Testimony of

Caleb Hopkins

On Behalf of the

American Bankers Association

Before the

Senate Committee on Agriculture

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Chairman Boozman, Ranking Member Klobuchar, and members of the Committee, my name is Caleb Hopkins. I am the current chairman of the American Bankers Association's Agricultural and Rural Bankers Committee and testify in that capacity today. I am currently based out of Halbur, Iowa. I have worked in agricultural banking for 13 years, including the past 2 years as a Loan Production Officer for Dakota Mac, a subsidiary of First Dakota National Bank in Yankton, South Dakota. Before First Dakota National Bank, I worked at a small community bank helping to lead their agricultural lending. Agricultural bankers have a deep appreciation for the important role producers play in our economy and the unique challenges they face. I appreciate the opportunity to present the views of the ABA for the hearing titled "Perspectives From the Field: Risk Management, Credit and Rural Business Views on the Agricultural Economy."

The American Bankers Association (ABA) is the voice of the nation's $24.1 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard $19.2 trillion in deposits and extend $12.7 trillion in loans. ABA is uniquely qualified to comment on agricultural credit issues as banks have provided credit to the agriculture industry since the founding of our country. At year-end 2024, 3,725 banks –82 percent of all banks nationwide– reported agricultural loans on their books with a total outstanding portfolio of more than $204 billion.

Over the past year, ABA has supported the passage of a long-term Farm Bill. Bankers were in constant conversation with both the House Committee on Agriculture and the Senate Committee on Agriculture during the development of a 2024 Farm Bill. In addition to the 2024 Farm Bill, bankers worked with Members of Congress to provide information on the need for economic assistance for our farmers and ranchers. Bankers continue to monitor the agricultural economy, and we are very cognizant of how economic headwinds affect our customers. Congress has several tools to help the farm economy – starting with the passage of a strong Farm Bill. Additionally, outside this committee's jurisdiction, bankers believe the Access to Credit for our Rural Economy (ACRE) Act of 2025 is a solution that will provide another form of economic relief for farmers, ranchers and rural homeowners by lowering the cost of credit for these customers.

To the American Bankers Association, fostering the next generation of producers goes further than a program – it's part of what drives our lenders in rural communities every day.

Introduction

In May of 2024, the House Committee on Agriculture held a committee markup of the Farm, Food, and National Security Act of 2024 (H.R. 8467), commonly known as the "2024 Farm Bill." This legislation included comprehensive risk management tools for farmers and ranchers, loan guarantees for agricultural loans, rural development programs, nutrition support and investments in conservation. Banks play a critical role in rural America, and this legislation provided a vehicle for the banking industry to help meet the financial needs of farmers, ranchers, and agricultural communities across the country. The meaningful changes proposed in the 2024 Farm Bill would allow bankers to better serve their customers and ensure they have high levels of credit availability in the years to come.

ABA commends the House Committee on Agriculture for including many of our priorities in the 2024 Farm Bill,[1] including modernizing the USDA's Farm Service Agency (FSA) loan guarantee limits, clarifying bona-fide operator rules for beginning farmer programs, modernizing and raising limits for the down payment assistance program, and providing robust risk management tools that allow our customers to have greater stability and predictability for each growing season. We also commend Sen. Boozman on his farm bill frameworks that made similar much-needed modernizations, and look forward to working with Sen. Klobuchar as she crafts her priorities and adds her leadership to the Committee. We look forward to working with the Senate Committee on Agriculture developing Farm Bill this year that will potentially include many of the same banker supported provisions as the 2024 House Farm Bill.

In addition to the Farm Bill, bankers were supportive of economic assistance for farmers and ranchers. Bankers joined commodity groups to have meetings on Capitol Hill with congressional offices to push for the inclusion of economic assistance within the Congressional appropriations legislation. Farmers and Ranchers are struggling throughout the country, and bankers work with these customers every day to create solutions to ease economic challenges. Without economic assistance, farmers and ranchers will continue to have cashflow issues that will adversely affect their operations. As the agricultural economy continues to struggle, bankers stand ready to work with their customers through this economic downturn.

