# Farm Credit Crisis

My name is Bryan Wolfe. I am a dairy farmer in Ashtabula County, Ohio. Thank you for this opportunity to speak concerning the issue of farm credit.

People need food, which is another way of saying people need farmers. Farmers need access to credit in order to produce food. Credit is a growing problem for farmers. According to Federal Reserve data, 31% fewer non-real estate loans were made to farmers than were made ten years ago.[i]

From a banker's perspective this makes sense. Farming no longer demonstrates that hard work pays. Take milk as an example. Ohio farmers were paid $11.74 per hundredweight for milk produced in June. The USDA Economic Research Service shows the total cost of producing milk in Ohio to be $24.31 for June 2006. When our milk is priced below the cost of production through a federal pricing system something is wrong.

There is something wrong when the value of farmland is determined by non-farm purchasers. A recent USDA report stated, "Cropland and pasture values rose by 13 and 22 percent, respectively, since January 1, 2005." The Dow Jones Industrial average rose just 3.7% in the same period. The report continues, "The increase in farm real estate values continues to be driven by a combination of mostly nonagricultural factors, including relative low interest rates and strong demand for nonagricultural land uses. Demand for farm real estate as an investment continues to be a strong market influence."[ii]

This combination of artificially low farm prices and artificially high farm land prices becomes a deadly combination when farmers need to restructure farm loans. In many cases a farmer's credit problems could be solved with a simple loan restructuring. Although the equity might be there, the equity is not based on agricultural use.

Farmers may then be driven to foreclosure. At that point, all too often the farmer is trapped in a system of lender corruption which he has neither the time nor resources to adequately fight. Even where there is no obvious corruption, lenders have no incentive to work with farmers. With the rise in farmland value, the lender is likely to sell the assets in a foreclosure for several times the amount owed.

Complicating all of this is bank consolidation. Just a generation ago, farm loans were mostly a financial activity between people from the same community. Today those setting farm loan policy at some remote central office and the farmer needing credit are strangers.

That might not seem to be an important point. But, if you drive through rural America it looks like a war zone. Rural poverty is climbing faster than urban poverty. Farm towns are losing businesses and population. Of all the population loss, the most devastating is the loss of our youth.

The average age of farmers is growing each year. An article in the July issue of the Fedgazette published by the Federal Reserve Bank of Minneapolis says "The outlook for 2006 is negative throughout the district, as 39 percent of lenders expect net farm income to decrease. This pessimism is due mostly to high production costs, such as "the continued [increased] costs of inputs, fuel, chemicals and machinery repairs," according to a South Dakota banker."[iii] Pessimism and a poor lending environment will not attract youth to farming.

A logical question then is: who will feed America in the future? America's agricultural trade surplus is virtually gone.[iv] However, with rising fuel costs, food imports will be no solution for the American public.

So, we are back to where we began. We are talking about food. If the American public's interest is to be served, farmers need both a fair farm price and access to farm credit which realistically serves their needs. Homeland security ultimately begins at the farm.

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[i] http://www.federalreserve.gov/releases/e15/current/pdf/afdr_a1.pdf
[ii] http://usda.mannlib.cornell.edu/usda/current/AgriLandVa/AgriLandVa-08-04-2006.pdf
[iii] http://minneapolisfed.org/pubs/agcredit/AcQ1-06.cfm
[iv] http://www.ers.usda.gov/data/FATUS/MonthlySummary.htm