

# CREDIT WORTH *and* SOIL WEALTH:

An Environmental, Social, and Governance Analysis  
of the Farm Credit System



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## About Self-Help

Self-Help is a leading community development financial institution (CDFI) with a mission to create and protect ownership and economic opportunity for all. Self-Help does this via its credit union and loan fund, providing responsible financial services, lending to individuals, small businesses and nonprofits, developing real estate, and promoting fair financial practices in practice and in policy through its affiliate the Center for Responsible Lending. Founded in 1980 Self-Help has provided more than \$10.9 billion in financing to help more than 160,000 borrowers buy homes, start and grow businesses and strengthen community resources.

## About Croatan Institute

Croatan Institute is an independent, nonprofit research and action institute with a mission to build social equity and ecological resilience by leveraging finance to create pathways to a just economy. Since the Institute's launch on Earth Day in 2014, its interdisciplinary team of scholars, scientists, financial activists and analysts have worked collaboratively with more than 200 organizations and developed a reputation for rigorous research and actionable insights related to financing healthy, equitable food and farming systems, resilient communities, and solutions to the climate crisis.



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## Executive Summary

The Farm Credit System faces a major moment of opportunity and accountability. The nation's oldest government-sponsored enterprise (GSE), Farm Credit was founded more than a century ago to provide dedicated financial services to underserved farmers and rural communities. With nearly \$350 billion in assets, Farm Credit cumulatively is the largest lender to the agricultural sector, making approximately 45% of all agricultural loans. Yet many believe that the system, given its largesse, inherent public purpose and public support, should be much more assertive in helping address our myriad agricultural and food-system needs.

Since its founding in 1916, Farm Credit has been financed through a combination of public support and private investment. This paper documents leading environmental, social, and governance (ESG) risks and shortcomings at Farm Credit and recommends changes to help the System more fully meet its basic public purpose: to help farmers and rural communities access affordable, reliable capital. Farm Credit's hesitancy to incorporate ESG factors into its lending processes presents not only substantial—indeed systemic—risks but also opportunities missed.

Significantly, and unlike our nation's housing GSEs, Farm Credit is not required to set aside any of its earnings for grants to support the needs of socially disadvantaged farmers and ranchers. While many Farm

Credit institutions voluntarily make some grants, they appear to represent a fraction of annual profits, despite Farm Credit's favorable GSE status. There also is very little information on the governance of this highly fragmented philanthropic work.

As Agriculture's GSE, Farm Credit should be much more active in helping fund and support the future of farming and local food systems and engaging more fully with investors seeking exposure to regenerative agriculture, resilient rural development, and equitable solutions to the climate crisis. Farm Credit could be much more impactfully supporting farmers building soil health and community wealth in the face of growing climate variability, especially new, beginning, and socially disadvantaged farmers and ranchers who are underrepresented within the System and generally underserved by financial institutions. By managing ESG risks and investing more equitably in farmers and their climate solutions, Farm Credit, as well as the system's secondary market entity Farmer Mac, could serve the widely unmet investor demand for "green bonds" and impact investments that provide exposure to regenerative agriculture and socially disadvantaged farmers and ranchers.

Given its privileged status as a GSE, its mission, and its profitability – the System reported \$7.3 billion in net income in 2022 – Farm Credit is well positioned to grow its role in helping strengthen our nation's sustainable food and ag systems.

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## Introduction

The Farm Credit System and other publicly supported agricultural financing authorities face a major moment of opportunity and accountability. Farm Credit is the nation's oldest government-sponsored enterprise (GSE), founded more than a century ago to provide dedicated financial services to underserved farmers and rural communities. With nearly \$350 billion in assets, Farm Credit cumulatively is the largest lender to the agricultural sector, making approximately 45% of all agricultural loans in the United States. Yet many believe that the system has strayed from its original mission and public purpose.

Since its founding in 1916, Farm Credit has been financed through a combination of public support and private investment. Under the current Administration, the leading priorities for American agriculture include addressing climate change, tackling food insecurity, advancing equity and inclusion, and creating market opportunities to advance rural prosperity.<sup>1</sup> For investors and the Administration alike, environmental, social, and governance (ESG) issues have also come to the fore, and here too climate and

racial equity stand out as high priorities for financial services.<sup>2</sup> The Farm Credit System, however, has been slow to recognize these priorities and integrate them into its financing activities. This paper therefore aims to document leading ESG risks and shortcomings at Farm Credit—and to propose changes to help Farm Credit more fully meet its basic public purpose: to help farmers and rural communities get access to affordable, reliable credit.

Farm Credit's hesitancy to incorporate these factors into its lending processes presents not only substantial—indeed systemic—risks to the system but also opportunities missed. As Agriculture's GSE, Farm Credit should be much more active in helping fund and support the future of farming and local food systems and engaging more fully with investors seeking exposure to regenerative agriculture, resilient rural development, and equitable solutions to the climate crisis. Farm Credit could be lending much more impactfully to farmers building soil health and community wealth in the face of growing climate variability, especially new, beginning, and socially disadvantaged farmers and ranchers who are underrepresented within the System and generally underserved by

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<sup>1</sup> See USDA, Priorities, at <https://www.usda.gov/priorities>.

<sup>2</sup> Amy Matsuo and Karen Staines, “[ESG: An Immediate Priority of the New Administration](#),” KPMG Regulatory Insights, February 2021. Although “ESG investing” has recently become the object of partisan political debate, the financial analysis of environmental, social, and governance risks and opportunities has become a widely adopted component of the investment process.

The CFA Institute, for example, has highlighted that “more thorough consideration of ESG factors by financial professionals can improve the fundamental analysis they undertake and ultimately the investment choices they make.” See “[ESG Investing and Analysis](#),” CFA Institute. On its recent politicization, see David Cifrino, “[The Politicization of ESG Investing](#),” Social Impact Review, Harvard Advanced Leadership Initiative, January 24, 2023.

financial institutions. By managing ESG risks and investing more equitably in farmers and their climate solutions, Farm Credit Associations and agriculture's secondary market maker Farmer Mac, as well as state agricultural finance authorities, could serve the widely unmet investor demand for "green bonds" and impact investments that provide exposure to regenerative agriculture and socially disadvantaged farmers and ranchers.