Banks continue to be one of the first places that farmers and ranchers turn when looking for agricultural loans. Agricultural credit portfolios among banks of all types are very diverse – banks finance large and small farms, urban farmers, beginning farmers, women farmers and minority farmers. To bankers, agricultural lending is a productive way to serve our communities the right way: we make credit available to all who can demonstrate they have a sound business plan and the ability to repay. With our deep connection to farmers and ranchers, banks are often the first to see changes within balance sheets and cash flows on farm operations, often due to changing economic conditions—and to help them manage those changes.

In 2024, farm banks – banks with more than 14.26 percent of their loans made to farmers or ranchers – increased lending by 6.4 percent to meet the rising needs of farmers and ranchers, and now provide $115 billion in total farm loans. Farm banks are an essential resource for small farmers, holding more than $45.3 billion in small farm loans, with $9.1 billion in micro-small farm loans (loans with origination values less than $100,000). Farm banks are healthy, well-capitalized, and stand ready to meet the credit demands of our nation's farmers large and small.

In addition to our commitment to farmers and ranchers, thousands of farm-dependent businesses – food processors, retailers, transportation companies, storage facilities, manufacturers, etc. – receive financing from the banking industry as well. Agriculture is a vital industry to our country, and financing it is an essential business for many banks.

Banks work closely with the FSA to make additional credit available by utilizing the Guaranteed Farm Loan Programs. The increased loan limits on FSA guaranteed loans is the right policy to ensure more credit availability to farmers and ranchers. Additionally, entities like Farmer Mac provide another avenue for banks to increase credit availability. By purchasing guaranteed loans from banks, Farmer Mac allows banks to lower interest rates for their customers and provide better loan products.

Our nation's farmers and ranchers are a critical resource to our economy. Ensuring that they continue to have access to adequate credit to thrive is essential for the wellbeing of our whole nation. America's banks remain well equipped to serve the borrowing needs of farmers of all sizes.

In my testimony today, I will elaborate on the following points:

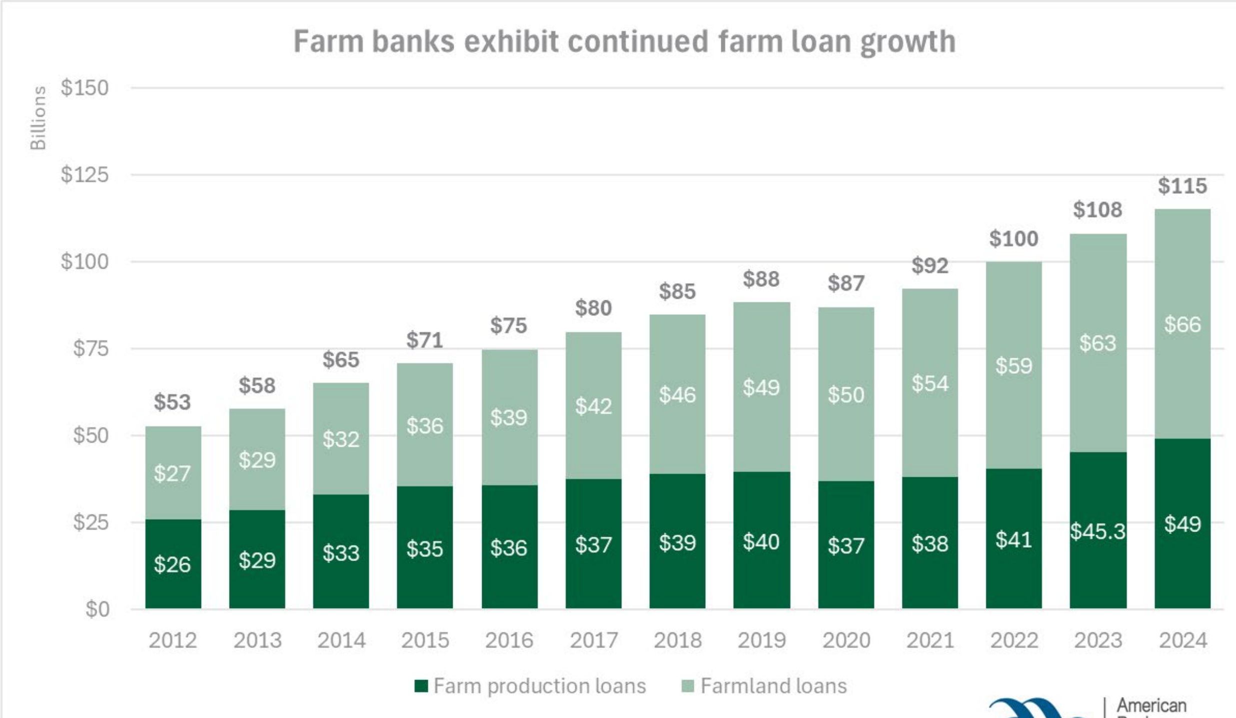
- Banks are a primary source of credit to farmers and ranchers in the United States.

