FACT SHEET

THE AGRICULTURAL FINANCE SECTOR

INDUSTRY OVERVIEW

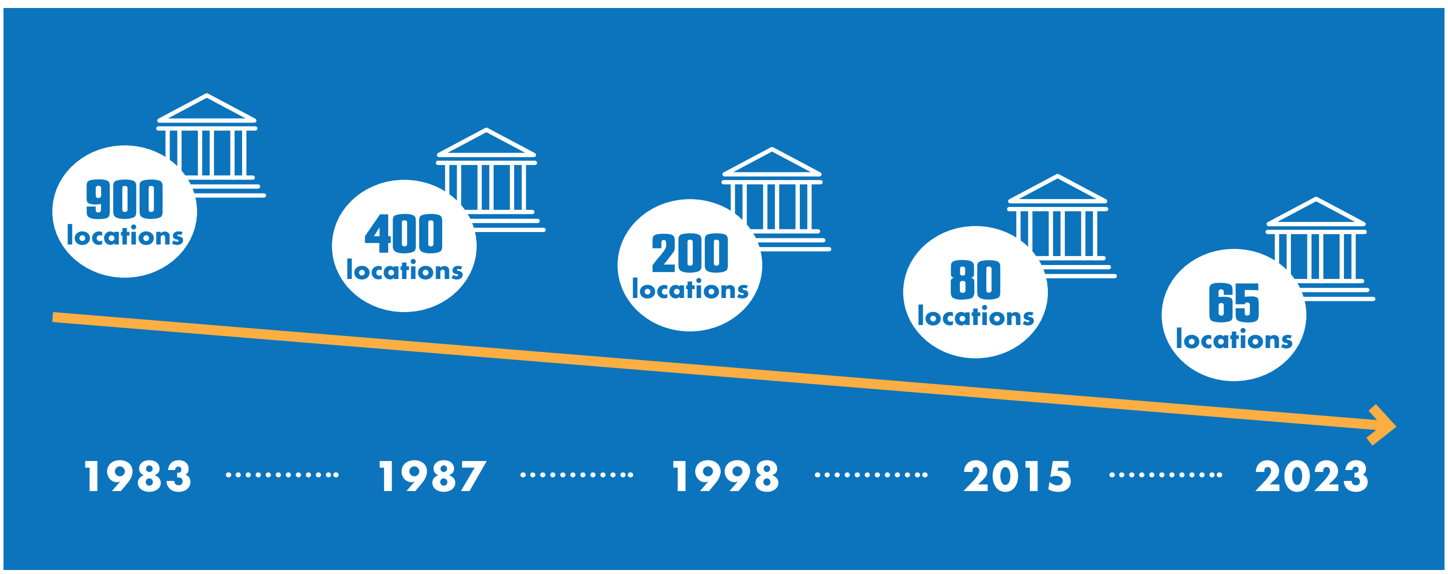
Access to agricultural credit that is appropriately structured and priced is critical to starting and operating a farm. Today, farmers can obtain credit from one of three sources: (1) a **Farm Credit System** (FCS) institution, (2) a **commercial bank**, or (3) the **Farm Service Agency (FSA)** of the USDA — under special circumstances.

FCS is a network of cooperative financial institutions chartered by Congress in 1916 to provide a dependable and affordable source of credit to U.S. farmers. Today, FCS is comprised of 60 lending associations and four district banks that focus on lending to specific regional territories. FCS lending associations do not accept deposits or offer traditional banking services. Instead, associations acquire loanable funds by borrowing from their district bank, which is owned cooperatively by the associations it serves. The four district banks, in turn, acquire funds from the Federal Farm Credit Banks Funding Corporation (FFCBFC), which generates capital for the Farm Credit System by selling bonds to investors. Today's system has more than $300 billion in assets and serves more than 500,000 borrowers.

Today, FCS institutions hold over 40% of all outstanding farm debt in the United States. Commercial banks supply another 40% of agriculture loans. The rest comes from a combination of governmental sources (such as the FSA), credit unions, and other financial institutions.

Many beginner, small, and mid-size farmers struggle to find lenders willing to finance and underwrite their operations. The administration of FSA's direct lending and loan guarantee programs gives preference to conventional, monoculture operations. These struggles also result from consolidation among commercial banks and FCS institutions.

Farm Credit System Consolidation



HISTORICAL CONTEXT

Farm Credit System

The number of FCS banks and associations has been declining for decades through mergers and reorganizations. In the mid-1940s, there were over 2000 lending associations, but those numbers have been falling precipitously, and today, only 65 remain. Whereas 20 years ago, the typical FCS association covered several counties and specialized in either land or farm production loans, today, these associations cover much larger regions. Late into the 1980s, FCS operated with 12 regional bank districts, but those too have been consolidating, and now, only four remain.

Commercial Banking

Seven out of 10 community banks have disappeared since the 1980s, and the decline is accelerating. In 1984, roughly 14,400 community banks controlled about 40% of the industry's assets. By 2011, that number had declined to just over 6,350, and its market share had fallen to 15%. Since then, the decline has accelerated. Between 2011 and 2019, the country lost nearly one-third of its community banks, and today, there are only 4,500 left, with a measly market share of 12%.

The mass disappearance of community banks has consolidated the industry's assets in the hands of metro-headquartered megabanks. In 1995, megabanks – banks with more than $100 billion in assets – controlled 17% of all industry assets. By 2005, that market share had grown to 50%; by 2019, megabanks accounted for 64% of the industry's assets. It is noteworthy that none of these megabanks are headquartered in rural communities.

Farm Credit System Concentration Statistics:

Of the 65 FCS lending associations, **the six largest associations** hold over **half the total assets.**

There are currently mergers pending that will **consolidate the system further.**

Commercial Banking Concentration Statistics:

The **top four** commercial banks control **41% of the market.**

Megabanks account for **64% of industry assets.**

4,500 community banks remain, and they account for 12% of industry assets.

WHAT THIS MEANS FOR FARMERS AND THEIR COMMUNITIES

Today, many small towns and rural communities depend on absentee-owned banks to access credit or have limited access to financial services altogether. While in 1995, only 14% of rural counties did not have a locally owned bank, that number has more than doubled to roughly one-third of counties today.

Farmers, like most rural business owners, are dependent on small, locally-owned financial institutions for access to capital and are now struggling to find capital to start, grow, and survive shocks as those institutions disappear. As farm operations generally do not attract equity financing and have a hard time providing the "hard" financial data required to satisfy the standardized lending criteria of large banks and online lenders — they are uniquely reliant on small, locally-owned banks and their "relationship lending" practices for financing.

Meanwhile, FCS loans have shifted to increasingly finance a specific type of agricultural producer: large grain and livestock operations associated with dominant processors. This preferential lending has come at the expense of small and midsize farms, with the share of total new FCS loans going to small farms by dollar volume declining to 15.9% in 2019. On the ground, anecdotal evidence suggests FCS institutions are no longer effective lenders for young, beginning, and small farmers in large parts of the country — particularly for those with fruit, vegetable, and mixed-crop farms. These lending preferences disproportionately impact farmers of color, who are more likely to own and operate these types of operations and face additional barriers resulting from decades of systemic racist lending policies. In contrast, FCS institutions have become the predominant source of financing for dominant hog integrators and processors.