As I mentioned earlier, Farm Credit is a customer-owned cooperative. Significant amounts of our operating expenses go toward better serving our customers through new technology, helping them grow their businesses through educational programs and supporting our communities through charitable giving. The net income we generate can be used in only two ways: retained within a Farm Credit institution as capital to build financial strength that ensures continued lending, OR paid to customer-owners by way of cooperative dividends, which effectively lowers the cost of borrowing for our customers. In 2016, Northwest FCS returned $99.4 million or 40 percent of our earnings to our customers, which helped their finances and provided a tremendous boost to local economies. We retained the other 60 percent to strengthen our association to ensure we can continue meeting the growing needs of farm families in our five-state service territory and help them through the inevitable cycles of agriculture

Farm Credit's mission is as vital today as it has ever been. We support rural communities and agriculture with reliable, consistent credit and financial services. We provide farmers, ranchers and agribusinesses with the capital needed to make their businesses grow and succeed.

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 has financed more than $5 billion in exports of U.S. agricultural products. We also make more than $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 is critical to the success of rural communities and a key component of Farm Credit's mission. Farm Credit finances more than $27 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 our schools and reliable energy for rural families and businesses.

As you all are well aware, commodity prices have fallen while the cost of production has remained high. Forecasters see little chance of a quick commodity price rebound, barring unexpected changes in commodity demand, supply or both.

Fortunately, the industry balance sheet was mostly strong entering this cycle after several years of favorable profits in agriculture. While we have seen debt-to-asset ratios increase slightly in the past three years, they remain nearly even with the 30-year average and far below the levels seen in the mid-1980s. However, the trend causes concern.

Depending on geography and land type, the impact of the downturn on farmland values has been mixed. As farmland values rose sharply in the past decade, particularly in areas that produce cash grains, farmers and lenders both became increasingly conservative in leveraging real estate assets. Farmers bought increasingly high-cost ground but largely used cash generated from higher commodity prices and borrowed less on a percentage basis. For the most part, Farm Credit lenders and commercial banks were unwilling to loan much more than 50 to 60 percent of farmland values in areas where prices had jumped most aggressively. Some even limited the dollar amount loaned per acre.

Crop input prices, including cash rent, have not fallen in step with commodity price declines, squeezing profitability at the individual farm level. While we anticipate adjustments in some expenses will come, it remains difficult to accurately predict timing. Perhaps the best news for farmers is that interest rates remain historically low, another key difference compared to the downturn in the 1980s. While forecasters predict slightly rising rates over the coming months, those small increases start from an extremely low level. Debt costs are expected to remain low by historical standards.

Similar to the producers we serve, Farm Credit built financial strength in anticipation of this challenging economic cycle. We have been fulfilling our mission for more than 100 years and have deep experience in the inevitable cycles of agriculture. Like most, we could not predict with accuracy when this cycle would begin or end. But experience told us it was coming, and our institutions prepared for it. We built capital. We loaned conservatively. Today, Farm Credit is financially the strongest it has ever been and is prepared to use that strength to support our customer-owners and continue fulfilling our mission.

We continue to see modest loan growth in both our agricultural and rural infrastructure loan portfolios. The credit quality of our loan portfolio remains high as our members continue to meet their obligations. Credit quality in Farm Credit loan portfolios hit all-time highs during the years of high commodity prices and has returned to the historical averages. While we anticipate some deterioration in our loan quality as this cycle continues, we remain committed to working with our customers.

Our philosophy on credit today is this: we know our customers well, understand and respond to their needs and work cooperatively with them to analyze and structure our transactions to provide them with the best chance to succeed.

We have been working for years to help our customer-owners plan for the current environment. Many Farm Credit institutions have allocated additional resources to work with producers impacted by lower commodity prices. We are proactively reaching out and helping our customers understand their respective financial positions so they can work through business plans and make good decisions that, hopefully, lead to the best possible outcome for them. We are restructuring debt to spread out payments and are providing other loan structuring options when necessary and appropriate. We work every day to make sure Farm Credit customers have the best information available to help them manage costs and strengthen their risk-bearing capacity.

We understand that being dependable does not mean that we can save every operation. It does not mean that we are able to ignore good credit judgment or make credit decisions that are not constructive for the customer-owner or us as a lender. It does not mean that we will undertake undue risk or make all of the adjustments. We and our customer-owners both need to make adjustments – and we are working hard to take those steps together.

