The Farm Credit System:

Can Agriculture's GSE overcome a history of missed opportunities and fulfill its mission from Congress?

Public comment from Bob Heuer; Evanston, IL; robertjosephheuer@gmail.com

Submitted to Farm Credit Administration pursuant to this 2/21/19 Federal Register notice for: "A Proposed Rule by the Farm Credit Administration: Advance Notice of Proposed Rulemaking-Young, Beginning, and Small Farmers and Ranchers."

The federal regulatory agency, Farm Credit Administration (FCA), is requesting comments on "ways to collect, evaluate, and report data on how the Farm Credit System (FCS or System) is fulfilling its mission to finance and provide services to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products (YBS Farmer(s))." Additionally, comments are sought on how FCA should "define or clarify key terms associated with the collection and reporting of YBS data."

I write as a private citizen. I am an independent journalist, consultant and community activist. Over the last 30 years, I've contributed farm finance news reports to various agricultural and financial publications--including USDA's *Rural Cooperative*, the American Bankers Association's (ABA) *Journal of Agricultural Lending,* the Independent Community Bankers Association's (ICBA) *Independent Banker,* and the digital magazines *Civil Eats* and *New Food Economy*. A decade ago, I consulted for the FCS's national trade group (Farm Credit Council or the Council) as it was creating a position to facilitate YBS programming throughout the System. I've consulted for FCS affiliates, partner organizations and a few of the myriad organizations that would benefit from partnering with the FCS in advancement of their respective missions.

Table of contents

Executive Summary

The FCA--a federal agency established in 1933--states that public input is being gathered to inform an internal process that's being developed to provide "better guidance" to the FCS on how "to improve their service" to YBS borrowers.

The FCA may want to consider beginning its inquiry into how FCS collects, evaluates, and reports YBS data begin with a full examination of where the facts may lead in response to at least these three questions:

- What overarching strategy guides the FCS's internal policies to develop organizational YBS planning and programming?
- How does that policy translate into strategy to maximize the impact of the FCS' service to America's YBS demographics?
- How can FCA's qualitative metric--"coordination with third parties"--be best utilized to fully connect the FCS's resources to the needs of YBS borrowers?

This brief will provide a thumbnail history of the century-old FCS which was established as an outcome of a 1916 Act of Congress to become the country's first Government Sponsored Enterprise (GSE). This special relationship to the federal government was furthered in 1980 when Congress enacted YBS legislation. Congress did not, however, include specific legally enforceable mandates to inform FCA regulatory processes. Examples will be cited showing that the FCS consistently falls short on its YBS work, and that the FCS lacks recognition and identity in the broader marketplace.

The FCA can address this problem through an updating of the YBS rulemaking process that leads to sharper definition and clarification around the term "coordination with third parties." This qualitative YBS metric could be the lever to build FCS capacity to support market-based food, nutrition and agricultural initiatives that are taking root in rural, exurban, suburban and urban communities nationwide. This FCA-led process can generate useful knowledge to inform the 2022 Farm Bill process undertaken by both the U.S. Senate Committee on Agriculture, Nutrition, & Forestry, and the U.S. House Committee of Agriculture.

A century ago, Congress made the right move through legislation establishing both the Federal Reserve System and the federal Farm Loan Bank system within a three year time frame. And it made the right move in 1980 by establishing YBS policy. In 2017, the Federal Reserve teamed up with USDA to produce "HARVESTING OPPORTUNITY: The Power of Regional Food System Investments to Transform Communities." The book includes a chapter containing valuable market intelligence for many current and prospective YBS borrowers. This information wasn't widely disseminated due in no small part to a lack of coordination between the FCS and the Federal Reserve.

The FCA's current rulemaking process can help improve the FCS's comprehensive delivery of financial services to YBS populations. The process can also inform steps for Congress to consider to help ensure constituencies in America's financing system better align their own business imperatives with the growing needs for food, nutrition, and agricultural initiatives.

The FCS can ensure its relevance in the 21st century marketplace through strategic coordination with myriad third parties whose own missions involve serving the needs of tens of millions of people from rural, exurban, suburban and urban communities nationwide. More effective deployment of the FCS' financial services and capital can also facilitate more robust commercial and community banking participation in efforts to make market-based food, nutrition and agriculture initiatives a driver of the next generation of community development in the U.S.

