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Agricultural Credit: Institutions and Issues

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SUMMARY

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Agricultural Credit: Institutions and Issues

A variety of lenders, from the federal government to commercial banks, make loans to farmers and ranchers. The federal government provides credit assistance to farmers and ranchers who cannot obtain loans elsewhere, and helps assure credit availability across rural areas. At Congress's direction, federal farm loan programs target beginning farmers and socially disadvantaged groups based on race, ethnicity, or gender.

Description of Lenders

The U.S. Department of Agriculture (USDA) Farm Service Agency (FSA) is a small but important lender for family-sized farms that do not qualify for credit elsewhere. FSA also guarantees payments on some loans made by other lenders. At the end of FY2020, FSA had a portfolio of $13.6 billion of direct loans to nearly 89,000 borrowers and loan guarantees of $17.3 billion for 39,000 borrowers. Thus, out of the $441 billion market for farm debt, FSA had a direct market share of 3% of loans and loan guarantees that covered about another 4% of the market. For FY2022, annual appropriations support $10.4 billion of new FSA direct loans and guarantees.

The Farm Credit System (FCS) has the next-largest degree of connection to the government. FCS is a private lender with a federal charter and a statutory mandate to serve creditworthy farmers and ranchers, certain agribusinesses, cooperatives, and rural homeowners in towns with less than 2,500 population. At the end of 2021, FCS had a total loan portfolio of $344 billion, including over $210 billion of farm loans (44% of farm debt). As a government-sponsored enterprise (GSE), FCS has tax advantages and lower costs of funds. Capital is raised through the sale of bonds on Wall Street. Four large banks allocate funds to 67 regional credit associations that, in turn, make loans to eligible creditworthy borrowers.

Another GSE for farm loans is Farmer Mac, a privately held secondary market. Farmer Mac purchases agricultural mortgages and issues guarantees on mortgage-backed securities that are bought by investors. Other agricultural lenders without government support or mandates include commercial banks (36% market share of farm debt); individuals, merchants, and dealers (10%); and life insurance companies (4%).

Farm Sector Balance Sheet

The farm sector's balance sheet has remained strong in recent years. Debt-to-asset and debt-to-income ratios (debts divided by assets and debt divided by net income, respectively) remain near historical averages and are below peak stress levels during the 1980s. The delinquency rates on FSA direct and guaranteed loans have remained fairly steady in recent years through trade disruption and the COVID-19 pandemic. About 30% of all U.S. farms have farm debt. Since 2018, more of net farm income has come from the government in the form of trade aid payments and COVID-19-related assistance.

Issues in Agricultural Credit

A 2019 Government Accountability Office report found that *socially disadvantaged farmers or ranchers* (SDFRs) had proportionately fewer FSA direct and guaranteed loans than other farmers, and that socially disadvantaged farmers continued to face difficulties because of historic, systemic discrimination. Data for FY2021 show that a majority of the number and amount of FSA direct loans were to beginning and socially disadvantaged producers. Direct loans to beginning farmers were more than double the number of loans to SDFRs and more than three times the amount of loans to SDFRs.

The American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) contained a debt forgiveness provision for SDFRs on FSA direct and guaranteed loans. Courts blocked implementation of the ARPA provision after the relief was found to be race-based and not narrowly tailored to meet a compelling state interest. The House-passed Build Back Better Act (H.R. 5376, 117th Congress) would rescind and replace the ARPA provision and is tailored to economically distressed borrowers. The BBBA plan would provide more debt relief than the ARPA provision.

Competition between FCS and commercial banks remains an issue in agricultural lending. FCS is unique among the GSEs, because it is a retail lender making loans directly to farmers and thus is in direct competition with commercial banks. Because of this direct competition for creditworthy borrowers, FCS and commercial banks often have an adversarial relationship in the policy realm. Commercial banks and FCS both support the FSA loan guarantee program and do not see FSA as a competitor because FSA allows them to make and service loans that otherwise might not be possible at acceptable risk levels.

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Description of Government-Related Farm Lenders

The federal government has a long history of assisting farmers with obtaining loans for farming. This intervention has been justified at one time or another by many factors, including the presence of asymmetric information among lenders or between lenders and farmers,[1] the lack of competition in some rural areas, insufficient lending resources, and the desire for targeted lending to disadvantaged groups (such as small farms or farmers and ranchers who are socially disadvantaged based on race, ethnicity, or gender).[2]

Several types of lenders make loans to farmers. Some are government entities or have a statutory mandate to serve agriculture. The one most closely controlled by the federal government is the Farm Service Agency (FSA) in the U.S. Department of Agriculture (USDA). FSA receives federal appropriations to make direct loans to farmers and to issue guarantees on loans made by other lenders to farmers who are unable to obtain credit elsewhere.

The lender with the next-largest amount of government intervention is Farm Credit System (FCS). It is a private, government-sponsored enterprise (GSE) with a federal charter and a statutory mandate to serve only agriculture-related borrowers.[3] FCS makes loans to creditworthy farmers and is not a lender of last resort. Third is Farmer Mac, another privately held GSE, which provides a secondary market for agricultural loans by reselling these loans to private investors.[4]

Other lenders do not have direct government involvement in their funding or existence. These lenders include commercial banks, life insurance companies, individuals, merchants, and dealers.

USDA Farm Service Agency

FSA is considered a *lender of last resort* because it makes direct farm ownership and operating loans to family-sized farms that are unable to obtain credit elsewhere. FSA also guarantees timely payment of principal and interest on qualified loans made by commercial banks and FCS. Periodic farm bills may modify the permanent authority for FSA's lending activities in the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. 1921 et seq.). At the end of FY2020, FSA had a portfolio of $13.6 billion of direct loans to nearly 89,000 borrowers and loan guarantees of $17.3 billion for 39,000 borrowers.[5] FSA direct loans were about 3% of the market for farm debt and FSA loan guarantees covered about another 4% of the market.

Although FSA has a relatively small share of the market compared with other lenders, it is an important lender for certain segments of the agricultural industry. Part of the FSA loan program is reserved for beginning farmers and ranchers (7 U.S.C. 1994 (b)(2)). For direct loans, 75% of the

[1] Asymmetric information is a type of market failure that arises when parties have different insights about a transaction.

[2] Charles Moss, *Agricultural Finance* (New York: Routledge, 2013).

[3] A government-sponsored enterprise (GSE) is a federally chartered, nongovernment entity with certain benefits (such as tax exemption, implicit federal guarantees, or risk management tools) that overcome barriers to private markets in achieving a stated goal. For the Farm Credit System (FCS), its charter is limited to serving agriculture-related businesses and rural homeowners. Other examples of GSEs include the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Home Loan Bank System, and Federal Agricultural Mortgage Corporation (Farmer Mac).

[4] A secondary market purchases qualified loans from originating lenders, pools them, and may sell them to investors as securities or hold them in its own portfolio. This provides a risk management option that lets lenders make more loans and satisfy regulatory requirements.

[5] U.S. Department of Agriculture (USDA), Farm Service Agency (FSA), "Farm Loan Programs Loan Servicing Data," at https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/program-data.

funding for farm ownership loans and 50% of operating loans are reserved for the first 11 months of the fiscal year. For guaranteed loans, 40% is reserved for farm ownership and operating loans for the first half of the fiscal year. Funds also are targeted to farmers who are "socially disadvantaged" by race, gender, and ethnicity (7 U.S.C. 2003). Using these provisions, FSA is known as a *lender of first opportunity* for many borrowers.[6] For more information, see "Targeting Loans."

