DESIGNING A FARM CREDIT SYSTEM SET-ASIDE GRANT

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Executive Summary

The Farm Credit System (FCS) is a nationwide network of customer-owned lending institutions whose mission is to support rural communities with credit and financial services. However, many segments of the rural population continue to face obstacles in accessing capital needed to ensure their economic well-being. Self-Help Credit Union (SHCU), a community development financial institution based in Durham, North Carolina, is interested in setting aside 10% of FCS profits for a grant program that can assist in ensuring equity across rural communities in the United States. Specifically, the organization is seeking to answer the following policy question:

"How can a 10% set-aside grant be most effectively structured to ensure economic opportunity and security for socially disadvantaged farmers and ranchers (SDFRs), and young, beginning, and small farmers (YBS)?"

To answer this question, our team analyzed existing literature and legislation and conducted a series of interviews. These findings were in turn used to inform our recommendations.

Key Findings

- **Federal institutions like the U.S. Department of Agriculture (USDA) have historically been discriminatory in their disbursement of credit, leaving ethnic/racial minorities with less opportunity to succeed.**
- **When those not directly targeted by programs are in positions of power, decisions are made that do not reflect the actual needs of the community.**
- **The question of who receives capital too often comes down to who is better able to navigate complicated application processes rather than who has the most need.**
- **SDFRs and YBSs face challenges in achieving financial literacy, creating a barrier in access to capital that can be addressed by education support.**
- **Debt relief needs to be addressed, especially among those who have been subject to intergenerational effects of discrimination.**

Recommendations

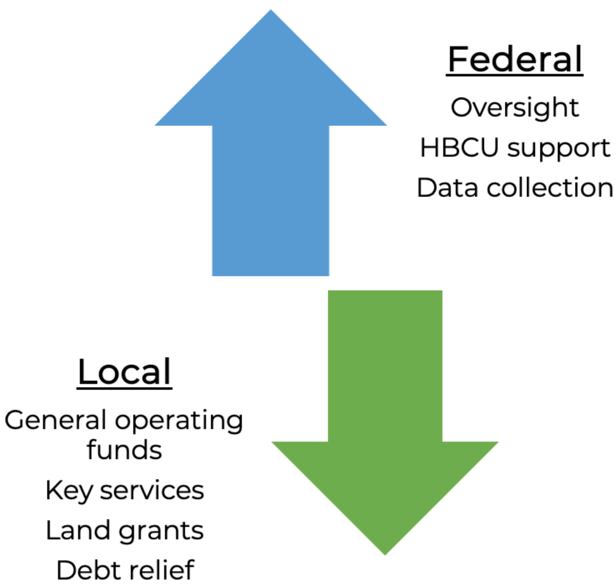
In its usage of a 10% set-aside grant, the Farm Credit System should adopt a **bifurcated structure, with funds split between the national and local levels.** Programs at the national level are interventions that can and should be standardized and scalable. Other programs require a greater deal of tailoring to local circumstances. Local level spending would be administrated by a local advisory committee, comprised of community members - including SDFRs and YBSs themselves - who have a unique understanding of their own needs.

The following are our recommendations for spending at the **national level**:

1. Provide oversight to ensure that the spending of set-aside grant funds are free of waste, fraud, or abuse.
2. Identify and provide financial support for agriculture programs at historically black colleges and universities (HBCUs) and other minority-serving institutions (MSIs).
3. Collect demographic data on food system workers in both rural and urban areas as designated by the U.S. Census to help ensure funds are being targeted towards actual SDFR and YBS communities.

The following are our recommendations for spending at the **local level**:

1. Support SDFRs and YBSs with flexible funding options, namely general operating funds.
2. Provide other key services such as Farm Credit System education, legal support, and financial coaching for populations in need of them.
3. Bestow land grants to SDFRs.
4. Identify and provide debt relief for SDFRs who have historically suffered from institutionalized discrimination.



