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Report to Congressional Requesters

November 2023

FARM CREDIT SYSTEM

Policy Considerations for a Potential Grant Program for Socially Disadvantaged Farmers and Ranchers

Accessible Version

GAO-24-106646

GAO Highlights

Highlights of GAO-24-106646, a report to congressional requesters

November 2023

FARM CREDIT SYSTEM

Policy Considerations for a Potential Grant Program for Socially Disadvantaged Farmers and Ranchers

Why GAO Did This Study

Congress created FCS, a government-sponsored enterprise with a network of banks and associations, to meet the needs of creditworthy agricultural producers. FCS consists of four Farm Credit Banks, which fund associations that make loans to farmers and ranchers. Socially disadvantaged farmers and ranchers—defined by the U.S. Department of Agriculture as members of certain racial and ethnic minority groups and women—may face challenges in obtaining agricultural credit.

GAO was asked to provide information on the implications of establishing an FCS-funded grant program for socially disadvantaged farmers and ranchers. This report (1) describes considerations for policymakers and potential challenges such a program might face, (2) examines potential effects of a grant program on Farm Credit Banks, FCS, and borrowers, and (3) examines the stability of funding from net income for a potential FCS grant program.

GAO analyzed FCS data for 2013–2022 to examine the potential effects of a grant program. GAO also compared FCS data that reflected more and less stressful periods for FCS (1984–1993 and 2013–2022, respectively). GAO interviewed officials from the Farm Credit Administration, Farm Credit Banks, Farm Credit Council, and socially disadvantaged farmer and rancher advocacy groups.

In a letter representing the views of its bank members, the Farm Credit Council stated that the report is comprehensive but raised concerns about some of the analyses. GAO stands behind its analyses.

View GAO-24-106646. For more information, contact William B. Shear at (202) 512-8678 or ShearW@gao.gov.

What GAO Found

Establishing a grant program for socially disadvantaged farmers and ranchers within the Farm Credit System (FCS) would involve considerations for policymakers, including

- how the program size and funding approach would affect FCS's mission,
- whether the program would expose FCS to legal challenges, and
- whether the program would duplicate existing federal programs.

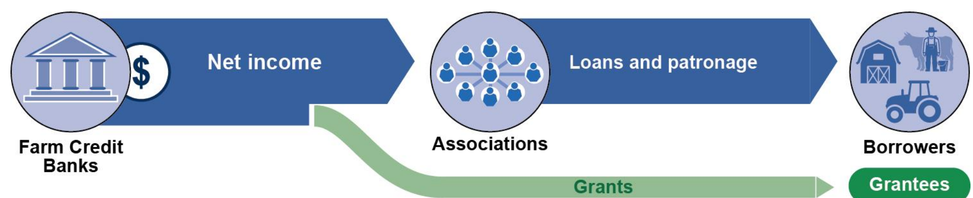
The Farm Credit Banks and other stakeholders also identified several potential challenges to establishing such a program. For example, the Banks

- lack experience with overseeing a grant program, and
- do not have the appropriate infrastructure or staff.

Banks could address these issues by following leading grant management practices—such as for staffing and training, oversight, and grant management—that have been developed by GAO and others.

A grant program would involve costs for FCS and its Banks and borrowers, according to stakeholders. The Banks could fund the program by redirecting funds from net income, thereby reducing funds available for loans and patronage (i.e., funds Banks return to borrowers, who are also owners of the system). (See figure.) GAO analyzed FCS data for 2013–2022 and found that Banks would likely have raised effective borrowing costs in at least some years had they been required to fund a program. All four Banks said that a grant program would increase costs for borrowers, reduce FCS's capacity to lend, and diminish FCS's competitiveness with commercial banks as agricultural credit providers. Advocacy groups noted that a grant program could benefit FCS by helping grantees qualify for FCS loans—for example, by buying land to use as collateral.

How Farm Credit Bank Net Income Could Fund a Potential Grant Program



Source: GAO analysis; GAO (first two icons); bioraven/stock.adobe.com (farmer icon); Francois Poirier/stock.adobe.com (tractor icon); martialread/stock.adobe.com (barn icon). | GAO-24-106646

Although Farm Credit Banks' net income, which would potentially fund a grant program, has been relatively stable in recent years, it has been more

volatile in the past. More specifically, FCS net income in 1984–1993 was more volatile than in 2013–2022. Further, Farm Credit Administration officials indicated that the most recent decade was unusually strong for the agricultural industry and thus for Farm Credit Bank net income. Farm Credit Banks may face greater income volatility than other financial institutions because of their specialization in agricultural credit. In addition, unique risks in the agricultural industry contribute to uncertainty for Farm Credit Banks' net income.

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Abbreviations

AHP	Affordable Housing Program
EPA	Environmental Protection Agency
FCS	Farm Credit System
FHLBank	Federal Home Loan Bank
SDFR	socially disadvantaged farmers and ranchers
USDA	U.S. Department of Agriculture

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

November 17, 2023

Congressional Requesters

Farmers and ranchers often require loans to buy agricultural real estate, make capital improvements, and purchase supplies and equipment. Most agricultural lending is done by the Farm Credit System (FCS) or commercial banks. FCS is a government-sponsored enterprise established, in part, to provide credit to farmers and ranchers through its national network of banks and associations.[1]

FCS's statutory objectives include being responsive to the needs of all types of creditworthy agricultural producers. As previously reported, according to the Farm Credit Administration, FCS is not statutorily mandated to focus on providing financial opportunities tailored to socially disadvantaged farmers and ranchers (SDFR).[2] The U.S. Department of Agriculture (USDA) generally defines SDFRs as members of certain racial and ethnic minority groups and women. SDFRs reportedly face a number of challenges that hamper their ability to obtain private agricultural credit. They are more likely to operate smaller, lower-revenue farms, have weaker credit histories, or lack clear title to their agricultural land, according to lending industry representatives. Some SDFRs also may face actual or perceived unfair treatment in lending or be dissuaded from applying for credit because of past instances of alleged discrimination, according to advocacy groups.

Similar in some ways to FCS, the Federal Home Loan Bank (FHLBank) System is a government-sponsored enterprise created by Congress to support mortgage lending.[3] The Federal Home Loan Banks have established an Affordable Housing Program (AHP) to help finance the purchase, construction, or rehabilitation of affordable owner-occupied and

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[1]Pub. L. No. 92-181, 85 Stat. 583 (1971) (codified, as amended, at 12 U.S.C. §§ 2001-2279cc.).

[2]GAO, *Agricultural Lending: Information on Credit and Outreach to Socially Disadvantaged Farmers and Ranchers Is Limited*, GAO-19-539 (Washington, D.C.: July 11, 2019).

[3]Pub. L. No. 72-304, ch. 522, 47 Stat. 725 (1932) (codified, as amended, at 12 U.S.C. §§ 1421-1449).

rental housing through interest rate subsidies and grants.[4] Unlike the FHLBank System, FCS currently is not required to fund a grant program to support agriculture.[5]

You asked us to provide information on the implications of establishing an FCS grant program for SDFRs using FCS revenues. This report (1) describes issues policymakers would need to consider in establishing an FCS grant program and potential challenges such a program might face, (2) examines potential effects of a grant program on Farm Credit Banks, FCS, and borrowers, and (3) compares net income for FCS, which would potentially fund a grant program, with that of the FHLBank System to assess relative stability.

In doing this work, we used the FHLBanks' AHP as an illustrative example for a hypothetical FCS grant program. The contributions that AHP receives from the FHLBanks fund various housing affordability initiatives through a grant program and subsidies. Also, we assumed that each of the four Farm Credit Banks would operate a grant program, similar to the FHLBanks. We identified other potential options for funding a grant program. For information on selected grant programs using different models, see appendix I.

To address our first objective, we reviewed previous GAO reports, federal grant guidance, and AHP regulations to identify leading principles and practices that could apply to an FCS grant program. We also obtained Farm Credit Banks officials' perspectives on operating a hypothetical grant program.

To address our second objective, we used three allocation scenarios for funding a potential FCS grant program—5, 10, and 15 percent of Farm

[4]The Federal Home Loan Banks Act requires each FHLBank to establish an Affordable Housing Program to subsidize the interest rate on advances to members engaged in lending for certain long term, low- and moderate-income, owner-occupied and affordable rental housing at subsidized interest rates. 12 U.S.C. § 1430(j).

