Testimony of

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President & CEO, First Community Bank

On Behalf of the

Independent Community Bankers of America

Before the United States Senate

Agriculture, Nutrition, & Forestry Committee’s

Subcommittee on Commodities, Risk Management, and Trade

Hearing on

Commodity Programs, Credit, and Crop Insurance - Part 2: Industry Perspectives on Risk Management and Access to Credit

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Subcommittee on Commodities, Risk Management, and Trade
Commodity Programs, Credit, and Crop Insurance - Part 2:
Industry Perspectives on Risk Management and Access to Credit
May 4, 2023, Washington, D.C.

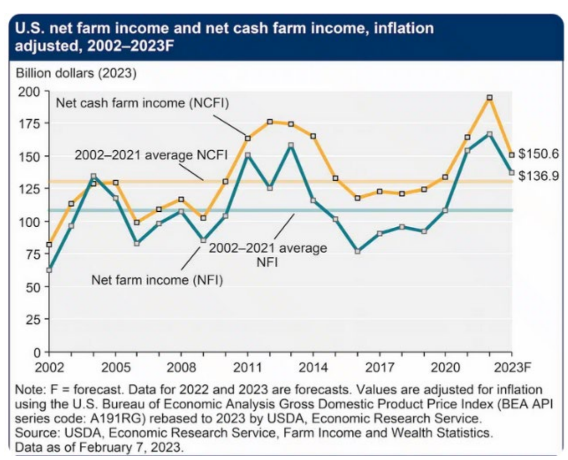
Thank you. Chair Smith and Ranking Member Hyde-Smith and Subcommittee members, I am Gus Barker, President and CEO of First Community Bank of Newell, Iowa. Our bank has approximately $117 million in assets. I am also chairman of the ICBA[i]'s Rural America and Agriculture committee.

This morning I would like to begin by discussing the agricultural economy in my state of Iowa and also share several recommendations ICBA has made for the farm bill and rural America.

A Look at Iowa Agriculture

Iowa is home to 86,000 farms, which are 90% family owned. One of our largest contiguous farms is the Amana Farms near Iowa City. They have 26,000 acres with award winning crop fields, a 2,400 cow/calf herd, 4,000 head cattle feedlot, an anaerobic digester, and Iowa's largest privately held forest of hardwood trees.

In spite of this, the average size of an Iowa farm is reported to be 350 acres. However, those farms above $250,000 in annual sales average slightly less than 1,000 acres.
Iowa is the largest producers of corm, pork, eggs, ethanol and biodiesel and the second largest producer of soybeans in the United States. Over 147 million pounds of cheese are made in Iowa each year. There are 19.2 million hogs, 4 million cattle, 260,000 sheep and approximately 67 million chickens in Iowa.



Land values have reached $30,000 per acre in Northwestern Iowa. Locally, in my area the cost per acre of farmland averages about $12,000. This high cost of land makes it extremely difficult to buy a farm, particularly for young and beginning farmers.

After two strong years of growth, net farm income is forecast to decrease by almost $26 billion (16 percent) from 2022 to slightly less than $137 billion in calendar year 2023. Farm sector debt is expected to increase 6.2 percent and overall production expenses 4.1 percent.

Obviously, the farms in Iowa and the products they produce are very diversified. The same is true for the rest of the nation's agricultural production. That's why the next farm bill needs to be flexible enough to serve a broad variety of farmers and ranchers and those who depend upon them. I believe we can accomplish this task while also coming up with some ways to help meet the challenges that our young, beginning and small farmers face.

ICBA's Key Farm Bill Principles

ICBA has laid out six key principles for a new farm bill which are attached to my written statement. These principles include:

- Adequately funding our commodity programs and farm safety net to accommodate a high inflation and high input cost environment.
- Ensuring producers have access to crop insurance and risk management tools.
- Enhancing USDA guaranteed loan programs by raising loan limits, streamlining applications and speeding up USDA approvals.
- Rejecting proposals to broadly expand FCS authorities into **non-farm** lending.
- Providing community banks access to credit programs available to other lenders; and
- Ensure regulatory fairness.