- The agricultural economy is experiencing headwinds and economic assistance will provide some relief.
- The 2025 Farm Bill provides an opportunity to make needed changes to the Credit Title including increased limits for the FSA Guaranteed Loan Programs, changes to the bona fide operator definitions, and modifications to Farmer Mac eligibility.
- There are additional changes needed to improve access to agricultural credit. The passage of the Access to Credit for our Rural Economy (ACRE) Act of 2025 will provide more competition for agricultural lending and lower the costs for producers.

I. Banks Are a Primary Source of Credit to Farmers and Ranchers in the U.S.

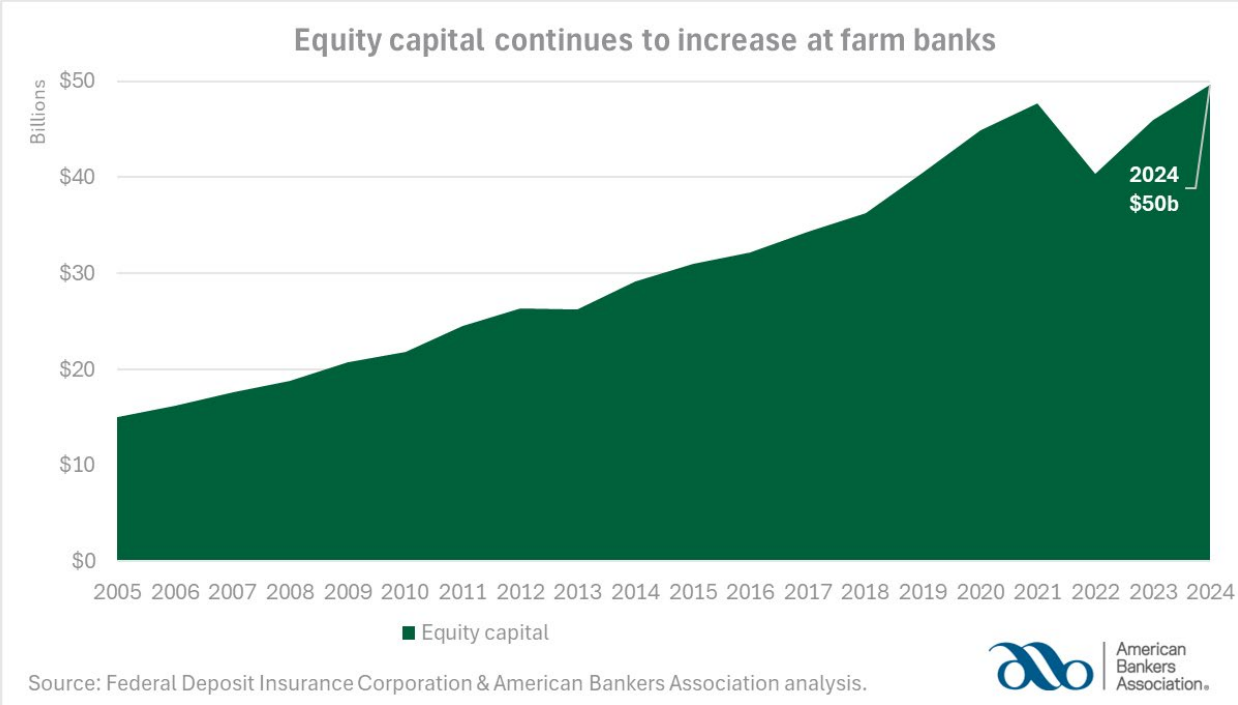
For many of ABA's members, agricultural lending is a significant component of their business activities. ABA has studied and reported on the performance of "farm banks" for decades and, we are pleased to report that the performance of these highly specialized agricultural lending banks continue to be strong. ABA defines a farm bank as one with more than 14.26 percent farm or ranch loans (to all loans).