Introduction

The FCA is taking an important step by launching a process to improve its approach on YBS. The easy part will be modernizing loan data collection and analysis processes. More difficult--and more necessary--will be creating a regulatory framework that enhances efforts by the FCS to truly its YBS "mission" from Congress.

Over the last century, the FCS has become a well-known and useful resource within conventional agricultural industry circles. These demographics appear to be best served by FCS' YBS programming. However, the FCS remains an enigma within the ever-widening circle of people and organizations discovering an interest in agricultural production.

The FCS does an excellent job serving many constituencies throughout rural America. The FCA's challenge involves ensuring that more effective deployment of the FCS' financial services to the broadest possible range of potential borrowers in all American communities.

FCA's qualitative metric of "third-party coordination" could be the lever to build the FCS capacity to support market-based food, nutrition and agricultural initiatives that are becoming a driver of the next generation of community development in the U.S. That same metric could be used to help ensure broader application of the FCS' financing savvy to support any and all avenues for building YBS markets.

Is the FCS and its regulatory agency up to the task of transforming YBS programming to address America's 21st century food and agriculture needs?

The System's failure to take an active role in the development and implementation of YBS-centric components of the new Farm Bill underscore the limits of the current YBS policy framework. The people of the U.S. would be best served if the FCA uses its YBS regulatory updating process to spell out options to inform Congressional efforts to revisit the FCS's authorities through the 2022 Farm Bill process.

Historical context

The FCS took root in the early 20th century era when the federal government was establishing a national financial system. In 1913, Congress passed--and President Woodrow Wilson signed--the Federal Reserve Act. This law authorized creation of the Federal Reserve System, consisting of twelve regional Federal Reserve Banks jointly responsible for managing the country's money supply, making loans and providing oversight to banks, and serving as a lender of last resort. Three years later, Congress passed--and President Wilson signed--the Federal Farm Loan Act. This law authorized creation of a federal farm loan board, 12 regional farm loan banks and farm loan associations. In those early years, a lending cooperative could consist of as few as several neighboring farmers. The intent was to make a consistent and reliable supply of financing from Wall Street more readily available to rural farm families. That 1916 Act of Congress led to the establishment of the Farm Credit System while spurring formation of coalitions that helped ensure passage of the "first" Farm Bill in 1933.

In the 1976 book "THE FARM CREDIT SYSTEM: A History of Financial Self-Help," author W. Gifford Hoag tells how the FCS became the original Government Sponsored Enterprise (GSE). Starting in 1932 with the creation of the Federal Home Loan Bank, numerous GSEs followed Farm Credit's lead. All have begun with replicating what Hoag described as the "idea of the Government supplying the original equity capital for a financing organization and providing mechanisms for the users to gradually replace it by direct investment or through accumulated net worth reserves or surplus derived from their use of such organizations."

Agriculture's GSE leveraged that initial $9 million federal investment from 1916 to become the dominant U.S. agricultural lender. In 2018, the FCS's combined net income was $5.3 billion.

The FCS obtains its loan funds from the securities sold by its fiscal agent--the Federal Farm Credit Banks Funding Corporation--on Wall Street's capital debt markets.

How safe is the return on investment in a Farm Credit bond? Any prospective investor can find assurance by Googling "Farm Credit bailout."

On December 20, 1987, the Washington *Post* reported Congress had authorized the issuance of up to $4 billion in federally guaranteed bonds for the "debt-plagued Farm Credit System...Lawmakers painted the measure... as aid to the Farm Belt, where some areas are still suffering from a financial crisis that began six years ago. But the measure will also be a substantial boon for those who hold bonds in the nation's largest farm lender, as well as for banks and securities dealers."

A decade ago, the FCS quietly made the final payment of its debt to the federal government. Despite the current downturn in agricultural commodity prices and other challenges facing the industry, the FCS has a strong balance sheet.

That 1987 bailout remains a flashpoint for commercial and community banking groups--especially the American Bankers Association (ABA) and the Independent Community Bankers Association (ICBA). Both the ABA and ICBA frequently charge that FCS uses the implicit guarantee of the federal government to lower its cost of lendable capital. Cheap money enables Farm Credit to undercut banker competition and "cherry pick" well-collateralized borrowers. Farmers with options weren't the intended recipient of federal support through the initial Congressional action in 1916.

