February 9, 2023

Statement for the Record

On Behalf of the

American Bankers Association

before the

Agriculture Committee

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Chair Stabenow, Ranking Member Boozman, and members of the Committee, the American Bankers Association (ABA) would like to thank you for holding this hearing on Farm Bill 2023: Commodity Programs, Crop Insurance, and Credit.

The American Bankers Association is the voice of the nation's $23.6 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard $19.4 trillion in deposits and extend $12 trillion in loans. ABA is uniquely qualified to comment on agricultural credit issues as banks have provided credit to the agriculture industry since the founding of our country. Nearly 4,000 banks — 80 percent of all banks nationwide — reported agricultural loans on their books at year-end 2021 with a total outstanding portfolio of more than $179 billion, or approximately 40% of all agricultural credit in the U.S. in 2021. Small loans continue to make up almost half of banks' farm and ranch lending with $69 billion in small and micro farm and ranch loans on the books at the end of 2021.

Banks continue to be one of the first places farmers and ranchers turn to when looking for agricultural loans. Agricultural credit portfolios typically finance a wide array of customers, including large and small farms, urban farmers, beginning farmers, and USDA-defined historically underserved farmers, which include women and minority farmers and ranchers. To bankers, agricultural lending is good business and credit is available to those who can demonstrate a sound business plan and the ability to repay.

In addition to banks' commitment to farmers and ranchers, thousands of farm-dependent businesses — food processors, retailers, transportation companies, storage facilities, manufacturers, etc. — receive financing from the banking industry as well. Agriculture is a vital industry to our country, and financing it is an essential business for many banks.

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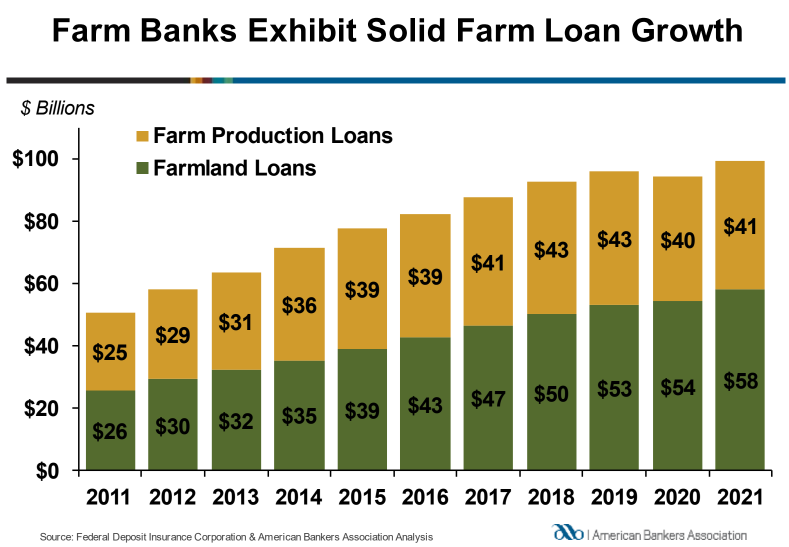
Our nation's farmers and ranchers are critical resources to our economy. Ensuring that they continue to have access to adequate credit to thrive is essential for the well-being of our whole nation. America's banks remain well-equipped to serve the borrowing needs of farmers of all sizes.

I. Farm Banks Held Nearly $100 Billion of Agricultural Loans in 2021

Farm banks[1] make up the largest share of bank loans to farmers, holding nearly $100 billion of the total $179 billion in agricultural loans by banks. Total agricultural lending by farm banks increased 5.5% in 2021, up from $94.4 billion in 2020. The change was attributable to a 7.5% increase in outstanding loans secured by farmland, from $54.3 billion in 2020 to $58.3 billion. By contrast, agricultural production loans increased 2.9% to $41.2 billion.



Rising costs, supply and production bottlenecks, price volatility, and still-elevated government payments depressed demand for agricultural production loans in 2021. Government payments enabled producers to pay down existing loan balances. Land values saw strong growth in 2021 after plateauing for several years. Farmland continues to provide a strong equity base for producers to tap.

Farm banks are also a major source of credit to small farmers, holding more than $43.8 billion in small farm loans, including $9.9 billion in micro farm loans at the end of 2021. This represents 63.5% and 60.7% of all small and micro farm loans originated by banks in the United States, respectively. The number of outstanding small farm loans at farm banks totaled 668,429, including 414,884 loans with origination values less than $100,000.

Farm banks also supported rural communities via the Paycheck Protection Program (PPP). Farm banks made 538,154 PPP loans worth $14.6 billion in 2021.[2] Farm banks distributed these loans

[1] Farm banks are defined by the American Bankers Association as banks whose ratio of domestic farm loans to total domestic loans greater than or equal to the industry average, in 2021 this was 15.07%. Studies before 2012 did not include banks with more than $1 billion in assets, nor savings and loan associations.

[2] Defined as the 1,712 banks whose farm loan concentration was equal to or greater than the unweighted industry average at least once between 2020Q2 and 2021Q2 (14.67%-15.35%).

via more than 7,500 branches across rural America, preserving jobs at local small businesses and providing an important lifeline to the communities they serve.

In addition to meeting the credit needs of their agricultural customers, farm banks experienced strong overall loan growth in 2021. Total loans at farm banks increased 4.2% over the year to $284.9 billion, compared to overall industry loan growth of 3.1% for the year.