During FY2022, an appropriation of $62 million in budget authority (plus $314 million for salaries and expenses) is supporting $10.4 billion of new direct loans and guarantees.[7] Direct farm ownership loans (real estate) are limited to $600,000 per borrower, direct operating loans are limited to $400,000, and microloans are limited to $50,000 for both ownership and operating loans. Guaranteed loans may be up to $1.825 million (adjusted for inflation). Direct emergency loans up to $500,000 are available for disasters if a farm suffers a 30% loss in a designated or contiguous county.[8]

Congress added term limits to the farm loan program in 1992 and 1996 to limit eligibility for government farm loans and to encourage farmers to "graduate" to commercial loans. The term limits place a maximum number of years that farmers are eligible for certain types of FSA loans or guarantees. For a period until the end of 2010, Congress had suspended enforcement of a term limit on guaranteed operating loans to prevent some farmers from being denied credit. The 2014 farm bill (P.L. 113-79) eliminated the term limit on guaranteed operating loans (**Table 1**).

Table 1. Term Limits on Farm Service Agency (FSA) Loans

(maximum number of years that farmers are eligible for loans)

Type of FSA Loan	Direct Loans Term Limits	Guaranteed Loans Term Limits
Farm Operating Loans	6 years, plus possible 2-year extension[a]	No term limit[b]
Farm Ownership Loans	10 years[c]	No term limit

Source: CRS, based on statute and unpublished USDA data.

Notes: Term limits are different from the maximum maturity or duration of an individual loan, which may be as long as 40 years for a farm ownership loan or as short as 1 year for a farm operating loan.

a. Direct operating loans are limited to a six-year period. In certain cases, borrowers may qualify for a one-time, two-year extension (7 U.S.C. 1941(c)(1)(C) and (c)(4)).
b. The 2014 farm bill (P.L. 113-79) permanently removed this term limit. Guaranteed operating loans had been limited to a 15-year period, though enforcement was suspended by statute through 2010.
c. A borrower is eligible to receive new direct farm ownership (real estate) loans for a maximum of 10 years after the first loan is made (7 U.S.C. 1922(b)(1)(C)). The repayment term may exceed the term limit.

Farm Credit System

Congress established FCS in 1916 to provide a dependable and affordable source of credit to rural areas at a time when commercial lenders avoided farm loans. FCS is not a government agency, nor is it guaranteed by the U.S. government; it is a network of borrower-owned lending institutions operating as a GSE. It is not a lender of last resort but a for-profit lender with a statutory mandate to serve agriculture. Funds are raised through the sale of bonds on Wall Street.

[6] CRS In Focus IF10641, *Farm Bill Primer: Federal Programs Supporting New Farmers*.

[7] CRS Report R46951, *Agriculture and Related Agencies: FY2022 Appropriations*.

[8] FSA, "Farm Loan Program," at http://www.fsa.usda.gov/dafl.

Four large banks allocate these funds to 67 credit associations that, in turn, make loans to eligible creditworthy borrowers.

Statutes and oversight by the House and Senate Agriculture Committees determine the scope of FCS activity (Farm Credit Act of 1971, as amended; 12 U.S.C. 2001 et seq.). Benefits such as tax exemptions for FCS lenders and bondholders also are provided. Loan eligibility is limited to farmers and ranchers, certain farm-related agribusinesses, rural homeowners in towns with a population of fewer than 2,500, and cooperatives.[9] The federal regulator is the Farm Credit Administration (FCA).[10]

At the end of 2021, FCS had a total portfolio of $344 billion of loans, including about $210 billion of farm loans.[11] FCS holds about 44% of the share of farm debt.

Farmer Mac

Farmer Mac is a GSE that is a secondary market for agricultural loans. Some consider Farmer Mac to be related to FCS because FCA regulates both Farmer Mac and FCS, and both were created by the same legislation; however, Farmer Mac is financially and organizationally a separate entity from FCS. Farmer Mac purchases mortgages from lenders and guarantees mortgage-backed securities that are bought by investors.[12]

Current Situation

Market Shares of Farm Debt

Figure 1 shows that, based on USDA data for 2020, FCS and commercial banks provide most of the farm credit (44% and 36%, respectively) followed by individuals and others (10%) and by life insurance companies (4%).[13] FSA provides about 3% of farm debt through direct loans. FSA also guarantees about another 4% of the market through loans that are made by commercial banks and FCS.

The total amount of farm debt ($441 billion at the end of 2020) is concentrated relatively more in real estate debt (65%) than in nonreal estate debt (35%). FCS is the largest lender for farm real estate (49%). Commercial banks are the largest lender for nonreal estate farm loans (41%).

As **Figure 1** shows, both commercial banks' and FCS's shares have grown since the 1980s as other lenders' shares have decreased. FSA holds a much smaller share of farm debt today than it held during the 1980s farm financial crisis. Commercial banks held relatively little farm real estate debt through 1985 but now hold a sizeable amount, which has increased their share of total farm debt. Recently, the share of farm debt held by FCS has increased relative to commercial banks. The share of loans from "individuals and others" had steadily decreased over time,

[9] CRS Report RS21278, *Farm Credit System*.

[10] CRS In Focus IF10767, *Farm Credit Administration and Its Board Members*.

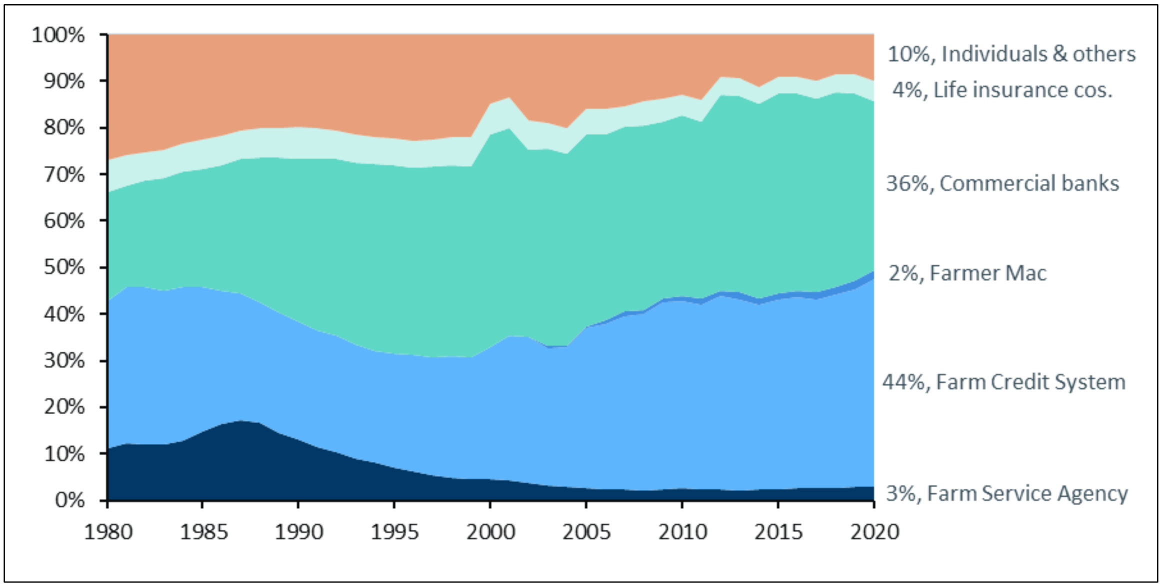
[11] Federal Farm Credit Banks Funding Corporation, *2020 Annual Information Statement of the Farm Credit System*, March 2021.

[12] CRS In Focus IF11595, *Farmer Mac and Its Board Members*.