Through the years, ABA lobbyists have argued that FCS should lose its GSE status and become another dues-paying member of the commercial banking group. Or, they contend, Farm Credit should focus less on turning a profit and more on its YBS mission. More specific legally enforceable YBS mandates from Congress could be useful to all parties.

The FCS was established to ensure a dependable source of financing for farmers and rural America. In the early years, small farmers were a significant customer base. Yet, over the course of the last century, the FCS has become integral to the growth and development of the agricultural industry. Agriculture's GSE collaborates with representatives of the ABA and ICBA collaborate on many issues--crop insurance, commodity price supports, rural infrastructure. Outside of the federal policy debates, their respective members have a long track record for loan participations as part of a more generalized mutual support for the agricultural industry. This collaboration has not extended to the delivery of services to small farmers who work to supply the growing demand for community-based agricultural products.

Mission from Congress

In 1980, Congress enacted legislation requiring each System association to prepare a program for furnishing "sound and constructive credit and related services" to YBS farmers and ranchers. According to FCA documents, Congress added the YBS section to the System's authorizing legislation to "focus the System's attention on the need to have programs for such borrowers."

In 1999, the FCA finally released a YBS oversight plan. Going forward, the regulatory agency declared that YBS programming would become a "focus area" for agency examinations of System institutions.

In 2002, a General Accounting Office (GAO) report found that the FCA's "oversight of special mission to serve young, beginning, and small farmers needs to be improved." The FCA board agreed to act on the following GAO recommendations:

- Promulgate a regulation that outlines specific activities and standards that constitute an acceptable program to implement the YBS statutory requirement;
- Ensure that examiners fully execute and document examinations, and;
- Publicly disclose the results of individual YBS compliance examinations.

In 2004, the FCA established “minimum components that each System direct lender association must include in its YBS program and added requirements to enhance the reporting and disclosure to the public of the System's YBS programs, compliance, and performance.” That directive stated: “YBS farmers and ranchers, like all those in agriculture today, face a wide range of challenges, including access to capital and credit; the impact of rising costs on profitability; urbanization and the availability of resources like land, water and labor; globalization; and competition from larger or more established farms. Although all agricultural producers face these challenges, the hurdles that YBS farmers and ranchers face are often greater. We continue to believe the System's YBS mission is important to enable small and start-up farmers and ranchers to make successful entries into agricultural production. The System's YBS mission is also critical to facilitate the transfer of agricultural operations from one generation to the next. For all these reasons, the agency remains committed to ensuring that the System fulfills its important public purpose mission to YBS farmers and ranchers.”

In 2006, the ABA released report entitled “The Farm Credit System: Lending Anywhere but on the Farm.” The report called on Congress to “establish explicit public-policy goals for the FCS. The FCS’s present statutory lending authorities are too vague, particularly with regard to the FCS’s YBS lending. The FCS should be required to direct an increasing percentage of its lending to YBS farmers.”

<u>Farm Credit Council</u>

The Council is the national trade group that manages legislative and regulatory matters on behalf of the System. This decentralized, national network of lending cooperatives elects representatives to the Council board which oversees the work of Council staff with such key constituencies as FCA, Congress, USDA and other federal agencies.

In 2008, the Council commissioned me to co-author a YBS report which presented market intelligence and analysis specifically geared toward helping System institutions achieve their YBS mission. The white paper was entitled “GROWING OPPORTUNITY: Outlook for the Local Food Systems Marketplace.” It is my understanding that this was the first financial sector analysis of a popular niche market that was then taking root in communities nationwide.

GROWING OPPORTUNITY’S other co-author was Gary Matteson. A New Hampshire farmer and FCS borrower, Matteson had been an elected board member of his local lending association which later elected him to represented New England on the Farm Credit Council board. After term limits required him to step down from his board positions, Matteson moved to

Washington, D.C. to take a newly established full-time position as the Council Vice President for Young, Beginning, Small Farmer Programs.

Over the last decade, Matteson has facilitated Council efforts to facilitate best practices among the System's YBS programs. He has advanced the System's YBS mission through myriad interactions with both internal and external audiences. I provided consulting support for Matteson's efforts in the initial years of his tenure.

