National Farmers Union

UNITED TO GROW FAMILY AGRICULTURE

April 4, 2017

The Honorable Michael Conaway
Chairman
House Committee on Agriculture
1301 Longworth House Office Building
Washington, DC 20515

The Honorable Collin Peterson
Ranking Member
House Committee on Agriculture
1305 Longworth House Office Building
Washington, DC 20515

The Honorable Austin Scott
Chairman
Subcommittee on Commodity Exchanges,
Energy, and Credit
1301 Longworth House Office Building
Washington, DC 20510

The Honorable David Scott
Ranking Member
Subcommittee on Commodity Exchanges,
Energy, and Credit
1305 Longworth House Office Building
Washington, DC 20510

Dear Chairman Conaway, Chairman Scott, Ranking Member Peterson, and Ranking Member Scott:

Thank you for holding today's hearing entitled, "*The Next Farm Bill: Credit Programs*." As you are well aware, the current state of the farm economy requires robust access to credit. As this committee works towards the drafting of a new farm bill, ensuring that the credit programs match the current and future needs of farmers and ranchers is particularly important.

Economic indicators of farm and ranch health have continued to erode from the highs experienced in 2013. Since that peak, net farm income has declined by 50 percent, putting significant stress on agricultural operations. If uncorrected, this multiyear downward trend will do even greater harm to family farmers than what we have already witnessed. The U.S. Department of Agriculture (USDA) projected financial liquidity measures, including working capital, are forecasted to weaken again in 2017. National Farmers Union (NFU) is concerned over increases in non-performing loans, decline in real estate values, higher collateral requirements, weaker debt-to-asset ratios, increased rolling of short and medium-term debt into long-term debt, and high demand for Farm Service Agency (FSA) loans.

When credit markets tighten demand for FSA loans increases. We have witnessed demand spike over the last two years. As of March 28th, FSA had made 19,696 loans for a total of roughly $2.9 billion. Current lending levels have FSA on track to match last year's record spending, when FSA ran out of money and had a severe backlog of applications at local offices. As an example, guaranteed ownership loan demand increased by $500 million.

Last year's continuing resolution (CR) provided FSA additional flexibility to meet increased demand from one fiscal year to the next. FSA is running out of money provided by the last CR and is now requesting permission to utilize the flexibility granted last year. The core problem is that the portfolio needs additional resources to meet demand. As this committee looks to the next farm bill, NFU urges you to keep this increasing demand for agricultural credit in mind.

In addition to increased demand, NFU also urges this committee to examine current loan limits. NFU supports increasing individual limits for FSA loans. Our members' attention is particularly focused on the direct loan portfolio. Current limits of $300,000 are no longer adequate and are not reflective of the costs of operating or owning a farm. Within the guaranteed portfolio, our members support a modest increase in the lending levels to better align with current market conditions. All of our support for increases is predicated on additional funding for the entire loan portfolio. Increasing the individual limits without increasing overall funding levels would end up doing more harm than good.

Another important consideration for this committee is the current state of FSA loan office capabilities. Serious investments into updating FSA's information technology tools are required. Basic abilities, like checking loan balances online, do not exist. Additionally, in 2019, 40 percent of FSA loan officers will be eligible for retirement. Should there be widespread retirements among the 1,100 staffers within FSA's loan division, the ability to service existing loans will be severely eroded.

An important part of the next farm bill will be to build off the beginning farmer progress made in the last farm bill. There is strong demand for new and innovative credit programs that are responsive to the needs of beginning farmers. Our beginning farm members benefited from the higher microloan limits and the loosened administrative requirements for eligibility. Since inception, FSA has made 25,070 Direct Operating Microloans for a total of $574.5 million and 274 Direct Farm Ownership Microloans for a total of nearly $10 million. In the context of the current farm economy, demand for these programs will continue to grow and funding levels will need to be more robust. Protecting existing and expanding future credit options for beginning farmers is essential.

Our members have shared stories of private loan officers creatively working to provide needed credit. At the same time we have heard other situations where our members, despite having strong debt-to-asset ratios, are increasingly challenged to obtain operating credit without selling off assets. As this trend continues, FSA loans will be more important than ever. Ensuring FSA has the necessary tools is critical for the continued viability of distressed farm operations.

As financial indicators continue their slow decline, the work of this committee becomes ever more important. NFU appreciates the committee taking the time to better understand credit conditions and programs vital to producer health. We look forward to continuing our work with this committee for the benefit of America's farmers and ranchers.

Sincerely,

Roger Johnson

Roger Johnson
President, National Farmers Union