AEI PREMIUM

AEI Presents *Nothing Borrowed, Nothing Gained*: How Farm Financing Works, and When it Doesn't or The Countercycle and the Future of Ag Lending

Episode 7 | Lender of Last Resort

Sarah Mock: This *is Nothing Borrowed, Nothing Gained - The story of ag lending: past, present, and future*. I'm Sarah Mock.
The arc of USDA's direct involvement in agricultural lending is a fascinating one. Today, the department's lending activities are carried out by the Farm Service Agency, the FSA, or in some cases, by Rural Development, but this is actually a pretty recent home for USDA's lending. Prior to 2006, federal ag loans were distributed by the FMHA the Farmers Home Administration, which was established in 1946 to replace the Farm Security Administration and before that the Resettlement Administration. The Resettlement Administration, or RA, was created as part of the New Deal, with the aim to resettle hundreds of thousands of people who had become destitute farming as tenants on agriculturally exhausted land.
Though this main goal was never meaningfully realized, for anyone out there's who's read *The Grapes of Wrath* and remembers that one nice migrant worker camp that the Joad family spent time in, yeah, that was built and maintained by the Resettlement Administration. But literary trivia aside, the Farmer's home administration actually had a not totally dissimilar goal from the RA. When originally envisioned, these USDA lending programs were aimed squarely at the most vulnerable in agriculture.
You might be surprised to learn that you've already met someone who got their start at FMHA - If you guessed that it's resident ag lending historian John Blanchfield, you're right.

John Blanchfield: For the USDA they were the lender of last resort and that's why all of my clientele, in that space where the very, very low resource, low income, farmers who really weren't that different from subsistence farmers of a hundred years before that. So, it was a whole different class of farm and farmer that I dealt with. I learned a great deal from that experience because I learned how commercial banks worked in the agricultural lending space versus how the government worked in that space. So, the bank never found themselves in the depths of some of the situations that I found myself in when I worked at USDA. Jessica Lange was making movies about the farm crisis.

And here I was, an official with USDA trying to collect loans that nobody on this planet, would ever have determined, could ever be collected.

Sarah Mock: There is so much to unpack here in John's experience and that, in a nutshell, is what we're going to tackle today. We'll discuss why the U.S. government, and USDA in particular, got into ag lending in the first place, how the department's lending programs have worked to shape the ag economy and farming in general over the last hundred years, and figure out what this relatively small portfolio of loans can tell us about the overall health of the farm financial system. To help guide us through the history we tracked down someone who's spent a lot of time understanding this unique and often controversial space.

Jonathan Coppess: I'm Jonathan Coppess, Associate Professor, University of Illinois.

Sarah Mock: Jonathan grew up on a farm in Ohio but spent his formative years in DC, starting as an agricultural legislative assistant working on the 2008 and later the 2014 Farm Bill. He then moved over to USDA's Farm Service Agency, the very agency that makes loans on behalf of the department, which he would go on to lead for two years. When he finally left D.C. for university life in Champagne, he was still captured by how agricultural policy has shaped farming in the U.S. So, he's dedicated himself to answering key, and previously unexplored questions around federal ag lending activities. Here's where he started:

Jonathan Coppess: Why does USDA lend? It is one of these New Deal legacy programs. During the New Deal, the Great Depression, farmers were going bankrupt, losing their farms - the whole banking system nearly collapsed and had to be rescued so it wasn't like you could just, get more of those loans out easily. So, the whole economy was in a tailspin. So, one thread of it is just the really dire and difficult situation at the Great Depression presented across the board and to farmers especially. And a lot of times when we think about the Great Depression, which really began in 29, but the farm economy had been in a pretty depressed state or an increasingly depressed state coming out of World War I. And so, late 1919 is really 1921 is when things fell. We'd expanded production for the war. And then once the wartime demand was over, the markets collapsed. And so, the lending side of this was really challenged.

Sarah Mock: But the conditions in the broader economy were just one factor that motivated the USDA's entrance into the lending market. The second factor was

much more systemic, rooted deep in American ag history and economics, and specifically, in agriculture's history with slavery, and then later, with extreme and predatory systems of tenancy. In fact, the very system that the Resettlement administration, and later the Farm Security Administration was meant to address. This system started to break down in 1933, after the first Farm Bill was passed.