Other Essential Proposals for the Ag Sector

ICBA strongly supports passage of the Access to Credit for our Rural Economy **(ACRE) Act** which will lower mortgage payments for farmers and ranchers and rural home buyers. This would be especially important for young, beginning and small farmers trying to purchase farms or who desire lower mortgage rates.

- Adopt the ACRE Act which provides banks tax exemptions on interest earned in two areas of rural lending, i.e., agriculture real estate and rural home loans. The home loan exemption would apply to small towns of under 2,500 population. This would allow community banks to provide lower interest rates to these important segments of rural America. This exemption would be similar, but not as broad, as the exemptions other types of lenders already utilize.

- ICBA also supports minor changes to Farmer Mac's secondary market activities.

Importance of Crop Insurance

Crop insurance is an essential element of farming or ranching operations and a necessity for ag lenders as it allows producers to shield their crops from yield and revenue losses either due to natural disasters or from revenue loss resulting from commodity price declines.

Let me give you a perspective from our bank. Our farmers don't want to file a claim against their Multi-Peril Crop Insurance (MPCI) policies unless necessary. However, crop insurance is a tool we absolutely depend on to take the risk out of weather events that could harm our farmers. Over the years, the most important claims we've seen are not the widespread weather events that affect large production areas but rather the claims against weather disasters affecting small production areas. Mother nature isn't fair, and the small claims don't get a lot of attention sometimes but can have significant impact when they occur, both on producers and lenders.

The coverage and claims under the MPCI Policies are not comprehensive enough to make the operation whole but are a partial fix to help keep family farms intact to survive another year.

Key Aspects of Crop Insurance

With crop insurance, premium rates are set by the government and farmers cannot be refused a policy. Producers generally pay approximately 35 to 40 percent of the costs of premiums. Crop insurance policies now protect nearly 450 million acres, a significant increase over the past decade, partly due to an expansion in the variety of commodities that crop insurance now covers.

By statute, crop insurance is actuarially sound, thus requiring a large and diverse risk pool to make premiums affordable**.** Removing some farmers from the risk pool via means testing or other proposals, will impact the rates for every single farmer still participating in crop insurance. About thirty percent of policies pay an indemnity in an average year. It is not unusual for farmers to pay their crop insurance bill for years without receiving an indemnity payment.

Crop insurance is a rapid response solution to disasters. Private sector delivery allows farmers to receive indemnity payments in less than thirty days. By contrast, ad hoc disaster assistance cannot be relied upon by lenders and isn't delivered in a timely manner. Crop insurance is the only safety net available to all types and sizes of producers in all regions that is delivered on a timely basis.

Why Crop Insurance Matters to Lenders

Like community banks, crop insurance is critical to the rural economy. Without crop insurance most producers simply cannot qualify for operating loans. Due to the extremely tight margins and incredible risk in agriculture, bank regulators examining ag lending portfolios typically insist borrowers have crop insurance to ensure repayment of loans.

Increasing the cost of farmer-paid premiums or disqualifying some farmers from participating in the crop insurance program will increase premium costs, forcing farmers to decrease coverage, making it more difficult to qualify for operating capital and loans. Crop insurance enables farmers to rebound quickly after disaster and allows producers to pay credit obligations and other input expenses, such as fertilizer or farm equipment. Crop insurance protects jobs, both on and off the farm.

These facts illustrate why community banks say, "whatever you do, don't harm crop insurance."

Enhancing USDA Farm Loan Programs

ICBA has a number of recommendations to enhance USDA farm loan programs and we would be happy to work with Congress on these recommendations. We believe these recommendations will help beginning farmers and ranchers as well as more established producers.

A key enhancement would be increasing guaranteed loan limits to address the rapid rise in land values across many agricultural regions of the U.S.

In addition, we urge Congress to consider a potentially exciting new program that could speed up loan approval times, thereby enhancing access to credit much more quickly. This "**USDA Express**" program would be modeled after SBA's Express program that lenders have used successfully.

