

Statement of Mr. Scott Marlow
Rural Advancement Foundation International-USA
Before the U.S. House of Representatives Committee on Agriculture
Agricultural Credit: Setting the Stage for the Next Farm Bill

April 4, 2017

Subcommittee Chairman Scott, Ranking Member Scott and Members of the Subcommittee, thank you for the opportunity to testify regarding the state of agricultural lending and the importance of farm credit programs to our nation's farmers and rural communities. My name is Scott Marlow, and I am here today on behalf of the Rural Advancement Foundation International (RAFI), our partners in the National Sustainable Agriculture Coalition, and our partners across the country who work one-on-one with farmers in crisis to help them stay on the farm and in their homes.

About RAFI

RAFI is a non-profit organization based in Pittsboro, North Carolina. We work from the very local to the international level on policies, markets and communities that promote sustainable, socially just family farms. But for this afternoon, I am representing our Farm Advocacy Program, which provides in-depth financial counseling to farmers in financial crisis, and assistance for individual farm families to help them navigate the complex world of agricultural lending regulations, lending institutions and federal programs. RAFI staff members have responded to farmers' calls since the Farm Crisis of the 1980's, and have had the privilege of serving farms ranging in size from 2 acres to 20,000 acres, representing the full diversity of agriculture in our home state of North Carolina and across the southeastern United States. In addition, approximately 40 percent of our cases each year focus specifically on planning for the great challenge of bringing the next generation back to the farm. We are also privileged to be a part of a network of farm advocates from across the country, connected through Farm Aid and their 1-800 Farm-Aid crisis hotline, that provide similar services to farmers in need.

In our work with individual farm families, it has become clear that for mid-scale farms to thrive, they need to access markets and products that allow them to increase their return on investment by bringing more of the food dollar back to the farm, and connecting to consumers in new ways. To us this is a core strategy for addressing farm survival, especially in these times of low commodity prices. To that end, RAFI also provides technical assistance and funding to farmers to spur entrepreneurship in order to respond to or develop new markets. Our programs foster creativity and entrepreneurship within rural communities rather than adopting prescriptive solutions. In other words, we work from the understanding that farmers and rural folks are innovative, smart and entrepreneurial and their creativity is a critical asset in solving the complex problems before us.

While Not the 80s, Farmers are Still in Crisis

I am here today to talk to you about the credit needs of those farm families who are currently in or headed into crisis, as well as the unique credit needs of farmers who are creating new or alternative enterprises to ensure the viability of their farm into the future. Several who have testified before me, both today and in previous hearings, have talked about the projections for farm income in the near future. Though I won't take the time here to repeat these underlying assumptions, it is important to note that net farm income for 2017 is expected to be down another 8.7 percent from 2016 – a drop of 50 percent since the high water mark in 2013.

While median farm household income is projected to increase slightly over the next 2 years, median household income from farming is expected to drop from a net loss of \$765 in 2015, a net loss of \$1,328 in 2016, to a net loss of \$1,437 in 2017. Once again, it will become even more important in the future that farm families continue to work off the farm to subsidize their farming habit.

Past witnesses to the committee have taken great lengths to explain why the current situation differs from the farm crisis of the 1980's that so many in the farm sector lived through. While we may not have reached the great upheaval of the 80's farm crisis, I assure you that the fact that it was worse then, is cold comfort to the many farm families who are struggling to make ends meet.

We at RAFI are seeing a different picture. Our calls are up, especially from commodity farmers who have been turned down for their operating loans. The severity and sense of frustration of those calls

have increased. Our partners at Farm Aid are seeing a significant increase in calls this winter, with a 27 percent increase year to date over the same time period and an increase in the severity of the calls. No matter how we measure the severity of the need, whether the number of farmers or the level of crisis of the call, this year is significantly worse than last year.

My first point to you is that these numbers represent families that are struggling to stay afloat, to care for their land and their families, and to find a way to bring their kids back to the farm. Their hope is that they can show their kids that, rather than leaving the farm for a better life, that farming IS the better life. With the current income projections, we know the toll financial stress takes on farm families. While each community and farm is different, we know that this type of farm economic downturn is accompanied by an equivalent increase in rates of substance abuse, depression, divorce and suicide – all tied closely to the availability of credit. Recent studies show stunning increases in suicide and other “deaths of despair” in rural communities since the early 2000s. As you continue to hear reports about farm income and foreclosure rates, I urge you to remember the families of the farms behind the numbers, and the devastating impact on Rural America that the financial crisis leaves.