[13] USDA, Economic Research Service (ERS), "Farm Income and Wealth Statistics," at http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.aspx.

following fewer private contracts for farm real estate, but has stabilized and may be increasing from a mix of dealer financing and nontraditional lenders.[14]

Figure 1. Market Shares by Lender of Total Farm Debt, 1980-2020



Source: Congressional Research Service (CRS), using year-end data from the U.S. Department of Agriculture (USDA) Economic Research Service (ERS), as of February 4, 2022.

Notes: Percentages on the right are for 2020 and are rounded to the nearest percent. Shares in the graph are for direct loans. Guarantees are not shown; Farm Service Agency guarantees about 4% of farm loans that are included in the shares of commercial banks and the Farm Credit System.

The Farm Balance Sheet

As a whole, farm assets have remained strong and grown steadily since the end of the 1980s, though inflation-adjusted growth has slowed since 2014. At the end of 2022, farm sector assets totaled nearly $3.3 trillion, according to USDA (**Figure 2**), which was 1% below their 2014 peak in inflation-adjusted terms. Real estate accounted for about 82% of total farm assets in 2020; machinery and vehicles were the next-largest category, at about 9% of the total.[15] USDA forecasts that farm assets will increase by 1.3% in 2022.

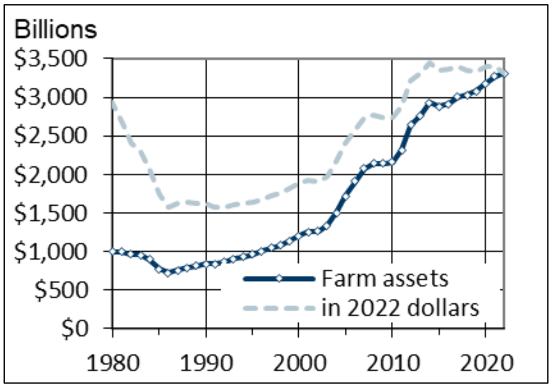
Farm debt reached a historic high of $454 billion at the end of 2021 (**Figure 3**). About 30% of U.S. farms have farm debt.[16] USDA forecasts that debt will increase by 2.9% in 2022. In inflation-adjusted terms, this forecast debt is approaching, but remains 1.2% below, the peak level of farm debt in the 1980s.

[14] Brady Brewer, Jennifer Ifft, and Nigel Key, "Guest editorial: Nontraditional Credit in U.S. Agriculture," *Agricultural Finance Review*, vol. 82, no. 2 (March 2022), pp. 205-213.

[15] ERS, "Farm Income and Wealth Statistics."

[16] ERS, "Debt Use by U.S. Farm Businesses, 1992-2011," EIB-122, April 2014, p. 3. Updated by ERS in special tabulations for the author, March 5, 2021.

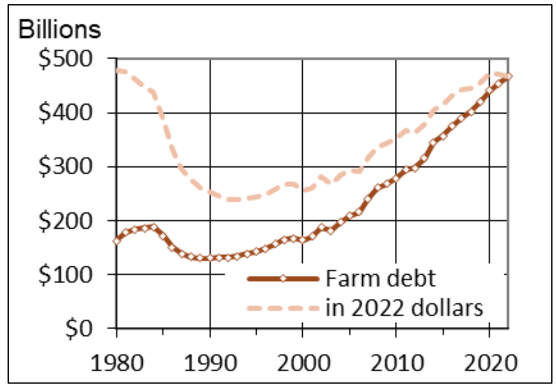
Figure 2. Farm Assets



Source: CRS, using ERS data.

Note: 2022 is forecast, as of February 4, 2022.

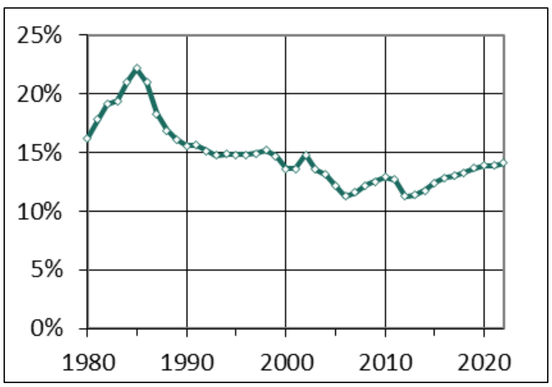
Figure 3. Farm Debt



Source: CRS, using ERS data.

Note: 2022 is forecast, as of February 4, 2022.

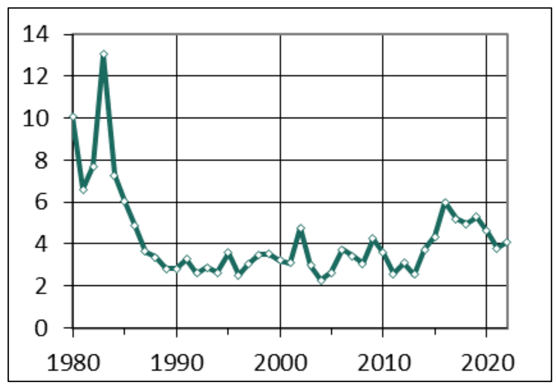
Figure 4. Farm Debt-to-Asset Ratio



Source: CRS, using ERS data.

Note: 2022 is forecast, as of February 4, 2022.

Figure 5. Farm Debt-to-Income Ratio

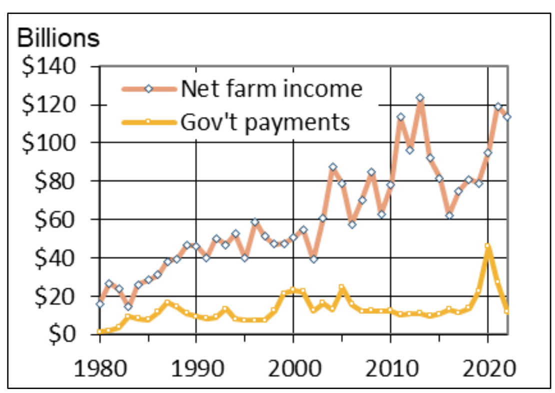


Source: CRS, using ERS data.

Note: 2022 is forecast, as of February 4, 2022.

Financial risk to a sector is indicated when the debt-to-asset ratio (debts divided by assets) is high. Farm debt-to-asset ratio levels have declined fairly steadily since the farm crisis of the 1980s (**Figure 4**). When farm asset growth paused in 2009-2010, the debt-to-asset ratio rose before returning to a historic low in 2012. The debt-to-asset ratio has been slowly rising due to lower farm incomes, trade disruption, and the COVID-19 pandemic, although it remains at historic

Figure 6. Net Farm Income and Government Payments



Source: CRS, using ERS data.

Note: 2022 is forecast, as of February 4, 2022.

averages and is not as highly leveraged as it was in the 1980s.[17]

Another indicator of leverage is the debt-to-income ratio (debt divided by net income, or the number of years of current income to cover debt; **Figure 5**). The farm debt-to-income ratio is more variable than the debt-to-asset ratio. The decline in net farm income from 2013 to 2016 caused the ratio to rise to levels not seen since the 1980s, until high income from government payments in 2020 returned the ratio to near its 10-year average.

Net farm income has become more variable, especially since 2000 (**Figure 6**). Net farm income reached highs in 2011 and 2013 but fell below the 10-year average for the next six years, through 2019. Large government payments in 2019-2021 raised farm income to a near high absolute level and improved producers' debt-repayment capacity during the pandemic. Although government payments to producers have risen from decades ago, these payments do not completely offset income variability when net farm income falls. Since 2018, an increasing portion of net farm income has come from the government in the form of trade aid payments and COVID-19-related assistance.[18] A forecast decline in government payments in 2022 may reduce net farm income.