Background

Socially disadvantaged farmers and ranchers (SDFRs) have been underserved for much of American history. For decades, the USDA and the federal government's farming programs established by the New Deal have discriminated against Black farmers in particular. Examples of this systematic racism range from the purposeful delay of loan requests from Black farmers (Browning, 1982), to land expropriation (Hinson and Robinson, 2008).

Young, beginning, and small farmers (YBSs), while not facing the same issue of discrimination as those of minority descent, also face an unacceptable level of financial uncertainty. SDFRs and YBSs are more likely to own and operate smaller farms, have weaker credit histories, and have less collateral, thus making it more difficult for them to qualify for crucial financing sources (GAO, 2019).

The Farm Credit System (FCS) was founded in 1916 as a means to provide access to financial services and credit for farmers. Through its 71 customer-owned institutions, FCS provides loans to farmers and ranchers, farmer-owned cooperatives and other agribusinesses, while paying back its generated income to its customer-owners in the form of patronage dividends. Its official mission is to "support rural communities and agriculture with reliable, consistent credit and financial services." Yet, SDFRs and YBSs still suffer from limited access to credit and capital, which in turn perpetuate income disparities. Today, the average full-time Black farmer makes $2,408 in annual income, compared to $17,190 for the average White farmer (McFadden and Hoppe, 2017). Government payments are also increasingly going towards richer households (see Appendix II)

Studies have revealed that some factors behind these persistent challenges include feelings of discouragement about seeking financial assistance from federal agencies, the complex nature of loan application processes, and lack of adequate knowledge of FCS programs (Crutchfield, 2019). While lenders like FCS do conduct outreach targeted towards SDFRs and YBSs, the results of these efforts are unknown due to data collection restrictions (GAO, 2019). Meanwhile, the patronage program of FCS, which pays dividends to its customer-owner members based on the amount of business they have with the group, disincentivizes the inclusion of new members unless they already have profitable operations.

To be sure, inequities among food system workers have drawn increased attention in recent years. Legislators have proposed multiple bills such as an Act Targeting Resources into Communities in Need and the Emergency Relief for Farmers of Color Act, which seek to narrow racial gaps in credit access and income. But most have yet to be enacted by Congress. And while the recently passed COVID-19 relief bill has provisioned around $5 billion towards debt relief for SDFRs (Reiley, 2021), this one-time amount is inadequate in addressing decades of systemic injustices (Speight, 2021).

SHCU has proposed allocating 10% of FCS profits towards a set-aside grant program that is designed to address the issues outlined here. The set-aside grant program would thus provide dedicated annual funding of approximately $545 million per year towards combating inequities in agriculture and providing better access to capital for SDFRs and YBSs.

To provide clarity in the discussions in our report, we define SDFRs as those of racial/ethnic minority descent. Young farmers are those under 36 years of age, beginning farmers are those with less than 10 years of experience, and small farmers are those with less than $250,000 in annual sales.

Methodology

To answer our research question, we employed a two-step methodology approach. For the first step, we used a program and legislation review. For our program review, our team researched the Federal Home Loan Bank's Affordable Housing Program (AHP) as well as Fannie Mae and Freddie Mac's community development financial institutions fund. Both of these programs use a similar set-aside funding structure to target lower-income communities and thus serve as a potential source of relevant best practices in the structuring of an FCS set-aside grant program. For these programs, we looked to answer three research questions (see Appendix I).

For our legislation review, our team researched: An Act Targeting Resources into Communities in Need (Sen. Cory Booker, 2019); Justice for Black Farmers Act (Sen. Cory Booker, 2020); Emergency Relief for Farmers of Color Act (Sen. Raphael Warnock, 2021); and The American Rescue Plan Act of 2021 (COVID-19 Stimulus Package). We looked to answer three research questions in our analysis of legislation (see Appendix I).

For our second step to our methodology, we used expert interviews across varied disciplines to supplement our document review. We conducted interviews with a diverse array of experts from the Federal Home Loan Bank, the Farm Credit Council, and several advocacy organizations (see Appendix III).