Improving FSA Loan Programs

We have seen repeatedly that in times of financial duress, USDA Direct and Guaranteed loans take on added importance, both in their continued existence, and in how they are implemented. Three things must be true for these loan programs to be effective. First, there must be **sufficient funding** in the programs to meet the current and projected demand. Second, there must be **enough people** to administer these programs at the county level. And, finally, those people must **administer the programs well**. Two of the three, sufficient funding and sufficient staffing, are up to Congress. Both are inadequate at this time and will fall further short if changes are not made.

Timely Funding: Right now, we are working with 15 farm families whose loans have been approved, but are waiting on funding. In fact, farm loan programs have run out of funding repeatedly in recent years, leaving farm families waiting on loans and being forced to take steps to be able to farm during the delay – like credit card debt or delaying paying other bills – that significantly harm the feasibility of their loans over time. A farm does not wait on politics. The seed does not

wait, and the weeds and the bugs do not wait. When a loan is delayed, the family cannot farm in a timely way, or is forced to find funding through alternate means like high-interest credit cards that will only exacerbate their financial situation. I cannot stress enough how critically important it is to farmers that credit programs are administrated in a timely way, and that USDA farm loan programs have the flexibility to access the funds they need when they are needed.

Loan Limits: Some lenders have urged you to increase FSA loan limits across the board as you consider the next farm bill. We strongly urge you to resist that idea. Any policy changes proposed relating to the appropriate cap on federal loan amounts should be measured against current program usage and demand, historical funding levels, and performance targets with respect to lending to beginning farmers and other underserved customers.

The loan limits on Direct Farm Ownership Loans, for example, have not been adjusted since 2008, while farmland real estate values have increased by 40 percent over that same time. Taken together with the fact that FSA has not obligated all of the available funding for these loans in recent years, Congress should seriously consider increasing these limits to provide new and beginning farmers a better chance to get started in areas with high real estate values.

However, for all other FSA loan programs, there has been excess demand at the current statutory loan caps in recent years. Demand for loan funding was especially high in 2016, and required an additional emergency appropriation to address the significant backlog of farmers seeking FSA financing to cover year-end operating expenses. We don't expect 2017 to be any different from last year, and FSA faces a real threat of running out of loan funding again this year unless Congress provides additional funding. The only loan program that did not expend all of the appropriated funds in FY16 was Direct Farm Ownership loans.

In addition to the excess demand for FSA financing at the current loan caps, the average loan size for both direct and guaranteed loans is far below the current statutory loan cap. In other words, demand is quite high for loans far below the current caps and that is unlikely to change.

These trends illustrate how important FSA financing is for small and mid-sized family farms, beginning farmers, minority farmers, and others who are not well served by commercial credit. If

loan caps are increased across the board in the next farm bill in order to accommodate the needs of the largest farms – those with the best chance to find private sources of credit and capital – family scale farms, including beginning and socially disadvantaged farmers, will ultimately feel the brunt of the impact and face fiercer competition for a limited pool of federal loan funding. Those borrowers deserve to be the focus of your concern.

Additionally, statutory target rates for beginning and socially disadvantaged farmers are currently not being met across all loan programs – with guaranteed lenders performing the most poorly. While FSA direct loan programs have met their statutory targets for beginning farmers in recent years, private lenders receiving guaranteed loan funding have been unable to meet their statutory targets since the target participation rates were put in place by Congress in 1992. This strongly suggests that any increases to guaranteed loan limits will benefit the largest operations at the expense of family scale and beginning operations, who face a much more difficult time securing financing in the commercial credit market. Any increase to guaranteed loan limits will mean that private lenders will only be further away from meeting their targets.