Jonathan Coppess: The basic policy at the time was to pay farmers to cut back on planting. Well, there's a lot of issues with that, but in the South in particular where you had this system of share cropping and the farm tenancy and share cropping. The system, how shall we say peculiar was a little bit different and very discriminatory and very oppressive. But the thread of it that matters for this sort of storyline is that when USDA started paying farmers to cut back on production in the cotton industry, a lot of those very poor sharecroppers, many of them who were African American, who were destitute who farmed on this sort of furnish system, which was an ad hoc kind of credit system that was very much dependent on the planter. They were getting thrown off the farm. They're getting pushed out of it and we have some pretty tough stories about what happened for a lot of those sharecroppers.

So as the New Deal, policies unfold you can see this push this pressure in Congress and some of the hearings and the congressional debates and other things where, we've got to protect sharecroppers, we've got to help tenants, we've got to do something. Throughout, I think it was 1937, the Bankhead-Jones Act then, is the first version of this, where they're designing a USDA based lending program to step in and help tenants, particularly those who are stressed or in bad situations. Now, of course, that wasn't necessarily intended for, the black farmers and sharecroppers who are being thrown off their land, but it fits into that space. So, the effort to deal with the Great Depression and agriculture that led to some of these really troubling components of how that policy operated on the ground was then a catalyst to say, “Okay, we need to step in and find some other lending opportunities particularly for tenants. Get them into a more stable situation where they can succeed and farm and remain farmers.” And that has just continued over time to where now it's basically the lender of last resort.

Sarah Mock: Jonathan pointed out that some people, USDA chief among them, prefer the term of "lender of first opportunity" to "lender of last resort," the idea being that many of the folks USDA loans serve aren't those who have been turned down elsewhere due to failures, but simply due to lack of lending or farming experience. Whichever way you spin it, this is the key service that lending at

USDA provides, in short, an opportunity to borrow money, when no other lender--no bank, no farm credit, no non-bank, will take you on.

Jonathan Coppess: You basically turned down by two sources of potential lending to get eligibility for USDA, for an FSA farm loan. And their ownership loans, their operating loans and over time they've added the loan guarantee portfolio. So, it'll help banks make loans to beginning farmers and younger farmers or farmers who maybe don't look as good on paper so that USDA can back it up. And really, all of this kind of builds to the big, overarching point of it, which is farming is risky and it's very capital intensive. And people who are starting off in farming who may not inherit land and equipment, like that's a big ask to borrow all that and hard to tell if they're going to succeed and what sort of things they weather through - crop cycles, price cycles, and input costs and so forth. So, it fits that little, that kind of space in there. Your commercial banks, your farm credit system, not likely to lend to those borrowers and FSA then is designed or intended to be then the sort of fallback, “Okay, this gives me a chance maybe to get started or get an operating loan that I can't get elsewhere.”

Sarah Mock: The sort of "backstop" status of USDA's lending programs, as you might imagine, often puts the FSA in a tough spot, because by necessity, USDA is handing out loans that other credit authorities have deemed unreasonably risky. But it's worth appreciating Jonathon's argument that, that's exactly what USDA' s role is supposed to be -- and despite the risk, the net outcome is positive.

Jonathan Coppess: I would argue frankly that I don't find lender last resort to be a pejorative or to be a negative connotation of what's going on. I think it's reality in a highly capital intensive, very risky undertaking that there's going to be challenges I also think it's important from a policy discussion standpoint to recognize that the individuals who are borrowing from these programs have challenges, like they've not been able to get credit elsewhere, and that should factor into, this isn't a bank, we shouldn't expect all of these loans to be paid off and work out perfectly. We're trying to help, and we're trying to help people in a tough spot. So, I actually think there's value to the lender of last resort concept. And I don't think it's mutual exclusive of a first opportunity. And not to be on a soapbox about this, but if we think about just the increasing age of American farmers and the consolidation of all of this, and if we want people to farm, if we want to have young and beginning people farming, it is likely that many of them need a last-resort type lender to step in and give them a shot.