Recommendations - National Level

Oversight committees

With any large grant program, issues can arise around the efficiency and ethicality of spending of funds. Independent oversight is necessary to prevent self-dealing and to ensure the largest impact for grant recipients. This notion was backed up by one interviewee, who mentioned the benefit of the advisory councils in the Federal Home Loan Bank system (Fleming, 2021). The advisory councils worked as an independent oversight committee overseeing the responsibilities of the FHLB to create accounting policies and procedures in their Affordable Housing Program (AHP) (Audit, 2021). The advisory councils were also in charge of auditing the regional FHLBs to prevent self dealing in their respective AHPs (Advisory, 2021).

"[The watchdogs] keep us honest, so that we avoid self dealing"

-Art Fleming, Federal Home Loan Bank

To ensure the efficient and ethical spending of grant funds, we recommend creating a federal oversight committee for the FCS set aside grant program. An independent oversight committee at the federal level is necessary as they can make sure funding for both federal and local programs is done efficiently and ethically. An independent oversight committee at the federal level also ensures adequate oversight for all local institutions and that all institutions are kept to the same standard. The independent oversight committee should be funded with national level funding from the FCS set-aside grant program. An independent oversight committee can make sure that as close to 100 percent as possible of the funds go directly to SDFRs and YBSs.

Financial support for HBCUs and MSIs

To help truly understand the impacts of past discriminatory practices by FCS and the USDA on SDFRs it is important to do well-funded research at organizations run by the same impacted communities. It should also be necessary to help promote programs which help to educate impacted communities on agricultural practices to help increase the number of

SFDRs. For this reason, financial support for agricultural research and programs at historically black colleges and universities and minority-serving institutions is necessary. This notion was backed up by multiple interviewees who stressed the importance of further research at HBCUs and MSIs into the impacts of discriminatory practices (Lavender, 2021; Speight, 2021).

"If there's not some advocacy for black farmers, black farmers will become extinct"

-Eloris Speight, Alcorn State University

Our recommendation for HBCU and MSI funding was also backed up by currently proposed legislation in the forms of the Justice for Black Farmers Act (Booker, 2021) and the Emergency Relief for Farmers of Color Act (Warnock, 2021). These proposed bills look to provide one-time funding for scholarships and research of agriculture practices at HBCUs. If enacted, these bills would require funds to go towards advancing research around regenerative agriculture, supporting agriculture programs at HBCUs, and efforts to recruit students to these programs.

In order for members of Black, Indigenous, and people of color (BIPOC) communities to be more impactful in righting the wrongs of past discriminatory practices, we recommend that national-level funding from the FCS set-aside grant program should go towards agriculture programs and research at HBCUs and MSIs. Funding for these programs should come from the national level since HBCUs and MSIs are not evenly distributed across local regions. Funding for these programs at the national level can ensure standardized funding measures for each institution.

There may arise questions as to why provide funding for HBCUs and MSIs while there is already proposed legislation that does this. We concluded that since these laws have not yet been passed, there is no certainty that there will be future funding for these programs. Additionally, using funding from an FCS set-aside grant program will allow for consistent funding in the future for these programs as well as impacting all communities affected through funding programs at MSIs as well as HBCUs.

Data Collection

A common thread across studies of SDFRs is a notable lack of data. A 2019 report from the Government Accountability Office found that data on SDFRs' outstanding debt was extremely limited, as lenders did not collect demographic information about the borrowers (GAO, 2019). This lack of data prevents us from knowing the extent of this debt, as well as the efficacy of efforts on the part of Farm Credit to diversify lending practices.

As recently as 2019, the USDA has been found to have manipulated data from the Census of Agriculture, the federal government's report on farmers, ranchers, and their demographic information. This information is used, among other things, to determine the need for assistance programs and where to best allocate resources. In altering this information, the USDA falsely asserted that the number of Black farmers was increasing to proportionate levels, in part due to the success of department activities. USDA officials also asserted that funding levels for "underserved producers" were close to closing the financial gap between these farmers and their white counterparts (Rosenberg, 2019).