GSEs working in housing finance such as Fannie Mae, Freddie Mac, and Ginnie Mae have embraced growing ESG interest in the capital markets for many years, by reporting on their sustainability strategies and issuing both green and social impact bonds to finance targeted lending programs. Farm Credit and Farmer Mac, by contrast, make little-to-no ESG disclosures of substance related to their business, nor have they issued any green bonds. Furthermore, the housing GSEs – Fannie Mae, Freddie Mac, and the Federal Home Loan Banks – all are required

by Congress to grant back some of their annual profits to support affordable housing. Farm Credit is not required to set aside any of its earnings for grants to support the needs of socially disadvantaged farmers and ranchers. While many Farm Credit institutions make voluntary grants, there remains very little transparency into either the amount of charitable giving that is actually undertaken within the System or the governance of that highly fragmented philanthropic work. Given its privileged status as a GSE, its mission, and its profitability – the System reported \$7.3 billion in net income in 2022 – Farm Credit is well positioned to have a major impact on these areas. By doing so, it would much more fully meet its public purpose, and a widening circle of organizations and policymakers has advocated for Farm Credit to formalize its grantmaking as a percentage of its net income and for Congress to mandate that Farm Credit make these grants as other GSEs must do.<sup>3</sup>

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<sup>3</sup> [“Why Congress Should Mandate a Farm Credit Grant,”](#) National Sustainable Agriculture Coalition, May 15, 2023; Stephen Suppan, [“Is a Climate-Resilient, Racially-Just Farm Credit System Feasible?”](#) Institute for Agriculture and Trade Policy, December

9, 2021; and Alex Baad, Rebekah Barber, Sara Darwish, and Michael Hou, [“Designing a Farm Credit System Set-Aside Grant,”](#) Sanford School of Public Policy, Duke University, April 2021.

Figure A: Farm Credit Loan Portfolio 2022

Range (thousands)	Amount Outstanding (\$ millions)	% of Portfolio	Number of Borrowers	% of Total Borrowers
\$1 - \$249	32,599	8.7%	431,758	71.77%
\$250 - \$499	27,900	7.5%	79,666	13.24%
\$500 - \$999	31,277	8.4%	44,865	7.46%
\$1,000 - \$4,999	75,301	20.2%	38,072	6.33%
\$5,000 - \$24,999	55,233	14.8%	5,706	0.95%
\$25,000 - \$99,999	52,916	14.2%	1,102	0.18%
\$100,000 - \$249,999	40,993	11.0%	268	0.04%
over \$250,000	57,047	15.3%	130	0.02%
Total	373,266	100	601,567	100

**SOURCE:** Farm Credit Administration, as of December 31, 2022; Croatan Institute analysis.

## A Century of Complexity: Credit Ratings and Systemic Risks

As the nation's oldest GSE, with more than a century of history, the Farm Credit System has evolved alongside radical changes in American agriculture. Born out of the early 20th-century Progressive Era, the Federal Farm Loan Act of 1916 established the Federal Farm Loan Board to administer a new system of Federal Land Banks and national farm loan associations. Its purpose was to establish standardized farm mortgage investments in order to provide capital specifically for the development of American

agriculture in part by accessing the US bond market. With over a century of added complexity, the Farm Credit System of today is a labyrinthian structure of cooperatives, technically owned by its customers and theoretically accountable to Congress, but with little transparency about whom the system serves – and how many of its largest borrowers and beneficiaries are even agriculture-related.<sup>4</sup>

For example, recent data on the Farm Credit System's portfolio and borrowers at the end of 2022, found in Figure A, are often presented in such a way as to highlight that the vast majority of its customers – 85 percent – borrow relatively small loans of less than \$500,000. However, that large group of

<sup>4</sup> Bert Ely, "Restructuring the Farm Credit System—Why Now and How to Do It," *ABA Banking Journal*, October 11, 2019, argues that the system "has an excessively

complex and increasingly obsolete organizational structure."

borrowers represents only 17 percent of the total amount of loans outstanding. A wide majority of Farm Credit's debt capital – approximately \$206 billion of the \$373 billion outstanding – appears to finance only 1.2 percent of its base of borrowers, with loans averaging over \$28.5 million for that top one percent. The borrower base of the system today extends far beyond its initial

focus on farmers seeking farm mortgages that private banks would not provide. As Figure B highlights, Farm Credit now finances agribusinesses, agricultural exporters, cooperatives, utility companies and rural infrastructure, as well as part-time hobby farms and even homebuyers and businesses that are simply in rural places but may have no real involvement in food or farming.

**Figure B: Farm Credit Loans 2016-2022 (billions)**



**SOURCE:** Farm Credit Administration, Investor Presentations. Graphic by Croatan Institute.



The System's top-heavy concentration of large loans also appears to have intensified over time and become a significant credit risk factor. The ten largest borrowers in 2022 accounted for more than \$9 billion – a 14-percent increase over the 2021 top ten. Eight of the top ten loans exceeded \$1.125 billion.<sup>5</sup>

With more than 2 million farms and an estimated 3.4 million farmers in the US today, the Farm Credit System provides credit to only a limited percentage of the farming community.<sup>6</sup> It is difficult to understand just what percentage of Farm Credit loans go to farmers because the only readily available data from Farm Credit on the number of farmers actually financed by the system—versus “customers” more generally—is associated with overlapping categories of “Young, Beginning, and Small” farmers and ranchers (YBS), which the system has been statutorily directed to serve since 1980 and to track since 2001. (A farmer less than 35 years old or with up to 10 years of farming experience is still considered a “young” or “beginning” farmer, according to the Farm Credit Administration. A small

farmer, the largest category of the group, is defined as generating less than \$250,000 in gross annual sales.)<sup>7</sup> Less than 20 percent of outstanding Farm Credit loans have gone to either small or beginning farmers, but the system does not disclose how many farmers are associated with that outstanding capital.<sup>8</sup> By refusing to control for the overlapping nature of its YBS loans transparently and only reporting disaggregated data for each of the three individual YBS categories, Farm Credit leaves the impression that a single loan to a farm that qualifies under all three categories may be three different loans, inflating its support for these segments of farmers. According to one Farm Credit loan officer familiar with these data, even when a farmer is no longer considered “young, beginning, or small,” any outstanding loan to that farmer remains categorized within Farm Credit System data as YBS.

