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"Focus on the Farm Economy: Growing Farm Financial Pressure"
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Chairman Crawford, Ranking Member Walz, members of the subcommittee,

Thank you for the invitation to testify today and the work this committee is doing to understand the challenges that face agriculture. My name is Roger Johnson and I serve as president of the National Farmers Union (NFU). NFU represents roughly 200,000 family farmers, ranchers, fishermen and rural members. NFU works to improve the well-being and quality of life of family farmers, ranchers and rural communities by advocating for grassroots-driven policy adopted annually by our membership.

As the title of this hearing indicates there is growing pressure in the countryside as commodity prices continue to decline and farmers and ranchers struggle to adjust to lower prices. While still in the first few years of this downturn, forecasts by the USDA point to a prolonged period of depressed prices. Such a scenario has implications for producers accessing credit, negative farm budgets, depressed markets, tests to the safety net and increased demand for mediation services. In my testimony I will discuss all of these issues and also note some of the positive trends we see in agriculture.

Credit:

We are beginning to witness an increase in challenges nationwide associated with accessing credit. While still early in the downturn, Farm Service Agency's (FSA) Farm Loan Program has seen an uptick in activity. Given the makeup of borrowers that utilize FSA's programs, we would expect to see challenges in their loan portfolio before problems hit other portions of the lending sector. At this time, the FSA's loan demand is up 21 percent over the same time last year with $3.4 billion of the $6.47 billion in lending authority for fiscal year (FY) 2016 being utilized.

There are a number of other activities associated with FSA loan servicing that can provide helpful insight. USDA's credit teams have numerous options to help their borrowers including servicing packets for restructuring debt, actual restructuring of loans, loan deferrals, debt write-down, debt reduction via conservation contract, state-sponsored mediations and as an absolute last resort, foreclosure. USDA reports that requests for servicing packets are up 30 percent over 2015; and mediation activity was up 75 percent in FY15. . Assuming servicing activity continues at a similar rate, FSA anticipates a 23 percent increase for 2016. Lastly, FSA, at this time is not aware of any increases in foreclosure at this time.

Moving to private sector lending, Farm Credit Services of North Dakota, which services Northwest and Northcentral North Dakota, based out of Minot, is also dealing with some credit challenges in my part of the state. It has been a challenging renewal season for them with low commodity prices. There was a fair amount of rebalancing to be done in order to move operating and equipment costs from short-term to medium and long-term debt. While these actions are useful in the short term, they can lead to larger problems if even lower prices persist. There are a handful of producers in this lending area who have already used excess capital from prosperous years and now find themselves with very little liquidity.

The good news is that most of the folks who were struggling to find enough operating capital have been assisted for this year. There were ten customers who really needed to restructure debt, with some using FSA loans to bridge till next year. If commodity prices stay stubbornly low next year the number of troubled portfolios could increase somewhere between 60 and 100 members in the lending area. Unfortunately, prices are not the sole driver of profitability. While there are currently no worries of drought, eastern North Dakota is very dry right now; and weather, as you know, can quickly impact yield. Local lenders are concerned that with high yields being necessary to protect from low prices, weather-induced yield losses will exacerbate an already difficult situation.

One thing that my local lenders wanted to drive home to members of this committee is the importance of a strong safety net, which I will discuss at length below. It is expected that Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) payments will be higher in the fall for my area. Crop insurance, while not a break-even venture, does help shield from down prices. My local lender said "without crop insurance, I would not have 10 troubled accounts, I would have between 300 and 2200 troubled accounts." Farm Credit Services of North Dakota services 2600 members, 99 percent of who carry crop insurance, underscoring the necessity for a strong safety net. It is also important to understand that today's crop insurance products provide even lower guarantees as prices decline.

