Agricultural and Rural Finance Markets in Transition
Proceedings of Regional Research Committee NC-1014
Washington, DC
October 2-3, 2006
About Farm Credit

Farm Credit Is One of Three GSEs Serving Agriculture

The Farm Credit System

Federal Agricultural Mortgage Corporation

Federal Home Loan Bank System
The Farm Credit System Today

101 Institutions
Five Banks
96 Associations
Regulated by The Farm Credit Administration
Farm Credit Is Financially Strong

$112 billion in loans
$23.5 billion in capital
$2.1 billion net income in 2005
Authority and Mission has not been static:

TODAY --
To provide sound and dependable credit to all types of farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses that have a basis for credit.

Loans for purchase of rural homes; to finance rural communications, energy and water infrastructures; to support agricultural exports; and to finance other eligible entities.
Comprehensive, forward looking strategic planning effort

Started April, 2004

Combined effort by Farm Credit Directors and Management

HORIZONS Project Research:

• Surveys of Farm Credit System associations and banks

• Academic research papers on agriculture, the food industry, and rural and agricultural finance

• Secondary studies compiled by government agencies and trade associations

• Local, regional and national meetings with various farm and rural groups
HORIZONS Findings:

- Eight key findings about the future of agriculture and rural America
- Findings demonstrate the need for policy solutions that will help farmers, rural businesses and rural communities succeed in the emerging marketplace.
- Project identifies how incremental changes to the Farm Credit System can free up additional capital to help agriculture while maintaining the System’s historic mission

KEY FINDINGS

1. **American farmers are not a homogenous group:**
   - There is tremendous diversity in farm size, annual revenue, ownership structure and marketing approaches.
   - To a lesser extent, we see an emerging diversity in the age, ethnicity and gender of owners and operators.
   - An overwhelming majority of small-scale farms dominate the rural landscape and a relatively small number of large-scale farms dominate the food and fiber production system.
Number of Farms by Sales Class

Source: USDA Economic Research Service

Distribution of Value of Production by Sales Class

Source: USDA Economic Research Service
Ownership of Farm Assets

Source: USDA Economic Research Service

1982 -- 16,183 operators  2002 – 61,094 operators

Number of Farms with Spanish, Hispanic, or Latino Origin Operators: 2002
KEY FINDINGS
From the HORIZONS Final Report

2. A small number of farming-only businesses remain in today’s agriculture:
   • The overwhelming majority of all farmers, but especially small operators, rely on off-farm employment to stay in agriculture.
   • Even large operators diversify their income as a risk management strategy through agriculturally related and non-farm investments.
### Average Income of Farm Households for 2005

Source: USDA Economic Research Service

#### Small farms (less than $250,000 gross annual sales)
- Off-farm income: $10,936
- Farm income: $54,773
- Total income: $65,709

#### Commercial farms (more than $250,000 gross annual sales)
- Off-farm income: $13,258
- Farm income: $70,401
- Total income: $83,659

#### All farms
- Off-farm income: $13,258
- Farm income: $70,401
- Total income: $83,659

### Percentage of Income from Off-farm Sources

Source: USDA Economic Research Service

- Limited Resource Farmers (235,030)
- Sales less than $100,000 (363,812)
- Sales between $100,000 and $249,999 (134,833)
- Sales between $250,000 and $499,999 (84,294)
- Sales above $500,000 (66,656)
- Residential/Lifestyle (892,602)
3. The business models and farmer ownership structures of the businesses on which farmers rely continue to evolve and adapt:

- Farmers depend on a wide range of businesses for products, services, marketing and processing directly and indirectly related to their farming operations.
- These businesses may or may not be owned by farmers or located in a rural community, but they are essential to agriculture.
4. While the number of farmers, agriculturally related jobs and industries, and agriculturally dependent communities has declined, the future of U.S. agriculture remains bright:

- New small and niche agricultural enterprises have injected local communities with new vitality.
- Other advances have resulted in agriculture becoming an increasing source of energy production, feedstock for industry and medicine, and other value-added products.

**New Enterprises: Ethanol**

- **2003/04**: 1.2 billion bushels of 10.1-billion-bushel U.S. corn crop used for ethanol
- Up 23 percent from 2002/03
- 2002/03 up 36 percent from 2001/02
New Enterprises: Ethanol

- 2003/04: 1.2 billion bushels of 10.1-billion-bushel U.S. corn crop used for ethanol
- Up 23 percent from 2002/03
- 2002/03 up 36 percent from 2001/02

Ethanol Plant Numbers

Source: Renewable Fuels Association
5. Some rural areas retain few ties to agriculture. Conversely, more agriculture and related businesses are located in suburban areas and near metropolitan centers:

- It is becoming increasingly difficult to define a “rural” community solely by population.
- Rural communities continue to grow if they are near growing urban areas, regional economic centers, scenic resources, or are attractive retirement destinations.
“Even in farming-dependent counties, payments to farms are less than one-fifth of all Federal assistance in those counties.”

2006 GAO report found that while USDA had the most programs providing economic development assistance to rural areas, the U.S. Department of Transportation provided the largest amount of assistance.

**KEY FINDINGS**

6. Regional collaboration, public-private partnerships and coalitions of investors are key to the future of many rural communities:

- To create new jobs and attract new business, agriculture and rural America must find new ways to reinvest farm real estate equity and to form new partnerships.
7. Entrepreneurs remain the lifeblood of American agriculture:
   • As skilled, experienced and innovative business owners, today’s rural entrepreneurs, farmers and ranchers continue to need access to capital, essential infrastructure, and business support services.

8. Ongoing access to debt and equity capital is paramount to the future prosperity of U.S. agriculture and rural America:
   • The specialized financial needs of U.S. agriculture and rural America are as great as ever.
   • The diverse farms, rural businesses and rural communities of the 21st Century need access to dependable, flexible and competitive financial products and services.
FOUR ESSENTIAL FINANCIAL NEEDS

• Access to a dedicated, specialized lender to meet complete credit needs

• Businesses on which farmers depend require ongoing access to reliable, flexible financial products

• Investors and business partners to fuel growth in rural America and agriculture

• Access to full-service residential mortgage products and ability to leverage real estate equity

HORIZONS Testimonials: Real Stories
IT’S ABOUT
THE CUSTOMER