As price forecasts stay depressed, most producers' only option is to manage the cost structure of their operations closely. Many have eliminated non-essential expenses, scaled back expansion plans and delayed new equipment purchases.

Farm Credit is fortunate that our independent federal regulator, FCA, has deep knowledge of agriculture and considerable experience in the inevitable business cycles our members face. Their ability to look holistically at a customer's operation and understand an individual customer's risk-bearing capacity and equity position will, in many cases, determine whether we can continue with that customer. If the FCA is overly restrictive in its approach, it might tie our hands as we work to help members through this cycle. We are optimistic about the FCA's continued good judgment.

This downturn also provides a timely reminder of the importance of supporting key tools such as crop insurance, the current Farm Bill, the renewable fuels standard and promoting strong export markets to help maintain the viability of the industry. Passage of a strong Farm Bill next year is essential.

U.S. Farmers and Ranchers Need a Strong Farm Bill
The current cycle in agriculture makes this committee's work on the next Farm Bill crucial. We need a strong Farm Bill to provide a safety net against sustained market downturns. We pledge our support for this committee's efforts to pass a strong Farm Bill on time.

We strongly support maintaining and improving the Federal Crop Insurance Program along with Agricultural Risk Coverage and Price Loss Coverage programs. These are the heart of a strong Farm Bill.

Congress created the crop insurance system through the Federal Crop Insurance Corporation (FCIC) to promote the economic stability of agriculture. A successful public-private partnership, crop insurance is federally regulated and delivered by the private sector to help farmers maintain the country's safe, affordable food supply.

Crop insurance protects farmers and ranchers against financial losses caused by natural disasters (hail, drought, freezes, floods, fire, insects, disease and wildlife) and market disruptions resulting in lower prices for agricultural products. In 2015, USDA's 1.2 million federal crop insurance policies covered 120 different crops grown on approximately 300 million acres with an insured value of more than $102 billion.

Northwest FCS serves a diverse customer base that includes traditional, specialty, organic and diversified producers. Our customers in Washington produce more than 125 different crops and have historically been heavy users of crop insurance as a vital risk management tool.

In 2014, Whole Farm Revenue Protection (WFRP) was introduced, which expanded options for specialty crop, organic and diversified crop producers, allowing them to insure all the crops at once instead of one commodity at a time. WFRP is a risk management tool that has the ability to protect revenue from every crop in every county in the U.S.

While WFRP is a risk management tool we offer to all qualified producers, it works very well for specialty crops and highly diversified growers. Many specialty crops don't have other policies options to manage their unique risks and for diversified growers WFRP provides coverage for the entire farm and is more cost effective than purchasing individual commodity policies.

WFRP is new and complex and we have been working hard to help growers understand its provisions and benefits. We've developed a new quoting system which has made it much easier for customers to compare their options and costs. Over the past four years Northwest FCS has hosted training sessions for many other Farm Credit associations across the U.S. Last week we provided training for GreenStone Farm Credit Services, which serves Michigan and parts of Wisconsin. Michigan ranks 2nd in agricultural diversity, after only California. Washington and Michigan's diverse crop mix make WFRP an excellent tool to for producers to manage risk. In the Northwest, we insure 127 different crops/commodities with WFRP, while in Michigan and Wisconsin, GreenStone insures over 80.

We want and need to see WFRP succeed. Given the risk concentration in the Pacific Northwest it is important that we share our knowledge and encourage growth and market share across the US. The National WFRP market share is expanding with a total of 2,220 policies sold in 2016 and growing to 2,722 policies sold in 2017. While we have submitted some suggested improvements to the Risk Management Agency for consideration, overall the policy is a strong risk mitigation tool that is working well.

A viable federal crop insurance program, including WFRP, is vital to the flow of credit to farmers and ranchers, particularly young and beginning farmers and ranchers who typically have less collateral and equity. Given the trend in recent years of lower prices for commodities and declining farm net income, it is critical for policy makers to maintain a strong farm safety net that includes affordable crop insurance.

Participation by producers of all types—small and large—is vital to the safety and actuarial soundness of the crop insurance program. Impairments to the program, such as shrinking the risk pool, could make crop insurance unavailable or unaffordable to producers.

Farm Credit believes crop insurance must provide more coverage options for specialty crops, while continuing to serve its traditional commodities constituency.