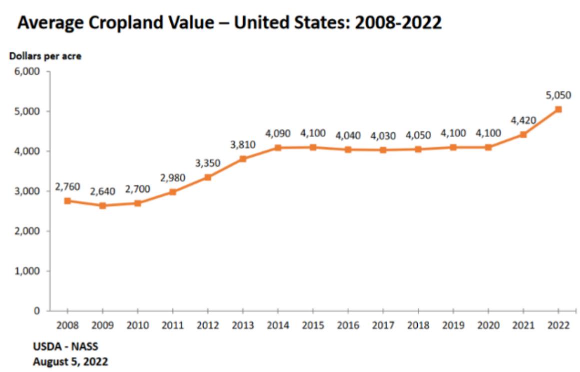
I would like to share with you an example of the role a guaranteed loan can play in helping create successful producers. A few years ago, we had a young farm family come to us for help. They had been working with a loan officer who changed jobs and they followed him to his new bank. Unfortunately, the farm family continued to struggle. In order to make ends meet, they had a trucking business to supplement the farming operation. We analyzed their financials. It was our opinion their debts were not structured properly.

We worked with the local USDA loan officer and put together a restructured guaranteed loan that helped ease their financial burden. Since they struggled at their previous lender, the examiners had them on their radar and worried about their long-term viability. Since we did the USDA guarantee, we've had two exams and our examiners could not believe the progress they've made. They are now one of our strongest customers. Without the USDA guarantee and the help of our local USDA loan officer, this family would likely not have survived.

We try to work very closely with beginning farmers and ranchers by using all the USDA tools at our disposal. One example is our work with a young man who desired to enter farming and utilized the USDA Downpayment loan program. Under that program the farmer puts down 5 percent of the purchase price of the farm, USDA finances 45 percent and the lender finances 50 percent. USDA assumes a secondary lien position. Without this program it would have been very difficult for this young man to begin his journey into the farming community.

We also do loan participations with USDA in financing farmers. Working with our USDA loan officer, we were able, for example, to finance a young farmer's purchase of 3 hog buildings while also building a fourth.

Increase loan limits on USDA guaranteed farm loans by raising loan limits to at least \$3.5 million for guaranteed real estate loans and \$3 million for guaranteed operating loans. Both programs should continue to be indexed to inflation. Loan limits need to be raised to address significant increases to land values. Current loan limits are often not adequate to address the needs of family farmers.



In addition, given the likelihood of significant changes in the farm economy going forward and the normal changes families experience in operating their farms, such as buying land, expanding livestock numbers, building facilities, incorporating family held entities between siblings or bringing younger members into the family farm operation, there will be ongoing changes that need flexibility from available programs. Producers will need flexibility to restructure their land holdings and operating needs. Higher loan limits will help accommodate changes in their operations and this includes for beginning producers.

The USDA guaranteed **farm ownership** (FO) loan program is a no-cost program in terms of budget outlays. Therefore, raising loan limits should have no cost to the FO program.

Table FPAC-3. ACIF Program Level (PL) and Budget Authority (BA) (millions of dollars)

Item	2022 PL	BA	2023 PL	BA	2024 PL	BA
Discretionary:						
Farm Operating Loans:						
Guaranteed Unsubsidized	$2,118	$17	$2,118	$11	$2,118	$1
Direct	1,633	40	1,633	24	1,633	28
Total, Operating Loans	3,752	57	3,752	35	3,751	29
Farm Ownership Loans:						
Guaranteed Unsubsidized	3,500	-	3,500	-	3,500	-
Direct	2,800	-	3,100	-	3,100	-
Total, Ownership Loans	6,300	-	6,600	-	6,600	-

USDA guaranteed **farm operating** loans are projected to provide $2.1 billion in credit at a negligible cost of only $1 million during fiscal year 2024, meaning loan limits could be raised with a de minimis outlay.

Adopt a "USDA Express" Loan Program – Many borrowers have complained of slow processing and approval times on loan applications. ICBA recommends Congress authorize new authority for a guaranteed loan program that functions similarly to SBA's "Express" program. SBA's Express program provides a 50 percent guarantee for a $500,000 in loan with a 36-hour turnaround time for approvals. USDA's Express guaranteed loan program could provide a 50–75 percent guarantee compared to USDA's regular 90 percent guarantee (95 percent for young, beginning, small farmers), in exchange for loans receiving USDA approval within 36 hours with a cap of $1 million.