Delinquency Rates on Farm Loans

During the COVID-19 pandemic, USDA suspended loan accelerations (i.e., the requirement for immediate repayment) and new foreclosures on farm loans. FSA also temporarily expanded the Disaster Set-Aside (DSA) provision to allow more payment flexibility. The DSA provision allows a borrower to move a loan payment to the end of the loan or, in the case of an annual operating loan, to extend the payment by a year. Interest continues to accrue on the deferred principal; neither the interest nor the principal is forgiven.[19] About 4,000 borrowers used the DSA provision in 2020.[20]

Delinquency rates include loans that are 30 days or more past due and are still accruing interest. The delinquency rate on FSA direct loans is about 4.3% (of loan portfolio value) at the end of FY2020, the most recent data available, and has decreased through the trade disruption and the pandemic likely as a result of higher government payments, despite FSA being a lender of last resort. The delinquency rate on FSA guaranteed loans is lower, at about 1.5%, arguably reflecting the comparatively higher quality of these loans made by other lenders (**Figure 7**).

A more severe measure of loan performance problems is nonperforming loans: nonaccrual loans and interest-accruing loans 90 days or more past due. These loans are more in jeopardy than delinquent loans and represent a smaller subset of loans. The nonperforming rate on farm loans at commercial banks rose after the financial crisis in 2009 but recovered through 2016. Lower farm incomes through 2019, along with trade disruption and the pandemic, increased the rate of nonperforming loans, but not to the levels of a decade ago. The rate of nonperforming loans at commercial banks has recovered, decreasing through 2021 after the first year of the pandemic. At FCS, nonperforming loans recovered after the 2007-2009 financial crisis and have remained steady through the period of lower farm income after 2013, owing in part to government support during the trade disruption and the pandemic.

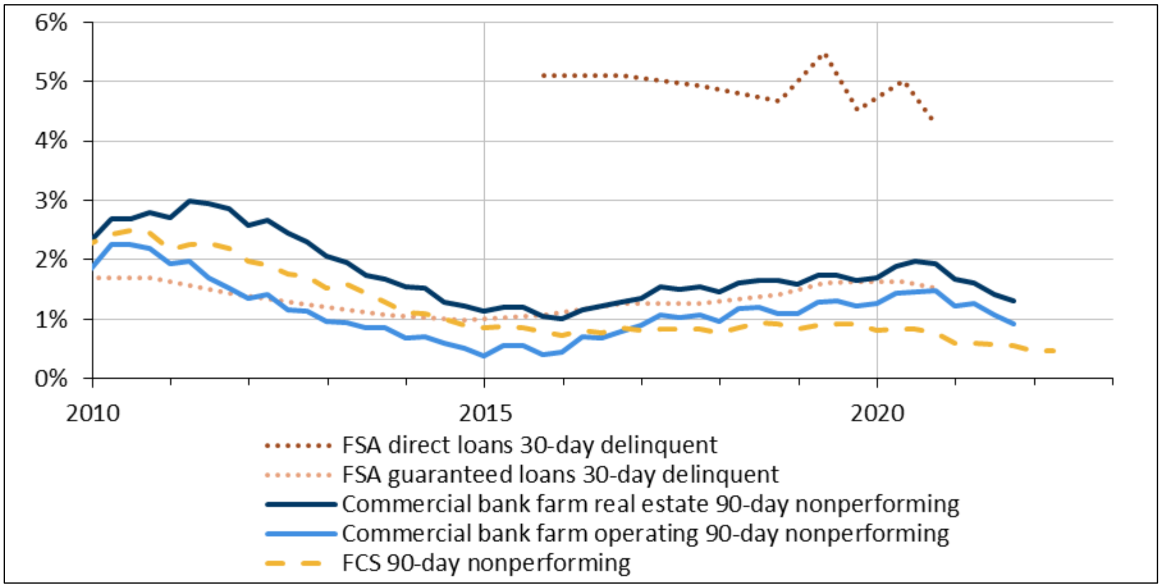
[17] For more on the trade disruption, see CRS Report R45310, *Farm Policy: USDA's 2018 Trade Aid Package*.

[18] CRS Report R47051, *U.S. Farm Income Outlook: 2021 Forecast*.

[19] CRS Insight IN11415, *COVID-19 and USDA Farm Loan Flexibilities*.

[20] Based on CRS communication with the deputy administrator for Farm Loans Programs, USDA FSA, March 26, 2021.

Figure 7. Delinquent and Nonperforming Agricultural Loans, 2010-2022Q1



Sources: Compiled by CRS, using USDA, FSA, "Farm Loan Programs Loan Servicing Data," FY2010-FY2020; Federal Reserve Bank of Kansas City, Commercial Bank Call Report Data, "Delinquent Farm Loans," 2010-2021Q3; and Federal Farm Credit Banks Funding Corporation, "Information Statements: Nonperforming Assets," 2010-2022Q1.

Notes: FCS = Farm Credit System; FSA = USDA Farm Service Agency. Delinquencies include nonaccrual loans and accruing loans that are 30 days or more past due. Nonperforming loans include nonaccrual loans and accruing loans 90 days or more past due. Percentages are of the dollar amounts of loans.

Targeting Loans

Socially disadvantaged farmers or ranchers (SDFRs) were originally defined for the FSA farm loan program in 1987 as those who have been subjected to racial or ethnic prejudice (7 U.S.C. §2003).[21] Congress expanded the definition for the farm loan program in 1992 to include gender.[22] SDFR targets are determined at the county level based on local demographic information for the population of farmers and ranchers. The farm loan program also reserves funds for beginning farmers and ranchers for part of the fiscal year (7 U.S.C. §1994(b)(2)).

The targeting and reservation requirements combine to become a targeted funding amount for FSA loans annually. **Table 2** indicates that FSA's targeted ratios in FY2022 exceed the statutory reservation requirement for beginning farmers and ranchers, implying that some amount of the target is for socially disadvantaged borrowers. These amounts are available prospectively at the beginning of the fiscal year. Non-targeted borrowers may borrow from the non-targeted pool of funds but may face agency-level borrowing authority limits before the group of targeted borrowers.[23]

[21] P.L. 100-233, §617 (Agricultural Credit Act of 1987); 7 U.S.C. §2003 (Target Participation Rates). For more background, see CRS Report R46727, *Defining a Socially Disadvantaged Farmer or Rancher (SDFR): In Brief*.

[22] P.L. 102-554 (Agricultural Credit Improvement Act of 1992) added gender to the definition in 7 U.S.C. §2003(e).

[23] See USDA-FSA, "Funding Frequently Asked Questions," at https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/funding.

