



FARM CREDIT

**Testimony of Rod Hebrink, President and CEO
Compeer Financial
on behalf of the Farm Credit System
before the Subcommittee on Rural Development, Agriculture, Trade and
Entrepreneurship, U.S. House Committee on Small Business
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Chairwoman Finkenauer and members of the House Subcommittee on Rural Development, Agriculture, Trade and Entrepreneurship, thank you for the opportunity to testify today. My name is Rod Hebrink and I'm the President and CEO of Compeer Financial. Compeer is a proud member of the Farm Credit System. We provide loans, leases, risk management and other financial services to farmers and rural communities throughout most of Illinois, Minnesota and Wisconsin, with headquarters in Sun Prairie, WI. As a cooperative, we're owned by our farmer customers and focused on championing the hopes and dreams of rural America. Our mission connects us with thousands of farmers throughout the Midwest who are passionate about agriculture and are determined to pursue their dream – including farmers exploring niche agriculture, entrepreneurs looking for new opportunities, folks who weren't raised on a farm or those just entering the industry.

Compeer serves over 42,000 member-owners and customers focused on feeding and fueling the world. Our clients represent the diversity of Midwestern agriculture ranging from dairy, swine, grain, and renewable energy to pumpkins, potatoes, cranberries and timber.

Young, beginning and small farmers (YBS) are a vital part of our mission. Today these farmers make up 72 percent of our primary loan holders. These are clients who are under age 36, have been farming for ten years or less, or generate \$250,000 annual gross income or less.

Nationally, all Farm Credit institutions make extraordinary efforts to support YBS farmers and ranchers. Unlike other kinds of lenders, Farm Credit institutions are required to report specifically on their YBS lending activities. Each year, the Farm Credit Administration compiles data on Farm Credit YBS lending and reports it to Congress.

Based on reports from the Federal Farm Credit Banks Funding Corporation:

- Farm Credit made 46,682 loans to young producers (under age 36) in 2018 for a total of \$9.8 billion. Those are actual new loans originated in 2018 and amounted to 19.5% of all the new loans made by Farm Credit last year.
- Farm Credit made 62,330 loans to beginning producers (10 years or less experience) for \$13.4 billion in 2018. Nearly a quarter (24.2%) of all loans made by Farm Credit last year went to beginning producers.
- Farm Credit institutions made 114,817 loans to small producers (less than \$250,000 in annual sales) for \$12.4 billion in 2018, representing nearly half (44.6%) of all loans made by Farm Credit last year.

To put Farm Credit's lending to small farmers and ranchers into perspective, at year-end 2018 Farm Credit had just over 900,000 loans of all kinds outstanding, and slightly more than 450,000 of those loans outstanding were to small farmers and ranchers.

Please note that the numbers above cannot be combined. A single loan to a 25-year-old rancher in her third year of ranching with annual sales of \$100,000 could be counted in each of the young, beginning, and small categories. We report this way for two reasons: our regulator requires it and, more importantly, it is the most accurate portrayal of who we serve.

Farm Credit institutions go beyond just providing loans to YBS farmers, in many cases offering special incentives, education, and other support to these producers. Farm Credit

organizations nationwide provide training and host seminars on topics such as intergenerational transfer of family farms, risk management techniques, and establishing and maintaining effective business plans.

We engage across the spectrum with those entering agriculture, whether they are focused on conventional, organic, sustainable, local food-related operations, direct-to-retail, or other emerging business models.

As part of our mission, we're committed to this market; this group of farmers faces barriers in securing the financing they need when compared to peers who are more experienced and have larger operations. YBS farmers are less likely to have the credit histories, capital and other resources necessary to obtain traditional loans. They need our support.

Compeer and other Farm Credit Associations give these YBS farmers a better chance at success. Like our counterparts throughout Farm Credit, Compeer Financial offers specific credit-related services and programs as part of our YBS efforts which include special loan pricing, starter loans, character loans and personal loan guaranty. We also have a *Beginning with Compeer Financial Grant Program* and provide educational and outreach efforts targeted at these farmers throughout the year. In addition to in-house YBS programs, Compeer partners with institutions, government agencies and private entities that offer credit and other services to those who qualify as YBS farmers and ranchers.

