



May 22, 2019

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Submitted electronically through www.fca.gov

Re: Advance Notice of Proposed Rulemaking – Young, Beginning, and Small Farmers and Ranchers (FR Docket FCA-2019-0007)

The National Sustainable Agriculture Coalition welcomes the opportunity to submit comments on the Farm Credit Administration's Advance Notice of Proposed Rulemaking regarding Farm Credit System's lending to Young, Beginning and Small Borrowers (YBS), as requested in the Federal Register Vol. 84, No. 35 on February 21, 2019 (RIN 3052-AD32).

The National Sustainable Agriculture Coalition (NSAC) is a national alliance of over 45 family farm, food, rural, and conservation organizations¹ that together take common positions on federal agriculture and food policies to advance sustainable agriculture. For the past 30 years, we have worked across a range of federal agricultural policy issues to protect and improve natural resources, expand opportunities for the next generation of farmers, invest in local and regional economies, and scale up agricultural research efforts to build a more sustainable food and farming system.

Many NSAC member organizations work directly with young, beginning, and small and mid-sized producers – including those who serve local and regional markets, as well as socially disadvantaged farmers and other underserved farmers – and understand first-hand the important role that credit plays in supporting the next generation of farmers.

For the past 100 years, the Farm Credit System (FCS) has served an essential role in helping new farms get started, and established farms to continue to secure the operating capital needed to build and grow successful farm businesses. Today, FCS accounts for nearly 43 percent of all farm debt, and is the largest lender of agricultural real estate loans – which is especially important for new farmers looking to acquire their first plots of farmland.

And while serving YBS producers has long been integrated into Farm Credit's mission, it has been difficult to truly understand these lending trends due to over counting and duplicative reporting structures. We would like to thank you for taking steps to address this longstanding issue, and would encourage you to implement whatever changes are needed to improve transparency and accountability to ensure FCS remains committed to meeting its mission to support YBS farmers.

We thank you for your serious consideration of our recommendations, and would welcome any additional feedback we can provide.



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Recommendations – Reporting of YBS Farmer Data

1. Continue to report data for three primary categories: Young, Beginning, and Small (Question 1)

In establishing the Farm Credit System (FCS), Congress included an explicit mandate for FCS associations to serve young, beginning and small farmers.¹ And while lending trends have changed over the past 100 years since FCS was first established and nearly 40 years since the YBS mandate was established, the important role that financing plays for YBS farmers remains to this day.

It therefore continues to be important for FCA to require each FCS institution to report lending trends in each of the three Congressionally-mandated categories for young, beginning, and small (YBS) farmers. As discussed further below, each of these categories are well-known and widely utilized within agricultural policies and programs – including within USDA farm programs, Census of Agriculture data collection and reporting, and federal economic policy analysis. It is important for FCS to adhere to these three primary categories to ensure consistency and relevancy to related programs and policies within the agriculture sector.

However, there is room for improvement in how FCS institutions report YBS lending data to FCA in order to better allow for both further disaggregation as well as more reliable aggregation of lending data across each category.

For example, it is currently not possible to answer the question “How many individual YBS borrowers are Farm Credit System institutions serving?” or “What percentage of total Farm Credit System lending volume is supporting YBS borrowers?”. With advances in data collection and information technology, it is important that FCS institutions identify specific ways that data collection systems can be improved to allow for reporting that provides reliable and transparent measures to answer these fundamental questions.

We applaud FCA for recognizing and taking interest in resolving this long-standing issue of double-counting and lack of transparency regarding FCS lending trends to YBS borrowers. We encourage FCA to identify technological and systems improvements to increase tracking and reporting on individual borrowers who fit into multiple categories (thereby improving reporting on the three existing YBS categories). For example, it may be possible to identify each unique borrower and select which categories apply and simply report the total number of borrowers who meet any of the 3 categories – without double-counting those borrowers who fall into two or more categories when the data are aggregated. It is important for FCA to rectify this error in reporting and to be able to report not only aggregate numbers for Young borrowers, aggregate numbers for Beginning borrowers, and aggregate numbers for Small borrowers (as they currently do), but to also report aggregate numbers for all Young, Beginning, and Small borrowers without double-counting.

However, if FCA finds it necessary to delineate borrowers into more than three categories (such as the seven proposed in the Advanced Notice of Proposed Rulemaking) we would urge FCA to move forward with implementing these changes promptly. Whichever improvements are introduced to improve tracking, it is important for FCS institutions to be able to report unique, aggregate numbers

¹ 12 U.S.C. 2207

for all the three YBS categories to allow continued comparison of trend data both across FCS lending over time as well as comparison to data collected by USDA across these categories.