[5]AHP regulations allow for subsidies that can be passed through from one of the FHLBanks to member institutions and then to the project or household for which the subsidy was approved. Such subsidies may be used to write down the interest rate on a loan for a project. *See* 12 C.F.R. § 1291.15 and 12 C.F.R. § 1291.24. The regulations also allow the FHLBanks to provide "direct subsidies" in the form of cash payments as part of the FHLBanks' Homeownership Set-Aside Program, which awards grants to eligible households for the purpose of paying for certain acquisition or rehabilitation costs. *See* 12 C.F.R. §§ 1291.40 – 1291.42.

Credit Banks' net income—and historical FCS data for 2013–2022.[6] In addition, we conducted a quantitative analysis to show how Farm Credit Banks might have allocated income to such a program in the past under the three allocation scenarios using 2013–2022 data, by decreasing either funds Banks return to borrowers (known as patronage refunds) or retained earnings. We also interviewed officials from the four Farm Credit Banks, the Farm Credit Administration, the Farm Credit Council, a nonprofit agriculture organization, and an SDFR research center.

To address our third objective, we compared net income for FCS with that of the FHLBank System for 2013–2022 to assess the relative stability of a potential FCS grant program based on a percentage of net income. We compared FCS net income for 2013–2022, which was a period of strong net income for the system, with net income for 1984–1993, which was a more stressful period.[7] See appendix II for additional information on our scope and methodology.

We conducted this performance audit from February 2023 to November 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Socially Disadvantaged Farmers and Ranchers

USDA defines SDFRs as farmers and ranchers belonging to the following groups: American Indian or Alaskan Native, Black or African American, Asian or other Pacific Islander, and Hispanic or Latino. Some USDA

[6]To assess the reliability of FCS's data, we compared them against call reports and annual reports, identified discrepancies, and reviewed documentation of the Farm Credit Administration's data reliability steps. We determined the data were sufficiently reliable for evaluating the size and financial implications of a potential grant program.

[7]To assess the reliability of the FCS data for 1984–1993, we reviewed the data for outliers or obvious errors and interviewed Farm Credit Administration officials about the quality assurance standards in place during that period. Based on our discussions with the Federal Housing Finance Agency, we determined that the FHLBank data were sufficiently reliable for comparing the stability of the systems' net income.

programs also consider women to be SDFRs.[8] According to the 2017 Census of Agriculture, women made up the largest group of SDFR producers and primary producers—those responsible for farm decision-making (see table 1).[9]

Table 1: Producers Identified as Socially Disadvantaged Farmers and Ranchers (SDFR), 2017

	Number of SDFR producers	Percentage of SDFR producers	Number of SDFR primary producers	Percentage of SDFR primary producers
Women (any race/ethnicity)	1,227,461	88.3	489,000	81.0
Hispanic, Latino, or Spanish origin	112,451	8.1	66,727	11.0
American Indian or Alaska Native	58,199	4.2	35,494	5.9
Black or African American	45,508	3.3	31,071	5.1
Asian	22,016	1.6	11,955	2.0
Native Hawaiian or other Pacific Islander	3,018	0.2	1,662	0.3
More than one race	26,749	1.9	16,342	2.7
Total SDFRs[a]	**1,390,449**	**100.0**	**604,019**	**100.0**

Source: GAO analysis of the U.S. Department of Agriculture's (USDA) Census of Agriculture. | GAO-24-106646

Note: For the Census of Agriculture, USDA primarily collected data through the mail. USDA adjustments for nonresponse, misclassification, or other factors may result in a level of error related to its estimates.

[a]Individuals can be counted in multiple categories, such as Asian women or Hispanic African American. Therefore, the total number of SDFRs is less than the sum of the categories.

We previously reported that SDFRs received proportionately fewer loans and less agricultural credit overall than non-SDFRs.[10] Specifically, in a July 2019 report, our analysis of USDA's 2015–2017 Agricultural Resource Management Survey data found that SDFRs accounted for 41

[8]SDFR is defined as "a farmer or rancher who is a member of socially disadvantaged group." 12 U.S.C. § 2279(a)(6) and 7 U.S.C. § 2003(a)(2). A socially disadvantaged group is defined as "a group whose members have been subject to racial or ethnic prejudice because of their identity as members of a group without regard to their individual qualities." 12 U.S.C. § 2279(a)(5). 7 U.S.C. § 2003(e)(1) also defines a socially disadvantaged group as "a group whose members have been subjected to racial, ethic, or gender prejudice because of their identity as members of a group without regard to their individual qualities." SDFR eligibility for USDA farm support programs may vary depending on which definition is cited in statute for a particular program. For more information, see Congressional Research Service, *Defining A Socially Disadvantaged Farmer or Rancher (SDFR): In Brief* (Washington, D.C.: Mar. 19, 2021).

[9]A producer is an individual involved in making decisions for the operation of a farm. The primary producer is the individual on a farm who is responsible for the most decisions. Each farm has only one primary producer. U.S. Department of Agriculture, *2017 Census of Agriculture* (April 2019).

[10]GAO-19-539.

percent of all producers and an estimated 17 percent of primary producers. However, they accounted for 13 percent of farms with loans and 8 percent of total outstanding farm debt.

Farm Credit System

FCS is a government-sponsored enterprise with a statutory mandate to support agricultural credit. As a government-sponsored enterprise, FCS receives tax benefits and system-wide debt securities benefit from a perceived federal guarantee but FCS receives no appropriations.[11] FCS includes lenders that make loans directly to borrowers. Federal statute limits its lending activities to agriculture and related businesses and rural mortgages.[12] In addition, FCS is a commercial for-profit lender and is not a lender of last resort. As such, borrowers must meet creditworthiness requirements similar to those of a commercial lender.[13] FCS competes with commercial lenders for borrowers of agriculture credit.

As of March 31, 2023, FCS had $377 billion in total loans outstanding to agriculture, agribusiness, rural utility, and other borrowers. Agriculture loans are the largest portion.[14] As of year-end 2021, the Farm Credit Administration estimated that FCS was responsible for 45 percent of U.S. farm business debt.

FCS is a nationwide financial cooperative that is owned by the borrowers it serves. It comprises four regional Farm Credit Banks that are owned by

[11]As a result of the benefits conferred upon government-sponsored enterprises and the similarity between their debt securities and those of the U.S. Treasury, most of their debt and securities are perceived by the credit markets to be guaranteed by the federal government. The perceived guarantee allows government-sponsored enterprises to borrow in the credit markets at interest rates only slightly higher than the rates paid by the Department of the Treasury on its borrowings. This perception by the credit markets was enhanced by the 1987 federal rescue of the Farm Credit System.

[12]12 U.S.C. §§ 2017 and 2019. CoBank is an agricultural credit bank. In addition to lending to producers, it has the authority to finance U.S. agricultural exports and lend to farmer-owned cooperatives and rural infrastructure entities.