Table 2. FSA Farm Loan Program Targeted Funds, FY2022

(dollars in millions)

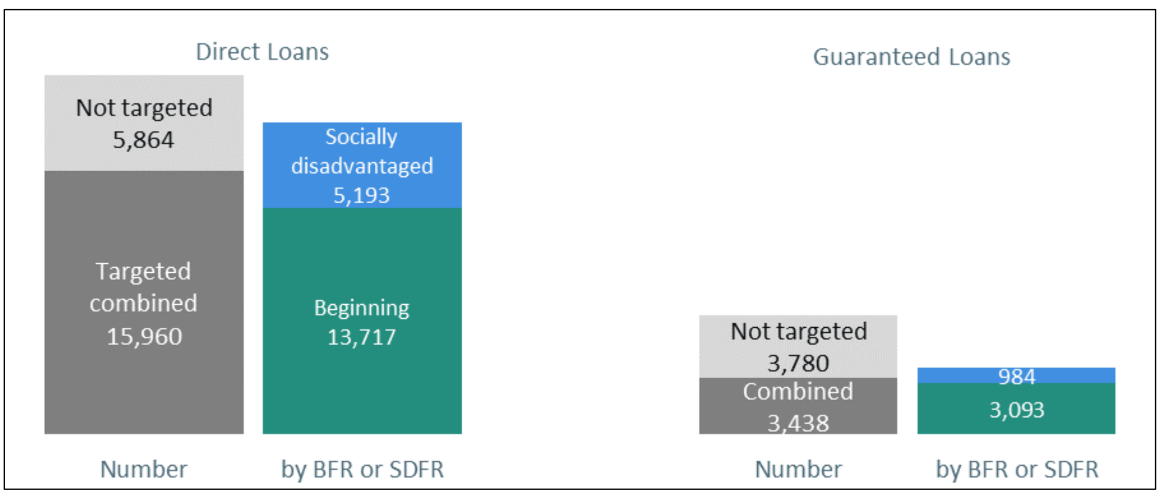
Program	Available Funds	Targeted funds	Overall targeted rate	Reservation required for beginning farmers and ranchers
Direct Operating	$2,303	$1,423	62%	50%
Direct Farm Ownership	$2,800	$2,277	81%	75%
Guaranteed Operating	$3,091	$1,263	41%	40%
Guaranteed Farm Ownership	$3,500	$1,926	55%	40%

Source: Compiled by CRS, using USDA-FSA data. Farm Loan Program Funding, at https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/funding/index, accessed July 8, 2022.

Notes: Targeted amounts are determined FSA and cover both beginning and socially disadvantaged producers. Statutory reservation rates for beginning farmers and ranchers are for part of the year and are shown for comparison (7 U.S.C. §1994(b)(2)); an amount is not specified in statute to be targeted to socially disadvantaged farmers or ranchers (7 U.S.C. §2003).

Figure 8 and **Figure 9** show the actual lending activity by FSA in FY2021, for lending that occurred under the targeted amounts above. A majority of FSA's direct loans (by both number and amount) were to targeted groups. Direct loans to beginning farmers and ranchers were more than double the number of loans to SDFRs and more than three times the amount of loans to SDFRs. Some producers qualify as both beginning and socially disadvantaged producers; therefore, the sum of the two categories exceeds the combined amount of targeted activity.

Figure 8. Number of FSA Targeted Loans Made to Beginning and Socially Disadvantaged Producers, FY2021

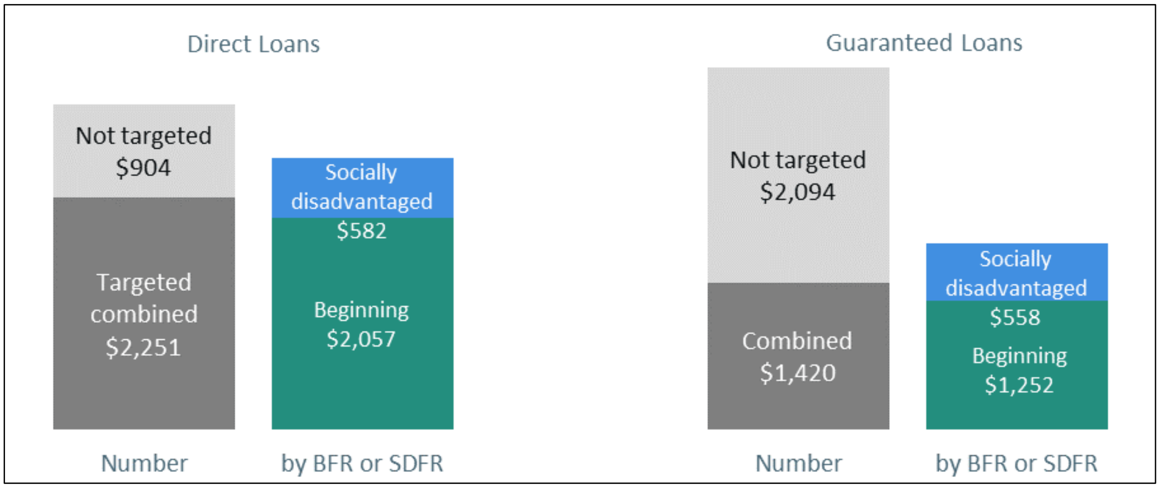


Source: Compiled by CRS, using USDA-FSA, Farm Loan Program Data, "FY 2021 Funding Accomplishments."

Notes: Targeted loans include both socially disadvantaged and beginning producers. Because some producers may qualify in both categories, the combined number of targeted loans is less than the sum of the groups individually.

Figure 9. Amount of FSA Targeted Loans Made to Beginning and Socially Disadvantaged Producers, FY2021

(dollars in millions)



Source: Compiled by CRS, using USDA-FSA, Farm Loan Program Data, "FY2021 Funding Accomplishments."

Notes: Targeted loans include both socially disadvantaged and beginning farmers. Because some producers may qualify in both categories, the combined amount of targeted loans is less than the sum of the groups individually.

Over the past five years (FY2017-FY2021), the share of FSA lending to SDFRs has remained fairly steady (**Table 3**). The number of direct loans to SDFRs has decreased, and the share has decreased a few percentage points, but the amount of SDFR direct loans has increased. For FSA guaranteed loans, the shares of the number and amounts of loans to SDFR borrowers have increased, particularly in FY2021.

Table 3. FSA Lending to Socially Disadvantaged Farmers or Ranchers (SDFR)

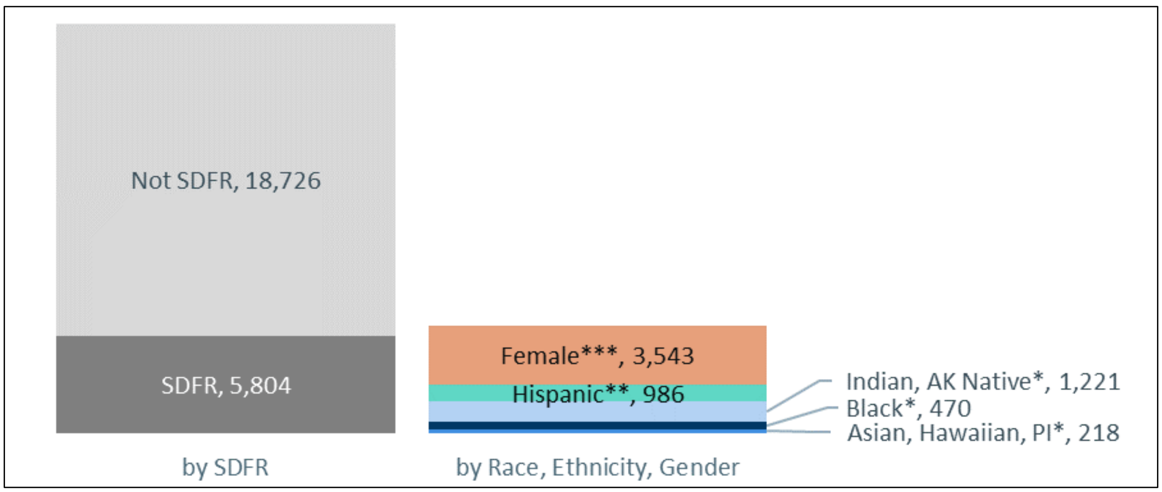
	Direct loans					
	Number of loans made			Amount ($ millions)		
Year	Total	SDFR	%	Total	SDFR	%
FY2017	28,680	7,759	27%	$2,328	$454	19%
FY2018	26,157	6,805	26%	$2,258	$416	18%
FY2019	24,629	5,804	24%	$2,621	$436	17%
FY2020	25,999	5,864	23%	$3,360	$569	17%
FY2021	21,824	5,193	24%	$3,156	$582	18%
	Guaranteed loans					
	Number of loans made			**Amount ($ millions)**		
Year	**Total**	**SDFR**	**%**	**Total**	**SDFR**	**%**
FY2017	9,604	945	10%	$3,645	$378	10%
FY2018	8,375	849	10%	$3,205	$350	11%
FY2019	7,611	752	10%	$3,107	$353	11%
FY2020	8,966	988	11%	$4,157	$520	12%
FY2021	7,218	984	14%	$3,514	$558	16%

Source: Compiled by CRS, using USDA-FSA, Farm Loan Program Data, "Funding Accomplishments" (various years), at https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/program-data.