Does every one of them succeed? Absolutely not. But would, you rather have everybody turned away and not have this chance or that one out of, x number of loans makes it, and by God, that's a new farmer and that's somebody that's, maybe growing vegetables for their farmer's market or helping feed people in the neighborhood or contributing to the value-added supply chain, whatever it might be. Like, those are the things you want if we want to have a dynamic growing and successful industry. But it does require that component, I would argue, to be incorporated in the way the policy is designed and operated. If we're expecting FSA to run these programs, like they're a bank that's not going to work because these are individuals who a bank would not lend to. And it seems like we're forcing some restrictions or some parameters around it that are ill suited for what we're trying to do with the policy.

Sarah Mock: This point-- that despite the fact that FSA is lending, it does not, and probably should not, act like a bank. For example, as John Blanchfield told me, he worked with growers when he was FMHA who had much higher risk profiles than what a bank would lend to, not to mention much higher debt-to-asset ratios. Heather Malcolm, however, from Bank of the Rockies in Montana started her career at FSA in Washington State, years after John had left the federal ag lending world. She shared a slightly different perspective on how USDA loans work today.

Heather Malcolm: There's quite a difference between. Lending the government's money and lending in a private banking sector and how you look at interest rates and fees, and a little bit of how you look at the operations, but consistent ag underwriting is basically the same between those government entities, as well as private banking.

With private banking, you have a little bit more flexibility than you do with the government, lending, which is great - each serves its own purpose and combined you can do a lot of great things. Currently Bank of the Rockies, we do a lot with the FSA, under the guaranteed loan program, as well as a program called the joint financing program where we utilize both FSA lending and private banking money, to get operations and real estate purchased, for beginning farmers and ranchers.

Sarah Mock: Heather points out that the guaranteed loan program in particular helps her bank mitigate risk, especially as associated with beginning farmers and ranchers who tend to be more highly leveraged, have access to less equity, and have shorter credit history, though might still have a very solid business plan and a good operational track record. Non-traditional ag enterprises are prime

candidates here, remember that sheep dairy that Heather mentioned a few episodes back -- that would likely be a good fit for this kind of USDA lending. This is -- in a lot of ways -- exactly what this federal lending program was meant to do, though that wasn't always the case. The system has done a lot of evolving over the last century.

Jonathan Coppess: I want to think it was in the 40s when they set up the insurance fund and then as it evolves into the 60s, that it goes into this guaranteed. And then my recollection is that there's a real push in the 80s and 90s to emphasize the guaranteed program. And all that is, you come in for a loan, the bank's “No, we're not taking that loan.” But look, FSA can guarantee 90% of this loan, they can backstop it. And with an FSA loan guarantee, then it makes sense for us to make the loan because we're not carrying the same level of risk. And so, in one sense, it expands the pool of lending.

Sarah Mock: This is a good way of capturing what USDA lending brings to ag credit markets, though I'd add that in addition to more capital, the program also relocates risk. But I think it's worth asking, where exactly do these funds come from?

Jonathan Coppess: The way the loan program works now is we appropriate every year a fixed amount of money. So, we get an appropriation of X hundred million, and then there's a credit score, and this comes out of the credit reform act, that there's this credit score that the Office of Management and Budget uses, which then gives FSA the lending authority.

So, it may take a like $300 million appropriation and lend $5 billion because it's credit score. And so, it stretches that out based on an actuarial-type analysis as I understand it. I It's all black box stuff, so I don't know, never seen the formulas or any of the math around it. Not that I would probably ever understand it anyway. And so, the guarantee program helps stretch that further because now, the bank is in for part of it. So, you've got a little bit of a stretch or an expanded lending authority. And there could be individuals who fall between the cracks, so they might not fit well in the direct loan or they're right on the edge of the cusp, or maybe they've graduated from the direct to the guaranteed. I've had a couple direct loans. I've paid 'em back. I'm showing some success now. The bank who said “No” three years ago is like, “You know what? You're doing okay. So, let's take the next step up and we can do a guarantee with FSA.” But it's just a backstop to the private loan.

