IBA Talking Points
Farm Credit System

11/08/18

Background
The Farm Credit System (FCS) is a $333 billion government-sponsored enterprise (GSE) that competes against private-sector, tax-paying institutions in making loans to farmers/ranchers, consumers and businesses. If the FCS were a bank, it would be the seventh largest in the United States.

Created out of federal legislation enacted in 1916, the purpose of the FCS is to provide credit to small local farmers and ranchers. Amendments authorized in 1980 underscore that purpose by recognizing the FCS's commitment to "young, beginning and small" (YBS) farmers.

Issues
The Farm Credit System has strayed from its mission of supporting small American farmers. Instead, the FCS acts as an investment institution, funding profitable entities unrelated to agriculture, such as golf courses, franchised restaurants, colleges and, most infamously, telecommunications giants, while diminishing its service to YBS farmers.

The FCS is a liability to taxpayers as a government-sponsored entity and was deemed by the Farm Credit Administration as "vulnerable to a market crisis." The FCS was bailed out by Congress in 1987 at a cost of $4 billion to U.S. taxpayers. Today, the cost of a bailout would exceed $32 billion, an increase of 802 percent over 1987.

The tax-exempt status of the FCS gives it an unfair edge when competing against community banks for loans, since Farm Credit lenders can undercut local lenders with lower rates. Furthermore, the Farm Credit Services structure as a government-sponsored enterprise creates an environment where government is effectively competing against the free market. These activities hinder the lending ability of tax-paying community banks.

FCS Facts
Strayed mission – The Farm Credit System is growing loans to big business, while shrinking loans to young, beginning and small farmers:

- Several multinationals have benefited from FCS lending, including AT&T, Rayonier Inc. and Cyrus One Inc. For example, Verizon was able to finance its purchase of a European cellular company through a $725 million FCS loan.
- In 2017, less than 12 percent of new FCS loans went to young farmers, only 15 percent went to entry-level farmers and ranchers, and less than 15 percent went to small farmers.

Expense to taxpayers – The FCS tax subsidy presents an enormous cost to taxpayers:

- FCS profits were $5.19 billion in 2017, yet the FCS paid only $38 million in combined federal, state and local taxes – an effective tax rate of 0.73 percent. Had FCS paid at the bank rate of 29 percent, it would have paid $1.5 billion to help lower the U.S. deficit. Over the next five years, the FCS tax subsidy will cost taxpayers at least $7.5 billion.
- FCS growth impacts the tax revenues of state and local governments by (1) bullying states into accepting that it is a federal entity, and therefore not subject to state taxation, and (2) using its GSE status to withhold payment of local taxes and fees.

Recommended Action Items

1. Congress should abolish the FCS's tax subsidy. It does not help the economy, make the tax code fairer or promote an important policy goal. With $329 billion in assets and more than $5.1 billion in profits annually, the FCS is capable of paying its fair share of taxes.

2. Congress should statutorily require annual oversight hearings on the Farm Credit System. Only recently has Congress conducted oversight hearings on the FCS.

3. Congress should restructure Farm Credit Services away from a retail GSE into acting as more of a partner with financial institutions.

For more information:

Contact the Indiana Bankers Association Government Relations Team of Dax Denton, Eric Augustus or Josh Myers at 317-387-9380.

Additional resources:

- American Bankers Association: https://bit.ly/2RyGPwg
- Independent Community Bankers of America: https://bit.ly/2yVls1l
- "Reform Farm Credit," created by the ABA: http://reformfarmcredit.org/