Our interview subjects echoed our literature review findings regarding data collection, particularly as it pertains to SDFRs. However, subjects noted "determining what data is important is the critical question," and that local leaders and stakeholders should have a say in what data is collected and why (Speight, 2021).

Recommendations - Local Level

Flexible Funding Options

The design of many grant programs often makes accessing funds difficult for those who need them most. Specifically, strict grant parameters often squeeze farmers out of applying for financial support at all. One interviewee provided an example of such a parameter: if a grant application states that the money must be used for hiring additional workers, but the farmer instead needs to cover the costs of repairs or fueling for a tractor, the grant is of little help to that farmer (Zuckerman, 2021).

Many philanthropic foundations have recognized that increasing demands on grant receivers perpetuate economic inequities. A 2020 survey from the Council on Foundations indicates that a significant proportion of organizations have begun to shift their practices as a result. Both the survey respondents and our interview subjects suggested the need for general operating funds, which provide specified amounts for a broad range of purposes, similar in style to block grants used by the US federal government (COF, 2020). Such open-ended grants would enable SDFRs and YBSs to spend according to their actual needs, rather than towards prescribed uses.

"The most equitable dollars are general operating dollars."
-Jen Zuckerman, Duke Sanford World Food Policy Center

General operating funds should be disbursed by local advisory committees, who would be highly accessible to community members and have a greater capacity to build trust with grant recipients. These factors would prevent the discouragement of those in need from seeking financial support. It is important to note, however, that our suggestion of general operating funds does not equate to removing all restrictions on grant disbursements. Some high-level parameters are still necessary to provide safeguards against waste. The USDA 2501 grant program - which one of our interview subjects identified as one of the best-designed financial support programs currently - prohibits the use of funds for particularly high-cost projects like construction, and requires that grant applicant must also be able to justify the need for the funds. (USDA) These requirements should be adopted by the proposed FCS set-aside grant program as well to prevent wasteful spending. Grants can otherwise go towards a wide range of purposes, whether they are used for collectively purchasing land and capital, organizing agriculture skill workshops, procuring consultants, or any other needs of a given community.

Key Services

In addition to funding itself, services such as legal support for those facing discrimination or debt repayment issues and financial coaching around tax filing and personal finances would alleviate burdens resulting from lack of knowledge for SDFRs and YBSs. Farm skills training would add greater value to the work of SDFRs and YBSs once they secure capital.

Our interview subject suggested using grant funding towards certifications that could enhance the quality of a farm or increase their overall profits. An example of this is becoming a certified organic farm, a process that takes three years and requires a fee. In the long run, though, this certification allows SDFRs and YBSs to raise earnings and compete with larger, more established farms in a given area (Tavar, 2021).

These services have also appeared in recent federal legislation. The Emergency Relief for Farmers of Color Act of 2021 (Warnock, 2021) included, among other provisions, training on finances, capacity building, and cooperative development. Our set aside grant would add to this by being a continuous source of funding for such services.

Land Grants

A major theme across interviews, legislation, and a review of the literature is the role of land possession in agricultural equity. Historic discriminatory practices on the part of the USDA have led to a disproportionate amount of land in the hands of White farmers and ranchers. In 1999, Pigford v. Glickman unearthed the ways in which local and federal level lending practices led to land loss on the part of Black farmers and ranchers. Among these practices were exclusion of Black Americans from New Deal-era programming, disproportionately higher taxation rates, lengthier application processing times, and limited access to credit (CRS, 2013).

The Justice for Black Farmers Act is a landmark piece of legislation aimed at taking accountability for these wrong doings. Senator Cory Booker (D-NJ), the primary sponsor of the bill, stated “when it comes to farming and agriculture, we know that there is a direct connection between discriminatory policies within the USDA and the enormous land loss we have seen among Black farmers over the past century." The bill includes provisions to protect remaining Black farmers from further land loss through increased funding to resolve heirs property claims and restore land lost through the establishment of Equitable Land Access Service, which would provide land grants of up to 160 acres to existing and aspiring Black farmers (Sen. Cory Booker, 2021).