One of the strategic levers to grow the System's YBS loan portfolio involved harnessing the power of local food. The ubiquitous niche market's impact can't be measured by dollar volume alone. It's also a cultural reference point—a conversation starter to build public understanding, investment and policy support for the U.S. food and agricultural industry's contribution to the U.S. economy.

This risk-management aspect of strategic engagement with local food constituencies was first articulated to System audiences in an internal 2010 report that Matteson and I co-authored. "Financing Agriculture as We Find It" encouraged System institutions to view the "YBS mission" as a vehicle to innovate.

The executive summary noted: "...constituencies outside of Farm Credit's core-customer base are gaining a stronger hand in state and federal farm policy and regulatory frameworks. Ensuring that farm profitability remains the core principle in policy debates about sustainable agriculture will depend on proactive interaction with an ever-widening circle of stakeholders.

Agricultural reform efforts will accelerate as the 'local food' or 'good food' movement takes root in urban, suburban and rural communities nationwide. Although this trend represents an implicit criticism of the conventional farm and food industrial system, it also presents an opportunity to build public support for the economic imperatives that will determine the long-term viability of U.S. agriculture. Production agriculture can expand its political influence by linking the concerns of large-scale producers serving global supply chains with those of small-scale producers who have more direct contact with consumers."

Farm Credit's challenge, we observed, was to "find ways to efficiently operate in many market sectors. System Associations have developed the expertise to evaluate any farm business using the impartial terms of profitability, risk and repayment capacity. Understanding the differences between production and marketing models of many types of ag operations based on economic performance allows deeper appreciation of the similarities among all farm businesses."

Farm Credit Council was then teeing up "YBS" as a "mechanism for engagement" to overcome a new dimension of risk management. Third party constituencies certainly liked the idea of partnering with the FCS. Internally, the YBS was floated as "a vehicle for new thinking about how to interact with external audiences and to experiment with new programs and attitudes."

A decade later, the evidence suggests that this new thinking experiment didn't take. Making the FCS an equal opportunity lender to all types of agriculture remains more aspiration than reality.

Mission indifference?

Neither Farm Credit Council nor System institutions appear to have an effective strategy to ensure that YBS programs fully address both local food market needs and growing consumer-driven risk management challenges. Instead, the FCS appears content to convey the perception to YBS constituencies that the burden is entirely on them to qualify for a loan. Never mind the YBS mission's "related services" component which could be construed to justify significant investment in programs designed to grow the pool of creditworthy borrowers.

Through my consulting experience with the FCS, I learned that many individuals Systemwide are committed to YBS mission as a driver for innovation. It's likely that the vast majority do not.

Farm Credit Council's Matteson emerges from a New England small farming culture that is distinct from the predominant business model for industrial agricultural producers elsewhere in the U.S. Years ago, he and his wife bought an abandoned dairy farm in southern New Hampshire and built a greenhouse to supply flowers to the Boston market. Earnings from this small farming business supported their family. Matteson brought the same can-do entrepreneurial resourcefulness to his work for the Council. As the YBS programming lead, he became the consummate networker--connecting third party constituencies throughout the U.S. to appropriate Farm Credit personnel as well as helping direct lending associations meet their YBS mission.

Matteson is widely respected in the local food circles. A local food leader in Austin, Texas says "we need to clone Gary."

In fact, the burden should be on the FCS to invest in more robust YBS programming. Right now, the expertise that Matteson shares on a one-on-one basis does not appear to be linked to marketing program that could ensure broad, Systemwide dissemination. A logical entity to play more of a leading role in the dissemination of YBS best practices would be the System's four banks. AgFirst, AgriBank, Farm Credit Bank of Texas, and CoBank have the authority to supply both loan funds and YBS policy for the System's 50 direct lending associations.

Several years ago, St. Paul-MN based AgriBank organized a series of forums to foster coordination and collaboration among the YBS loan officers at about a dozen direct lending affiliates in its Midwest region. One YBS loan officer told me it was useful to network with his peers and learn best practices. AgriBank ceased the activity after apparently finding no compelling reason to help its affiliates be more effective in their YBS work.