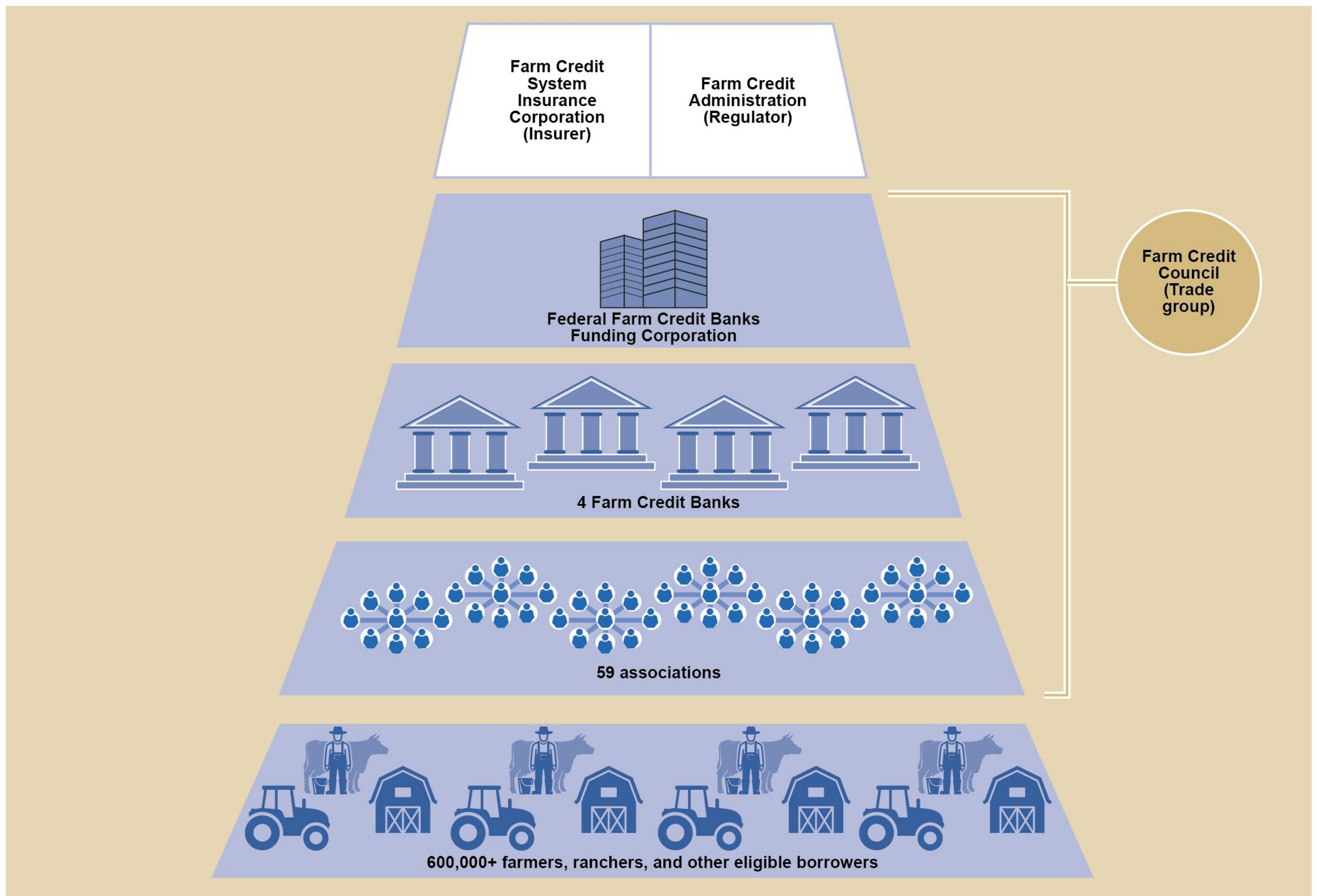
[13]In contrast, USDA's Farm Service Agency is considered a lender of last resort because it makes direct farm ownership and operating loans to family-sized farms that are unable to obtain credit elsewhere.

[14]Federal Farm Credit Banks Funding Corporation, *First Quarter 2023 Quarterly Information Statement of the Farm Credit System* (Jersey City, N.J.: May 10, 2023).

59 associations, which are owned by their borrowers (see fig. 1).[15] The Farm Credit Council is the trade group representing all FCS institutions. Farm Credit Banks provide funds and support services to the associations, which in turn provide loans to borrowers. Borrowers are required to purchase stock in an association to receive a loan. FCS stockholders elect the boards of directors for Farm Credit Banks and associations, and stockholders each have one vote regardless of their loan size unless an alternative voting process (such as weighted equity) has been agreed on by the shareholders.

[15]CoBank also lends directly to agricultural and aquatic cooperatives and rural utilities. FCS also includes six service corporations that provide support activities rather than lending. These service corporations are not included in the count of FCS associations.

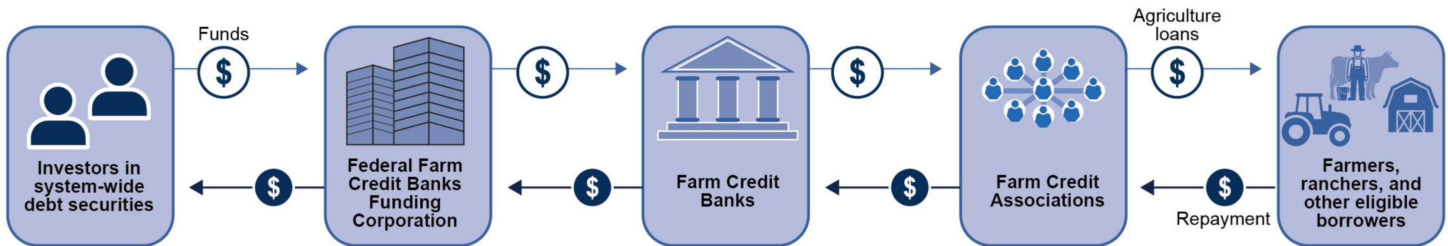
Figure 1: Structure of the Farm Credit System



Source: Farm Credit System (information); GAO (icons in middle 3 rows); bioraven/stock.adobe.com (farmer icon); martialread/stock.adobe.com (barn icon); Francois Poirier/stock.adobe.com (tractor icon). | GAO-24-106646

FCS raises funds by selling debt securities to institutional investors through the Federal Farm Credit Banks Funding Corporation. The four Farm Credit Banks then fund the individual associations, which make loans to farmers, ranchers, and other eligible borrowers (see fig. 2).

Figure 2: Flow of Funds in the Farm Credit System



Source: Farm Credit System (information); GAO (icons in first four boxes); bioraven/stock.adobe.com (farmer icon); martialread/stock.adobe.com (barn icon); Francois Poirier/stock.adobe.com (tractor icon). | GAO-24-106646

Banks also build capital by retaining some net income. Farm Credit Banks use capital reserves to meet regulatory minimum capital requirements set by the Farm Credit Administration.[16] However, Farm Credit Banks maintain capital in excess of the regulatory minimums to ensure safety and soundness, maintain their credit ratings, and support new lending.[17]

Association directors determine how much capital must be retained to meet regulatory requirements and capitalize new lending. Associations then distribute the remaining revenue to borrowers through patronage refunds—also referred to as “patronage”—that are proportional to the size of the loan a borrower holds. According to the Farm Credit Council, this practice effectively reduces the cost of borrowing. Borrowers receive most patronage in cash, although patronage may also consist of noncash assets such as stock. According to Farm Credit Administration officials, patronage is an integral part of FCS’s cooperative business model in that it reduces the overall cost of loans for borrowers and allows FCS institutions more flexibility in managing or maintaining capital levels during less profitable years. Further, officials said patronage promotes borrowers’ sense of ownership, loyalty, and vested interest in the system’s performance and management. According to Farm Credit Council officials, for the past 2 years, FCS returned approximately 41 percent of its net income to its borrowers, reducing their effective cost of borrowing by $5.8 billion.

[16]The Farm Credit Administration monitors Farm Credit Banks’ capital requirements through a series of regulatory capital ratios. Some ratios include buffers in addition to minimum requirements. Ratios are calculated using average daily balances for the most recent 3 months.

[17]Farm Credit Administration regulations direct the board of directors of each FCS institution, including associations, to determine the amount of regulatory capital needed to ensure the institution’s continued financial viability and to provide for growth necessary to meet the needs of its borrowers. *See* 12 C.F.R. § 615.5200.

Per statute, Farm Credit Banks may set interest rates at the lowest reasonable cost on a sound business basis to benefit agricultural producers. Farm Credit Banks consider their cost of funds, reserve needs, capital requirements, and competitive market rates when setting interest rates.[18] According to Farm Credit Council officials, Farm Credit Banks provide funds to their associations at the lowest possible cost so that loans to farmers, ranchers, rural homeowners, and rural businesses have affordable interest rates.

FCS has a statutory mandate to serve the credit needs of young, beginning, and small farmers and ranchers.[19] FCS associations meet this mandate through their own initiatives, such as favorable loan terms or small grant programs. SDFRs who meet the definition of “young, beginning, and small” may be eligible for these programs. The system is not statutorily mandated to focus on providing financial opportunities to any other group.[20]

Federal Home Loan Banks and the Affordable Housing Program

The FHLBank System is a government-sponsored enterprise with a mission to support mortgage credit. The FHLBank System is a nationwide financial cooperative that comprises 11 regional FHLBanks that are owned by approximately 6,600 member financial institutions. These financial institutions include banks, thrifts, credit unions, insurance companies, and community development financial institutions. A member institution receives cash loans and dividends on its FHLBank’s shares of capital stock. The FHLBank System does not lend to homeowners directly, but provides cash loans to member financial institutions that in

[18]The Farm Credit Act provides that “it shall be the objective” of system lenders to set interest rates and other charges “at the lowest reasonable cost on a sound business basis” taking into consideration the lender’s cost of funds, necessary reserves, and the cost of providing services to its members. *See* 12 U.S.C. §§ 2016, 2075(c), and 2131. As of 2022, interest rates for new loans ranged from 4.47 to 5.14 percent, depending on the FCS Bank.

