

Financing Young, Beginning, and Small Farmers: The Farm Credit System

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I am the Vice President for Policy Analysis & Development at the Farm Credit Council, based in Washington, D.C. The Farm Credit Council is the national trade organization representing the Farm Credit System's interests before Congress and others. Congress chartered the Farm Credit System (FCS) in 1916 to finance agriculture. It is a system of farmer-owned cooperatives operating all over the United States. I will provide some general background information about the FCS and then speak specifically to its statutory mission to finance young, beginning, and small farmers and ranchers.

The FCS has just under \$70 billion in loans outstanding in the 194 borrower-owned lending cooperatives that are part of the system. It raises money in the national money markets to fund loans to farmers, ranchers, fishermen, marketing and processing operators, farm-related service businesses, rural homeowners, farmer cooperatives, and rural utilities. Each borrower is a member/owner of its FCS lender.

Of the various lenders that make agricultural loans, only the FCS and the Farm Service Agency exist primarily to finance agriculture. Currently, commercial banks have a 40 percent market share, FCS has a 26 percent market share, life insurance companies have a 6 percent market share, and the Farm Service Agency has a 4 percent market share. Additionally, 24 percent of the agricultural loans are made by individuals and others. The total amount of all agricultural debt is currently about \$170 billion, with agricultural assets totaling about one trillion dollars. As an industry, agriculture is not that leveraged - .17 debt to asset ratio.

The FCS has \$68.6 billion in loans outstanding to 400,000 borrowers. As of July 1 of this year, these loans were made by 187 borrower-owned lending associations, six Farm Credit Banks, and one Agricultural Credit Bank. The lending associations have different lending authorities. The 32 Federal land bank associations make loans on behalf of a Farm Credit Bank. The 40 Federal land credit associations make long-term agricultural mortgage loans on its own behalf. The 63 production

credit associations make only operating and intermediate-term loans such as for the purchase of equipment. The 52 agricultural credit associations can make loans with short-, intermediate-, and long-term maturities. The six Farm Credit Banks obtain the funds from the national money markets and make loans to the associations that in turn make the loans to the farmers, ranchers, and other eligible borrowers. Finally, the agricultural credit bank provides funds to certain associations and also makes loans to farmer cooperatives and rural utilities, and finances export transactions.

As for the proportion of the different types of loans made by the FCS, 49 percent of the total loan volume is for agricultural mortgages. Operating and term loans represent 26 percent of the portfolio, and loans to cooperatives represent 22 percent of the loan volume. International transactions were about three percent of total business as of last year-end.

This has been a general overview of the FCS as a whole. Now I will speak about the FCS's mission to finance young, beginning, and small farmers and ranchers.

Each FCS lender that makes loans to farmers and ranchers is required to have a program specifically targeted to young, beginning, and small borrowers. This requirement is spelled out in the Farm Credit Act and also in Farm Credit Administration regulations. The Farm Credit Administration is the FCS's federal regulator, similar to the Federal Deposit Insurance Corporation, which regulates banks.

Each FCS lender designs its program to address the needs of its market. The programs involve different levels of coordination with other parties and generally focus on two areas: (1) credit and credit enhancement and (2) education and technical assistance.

As for lending results by December 31, 1998:

- 15.2 percent of loans benefited young farmers and ranchers (age 35 and younger)
- 18.2 percent of loans benefited beginning farmers and ranchers (10 years or less experience)

- 55.6 percent of loans benefited small farmers and ranchers

These figures are conservative. The definitions of a young, beginning, and small farmer and rancher were revised by the Farm Credit Administration in December 1998. The revisions were made in order to reflect more appropriately how the FCS serves this target market. FCS institutions were granted until January 1, 2001, to modify their computer systems to accurately identify a loan made to a young, beginning, or small farmer. For year-end 1998 reporting, lenders in a couple of the Farm Credit districts were unable to use the new definitions and instead reported using the old definitions that were more restrictive.

Next I want to share with you the different parties and types of coordination that FCS lenders use in their young, beginning, and small farmer and rancher programs. Most all (88 percent) of the FCS lenders coordinate with the Farm Service Agency. At year-end 1998, FCS lenders reported \$1.1 billion in loans with guarantees. Just under

half of the FCS lenders are involved in state programs. FCS lenders also coordinate training programs with third parties or offer training on their own. Other coordination parties include input dealers/merchants, other FCS institutions (banks and associations), farm groups, the Small Business Administration, and commercial/community banks.

This has been an overview of the FCS and programs that target young, beginning, and small farmers and ranchers. What's in store for the future? You will see the enhancement of existing programs and also more involvement by the Farm Credit System Foundation. The Foundation is a non-profit arm of the FCS that has funded research on issues important to the FCS. Now the Foundation will have a new focus on issues faced by young, beginning, and small farmers and ranchers. Research will continue to occur but it is anticipated that the Foundation will be more involved in outreach and educational activities beginning in 2000.