II. The Access to Credit for our Rural Economy Act

ABA is a proud supporter of the Access to Credit for our Rural Economy Act (ACRE) Act. The legislation will be introduced by Senator Moran (R-KS) in the near future. This legislation will help to lower lending costs for farmers, ranchers, and rural communities. ACRE would remove the taxation on income earned from interest on agricultural real estate and residences in a population area of less than 2,500. By removing this taxation, banks will be able to lower their interest rates, which helps to lower costs for borrowers. Real estate costs are one of the barriers of entry for young, beginning, and underserved farmers and ranchers. Additionally, access to credit continues to be an issue for rural housing. Enacting ACRE will help provide the additional access to credit that is needed for farmers, ranchers, and rural communities to thrive.

III. Bankers' Priorities in the 2023 Farm Bill

ABA is closely monitoring the 2023 Farm Bill process as the Farm Bill has profound effects on bank customers and the rural communities our banks serve. Bankers use many programs across USDA to help their customers fulfill their credit needs, with the most important programs being the Farm Service Agency (FSA) Guaranteed Loan Programs and Rural Development Guaranteed Loan Programs. ABA works with a committee of bankers to develop Farm Bill priorities, which are detailed below.

> **Increase the loan limits for FSA Guaranteed Loan Programs.** The cost of agriculture continues to increase at a rapid pace, especially for agricultural land. ABA is recommending that the FSA loan limits for guaranteed farm ownership be increased from $1.75 million to at least $3 million to account for rising land prices. Additionally, ABA is recommending that FSA guaranteed farm operating loans be increased from $1.75million to at least $2.5 million to keep pace with the rising costs of inputs. With these proposed increases, bankers will be able to better serve their customers over the life of the 2023 Farm Bill.
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> **Beginning Farmer Programs.** Young, beginning, and underserved farmers and ranchers are a focus area for bankers and ABA. Given the constantly evolving nature of agriculture, beginning farmers and ranchers present different lending challenges and opportunities than in the past. Bankers are observing that beginning farmers and ranchers are getting into a much wider array of farm business types and demanding faster loan turnaround times to stay competitive. Bankers have asked for more flexibility in the

FSA's beginning farmer and rancher lending process to make these loan programs more responsive to customer needs. This flexibility should include less paperwork and the ability to use off-farm income when applying for beginning farmer and rancher loan programs. By reducing paperwork and allowing the inclusion of off-farm income, beginning farmers and ranchers will be able to enter a marketplace that includes more established farmers.

ABA urges policymakers to review and update FSA definitions and interpretations of family farm structures. The modern farm structure continues to evolve and beginning farmers and ranchers can often be left out of credit opportunities due to their structure. Agricultural operations that are structured as a trust, for example, can make it much more difficult for a beginning farmer or rancher to secure an independent loan as they need to use the land in the trust for collateral. Another example is a partnership between a parent and child, but the farm has one farm identification number, which prevents the child from acquiring an FSA beginning farm or ranch loan. ABA believes that the FSA beginning farmer and rancher loan programs should continue to focus on bona fide family farmers and ranchers, but there needs to be flexibility when determining who is eligible under this definition.

Down Payment Assistance Program. As land prices continue to rise, beginning farmers and ranchers will need more assistance to purchase land. The Down Payment Assistance Program provides a pathway for land ownership, but the current limit on the program isn't reflective of market prices. ABA recommends an increase to the dollar limit of the Down Payment Assistance Program to align with the current realities of agricultural land prices.

Interest Assistance Program. Interest rates are much higher than they were during the past two Farm Bills. Congress should consider reinstating the Interest Assistance Program for FSA Guaranteed Loan Programs. This would provide interest relief to the farmers and ranchers who need it the most.

Rural Development Funding. A lack of funding for the Rural Development Guaranteed Loan Programs has made it very difficult for banks to use the program. This has hurt rural communities and disincentivizes banks from using the programs in the future. ABA recommends an increase in funding levels for Rural Development Guaranteed Loan Programs, especially the Business and Industry Guaranteed Loan Program and the Communities Facilities Guaranteed Loan Program.

Technology for FSA Loan Programs. FSA loan programs continue to lag far behind the technological capabilities of banks. This can prolong the loan making process as the loan making systems will lack compatibility. ABA encourages Congress to reexamine the technology needs of FSA loan programs and to provide FSA with the proper funding to modernize their systems.

Conclusion

The banking industry is well-positioned to meet the credit needs of farmers, ranchers and rural communities. Bankers will continue to partner with USDA on various loan programs to help borrowers achieve their goals. Bankers live and work in the same communities as their farmers and ranchers. Bankers are especially invested in creating success for all young, beginning, and underserved farmers and ranchers as agriculture transitions to the next generation of producers.

However, declining commodity prices, combined with high input prices, could negatively affect the farm economy and lead to tighter credit conditions. Therefore, the banking industry looks forward to being involved in the Farm Bill process and will offer assistance to Congress as it crafts that legislation. The changes that we outlined in this testimony will allow the banking industry to support and help strengthen producers into the future. Bankers still see great opportunities in agriculture, and they will stand with their partners in agriculture to develop the best outcomes for all in agriculture. Thank you for the opportunity to express the views of the American Bankers Association.