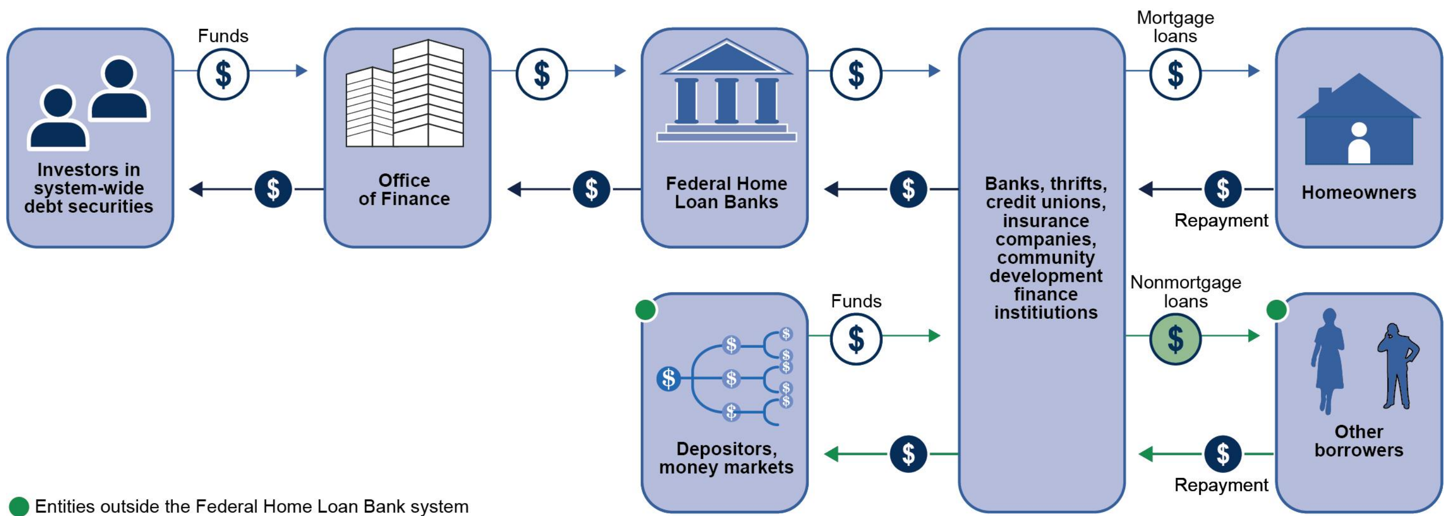
[19]FCS banks are required to direct associations to establish programs for furnishing sound and constructive credit and related services to young, beginning, and small farmers and ranchers. These programs must assure that such credit and services are available in coordination with other FCS units serving the territory and with other governmental and private sources of credit. 12 U.S.C. § 2207(a).

[20]GAO-19-539.

turn lend the funds to borrowers. FHLBank member institutions are not required to be principally engaged in mortgage lending.

The FHLBank System raises funds by selling securities through its Office of Finance. The 11 FHLBanks then provide funding to their member lenders. Unlike FCS associations, FHLBank member lenders can borrow in the short-term cash money markets, and member banks, thrifts, and credit unions can borrow from depositors (see fig. 3).

Figure 3: Flow of Funds in the Federal Home Loan Bank System



Source: GAO analysis of Federal Housing Finance Agency information; GAO (icons). | GAO-24-106646

Note: Only banks, thrifts, and credit unions can borrow funds from depositors.

Congress established the Affordable Housing Program (AHP) in 1989 to increase the availability of low-income housing. Each FHLBank must contribute at least 10 percent of its previous year's net income to its AHP.[21] In addition, each FHLBank adopts a Targeted Community Lending Plan that identifies significant affordable housing needs in its district that will be addressed through its AHP. The plans also describe how each FHLBank will address identified credit needs and market opportunities in its district for targeted community lending. FHLBanks award AHP funds in the form of grants or reduced interest rates on advances from an FHLBank to a member institution for approved projects and households to

[21]The requirement to contribute at least 10 percent of the previous year's net income is subject to a $100 million minimum combined contribution by all FHLBanks. 12 U.S.C. § 1430(j)(5)(C).

be used for the purchase, construction, or rehabilitation of owner-occupied and affordable rental housing.

Establishing an FCS Grant Program Would Involve Policy Considerations, and Following Leading Practices Could Help Address Potential Challenges

Stakeholders we interviewed identified policy considerations and potential challenges for a new FCS grant program. Leading grant management practices could help to address some of these challenges, and Farm Credit Banks could also apply practices used by the Affordable Housing Program.

Policy Considerations and Potential Challenges Include Changes to FCS's Mission, Legal Challenges, and FCS's Lack of Grant Experience

Policymakers would need to consider several issues in establishing an FCS grant program for SDFRs, and such a program might face several challenges. We identified these issues and challenges from discussions with representatives of the Farm Credit Banks, Farm Credit Administration, and Farm Credit Council and from our own work evaluating government programs.

Changes to FCS's Mission

Policymakers would need to consider how the size of a grant program for SDFRs and the funding approach would affect FCS's mission. According to a Farm Credit Council official, all Farm Credit System institutions oppose a grant program that would redirect resources away from FCS's mission to support rural communities and agriculture with credit and other financial services. Farm Credit Banks noted their concern that funding a grant program would affect their mission by raising costs for borrowers or reducing capital for new loans (as discussed later in this report). FCS's borrowers would likely object to a grant program that reduces the availability of credit and patronage they receive as cooperative owners, according to the Farm Credit Council. In addition, officials from three of the four Farm Credit Banks and the Farm Credit Administration said the

costs of administering a grant program could further increase costs to borrowers, reduce funds for their loan activities, or both.

Legal Challenges

According to officials from three Farm Credit Banks, a grant program that solely benefits SDFRs might face legal challenges. They cited the legal challenges USDA faced in 2021 when authorized by Congress to administer a provision of the American Rescue Plan Act of 2021 providing for loan forgiveness for SDFRs.[22] White farmers with qualifying loans, who were excluded from the program, challenged it in court alleging a violation of the Fifth Amendment's Equal Protection Clause. Various federal district courts issued injunctions to stop the debt relief payments.[23] In comparison, FHLBanks do not use race or ethnicity as eligibility criteria for AHP applications.[24] An FCS Bank official said that eligibility criteria for grant applicants across Farm Credit Banks would need to be the same to avoid the perception of discrimination.

[22]Pub. L. No. 117-2, § 1005, 135 Stat. 4, 12. The act required USDA to "provide a payment in an amount up to 120 percent of the outstanding indebtedness of each socially disadvantaged farmer or rancher as of January 1, 2021," to pay off qualifying Farm Service Agency loans. USDA interpreted "socially disadvantaged" to include members of the following groups: "American Indians or Alaska Natives;" "Asians;" "Blacks or African Americans;" "Native Hawaiians or other Pacific Islanders;" and "Hispanics or Latinos" Notice of Funds Availability, 86 Fed. Reg. 28329, 28330 (May 26, 2021). The Committee on the Budget of the U.S. House of Representatives estimated that this provision would have a budgetary impact of $4 billion. H. R. Rep. 117-7, at 35 (2021).