As the Government Accountability Office has reported, Farm Credit also does not track any other farm demographic data related to lending to “Socially Disadvantaged” farmers and ranchers, a USDA category for farmers

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<sup>5</sup> Federal Farm Credit Banks Funding Corp., 2022 Annual Information Statement of the Farm Credit System, March 1, 2023, pp. 57-58.

<sup>6</sup> According to the most recent USDA Census of Agriculture, 2017. [Farm Credit's website](#) states: “we support more than 500,000 farmers, ranchers, agricultural producers, rural infrastructure providers and rural homebuyers in all 50 states and Puerto Rico. Farm Credit loans help U.S. agricultural producers feed the world, rural businesses...”

<sup>7</sup> GAO, [Agricultural Lending: Information on Credit and Outreach to Socially Disadvantaged Farmers and Ranchers Is Limited](#), GAO:

[19-539](#), July 2019. Although Farm Credit Administration reports on each of the three YBS categories, it does not report the total combined lending to YBS farmers. Given that many young farmers are also beginning and small, and vice versa, and FCA data tables cannot be readily parsed for this double-counting effect, it remains unclear how many total YBS farmers are actually being financed by the system.

<sup>8</sup> Farm Credit System Lending to Young, Beginning, Small Farmers, and Ranches for the Year Ending December 31, 2021, FCA, available at <https://reports.fca.gov/>.

from groups that have been subject to historical, racial, or ethnic prejudice, such as Black or African American, American Indian or Alaska Native, Hispanic or Latino, and Asian or Pacific Islander farmers, and for certain USDA programs women farmers as well.<sup>9</sup> This lack of transparency related to demographic data and equal credit opportunity contrasts notably with the lending programs of the USDA's Farm Service Agency.<sup>10</sup> Furthermore, as discussed more fully below, the Farm Credit Council, the System's trade association, is vigorously fighting amendments by the Consumer Financial Protection Bureau to the Equal Credit Reporting Act (the so-called "1071 rule"), which would require commercial lenders to report small business borrower demographics.

Even with the limited data available on Farm Credit loans, the System's lending patterns appear top-heavy to an extreme. If more than half of the system's capital is loaned to only one percent of its borrowers, then a deep concentration of risk shapes the current portfolio. Loan defaults or bankruptcies within such a small percentage of borrowers present outsized potential risk of loss for the system. If the Farm Credit System has a black swan roosting in the shadows, then the public ultimately bears a considerable measure of this excessive risk since taxpayers subsidize the system through tax exemption and would be implicitly responsible for

bailing out the system, if necessary, as occurred during severe agricultural dislocations such as the Great Depression's Dust Bowl and the 1980s Farm Crisis.

Both of those historic moments saw aggressive legislative and federal intervention to shore up the system, adding new layers of institutions, though with insufficient accountability for its lending activities, despite its growing complexity. The Farm Credit Administration (FCA) was established during the Great Depression as an independent federal agency providing oversight of the extended lending authorities of the land bank system and the more recently established federal intermediate credit banks, banks for farmers' cooperatives, local production credit associations, and federal credit unions. In 1939 FCA became an agency of the USDA until the early 1950s when it regained its independence with a new Farm Credit Board and a mandate from Congress to move toward a fuller model of borrower ownership that would end direct public financing of the system.

Although Farm Credit is a creature of legislative action, it is no longer an agency of government. Instead, the system is a GSE subject to federal regulation and Congressional oversight under the jurisdiction of the House and Senate Agriculture Committees. And despite the recurrent cycle of taxpayer support the system

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<sup>9</sup> GAO, Agricultural Lending, GAO-19-539.

<sup>10</sup> Agricultural Credit: Institutions and Issues, Congressional Research Service, No. R46768, ver. 7, July 27, 2022.

has received over its long history, it was designed from the outset to finance its lending activities substantially from the proceeds of bonds it issued in the public debt capital markets. Today the Federal Farm Credit Banks Funding Corporation issues debt securities on behalf of the four main Farm Credit System Banks that own it, and generally these are “high quality,” tax-exempt bonds that often carry high AAA/Aaa/AA+ ratings from credit rating agencies. In 2022 the System issued approximately \$387 billion in bonds and discount notes and generated \$7.3 billion in net revenue from its activities.

Credit rating agencies grant such high ratings to Farm Credit bonds precisely because of the system’s implicit government guarantee. For American agriculture, the System may indeed be too big to fail. As a Moody’s Investor Service rating announcement from 2017 put it, “Although the System’s senior unsecured debt securities are not guaranteed by the US Government, we believe its core mission to provide credit to the US agricultural market makes it is [sic] very likely that the government would provide support in the event of financial distress.”<sup>11</sup> This is precisely what ultimately happened during the 1980s Farm Crisis, and it was out of the Reagan-era bailout that yet another series of Farm Credit entities were born, including the Farm Credit System Insurance Corporation, a federal, government-controlled corporation

that administers the Farm Credit Insurance Fund, which insures timely payment of principal and interest on the bonds, notes, and other obligations issued to investors. Since the 1987 taxpayer bailout, the System has also undergone substantial regional consolidation, from more than 400 independent entities working in close proximity to the farm communities they serve to just four banks and 67 associations with fewer local offices and considerably more concentrated solvency risk.<sup>12</sup>

Bond buyers, investors, and bank analysts do not always share the credit rating agencies’ tendency to overlook the critical distinction between implicit and explicit government guarantees among GSEs. After all, even too-big-to-fail financial institutions have collapsed, and during the mortgage meltdown, housing GSEs with firmer claims on explicit government guarantees such as Fannie Mae and Freddie Mac were not just supported by government but taken over entirely. Indeed, this ambiguity in the nature of the government guarantee of the GSE is the rationale that the activist hedge fund manager Bill Ackman of Pershing Square Capital used to justify his first “big short” placed against Farmer Mac two decades ago when he made bearish bets against the GSE while he was at Gotham Partners Management Co.<sup>13</sup> Given the concentration of agricultural lending within the Farm

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<sup>11</sup> See [https://www.moodys.com/research/Moodys-assigns-AgFirst-Aa3-issuer-rating-affirms-ratings-of-Farm-PR\\_375569](https://www.moodys.com/research/Moodys-assigns-AgFirst-Aa3-issuer-rating-affirms-ratings-of-Farm-PR_375569).

