INDEPENDENT COMMUNITY
BANKERS of AMERICA®

Tuesday, March 17, 2020

The Honorable Pat Roberts
Chairman
Senate Committee on Agriculture
Washington, DC 20510

The Honorable Colin Peterson
Chairman
House Committee on Agriculture
Washington, DC 20515

The Honorable Debbie Stabenow
Ranking Member
Senate Committee on Agriculture
Washington, DC 20510

The Honorable Michael Conaway
Ranking Member
House Committee on Agriculture
Washington, DC 20515

Dear Chairmen Roberts and Peterson and Ranking Members Stabenow and Conaway:

On behalf of the Independent Community Bankers of America (ICBA) and our nation's community banks, represented by over 52,000 locations across America, we write to express our views on actions we believe necessary to support the agricultural sector. Community banks under $10 billion in asset size provide over 70 percent of all agricultural financing from the commercial banking sector, or over $184 billion in 2019.

As you know, agriculture has been walloped by low prices resulting in lower farm income for several years. Although net farm income is projected to be slightly above its 2000-2018 average of $91.7 billion, it is still projected to be over thirty percent below its 2013 peak of $139 billion, in inflation-adjusted terms. Further, inflation-adjusted net cash farm income is forecast to decrease $13.1 billion (10.7 percent) from 2019 and would be below the 2000-2018 average.

Farm production expenses are projected to rise by over $10 billion in 2020. Working capital, a measurement of the amount of cash available to fund operating expenses after paying off debt due within 12 months, is forecast to decline 15.0 percent from 2019. Debt-to-asset levels have risen every year since 2014 and will be higher again in 2020.

Adding to potential stress for farm families, total median farm household income is forecast to decline 2.1 percent in 2020 after inflation and has declined every year but one since 2015. In recent years, roughly one-half of farm households have had negative farm income, forcing them to rely on off-farm income.

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These challenges to the agricultural sector threaten farm and ranch families and may be greatly exacerbated due to the economic impact resulting from the coronavirus (COVID-19). The virus's impact may make these projections seem quite optimistic in hindsight. ICBA believes the following recommendations would be effective in sustaining economic activity and employment in the farm sector while preventing the potential for a financial calamity. While some recommendations go beyond your committees' jurisdiction, they all impact ag producers.

Recommendations to Sustain the Farm and Rural Economy

ECORA – Congress should enact the *Enhancing Credit Opportunities in Rural America* (ECORA- S 1641/HR 1872) Act to exempt from taxation interest on loans secured by farm real estate or primary residences in rural communities of less than 2,500 population. This is especially important to provide credit access to a broader array of farm, ranch, and rural citizens.

MPFs – Provide another round of market facilitation payments (MFPs). Government farm payments are projected to decline $8.7 billion (36.7 percent) to $15.0 billion in 2020, as MFP payments have not been authorized. While Congress may have advice on the implementation of MPFs, it is important to keep in mind these payments have kept many farmers in business.

Enhance USDA Guaranteed Lending Programs – USDA farm sector debt is expected to exceed $425 billion in 2020. Land costs have remained high and production expenses are projected to increase by $10.4 billion in 2020.

- Congress should increase the loan limits for USDA guaranteed farm operating and ownership loans from the current $1.75 million to a higher threshold of $2.5 million. This would capture a broader segment of family farmers. An alternative would be to allow existing borrowers to receive the higher loan limit.

- Reduce fees for government guaranteed loan programs through FY 2021.

- Allow producers or their banks to choose which USDA office to apply for loans – either the county where the bank maintains its headquarters or where the farm borrower is located. During times of county office backlogs, the bank or producer could choose any county where the bank has a branch.

- Fund USDA's interest-rate buy-down program, which authorizes USDA to buy down the interest rate of guaranteed operating and ownership programs by up to four (4) percent. This will allow more producers to have a positive cash flow.

Bank Loan Limits – Exclude the amount of a loan insured by crop insurance from a bank's lending limits.

Regulatory Forbearance – Provide regulatory forbearance to banks on agricultural loans requiring regulators to allow banks to work with troubled borrowers instead of foreclosing on them (this provision, in statute during the 1980s farm credit crisis, has expired).

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Streamline USDA & SBA Lending – Immediately adopt changes in the Council for Environmental Quality's proposed rule[1] that exempt USDA and SBA guaranteed loans from environmental impact statements under the National Environmental Procedures Act (NEPA). Also, allow refinancings of guaranteed loans without requiring NEPA reviews for ground disturbance (remodeling a dairy parlor, adding a grain bin, etc.).

SBA Affiliation Proposal – Withdraw/delay SBA's affiliation provision in its interim final rule.[2] Under SBA's revised "affiliation" standard, borrowers who receive 85 percent of their revenue from larger firms for three years would be considered affiliates and, thus, ineligible for SBA loans. This could particularly harm farmers who do business with larger companies if the company is the farmer's only marketing choice (farmers selling corn to a single ethanol producer or dairy farmers selling milk to their cooperative or poultry producers selling to an integrator). Such limits could further undermine the ability of agriculture's supply chains to provide adequate food during the coronavirus turmoil.

Maintain Crop Insurance Funding – ICBA oppose cuts to the crop insurance program since the vast majority of producers face tight financial margins and need crop insurance to qualify for operating loans to plant their crop(s). Regulators examining ag loans insist farm borrowers have crop insurance to ensure loan repayment. Crop insurance coverage protects approximately 370 million acres while insuring over $100 billion of liability.

Conclusion

During this time of economic distress when farmers and ranchers face severe challenges and millions of Americans are witnessing empty grocery store shelves, Congress can ensure stability in the agricultural marketplace by supporting the legislative and regulatory provisions outlined above. Should you wish to discuss this letter in more detail, please feel free to contact mark.scanlan@icba.org. Thank you for your attention to this letter.

Sincerely,

/s/

Mark Scanlan

cc: House and Senate Agriculture Committee Members

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[1] **Federal Register** / Vol. 85, No. 7 / Friday, January 10, 2020 / Proposed Rule. Docket #: CEQ – 2019–0003
[2] **Federal Register** / Vol. 85, No. 27 / Monday, February 10, 2020 / Rules and Regulations: RIN 3245–AG74

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