I'd like to bring these farmers, our partnerships and their utilization of these important programs to life for you today through a few customer stories including a logger, an aeroponics producer and a unconventional chicken operator. What connects these three producers – and many others – is that our current economic uncertainty is driving many producers to become entrepreneurs in order to grow or even maintain their businesses. They are looking outside the conventional areas of farming for new opportunities. These niche areas are unfamiliar and the producers, along with Farm Credit, are looking for credit enhancements and guarantees along with responsive programs to help these producers navigate these new, and often profitable, markets. For example:

Living Greens Farm (livinggreensfarm.com), located near the line between Congresswoman Angie Craig's 2nd Congressional District and Congressman Jim Hagedorn's 1st Congressional District, in Faribault, MN, grows fresh greens and herbs aeroponically, 365-days a year in a controlled environment.

Aeroponics is a revolutionary, planet-friendly, vertical indoor farming approach using no pesticides; it's a farming method of growing plants by suspending their roots in the air. Roots are spritzed with a nourishing mist –no soil and very little water are used. Living Greens Farm uses a computer system to control elements such as light, temperature, humidity and CO² to grow lettuce, herbs and microgreens.

Founder Dana Anderson launched Living Greens Farm in 2012 after working out of his garage for three years. As a beginning farmer, Dana struggled to find capital because he was looking for cash flow-backed financing versus asset-backed lending. Dana had met with a Compeer loan officer but, due to the nature of his business, SBA and USDA programs weren't viable options because the cost of accessing the programs was too high and he had limited collateral. Thankfully, the Compeer loan officer was able to help him network to find equity capital to move forward. The downside for Dana and Living Greens Farm is equity capital is much more expensive and the business gives up a lot as a trade-off for financing.

Today, Living Greens Farm employs about 30 people and they completed their first expansion last October, increasing growing space from 5,000 square feet to 45,000. They sell their lettuce and microgreens to local retailers such as Lunds and Byerly's, Kowalski's and some Hy-vee stores. They're predicting a profit of \$4.5 million for next year and, long-term, Compeer will look for ways to continue helping and partnering with them.

Matthew Wayrynen is a beginning farmer who has been able to expand his business despite challenges in obtaining financing. The 37-year-old logger and beef farmer lives in McGregor, MN with his wife, Kindra, and their 2-year-old son, Reino. They have a 100-acre farm with 40 head of beef cattle, and rent another 200 acres of hay ground. Matt is an

entrepreneurial-minded fourth generation farmer and a third generation logger. Logging is Matt's main source of revenue and he produces 6,000 to 8,000 cords of wood annually.

Two years ago, Matt decided to switch from conventional or tree length logging to cut-to-length logging, which would increase his operating season and chances of finding skilled labor. Logging is a capital intensive industry. With that switch, Matt needed to make a \$250,000 capital investment into his logging business. Matt would have been a perfect candidate for the 7(a) SBA program and the lower interest rate that comes with the guarantee program would have provided great relief for Matt as a young logger. However, the fees associated with initially accessing and then continuing to use the SBA 7(a) program are high, making the program less competitive in many cases – which was the reality for Matt. Instead, Matt received a traditional loan from Compeer without a guarantee from SBA or USDA. Thus, the interest rate reduction was not available for him to access in the early stages of growing his business.

Reginaldo Haslett-Marroquin operates an experimental research and training farm in Northfield, MN. A native of Guatemala, Reginaldo received an agronomy degree from the Central National School of Agriculture and is the architect of Minneapolis's Sustainable Food and Agriculture program. Reginaldo, his wife and three children live in Northfield in a house financed through Compeer Financial.

Last year, Reginaldo and three local farmers started Regeneration Farms, LLC (regenerationfarms.com) with \$100,000 of their own equity and an operating loan from Compeer. While Regenerative Farms initially applied for a loan through SBA, they didn't qualify because their business was considered a start-up with no financial history and insufficient collateral. Compeer was able to partner with Regenerative Farms on operating loans through the *Emerging Markets Lending Program* which is a true character loan program that does not require sufficient collateral.

In 2018, Regeneration Farms had two contract producers who raised chickens they aggregated and sold under their Tree-Range chicken brand. Fast forward one year and

Regenerative Farms is focused on scaling up their poultry production because they were approached by a pasture-based livestock company from the West Coast to produce, process, freeze and ship 35,000 chickens. In order to meet this contract, they requested and received another operating loan from Compeer. The company is experiencing great success and demand for their product is rapidly growing; however, they're challenged with limited options for affordable financing to meet the current demand and create brand awareness to ensure they continue to grow their business.

Compeer's relationships with YBS farmers, like those I've shared with you, not only benefit the farmers themselves as they see their businesses succeed but they strengthen our rural communities and local economies through employment, public school enrollment, tax growth and consumerism.