2. Continue to report on YBS program performance using all existing measures (Question 2).

In order to ensure the continued ability to compare FCS lending trends, it's important that FCS institutions continue to collect and report annually on the total loan volume of YBS loans (both new and outstanding), the number of YBS loans (both new and outstanding), and the number of YBS borrowers (both new and outstanding) that receive credit in any given year. Each of these measures are important and reveal different and unique trends related to the credit needs of YBS farmers.

It is especially important to be able to differentiate between number of YBS loans and number of YBS borrowers/farmers served by FCS institutions. While often these numbers will be fairly close, they are different measures and should be reported separately, and consistently across years to allow for comparison of trend data. Additionally, if the same farm or borrower receives a loan from more than one FCS institution, FCS should not double count these two loans as two separate borrowers, though should include each loan separately in YBS loan count and volume totals.

3. Continue to report YBS “leases and services” separately from YBS loan totals (Question 3).

While it is useful to understand what additional services FCS institutions provide to YBS farmers, these services are fundamentally different than financial capital and should continue to be reported separately from YBS loans. The primary mission of the FCS is to provide sound credit options for agriculture, including YBS farmers, and it is important to continue to be able to measure the availability of credit that FCS institutions provide to these communities.

However, there is additional information FCA should collect from FCS institutions to better measure FCS's performance in fulfilling its YBS mission. This includes:

- Disaggregated data on YBS real-estate loans versus YBS non-real estate loans, across each YBS category
- Total assets (or gross cash farm income) of YBS borrowers²
- Farm type – i.e. grain, livestock, grain-livestock, dairy, spec crops, aquaculture, etc.

While understanding the share of the FCS's lending to YBS farmers, it is also important to be able to differentiate the characteristics of YBS farmers – both within each YBS category and also to non-YBS and non-Farm Credit borrowers.

4. Farm Credit Institutions should use their existing investment authorities to support farm-related investments that support YBS production systems and marketing channels (Question 6).

Congress established the Farm Credit System to provide a dependable and affordable source of

² For example, reported categories could include: (1) up to \$350,000; (2) \$350,000 to \$1 million; (3) \$1 million - \$2 million; and (4) over \$2 million.

credit to rural areas at a time when commercial lenders avoided farm loans. Farm Credit has a statutory mandate to serve agriculture-related borrowers only, with loan eligibility limited to farmers, farm input suppliers, rural homeowners in towns under 2,500 population, and cooperatives.³

When considering how best to utilize FCS's investment authorities to assist YBS borrowers, it is essential to keep FCS's statutory mission to serve agriculture in mind. While the most direct way for FCS to support agriculture is to provide financing directly to farmers to cover annual operating expenses and farmland investments, there are other investments that are needed to support agriculture, and YBS farmers particularly.

For example, the new Census of Agriculture provides an updated and expanded snapshot on the role of young and beginning farmers in agriculture today. Understanding the unique production systems and marketing channels for YBS borrowers is essential in determining how FCS can support investments in agriculture that will best serve YBS farmers. For example, FCS investments that support processing and aggregation infrastructure may increase FCS's ability to support YBS farmers engaged in value-added agriculture or local and regional markets.

Recommendations – YBS Definitions

1. Maintain existing definitions for “Young Farmers” and “Beginning Farmers” (Questions 7 & 10)

While the average age of farmers has increased by nearly 10 years since the YBS mandate was first established, it is important nonetheless to ensure that FCS lending data remains consistent with other farm programs and policies. We therefore urge FCA to continue to use a consistent definition for both “young farmers” and “beginning farmers” with those used by USDA.

Across all programs and policies administered by USDA, a beginning farmer is defined as a farmer who has less than ten years of farming experience (in addition to other program specific criteria that may apply). This is especially important to allow comparison across FCS lending and Farm Service Agency lending to beginning farmers. Similarly, USDA defines young farmers in the new 2017 Census of Agriculture as a farmer under the age of 35, and for the first time, provides specific data on this demographic of farmers. We would therefore urge FCA to maintain the current definitions across both of these categories.

2. Continue to require separate reporting for new loans and outstanding loans made to YBS farmers (Questions 8, 11, and 23).

As mentioned previously, it is important for FCS institutions to continue to collect and report data on new YBS loans (and associated number of borrowers and total loan volume) as well as outstanding YBS loans (and associated number of borrowers and total loan volume) in order to fully understand annual FCS lending trends. However, it is also important to distinguish how the YBS definition may change for any given loan depending on whether or not a borrower moves beyond these definitions throughout the life of their loan.

New loans should be categorized as YBS only if the borrower meets the criteria for Young, Beginning, or Small at the time of loan closing. However, for outstanding YBS loans, FCS

³ Monke, J. (2013) *Agricultural Credit: Institutions and Issues* (CRS Report No. RS21977)

institutions should not continue to count farmers in these categories for the entire life of the loan if borrowers transition out of any of the YBS categories. Outstanding loans should be an accurate snapshot of the current composition of YBS borrowers/loans/total loan volume at any given time.