Without the risk protections provided by crop insurance, agricultural lenders would have to tighten underwriting standards. The consequence of tighter credit would make it more difficult for farmers to plant crops and replace capital assets. Economic growth would slow and rural communities would suffer.

Farm Service Agency Lending

As the farm economy continues to soften, programs like the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) guaranteed and direct lending programs are important tools for producers, particularly young and beginning producers. The FSA guaranteed loan programs provide Farm Credit institutions additional flexibility to help customers survive a potentially extended economic downturn. Farm Credit participation in FSA's guaranteed loan program totals $5.1 billion and represents approximately one-third of outstanding FSA guarantees.

In addition, Farm Credit institutions and others have observed an increase in the costs associated with agricultural production. The cost of land, equipment and inputs has all increased in the past several years. As producers look to begin or grow agricultural businesses or simply sustain their current operations through this downturn, FSA direct and guarantee loan programs must have appropriate loan limits. Accordingly, Farm Credit supports increasing the FSA guaranteed loan limit. This will allow Farm Credit and other lenders to better partner with the USDA to provide needed credit to producers.

Finally, Farm Credit recognizes that increasing the loan limits could have the unintended consequence of having fewer producers served by these programs because the current level of funding does not reflect the actual costs associated with agriculture production and the need for larger loan limits. To that end, we also support increasing the level of funding for FSA guaranteed and direct loans.

Rebuilding Rural Infrastructure

American agriculture feeds the world and creates millions of jobs for U.S. workers. Our nation's ability to produce food and fiber and transport it efficiently across the globe is a critical factor in U.S. competitiveness internationally. Infrastructure that supports rural communities and links them to global markets has helped make the U.S. the unquestioned leader in agricultural production. However, our deteriorating infrastructure threatens that leadership position.

Transportation infrastructure improvement is the most obvious need in rural communities, but not the only one. Highways, bridges, railways, locks and dams, harbors and port facilities all need major investment if we are to continue efficiently transporting our agricultural products to market. For example, one-quarter of our road system's bridges require significant repair or cannot efficiently handle today's traffic. Many of the 240 locks and dams along the inland waterways are in need of modernization. In addition, critical needs exist in providing clean water for rural families, expanding broadband to connect rural communities to the outside world and enhancing the ability to supply affordable, reliable and secure power for the rural economy.

The scope of the investment needed is staggering. The federal government must continue to play an important role in providing funding. Moreover, federal investments should increase, but federal resources likely cannot fill the need entirely. Creative solutions for raising a portion of the funds necessary to close the rural infrastructure gap include combining federal investments, state and local government investments and private sources of capital.

To help address this need, Farm Credit helped organize the ***Rebuild Rural*** coalition of more than 200 organizations representing agricultural producers, rural businesses, rural communities and rural families to advocate for aggressive efforts to meet the unique infrastructure needs of rural communities and agriculture. We asked President Trump to specifically address rural infrastructure needs as part of his administration's comprehensive infrastructure renewal efforts. We have been very encouraged by the coalition's discussions with White House and USDA officials. They appear to understand what rural communities require and have indicated a willingness to seek creative solutions to those infrastructure problems.

We look forward to working with the Administration, this committee and others in Congress as the infrastructure initiative takes shape over the next few months.

Hospitals, senior care centers, walk-in clinics, schools and other community facilities are critical to the viability of rural communities and are important contributors to the quality of life for rural families. In many rural communities those essential facilities are not available or need modernization.

Federal investments, made available through USDA's successful Community Facilities Loan and Grant program continue to be necessary. Attracting private sector investment in these facilities will help speed up the progress of projects and increase the number of community facilities.

Farm Credit institutions are working to create a scalable solution for financing rural community facilities in partnership with community banks and the USDA. The partnership will focus on building, modernizing and expanding rural healthcare facilities, rural senior care facilities, rural educational facilities and others critical to creating vibrant rural communities.

Farm Credit will identify rural projects and partner with local community and regional banks to create comprehensive financing packages to include short- and long-term bond investments paired with USDA guaranteed and direct loans and grants that fund facility construction and provide stable permanent facility financing.

Previously, under a pilot program authorized by the Farm Credit Administration (FCA), Farm Credit institutions invested in bonds issued by the community developing the facility. In creating many of those bond investments, Farm Credit worked closely with community banks to include them in the financing package and then partnered with USDA's Community Facility Loan and Grant program to ensure the project's affordability for the community.