While I've shared stories today that bring to life some of the current challenges Compeer experiences in working with our customers to utilize guarantee loan programs, I also want to highlight some successes. Compeer has a number of customers using both SBA and USDA FSA loan guarantee programs and, without them, wouldn't be where they are today.

We used the SBA 7(a) loan program to help finance agribusinesses customers such as Tangletown Gardens (tangletowngardens.com), a wholesale and retail nursery and garden center with locations in Minneapolis and Plato, Minnesota. They used an SBA guaranteed term loan for equipment and permanent working capital for the business. Due to their financial situation, the ability for this customer to access SBA loan guarantees was imperative for the viability of their business.

Loan guarantee programs offered through USDA's Farm Service Agency are also important lending tools for Compeer to help provide financing for young and beginning farmers. As a sales officer from Compeer's lending team recently stated, "Without the FSA Beginning Farmer Down payment Program, these beginning farmers wouldn't be able to finance land purchases on their own. They'd have to rely on family or other means for the necessary capital, which then isn't viewed as really being on their own."

Farm Credit’s cooperative structure – where local customers own their Farm Credit institution and elect their boards of directors – helps ensure that Farm Credit institutions are deeply in tune with the needs of their customers. I’d like to also take this opportunity to share stories from across the Farm Credit System because each institution is unique, with its programs and products specifically tailored to support local customers. For instance,

- AgChoice Farm Credit offers extensive programs for young, beginning and small farmers in central, western and northern Pennsylvania. Their “SmartStart” provides interest rate reductions for participation in educational activities, and the recently-launched “SmartStart EXPRESS” helps start-up farmers apply for smaller loans with a shortened application process. AgChoice also supports financial literacy of young and beginning farmers through its popular “AgBiz Masters” educational program which combines online modules with in-person meetings over a two-year program. In 10 years, the program has reached 1,325 farmers.

Dennis Meyers, Franklin County, Pennsylvania, is a young producer, a fifth generation dairy farmer and participant of AgChoice’s AgBiz Masters program. Reflecting on his first year of the two-year program, Dennis notes that, “AgBiz gave me knowledge of what a lender looks for in business records and management. As we opened our line of credit, it helped me better understand the process. While taking classes such as AgBiz Masters might not make or break your career, you always learn at least one new thing to take home to your business.”

- Farm Credit East has a number of programs that support the next generation of agricultural businesses. Like many Farm Credit institutions, Farm Credit East has a variety of incentives for YBS farmers, and several years ago extended those benefits to veterans. Those incentives include interest rate assistance and payment of USDA guarantee fees, and discounts on the financial services that businesses need to be successful, like business consulting, tax preparation, recordkeeping, payroll and consulting. Those incentives have totaled over \$1.3 million over the last three years.

Farm Credit East also created “FarmStart” to help beginning farmers raise money to begin their businesses. Separate from Farm Credit East’s traditional lending, FarmStart invests in entrepreneurs in agriculture, forestry or fishing who might not qualify for traditional credit. The investments can be for up to \$75,000 for working capital and other start-up costs, and are repaid at the end of five years. Since inception, Farm Credit East and its partners have invested almost \$14 million in 300 businesses across the Northeast through FarmStart.

Farm Credit East believes that strong business and financial management skills are critical in a startup’s success and is helping beginning farmers improve their skills via its “GenerationNext” seminar series. GenerationNext provides training on finance, human resources, marketing and general business management topics as well as providing young producers the chance to network with one another.

Oz and Rob Thorndike are brothers and partners in Thorndike & Sons Inc. ([facebook.com/Main-ly-Trees-and-Thorndike-and-Sons-Inc](https://www.facebook.com/Main-ly-Trees-and-Thorndike-and-Sons-Inc)), a contract logging and timberland management business in Strong, Maine, that recently participated in GenerationNext. Said Oz, “The course covered important topics for any business owner. It provided the tools to make good, educated business decisions.”

- Mississippi Land Bank is committed to meeting the needs of YBS farmers and ranchers and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of YBS lending activities is a priority in the Association. Additional employee time and other resources are combined with the most liberal application of the Association’s underwriting standards possible to meet the credit needs of YBS farmers and ranchers. In addition, the Association actively supports other programs, events, scholarships and educational activities that benefit young people who will become the agricultural providers of tomorrow.