[23]Plaintiffs brought suits in various district courts throughout the country alleging violations of equal protection under the Fifth Amendment. Some suits also included claims under title VI of the Civil Rights Act of 1964. A number of plaintiffs joined a class action suit on the equal protection claim. The parties to the class action filed a joint stipulation of dismissal in August 2022 when President Biden signed the Inflation Reduction Act, which included provisions repealing § 1005 of the American Rescue Plan Act of 2021 and provided for USDA financial assistance and support to underserved farmers, ranchers and forest landowners. Pub. L. No. 117-169, §§ 22007-22008, 136 Stat. 1818, 2022-23, (2022). *See Miller v. Vilsack*, 4:21-cv-0595-O, 2021 WL 11115194 (N.D. Tex., 2021). *Also see, Holman v. Vilsack,* 1:21-cv-1085-STA-jay 2021 WL 2877915 (W.D. Tenn., Eastern Division, 2021), and *Wynn v. Vilsack*, 545 F. Supp.3d 1271 (M.D. Fla., 2021).

[24]12 U.S.C. § 1430(j)(2). *Also see*, 12 C.F.R. pt 1291.

Duplication and Overlap

When policymakers establish new programs, it is important to consider the potential for duplication and overlap with existing programs.[25] We have previously found that avoiding duplication and overlap with existing programs could save money and maintain the efficiency and effectiveness of government programs. However, in some cases it may be appropriate or beneficial for multiple agencies or entities to be involved in the same programmatic or policy area due to the complex nature or magnitude of the federal effort. For a list of selected programs and policies that target SDFRs, see appendix IV.

Lack of Grant Management Experience

FCS and its banks do not currently administer any grant programs. Officials from all four Farm Credit Banks, the Farm Credit Council, and the Farm Credit Administration noted that because Farm Credit Banks have never had a grant program, administering one would be new and unfamiliar. According to officials from the Farm Credit Banks and the Farm Credit Council, the banks would have to establish the infrastructure and hire and train the necessary staff to implement a grant program. In addition, officials from the Farm Credit Council said that Farm Credit Banks would need to develop a decision-making process for assessing grant applicants because their existing process for assessing loan applicants is fundamentally different.

In addition, officials from all four Farm Credit Banks said it would be difficult for the Farm Credit Banks to administer a grant program because they do not have direct relationships with farmers, some of whom would be the potential grant recipients. Instead, as discussed above, Farm Credit Banks provide funding to their associations, which are responsible for making loans to the farmers.

Last, officials from one of the four Farm Credit Banks said that it would be challenging to assess the impact of a grant program and that the bank would need an internal initiative to develop performance goals and measures.

[25]For information on GAO's work on fragmentation, overlap, and duplication, see GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, GAO-15-49SP (Washington, D.C.: Apr. 14, 2015).

Leading Grant Management Practices Could Help with the Lack of Grant Administration Experience

GAO's work on federal grant management spans several decades. We identified examples of leading practices in federal grant requirements and other grant management guidance that could be applied by Farm Credit Banks to manage some of the challenges they identified in establishing a new grant program (see app. III for a list of grant management guidance documents). Although private entities are not required to use federal grant requirements, these practices can be beneficial for establishing and administering a grant program.

Staffing/Training

As stated earlier, Farm Credit Banks said they would need to hire and train staff to implement a grant program. We identified leading practices in three areas that could provide direction:

Workforce planning. We have previously reported that workforce planning aligns an organization's human capital program with its current and emerging mission and programmatic goals.[26] It also involves developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals. Farm Credit Banks could consider the following five key practices of workforce planning and associated guidance as they hire and train the necessary staff:

1. Involve top management, employees, and stakeholders in developing, communicating, and implementing the strategic workforce plan.
2. Determine the critical skills and competencies that will be needed to achieve current and future programmatic results.
3. Develop strategies that are tailored to address gaps in number, deployment, and alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies.
4. Build the capability needed to address administrative, educational, and other requirements important to support workforce planning strategies.

[26]GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning,* GAO-04-39 (Washington, D.C.: Dec. 11, 2003).

5. Monitor and evaluate the agency's progress toward its human capital goals and the contribution that human capital results have made toward achieving programmatic results.

These practices could help Farm Credit Banks align their staff with a grant program's goals and develop long-term strategies for hiring, training, and educating staff to achieve those goals. For examples of these practices, see GAO's *Human Capital: Key Principles for Effective Strategic Workforce Planning*.[27]

Roles and responsibilities. We also previously reported that entities collaborating in a joint activity (in this case a grant program) should agree upon and clearly identify leadership roles and responsibilities.[28] Doing so allows entities to clarify who will do what, organize joint and individual efforts, facilitate decision-making, and identify the qualifications required for each position. This practice and associated guidance could help Farm Credit Banks standardize leadership positions across the grant program, coordinate across Farm Credit Banks and associations, and ensure organizational outcomes and accountability toward meeting the grant program's goals.

Training. Grant making entities should develop a mechanism to allow grant recipients and grant management staff to establish and maintain a level of subject-matter expertise and competence to fulfill responsibilities, according to federal internal control standards and the Domestic Working Group.[29] This includes identifying needs and developing training to help grantees and grant management staff obtain sufficient understanding of regulations, policies, and procedures governing their particular grant funds. For example, according to the Domestic Working *Group's Guide to Opportunities for Improving Grant Accountability,* the Environmental Protection Agency (EPA) developed a long-term grant-management training plan to ensure its employees and grantees have the skills to manage grants. EPA's training plan includes goals, objectives, activities, and measures for evaluating training effectiveness. In addition, EPA provides grantees with an overview of the grant process. These practices and associated guidance could help Farm Credit Banks train staff and

[27]GAO-04-39.

[28]GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies,* GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

[29]GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: September 2014) and Domestic Working Group, Grant Accountability Project, *Guide to Opportunities for Improving Grant Accountability* (October 2005).

ensure potential grantees understand the grant process and any policies or procedures governing grant funds.

Oversight

As we previously reported, grant-awarding entities need good internal control systems to ensure the proper use of grant funds to achieve their intended results.[30] Due to Farm Credit Banks' stated lack of experience administering grant programs, we have identified practices in two areas that could inform them on how to oversee a grant program.

Documenting key decisions. Organizations should develop and maintain an insightful internal record of award decisions and the reasons why final selections may differ from the program's priorities, according to federal internal control standards and federal grant requirements.[31] The absence of this record may give rise to challenges to the integrity of the decisions made. This practice and associated guidance could help Farm Credit Banks manage the grant program and mitigate the perception of discrimination.

Performance monitoring. An effective grant management framework includes establishing a process that ensures project goals are identified, tracked, and fulfilled and awardees provide any necessary documentation, according to federal internal control standards, federal grant guidance, and federal grant requirements.[32] For example, the Domestic Working Group's *Guide to Opportunities for Improving Grant Accountability* identified three promising practices for evaluating the performance of a grant program:

[30]GAO, *Grants Management: Observations on Challenges and Opportunities for Reform*, GAO-18-676T (Washington, D.C.: July 25, 2018).

[31]GAO-14-704G and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 2 C.F.R. § 200.213.

[32]GAO-14-704G; Department of Justice, Office of the Inspector General, *Improving the Grant Management Process* (Washington, D.C.: February 2009); Domestic Working Group, Grant Accountability Project, *Guide to Opportunities*; and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 2 C.F.R. § 200.301.

- Use logic models to link a grant program's resources and activities to its outputs and outcomes.[33] A logic model is a graphical display of a program's resources, activities, outputs, and outcomes.
- Use both output measures (e.g., average grant amount) and outcome measures (e.g., percentage of farmers receiving a grant) to evaluate the grant program's performance.[34]
- Link performance measures to the program's goals. For example, the performance measures for a hypothetical FCS grant program could be linked to the program's goal of serving SDFRs (e.g., percentage of SDFRs within a bank's district that receive a grant).

These practices and associated guidance could help Farm Credit Banks manage the grant program and develop performance metrics.

Grant Management

Grant management is the application of knowledge, skills, tools, and techniques to achieve the program's goals and allows for optimized cost, schedule, and effort. Due to their stated lack of experience administering grant programs, we have identified practices in two areas that could help Farm Credit Banks:

Communication. Grant making entities should establish an organizational structure to permit the flow of quality information and to assist staff and grantees in fulfilling their responsibilities, according to federal internal control standards and two grant management reports.[35] In addition, communication with grantees can alleviate concerns of the grant provider being unresponsive to the needs of the grant recipients. For example, according to a report from the Department of Justice's Office of the Inspector General, granting agencies should use communication tools such as blogs on their websites to facilitate communication with and

[33]According to Office of Management and Budget Circular A-11 (Part 6, Section 230.10), a logic model generally reflects an agency's underlying theory for how the planned coordination and orchestration of resources and activities will achieve the desired outcome or change in terms of performance and impact at the organizational, operational, or programmatic levels.

