Transitions in Agriculture: Perspectives on the Farm Credit System

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The Cooperative Farm Credit System Today

500,000
Borrowers/Owners

82 Farm Credit
Associations

1,100
Branches

4 Banks

FCS Funding
Corporation

System Total Loans: $192 B
System Total Assets $247 B
Systemwide Total Debt Securities: $198 B
System Total Capital: $39 B
System Annualized Net Income: $4.1 B

As of December 31, 2012.
Farm Credit System Mission

Outlined by the U.S. Congress via the Farm Credit Act:

• Provide sound and dependable credit services to improve the income and well-being of U.S. Agriculture and rural America

• Supply an adequate and flexible flow of money – in good times and bad times - at competitive interest rates and terms

• Ensure borrowers’ participation in governance and ownership

• Respond to the needs of all types of creditworthy producers

The Last 100 Years

1910s Farm Prosperity — Rising Costs & Access to Affordable Credit
• 1916: Federal Farm Loan Act creates Federal Land Banks
• 1920: 1/3 of the population working and living on a farm

1920s-1930s Farm Recession - Solving Creditworthiness
• 1923: Federal Intermediate Credit Banks
• 1933: Banks for Cooperatives, PCAs, FCA
• 1935: Farm count 6.8 million (peak)

1970s Farm Prosperity – Rising Costs & Access to Affordable Credit
• 1969: Farm count 2.7 million
• 1969: Commission on Ag Credit
• 1971: Farm Credit Act
• 1974: Financial Needs of Young Farmers Conference
• 1979: Structural change study - “A Time to Choose”
• 1980: Amendments to Farm Credit Act
Addressing Credit Needs - The YBS Mission

• 1980 Amendments under Section 4.19 of the Farm Credit Act of 1971

Young, Beginning, and Small (YBS) Borrowers

– System institutions must:
  – Have a program for furnishing sound, constructive credit, and related services to young, beginning, and small farmers and ranchers
  – Coordinate their YBS lending with other lenders
  – Submit annual reports on YBS activities & progress

What is a YBS Farmer?

• Young Farmer: age 35 or younger
• Beginning Farmer: 10 years or less farming experience
• Small Farmer: gross annual farm sales of $250,000 or less
The YBS Program

- Regulation – 614.4165
  Direct lender YBS programs must have:
  - a mission statement & means to achieve objectives;
  - a place in operational & strategic business plans;
  - quantitative targets based on demographic data;
  - qualitative goals;
  - outreach efforts;
  - procedures to ensure YBS credit is provided within risk-bearing capacity;
  - Board oversight & quarterly reporting.

YBS Loan Decision

- Addressing the “Creditworthiness” challenges in loan making:
  - Capital/financial position, collateral, capacity to repay, or performance history

- Loan underwriting tools used:
  - Flexible underwriting standards
  - Concessionary interest rates/loan fees/terms
  - Loan guarantees/government programs
  - Dedicated capital
YBS Loan Decision

• Addressing the “Operational Success” challenges
  – Farming experience or expertise
  – Production or financial/business skills

• Education/Training/Financial services tools
  – Reduced cost/fees on financial services
  – Business/financial planning training
  – Risk management/marketing training
  – Grants & scholarships programs for training
  – Mentoring

YBS Outreach

Addressing the “Outreach” challenges
  – Type of agriculture practiced
  – Location
  – New start-ups vs. linkages to existing operations

• Tools
  – YBS Advisory Committees
  – Marketing efforts specifically targeted to YBS
  – Workshops/Conference Sponsorships
Note: A loan may qualify under more than one YBS category.

Data, Definitions, Research Challenges

- Better understanding of the role of credit
- Improvement in data & information gaps:
  - Those already in agriculture – Ag Census:
    • Lacks credit & financial information
    • 5 year snap shot
    • Does it capture all entrants? eg. urban agriculture
    • Is the farm definition appropriate?
  - Those that tried to enter agriculture, but failed
  - Those that would like to enter agriculture, but have not
  - Those that service agriculture - land owners

- Are definitions of young, beginning, small, or entering/exiting farmers appropriate?
Questions?

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