Notes: Includes farm operating and farm ownership loans only; excludes emergency loans.

Regularly reported FSA loan data do not identify borrower demographics within the SDFR category. However, the 2018 farm bill contained a reporting provision (§5413 of P.L. 115-334) that provided additional demographic detail. Such data are available, as of this date, for FY2019 only. **Figure 10** and **Figure 11** show the distribution of SDFR borrowers by race, ethnicity, and gender for direct and guaranteed loans. Because borrowers may identify in multiple categories (e.g., non-White Hispanic or Black female), the sum of the demographic records exceeds the number of SDFR borrowers. The figures show that women account for about 60% of direct loan SDFR borrowers and 45% of guaranteed loan SDFR borrowers. While women may account for some of the overlap in the SDFR category, their addition to the SDFR category for farm loans in 1992 significantly affects the SDFR representation.

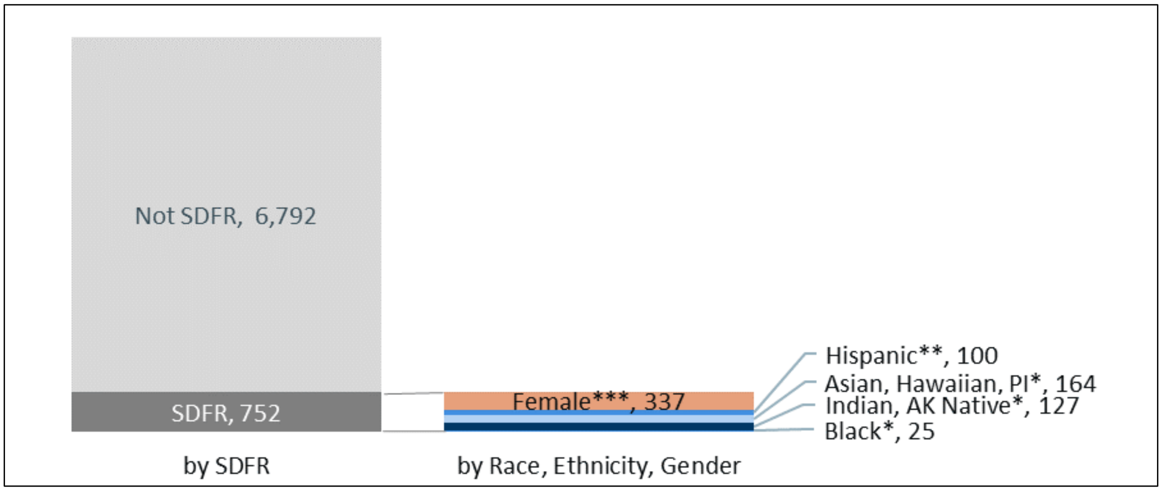
Figure 10. Number of FSA Direct SDFR Loans Made by Race, Ethnicity, and Gender, FY2019



Source: Compiled by CRS, using data from USDA-FSA, "Section 5413 Report to Congress," as mandated by the 2018 farm bill (P.L. 115-334), September 2020; and USDA-FSA, Farm Loan Program Data, "FY2019 Funding Accomplishments."

Notes: Socially disadvantaged farmers or ranchers (SDFRs) include both categories of race (*), ethnicity (**), and gender (***). Because some producers may identify in multiple categories, the combined SDFR number is less than the sum of the individually identified groups. Indian = Native American; AK = Alaska Native; Hawaiian = Hawaiian Native, PI = Pacific Islander.

Figure 11. Number of FSA Guaranteed SDFR Loans Made by Race, Ethnicity, and Gender, FY2019



Source: Compiled by CRS, using data from USDA-FSA, "Section 5413 Report to Congress," as mandated by the 2018 farm bill (P.L. 115-334), September 2020; and USDA-FSA, Farm Loan Program Data, "FY2019 Funding Accomplishments."

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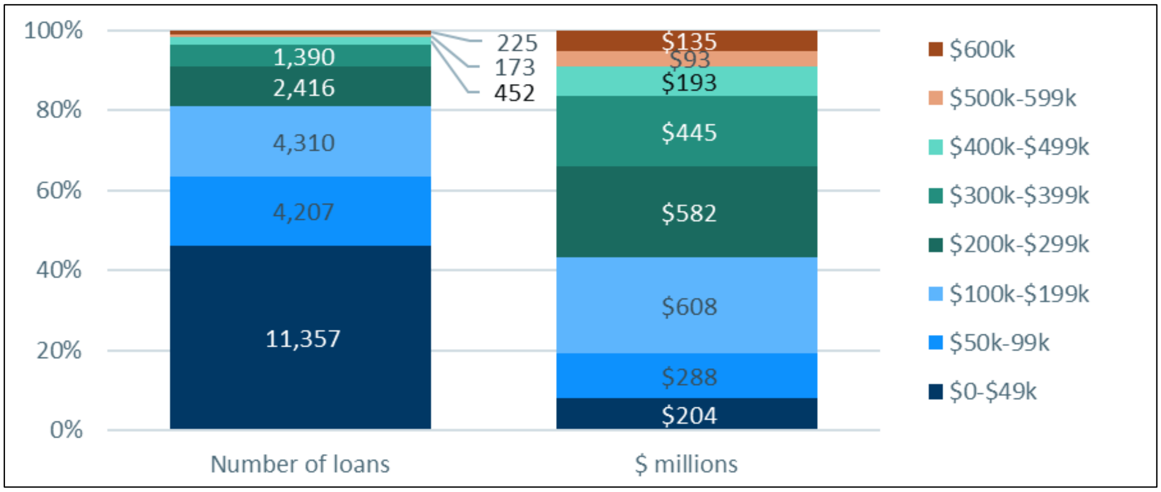
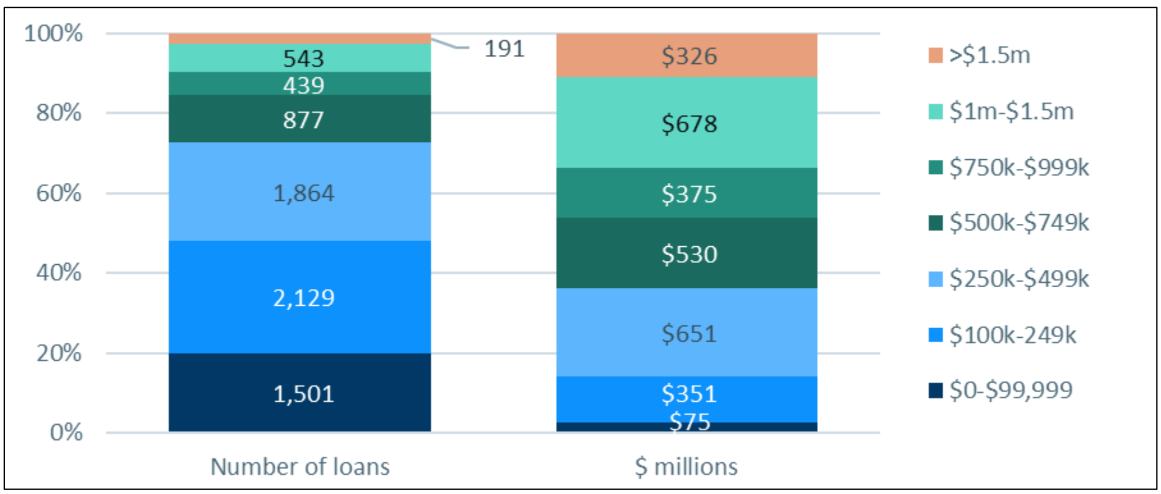
Figure 12 and **Figure 13** show the distribution by size of loan for the number and amount of all FSA direct and guaranteed loans. This is separate from the lending requirements for beginning and socially disadvantaged producers. A natural occurrence with such distributions is that a large number of small borrowers may represent a small proportion of the dollar amount of loans. The smallest category of loans in **Figure 12** is the FSA microloan category (loans under $50,000). Microloans were 46% of the number of FSA direct loans made in FY2019 but were 8% of the loan volume. By contrast, the largest two categories of direct loans (loans over $500,000) were less than 2% of the number of loans but were 9% of the loan volume. **Figure 13** shows similar relationships for the guaranteed loan program.