Five years ago, Marshall Bartlett, then 24, joined his family's 147-year-old farming operation in the North Mississippi town of Como, eager to launch a new business model — producing and selling pasture-raised pork, beef and lamb directly to consumers and restaurants. Together with his brother Jemison Bartlett and sister May Leinhart, he launched Home Place Pastures (homeplacepastures.com) in 2014. Home Place's meats quickly became popular with foodies and chefs from New Orleans to Nashville, Tenn. With success came growth opportunities, leading Marshall to Mississippi Land Bank in 2018. "Marshall and his family were right in line with the farm-to-table movement that we support," says his loan officer, Scott Crockett of the Senatobia branch. "We're also trying to help people get started, especially young farmers like Marshall. He has set a great example for this community." With financing in hand, the family expanded its cattle herd, consolidated existing debt and improved its USDA-inspected on-farm processing facility. "Working with Mississippi Land Bank was a breath of fresh air," says Marshall, who now has 16 full-time employees, more than 600 pigs and a retail outlet. "We needed a bank that would take the time to understand what we are doing. We are not a conventional row crop or cow-calf operation, and our vertically integrated business model was unfamiliar to most lenders. "The Land Bank team came to our farm and allowed us to share our vision with them. They treated us like family and quickly helped dial in our financing needs."

- American AgCredit offers mission driven programs to serve the credit needs of YBS producers, including those emerging markets that include small and medium producer or aggregators (farm-related service) who sell products through local and regional food systems via shortened supply chain. Their programs provide alternate financing and guarantee options for farmers and ranchers who may not qualify under normal lending requirements (lack of agricultural production history; weak capital and/or liquidity positions; weak capacity or limited credit history), including governmental guarantee programs such as Farmer Mac and FSA loan guarantees.

One example is Berry Patch Farms, a Certified Organic Farm located south of Brighton, Colorado and operated by Tim and Claudia Ferrell. Tim is a retired minister, and Claudia a former physician. They have been in business since 1991. The working farm where they live and earn their living is just 40 acres in size.

Originally the Ferrells leased farm ground. In 2004, American AgCredit provided the financing for the purchase of the land they work today. Although this customer is considered 'Small' under the YBS definition, their approach to farming is anything but. Tim and Claudia have a unique direct to consumer business model. They are one of the few operations that allows consumers to pick their own organic strawberries, currants, cherries, plums, basil, flowers and pickling cucumbers. The on-site Farm Store provides a selection of already harvested produce as well as roasted chilies, melons, tomatoes, squash and zucchini. In addition to the U-pick and Farm Store, Berry Patch Farms sells produce through Community Supported Agriculture, or CSA shares. In a CSA, the consumer, known as a shareholder, purchases a share during the farm's off season from the farmer in exchange for fresh produce during the growing season. The practice of selling shares of a future crop is an innovative way for farmers to mitigate the risks inherent in growing fruits and vegetables while obtaining the capital needed to get the crop planted.

- Supporting the next generation of agriculture is an important part of the mission of Farm Credit Services of America. Serving a territory that covers Iowa, Nebraska, South Dakota, and Wyoming, Farm Credit Services of America is committed to meeting the unique financing needs of YBS producers. In fact, despite the downturn in agricultural prices, Farm Credit Services of America last year reached an all-time high lending into young, beginning, and small farmers with more than \$6 billion of credit extended to over 25,000 YBS producers. The association's "YBS Producer Program" meets the evolving needs of today's young, beginning and small producers through long-term relationships and a proactive focus on sound financial services, advice and educational opportunities.

Matt Riniker is an example of the next generation entering agriculture with support from Farm Credit. Matt always knew he wanted to be part of his family's feedlot and grain operation in Guttenberg, Iowa. While most YBS producers qualify for credit using conventional underwriting standards, Farm Credit Services of America established special outreach credit programs called "AgStart" and the "Development Fund" to support those YBS producers not quite ready for credit on commercial terms. Matt, through AgStart, received his first loan from Farm Credit Services of America at the age of 17. Five years later, he owns some of his own farmland and a couple hundred head of cattle.

Compeer's objective, and that of the Farm Credit System, is to provide YBS farmers with sound, adequate and constructive credit and related financial services to help them be successful. Whatever the case and whatever the story, Compeer Financial and Farm Credit are committed to maximizing their resources and partnerships – including those with FSA and SBA – to support agricultural operations of all sizes and types. Today, we're asking you to consider some of the barriers including: high fees, eligibility requirements and the time-consuming process to using these programs, so YBS farmers can access them even more often to keep the next generation of agriculture viable.

On behalf of Compeer Financial and the entire Farm Credit System, I want to thank you for the opportunity to share a snapshot of our business with you. More importantly, on behalf of the farmers and communities we serve, I want to thank you for your time today. As a partner in their success, it's a pleasure to be able to share their stories and the impact they're making each and every day. We're honored to partner with them to champion the hopes and dreams of rural America.