Our interviews reinforced the support for land grants as a remedy to SDFRs' land loss. Interviewees noted that access to land continues to be "a huge issue" and should be included in the establishment of a grant program from SDFRs (Hoefner, 2021). They highlighted land grants as a way to level the playing field between Black and White farmers and ranchers. They argued that to "decrease the inequities," land must be given to SDFRs in the way it was given to White farmers and ranchers by the federal government in the 19th and 20th centuries. Interviewees asserted that this inequity prevented Black families in agriculture from building generational wealth in the way that their White counterparts were able to (Speight, 2021).

Debt Relief

Multiple interviewees stressed the need for debt relief for socially disadvantaged farmers to address institutional discrimination. It is also a common theme in the Justice for Black Farmers Act.

Undoubtedly, there is a correlation between the massive amount of land loss that socially disadvantaged farmers have faced and the discriminatory loan practices they have experienced. For Black farmers in particular, stringent loan terms and high foreclosure rates have contributed to Black-owned farms decreasing from about a million in 1920 to less than 40,000 today (Rappenport, 2021).

While white farmers were readily able to access loans that helped them to accumulate land, Black farmers and other socially disadvantaged farmers have been historically denied loans or preyed on by lenders (Castro, 2019). Settlements in the Pigford case proved to be victories for Black farmers, but they did not go far enough. Less than five percent of the settlement for the first part of the case went towards addressing debt relief (Grift, 2021).

Additionally, during the recent Trump administration, aid and relief to farmers were disproportionately funneled to wealthier and white farmers while farmers of color were left behind (Rappenport, 2021).

The recently passed Emergency Relief for Farmers of Color Act provided around $4 billion in direct debt relief payments for SDFRs. Of this, up to 120% can be used toward paying debt. An additional 20% is intended to pay off the taxes associated with the direct payment (Warnock, 2021). We suggest supplementing these debt relief payments with another continuous source in our proposed set-aside model.

Because the farmers themselves know what their specific needs are in terms of alleviating their debt, the funds should be dispersed locally.

Appendix Item I

For our **program review**, we looked to answer three research questions:

1. How are the set aside grant programs structured?
2. What are the eligibility criteria for these programs?
3. What are the best practices from these programs that could be used for a FCS set aside grant program?

For our **legislative review**, we looked to answer these three research questions:

1. What are the overall takeaways from the legislation?
2. How does this legislation affect SDA farmers?
3. Are there any deficiencies in the legislation that a FCS set aside grant program could fill?

For our expert interviews, we prepared separate questions depending on the area of expertise of the interviewee. We had separate questions for FHLB, FCC, and advocacy interviewees, but only as a means to help structure the interview allowing for specific follow-up questions to be asked. Below are the specific questions for each category of expert.

Federal Home Loan Bank

1. How did you come to the current model/structure of the lending program?
2. How did FHLB determine eligibility criteria? How do you determine “need”? (income, definitions from USDA, etc) Do you use other criteria than the ones for income?
3. Are there opportunities for improvement?

Farm Credit Council

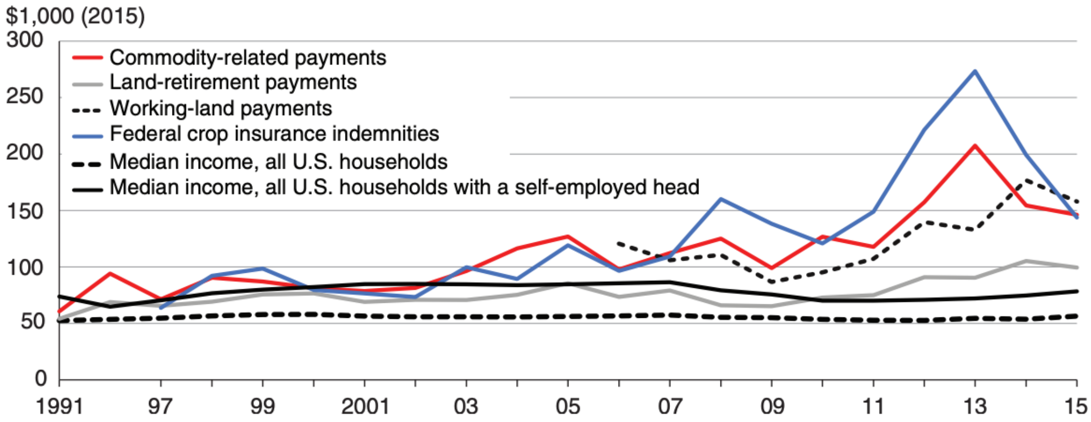
1. How are regional lending programs different? Which ones are mostly applicable
2. How did you come to the current model/structure of the lending program?
3. How did they determine eligibility criteria? How do you determine “need”? (income, definitions from USDA, etc)
4. Are there opportunities for improvement?