Figure 12. Number and Amount of FSA Direct Loans Made by Size, FY2019



Source: Compiled by CRS, using data from USDA-FSA, "Section 5413 Report to Congress," as mandated by the 2018 farm bill (P.L. 115-334), September 2020.

Figure 13. Number and Amount of FSA Guaranteed Loans by Size, FY2019



Source: Compiled by CRS, using data from USDA-FSA, "Section 5413 Report to Congress," as mandated by the 2018 farm bill (P.L. 115-334), September 2020.

Unlike FSA, FCS has a different statutory mandate that does not limit its lending to family-sized farms that are unable to obtain credit elsewhere. The FCS is to be responsive to the needs of all types of creditworthy agricultural producers. However, FCS has a statutory requirement to serve young, beginning, and small (YBS) farmers and ranchers.[24] According to the FCA, the FCS is not statutorily mandated to focus on providing financial opportunities to any other group.[25] A proposed rule by the Consumer Financial Protection Bureau (CFPB) could impose a reporting requirement on lenders, including the FCS, about racial and ethnic demographics.[26] The rule

[24] 12 U.S.C. § 2207(a).

[25] Government Accountability Office (GAO), *Agricultural Lending: Information on Credit and Outreach to Socially Disadvantaged Farmers and Ranchers Is Limited*, GAO-19-539, July 11, 2019.

[26] Consumer Financial Protection Bureau, "Small Business Lending Data Collection Under the Equal Credit Opportunity Act (Regulation B)," 86 *Federal Register* 56356-56606, 2021.

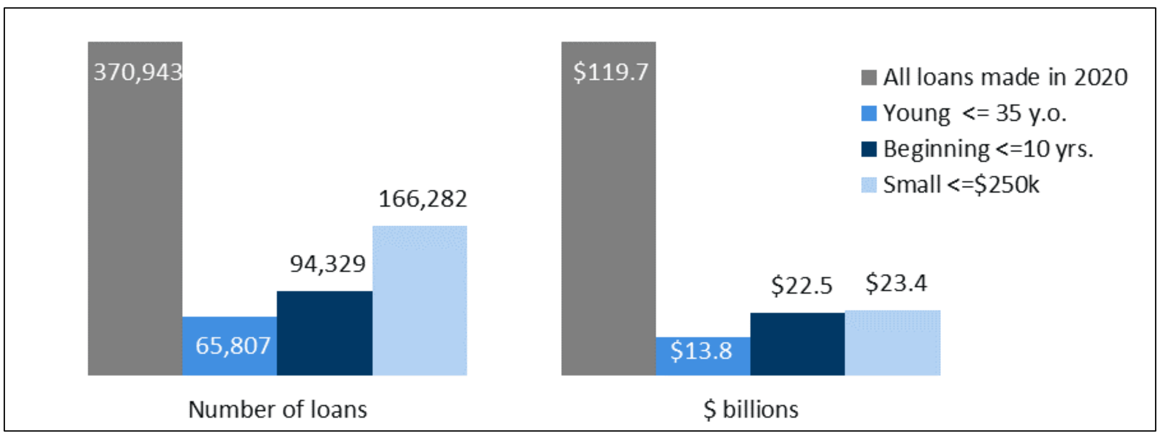
would implement changes to the Equal Credit Opportunity Act made by the Dodd-Frank Act (§1071 of P.L. 111-203) to collect data on small business credit applications, including those owned by women or minorities.

YBS lending by FCS does not have a quota but has only a reporting requirement. FCA defines young farmers as those who are 35 years old or younger, beginning farmers as those who have been farming for 10 years or less, and small farms or ranches as those with gross annual sales of less than $250,000.

FCA has maintained that because the YBS mission focuses on each borrower group separately, it reports data separately for each group and does not provide a combined summary, even though there is likely significant overlap. Without a category that combines the YBS groups (like FSA combines beginning and socially disadvantaged producers), the FCS data for YBS can only be used separately. Adding the loans across categories would not be accurate.

Figure 14 shows FCS lending to YBS in 2020 compared with all FCS farm loan activity. Of nearly 371,000 FCS loans made, about 18% were to young farmers, 25% to beginning farmers, and 45% were to small farms or ranches. Since YBS loans are typically smaller than the average FCS loan, the percentages of the $120 billion of loans made were smaller than for the number of loans: about 12% of the amount of loans were to young farmers, 19% to beginning farmers, and 20% to small farmers.

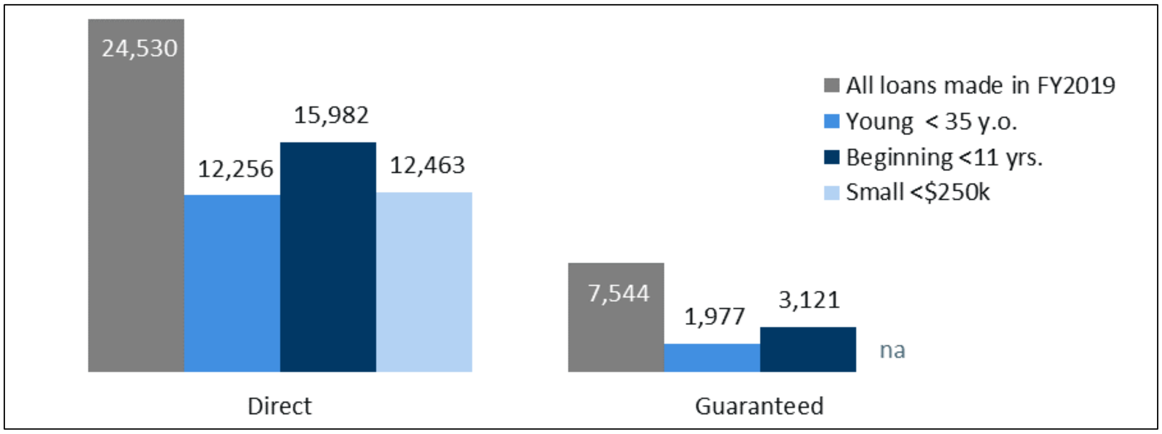
Figure 14. FCS Loans Made (Number and Amount) to Young, Beginning and Small (YBS) Producers, 2020



Source: Compiled by CRS, using FCA data, "Fact sheet on Farm Credit System young, beginning, and small (YBS) farmer lending results for 2020," August 13, 2021.