[34]Outputs are the direct products and services delivered by a program, and outcomes are the results of those products and services. GAO, *Performance Measurement and Evaluation*, GAO-11-646SP (Washington, D.C.: May 2, 2011).

[35]GAO-14-704G; Department of Justice, Office of the Inspector General, *Improving the Grant Management Process*; and Domestic Working Group, Grant Accountability Project, *Guide to Opportunities*.

among grantees to receive feedback on the needs of grant recipients. These practices and associated guidance could help Farm Credit Banks in managing the grant program and facilitating communication with grantees.

Program management. Program management involves identifying opportunities and benefits to achieve the program's objectives; defining, creating, maximizing, delivering, and sustaining the program's benefits; capturing and understanding stakeholder needs; establishing processes for maintaining program management oversight; and managing all program activities through the program's life cycle, according to the Program Management Institute and federal grant requirements.[36] For example, we previously reported that establishing a program management policy addressing internal control standards or leading practices related to program management may help ensure entities are better able to achieve their missions, goals, and objectives.[37] These practices and associated guidance could help Farm Credit Banks manage a grant program and ensure the program achieves its objectives at an optimized cost, schedule, and effort.

Practices Used by the Affordable Housing Program Could Apply to a New FCS Grant Program

Practices for administering the FHLBank System's AHP are contained in program regulations, and some could apply to an FCS grant program. Specifically, we identified four AHP practices that could help Farm Credit Banks manage some potential financial and mission-related challenges in establishing a new grant program.

Temporary suspension of grant contributions. An FHLBank may apply in writing to its regulator, the Federal Housing Finance Agency, for a temporary suspension of grant contributions if the contributions are leading to financial instability.[38] The regulator then considers if the FHLBank has severely depressed earnings, a substantial decline in membership capital, or a substantial reduction in outstanding advances.

[36]Program Management Institute, *The Standard for Program Management,* 3rd ed. (Newtown Square, PA: 2013), and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 2 C.F.R. Part 200 Subpart C.

[37]GAO, *Program Management: DOE Needs to Develop a Comprehensive Policy and Training Program,* GAO-17-51 (Washington, D.C.: Nov. 21, 2016).

[38]12 C.F.R. § 1291.11.

The regulator cannot suspend grant contributions if the FHLBank's reduction in earnings is due to changes in the terms of advances that are not justified by market conditions, inordinate operating and administrative expenses, or mismanagement. A similar practice could help the Farm Credit Administration ensure that a grant program does not cause the Farm Credit Banks to become financially unstable because of decreased funding for loan activities or changes in interest rates and patronage.

Establishing advisory councils. Each FHLBank's board of directors is required to appoint an Advisory Council of seven to 15 persons. These members must reside in the FHLBank's district and are drawn from community and nonprofit organizations actively involved in providing or promoting low- and moderate-income housing in the district.[39] In addition, members must come from a diverse range of organizations to prevent one group from having an undue proportion of membership. The FHLBanks also consider their district's size, diversity of low- and moderate-income housing, and community lending needs and activities. A similar practice could help Farm Credit Banks identify the needs of SDFRs within their districts because Farm Credit Banks at present do not have relationships with the farmers who would potentially receive the grants.[40]

Member-sponsored applications. An FHLBank may accept applications for an AHP subsidy only from institutions that are members of the FHLBank at the time the application is submitted to the FHLBank.[41] The principle behind this practice could be applied to overcome Farm Credit Banks' lack of direct relationships with farmers and difficulty in identifying problems faced by SDFRs in each district. Because FCS associations are more familiar with farmers and the issues they face, their involvement in promoting the grant program could help Farm Credit Banks overcome their lack of direct relationships with farmers in their districts.

Program plans. Each FHLBank is required to create an annual targeted community lending plan, with consultation from the Advisory Council, that identifies the significant affordable housing needs in its district for the

[39]12 C.F.R. § 1291.14.

[40]Similarly, according to the Federal Housing Finance Agency, FHLBanks do not have direct relationships with homeowners and potential grant recipients. Advisory councils play a role in helping FHLBanks identify the needs in their districts.

[41]12 C.F.R. § 1291.21(a).

AHP to address.[42] In addition, this plan describes how the FHLBank will address these needs and includes quantitative performance goals for economic development projects for targeted beneficiaries. Each FHLBank is also required to create an AHP implementation plan with the Advisory Council that sets forth the criteria and methodology for scoring and approving applications. Similar practices could help Farm Credit Banks to develop performance metrics for a grant program and the criteria and methodology for approving applications.

Grant Program Could Involve Costs for Farm Credit Banks, the Farm Credit System, and System Borrowers

Farm Credit Banks' Strategies for Funding a Program Would Likely Vary and Would Depend on Program Size

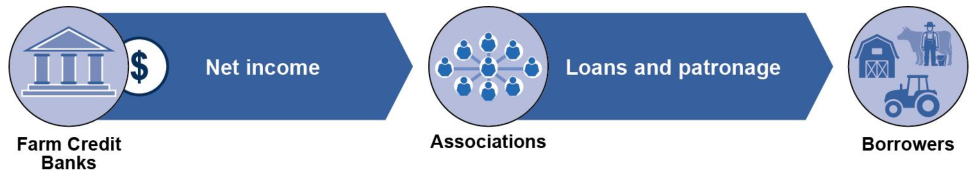
Farm Credit Banks could fund a grant program by reducing net income allocations to patronage, retained earnings, or both.[43] Per statute, each Farm Credit Bank determines how to allocate its net income to (1) providing members with cash or noncash patronage through farm credit associations and (2) building capital with retained earnings (see fig. 4). Farm Credit Banks provide farm credit associations with the funds to compete with commercial banks for borrowers. They do so by balancing allocations to patronage and retained earnings, which determine the effective price of their loans and their capacity for new loans.[44]

[42]12 C.F.R. § 1291.13.

[43]Farm Credit Banks may also issue preferred stock to nonmembers to raise capital. Dividends for preferred stock must be paid prior to any other net income distribution, including patronage or retained earnings. Farm Credit Banks, acting through the Federal Credit Banks Funding Corporation, may issue a wide array of securities to fund the lending operations of the System institutions. 12 C.F.R. Part 615.

[44]Farm Credit Banks are not direct lenders and rely on farm credit associations to issue and service loans and pay patronage to members of the Farm Credit System.

Figure 4: Farm Credit Bank Net Income Allocation



Source: GAO analysis; GAO (first two icons); bioraven/stock.adobe.com (farmer icon); Francois Poirier/stock.adobe.com (tractor icon); martialread/stock.adobe.com (barn icon). | GAO-24-106646

As previously discussed, Farm Credit Banks provide patronage to associations, which may then issue a return to borrowers that is proportional to the size of the loan a borrower holds, effectively lowering the cost of borrowing. Retained earnings are used to make loans and meet minimum capital requirements set by the Farm Credit Administration. Additionally, according to officials from three Farm Credit Banks, the Banks maintain a certain level of capital to maintain their credit ratings. This capital allows them to issue preferred stock, another option for raising capital.[45] Farm Credit Banks' net income is also partially determined by interest rates charged to borrowers. Higher interest rates could increase revenue for FCS but would also increase the cost of loans for borrowers.

Our analysis found that from 2013 through 2022, had a grant program been in place, the four Farm Credit Banks' ability to fund such a program by reducing patronage or retained earnings would have varied.[46] Specifically, we found that all Farm Credit Banks could have funded a grant program at 5, 10, and 15 percent of net income entirely through reductions in cash patronage for every year of the decade (see fig. 5). Conversely, no Farm Credit Bank could have funded a grant program at 5 percent or more of net income entirely through reductions in retained earnings for every year of the decade. This means that Farm Credit Banks would have likely needed to raise effective borrowing costs to fund

[45]As previously mentioned, Farm Credit Banks may issue preferred stock to raise capital as a supplement to member stock and unallocated retained earnings. Preferred stock entitles the holder to a fixed dividend, and the payment of this dividend takes priority over common stock dividends. All preferred stock issuances are the sole obligations of their respective issuing institutions. Each Farm Credit Bank has its own credit rating, also known as a standalone rating, separate from FCS's AA+ bond rating for system-wide securities.

