National Farmers Union

STATEMENT FOR THE RECORD

Submitted to the U.S. Senate
Committee of Agriculture, Nutrition, & Forestry

"The Farm Credit System: Oversight and Outlook of the Current Economic Climate"
May 19, 2016
Room 328A Russell Senate Office Building
Washington, DC

Chairman Roberts, Ranking Member Stabenow, members of the committee,

Thank you for the opportunity to submit a statement for the record and the work this committee is doing to understand the challenges that face agriculture. National Farmers Union (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 access credit. 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, and increased demand for mediation services. This statement will discuss all of these issues 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.

As an anecdote, and to speak to private sector lending by the Farm Credit System, 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 this local lender wanted to drive home to members of this committee is the importance of a strong safety net. It is expected that Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) payments will be higher in the fall for the lending area. Crop insurance, while not a break-even venture, does help shield from down prices. This 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.

Figures from the Bank of North Dakota also point to the challenges faced by producers in the state. The Farm Financial Stability Loan, an important tool within the bank, provides below market interest rates and extended terms to North Dakota farmers who have been impacted by low commodity prices. Loans may be used to replenish working capital, term out operating carryover or restructure existing term debts to provide cash flow relief. The loan program is capped at $300 million. As of May 18, 2016, the loan portfolio has reached $139.7 million, with 312 loans.[1]

At the end of April the Federal Reserve Bank of Kansas City published an updated report of farm lending activity in its Ag. Finance Databook. While the overall position held that farm lending activity remains robust, which fits with the framework outlined above, there was recognition that credit conditions have deteriorated in the first quarter of this year. The report found that large non-real estate farm loans increased. This is likely due to high input costs and lower commodity prices. It also demonstrated a shift in collateral tied to farm loans. Real estate accounted for 22 percent of collateral on non-real estate loans on larger loans, an increase over the past year.

NFU is concerned that the shift may indicate bankers expecting significant challenges ahead and are seeking to improve their borrowing base and reduce exposure to risk from narrower cash flows. Concern also exists over the weaker performance of lending metrics including increases in delinquency rates and demand for loan renewals and extensions. Fed surveys showed sharp increases in demand for loan renewals and extensions, while repayment rates continued to weaken. The softer metrics are likely due to reduced cash flow and short-term liquidity as some borrowers seek to restructure existing loans.[2]

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.[3]

Using 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, slightly lower than actual closing prices in Chicago, local cash prices in Minot for delivery to CHS for May is $2.89. So while the crop budget shows a loss of $2.61 an acre, losses will likely be much worse.

[1] Bank of North Dakota. Retrieved May 18, 2016 from https://bnd.nd.gov/ag/farm-financial-stability-loan-program/

[2] Kauffman, N &Clark, M. *Farm Lending Activity Remains Robust.* Federal Reserve Bank of Kansas City. Retrieved May 12, 2016 from https://www.kansascityfed.org/research/indicatorsdata/agfinancedatabook

[3] 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

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[4]. 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[5]. The cumulative effect of these projections has been negative to prices. When the reports were released last month, 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.[6] We have witnessed some short-term bounces in price due to conditions in South America, but this seems, at least for now, to be short lived.

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.[7] 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, 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.

Mediation:

While we focus on access to credit, we also must be prepared for eventualities when outstanding loans, and a farmer's ability to repay, no longer match up. I urge members of this committee to recognize the virtue of mediation as a valuable tool in any of these eventualities

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

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[4] *Prospective Plantings.* (2016). Washington, D.C.: U.S. Dept. of Agriculture, Economic National Agriculture Statistics Service.

[5] *Grain Stocks.* (2016). Washington, D.C.: U.S. Dept. of Agriculture, Economic National Agriculture Statistics Service.

[6] 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/

[7] Aakre, D. *Think Twice Before Cutting Input Costs.* North Dakota State University Agriculture Communication. Retrieved April 12, 2016

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.

Conclusion:

There are many challenges facing agricultural today. This committee has a difficult task ahead of it as it begins to grapple with these problems. I urge members of this committee to spend more time with farmers and ranchers in their states so they may better understand the local ramifications of narrowing credit conditions and lower commodity prices. I would also strongly urge this committee, in any future hearing about economic outlooks facing producers, to have a more robust panel of producers present. Their stories are more powerful and illustrative of local climates than any combination of metrics that we can offer here in Washington. 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.

Roger Johnson
President, National Farmers Union