Creating an Equitable and Sustainable Ag Grant Program at Farm Credit

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The Farm Credit System, agriculture’s Government Sponsored Enterprise (GSE) and not part of USDA, was created by Congress in 1916 to ensure farmer access to credit. In 2021 Farm Credit reported $6.8 billion in income, reflecting its GSE advantages such as preferential tax treatment and favorable funding terms based on its implicit federal government backing. With its public mission, taxpayer support and impressive profitability, Farm Credit could be providing more public benefit. This could be accomplished by modeling congressional grant mandates at our housing GSEs and requiring Farm Credit to grant up to 15% of its annual profits to fund Equitable and Sustainable Ag grants to in order to strengthen our small ag and food economy.

Congress mandates high-impact grant programs for housing GSEs the Federal Home Loan Banks, Fannie Mae and Freddie Mac. The FHLB Affordable Housing Program (AHP) has granted over $6 billion. A University of Florida study on the Economic Benefits of FHLB-Atlanta’s AHP found that “for every $1 million invested in AHP, $14.3 million of housing is constructed or rehabilitated and 158 jobs are created.” When including the economic multiplier effect, every $1 million of AHP helps generate $24.6 million in economic activity. A 2018 Florida State University study of all FHLB AHP programs found that “… for every dollar of AHP-enhanced funding, there is a multiplier effect of $33.68 in Rental, Home Construction and Rehabilitation, and of $30.04 in Home Purchases.” Fannie Mae and Freddie Mac are required to grant 4.2 basis points (or .042%) of the principal balance of new loan purchases to the Housing Trust Fund and the Capital Magnet Fund. (CBO report here). The 2022 grant amount was $1.138 billion.

The idea of a grant program for Ag’s GSE Farm Credit is not new. An amendment creating a Farm Credit System grant program was considered as part of the 2014 Farm Bill process. Sen. Elizabeth Warren’s 2020 presidential campaign included the proposal in her platform to increase equity for farmers of color. Warren’s proposal was supported by Reform Farm Credit, an American Bankers Association initiative. The National Sustainable Agriculture Coalition (NSAC) wrote in a 2019 comment letter that FCS institutions should “… reinvest 10 % of profits to better support Young, Beginning, and Small Farmers, as well as other underserved farmers...”. The proposal also is included in NSAC’s 2023 Farm Bill platform.

Possible funding uses are broad and include helping new farmers purchase farmland and increase value-added ag enterprises, addressing ag system inequalities by better supporting Socially Disadvantaged Farmers and Ranchers, supporting climate related ag initiatives, expanding access to local food, and fostering other food related rural and urban economic initiatives.

Some have expressed concern that a Farm Credit grant mandate would hurt current member-borrowers by reducing their patronage (dividend) payments but Farm Credit’s healthy profit margins are ample enough to mitigate against that. Also of note, farmers can only join Farm Credit if they qualify as a borrower and take out a loan. So, despite being a GSE, Farm Credit’s services and profits only benefit its circle of member-borrowers. Those who do not qualify for or do not have outstanding Farm Credit loans are essentially excluded. Regardless, the likely positive economic spillover effects of a mandated grant program could also grow member patronage by helping increase Farm Credit’s overall profitability.

A Farm Credit grant program also would help answer critics of Farm Credit’s profitability and perceived mission creep. For example, ABA’s Reform Farm Credit critiqued two 2019 Government Accountability Office reports required by the 2018 Farm Bill on Farm Credit service to SDFRs (socially disadvantaged farmers and ranchers) and Farm Credit service to Indian Tribes. A mandated grant program would broaden Farm Credit’s overall impact and arguably its profitability, increase public awareness, and ensure it more fully meets its public mission.

Farm Credit’s GSE status, its profitability, and our ag and food system shortcomings all point to it being time to mandate a significant Farm Credit grant program. It is a transformative opportunity to help fund more of equitable and sustainable ag and food system initiatives that our nation so clearly needs to build.