Sarah Mock: Again, the notable difference between these USDA programs and what's happening in the private lending world, is that USDA is not aiming to make money by making loans. But of course, not everyone necessarily agrees that the government *shouldn't* be making money on its lending activities. Despite the descent, Jonathon argues, the goal is not to make a profit, but simply for the system to continue. And critical to preserving the USDA's loan-making potential is making sure the departments whole portfolio doesn't collapse at once.

Jonathan Coppess: You don't want all those loans to default, you've blown the whole system up, right? So, then you can't lend to anybody. So, you do want that sort of revolving nature. So as loans are paid back, it continues to feed, and it keeps your credit score good with OMB so you can make more loans and you can stretch the appropriation further. And so particularly under this scoring mechanism, there is a risk if you get too far out on a limb and too risky in your lending decisions and their defaults, and then it shrinks. And then once it shrinks that score the same appropriated amount, won't make as many loans. And so, then that's more people who aren't getting the assistance. So, there is a strange dynamic, and as I understand it, most of that comes out of the credit reform act in 1990.

Sarah Mock: A note for the truly intrepid researchers out there, particularly those with a glutton for punishment, Jonathan recommends you check out the appropriation bills that enable the ACIF or the Agricultural Credit Insurance Fund. The average allocation under this heading is $300-$400 million dollars, which is funneled to FSA, who turns it into billions in loans. But I want to come back to Jonathan's idea that USDA can't just lend to anybody. Because we already know that these loans are necessarily higher risk. So how much risk could USDA handle before it's overwhelmed? That limit hasn't been seriously tested yet, but I think it's safe to say it's been a concern.

Jonathan Coppess: What I think we do see with FSA too, just from top line is it's a bit of a canary in the coal mine kind of thing. We start to see those loans expand. We know there's challenges. When we start to see the demand pick up for FSA loans just means there are fewer loans being made by the bank. So, it can be a kind of a health check a little bit in that way. You have more than you can handle. You have more demand for the loans than you have bandwidth. Both financial bandwidth, what your lending authority is and just operational bandwidth, employees. Because remember, part of this lending operation is to help the individuals learn management and learn, how to succeed in farming. And there is training and other aspects to it. Situation like the late

70s into the 80s you're clearly overwhelming the system. And that's why you can look at the numbers and just see the, as the increases in, it tracks fairly well, that the increases in FSA lending are indicators that the health of the farm economy is diminishing.

Sarah Mock: Demand for FSA loans did peak during the 1980s, and though the USDA was never in so dire of straights as its private sector counter parts like the Farm Credit System, what happened with those organizations would come back around to affect the FSA lending as well.

Jonathan Coppess: In the ‘80s of course, Congress bailed out the farm credit system and you can tie, the farm credit system bailout needs to policy changes in the 70s when they loosened some of the lending components for farm Credit. And then it got caught up in the 80s. There were some GAO reports and some efforts in by the Reagan administration in the 80s and into the 90s to push more towards the guaranteed side of this. And then you have the 1990 Credit Reform Act, which, that was a federal government-wide credit reform act, but it appears from first blush to have really complicated the operation of the FSA lending system because again you're trying to foresaw on this rigorous and discipline lending in a last resort scenario. And this is barely even in hypothesis territory, but the sort of have this really rough hypothesis that once we started to pull out the 80s and we slap on this credit reform overlay onto this, then the next series of problems that we see with these programs are possibly due to some of those changes. And this ties back into your other question, when things get bad, when the lender last resort has a lot of people of last resort, you're triaging. And so, people who need help aren't getting the help. And so, you're leaving more people behind.

Sarah Mock: I want to acknowledge that Jonathan is one of the people, probably in the world, who's most versed on the history of these USDA loan programs. And it's telling that even he has some significant knowledge gaps in his understanding of how they work The relationships between these USDA programs, the highly intervened-in world of private ag credit, and the many, many, *many* policies made to regulate and shape them over the last 100+ years, are incredibly complex, so much so that even people who spend their whole careers studying them, still regularly uncover new interactions and results.
In fact, there's at least one controversy around FSA lending that's gotten a lot of attention in recent years, and rightly so, given that it's fundamentally altered the makeup of American agriculture. That's after the break.