<sup>12</sup> Bert Ely, “[Farm Credit Watch: Congress Must Determine if FCS Consolidation Has Impaired the System’s Mission While](#)

[Increasing Taxpayer Risk](#),” *ABA Banking Journal*, February 14, 2023.

<sup>13</sup> “Behind Attack on Farmer Mac: Hedge Fund Sought More Beats,” *Wall Street Journal*, April 11, 2003.



Credit System and the top-heavy concentration of Farm Credit loans, any sudden shocks or prolonged downturns that agriculture faces will inevitably reverberate through the System.<sup>14</sup> Moody's itself acknowledges that the seemingly strong credit ratings for systemwide debt issued by the Federal Farm Credit Banks can also be offset by "single industry concentration and sensitivity to a protracted period of reduced farm income and/or land values."<sup>15</sup>

In other words, the basic concerns that Ackman first raised about the misimpression that the GSE agency debt is somehow backed by the full faith and credit of the US government essentially remain. Indeed, Farmer Mac, which is a substantially smaller bond issuer than the Farm Credit System banks, had to be bailed out during the financial crisis to the tune of \$65 million, through an infusion of cash from Farm Credit System banks and Zions Bancorp.<sup>16</sup>

## Managing Agricultural ESG Risks and Opportunities

In addition to the concentration of fundamental credit risk within the Farm Credit System's loan portfolio, Farm Credit's management of ESG risks and opportunities is strikingly limited. Little mention is made

of ESG factors on the Farm Credit System's websites or in its publications. Farm Credit has established an Environmental, Social and Governance Work Group that is reportedly developing a "FSC ESG Toolkit," but no reporting on the Work Group's composition or activities has been made publicly available. The System has not to date published a single ESG, sustainability, or impact report as other GSEs such as Fannie Mae, Freddie Mac, and their federal regulators regularly do on an annual basis. Farm Credit's lack of any formal strategy or policy for addressing ESG issues presents numerous concerns for investors and stakeholders across a wide array of environmental, social, and governance considerations, particularly related to 1) risks and opportunities associated with climate change; 2) the legacies and patterns of financial discrimination against historically underserved Black, Indigenous and other farmers of color; and 3) the overall suitability of governance and accountability structures across the System's sprawling complexity.

### Environmental Concerns: Addressing Climate Risk and Resilience

Among critical environmental issues, the Farm Credit System has done very little to integrate the mounting risks associated with climate change and soil degradation that conventional agricultural production

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<sup>14</sup> N. Key, J. Law, and C. Whitt, "[Chapter 12 Bankruptcy Rates Have Increased in Most Agricultural States](#)," USDA ERS, November 30, 2021.

<sup>15</sup> A. Tischler and A. Usai, "[Announcement of Periodic Review: Moody's Announces Completion of a Periodic Review of](#)

[Ratings of Federal Farm Credit Banks](#)," Moody's Investors Service, January 18, 2022.

<sup>16</sup> "[Farmer Mac's Amber Waves of Pain](#)," *Forbes*, October 1, 2008.

increasingly faces, particularly with the growing frequency of extreme weather events. While climate change is included among the “Risk Factors” that the System faces, “including rising average temperatures, more frequent and severe storms, more forest and wildfires and extreme flooding and droughts,” no real mention is ever made of how these climate risks impact credit management or lending decisions.<sup>17</sup> And no climate reporting has been undertaken by the Farm Credit System, despite the fact that a Climate Risk Task Force was reportedly formed in July 2021 to understand potential risks to the Farm Credit portfolio and the Farm Credit Insurance Fund.<sup>18</sup> A recent 2023 Audit Report of the FCA Office of Inspector General found that the Climate Risk Task Force, initially organized to complete its work last year, had finalized no deliverables related to its charter, despite explicit budgetary allocations for it. The audit’s recommendations made clear that the task force has had no clear project management and that roles and responsibilities for undertaking its work have not been clearly defined by either FCA management or the Board.<sup>19</sup>

In light of these revelations, it should come as little surprise that Farm Credit’s published statements on climate change tend to be more dismissive and defensive than analytical. In its most recent Annual Information Statement on the System, for example, the Federal Farm Credit Banks Funding Corporation states that the costs of climate-related weather events “are not expected to have a significant impact on the System’s overall financial condition and results of operations as such risks are significantly mitigated by crop and property insurance.”<sup>20</sup> Thus, rather than internalize climate financial risk management, Farm Credit largely externalizes the impacts of climate change upon farmers and the public, assuming subsidized federal crop insurance programs managed by USDA’s Risk Management Agency will serve as a kind of stabilizing credit enhancement for the System. However, Stanford Earth system scientists have documented that historic temperature rises have accounted for mounting crop insurance losses since the early 1990s, contributing an additional \$27 billion in insured losses during the period 1991-2017.<sup>21</sup> Similarly, economists at Columbia University have found that federal crop insurance has strongly disincentivized

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<sup>17</sup> [Federal Farm Credit Banks Funding Corporation, 2022 Annual Information Statement of the Farm Credit System, March 1, 2023](#), pp. 25-26.

<sup>18</sup> [Jeffery S. Hall, Statement on Climate Change](#), Farm Credit Administration Board Meeting, July 8, 2021.

<sup>19</sup> [FCA Office of the Inspector General, Audit Report, Farm Credit Administration’s Office of Data Analytics and Economics, A-23-01](#), June 14, 2023, p. 10.

<sup>20</sup> Federal Farm Credit Banks Funding Corporation, [2022 Annual Information Statement](#), p. 40.