In order to extend scarce funds, USDA lending does and should leverage lending from private banks, acting as risk mitigation for private loans, rather than providing the entire loan package. To increase the loan limits would ultimately reduce the number of farmers served with limited loan funds. In addition, we are very concerned that increased limits would encourage beginning farmer investment in very large single-use facilities that leave them over-leveraged and dependent on single markets, placing all of their family's assets at risk as collateral.

FSA Capacity: Across the country, Farm Service Agency offices are woefully understaffed. In one FSA district office in North Carolina, just three loan officers are servicing 280 existing loans and approximately 85 new loan applications across 14 counties. Our understanding is that this is not unusual across the system. The programs that county staff are administering are more complicated and the loan applications more difficult now than they were just a decade ago, especially with the growing interest from diverse farmers who are walking into the doors of FSA for the first time. FSA staffing has not kept pace with the tremendous growth in demand for FSA loan financing. Since 2008, FSA's total loan volume has increased by 30 percent, while staffing capacity has remained relatively flat. What's more concerning is the estimated 40 percent of current FSA loan

officers who are nearing retirement in the next several years. It doesn't matter how much funding is made available for FSA loans if FSA doesn't have the capacity to administer these loans in a timely and effective way.

We work with many caring and skilled people within USDA, from the counties up. They deserve our support. But we must also acknowledge the powerful role that lending officers play in determining the success or failure of a farm, and the responsibility that this role entails. It is critical that Congress, along with the Administration, make clear that abuse or discrimination in the administration of federal programs will not be tolerated, and to maintain clear processes for such abuse, if and when it happens, to be redressed with accountability for the action. I wish that such redress was unnecessary at this time, but that is not our experience out in the field.

Addressing Loan Feasibility

With low commodity prices, farmers will struggle with loan feasibility. There is just not enough of a return on investment to pay back the loan. One of the tools that USDA loan officers could use to increase marginal loan feasibility is the Interest Assist program. In this program, the loan officer can buy down the interest rate of a guaranteed loan by 3 percent if the reduced costs make the loan feasible. The program exists, and funding this program is a cost effective way to extend loan feasibility. I urge you to speak with your colleagues on the Appropriations Committee about funding this important tool.

With long-term low prices and widespread natural disasters, we must also extend the term limits on both direct and guaranteed loans, not just guaranteed loans. Statute and regulations already require that farmers seek credit from private sources before receiving FSA loans and assuring that they will return to private credit as soon as plausible. In this farm financial environment, there is simply not enough profit to expect that farmers devastated by natural disasters or market upheaval would have the ability to recover sufficiently in the time allotted for direct loans. I urge you to make adjustments in the new farm bill.

In addition to the eroding farm financial condition, changes in commodity programs in the 2014 Farm Bill had the unintended consequence of making it more difficult for lenders to include federal

commodity payments in income projections, further eroding loan feasibility calculations. ARC and PLC payments cannot be counted on in income projections because they are calculated after the season based on overall market prices, and lenders do not have the ability to predict these payments.

Similarly, the availability of crop insurance is inextricably linked to the ability to secure credit, and can create a real barrier to accessing credit when crops or enterprises have either ineffective crop insurance policies or no policy at all, as is the case for many of the farmers we work with in the southeast and is true in other regions as well. And while conservation programs help farmers build soil health, they can also create guaranteed cash flow and bring assets that can become part of loan feasibility or collateral. I therefore urge you to maintain and increase funding in the new farm bill for the farm bill conservation programs.

The greatest benefit that farmers can receive to address loan feasibility is a profit. Our current credit and risk management programs primarily support large-scale commodity and livestock operations, all of which at this point are not realizing a significant return on investment. And as long as credit is targeted solely to these areas, then farmers will not be able to generate enough income to bring the next generation back to the farm. In essence, if we only lend the way we've lent, then farmers will continue to be stuck in enterprises that do not bring enough profit back to the farm to support the next generation. What we desperately need are programs that mitigate risk for entrepreneurial activities that allow farmers to tap into new markets and generate more profit. It will be these value-added enterprises that will become the cash flow that farmers so desperately need to support the other parts of their enterprise.