In 2016, Bloomington, IL-base 1st Farm Credit Services commissioned me to produce a "roadmap" to inform internal planning for YBS programming.   The northern Illinois lending network was then in the process of merging with lending associations from Wisconsin and Minnesota to form a new entity. As a result, the report was also intended "to familiarize the new Compeer Financial YBS team with business climate issues shaping the metro Chicago segment of their expanded market territory."

The February 2017 report stated: "Interviews with more than 20 Chicago region farm and food stakeholders informed the creation of this needs/opportunity analysis.   This report identified trends which underscore some of the the changes in the food and agriculture industry since Congress established the YBS mission in 1980. Demand for commercially viable agricultural enterprises now extends from rural and exurban communities into suburban and urban communities. Supplying that demand with appropriate financial services will require interaction with constituencies that have little or no relationship with the System's core customer base. Effective programming will have to reflect the need to inform new audiences that profitability is the basis for sustainable agriculture—whether a producer is in business to supply a market down the street or around the globe."

It is my understanding that subsequent to the merger, Farm Credit withdrew its YBS presence in northern Illinois. It was explained to me that Compeer's YBS staff from Minnesota and Wisconsin would--on an as needed basis--come "south of the border" to handle YBS issues in Chicagoland's booming niche farm and food marketplace.

This apparent executive decision from the new Compeer management supports the argument of the FCS' critics that consolidation prevents the System from adequately serving community needs. It also demonstrates the need for specific legally enforceable YBS mandates. If a commercial or community bank were to withdraw its CRA service from a market area, there would likely be serious consequences. However, on the CRA side of things, Congress has been clearer about its expectations, regulatory agencies have clear requirements, and community reinvestment constituencies have clear recourse to challenge banks that are failing to achieve their CRA mission.

Congressional enactment of a YBS law didn't include any clear directives that enables YBS constituencies to become active participants in any and all efforts to support implementation. The fact is, very few YBS constituencies even understand the difference between Farm Credit and commercial and community banks.

A remarkable number of people--including representatives of many entities that would benefit from "third-party coordination"--don't even know the difference between Farm Credit and Farm Bureau. The latter is a private member organization that serves as something akin to agriculture's Chamber of Commerce. By contrast, Farm Credit is a creature of Congress with federal statutory obligations that make it more accountable to the public interests of agriculture than privately owned banks.

That Congress expects Farm Credit to support YBS demographics was welcome news to one well-established small farmer I spoke to several years ago. This Wisconsinite grows and sells vegetables through such venues as the Madison farmers market.

“We need new financing models,” he explained, adding that agriculture’s GSE should play a bigger role in supporting the work of entrepreneurs building small-scale farming networks capable of delivering large volumes of product to nearby markets.   “Banks create loan terms that are hard for small farmers to meet partly because it may cost them as much to manage a $5,000 loan as a million dollar loan. Farm Credit will have to create a hole that fits the peg of small-farm financing needs. They have the board to do this. It’s called money.”

The trouble is, the FCS doesn’t actively offer its expertise to partner on the development of creative financing mechanisms. The FCA doesn’t convey public information about such activities being within the realm of the System’s YBS mandate. And, perhaps most importantly, no YBS constituency is actively working with the FCS and its regulator to improve the delivery of YBS services to meet clear and compelling market needs.

Dozens of regional councils of government (COG) throughout the U.S. are looking for ways to apply their convening power and research capability to support food, nutrition, and agriculture initiatives in their planning jurisdictions. Few COGs have any idea what Farm Credit System does, let alone that agriculture’s GSE could be a valuable partner in efforts to build community-based local food and farm economies.   And even those that do hit a brick wall.

One story illustrates the point. A regional food system planner invited a senior official from the local Farm Credit to take a seat at the regional planning table. A well-established working group sought to develop marketing and distribution infrastructure needed for small-scale producers to better supply local demand for their products. A YBS staffer did appear at a subsequent regional planning meeting. But this person apparently had no charge from on high to build an ongoing relationship with a roomful of regional food supply chain advocates who are committed to the success of local YBS producers.

FCS’ resistance to adapt programs to the actual needs of YBS constituencies is like asking a school teacher approaching retirement to change curriculum. That analogy came from a Farm Credit borrower who is an investor and businessman supplying Midwest vegetable markets.