<sup>21</sup> Noah S. Diffenbaugh, et al., “[Historical Warming Has Increased U.S. Crop Insurance Losses](#),” *Environmental Research Letters* 16, no. 8 (2021).

commodity corn and soybean farmers from adapting to extreme heat over roughly the same period, while scholars at the University of Illinois at Urbana-Champaign have documented how crop insurance has undermined sound water-resource management by farmers in the face of extreme heat and drought.<sup>22</sup>

By sharp contrast, the Federal Housing Finance Agency, which is the equivalent federal body to the FCA regulating Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System, has publicly acknowledged the “serious threat” that climate change poses to US housing finance. It has established a formal program on Climate Change and ESG, an internal Steering Committee that consists of agency leadership, and eight working groups staffed by senior economists and policy analysts across the agency to address issues such as data and research, climate exposure assessments, disaster response and assistance, ESG reporting and disclosure, green bonds, and legal issues, among other matters.<sup>23</sup>

Similarly, numerous other federal supervisory bodies, including the Financial Stability Oversight Council, the Commodity Futures Trading Commission, and the Federal Reserve, have all published substantive analyses of the financial risks associated with climate change in order to guide regulatory responses to them.<sup>24</sup> Repeatedly, these analyses explicitly highlight various physical and transition risks of climate change that agricultural lending and investment face, particularly from lower agricultural yields during dry summers. The CFTC specifically recommends that federal regulators undertake climate risk stress testing for “sub-systemic” sectoral shocks that agricultural lending institutions will face, especially in geographies with concentrated credit activity. With approximately half of the System’s loan portfolio concentrated in three geographies – namely, California, the Midwest, and Texas, as highlighted in Figure C – Farm Credit exemplifies precisely this concentration of risk. Yet among federal regulatory bodies, FCA remains the slowest to advance such risk assessments or stress testing.

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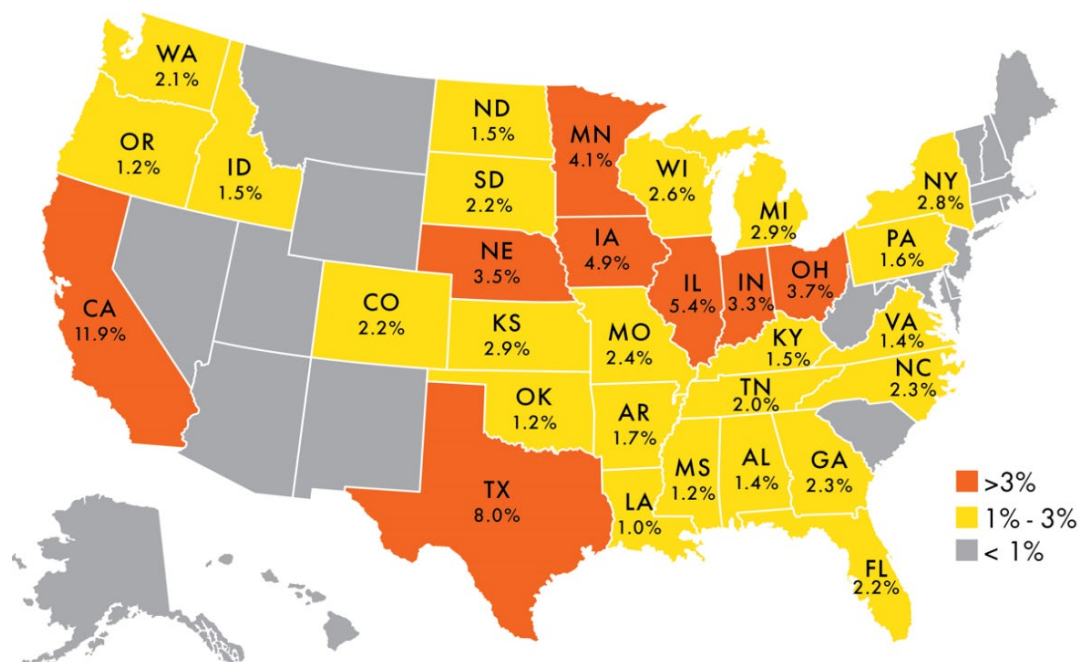
<sup>22</sup> Francis Annan and Wolfram Schlenker, “[Federal Crop Insurance and the Disincentive to Adapt to Extreme Heat](#),” *American Economic Review* 105, no. 5 (2015); and Tatyana Deryugina and Megan Konar, “[Impacts of Crop Insurance on Water Withdrawals for Irrigation](#),” *Advances in Water Resources* 110 (2017): 437-44.

<sup>23</sup> See <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Climate-Change-and-ESG.aspx>.

<sup>24</sup> Managing Climate Risk in the U.S. Financial System, Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission, 2020; Financial Stability Oversight Council, Report on Climate-Related Financial Risk, 2021; Nahomi Alvarez, et al., “[A New Framework for Assessing Climate Change Risk in Financial Markets](#),” Chicago Fed Letter, Federal Reserve Bank of Chicago, no. 448, November 2020; and Celso Brunetti, et al., “[Climate Change and Financial Stability](#),” FEDS Notes, March 19, 2021.



**Figure C: Geographic Distribution and Concentration of Farm Credit System Loans 2022**



**SOURCE:** Farm Credit Administration, Investor Presentations. Graphic by Self-Help.

Prior to the announcement of the FCA's formation of its Climate Risk Task Force, in January 2021, the Center for American Progress (CAP) published a major report identifying numerous climate-related risks that the Farm Credit System was under-equipped to manage, and CAP made a series of reasonable recommendations for farm lenders, policymakers, and regulators to address these risks. These included mandating the FCA to undertake climate resilience scenario analysis in much the way that the US Securities and Exchange

Commission has been tasked to respond to climate and other ESG risks and opportunities; to increase capital reserve requirements and adjust capital risk weights to reflect climate pressures on farmland values and productivity; to disclose the carbon footprint of Farm Credit financed projects, including estimates of annual GHG emissions from concentrated animal feedlot operations; and to set aside 10 percent of capital for green lending to support more climate-resilient agricultural practices.<sup>25</sup> Shortly after issuing a terse response to the

<sup>25</sup> Caius Z. Willingham, "[Promoting Climate-Resilient Agricultural and Rural Credit](#)," Center for American Progress, January 2021.