At the end of 2024, there were 1,399 banks that met this definition. Farm lending posted solid growth over the year. Total farm loans at farm banks increased by 6.4 percent to $115 billion in 2024 up from $110 billion for these banks in 2023. Approximately one in every three dollars lent by a farm bank is an agricultural loan.



Source: Federal Deposit Insurance Corporation & American Bankers Association analysis.

Farm production loans grew at a faster rate than farm real estate loans. Outstanding farm production loans rose by 8.9 percent to $49.3 billion. Farm real estate loans grew at a pace of 4.7 percent to a total of $65.9 billion. Farm banks are a major source of credit to small farmers – holding more than $45.3 billion in small farm loans (origination value less than $500,000) with $9.1 billion in micro-small farm loans (origination value less than $100,000) at the end of 2024. The number of outstanding small farm loans at farm banks totaled 676,181, and over half – 413,658 loans – have origination values less than $100,000. Farm banks are healthy, well capitalized, and stand ready to meet the credit demands of our nation's farmers large and small.



Equity capital at farm banks increased 8.1%, or $3.7 billion, to $49.7 billion in 2024. Meanwhile, tier 1 capital increased by 6.7%, or $3.5 billion, to $55.8 billion.[2]

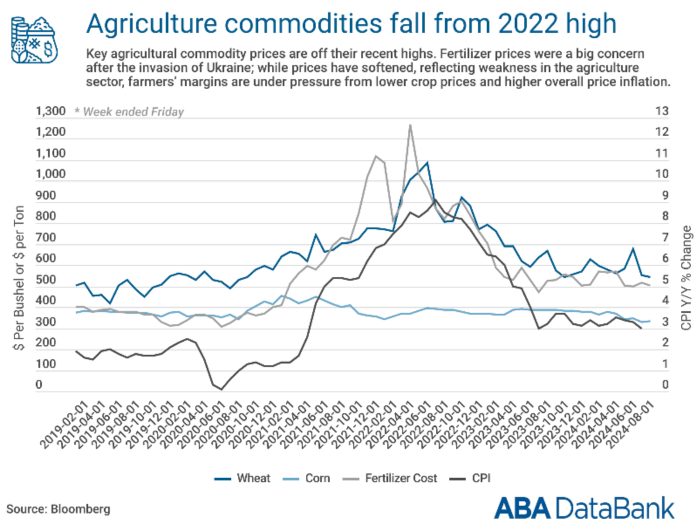
Aggregate tier 1 leverage ratios[3] increased 10 basis points (bps) in 2024 to 10.6%. Aggregate tier 1 capital ratios (assessed on risk-based assets) increased slightly to 13.44%, down 1 bps from 2023 indicating that farm banks are still well capitalized.[4] Farm banks' median tier-1 leverage ratio remained 71 bps above where it was before the start of the Great Recession (2007).

In 2020-2021, banks experienced an unprecedented influx of deposits, alongside a pullback in loan demand. This led many banks to increase their holdings of long-term assets such as Treasury securities. When the Federal Reserve began rapidly raising the federal funds rate over the course of 2022, the market value of those bonds fell in the rising interest rate environment. Under tangible capital calculations, unrealized gains and losses are recorded as though the bank intends to sell those securities immediately at market value. This volatility in market valuations can distort assessment of a bank's financial health; post Dodd-Frank, regulatory capital has replaced equity capital as a reliable measure of the capital available at banks to absorb shocks.

Farm banks have built strong, high-quality capital reserves and remain liquid and prepared to manage potential economic headwinds.

II. The Agricultural Economy is Experiencing Headwinds

The agricultural economy is in a position it has not been in for many years. There is a return to the cyclical agricultural conditions that were present before the surge of government support during the COVID-19 pandemic. Despite ever rising input prices, the USDA Economic Research Service has forecasted a 29.5 percent increase in farm income in 2025 that will be mostly driven by economic assistance payments. However, at the 2025 USDA Outlook Forum, USDA predicted a drop in commodity prices across all major commodities. This is going to create additional strain on agricultural producers in 2025, and economic assistance payments alone will not be enough to get farmers out of the red.



With rising input costs and lower commodity prices, farmers and ranchers have worked through the liquidity and working capital they built up over the past few years at a more rapid pace than anticipated. As a result, farmers and ranchers are naturally turning to credit to finance their agricultural operations. This has resulted in increased debt levels for agricultural producers across the country.