For example, if a farmer is 30 years old and closes on a FCS real estate loan, that loan should count as a new Young Farmer real estate loan for that calendar year in which the loan was closed. It should also count as an outstanding Young Farmer real estate loan for the next 5 years. However, once the borrower turns 36, the loan should no longer be counted as an outstanding Young Farmer loan, since the borrower no longer meets the definition established for Young Farmer loans. Similarly, if the same farmer had 5 years of experience when closing the loan, they should be counted as a Beginning Farmer loan for the next 5 years, until they acquire 10 years of farming experience.

3. Provide additional clarification for Young and Beginning Farmers to include farmers who are exposed to production risk in the farm operation (Questions 9 & 12).

In addition to the age and experience definitions currently in place for Young and Beginning Farmers, the extent to which a farmer is exposed to production risk in a farming operation should be added as an additional criterion in determining whether or not a farmer is deemed Young or Beginning.

FCA should not require a Young or Beginning farmer to own farmland or have partial ownership or financial control in the operation in order to qualify as a YB farmer. However, it is appropriate to expect that they would be exposed to some production risk in the operation and is therefore a more reliable measure.

4. Only include entities in YBS reporting if a majority of the entity is owned by Young and/or Beginning Farmers (Questions 22 & 23).

With regard to FCS lending to operations that are owned by a legal entity rather than one principal owner, FCS institutions should only count loans as meeting the Young or Beginning threshold if: 1) the loan is made directly to a Young or Beginning farmer; 2) the loan is made to a legal entity whose majority ownership is comprised of Young Farmers; or 3) the loan is made to a legal entity whose majority ownership is comprised of Beginning Farmers. Additionally, a determination on whether or not an entity meets the threshold for Young or Beginning Farmer loans should be established at time of loan closing.

5. Modify definition of “Small Farmer” to ensure consistency with sales thresholds adopted by other government agencies (Question 13, 14, & 15).

The structure and size of farms in the U.S. has changed drastically since the FCS was first established over 100 years ago. And while it remains a mission of the FCS to continue to serve Small Farms, what is considered a Small Farm has likewise changed significantly.

According to the most recent Census of Agriculture, 88 percent of farms had less than \$250,000 in total agricultural sales in 2017 – which is 8 percent fewer than 2002. And while the vast majority of farms are still considered “small farms” using this threshold as the definition, a greater share of

farms is exceeding this threshold. Between 2002 and 2017 for example, there were 70 percent more farmers exceeding \$250,000 in annual agricultural sales.⁴

Several other federal agencies have responded to this changing trend in the structure of agriculture and size of farms by updating their definitions of what is considered a small farm. For example, in 2013 USDA's Economic Research Service (ERS) updated its farm classifications based on sales to include farms that have less than \$350,000 in Gross Cash Farm Income (GCFI) to be defined as "Small Family Farms."⁵ Similarly, USDA's National Agriculture Statistics Service (NASS) used this same definition when reporting economic classes of farms based on data from the 2012 Census of Agriculture.⁶

In addition, both ERS and NASS base their sales classes and small farm designations on Gross Cash Farm Income (which includes government payments and other farm-related income), whereas the FCS simply utilizes annual gross sales of agricultural products in determining eligibility as a "Small Farmer". According to ERS, the reason for this shift in 2013 was to allow a more accurate measure of the revenue actually received by the farm business – especially in the case of livestock contracts.⁷

We recognize that changing any definition will make it more difficult to compare trend data, at least initially. We would therefore encourage FCA to work closely with USDA to ensure consistency in both what is measured (Gross Cash Farm Income versus gross sales) and what sales thresholds to use. Additionally, FCA should clarify the terminology "normally generates" in the Small Farmer definition to instead require a five-year rolling Olympic average to be under the threshold.

In addition, FCA should benchmark farmers at least every 10 years to ensure the definition for Small Farmer remains an accurate measurement within the agricultural sector. However, FCA should do so in consultation with FSA, NASS, ERS and other federal agencies that design and administer programs and policies targeted at small farms.

6. Provide further clarity on agricultural income thresholds for borrowers to meet the "Small Farmer" definition (Questions 17).

While we encourage FCA to consider modifying the maximum income threshold to qualify as a Small Farmer, it is also necessary to evaluate the minimum income threshold. While most small and beginning farmers should be able to demonstrate at least the \$1,000 sales threshold to be considered a "farm" by USDA's definition, it's entirely possible that a beginning farmer may not have any immediate agricultural income. This is especially the case for new livestock or dairy producers, or specialty crop growers (i.e. orchards or other perennials that require a few years to establish yields). In these cases, however, a farm should be able to provide cash-flow projections that show positive income after a few years of becoming established.