A veteran farm policy expert described the problem in Congressional terms. He says that the FCS’ approach to its YBS mandate as an apparent case of “mission indifference.”

Federal Reserve fills leadership void

Comparisons are drawn internally between YBS and the mandates imposed on banks through the Community Investment Act (CRA). In 1977, Congress passed and President Jimmy Carter signed CRA which imposes requirements on commercial banks large and small to remedy "red-lining"--i.e. the practice of refusing to supply credit in neighborhoods with significant African-American populations. (Passage of the CRA led the Federal Reserve System to establish its own community development function in 1981. The Fed's 12 banks each operate a community development division which applies its research capability and convening power around the mission of helping member banks better serve low- and moderate-income households and communities.)

A proactive Systemwide YBS program would have positioned agriculture's GSE as the logical go-to lead to work with USDA to build broad-based partnerships to support regional food system investment. Instead, USDA found a receptive collaborator in the Federal Reserve Bank's Community Development division. (The Fed's 12 banks each operate a community development division which applies its research capability and convening power around the mission of helping member banks better serve low- and moderate-income households and communities. The Fed established this function in 1981, four years after the passage of CRA.)

Starting in 2015, USDA and Fed staff began discussing how to work together to better understand consumers' increasing interest in where their food comes as well as how to leverage their food dollars to support local economies. That led to conversations with numerous experts and the production of a resource to share their findings with the public.

The result was a 2017 USDA/Federal Reserve System book entitled "Harvesting Opportunity: The Power of Regional Food System Investments to Transform Communities." A key finding is that fragmentation in financial services delivery impedes formation of regional food economies that supply consumer demand for products/practices that are healthy for the body, green for the planet, fair for farmers and workers, and affordable for all. Comprehensive funding and finance solutions are needed to accelerate the formation of regional-scale food supply networks that shorten the geographic distance between farm and fork. No entity was identified to provide the missing financial sector leadership.

Two senior Federal Reserve System officials—Lael Brainard, a governor on the Federal Reserve System board and James Bullard, president/CEO of the Federal Reserve Bank of St. Louis—explain In the foreword to *Harvesting Opportunity*: "The importance of partnership and collaboration is a refrain that echoes again and again when working on community and economic development policies, including efforts to advance food systems—partnerships among the regional food systems themselves, the financial institutions that fund them, and the technical assistance providers that help them navigate the marketplace. Each financial partner has a different risk appetite, time horizon, and type of capital to deploy – grants, debt, equity – and each regional food enterprise needs access to different types of knowledge and capital. By combining and coordinating the capital sources and technical assistance providers available, the variety of needs that exist can be addressed."

The underlying economics of small-scale production agriculture was explored by the Council's Matteson in a chapter entitled "The Nature of Local Food System Farm Businesses." Matteson has produced an excellent YBS 101 type of content that Farm Credit Council's marketing staff apparently didn't bother disseminating.

The USDA/Fed organized numerous webinars and regional convenings to discuss the findings. Officials expressed the hope that the book's release would spark a national conversation about food system finance. Yet, they gained little traction for one thing because high-level concepts were not applied on the ground in terms and actions that could be readily grasped by many regional food system practitioners who are hungering for financial sector leadership. Fed officials say the lack of response led them to move onto other subject areas.

New Farm Bill program can drive improvement

The new Farm Bill offers a starting point for financial sector coordination/collaboration through the Local Agriculture Market Program. LAMP cobbles together several established grant programs to achieve the $50 million a year minimum threshold needed to achieve permanent mandatory funding. LAMP includes an earmark of $5M a year through a brand new Regional Partnership Program (RPP). The intent is to grow regional "foodshed" economies by using public seed dollars to leverage larger pools of private capital. Numerous types of entities are eligible to receive grants. The six categories of "eligible partners" include**:** "a philanthropic organization" and "a commercial, Federal, or Farm Credit System lending institution."

LAMP is a YBS-centric Farm Bill program incentivizing financial sector collaboration consistent with the findings from *Harvesting Opportunity*. Nevertheless, Farm Credit Council had no role in developing the legislation and doesn't appear to be collaborating with USDA to design an effective program to ensure that the $5 million in public funds is capable of leveraging significant private resources.

RPP has been described as "proof of concept" federal legislation. The program can't very well succeed without financial sector leadership.

