Testimony of
Doug Thiessen, CEO of Alabama Ag Credit
on behalf of the Farm Credit System
before the U.S. House Committee on Agriculture's
Subcomittee on Commodity Exchanges, Energy and Credit
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Mr. Chairman, Ranking Member Scott, and members of the subcommittee.. Thank you for allowing me to testify today on behalf of the Farm Credit System. My name is Doug Thiessen, and I am CEO of Alabama Ag Credit, headquartered in Montgomery, Alabama.

Alabama Ag Credit makes loans for farmers and ranchers in 40 counties in southern Alabama. We are a cooperative, owned and governed by our 3,600 customer-owners, and have offices in Demopolis, Dothan, Enterprise, Montgomery, Monroeville, Opelika, Selma, Spanish Fort and Tuscaloosa.

Since the full Agriculture Committee just last week held an oversight hearing on Farm Credit, I will only briefly describe Farm Credit. My testimony today will focus on the coming Farm Bill, especially the credit title.

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 will also discuss specific credit title topics including the need to modernize FSA loan limits and the challenges rural communities face as they look to rebuilding their infrastructure.

Alabama Ag Credit 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 77 borrower-owned lending institutions that share a critical mission assigned to them by Congress. These independent, privately owned institutions include four wholesale banks and 73 direct lending local associations, all of which are cooperatively owned by their customers: farmers, ranchers, farmer-owned cooperatives and other agribusinesses, rural utilities and others in rural America.

We have a specific mission, assigned to us by Congress more than 100 years ago, to ensure that farmers and rural communities have a reliable, consistent source of financing irrespective of cycles in the economy or vagaries of the financial markets. Hundred of thousands of farmers around the nation put together a farm operating plan this year knowing that Farm Credit has the financial strength and strong desire to finance that plan and to help them succeed.

There is no federal funding in Farm Credit. Instead, the four Farm Credit System banks together own the Federal Farm Credit Banks Funding Corporation that markets to the investing public the debt securities 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 provides a buffer against the cyclical nature of the industries we serve.

Farm Credit makes extraordinary efforts to support young, beginning, and small (YBS) farmers and ranchers. Each year, the Farm Credit Administration 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 actual new loans originated in 2016. When Farm Credit first began reporting this specific information in 2001, new loan levels 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 made 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 1 million loans of all kinds outstanding, and slightly more than 500,000 of those loans outstanding were to small farmers and ranchers.

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 go beyond just providing loans to YBS farmers, in many cases offering special incentives, education, 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 techniques, and establishing and maintaining effective business plans.
We engage across the spectrum with those entering agriculture, whether they are focused on conventional, organic, sustainable, local food-related operations, direct-to-retail, or other emerging business models.

As I mentioned earlier, Farm Credit is a customer-owned cooperative. 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 passed to customer-owners by way of cooperative dividends, which effectively lowers the cost of borrowing for our customers. For 2016, Alabama Ag Credit returned half of its earnings to our customers. That was $7.8 million we returned to customers this spring and was tremendous boost to the local economy. We retained the other half to strengthen the organization and ensure we can continue meeting the needs of Alabama farm families.

Farm Credit's mission is as vital today as it's ever been. Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. Farm Credit's mission is to help these areas grow and thrive by financing critical infrastructure and communication services and providing farmers and agribusinesses with the capital they need to make their businesses successful. Because a steady flow of credit means more jobs and economic growth, Farm Credit is also helping ensure the vibrancy of communities throughout rural America.

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 over $5 billion in exports of U.S. agricultural products. We make more than $7 billion in loans for families to buy homes in very rural areas.

Rural infrastructure is also a critical part of Farm Credit's mission. Farm Credit finances more than $27 billion in rural infrastructure, including rural electric co-ops, rural water systems, and rural 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.

Last month, this Committee heard testimony from Federal Reserve Bank of Kansas City economist Nathan Kauffman, who described the outlook for the U.S. farm economy as "subdued," with producers realizing a modest increase in financial stress over the past year. We agree.

Commodity prices have fallen while the cost of raising crops has remained high. Many row crop farmers found profits elusive the past three years and are projecting barely break-even or losses for the 2017 crop year. Cotton farmers are even harder hit, with many now facing multiple years of losses. 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. The trend, however, is concerning.

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 were using cash generated from higher commodity prices and borrowing 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 put hard caps on the dollar amount loaned per acre.

Crop input prices, including cash rent, have not yet fallen in step with commodity price declines, squeezing profitability at the individual farm level. While we anticipate adjustments 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 in agriculture, we could not predict with accuracy when this cycle would begin or end. But we knew 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 customers and fulfill 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 but has now fallen back in line with historical averages. While we anticipate some deterioration in our loan quality as this cycle continues, we are 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 give them the best chance to succeed.