Advocacy Organizations

1. What are important steps to making sure these grant programs actually affect socially disadvantaged food system workers?
2. In your view, what are the biggest problems with how current lending/support institutions are set up? Specifically around structuring, who's targeted, management of funds, etc.
3. Who is being left out of current grant programs?
4. What would you use as eligibility criteria?

Appendix Item II

Farm household income at the 50th percentile[1] of Government payments—by type of program—and Federal crop insurance, 1991 and 1996-2015



Source: United States Department of Agriculture, "The Evolving Distribution of Payments From Commodity, Conservation, and Federal Crop Insurance Programs." 2017.

Appendix Item III

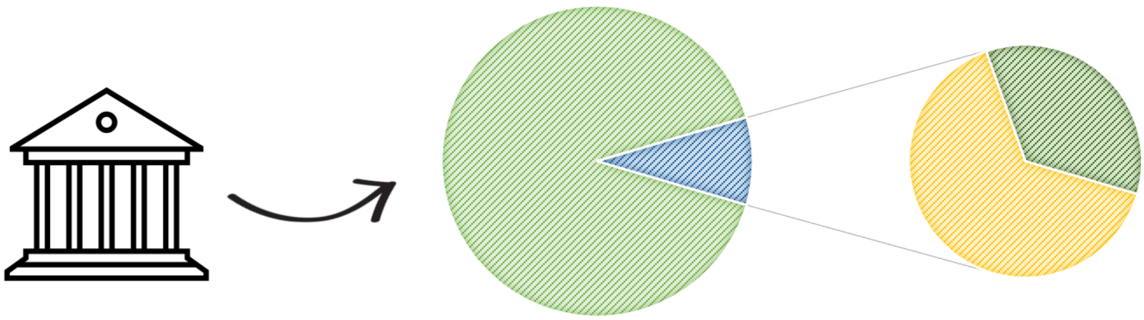
In conducting research, our team spoke with the following interview subjects:

Interviewee Name	Title	Organization
Art Fleming	Senior VP/Director	FHLBank of Atlanta
Ferd Hoefner	VP Emeritus, Policy	National Sustainable Agriculture Coalition
Jen Zuckerman	Director of Strategic Initiatives	Duke World Food Policy Center
Mike Lavender	Senior Manager of Government Affairs, Food & Environment Program	Union of Concerned Scientists
Eloris Speight	Director, Socially Disadvantaged Farmers and Ranchers Policy Research Center	Alcorn State University
Gary Matteson	VP for YBS Farmer Programs and Outreach	Farm Credit Council
Lauren Tavar	Policy Advisor	Sen. Booker's Office
Robert Heuer	Founding Director	HNA

Appendix Item IV

Comparison of the proposed Farm Credit System set-aside grant program with the analogous Affordable Housing Program at the Federal Home Loan Bank System:

Affordable Housing Program



The Federal Home Loan Bank System has **11** banks and **6,800** member financial institutions

10%
of profits of each member bank is allocated towards the Affordable Housing Program

35%
is used to provide loans for low to moderate-income households

10% Set-aside Grant at Farm Credit System

Farm Credit is a network of **71** customer-owned financial institutions

10%
of overall FCS profits is allocated towards the set-aside grant for YBS and SDFRs

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