[46]We analyzed whether Farm Credit Banks could reduce any single allocation category (cash patronage, noncash patronage, or retained earnings) to fund a grant program at 5, 10, and 15 percent net income. Farm Credit Banks would be able to fund a grant program with reductions to multiple allocation categories. For more details on our analysis, see app. II.

such a grant program. For our estimation of the size of a potential Farm Credit Bank grant program based on 5, 10 and 15 percent net income, see appendix V. As discussed later, 2013 through 2022 was a strong performance period for FCS compared to prior years.

Figure 5: Number of Years a Farm Credit Bank Grant Could Have Been Funded through Reductions in a Single Allocation Category, 2013–2022

Percentage of Farm Credit Banks' net income directed to hypothetical grant program		Allocation categories		
		Cash patronage	Noncash patronage	Retained earnings
5%	AgFirst	●	○	◐
	AgriBank	●	◐	◐
	CoBank	●	●	●
	Farm Credit Bank of Texas	●	○	●
10%	AgFirst	●	○	◐
	AgriBank	●	◐	◐
	CoBank	●	●	●
	Farm Credit Bank of Texas	●	○	◐
15%	AgFirst	●	○	◐
	AgriBank	●	○	◐
	CoBank	●	●	◐
	Farm Credit Bank of Texas	●	○	◐

○ 0 to 3 years

◐ 4 to 7 years

● 8 to 10 years

Source: GAO analysis of Farm Credit System financial statement data. | GAO-24-106646

Farm Credit Banks' strategies for funding a grant program could vary depending on how much of their net income was allocated to the program (5, 10, or 15 percent of net income). We used 2013–2022 financial statement data to simulate the likelihood that a Farm Credit Bank would decrease allocations to patronage or retained earnings.[47] We found that for each Farm Credit Bank, there is more than a 50 percent probability

[47]We assumed banks would only reduce one allocation category to fund a grant program. While restrictive, this analysis illustrates the extent to which a bank would reduce a given allocation, all else being equal. We did not consider the nature of relationships between allocations, as they would likely change with a grant program. Therefore, an analysis of the banks' strategies and the estimates we derive are necessarily speculative.

that the bank would decrease its allocation to either patronage or retained earnings, based on its historical allocations to these categories.

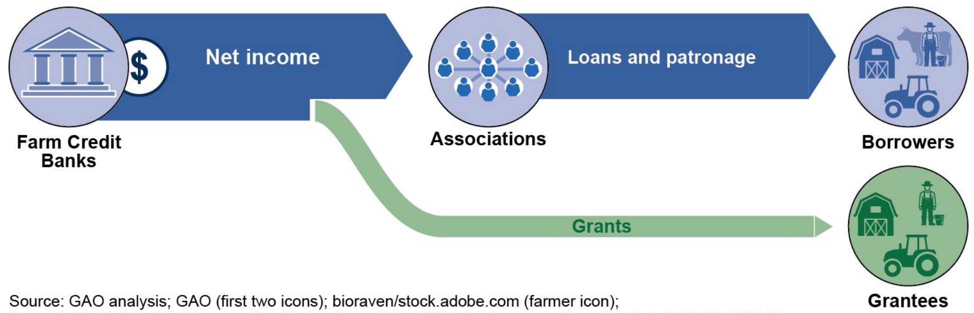
However, the extent of the decreases in allocations to patronage or retained earnings would depend on Farm Credit Banks' business strategies and the size of the grant program. Specifically, we found that the probability that a Farm Credit Bank would decrease a given allocation from one year to the next would depend on the size of the reduction. For example, the likelihood of a Farm Credit Bank reducing a given allocation by 5 percent of net income ranged from 31 to 44 percent. On the other hand, the likelihood of a Farm Credit Bank reducing a given allocation by 15 percent of net income ranged from 6 to 30 percent. These ranges suggest that reducing a given allocation by 5 percent would be more consistent with the historical data than 15 percent, and also reflect Farm Credit Banks' differing business strategies.

Farm Credit Bank officials from two banks said they would likely reassess their business strategies if required to implement a grant program. Therefore, the historical data we used to contextualize the size of a hypothetical grant program relative to actual allocations to patronage and retained earnings may not reflect how Farm Credit Banks' business strategies would change if such a grant program were implemented. See appendix VI for details and limitations of our analysis, including our reliance on historical data for a period that is considered to represent relatively strong performance for FCS.

A Grant Program Could Increase Costs for Farm Credit Borrowers and Affect the Ability of the System to Serve Them

A grant program, if funded by a percentage of Farm Credit Bank net income, would leave less money available for patronage to borrowers or retained earnings for new loans, which would affect current Farm Credit System members (see fig. 6).

Figure 6: Farm Credit Bank Net Income Allocation with Funding for a Potential Grant Program



Source: GAO analysis; GAO (first two icons); bioraven/stock.adobe.com (farmer icon); Francois Poirier/stock.adobe.com (tractor icon); martialread/stock.adobe.com (barn icon). | GAO-24-106646

According to officials from all Farm Credit Banks, introducing a new grant allocation would reduce the benefits of FCS for borrowers. Officials from three of the four Farm Credit Banks said that reducing patronage would effectively result in higher-cost loans for current borrowers for the remainder of their loan term. According to the Farm Credit Administration, increased costs for borrowers would likely have a greater impact on SDFRs, who may have more limited credit histories, tighter margins, or limited collateral compared with non-SDFR borrowers.[48]

Further, Farm Credit Bank officials said that higher borrower costs would, in turn, decrease the competitiveness of FCS relative to other financing options. This is especially true for long-term loans, for which FCS is currently very competitive relative to other financing options, according to officials from two Farm Credit Banks. Officials from all four Farm Credit Banks predicted that FCS borrowers might leave FCS to seek more competitive loans, thus reducing FCS loan volume and net income. Less net income could further reduce patronage and continue to erode Farm Credit Banks' competitiveness. An FCS grant program funded by Farm Credit Banks' net income would decrease in size as net income decreases.

Officials from all four Farm Credit Banks said that reducing retained earnings would affect Farm Credit Banks' capital reserve levels and would likely have several compounding effects over time. Lower levels of capital could constrain Farm Credit Banks' capacity for making new loans and decrease future loan volume. Fewer and smaller loans could reduce Farm Credit Banks' net income and future retained earnings, further

[48]We previously reported that the extent to which SDFRs may be represented among Farm Credit System borrowers is unknown; see GAO-19-539.

decreasing capital reserves. Additionally, officials from three Farm Credit Banks noted that a decrease in capital could lower Farm Credit Banks' standalone credit ratings, affecting their ability to raise capital by issuing preferred stock. As noted above, a decrease in net income would result in a corresponding decrease in the size of a grant program. According to the Farm Credit Council, reductions to retained earnings would be highly unlikely given the regulatory capital regime and growth expectations.

Officials from three of the four Farm Credit Banks acknowledged that raising effective interest rates for new loans could increase overall net income and offset the reduction in net income used to fund an FCS grant. However, officials from two Farm Credit Banks stated that higher interest rates would increase borrower costs and make FCS loans less competitive for borrowers. As with a reduction in patronage, if lower-cost credit elsewhere prompted FCS borrowers to leave the system, future FCS loan volume and net income might also decrease.

Stakeholders we spoke with had mixed views on a grant program's potential to benefit FCS. According to officials from two Farm Credit Banks, FCS serves all creditworthy borrowers. Further, Farm Credit Bank officials said any costs, including administrative costs related to establishing a new grant program, would be borne by FCS borrowers. Specifically, they noted that a grant program would likely result in more expensive loans and less credit availability in all cycles for FCS borrowers.

In contrast, officials from advocacy groups we spoke to said that an FCS grant program aimed at SDFRs would be a long-term investment in the system. Specifically, they said grants could expand the pool of FCS borrowers by helping recipients become eligible for FCS loans. For example, SDFRs could use direct grants to purchase land to use as collateral. A grant program could also be used to fund technical assistance to SDFRs for completing FCS loan applications, building

credit, or resolving heirs' property rights.[49] The advocates said that an FCS grant program could also increase SDFRs' awareness of and trust in FCS. In addition, a grant program could provide an opportunity for SDFRs to implement sustainable food practices.