Farm Budgets:

North Dakota State University (NDSU) Extension Service produces annual projected crop budgets in an effort to assist producers with estimates of revenue and costs for selected crops. The projected 2016 crop budgets for North Central North Dakota paint a pretty grim picture. While these are averages and make a variety of assumptions, it nonetheless provides a window into the challenges that my neighbors face. By regionalizing the estimates we arrive at a more accurate estimate of profitability.[1]

I will use corn, spring wheat, soybeans and canola as examples. NDSU adds projected direct costs with indirect costs and compares them to projected market incomes. The resulting per acre profitability is shown below:

Crop	Projected Price	Market Income	Sum of Listed Cost	Profitability
Spring Wheat	$5.26	$231.44 Per Acre	$245.51 Per Acre	-$14.07 Per Acre
Corn	$3.50	$360.50 Per Acre	$363.11 Per Acre	-$2.61 Per Acre
Soy	$3.50	$243.35 Per Acre	$224.41 Per Acre	$18.94 Per Acre
Canola	$.148	$248.64 Per Acre	$279.17 Per Acre	-$30.53 Per Acre

What is even more alarming is that while the crop budget projects $3.50 a bushel corn, the same price at closing on April 7, 2016 in Chicago, local cash prices in Minot for delivery to CHS was $2.62. So while the crop budget shows a loss of $2.61 an acre, losses will likely be much worse.

Prices of Commodities:

As this Committee knows, prices of major commodities have fallen dramatically over the last several years and are continuing to decline. March National Agricultural Statistics Service's (NASS) Prospective Plantings and Grain Stocks reports, project corn planted acreage up 6 percent, soybean acres down less than 1 percent, wheat acres down 9 percent and cotton acreage up 11 percent from 2015[2]. At the same time corn stocks are up 1 percent, soybean stocks are up 15 percent, and all wheat stocks are up 20 percent from 2015[3]. The cumulative effect of these projections has been negative to prices. When the reports were released two weeks ago, May-delivered corn fell 13 cents to $3.54 a bushel on the Chicago Board of Trade, May soybeans dropped 4 cents to $9.05 and May wheat was down 1.25 cents to $4.6275.[4] Locally, In Western Minnesota corn prices dropped $0.20 cents a bushel at local delivery points.

From a longer-term perspective, since grain prices peaked in 2012, the price for wheat and soybeans has declined by 40 percent and the price of corn has been cut in half.[5] At the same time, costs have declined very little. Farmers are struggling to balance input costs and declining prices. Variable costs or annual input costs, which include seed,

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[1] Swenson, A., & Ron, H. *Farm Management Planning Guide Projected 2016 Crop Budgets North Central North Dakota*. North Dakota State University. Retrieved April 12, 2016, from https://www.ag.ndsu.edu/publications/landing-pages/farm-economics-management/2016-north-central-nd-ec-1654
[2] *Prospective Plantings.* (2016). Washington, D.C.: U.S. Dept. of Agriculture, Economic National Agriculture Statistics Service.
[3] *Grain Stocks.* (2016). Washington, D.C.: U.S. Dept. of Agriculture, Economic National Agriculture Statistics Service.
[4] Gregory, M. (2016, March 31). US Farmers to Plant Most Acres of Corn Since 2013. Retrieved April 12, 2016, from http://www.ft.com/fastft/2016/03/31/us-farmers-to-plant-most-acres-of-corn-since-13/
[5] Aakre, D. *Think Twice Before Cutting Input Costs.* North Dakota State University Agriculture Communication. Retrieved April 12, 2016

fertilizer, pesticides, fuel, repairs, crop insurance, drying and operating interest, continue to stay high. Farmers are struggling to control these costs, which are clearly out of line with projected market returns.

Lower spending will not only impact the overall farm economy, but when done incorrectly, it could have further negative impacts on farm profitability. Negative net farm income will add additional stress to family farms.

Discussions with local seed dealers and coops have substantiated concerns over significant shifts in planting. My staff, while out in the same geographic area mentioned above, report substantial concern over significant shifts from biotech seeds to conventional seeds. Some coops expressed concern over an inability to meet demand for additional fertilizer and chemical treatments needed in order to match the yields of biotech traits, while using conventional seeds. In a number of locations, coop management is aggressively ordering additional chemicals, anticipating much higher mid-season demand.

The following numbers are courtesy of NDSU's Farm Business Management Education program. Net farm income for all participating operations (numbering 537-518) at its high in 2012 was $367,317; in 2013 it was $133,466; in 2014 it was $76,404; and in 2015 it was $28,399. Given the negative trends we have witnessed in 2016, and projected crop budgets highlighted above, this committee should expect widespread losses this year.

