Testimony of
Mark Jensen, President and CEO
Farm Credit Services of America/Frontier Farm Credit
before
the House Appropriations Committee
Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies

April 2, 2019

Mr. Chairman, Ranking Member Fortenberry, and members of the committee, thank you for the opportunity to testify today on behalf of the Farm Credit System. My name is Mark Jensen and I am President and CEO of Farm Credit Services of America and Frontier Farm Credit, headquartered in Omaha, Nebraska, and Manhattan, Kansas, respectively.

We are a part of the Farm Credit System, a nationwide network of cooperatives providing credit and affiliated services to farm and ranch operators across the United States. As cooperatives, Farm Credit Services of American and Frontier Farm Credit are owned by our more than 57,000 customers. We work through a network of 48 retail offices serving farmers and ranchers in Iowa, Nebraska, South Dakota, Wyoming and 41 counties in Eastern Kansas.

The Committee's hearing today is timely. Farmers and ranchers in our territory continue to grapple with a very challenging environment. Commodity prices have fallen and remained low for the past several years, while the costs associated with raising crops has remained high. Many row crop farmers have found profits elusive and face multiple years of losses, with similar circumstances projected for the 2019 crop year. Forecasters see little chance of a quick commodity price rebound barring unexpected changes in commodity demand, supply or both.

We are working hard to support our customers through this cycle, and despite the current situation, we continue to have a positive long-term outlook for U.S. agriculture.

Financial Strength to Fulfill Our Mission

Financial strength is critical to ensuring that we can help our customers work through the inherent cycles in agriculture. Like the producers we serve, we have built financial strength over the past two decades in anticipation of an economic cycle like todays. This financial strength is critical to ensuring that we fulfill our mission of serving agriculture through its inherent cycles.

As financial cooperatives that are 100 percent owned by the farmers and ranchers we serve, every dollar our associations earn is either retained on our balance sheet to ensure we have the financial strength to serve our customers through industry cycles or is returned to our customer-owners in the form of patronage dividends. In December 2018, the Boards of Directors approved an increase in our patronage dividend and we distributed approximately $245.5 million in cash-back dividends to our customer-owners this past week.

Disaster Response

Across much of our service territory, major snowstorms and historic flooding have taken lives, ruined machinery and equipment, destroyed critical infrastructure and damaged homes and livelihoods. Unfortunately, there is risk of more flooding in the days and weeks ahead as significant snowmelt continues and we experience spring moisture.

It likely will take months to fully assess the damage, but the need for assistance is immediate. In keeping with our mission to serve agriculture and rural communities in both good and bad times, we are mobilizing the financial strength and committed, expert staff to help producers and their communities. Producers affected by the floods will be qualified for restoration assistance including, but not limited to, interest rate discounts, interest-only payment programs and installment loans for refinancing working capital losses from operating loans created by the weather-related disaster.

Our associations are also responding by providing $175,000 in direct relief to charitable organizations supporting the farmers, ranchers and rural communities impacted by this disaster. Recipient charities include the American Red Cross, the Nebraska Farm Bureau Disaster Relief Fund, the Nebraska Cattlemen Disaster Relief Fund, and the Farm Credit System Employee Relief Fund. We have also expanded our employee match donation program, increasing to $250 the amount our associations will match employees who contribute to these relief efforts.

We are grateful for the committee’s support of the currently pending disaster bill and urge you to include assistance for Midwest producers devastated by these storms and pass the bill immediately. With spring planting season just ahead of us, the timing of the disaster assistance is critical. We urge fast action.

Current Environment

Grain production profitability over the past five years continues to be challenged as the industry reconciles slowing U.S. demand and high domestic and world inventories. At the same time, there is increasing volatility in the evolving trade environment. For many producers, multiple years of financial losses have exhausted some of the typical options such as restructuring debt, deferring payments, and lowering production costs.

The winter and early spring are the typical busy seasons in terms of producers completing financial analysis and working with lenders to arrange financing for the upcoming year. So far it is best to describe the 2018/2019 season as a “mixed bag” of results. Producers who have reduced production costs and operate in areas that had strong yields this past year have fared better and either made some financial progress or at least came close to a breakeven profit. For others who weren’t as fortunate or are involved in certain livestock production (e.g. dairy), it was another year of losses and financial challenges. Smaller farming operations are particularly challenged due to tight margins combined with increasing living expenses and the cost of today’s farming equipment.

Barring a significant drought or other unforeseen event, there does not appear to be anything on the horizon that would suggest the commodity prices will increase significantly and “fix” the profitability challenge facing many producers. The financial outlook for 2019 does not look favorable for commodity prices relative to the cost of production (seed, fertilizer, chemicals, etc.), and we anticipate an additional decline in credit quality decline for the year. In this environment, agriculture needs Congress’ continued support for the ethanol industry, the farm bill and the federal crop insurance program. Strong trade agreements are also critical to the viability of U.S. producers.

In summary, while the short-term outlook remains concerning due to the sustained period of high grain inventories and market volatility (weather, trade, etc.), the position of the industry is not at the same level as the last agricultural crisis in the 1980’s. The financial position of the industry going into this period was much stronger due in large part to the lessons learned by producers and lenders during that period. There is plenty of reason to be optimistic about U.S. agricultural and having the most productive and efficient food supply in the world.