⁴ USDA-NASS. 2017 Census of Agriculture. Chapter 1, Table 3 - Economic Class of Farms by Market Value of Agricultural Products Sold and Government Payments: 2017 and 2012. Accessed May 2019:

https://www.nass.usda.gov/Publications/AgCensus/2017/Full_Report/Volume_1,_Chapter_1_US/

⁵ Hoppe, Robert A., and James M. MacDonald. Updating the ERS Farm Typology, EIB-110, U.S. Department of Agriculture, Economic Research Service, April 2013.

⁶ USDA-NASS. 2012 Census – Small Farms. Accessed May 2019:

<https://www.nass.usda.gov/Publications/Highlights/2016/SmallFamilyFarms.pdf>

⁷ Hoppe, Robert A., and James M. MacDonald. Updating the ERS Farm Typology, EIB-110, U.S. Department of Agriculture, Economic Research Service, April 2013.

It is also possible, especially with the increases in severe weather events, that a farm may experience a total crop loss and have no income in a given year. However, FCS should be able to document lost sales through either crop insurance or NAP claims, and should be able to assess whether or not the farmer meets the threshold for Small Farmers.

Therefore, with the exceptions of beginning livestock, dairy or specialty crop growers who do not expect any income in the first few years of production and for small farmers who can document a total crop loss, we would urge FCA to require all other borrowers to demonstrate at least \$1,000 in agricultural income to be classified as a small farmer. Additionally, a borrower should not be considered a small farmer if they own agricultural land but generate no agricultural income, unless the loan is to finance a crop share landlord.

Additional Recommendations

1. Establish lending targets for socially disadvantaged farmers (including YBS) and develop robust tracking and reporting mechanisms to measure progress in FCS institutions in meetings these lending goals.

Access to credit remains a top issue facing farmers of all kinds. This includes not only YBS farmers, but also socially disadvantaged farmers (SDA) – including lending to both women and farmers of color. While not included in the statutory reporting requirements on YBS programs, it is equally important for the public to understand how well FCS institutions are meeting the financial needs of women and minority farmers across the country – especially during this time of increased economic stress with the agricultural sector.

Congress recognized and responded to this lack of transparency in commercial lending to these communities by including two separate provisions in the 2018 Farm Bill to increase data and reporting on SDA lending. Section 5413 of the farm bill establishes more robust reporting requirements for both direct and guaranteed FSA loans – the latter of which includes some FCS lending. Additionally, Section 5416 directs the Government Accountability Office to investigate specific barriers socially disadvantaged farmers face in accessing credit from commercial lenders (including FCS institutions) and provide recommendation for how private lenders can improve outreach and services to these underserved borrowers.

We appreciate the difficulties presented by OMB directives in this regard, but believe the FCS and FCA nonetheless have the ability to fulfill this important social obligation through a variety of means. We encourage you to seize the opportunity now, while engaging on this rulemaking.

2. Establish a goal for FCS institutions to reinvest 10 percent of profits to better support Young, Beginning, and Small Farmers, as well as other underserved farmers – including those serving local and regional food markets.

As a Government Sponsored Enterprise (GSE) backed by an implicit government guarantee, FCS receives significant tax and funding advantages that have resulted in significant profits for the system – hovering around \$5 billion in net income over the past 5 years.

However, unlike other similar GSEs, such as the Federal Home Loan Bank System (FHL Bank), FCS is not required to invest any of their net income in grants or other forms of community reinvestment in exchange for its status as a GSE. In contrast, the FHL Bank system, is required by

law to set aside 10 percent of their net income for Affordable Housing Grants, and has provided nearly \$6 billion to support affordable housing since its creation in 1989. In contrast, the FCS's net income is either retained to strengthen the FCS's capital position or distributed to members in the form of dividends, but without any major reinvestment activities.

Building on the adoption of the "Diversity and Inclusion" booklet promulgated by the FCA in 2012, FCA should require FCS institutions to reinvest a percentage of their net income in the form of grants to support the broader goal of FCS serving all of agriculture – including young, beginning, and socially disadvantaged producers, as well as those farmers contributing to local, regional, and value-added market channels that allow these farmers, and the communities they serve, to thrive.

Grants and other forms of community investment could be provided to both for-profit and non-profit entities to support various activities essential to the development of farm incubators, viable farm businesses, individual development accounts, value-added enterprises, efficient supply chains, and local/regional food systems. Each FCS institution could be required to oversee such efforts through the establishment of advisory boards that includes FCS members and outside stakeholders, that adopt strategic plans and sub-goals for meeting the overall reinvestment requirement targeted to the particular needs of the region being served by the FCS institution.