Livestock:

The USDA projects 2016 market prices for choice steers, feeder steers, cutter cows, and poultry to continue a downward trend from 2014 and 2015 annual prices.[6] USDA has reported livestock producers as showing an average loss when comparing total costs of production and total gross value of production in 2013 and 2014 for Cows and calves.[7] Research from the University of Tennessee supports this continued downward trend, estimating the total production cost of one cow in Tennessee at $1,029.19 and the total revenue for that cow at $821.54, that's a loss of $207.65.[8] A Kansas State University report validates the trend as well showing livestock producers at a loss when comparing gross returns per cow and total costs per cow.[9]

Despite the challenges within the livestock sector, this committee made significant and much needed investments for livestock producers in the 2014 Farm Bill. Since its enactment, 14,840 payments have been made through the Livestock Indemnity Program, providing a total of $114,934,832 in benefits to livestock producers for livestock deaths due to adverse weather or animals reintroduced into the wild by the federal government.[10] This program, with its ability to make retroactive payments, provided much needed relief for producers, especially ones that had been impacted by winter storm Atlas. As an increase in the occurrence of extreme weather events is predicted for 2016, these numbers will most likely continue to rise.[11]

Mediation:

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[6] *Livestock, Dairy, & Poultry Outlook.* (2016). Washington, D.C.: U.S. Dept. of Agriculture, Economic Research Service.

[7] *Commodity Costs and Returns: Cow-Calf: 2013-14.* (2015). Washington, D.C.: U.S. Dept. of Agriculture, Economic Research Service.

[8] Griffith, A. P., & Bowling, B. (2016, January). *2016 Cow-Calf Budget* (Rep. No. AE 16-01). Retrieved April 04, 2016, from University of Tennessee website: http://economics.ag.utk.edu/budgets/2016/Beef/CowCalf2016.pdf

[9] Tonsor, G. T., & Reid, R. (2016, March). *KSU Beef Cow-Calf Budget.* Retrieved April 04, 2016, from Kansas State University website: http://agmanager.info/livestock/budgets/projected/default.asp

[10] *Livestock Indemnity Disaster Program (LIP) Payments as of January 28, 2016*. (2016). Washington, D.C.: U.S. Dept. of Agriculture, Farm Service Agency.

[11] National Climate Assessment. (n.d.). Retrieved April 12, 2016, from http://nca2014.globalchange.gov/highlights/report-findings/future-climate

USDA's Certified Agricultural Mediation Program (CAMP) helps farmers and ranchers, their lenders, and other persons directly affected by the actions of the USDA to resolve disputes. Through mediation, a trained, impartial mediator helps participants review conflicts, identify options, and agree on solutions. Mediation is a valuable tool for settling disputes in many different USDA program areas, but for our purposes it is particularly helpful in financial and farm loan areas.

The genesis of USDA's CAMP was the farm financial crisis of the 1980s. The program was designed to assist financially strapped farm families and their lenders explore and implement options to resolve serious debt problems and avoid bankruptcy through neutral third-party intervention. This third-party intervention helps producers complete loan servicing applications with accurate information and provides a neutral, confidential and facilitated setting for producers and their lenders to frankly discuss and consider all options available to both. I was personally involved in North Dakota's Certified Agricultural Mediation Program from its beginnings until my election as president of National Farmers Union. I served as a farm credit counsellor, negotiator and mediator during the 1980s, administering the North Dakota Agriculture Mediation Program in the late eighties and into the nineties. Subsequently I served as North Dakota Agriculture Commissioner, overseeing the North Dakota Agriculture Mediation program from 1997 to 2009. We provided mediation services to thousands of farm families that averted many bankruptcies and foreclosures. Even in those cases where farm liquidation could not be avoided, mediation was invaluable in the assurance that farm families and their lenders had both been heard and treated as fairly as possible.

Over the years, the program's success and value led to an expansion of USDA agencies and issues that are eligible for assistance through the USDA's CAMP. NFU is fully supportive of the USDA's CAMP and has urged the Secretary of Agriculture and congress to not only be prepared for an uptick in financial distress requests, but also provide the necessary funding for the program to be as effective as possible.

A Working Safety Net:

Overall Title I programs are functioning as designed and assisting producers with falling commodity prices. USDA deserves serious praise when it comes to the rollout and education behind these relatively complicated new Farm Bill programs. But that does not mean that there is an absence of flaws both in design and execution of these programs.