Rural Critical Access Hospital Expansion

For example, in 2016 Farm Credit institutions partnered with Grand Marais State Bank, Central Bank and Trust, CenBank, Security State Bank and the USDA to finance a $24.7 million expansion project for Cook County North Shore Hospital and Care Center in Grand Marais, Minnesota (population 1,353). The 16-bed critical access hospital and 37-bed skilled nursing facility plans to add 26,150 square feet and renovate 42,680 square feet of existing space.

Hospital Administrators, county officials and patients break ground on North Shore Hospital's expansion and renovation in 2015. Farm Credit, community banks and the USDA partnered to finance the project in Grand Marais, MN.

Under the FCA pilot program Farm Credit institutions invested $733 million in 210 rural community projects across the country. Commercial banks partnered with Farm Credit on more than 100 of those projects, generating an additional $315 million of investment.

The original pilot program at FCA ended in 2014 and now the FCA has to provide specific and individual approval for each community facility investment made by each Farm Credit institution. This approach has made the community facilities partnership non-viable.

Under current FCA procedures, Farm Credit institutions have to individually apply to FCA for permission to make each bond investment. FCA staff reviews the investment applications and prepares separate recommendations for action by the FCA Board of Directors. The FCA Board then must consider each application separately and formally vote on approval. This process is expensive, slow and does not result in the robust, sustainable business model necessary to facilitate partnerships between Farm Credit, commercial banks and the USDA that would provide communities with these vital facilities more quickly.

Congress should instruct the FCA to create a more comprehensive, efficient and programmatic approach to approving these investment partnerships. This would greatly enhance financing options for rural community facilities and result in more projects that provide jobs and offer more benefits for rural families.

Export Markets are Vital

Robust export markets are vital to a strong farm economy. Thirteen percent of the U.S. corn crop, nearly 50 percent of the soybean crop and ten percent of the cattle produced in the U.S. are shipped overseas. American farmers and ranchers are the most efficient in the world and will lead the effort to feed a planet of 9 billion people by the year 2050.

We strongly encourage continued efforts to open markets for U.S. farm products. Our producers can compete with any in the world but trade barriers in other countries often tilt the playing field against them. Farm Credit works hard to support our farmers by financing more than $5 billion in exports of U.S. agricultural products. Our private export financing for U.S. exports often competes against financing programs backed by foreign governments. The primary U.S. government export financing program, GSM-102, has been handcuffed by World Trade Organization rulings, putting U.S. farmers at a disadvantage in some markets.

U.S. Farms Need a Stable Workforce

Farming in America is a growth industry and an example of how America excels beyond any other country. The many agricultural products we produce, harvest and process comprise one of the few sectors of our economy in which the U.S. has a trade surplus with the rest of the world.

However, the lack of a reliable, stable and legal workforce threatens the economic health of food and fiber producers and the rural communities in which they live. Our farmers face growing shortages of legally authorized and experienced workers each year. Jobs in agriculture are physically demanding, conducted in all seasons and often transitory. This labor shortage negatively impacts our economic competitiveness, local economies and jobs. We need the appropriate reforms to address the agricultural labor shortage.

A common misconception is that agriculture is a low wage-paying industry. However, according to the U.S. Department of Agriculture, wages for U.S. fieldworkers increased 36 percent during the past decade through the conclusion of last year's harvest in October, compared with 27 percent wage increases for non-farm employees. Not only is agriculture competitive with other industries in terms of wages, many U.S. jobs are created for each farmworker hired and those U.S. jobs tend to be year-round positions. In fact, every farmworker engaged in high-value, labor-intensive crop and livestock production sustains two to three off-farm but farm-dependent jobs. The activities that occur on domestic farms support not only farmworkers but also an entire supply chain of transportation providers, input suppliers, processors and consumer retail functions.

Many of those off-farm jobs will be lost if agriculture's current workforce is jeopardized without providing a mechanism for future legal workers. The economic health of many rural economies is largely dependent on a strong agriculture sector. Yet the loss of the foreign-born workforce in rural communities will have the same economic impact on those communities as factories closing or relocating.

Farm Credit strongly supports legislative and regulatory proposals to create a workable agricultural guest worker program which ensures reliable sources of agricultural workers both seasonally and year-round to support the needs of all of agriculture, and that provides a means by which experienced farm workers can remain on the farm.

Conclusion

Thank you again for allowing me to testify on behalf of Farm Credit today. We look forward to working with the committee to pass the Farm Bill and I would be pleased to answer any questions you may have.