For comparison, **Figure 15** shows FSA lending activity to similar groupings of young, beginning, and small farms or ranches. Available FSA data are for FY2019, which is the only year with available farm loan data for these categories and is available for the number of loans only and not the amount. As may be expected, for a lender of first opportunity, the share of the number of FSA direct loans made to farmers who are young (50%), beginning (65%), or small (51%) was higher than for FCS. Similarly, a relatively high share of the number of FSA loan guarantees are to young (26%) and beginning (41%) farmers, facilitating their transition to commercial sources of credit, such as the FCS.

Figure 15. FSA Loans (Number of Direct and Guaranteed) Made to YBS Producers, FY2019



Source: Compiled by CRS, using data from USDA-FSA, "Section 5413 Report to Congress," as mandated by the 2018 farm bill (P.L. 115-334), September 2020.

Note: na = Data by size of farm (farm sales) were not available for guaranteed loans.

Issues in Agricultural Credit

Debt Forgiveness for Socially Disadvantaged Farmers or Ranchers

The American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) contains a farm loan debt forgiveness provision for SDFRs, using a definition that excludes gender.[27] Eligible loans included FSA direct and guaranteed loans and USDA Farm Storage Facility Loans. The payments were intended to retire loan balances, with a 20% excess payments over 100% to cover tax liabilities and bank fees associated with debt forgiveness.[28] The Congressional Budget Office (CBO) initially estimated the debt forgiveness provision would cost $4 billion.[29]

USDA issued a Notice of Funds Availability for direct loan forgiveness in May 2021 and began to collect applications.[30] However, various courts blocked implementation of the ARPA debt forgiveness program after the relief was found to be race-based and not narrowly tailored to meet a compelling state interest.[31] Legal restrictions on USDA making payments have included a temporary restraining order in Wisconsin (*Faust v. Vilsack*), a preliminary injunction in a Florida case (*Wynn v. Vilsack*), and a class action suit certified and pending in Texas (*Miller v. Vilsack*).[32]

[27] CRS Report R47066, *Racial and Ethnic Equity in U.S. Agriculture: Selected Current Issues*.

[28] Federal, state, or local tax provisions may treat debt forgiveness as taxable income. Lenders may charge fees associated with early repayment of loan balances.

[29] CBO, *Estimated Budgetary Effects of H.R. 1319, American Rescue Plan Act of 2021*, March 10, 2021, at https://www.cbo.gov/publication/57056. USDA later estimated that between 11,000 and 13,000 individuals would be eligible to receive direct loan forgiveness. See Laura Reiley, "USDA to start debt forgiveness and payouts to some 13,000 Black, Hispanic and other minority farmers in June," *Washington Post*, May 21, 2021.

[30] USDA, "Notice of Funds Availability; American Rescue Plan Act of 2021 Section 1005 Loan Payment (ARPA)," 86 *Federal Register* 28329, May 26, 2021. See also USDA, "American Rescue Plan Debt Payments" at https://www.farmers.gov/loans/american-rescue-plan.

[31] CRS Legal Sidebar LSB10631, *The American Rescue Plan Act: Equal Protection Challenges*.

[32] National Agricultural Law Center, "Judge Certifies Two Classes in Lawsuit Challenging Minority Debt Relief

After the ARPA debt forgiveness payments were blocked, the House passed the Build Back Better Act, Title I (BBBA; H.R. 5376, §12101, 117th Congress).[33] The BBBA provision would rescind and replace the ARPA provision.[34] The BBBA provision is tailored to "economically distressed borrowers" instead of being based on race and ethnicity.[35] The CBO estimates the BBBA plan would provide more debt relief than the ARPA provision—$11.7 billion made up of two parts:[36]

1. such sums as necessary, estimated to be $10.7 billion, to forgive USDA direct loans—(a) either in full for economically distressed borrowers or, (b) for borrowers not meeting economically distressed criteria, up to $150,000 reduced by payments from the Coronavirus Food Assistance Program (CFAP) and Market Facilitation Program (MFP) from 2018 to 2020; and
2. $1 billion of loan modifications for "at-risk" borrowers, using USDA's authority to reduce or write-off direct or guaranteed FSA loans.[37]

Most SDFRs with FSA debt targeted for relief under the ARPA provision would likely remain eligible under the BBBA provision targeting economically distressed farmers.[38] The proportion of debt retired may be higher for socially disadvantaged borrowers based on individual economic qualifications. In contrast, the $1 billion portion of the BBBA relief package for guaranteed loan modifications may not reduce those loans as much as the ARPA provision for guaranteed loans of SDFRs. The BBBA provision would not provide payments to cover any tax liabilities or fees from debt forgiveness. It has similarities to the debt forgiveness proposed in S. 2023 (117th Congress), the Relief for America's Small Farmers Act, which has an eligibility limit based on adjusted gross income and would provide up to $10 billion in debt relief.

Competition Between Farm Credit System and Commercial Banks

FCS is unique among the GSEs because it is a retail lender making loans directly to farmers and thus is in direct competition with commercial banks. Because of this direct competition for creditworthy borrowers, FCS and commercial banks often have an adversarial relationship in the policy realm. Commercial banks assert unfair competition from FCS for borrowers because of tax

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Payments," August 3, 2021, at https://nationalaglawcenter.org/judge-certifies-two-classes-in-lawsuit-challenging-minority-debt-relief-payments/.

[33] For the text of H.R. 5376 as modified by the Committee on the Budget and passed by the House, see U.S. Congress, House Committee on Rules, *Text of* H.R. 5376, *Build Back Better Act*, committee print, 117th Cong., 1st sess., November 3, 2021, CP-117-18.

[34] For more background, see CRS In Focus IF11988, *Build Back Better Act: Agriculture and Forestry Provisions*.

[35] *Economically distressed borrowers* is defined in the Build Back Better Act (BBBA) by several factors, including being 90 days delinquent, owing more interest than principal, undergoing bankruptcy or foreclosure, receiving a farm loan program disaster set-aside during the COVID-19 pandemic (see CRS Insight IN11415, *COVID-19 and USDA Farm Loan Flexibilities*), engaging in certain debt restructuring, or farming in zip codes or counties with more than 20% poverty or on land held by an Indian tribe or Indian.

[36] CBO, "Estimated Budgetary Effects of Title I, Committee on Agriculture, H.R. 5376, the Build Back Better Act As Posted on the Website of the House Committee on Rules on November 3, 2021 (Rules Committee Print 117-18)," November 15, 2021, at https://www.cbo.gov/publication/57618.

[37] *At-risk borrowers* is defined in BBBA to be at the Secretary of Agriculture's discretion, using factors such as whether a borrower is a limited resource farmer (e.g., low income or low wealth) and the amount (or, in some cases, the absence) of payments received by the borrower under CFAP.

[38] The CBO score of $10.7 billion of debt forgiveness for FSA direct loans implies that more than 75% of the $13.6 billion FSA direct loan portfolio may be retired. See FSA, "Direct Loan Executive Summary," at https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/program-data.

advantages that can lower the relative cost of funds for FCS.[39] Commercial banks often call for increased congressional oversight. FCS counters by citing its statutory mandate (and limitations) to serve agricultural borrowers in good times and in bad times.[40]

In contrast, FSA's loan programs are supported by both FCS and commercial banks. FSA is not regarded as a competitor, since it serves farmers who otherwise may not be able to obtain credit. Commercial banks and FCS particularly support the FSA loan guarantee program, because it allows them to make and service loans that otherwise might not be possible (or to do so at a reduced level of risk).

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[39] For example, letter from the American Bankers Association to the House and Senate Agriculture Committees, February 2, 2015.

[40] For example, letter from the Farm Credit Council to the House and Senate Agriculture Committees, February 5, 2015.