Nationwide, 96 percent of soybean farms, 91 percent of corn farms, and 66 percent of wheat farms elected the Agricultural Risk Coverage County program (ARC-CO). Seventy-six percent of all base acres enrolled in ARC-CO. Over 90 percent of long grain rice, medium grain rice, and peanut farms elected the Price Loss Coverage program (PLC).[12] Totals for the 2014 crop year for both the ARC and PLC programs were roughly $5.18 billion. Of that total, $772 million went to PLC participants and $4.41 billion went to ARC participants.[13] Without these programs, producers would be in a much more difficult spot than they are right now. Especially when considering 2016 projections for net cash and net farm income, which is set to decline for the third consecutive year after reaching recent highs in 2013 for net farm income and 2012 for net cash income. Net cash farm income is expected to fall by 2.5 percent in 2016, while net farm income is forecast to decline by 3 percent. While those numbers do not appear alarming, when stacked on declines of 27- and 38-percent reductions in net cash income and net farm income that occurred in 2015 the picture worsens.[14]

The assistance that Title I programs are providing is also complemented by the role of crop insurance. Nothing makes up for strong prices, especially not crop insurance. It is not a breakeven program and, on average, farmers must incur losses of almost 30 percent before their insurance coverage starts to provide assistance. Farmers also spend

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[12] *ARC/PLC Program.* (2016). Washington, D.C.: U.S. Dept. of Agriculture, Farm Service Agency.
[13] *ARC-CO/PLC Payments as of Feb 22, 2016.* (2016). Washington, D.C.: U.S. Dept. of Agriculture, Farm Service Agency.
[14] *2016 Farm Sector Income Forecast.* (2016). Washington, D.C.: U.S. Dept. of Agriculture, Economic Research Service.

approximately $4 billion per year out of pocket to purchase insurance from the private sector.[15] All that being said, crop insurance, year over year, has provided a meaningful, timely and flexible program that fits individual producer demands.

Federal crop insurance is based on fundamental market principles, which means high risk areas and high value crops pay higher premiums for insurance. This emphasis on crop insurance and risk management has replaced constant demand for ad hoc disaster assistance, which is subject to congressional wrangling, and is paid for entirely by the taxpayer, while not being delivered in a timely manner. In addition to price and yield declines, the program helps farmers and ranchers facing market conditions greatly impacted by foreign subsidies, tariffs, and non-tariff trade barriers. This committee must protect the integrity of crop insurance for the benefit of farmers and ranchers.

Challenges within the Safety Net:

There are a number of Title I programs that deserve additional attention by this committee. There can be no doubt of the yeoman's work that USDA did in compiling data on all crops in all counties for use in the ARC program. But problems remain. One problem is the program itself.

ARC has had a number of problems including sign-up problems associated with administrative counties. For the benefit of producers and program integrity, FSA worked with grower groups to resolve the problem for the benefit of producers and administrators alike. At the same time, we are also dealing with issues that have not been solved, including ARC county yield data. We have seen cases in North Dakota, Texas, Colorado, Kansas and South Dakota where the benchmark yields and current year yields are from differing sources and are not providing representative revenue calculations.

NFU, along with other grower groups, are requesting administrative policy revisions. These revisions include: an allowance for current year county yields to be determined using comparable source yield data that was used for both the benchmark and current year yields, and changes to the "ARC-CO yield cascade policy." The change in cascade should be as follows: NASS county yield, NASS adjoining county yield, and determinations made by State Committees utilizing RMA yield data, unpublished NASS yield data, NASS district yield data and NASS state yield data.

The PLC Program is simple to administer and understand and has faced no substantial implementation issues. NFU supported this committee's work as it pushed for the promotion of PLC in the 2014 Farm Bill. We had serious concerns over ARC. Price protection and weather protection should be separate, with ARC there is a mixture of the two that have caused problems from our perspective. NFU would have liked to see a single program in the form of PLC that contained higher reference prices with crop insurance serving as the backstop.

NFU has also heard from dairy producers with concerns over the Dairy Margin Protection Program (MPP). While this program was always intended to be a risk management tool in a sector that historically relied on direct payments, it has nonetheless fallen short of expectations. Dairy farmers are experiencing an extended period of very low milk prices and MPP has been unable to provide meaningful relief for farmers during this period of low prices and surplus production. We have serious concerns that if this problem goes uncorrected more dairy farms will go out of business. We hope this committee can begin to examine a reasonable dairy price setting mechanism that takes into account production costs and an incentives-based inventory management program. NFU would like to see the committee hold regional hearings to discuss dairy pricing and regional feed costs.