The quick turn-around can be achieved because the lender would make the credit decision. The loans would receive careful scrutiny due to lenders having greater exposure in case of defaults. The approved loans would be smaller than other guaranteed loans with a cap of $1 million. Loans would only be for eligible agricultural purposes. Components include:

- Lender makes the credit decision.
- 36-hour turnaround time on USDA loan approval.
- 50 - 75 percent guarantee in event of loan default. An option would be to guarantee 75 percent at $500,000 and 50 percent at $1 million.

- $1 million loan cap for Express loans.

- Lender would have the option to use their own forms and procedures or have the option to use a streamlined pre-approved sample form created by USDA.

Term Limit Flexibility – Term limits stipulate that an eligible applicant must have a direct **operating** loan (DOL) obligated in 6 or fewer calendar years. The years need not be consecutive, and producers can utilize an additional DOL in the 7th year. The limitation does not apply to beginning farmers through their first 10 years of farming. Waivers allow an additional 2 years of eligibility are provided on a case-by-case basis if borrowers meet other eligibility criteria. Borrowers also have a 10-year restriction after which borrowers are not able to receive a subsequent FSA farm **ownership** loan.

Producers should have access to direct loans if they cannot qualify for guaranteed loans but ultimately should work towards graduation to commercial credit. Options for providing direct loan borrowers greater flexibility while working towards a stronger financial position and graduation to commercial credit include:

- Not counting direct loans in years where producers also have guaranteed loans, which evidences an effort to move to commercial credit.

- Allow for a 3-year waiver if producers are at the limit but still need direct loans.

- Allow producers to receive a combination of a direct loan and a guaranteed loan with the percentage for each category determined by what is necessary for the producer to continue their farming operation.

- Allow a blend of the above proposals.

Streamline Guaranteed Farm Loan Applications – The Inflation Reduction Act (IRA) required USDA to streamline direct farm loan applications, resulting in USDA reducing applications for direct loans from 29 pages to 13 pages. The IRA only required a reduced application for direct loans, not guaranteed loans.

- The credit title should likewise require USDA to review, and streamline where possible, the guaranteed loan application.

- The final streamlined guaranteed loan application must result in an easier loan approval process for both borrowers and their lenders.

- USDA could be required to review and streamline all loan applications including farm and rural development loans.

Ensure Direct Loans Complement, Not Undercut, Guaranteed Loans – Direct loans can be important to both lenders and their farm customers as a source of lower cost financing, particularly when used to complement guaranteed loans provided by lenders.

Funding levels should ensure existing loan programs can meet borrower demand while meeting the needs of young, beginning and small farmers. USDA direct loan limits should be sized appropriately to ensure they complement, not undercut, guaranteed loans made by private-sector lenders.

Ensure Community Bank Access to All General Credit Programs – Maintain the ability of community banks to serve rural America without enhancing the competitive advantages of privileged, non-bank competitors. Community banks should have access to all general financing or credit assistance programs.

- Community banks should be eligible for the Heirs Relending Program.

- Any effort to exempt the Farm Credit System (FCS) and/or other lenders from **section 1071 (Small Business Data Collection)** regulations of the Dodd-Frank Act should also apply to community banks by simply exempting **all ag and/or rural loans** without targeting specific lenders. This wording also maintains the agriculture committees' jurisdiction.

- All Farmer Mac programs should be available to community banks.

- Fund the Interest Assist program which buys down loan interest rates.

Reduce Regulatory Burden and Ensure Fairness – Require federal agencies to implement regulations fairly and equitably while minimizing regulatory burdens.

Deny Expanded Powers Proposals by the FCS

The Farm Credit System (FCS) is seeking blanket authorities to further expand into **non-farm** lending activities even though the FCS was granted tax and funding privileges as a government sponsored enterprise (GSE) specifically established to serve agricultural producers and businesses closely related to their **on-farm** production needs.