COMMERCIAL

Sarah Mock: Another reason, Jonathan argues, that the history of how the USDA's lending programs were first envisioned is important to highlight is because that history tracks directly towards some of the biggest mistakes that have been made around how this policy works. In many cases, these systematic issues have exacerbated a troubled history of racial discrimination and local prejudice.

Jonathan Coppess: So, this is like the tough two-sided aspect of this so there's some innovation around this program and in the New Deal in general, this sort of - Secretary Henry Wallace had a quote one time was like, he called “economic democracy.”

Sarah Mock: Quick aside: You can probably hear the sounds of distant college revelry happening in the background of Jonathan's audio, like little, tiny college ghosts. He talked to me during his first week back on campus, and I felt it only right to honor his request to leave the window open on a truly gorgeous day in Southern Illinois.

Jonathan Coppess: And so, we're going to have these programs run through federal funding and the federal USDA, but we're going to have these local level operated programs. You can think at the time with communications technology, you had to have people on the ground. And so, they build up this system and one of the things they come up with is this idea of county committees and we're going to have these committees of local farmers implement the programs, and run the programs, and have this oversight role and of course, if you're sitting in DC, you can think that I don't know what's going on the ground. So, we have a group of local farmers that can say, “Yep, we know this individual, or this looks like a good loan for the area. Or this looks like a good farming plan, business plan for the area.” And then they were in the loan making process. That's the nice side of this - if things work out. The downside is you have very interested, frankly, conflicted individuals who are sitting on a county committee making decisions. And so, local prejudice will certainly play into that. And what we see is the county committee role then was a really big driver of some of the more discriminatory actions. So African American farmers come in to seek a loan. Maybe the guys on the county committee think that's a good plan, deny that loan, go get it yourself or have, somebody else go get it. Or you don't like that farmer, there's certainly some research indicating things like, we know this individual is trying to vote and so we're going to use the levers that we have to punish them for trying to vote.

So, some of that comes through because we are operating these at the local level. So, it's, here's an innovative idea to operate the program, but it inherits or incorporates problems that are on the ground. And so, we see that really, from the beginning of farm policy with the 33 Act, and it does play in origin story for these loved programs.

Sarah Mock: Many civil rights reports, published over the past 60 years have done much to prove the presence of systematic discrimination within these USDA loan programs. In 1997, black farmers filed a lawsuit against USDA, specifically citing denial of timely loans and debt restructuring. This went on to be a landmark case -- Pigford v. Glickman, which required USDA to compensate black farmers, up to $50,000, which was paltry compensation given that many of these farmers had already lost their family farms. About 20,000 farmers were paid out or credited after the first consent decree -- but the department claimed that another 70,000 were filed late and their claims were not heard, a disparity that was addressed during the 2008 Farm Bill and led to Congress appropriating additional funds in what is called Pigford II.
In total, to date, the USDA has paid out less than $3 billion to these farmers, a tiny fraction of what is spent annually by the department. In terms of the direct impact of these decades of discrimination in ag lending it's impossible to untangle FSA's unfair treatment from the many other ways that people of color have been disadvantaged in the U.S. over the same time period. But the result of the sum total of that discrimination in agriculture is that Black farmers have lost $326 billion worth of farmland since 1922. A 100 years ago, 14% of American farmers were Black. Today, that number hovers around 1.4%, representing less than 1% of U.S. farms. For more resources or information about this check out the show notes.
While Jonathon was at FSA during Secretary Tom Vilsack's first tenure as USDA chief, he worked first-hand on settlements worked out between USDA and farmers that the department's programs discriminated against.

Jonathan Coppess: It is just a difficult topic and I always tell students that we talk about policy a lot of times in the abstract and we forget there are people on the other end of that policy. And so, that policy decision has real world impacts on somebody's life, and this is a great example. You have farmers who lose their farms to the federal government.