Representatives of Farm Credit Council, the ABA and ICBA have all told me that were barely aware of the RPP even though Congress saw fit to mention each of their members in the statutory language. President Trump signed the Farm Bill in December. The USDA's Agricultural Marketing Service (AMS) and Rural Development are designated to administer different parts of LAMP. Both agencies moved quickly to make grant funds from established programs available. AMS is moving slowly on RPP because it's unclear how best to ensure limited public dollars can maximize private capital. In March, a senior USDA official told me that no input on program design had come from Farm Credit or commercial banks or community banks. Nor had he heard from anyone in philanthropy which also was mentioned in the law.

The 2017 USDA/Fed book can serve, in essence, as a blueprint for how to better align the full range of financial services needed to scale regional food economies. Congress did its part by authorizing seed funds for a regional food economy program in the new Farm Bill. The time is now for America's agricultural finance networks to join together to accelerate the growth and development of niche markets taking root at the community level across the U.S.

The leadership piece is a logical extension of Farm Credit's YBS mission. Adequate financing of regional food production will grow supply of product available for other marketing and distribution businesses to increase their own need for financing from banks.   Yet, on YBS policy nobody is looking at how communication and collaboration could enable each banking entity to open up new avenues for business.

The FCA can help by redesigning YBS programs to ensure that the FCS fully address both local food market needs and consumer-driven risk management challenges.   Robust "third-party coordination" is the pathway forward--including the use of the convening power and research capability of the 12 Federal Reserve District banks.

<u>FCA, YBS & local food</u>

In 2011, the FCA sought to ramp up YBS compliance by publishing in the Federal Register a proposed rule. The agency sought public comment on a measure that would require, among other things, that each System institution produce human capital and marketing plans that include outreach toward diversity and inclusion. A key target was to improve service to local and regional food market participants.

FCA reported receiving "approximately 75 comment letters from 48 System institutions (including) approximately eight (that) opposed our proposed rule entirely and requested complete withdrawal of the proposal...We received approximately 325 comments from non-System commenters, including sustainable agriculture advocacy and assistance groups, academics in the field of sustainable agriculture, small farmers, consumers, and others. The vast majority of these commenters supported the proposed rule. Many of these commenters requested that FCA include a number of specific requirements in the marketing plan provision that would, among other things, require institutions to train potential customers in business planning and financing; develop infrastructure such as cooperatives and farmers' markets; partner with governmental and non-governmental entities and investors for funding local and regional food systems (LRFS); set numerical investment goals for lending to LRFS; and make their marketing goals and progress assessments public."

The FCA board approved the rule which among other things now requires System institutions to provide the FCA with an annual YBS marketing plan. The FCA saw fit to spell out in writing such seemingly common sense matters as the following instructions: "You should study and know your customer base and agricultural marketplace. You should identify opportunities to reach out to potential eligible and creditworthy customers who may not have previously had access to credit for various reasons."

The FCA's reporting process doesn't really shed light on the issue. The regulator's annual YBS reports is rich with optimistic generalities and light on concrete information. This is hardly a formula for proactive outreach to the next generation of innovators. No wonder that so many potential YBS borrowers don't consider Farm Credit an option for their financing needs.

Every year, FCS institutions submit their YBS data to FCA--claiming new lending programs and expanded training. Yet, the reality of those claims is as uncertain as the loan volume data itself. FCA's data collection process appears to encourage System institutions to double and even triple count many of their loans to the young, the beginning and the small farmers.

In a 2018 news release announcing another bumper crop of YBS loans, Farm Credit Council included this caveat: "Please note that the YBS numbers 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: the Farm Credit Administration requires us to report specifically on YBS activities which, in turn, is reported to Congress and it is the most accurate portrayal of who we serve."

Is the FCS's trade group blaming its federal regulator for YBS loan data inflation? Clearly, an opaque reporting process provides cover for a lending network that appears satisfied with achieving minimal compliance thresholds. Meanwhile, the banking groups interpret the data in a way that claims the System's YBS lending volumes are actually decreasing.