1. **Do Not Expand Farm Credit System (FCS) Authorities** – FCS seeks to expand into **non-farm** lending through loans they label "investments" for "essential community facilities" without the case-by-case approval of their regulator, the Farm Credit Administration (FCA). The FCS's proposal does not define 'essential community facilities' other than referencing the Consolidated Farm and Rural Development Act. USDA notes that an "essential community facility is defined as a public improvement, **operated on a non-profit basis**, needed for the orderly development of a rural community[ii]. . .". Yet, FCS proposes they should lend to facilities "**whether operated on a profit or nonprofit basis**." While USDA's focus on essential community facilities seeks to exclude private, commercial or business undertakings, the FCS's approach appears to embrace loans for these purposes, hardly the role of a GSE.

2. This authority could apparently allow FCS to make loans, called 'investments', for fire stations, schools, health care facilities, housing and apartment complexes, restaurants, sports facilities, stadiums, roads, and bridges and much more. Such broad authorities could push community banks off of Main Street.

3. **Questions that Need to be Asked** – Would restaurants, grocery stores and movie theaters be eligible?' Would football and basketball stadiums qualify? Will FCS be required to pay taxes on this category of 'investment' lending? If not, why not? Would FCS be able to lend to MainStreet businesses deemed essential to the community? FCS would grant themselves the ability to determine who qualifies for their loans (investments) under this authority.

4. **FCS's legislation only requires a single "non-FCS" lender** to also participate in the loan. FCS could partner with a single large bank or large credit union to handle this business activity all across the United States. There is no requirement to participate in these loans with local community banks. Conceivably the FCS could simply partner with the USDA excluding private sector participants.

5. Although FCS states there would be a 15 percent of assets limitation per institution, this amounts to nearly $75 billion in addition community facility loans. Given USDA's budget of $2.8 billion in direct loans and $650 million in guaranteed loans for these projects, the FCS's suggested 'limitation' is irrelevant.

6. **Could Severely Damage Community Bank Loan Portfolios** – Due to the significant tax and funding privileges the FCS enjoys over the private sector, FCS could undercut community banks in all of these loans. Community banks would not be able to compete on these deals due to the tax-exempt lending status of the FCS, which had only a 2.2 percent effective tax rate in 2022.

7. **What Proof Exists that FCS Needs These Authorities?** Community banks, either individually or jointly through loan participations, already finance essential community facilities.

8. **Removes the FCA from Close FCS Oversight Increasing Risks** – FCA's review of FCS investments for this broad category of lending would be circumvented. The FCA has allowed the FCS to circumvent the lending parameters of the Farm Credit Act (Act) by allowing investments beyond the lending constraints of the Act. By removing the regulator's oversight with case-by-case approvals of such questionable loans, this proposal raises risks within the FCS and opens the floodgates for non-farm lending.

   These elevated risks arise as the economy appears to be slowing and potentially entering a potentially severe recession. Congress should reject this proposal and have a series of substantive hearings to reform and refocus the FCS.

Real World Experiences Providing Essential Community Facility Loans – I would like to share comments from a couple of community banks financing essential community facilities.

Illinois Banker Comments on FCS Essential Community Facilities Proposal – "The past three years our bank funded credit to our local school district for new buses, our local hospital for infrastructure expansion, and our Economic Development Corporation for building a day care facility servicing 185 kids. We did this by using leasing arrangements with a correspondent bank, USDA Rural Development guarantees, the involvement of other financial institutions and funding from the FHLB-Des Moines. The combination of this financing plus the municipal bond market is more than sufficient to meet the needs for "essential community facilities".

"Involvement in any of this by the FCS could have actually slowed down the process creating more costs in an inflationary economy.

Virginia Banker Comments – "Community banks are at the core for providing funding for these projects. Our bank has made loans to every single community facility being financed during the past two years. FCS's attempted move into this area is contrary to their mission and is an effort to diversify into tax exempt loans outside of their core agriculture business.

"The municipal and essential community facilities lending space is full of potential lenders who step up, in a bid process typically, to meet the needs of communities and happens daily across the U.S. Allowing FCS to make these kinds of loans invites the questions as to why community banks should not also be allowed to receive tax breaks on funding ag loans like FCS does.

"I do not support FCS lending in this space given how closely I personally work with many of these projects. This issue is about roles in the industry, benefits and advantages currently afforded to the FCS in the agriculture financing space that puts other lenders at a competitive disadvantage, and it's about maintaining a fair market."

