Farm Credit System

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Today's Farm Credit System is a behemoth.

- The Farm Credit System is a $353 billion government sponsored enterprise.[1]
- Like Fannie Mae and Freddie Mac, the Farm Credit System is a GSE that poses risk to taxpayers. Unlike Fannie and Freddie, the FCS makes loans directly to consumers, putting the government in the business of competing directly with the private sector.
- If the Farm Credit System were a bank, it would be the 11th largest in the country.
- FCS associations have ballooned in size from mergers too. One of the newest associations, Compeer Financial, spans across three states and has $20.8 billion in total assets.

The Farm Credit System has lost sight of its mission.

- While Congress directed the Farm Credit System to give credit to small, beginning and young farmers, today's FCS serves larger, wealthier and older farmers and ranchers. Loans to small farmers and ranchers account for only 14.6 percent of the Farm Credit System's portfolio.[2]
- Farm Credit associations, as cooperatives, are supposed to lend only to their owner-borrowers. But many today are skirting those limits and lending to just about anybody.
- Today's FCS institutions are venturing far from the farm and providing financing for luxury properties, vacation homes, real estate investment trusts and even telecom giants like Verizon.
- And on top of extending unauthorized loans, Farm Credit associations are offering banking services too, including taking (uninsured) deposits and allowing customers to treat them as checking accounts.

The Farm Credit System's subsidy costs American taxpayers billions of dollars each year.

- The Farm Credit System has used its tax advantages and GSE status to grow by $137 billion in the past 10 years and to take market share away from tax-paying institutions.
- The Farm Credit System made $5.33 billion in profits in 2018 yet paid only $126 million in combined federal, state and local taxes. That's an effective tax rate of 2.36 percent.[2]
- The Farm Credit System can lend as much as $1.5 billion to any single borrower. Since GSEs have the implied backing of the U.S. government, taxpayers are ultimately on the hook for these loans.
- Since the housing GSEs failed, the implied backing of the U.S. government is now explicit. This is true for the Farm Credit System too.
- The Farm Credit System secured a $10 billion line of credit from the U.S. Treasury in 2013 which has been extended annually, for 12-month periods.

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- While the Farm Credit System benefits from tax subsidies paid for by American taxpayers, it engages in riskier lines of business – unorthodox loans and uninsured deposits – leaving taxpayers even more at risk.

Lawmakers missed an opportunity to reform the outdated, unfair and unreasonable tax advantages enjoyed by the Farm Credit System in the tax reform bill signed into law in December 2017.

- Congress should treat businesses providing the same services the same way, and that is not happening today.

- We will continue to argue for a level playing field until Congress ends this inequity.

Background:
Congress created the Farm Credit System in 1916 to ensure America's farmers and ranchers had access to credit at competitive rates. In the 1980s, Congress directed the FCS to give credit to small, beginning and young farmers to ensure they had the credit they needed to grow, but it never established specific targets for such loans. Significant tax and funding advantages were conferred on FCS institutions to help them achieve their mission – advantages that should be reconsidered given the Farm Credit System's mammoth size, loss of mission focus and policymakers' desire to make the tax code more equitable.

Sources:

[1]*Second Quarter 2018 FCS Financial Indicators, Quarterly Comparison*, Farm Credit Administration. Retrieved from https://www.fca.gov/template-fca/bank/2019JuneQuarterlyComparison.pdf

[2]*Annual Report*, Farm Credit Administration (2018). Retrieved from https://www.fca.gov/template-fca/about/2018AnnualReport.pdf