Bankers believe it will be difficult to continue lending at current levels without changes to government policy. These policy changes include increases to modernize reference prices and ensuring that crop insurance covers loss appropriately for producers. Additionally, bankers desire a faster payment system in the event of natural disasters. Waiting over a year to receive disaster payments can create unnecessary credit crunches that hurt agricultural producers and their access to credit.

The economic assistance payments that were included in last year's continuing resolution will help provide some relief for farmers and ranchers. Bankers had many conversations with members of Congress on the need to push economic assistance out to agricultural producers. We continue to have conversations with USDA on timing for producers to apply for these programs, and we will provide technical assistance to USDA if it is needed. These economic assistance payments will provide some relief, but a long-term Farm Bill is vital for rural America.

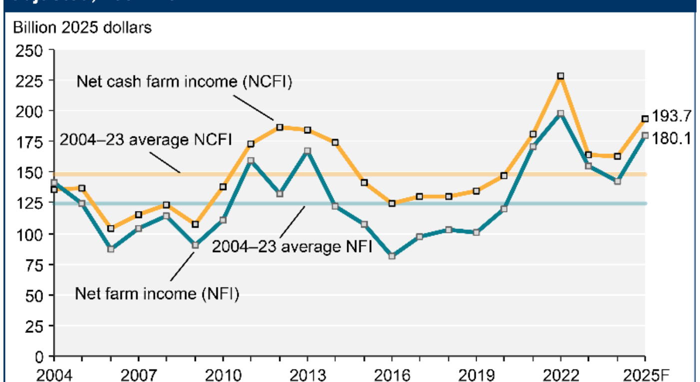
III. The 2025 Farm Bill Needs to Include Policy Changes to Increase Credit Availability for Rural America.

Bankers look forward to working with the Senate Committee on Agriculture to develop a new Farm Bill in 2025. Many provisions in the 2024 House Farm Bill provide a blueprint for policy changes to the credit title that will improve credit availability for rural America. The most significant change bankers would like to see in the next Farm Bill is an increase in the FSA Guaranteed Farm Ownership Loan Program to $3.5 million and the FSA Guaranteed Farm Operating Loan Program to $3 million. As the cost of agriculture continues to increase, it is vital to have the FSA loan programs keep pace with modern agriculture. These new limits will achieve that goal. We thank Senator Hoeven and Senator Klobuchar for their work on the Producer and Agricultural Credit Enhancement (PACE) Act. Although the PACE Act has slightly lower guaranteed loan limits, we believe this legislation is a step in the right direction for FSA loan programs.

FSA loan programs, and the FSA employees that administer the programs, are very important to our customers and their financial well-being during an economic downturn. Bankers will continue to work with FSA at all levels to ensure credit is available when it is needed most. However, the need for technology to improve FSA programs continues to be an issue. For too long, USDA has ignored the need for new technology within the FSA loan programs. The 2025 Farm Bill is a great opportunity to improve FSA loan programs through technology and create greater efficiency for loan origination.

For beginning farmers and ranchers, credit availability is vital to their survival. ABA supports re-examining the 10-year eligibility limits for FSA Beginning Farmer and Rancher programs. Beginning farmers and ranchers are often starting to get their footing when their eligibility runs out. Collectively, we need to do everything we can to help beginning farmers and ranchers succeed.

U.S. net farm income and net cash farm income, inflation adjusted, 2004–25F



Note: F = forecast; data for 2024 and 2025 are forecasts. Values are adjusted for inflation using the U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product Price Index (BEA API series code: A191RG) rebased to 2025 by USDA, Economic Research Service.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of February 6, 2025.

Bankers support a change to the down payment assistance program by removing arbitrary cap on the size of the loan. Instead, we support a cap on down payment loans at 45 percent of the lesser of acquired price or appraised value. Senator Tuberville has legislation that provides a revised definition of owner-operator that allows various business structures to increase eligibility to beginning farmer guaranteed loan programs to more producers and customers. This should be included in the next Farm Bill.