The last Title I program that our members have concern over is the Stacked Income Protection Plan (STAX). The current economic situation for cotton is anemic and is threatening to cause long-term and potentially irreversible

[15] Crop Insurance Coalition - Protect Crop Insurance. (2016, March 16). Retrieved April 12, 2016, from http://archive.constantcontact.com/fs158/1103508273436/archive/1124126672578.html

damage to the industry and the associated infrastructure. Losses in cotton areas translate into pressure on associated businesses, infrastructure and rural economies. The infrastructure for the U.S. cotton industry (gins, warehouses, marketing coops and merchants, and cottonseed crushers and merchandizers) will continue to shrink unless there is a stabilizing policy for cotton to help sustain the industry in periods of low prices such as currently exists today.

Cotton futures prices are trading in the 55 to 60 cent range, the lowest levels since 2009. Concerns about world demand, burdensome global stocks, a stronger U.S. dollar and general price pressure in commodity markets are all factors in the current price environment. Lower prices for cotton lint and cottonseed contributed to a decline in U.S. average market revenue of $156 per harvested acre in 2014 compared to 2013 levels. For the 2015 crop, market revenue from cotton fiber and seed will fall short of USDA's full costs of production by more than $230 per acre.[16]

NFU believes that STAX is not sufficient to solve the current situation on its own. To start, STAX only covers roughly 29 percent of cotton acres.[17] NFU, along with other allies including the National Cotton Council are supportive of classifying cottonseed as an "other oilseed" for the purposes of ARC and PLC. We recognize there has been a debate over current USDA authority and would urge USDA and Congress to find a meaningful path forward. We also hope congress can work with the USDA to expand its authority to assist producers as well as USDA working within its existing authority to provide relief.

Bright Spots:

During these difficult times there will be many of conventional producers who will manage to get through the down farm economy and in some cases come out stronger in the end. There are also bright spots in the farm sector where there is additional growth. Organic and local foods sectors continue to grow and seem, for the most part, to be less subject to falling prices. This committee, which made record investments through the 2014 Farm Bill, deserves credit for the current landscape in these sectors. These investments include $11.5 million annually for the National Organic Certification Cost-Share, $20 million annually for the Organic Agriculture Research and Extension Initiative, $5 million over the life of the Farm Bill for the Organic Production and Market Data Initiatives, $5 million for the National Organic Program technology upgrades and $30 million annually for the Farmers Market and Local Food Promotion Program.[18]

With the help of this committee and the 2008 and 2014 Farm Bill investments, there are now 21,781 certified organic operations in the U.S. According to data released by the Agricultural Marketing Service's (AMS) National Organic Program (NOP) in the beginning of April, the number of domestic certified organic operations increased by almost 12 percent between 2014 and 2015. To further highlight the increase in demand, the organic sector has undergone nearly 300 percent growth since 2002. USDA, with the help of congress has provided more than $1 billion in investments to over 40,000 local and regional food businesses and infrastructure projects since 2009. Sales estimates of local food have totaled $12 billion in 2014, up from $5 billion in 2008.[19]

Conclusion:

There are many challenges facing agricultural today. This committee has a challenging task ahead of it as it begins to grapple with these problems especially as it looks to crafting the next farm bill. The safety net needs to be protected from those entities that would like to see it torn apart. There must also be recognition on our part that these programs are not perfect and will need to be modified where necessary, for the benefit of producers. At the same time some areas

[16] National Cotton Council of America. (n.d.). Retrieved April 12, 2016, from http://www.cotton.org/
[17] Shurley, D. (3 Dec, 2015). STAX: A by-the numbers look at its first year for cotton farmers. Southeast Farm Press.
[18] *H.R. 2642*
[19] *USDA Reports Record Growth In US Organic Producers.* (2016). Washington, D.C.: U.S. Dept. of Agriculture, Office of Communication.

of agriculture are doing well. Our collective challenge is to continue working to provide help when and where needed – and to encourage the continued growth and success of our most vital industry – agriculture.

Thank you.