Land Values Soften, Remain Stable

Farmland values in much of our service territory softened slightly in the last half of 2018 but have remained stable overall. This was expected and, in fact, better aligns farmland values to profitability in the grain sector. Stability in land values give producers the option of restructuring their operations to shore up operating capital and sustain production. This strategy improved liquidity, but we can all agree that it is not a sustainable practice for an operation when facing rising interest rates and multiple years without profitability.

While producers in many areas of our territory benefited from strong yields in 2018, the industry continues to be challenged by compressed margins. For producers who rent farmland, softening in the market places downward pressure on cash rental rates which will help their bottom line.

Serving the Needs of Young, Beginning and Small Producers

Supporting the next generation of agriculture is an important part of our mission. We are committed to meeting the unique financing needs of young, beginning, and small (YBS) producers. In fact, despite the downturn in agricultural prices, our lending to young, beginning, and small farmers reached an all-time high earlier this year with more than $6 billion of credit extended to 25,104 YBS producers.

Our "YBS Producer Program" meets the evolving needs of today's young, beginning and small producers through long-term relationships and a proactive focus on sound financial services, advice and educational opportunities.

While most YBS producers qualify for credit using conventional underwriting standards, we established special outreach credit programs called AgStart and the Development Fund to support those YBS producers not quite ready for credit on commercial terms. These two programs serve 2,960 YBS customers with $759 million in loan commitment, including $113 million in participation loans with the FSA – most commonly farm ownership loans. We are very grateful for this subcommittee's support of FSA guaranteed and direct farmer loans. These programs are critical to farmers – especially in this economic climate – and we strongly encourage you to continue to support them.

Working with Customers

Farm Credit Services of America and Frontier Farm Credit have been working for some time to help customer-owners plan for the current environment. Part of our philosophy as a cooperative is to be conservative in good times so we can be courageous in bad times. Well ahead of the price downturn, we took specific steps to ensure we weren't encouraging farmers to overextend their operations. As Midwest land values soared, we put hard caps on the amount we would lend on any given acre. As commodity prices spiked, we worked to ensure borrowing decisions were based on more realistic price projections. And, we emphasized the use of crop insurance as a key risk tool. Well over 90 percent of our customers participate in the crop insurance program.

In 2018, we took the extraordinary step of offering our real estate customers the opportunity to defer payments one year to help bridge the cash flow gap due to revenue and expense challenges. More than 7,000 customers took advantage of the program, including more than 30 percent of our customers in the highest risk category.

Dependability

Our job is to be a dependable lender in good times and bad times. Our customers know that we understand the impact of industry cycles. We leverage our long experience and deep expertise in agriculture to work with customers to help them identify risks and encourage them to make proactive adjustments to their operations.

As an example, fourth generation corn and soybean farmers (4,000 acres – half owned, half rented), who bought their family's operation when prices were good and profits were less dependent on strong financial management, credit their relationship manager with putting them on a path to viability.

> "*When we started, we had a budget, but we weren't tracking each expense… this past year, we have looked at our operation with a microscope, right down to repairs and… our household budget.*"

Their breakeven is higher today because it accurately reflects the full cost of operating and spreads costs over fewer acres. Now, they are managing to their true breakeven.

> "*When you know your breakeven and, if you can save $10 an acre on this, it makes a difference. All those little ten dollars add up. Pretty soon, if you can get your breakeven down $40, $50, that's huge in this kind of market… same with marketing. If we can gain 10 cents on basis, that makes you stand up and listen.*"

The couple still considers themselves farmers first and foremost. But, because of their work with their relationship manager, they say they commit time every day to managing the financial side of their operation.

> "*Like it or not, that's what we have to do in today's market. More money is made in here than is made out there.*"

We aren't just asking our customers to make adjustments. We are making them as well. We are restructuring customer debt to spread out their payments and are providing other loan structuring options when necessary and appropriate. We are making available modern technical resources to help our customers have the best information for managing costs and building their risk-bearing capacity.

As price forecasts stay low, most producers' only option is to very closely manage the cost structure of their operations. We are seeing many producers eliminate non-essential expenses, scale back expansion plans, and delay new equipment purchases.

Despite our best efforts, we understand that being dependable does not mean we can save every operation. Credit can never be a substitute for income for farmers. We are, however, working with our customers to find the best possible outcome for them.

Conclusion

We are grateful for the opportunity to testify today and update the Committee on our associations' ongoing effort to fulfill the mission you have given us. Our customers face a challenging economic environment, and we stand ready to confirm our commitment to continuing to fulfill our mission of supporting America's rural communities and agriculture.

While the market today has its challenges, we remain optimistic. Farmers, ranchers and rural Americans remain enterprising, entrepreneurial and committed to their way of life. We pledge to continue to fulfill our mission and work in the best interest of U.S. farmers and ranchers, agribusinesses, rural homebuyers and companies that provide vital infrastructure services to rural America.

I will be pleased to respond to your questions.