Conclusion

FCA's inquiry into how FCS collects, evaluates, and reports YBS data might be framed around clarification about the larger purpose of the YBS policy. Greater clarity might flow from the responses to at least these three questions:

- What overarching strategy guides the FCS's internal policies to develop organizational YBS planning and programming?
- How does that policy translate into strategy to maximize the impact of the FCS' service to America's YBS demographics?
- How can FCA's qualitative metric--"coordination with third parties"--be a useful resource to better connect the FCS's resources to the needs of YBS borrowers?

The FCA can help solve this problem through sharper definition and clarification around the term "coordination with third parties." This qualitative YBS metric could be the lever to build the FCS capacity to support market-based food, nutrition and agricultural initiatives that are taking root in rural, exurban, suburban and urban communities nationwide.

Farm Credit Council's investment in YBS programming offers lots to build on. What's missing is a broad-based constituency to ensure the follow through.

For example, the Council, direct lender Farm Credit East, and Wallace Center at Winrock International have over a period of years created financial benchmarking metrics to support the growth and development of regional food hubs. These small-farm product aggregators and distributors play an important role in the development of regional food economies. In 2015, Farm Credit, Surdna Foundation and Self-Help (a Community Development Financial Institution) partnered on a marketing plan to publicize the findings from the benchmarking report. Collaboration between three different types of financial institutions led the White House Council on Rural Affairs to host a convening. No entity stepped up to provide the leadership that could have helped ensure broader dissemination of the subsequent USDA/Federal Reserve book--and could be helping to ensure full implementation of LAMP as a catalyst for private investment in local food economies.

The FCA rulemaking process can open the door to forward progress. The same can be true with other avenues for new YBS market development.

Better coordination with third parties could also open up new avenues of influence for the FCS as all ag market sectors adapt to changing competitive landscape. For example, how to price the economic value of agriculture's ecological outputs remains an open question for participants of the newly formed Ecosystem Services Market Consortium. This consortium consists of private sector food and agriculture companies as well as nonprofit organizations. They are looking at how to price such uncompensated ecological goods as carbon sequestration, flood control, aquifer recharge and wildlife habitat. The challenge involves creating a land valuation regime that would incentivize a critical mass of owners and operators of America's farm, forest and ranchland to generate "triple-bottom line" economic, social and environmental returns.

Could an ecosystems services market create new revenue streams for farmers ranchers and forest land owners? It will be hard to know without robust participation from the farm financing sector.

Could joining the process of figuring out how monetize a fledgling ecosystem services market stray from the FCS's YBS mission, or, conversely, could it have the effect of recasting and expanding the System's YBS portfolio? Clearly, the YBS lever can be the entry point for justifying the FCS' investment of human and financial capital in the agricultural industry's efforts to shape climate solutions policy. Commercial and community banks also need to dialed into that discussion.

FCA's might consider how the YBS data improvement process can open up public dialogue about establishing a new strategic direction for YBS programming. A comprehensive set of outreach, network development and market research activities is needed to drive new partnership networks—including commercial and community banks. These networks would be designed to create a business climate that encourages efficient delivery of credit and related financial services to niche markets. 'Niche' market opportunities are so abundant—both for potential new customers and established customers finding ways to diversify income—that the YBS program might be recast as YBSN.

FCS can help fulfill the promise of a century-old Act of Congress by re-orienting itself as an organization that's in the business of leaving no stone unturned in meeting the financial services needs of the broadest possible spectrum of young, beginning and small agricultural producers.

In 1916, Congress established agriculture's GSE to fill a public purpose by enabling farmers to secure reliable access to distant Wall Street capital markets. Today, agriculture's GSE is itself distant from the myriad new constituencies with a fervent passion to succeed in farming. Despite minimal financial savvy and resources, many entrepreneurs and organizations are dedicated to reweaving agriculture into the fabric of community development at the rural, exurban, suburban and urban levels. Farming in America is a difficult business that could be more manageable if agriculture's GSE were more willing to free up resources for technical assistance, research, capital investment funds and other creative financing mechanisms to support creditworthiness.

The impartial terms of profitability, risk and repayment capacity might shape any recalibration of FCA's work with YBS data. The promise of YBS as a driver of Farm Credit innovation remains. More strategic use of their YBS mission can enable the Farm Credit System to play more of a leadership role not only in helping entrepreneurs succeed but also in supporting a political and regulatory environment that will benefit America's farmers and ranchers for generations to come.

# # #