CAP report, the Farm Credit Council joined the Food and Agriculture Climate Alliance, an initiative that has advocated a series of policy recommendations related to “climate-smart agriculture” for the current Farm Bill.<sup>26</sup> However, none of the Alliance’s recommendations refer to Farm Credit’s own lending policies or priorities nor do they align with any of CAP’s recommendations for the System.<sup>27</sup>

While downplaying the risk of climate-related disasters on farming, Farm Credit also tends to highlight the “expanded opportunities” that climate change may provide farmers, “particularly in the area of renewable fuels generated from crop production,” such as corn-based ethanol, though with no reference to the sub-systemic climate risks facing commodity production in the Corn Belt. No mention is made of the imperatives to finance more climate-resilient agricultural landscapes or healthier soils by lending to a more geographically diverse array of farmers embracing agroecological and regenerative practices and on-farm diversification.<sup>28</sup>

To manage the transition risks of climate change, Farm Credit should be supporting far more targeted lending for producers embracing regenerative, organic strategies. For example, Compeer Financial, the Farm Credit cooperative in the upper Midwest,

serving portions of Illinois, Minnesota, and Wisconsin, has developed a flexible Organic Bridge Loan for non-traditional agricultural operations transitioning from conventional to certified organic grain production. During the first two or three years of transition to USDA Organic certification, Compeer’s Organic Bridge Loan is interest-only, converting afterward to a term loan with fully amortized payments based on operational cash flow. Compeer is the only regional Farm Credit System Agricultural Credit Association known to have such a targeted lending program focused on Organic transition, but it is precisely the kind of targeted lending program that Farm Credit should be encouraging across the System.

Numerous impact investors focused on private lending and farmland have developed precisely such transitional strategies to finance organic transition, including Iroquois Valley Farmland REIT’s Soil Restoration Notes and Mad Ag’s Perennial Fund, both of which have been supported by USDA Conservation Innovation Grants. US Treasury Department-certified Community Development Financial Institutions (CDFIs) such as Partner Community Capital and “Slow Money” lending groups such as Foodshed Investors have used bridge loans to help farmers take full advantage of reimbursable USDA NRCS programs such as

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<sup>26</sup> See “[Farm Credit Council Responds to Climate Report](#),” Press Release, January 14, 2021; and “[Farm Credit Reinforces Commitment to Climate-Smart Ag](#),” Press Release, February 22, 2021.

<sup>27</sup> Food and Agriculture Climate Alliance, [Farm Bill Policy Priorities: Recommendations to the 118<sup>th</sup> Congress](#).

<sup>28</sup> Federal Farm Credit Banks Funding Corporation, [2022 Annual Information Statement of the Farm Credit System](#), p. 40.

the Environmental Quality Incentives Program (EQIP) to implement conservation practices. The breadth and depth of the Farm Credit System makes it a natural lending platform to replicate and scale up these kinds of financial solutions being piloted within local Farm Credit associations and among private CDFIs and impact investors.

By targeting its lending programs to finance enhanced conservation, organic transition, and other agroecological solutions that foster climate resilience, Farm Credit could then issue “green bonds” to sustainable and ESG fixed-income investors in public debt capital markets where the System raises its capital. Green bonds are another recognized financial mechanism for mitigating the transition risks of holding carbon-intensive or stranded assets, yet Farm Credit is again a laggard among GSEs. Housing GSEs such as Fannie Mae and Freddie Mac routinely issue green bonds for single-family and multi-family mortgage-backed securities that help finance loans for energy efficiency and other green building improvements that reduce greenhouse gas emissions in residential housing, often in targeted geographic markets. Indeed, since creating its program

over a decade ago, Fannie Mae has issued more than \$110 billion in green bonds, making it the world’s largest cumulative issuer of green bonds, according to the Climate Bonds Initiative.<sup>29</sup>

Although green bonds have seen rapid growth in the public debt capital markets, only recently has climate-related agriculture become a thematic focus. The vast majority of the \$2.3 trillion in cumulative proceeds from green bonds have financed energy and transportation. Agriculture-oriented green bonds that have been floated tend to be from issuers in foreign markets such as Brazil, international development financial institutions such as the World Bank Group, or multinational food and beverage companies, such as Starbucks or Unilever, that have lacked much relationship to financing farmers embracing climate-resilient strategies.<sup>30</sup> The Climate Bonds Standard and Certification Scheme coordinated by the Climate Bonds Initiative launched its agriculture criteria for green bonds focused on climate mitigation, adaptation, and resilience in 2021, so issuers such as Farm Credit have more standardized frameworks for ensuring that any bonds labelled green

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<sup>29</sup> Climate Bonds Initiative, “Climate Bonds Announces 2020 Green Bond Pioneer Award Winners,” Press Release, July 2020. Fannie Mae has also been accused of “some measure of greenwashing,” inflating the environmental attributes of the loans within its green bonds. See Naveena Sadasivam and Clayton Aldern, “[Has Fannie Mae’s \\$95 Billion in Green Bonds Made Anything Greener?](#)” *Grist*, August 11, 2021. More broadly, see Bill Harrington, “[Can Green Bonds Flourish in a Complex-Finance Brownfield?](#)” Croatan Institute Working Paper, July 2018.

<sup>30</sup>Roberto Vitón, “[Green Bonds: A New Financing Tool to Foster a More Sustainable Agriculture](#),” *Global AgInvesting*, December 2017; and Climate Bonds Initiative and SITAWI, “[Can Green Bonds Finance Brazil’s Agriculture?](#),” November 2018.



meet expectations of the many ESG and impact-oriented bond buyers that are interested in financing food and agricultural solutions to the climate crisis.<sup>31</sup> Engaging with credit rating agencies about climate and other ESG attributes will be another important avenue.<sup>32</sup> Farmer Mac could play a parallel role of providing a secondary market for targeted loans financing climate resilience from agricultural lenders outside of the Farm Credit system.