Sarah Mock: The story of each of these farms has countless iterations, and yet the contours are the same. A farmer takes out a loan with the FSA, and then

something happens, maybe a bad season, some bad luck, or in many cases something worse:

Jonathan Coppess: I'm getting an operating loan from FSA, but I ticked off somebody, that's got some sway in the county and for some reason, my operating loans are delayed. So, then I plant late. Then my crop isn't as good. And now the rumor is you're a bad farmer, so you're a heavier credit risk, and next year we can do it to you again. And oh my gosh, next thing you know you're deeper and deeper in problems. And so, it's it can be very overt and direct discrimination. You're African American, you're not going to get this loan, and you're Hispanic, you're not going to get this loan. It can be very direct like that and there's evidence of that, but can also be this sort of more insidious, this sort of slower you just can't find it, right? You can't prove it out as easily. But why are some individuals getting their loans later or getting half of what they say they need? What makes it even tougher from an agency standpoint and from an agency management standpoint is it's not everybody. There are many great loan officers and employees at that agency who work themselves to the bone to help farmers, right? But it takes one bad apple, one person in the mix who wants to discriminate, that really tarnishes the whole program. And so, it's awful. It was an awful thing to deal with.

It's an awful thing to keep reading about cause it's like, why do we continue to do this? We keep running into this wall and it's tough and at the end of the day, we can fight about it and have, back and forth and media and court cases, but somebody's losing their farm. And some of those individuals, have had it for generations and at the end of the day, they're left with uh, like Why me? Why did this happen to me? And that's, those are just, those are heartbreaking stories.

Sarah Mock: In recent decades the USDA has adjusted the way it operates these loan programs. They've taken the county committee's authority out of the system to remove the conflict of interest at the local level, but the committees still exist and still have some of that hard to detect local sway, and further, much of the damage – by the time the USDA intervened - had already been done.
With 2,000 county offices and thousands of individual employees, USDA has struggled to introduce the kind of cultural change that might lead to different results going forward.

Jonathan Coppess: And it continues to haunt the agency and look in part because there are still people there who are doing discriminatory things, who are not, operating this the way they should be. And that's just, it's awful. And we can wish all we want, that we didn't have discrimination anywhere but that is the reality. And so, it gets a very bad reputation among, particularly African American farmers, for what it's done. That baggage is real. It's there and it's unfortunate that we, that, you can't completely limit it.

And again, I don't say that to brush it off because at the end of the day, somebody loses their farm and that is still a tough, brutal reality of that discrimination. And it's just very visceral. It's a - you hear from some of the farmers that have gone through this, and it breaks your heart. It's just the kind of thing like, "Ugh, no, we didn't do that again." And that kind of stuff. Just, it drives the nuts. Might keep a person awake at night.

Sarah Mock: I want to be clear these are not problems confined to the past. Politico reported in 2021 that only 37% of Black applicants were granted loans in 2020, as compared to 71% of white farmers, not least because, according to Black farmer advocates, the USDA continues to favor large, wealthy farms -- despite their "lender of last resort" role, and Black farmers still report inequitable treatment at the local USDA office. These issues related to discrimination go even beyond the Black farmer experience. A paper published in the Agricultural Finance Review in 2020 found that minority farmers, including women, despite often ending up with better profitability and liquidity positions, often receive smaller loans, and at higher interest rates, than other FSA borrowers.

The history of racial discrimination in lending may be particularly pronounced at USDA, given its unique position, but there is evidence that these activities were present throughout ag lending, and further, throughout the entire credit space, right through to today. Jonathan is hopeful though that FSA could, however, still recreate these programs in a way that's not fundamentally discriminatory and offer the kind of hand up to all farmers that it was created for.

Jonathan Coppess: Longer term - I think there's always a role for USDA to play in this. I think FSA will always and should always play at an important role at this last resort/first opportunity space again. Particularly when we think about the high risk and capital-intensive nature of farming, and we think about the just absolute importance for the health of the sector that new people get involved. We have new farmers - we have people willing to take this risk and do this work. Good lord particularly some of these smaller operations you see that are grown vegetables and fruit like that is an enormous amount of work. They make me feel lazy. So, we want people to do that and that's where FSA comes in. But if we also want it to be a successful program, we've got to find ways to get out of this, this constant set of challenges around discrimination and unnecessarily bad behaviors in some areas.