In this way, every issue that you will consider in the next farm bill is affected in some way by the ability of farmers to access credit to make a profit. Credit programs are inextricably linked to bringing the next generation back to the land, farmland preservation, conservation, and national security. In our experience, these issues often boil down to the fact that most of production agriculture in our country today does not provide enough of a return on investment to pay for production costs, living expenses and still invest in the future of that farm – whether it is bringing back the next generation or investing in the health of the soil. For farmers to bring their sons or daughters back to the farm, for them to care for their farmland and provide the food and fiber we need for a growing population and with a dwindling natural resource base, they must have the

opportunity to develop enterprises that bring more of the food dollar back to the farm – and that opportunity requires credit.

The loss of farms, especially mid-scale farms of the middle, is not new. A running joke in my line of work is that if things keep going the way they are going, then one guy is going to farm the whole country and his wife will still have to work in town to buy groceries. And I beg the forgiveness of the committee for the gender stereotype, especially considering that a vital and growing portion of farmers are women. Early in my career, longer ago than I care to admit, I walked a farm in Northampton County, North Carolina with a farmer who was a good bit older than the average age of farmers back then. He described to me the 11 families that in his youth made a living from the land that he now farmed by himself. Some of those 11 families lived in the poverty and exploitation of sharecropping. Others did not. But the land that supported 11 families now barely supported one, and there was not enough net income from the farm to bring his son back until the farmer retired. That story always brings to my mind Isaiah chapter 5, verse 8: “Woe to those who join house to house, who add field to field, until there is no more room, and you are made to dwell alone in the midst of the land.”

In difficult times, it is important to look at the bright spots, and we see many. Bringing more of the food dollar back to the farm means connecting to new markets with new products in new ways. The bankers before you will no doubt confirm the importance of a diversified portfolio. To weather these difficult times, and to allow our rural communities to thrive, farmers must also have a diversified portfolio. Farm families have the creativity and drive to bring entrepreneurship onto the farm, if we invest in them. Part of that investment is loans to enterprises that a few years ago might have sounded a little crazy. It is also understanding the interconnection of credit programs with other USDA programs. Crop insurance is absolutely key to lending, but doesn't cover all crops, and only rarely covers income from direct or specialty markets. USDA grants, like the Value-Added Producer Grant (VAPG) program, reduce the borrowing burden on the enterprise and increase lender comfort with the investment, leveraging private capital. VAPG is a stellar program that increases market returns for farmers and deserves increased direct farm bill support in the new farm bill. Conservation programs create assured income or assets that can be borrowed against while improving soil health. But these programs must be funded, and must work together to encourage entrepreneurship.

The only way that we as a nation are going to move the needle on beginning farmers, land transition, and farm viability is to find a way to add more value to the farm. And in order to do that, aspiring farm entrepreneurs must have access to credit programs that encourage, rather than discourage, value-added agriculture, diversification, entrepreneurship, and innovation.

I know that much of the testimony you have heard has been dire, including mine, and I would like to end with a hopeful story. Last week I spoke with Neil Moye in eastern North Carolina. Years ago, his family realized that their turkeys and hogs and row crops would not bring in enough income for them to bring their son back into the operation. Their answer, which I am sure would give all of you pause, was to build a dairy. With the help of a Value Added Producer Grant, they were able to borrow the money to build a bottling plant. Their son has now returned to the farm and the milk from their Simply Natural Creamery is sold through their farm store and through over 150 stores in their area. Last September, Hurricane Matthew brought devastation to much of eastern North Carolina, and many of their friends were concerned about how the Moyes weathered the storm. They struggled, but not in the way you would expect. For over a week they worked 24 hours a day because their milk was the only milk available to their community, and the communities around them, and was the only milk on the grocery store shelves.

At a time when farm income is low, and projected to remain low into the near future, I encourage you to invest in the hard work and entrepreneurship of our farm and rural families. As you consider the many different programs and titles in the upcoming farm bill, I encourage you to look closely at how they interact with farm credit, and the ability of farmers to stay in business and develop new, entrepreneurial enterprises to address an environment of low commodity prices. With the help of other innovative programs, USDA credit programs can once again fuel agricultural entrepreneurship that will be the lifeline for our future agricultural economy.

Mr. Chairman and Ranking Member, that concludes my opening statement and I am happy to answer any follow up questions you might have now or later for the record.