### Social Concerns: Diversity, Discrimination, and Disadvantage

Farm Credit also has a social mission to support rural communities. As mentioned earlier, since 1980 it has an additional statutory mandate to serve Young, Beginning, and Small farmers and to track its lending to them. Yet the transparency of Farm Credit lending to YBS farmers leaves much to be desired. Unlike the USDA's Farm Service Agency loan program, Farm Credit does not report comprehensively on other recognized social or demographic characteristics of its borrowers, such as race, ethnicity, or gender. Since the 1990s, the USDA has defined "socially disadvantaged farmers and ranchers" (SDFRs) as those belonging to groups that have been subject to racial or ethnic prejudice, including Black or African American, American Indian or Alaska

Native, Hispanic or Latino, and Asian or Pacific Islander – groups that constitute approximately nine percent of farmers in the US, according to the most recent USDA Census of Agriculture (2017). Some USDA programs include women and low-resource households as socially disadvantaged, regardless of race or ethnicity.

Although Farm Credit does not make available racial, ethnic, or gender-based demographic information on its farmer borrowers, it is required to follow reporting requirements of the Home Mortgage Disclosure Act (HMDA) for its home mortgage loans. Farm Credit's home lending as reported under the Home Mortgage Disclosure Act reveals exceptionally low levels of borrower racial and ethnic diversity. A Center for Responsible Lending analysis of Farm Credit HMDA data found that for the years 2018-2021, "[w]here race/ethnicity data is available, the data shows that less than 1 percent of borrowers with FCA mortgages are Asian, Black, Hispanic White, or Other Minority."<sup>33</sup> Recently, the Consumer Financial Protection Bureau implemented changes to the Equal Credit Opportunity Act made by section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that would include Farm Credit lending institutions among the financial institutions now required to collect

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<sup>31</sup> Climate Bonds Initiative, "Agriculture Criteria," at <https://www.climatebonds.net/standard/agriculture>; and "Climate Bonds Standard & Certification Scheme," February 2017.

<sup>32</sup> Bill Harrington, "[Investors Who Want to Fast-track Sustainable Fixed-income Investments Should Inundate Credit](#)

[Rating Agencies with Methodology Critiques](#)," Responsible Investor, January 28, 2020.

<sup>33</sup> "Farm Credit HMDA Analysis," Center for Responsible Lending, March 2023.

and report data for women-owned, minority-owned, and small businesses in order to facilitate fair lending laws. However, the Farm Credit Council has been a vocal opponent of these efforts to create greater transparency among Farm Credit loan applicants and borrowers through the 1071 rule.<sup>34</sup>

The numerous class-action lawsuits settled by the USDA over discriminatory lending practices toward Black (*Pigford v. Glickman*), Native American (*Keepseagle v. Vilsack*), and other socially disadvantaged farmers clearly documented long-standing patterns of bias that denied farmers of color equal access to capital through USDA loan programs. These settlements, some of the largest civil rights awards in history, focused on the USDA, not on discriminatory patterns experienced by farmers of color within the Farm Credit System, but discrimination and discouragement within the System have been common experiences reported by numerous socially disadvantaged farmers and ranchers, including Black and Indigenous farmers of color in Alabama, Georgia, North Carolina, and Virginia who participated in focus groups and cohorts facilitated by teams from Alcorn State University, Croatan Institute, and Virginia State University.

The impact of the Consumer Financial Protection Bureau's promulgation of the Section 1071 rule related to reporting data business lending demographics under the Equal Credit Opportunity Act remains to be seen, but the System can patently do much more concerted outreach to finance SDFRs. Such an effort could mirror the Federal Farm Credit Banks Funding Corporation's Leveraging Equality and Diversity (LEAD) program that recruits minority, women, veteran, and tribally owned dealers among the "selling group" of banks and securities dealers Farm Credit utilizes to sell its bonds.<sup>35</sup> And just as housing GSEs have issued "Impact Bonds" to finance affordable workforce housing so too can Farm Credit and Farmer Mac issue new variants of social-purpose "Aggie Bonds" that finance underlying loan portfolios targeted to support SDFRs. If appropriately structured to meet financial objectives, such bonds would readily find their way in the fixed-income portfolios of sustainable bond buyers, ESG and impact investors, faith-based institutional investors, and philanthropic mission investors.

To support affordable housing initiatives even further, the housing GSEs are required by Congress to set aside a share of their net revenues for formalized grantmaking purposes. With more than \$7 billion in net

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<sup>34</sup> Lisa Held, "[Farm Credit Can Make or Break Farms. Should It Be More Equitable?](#)" *Civil Eats*, June 5, 2023.

<sup>35</sup> Federal Farm Credit Banks Funding Corporation, [2022 Annual Information Statement of the Farm Credit System](#), March 1, 2023, p. 12. Nine of the 36 members of the

Funding Corporation's selling group are LEAD dealers. For legal redress, see Christopher R. Kelley and Barbara J. Hoekstra, "A Guide to Borrower Litigation against the Farm Credit System and the Right of Farm Credit System Borrowers," *North Dakota Law Review* 66, no. 127 (1990).

revenue in 2022, the highly profitable Farm Credit System could certainly afford to set aside a similar philanthropic pool for grants to help SDFRs stem land loss and build healthy, equitable food and farming systems.

### Governance Concerns: Representation and Accountability

The Farm Credit Administration's Board is gradually emerging from unprecedented governance vacancies that reflect an unacceptable lack of attention paid to Farm Credit by policy makers. As a regulator, FCA is directed by a three-member board of directors nominated by the President and confirmed by the Senate. At a time when investors and stakeholders expect Boards to represent diverse perspectives and broad constituencies, the three-member FCA board is one of the smallest regulatory boards in federal government. Terms for board members are six years in length, fixed when they begin and staggered so that one term begins every two years regardless of whether a new member has been confirmed. Board members may not be reappointed after serving a full term or more than three years of an unexpired term. However, a board member may continue to serve beyond the end of their term until a replacement has been confirmed. Not more than two members of the board may be from the same political party, and two of the three members

are supposed to be from the same political party as the President.<sup>36</sup> The President also designates one member as chair and chief executive officer of FCA—not subject to further confirmation. That member has historically held that role until the end of their term. To date, the Biden Administration has only nominated one of the available seats. Until Vincent Logan's September 2022 confirmation as the new Chairman and CEO, the FCA Board operated for over three years with only two Republican directors, Jeffery Hall and Glen Smith. It was the longest period of a two-member board in FCA history, with no tie-breaking vote and often highly procedural, pro-forma meetings. Both Hall and Smith continue to serve beyond the expiration of their terms even though both seats can now be filled by the Biden Administration. Hall's term expired in October 2018, making his continuation the longest in FCA's history, while Smith's expired in May 2022. Logan's nomination was noteworthy on two counts: he is the first Native American and gay man to chair the FCA Board. Nevertheless, over a century of the FCA's history, only four women have ever served on the FCA Board, and only one other person of color.