Proposals to Refocus the Farm Credit System

The FCS is also siphoning **deposits** from community banks and in doing so, stealing away their best customers.

AgriBank's aggressive offering of tax-advantaged **'cash management accounts'** leverage FCS's tax advantages into higher paying deposit-like accounts that threaten to undermine the deposit base of community banks.

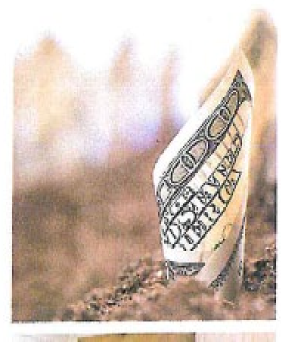
WHEN THE FUTURE IS UNCERTAIN, THE FUNDS YOU HAVE AVAILABLE DON'T HAVE TO BE.

Farm Cash Management® account

The Farm Cash Management®, brought to you by AgriBank combines the availability of a revolving line of credit with the high return of a short-term investment account. The program can save you money by putting your funds to work where they generate the best return.

Farm Cash Management current rate 3.05% as of December 21, 2022.
Rate is subject to change.

- Interest earned is exempt from state and local income tax.
- Investment remains liquid, and account can be accessed at any time.
- No limits or fees on transactions.
- Product is sponsored by AgriBank.



FCM Pays Good Interest Without Tying Up Your Funds

AgriBank Money Market investments earn an interest rate that is comparable to a 3-6 month CD, but your money stays liquid and is always available to you. You can reclaim your money at any time in the same way you might otherwise access your revolving line of credit – online, telephone, local office, or Credit Line draft.

FCM Interest Earnings are Exempt from State & Local Income Taxes

Since the funds you invest are used by AgriBank to fund loans under the Farm Credit Act, your earnings are not subject to state or local income taxes. This feature may significantly increase the return on your investment.

Establishing an FCM Account is Easy

We can show you how to establish a Money Market investment account at AgriBank, FCB, in St. Paul, MN, and link it to your local, revolving line of credit.

These accounts promise that borrowers, not FCS institutions, will be exempt from **all** state and local taxes on these deposit/money market accounts.

Questions – Where does the Farm Credit Act (Act) authorize FCS to provide money market (deposit) accounts, particularly since FCS institutions are not supposed to take deposits? Where does the Act allow FCS lenders to exempt borrowers from taxation? What lender in the private sector can promise their customers exemptions from state and local taxes on MMAs?

Are FCS MMAs or MMDAs subject to SEC oversight?

ICBA Recommendations – We urge Congress to deny the FCS's push for expanded powers and their efforts to siphon potentially enormous amounts of deposits from community banks. Community banks are the sole banking presence in approximately one-third of all U.S. counties. Driving community banks out of rural America by leveraging GSE tax and funding privileges; decimating community bank loan portfolios; and stealing their customers and their customers' deposits is akin to taking a wrecking ball to the economic vitality of our rural communities. Remember, the FCS will be selective in choosing to whom they provide loans or "investments" leaving the remaining rural Americans with fewer financial institutions. Our recommendations:

- Clarify that the Act's investment authorities are to facilitate the agricultural lending purposes of the Act and not for **non-farm** lending.

- Prohibit FCS from stealing community bank deposits through the use of cash management and MMA accounts.

Conclusion

I appreciate the opportunity to testify today. We urge Congress to incorporate our key principles and recommendations into the next farm bill. It is crucial that we help our family farmers and ranchers, including beginning farmers and ranchers, through a strong farm safety net, a robust crop insurance program and access to ample credit for rural borrowers with the help of streamlined USDA loan programs.

It's also "essential" Congress ensures any actions taken to assist rural America reflect the important role community banks play in providing credit to farmers, ranchers and Main Street businesses. Thank you.

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[i] *With nearly 50,000 locations nationwide, community banks employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding $5.8 trillion in assets, $4.8 trillion in deposits, and $3.8 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at* www.icba.org.

[ii] https://www.rd.usda.gov/programs-services/community-facilities/community-facilities-guaranteed-loan-program