Creating a Farm Credit System Equitable and Sustainable Ag Grant Program
By David Beck (david.beck@self-help.org). Updated February 24, 2022

The Farm Credit System, agriculture’s primary Government Sponsored Enterprise (GSE), was created by Congress in 1916 to ensure farmer access to credit. In 2021 Farm Credit reported $6.8 billion in income. This is in great part due to the benefits of its preferred GSE status. Given healthy profitability and public mission, Farm Credit should dedicate 10% of its annual profits to fund Equitable and Sustainable Ag grants. Based on 2021 income, such a grant program would provide $680 million annually to strengthen our small ag and food economy. Possible funding uses include: helping support new farmers and value-added ag enterprises, addressing ag system inequalities, supporting climate related ag initiatives, expanding access to local food, and fostering other food related rural and urban economic initiatives.

As a GSE, Farm Credit has implicit federal government backing which translates into significant tax and funding advantages compared to other lenders. Given those advantages, many argue that Farm Credit - while serving many American farmers well - should be providing more public benefit given its public mission, taxpayer support and profitability. Dedicating 10% of profits to help fund our pressing ag and food system needs would help ensure Farm Credit more fully meets its public mission.

The concept of a Farm Credit 10% grant program is not new. An amendment creating a Farm Credit System grant program was drafted by Sen. Sherrod Brown’s office as part of the 2014 Farm Bill process. 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…”

A Farm Credit grant program is modeled in part on the GSE Federal Home Loan Banks’ Affordable Housing Program (AHP), which has provided over $6 billion in grants since 1989. (Grant programs funded by the profits of GSEs Fannie Mae and Freddie Mac are also models.) By all measures, the FHLBs’ AHP is a success. 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. That means new potential customers and increased goodwill for member institutions and a thriving community.” When including the economic multiplier effect, the Florida study found that every $1 million of AHP helps generate $24.6 million in economic activity. Further, a 2018 Florida State University study of the FHLB AHP nationwide found that “…for every dollar of AHP-enhanced funding, there is a multiplier effect of $33.68 in Rental, Home Construction and Rehabilitation, and a multiplier effect of $30.04 in Home Purchases.”

While some express concern that a Farm Credit grant program would hurt current Farm Credit member-borrowers by reducing their patronage (dividend) payments, Farm Credit’s healthy profit margins are ample enough to mitigate that worry. Also of note, Farm Credit members must be borrowers which means that, despite being a GSE, Farm Credit’s profitability only benefits a small circle of member-borrowers and excludes those who do not have outstanding Farm Credit loans. Lastly, given the positive economic spillover effect, a 10% grant program could also increase member patronage by helping increase Farm Credit’s overall profitability.

A Farm Credit grant program would also 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 10% 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.

Given Farm Credit’s favored GSE status, its profitability, and our ag and food system shortcomings, it is time to create a 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.