Bankers endorse allowing Farmer Mac to support all USDA guaranteed loan programs financing. Farmer Mac is a valuable tool for agricultural bankers because it provides another avenue for banks to increase credit availability. By purchasing guaranteed loans from banks, Farmer Mac allows banks to lower interest rates for their customers and provide better loan products. Further, ABA continues to recommend the removal of the cooperative lender requirement for energy loans to be sold to Farmer Mac. This requirement limits the ability of banks to participate in rural energy projects, limiting available credit in rural America.

Additionally, the next Farm Bill must include provisions that will speed up the USDA loan approval process while making it easier for producers to use USDA loan programs. USDA loan programs are likely to provide lifelines to agricultural producers through this economic downtown. There are many innovative approaches that could be implemented at USDA and all options should be on the table.

Crop, livestock, and dairy insurance continue to be extremely important for bankers. Our customers know these programs well and heavily use them. The next Farm Bill needs to protect insurance programs as they help producers manage risk and help keep interest rates down.

Finally, we note that the language to modify the Consumer Financial Protection Bureau's 1071 Final Rule reporting requirements for the Farm Credit System is problematic for the banking industry. ABA supports efforts to provide relief from the 1071 Final Rule, but that relief should be equal across all lenders.

IV. The Access to Credit for our Rural Economy Act

ABA is a proud supporter of S. 838, the Access to Credit for our Rural Economy Act (ACRE Act) of 2025. The ACRE Act has been introduced by Senator Moran (R-KS), Senator King (I-ME), Senator Cramer (R-ND), Senator Gallego (D-AZ), Senator Tuberville (R-AL) and Senator Marshall (R-KS). This legislation will help to lower lending costs for farmers, ranchers, and rural communities. ACRE would remove the taxation on income earned from interest on new agricultural real estate loans and new loans for rural residences in a population area of less than 2,500 people with a mortgage value of less than $750,000. By removing this taxation, banks will be able to lower their interest rates, which helps to lower costs for borrowers. Additionally, ACRE includes a provision that will require the Treasury Department to report on how interest rates have changed due to the Act.

The ACRE Act will be beneficial to both new and existing farmers by lowering interest rates on agricultural real estate. However, access to credit can be much more difficult for "Beginning

Farmers and Ranchers" and "Socially Disadvantaged Farmers and Ranchers" due to a lack of preexisting land ownership and access to other sources of capital. 54 percent of young farmers say they need more land. ACRE will help new farmers and ranchers by lowering their cost to acquire land, which is the most capital intense portion of any farming operation and a critical asset to achieve long-term, reliable access to credit. Lastly, ACRE will reduce the need for farmers and ranchers to find off-farm income by reducing interest payments, which increases the cashflow from their operation and reduces the need for off-farm income. It has been estimated that ACRE will deliver approximately $1 billion in annual interest expense savings for loans secured by farmland.

The ACRE Act will also provide much needed access to credit for rural home mortgages. According to the 2020 Census, rural America lost population over the last decade for the first time in history. Additionally, rising interest rates are putting homeownership out of reach for many rural Americans. Current interest rates for rural mortgages are averaging 6.85 percent. ACRE is estimated to lower those interest rates between 50 and 100 basis points – bringing interest rates down to 6.35 percent to 5.85 percent from 6.85 percent, or possibly more.

The U.S. Census lists 15,769 communities with a population of less than or equal to 2,500. In 2023, $21 billion in bank mortgages were originated in these communities – a need that is only increasing. Given a conservatively estimated 3 percent growth, approximately $23 billion in rural mortgages will qualify for ACRE in 2025. Enacting the ACRE Act will help provide additional access to credit that is needed for rural communities to thrive.

Conclusion

The banking industry is well positioned to meet the needs of U.S. farmers and ranchers. Rising input prices and declining commodity prices, however, have resulted in lower net farm income for agricultural producers. Moreover, debt levels have been increasing, and bankers are concerned that without changes to government policy, agricultural producers may experience a tightening of credit availability. The 2025 Farm Bill and the ACRE Act provide opportunities to make the changes necessary to provide the credit needed for farmers and ranchers to successfully navigate tougher economic times. Bankers continue to see great opportunities in agriculture and will continue to stand with farmers and all our partners in agriculture going forward. We will also continue to work constructively with the Committee and your colleagues in Congress on the 2025 Farm Bill and ACRE Act to help ensure that farmers have the credit they need to be a successful and strong part of the U.S. economy.

Thank you for the opportunity to express the views of the American Bankers Association. I would be happy to answer any questions that you may have.