We have been working for some time to help our customer-owners plan for the current environment. Many of our institutions, including my own, have allocated more resources specifically to work with producers most impacted by lower commodity prices. We are proactively reaching out and helping our customers understand their financial position so they can work through business plans and make good decisions that, hopefully, lead to the most positive outcome for them. We are restructuring debt to spread out payments and are providing other loan structuring options when necessary and appropriate. We are working to make sure that our members have the best information to help them manage costs and strengthen their risk-bearing capacity.

As price forecasts stay low, most producers' only option is to very closely manage the cost structure of their operations. We are seeing many producers eliminate non-essential expenses, scale back expansion plans, and delay new equipment purchases. This is also a time when supporting key tools such as crop insurance, the current Farm Bill, the renewable fuels standard, and promoting strong export markets has never been more important to maintaining the viability of the industry. Passage of a strong Farm Bill next year is essential.

Farm Credit is committed to remaining reliable and supportive of rural communities and agriculture, just as we have for the last 100 years. That means we are staying abreast of industry cycles, identifying risks, and consulting with our customers about them. We know we must be patient and allow time for adjustments, while potentially exploring enhanced controls on terms, collateral, and conditions as appropriate. We continue to have a positive long-term outlook for U.S. agriculture, with the knowledge that Farm Credit's financial strength and expertise position us well to support our customer-owners through industry cycles.

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 will both need to make adjustments – and we are working hard to take those steps together.

Farm Credit is fortunate that our independent federal regulator, the Farm Credit Administration (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.

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 next year.

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 is food insurance.

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.

A viable federal crop insurance program 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 farmer net income, it is critical for policy makers to maintain a strong farm policy 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 harder for farmers to plant crops and replace capital assets. Economic growth would slow, and rural communities would suffer.

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, 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 a world-class example of something America does better than anyone else. 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 economic health of food and fiber producers, and the rural communities in which they live, is threatened by the lack of a reliable, stable and legal workforce. Our farmers face growing shortages of legally authorized and experienced workers each year. Jobs in agriculture are physically demanding, conducted in all seasons and are often transitory. This shortage of labor negatively impacts our economic competitiveness, local economies, and jobs. Reforms are necessary 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 rose 36 percent over 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 jobs. 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 American jobs will be lost if access to 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 and moving to other countries.

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

Farm Service Agency Lending

As the farm economy continues to soften, programs like Farm Service Agency (FSA) guaranteed and direct lending programs will continue to be important tools for producers, particularly those who are young and beginning. 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 about one-third of outstanding FSA guarantees.

In addition, like others in the agriculture community, Farm Credit institutions are observing an increase in the costs associated with agriculture production. The cost of land, equipment and inputs have all increased in the past several years. As producers look to begin agricultural businesses, grow existing businesses or simply sustain their current operations through this downturn, it is important that FSA direct and guarantee loan programs have appropriate loan limits. That is why Farm Credit supports Rep. Mike Bost's Bale Act, HR 831, which among other things, would increase the FSA guaranteed loan limit to $2.5 million.This update to the current FSA loan limits reflects the increased cost of agriculture and will allow Farm Credit and other lenders to better partner with 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 because 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 both FSA guaranteed and direct loans.

Rebuilding Rural Infrastructure

American agriculture truly 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. 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 getting 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 and 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 pair federal investments, state and local government investments and private sources of capital hold promise.

That is why 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 have 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 our coalition's discussions with White House and USDA officials who seem to understand rural needs are indicate a willingness to seek creative solutions to the infrastructure problems in rural communities.

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.

Rural infrastructure is a critical part of Farm Credit's mission. Our institutions finance more than $27 billion in rural infrastructure, including rural electric co-ops, rural water systems, and rural 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.

Farm Credit has also partnered with community banks and USDA Community Facilities program to finance needed improvements to vital infrastructure projects, including walk-in health clinics, critical access hospitals, and senior care facilities in rural towns. These projects are just examples of how Farm Credit can do more to support rural communities.

Farm Credit's unique cooperative structure means that the customer-owners who sit on our board 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. We believe we can play an even bigger role in rural development, revitalizing rural infrastructure, strengthening the rural economy, and creating good jobs for rural families. While we don't necessarily have specific proposals at this point, we are prepared to work 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.

Thank you again for allowing us to testify here today. We look forward to working with the committee on the Farm Bill and I would be pleased to answer any questions subcommittee members might have.