The very fact that the FCA board has operated for so long with board members serving expired terms reflects a lack of attention to the governance of the system at

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<sup>36</sup> "Farm Credit Administration and Its Board Members," Congressional Research Service, April 13, 2022.



minimum. Historically, the Farm Credit System was governed by a much larger, 13-member Federal Farm Credit Board until the agricultural credit crisis of the 1980s when Congress passed the Farm Credit Amendments Act of 1985 and established the full-time, three-member, presidentially appointed board structure that FCA has today. The current system of governance simply cannot begin to represent the diversity of American agriculture, so it is time to revisit the structure and consider enlarging the board to accommodate far more diverse perspectives from the American agricultural community, including small and midsize family farmers from various regions around the country, socially disadvantaged farmers and ranchers, and farmers actively involved in USDA conservation programs and the National Organic Program.

## Conclusion

The Farm Credit System—the nation’s oldest government-sponsored enterprise—faces a panoply of serious challenges as we near the end of the first quarter of the twenty-first century. Since the Farm Crisis of the 1980s, the System has witnessed an erosion of local control, with increasing consolidation among a shrinking number of associations, the reduction in FCA board seats from 13 to three and the repeated inability in recent years to keep filled even those three board seats. Among its GSE counterparts, Farm Credit is a laggard in grappling with the documented financial risks of numerous environmental, social, and governance considerations within the agricultural sector.

The degradation of soils and deterioration in water quality due to poor nutrient management are taking a mounting toll on agricultural yields and surrounding landscapes and water ways, while the volatility of extreme weather events associated with a changing climate—from droughts and wildfires to hurricanes and floods—bring associated economic losses and risks that Farm Credit has been slow to acknowledge, let alone assess. Long-standing patterns of discrimination toward vastly underrepresented minority farmers have impaired the ability of socially disadvantaged farmers and ranchers to participate equitably in the American agricultural economy. A system designed with a public mission to help rural communities has inadequately served the financial needs of small and midsize farmers whose stewardship of land and natural resources makes them worthy of wide public support. The System’s increased profitability belies the concentration of lending risk within a rapidly shrinking number of consolidated banks and associations and a portfolio that lends the vast majority of its capital to only one percent of its borrowers. Despite its public status as a GSE, Farm Credit staunchly resists efforts to create greater public transparency about its ESG risk management practices, its borrowers’ demographic characteristics, its loan portfolio, and its philanthropic activities. The system has a major role in financing the future of American agriculture, and for all these challenges, Farm Credit also has an unprecedented opportunity to address these wide-ranging ESG risks and create positive social and environmental impacts on

rural farming communities across the country.

## Recommendations

The following recommendations aim to address the numerous environmental, social, and governance concerns constraining the Farm Credit System from living up to its public purpose and potential:

Policymakers, legislators, and advocates should pursue the following directions:

- Routine climate risk stress tests for all Farm Credit institutions, in alignment with parallel recommendations by the CFTC and the Financial Stability Oversight Council.
- A Congressional mandate for a grant set aside program from the System's net revenue, in alignment with what is required of the housing GSEs, to support socially disadvantaged farmers and ranchers and others with grants for uses such as farmland acquisition and enhanced loan guarantees, with priority points for farms implementing climate resilient, agroecological practices.
- Far greater Congressional oversight of the System: legislators should raise ESG and other system concerns in hearings and meetings with FCA Board members and Farm Credit leadership.
- Prompt nomination and confirmation of FCA Board members to fill long-expired seats.
- Enlargement of the composition of the FCA board back to the historic 13-member structure of the Federal Farm Credit Board associated with the 1953 Farm Credit Act, which had restored the FCA as an agency independent from the control of the USDA. The FCA board should represent the diversity of American agriculture, and only with more directors can it become a forum for far greater representation of small and mid-size farmers, of different agricultural regions around the country, of different kinds of farming interests, and of women, minority, and tribal producers.

**Investors and bond buyers concerned about ESG issues,** impact, and regenerative agriculture can engage directly with the Farm Credit System and Farmer Mac:

- to encourage those issuers to integrate ESG considerations more explicitly into their underwriting process,
- to report on ESG issues related to their financial services,
- to issue green bonds where the use of proceeds provides financing for climate resilience, conservation, and agroecology, and
- to issue Aggie Impact Bonds to finance targeted lending to socially disadvantaged farmers and ranchers and distressed rural communities,

particularly in indigenous and rural communities of color.

- Investors can also engage with credit rating agencies to assess more fully the systemic financial and ESG risks of these issuers when determining their credit ratings.

Farm Credit leadership throughout the System should institute the following changes:

- Implement a much more thoroughgoing research, reporting, and assessment program led by the Climate Risk Task Force.
- Report annually and more fully on ESG concerns and climate risk management at all institutional levels.
- Substantially expand targeted lending products such as Compeer Financial's Organic Bridge Loan to address other climate resilience opportunities and SFDR support.
- Develop Green and Impact Bonds to finance targeted climate and social lending programs.
- Fully support and participate in CFPB's 1071 reporting rule to help ensure the public has full data about Farm Credit's lending demographics.

For more information about Croatan Institute's  
Soil Wealth Program

VISIT

[www.croataninstitute.org/soilwealth](http://www.croataninstitute.org/soilwealth)

For more information about Self-Help's  
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