And that's going to be tough, but it's going to take a real focused effort. Cause again, I've spent countless hours trying to unpack the history of this thing, and I'm nowhere near it, and for Congress to really dive into this bandwidth. It's going to take a lot of time hearings and some really deep dives into what's going on. I think the history of it does give us a real sense that the sort of opportunity for discrimination is hardwired into this in the way the programs are designed, the way the policies are written, and then how they're implemented. There are opportunities for people who want to do this. It's there.

Sarah Mock: Jonathan and I went back and forth at the end of our conversation about whether the 2023 Farm Bill might offer some fixes in the FSA farm loan world. Our conclusion -- it's unlikely. Setting aside the politics of the moment, making the kind of changes that would be necessary to alter FSA lending in a way that helps more of the truly disadvantaged producers in U.S. agriculture would require deep work - a lot of research, a lot of focused attention, and a political coalition invested in getting it across the finish line. Recent Farm Bills have not involved having extra time or attention to spare, especially beyond the SNAP program and commodity titles.

Jonathan Coppess: Even in a very functional Farm Bill debate which had been not our recent experiences this is a tough topic to really get traction and get a lot of work on. It might be the kind of thing that maybe should be dealt with outside the Farm Bill because there's just so much going on that, this program typically does not garner the kind of intense work that you see on a lot of the other programs.

Sarah Mock: Though there may not be much hope for a positive short-term change in the way FSA lending operates the good news is, perhaps, that action is still being taken. The Biden administration moved to use funds from a recent aid package to provide loan forgiveness to farmers, particularly farmers of color, made vulnerable by the pandemic, though the effort is currently being held up in the courts.

So where does that leave us exactly? Direct ag lending by the federal government has been envisioned in a number of different ways, but it has -- more or less -- always been motivated by the same goal, that is, to provide a credit safety net for those too risky for private creditors. At best, USDA has had a mixed record of

actually supporting the most vulnerable farmers, but at the end of the day, the FSA loan program is still there, providing a lender of last resort - at least to some.

USDA loan programs represent the final category of lenders in our complex ag lending world. What we know is that USDA's loan portfolio is still relatively small. For context, FSA dispersed about $2 billion in direct and guaranteed operating loans and about $5 billion in direct and guaranteed farmland loans in 2021, with the whole portfolio accounting for only about 1% of all ag debt in the U.S. -- and the department's ability to take on and manage through high levels of risk is significant.

With higher interest rates, a changing global landscape, and a veritable flock of black swans that seem to have been circling overhead recently, USDA's lending programs will likely become an even more important tool, and safety net, for especially small and beginning producers going forward. And though we can be fairly confident that the FSA has the staying power to weather the storm, we'll be watching for signs that the canary in our farm financial coal mine Is beginning to falter.

In the larger sense, how the existence of USDA's ag lending programs has shaped American agriculture, right down to who farms and who doesn't, is a question that we'll continue to unpack and understood even as it continues to unfold and affect the future.

For the rest of our season here, this fact, of our ever-evolving understanding of the past and how it shapes our present actions and the future goals of the systems we create, is crucial to hang on to. Because as we continue to learn about where the ag lending system might go from here, our farm financial past and present are the two most important predictors of what might come next. We're still figuring out what exactly the past means and where exactly we are now.

Over the course of the last seven episodes, we have covered a lot of ground -- a little history of ag lending, and how less has changed than we might have hoped. We've learned how lending works for ag banks, for farm credit, at Farmer Mac and USDA, and with vendors and non-banks. We've learned a lot about the unique risks and opportunities that each of these lenders has and brings to the overall ag finance system -- and how they work together. What we have to do now is take a hard look at what happens when the system starts to fall apart.

Thomas Hoenig: One of the things that happened during the 70s, before this crisis, was that rather than look at the cash flows, coming off the property over different scenarios of commodity prices, the bank was willing to land on the assumption that asset values would only go up. That the central bank would always provide additional credit and that asset values would only go up. And that assumption turned out to be quite false because once, the Federal Reserve decided to break the back of inflation, those asset values collapsed and really destroyed the infrastructure of lending.

Sarah Mock: Next time, on *Nothing Borrowed, Nothing Gained*.

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[00:41:41] **Curt Covington:** The good times. Never last.