Stability of Net Income Has Been Similar for FCS and the FHLBank System in Recent Years, but FCS Has Some Unique Risks

The stability of Farm Credit Banks' net income is an important consideration for policymakers seeking to establish a new grant program (see app. I for a comparison of different models for funding a grant program). We compared changes in net income of FCS and the FHLBank System to illustrate how potential FCS grant funding would have compared with that of FHLBanks' grant program. We also reviewed risks unique to the agriculture industry that could affect FCS's net income.

Farm Credit Banks' Net Income Has Been Similarly Stable to the FHLBanks' in Recent Years

From 2013 through 2022, net income from Farm Credit Banks—which could be used as a funding source for a potential grant program—was about as stable as that of FHLBanks, according to our analysis.[50] During this period, the average annual change in net income was 13 percent for Farm Credit Banks and 16 percent for FHLBanks.

[49]Some SDFRs do not have a clear title to their agricultural land because the land was passed down informally from generation to generation without a will. In addition, land passed down in this manner can result in numerous heirs—thousands in some cases—owning the land in common (that is, not physically divided among them). These circumstances can limit use of the land as collateral because of lending requirements or conventions that require formal proof of ownership or that disallow the use of a partial ownership interest as security for a loan. The 2018 Farm Bill included a provision that may make it easier for certain operators of land with divided interests to be eligible for USDA programs by allowing eligible operators on heirs' property to obtain a farm number. *See* Agriculture Improvement Act of 2018, Pub. L. No. 115-334, § 12615, 132 Stat. 4490, 5014 (2018).

[50]To measure how stability of net income differed between Farm Credit Banks and FHLBanks, we compared the coefficient of variation for the banks in the two systems for 2013 through 2022. We found the difference in the coefficient of variation between Farm Credit Banks (0.145) and FHLBanks (0.187) not to be substantial.

However, future funding for a potential FCS grant program is hard to predict because Farm Credit Banks' future net income is uncertain. Although Farm Credit Banks' net income has been relatively stable in recent years, it has been more volatile in the past. More specifically, FCS net income for 1984–1993 was more volatile than for 2013–2022.[51] In addition, for 1985–1987, FCS annual net income was negative.[52]

Further, officials from the Farm Credit Administration indicated that the most recent decade was unusually strong for the agricultural industry and thus for Farm Credit Bank net income. They noted that during that time, declining interest rates contributed to unusually strong earnings for Farm Credit Banks, but said that source of income is disappearing now that interest rates have been increasing. Officials from the Farm Credit Council said that the nature of the agricultural industry is cyclical, with strong and stressed periods, and that the Farm Credit Banks do not anticipate future years to be as strong as the recent decade.

Specialization in the Agricultural Industry Creates Uncertainty for FCS Net Income

Farm Credit Banks may face greater income volatility than other financial institutions because of their specialization in agricultural credit and geographic restrictions. Unlike commercial banks and other financial institutions, Farm Credit Banks and associations may lend only to qualified, eligible borrowers in the agricultural and rural sectors and to certain related entities. In addition, Farm Credit Banks and associations

[51]To measure how the stability of FCS net income differed when comparing 1984–1993 and 2013–2022, we also compared the coefficient of variation for the 2 decades. The coefficient of variation in 1984–1993 (16.028) was more volatile than in 2013–2022 (0.159). We chose to compare these 2 decades because they represented stressful and strong periods for FCS.

[52]During the early to mid-1980s, the farm sector experienced severe financial stress, and FCS contracted rapidly as creditworthy borrowers found cheaper sources of credit and stressed FCS borrowers defaulted on their loans. In 1987, Congress rescued FCS by authorizing the issuance of up to $4 billion in Treasury-guaranteed bonds. Agricultural Credit Act of 1987, Pub. L .No. 100-233, § 201, 101 Stat.1568, 1597 (1988). Changes were made to FCS to enhance safety and soundness, such as the establishment of the Farm Credit System Insurance Corporation.

are subject to geographic lending restrictions.[53] As a result, Farm Credit Banks and associations have limited flexibility to diversify their loan portfolios.

In addition, unique risks in the agricultural industry contribute to uncertainty for Farm Credit Banks' net income. As stated in FCS annual financial statements, Farm Credit Banks are exposed to a variety of risks. Some of these risks, such as interest rate risk and liquidity risk, are inherent in the financial services industry. Other risks are more specific to Farm Credit Banks' specialization in the agricultural industry, including the following:

- **Production costs.** Increases in the costs of key inputs to the agriculture sector—particularly feed, fuel, fertilizer, labor, rural real estate, irrigation, and water—could reduce income for farmers and ranchers.
- **Adverse natural events.** Adverse domestic and global events—including events related to weather, food safety, and disease—affect the agricultural productivity and income of farmers and ranchers. Changes in climate—including rising average temperatures, more frequent and severe storms, more forest and wildfires, and extreme flooding and droughts—can make these events more frequent and severe.
- **Commodity prices.** Political, legal, regulatory, financial market, and economic conditions in the United States and abroad can affect the price of commodities or products used or sold by farmers and ranchers. For example, a stronger U.S. dollar or new agriculture tariffs by foreign governments could reduce income for farmers and ranchers by making U.S. farm products less competitive in foreign markets.

Risks in the agricultural industry could have a significant negative effect on the income of farmers and ranchers, which could increase default risk for FCS loans and reduce creditworthiness of potential FCS borrowers. In turn, this could reduce Farm Credit Banks' net income and therefore funding for a potential grant program.

[53]Farm Credit Banks and associations are chartered to operate within certain regions. Associations can only provide loans and other financial services to borrowers within their locally chartered region, and Farm Credit Banks can only fund member associations within their region. CoBank has a national charter for lending to certain agribusiness and rural infrastructure cooperatives.

Agency Comments, Third-Party Views, and Our Evaluation

We provided a draft of this report to the Farm Credit Administration, the Federal Housing Finance Agency, the Farm Credit Council, and the four Farm Credit Banks (AgFirst, AgriBank, CoBank, and Farm Credit Bank of Texas) for their review and comment. We received written comments from the Farm Credit Council, AgFirst, AgriBank, CoBank, and Farm Credit Bank of Texas, which are reprinted in appendixes VII through XI, respectively. In addition, the Farm Credit Administration, the Federal Housing Finance Agency, and the Farm Credit Council provided technical comments, which we incorporated as appropriate.

In its letter, the Farm Credit Council agreed that our report is comprehensive on the issues related to a potential grant program for socially disadvantaged farmers and ranchers. However, the council said our analysis was limited in three areas. In their letters, the four Farm Credit Banks stated that they support the comments submitted by the Farm Credit Council.

First, the Farm Credit Council stated that the report could better explain the impact of the grant program on Farm Credit System borrowers and the ability of the system to fulfill its mission. They said the impact of such a program would be borne by their borrowers and would undermine their mission. In particular, they stated that the report did not analyze the cost of administering a grant program, which they believed would be significant. The purpose of our analysis was to assess the extent to which Farm Credit Banks might reduce member benefits, retained earnings, or both to fund a hypothetical grant program and the likelihood of them doing so. We determined that a grant program could increase costs for farm credit borrowers and affect the ability of the system to serve them. Although we omitted administrative cost, which is unknown, as a variable in our analysis, our report included the Farm Credit Banks' observation that administrative costs could further increase costs to their borrowers or undermine their mission. To that end, we note that policymakers would need to consider how the size of a grant program and the funding approach would affect the Farm Credit System's mission.

Second, the Farm Credit Council stated that our analysis of how a Farm Credit Bank might fund a grant program entirely from either retained earnings or from patronage is overly simplistic and is not predictive of

how a Farm Credit Bank would fund a grant. The council suggested we remove the analysis section from the report. For example, AgFirst said that our analysis does not consider how Farm Credit Bank earnings would be affected by the interest rate and patronage strategies they pursue or market conditions they face.

In our report, we stated that our analysis uses historical data and may not reflect how Farm Credit Banks' business strategies would change if a grant program were implemented. We note that because an analysis of the banks' strategies and the estimates that we derive are necessarily uncertain and speculative, we made several assumptions. Although our simulations did not include the possibility that more than one of the allocations could be reduced, our illustrative examples provide insight into the extent to which the two main funding sources for a hypothetical grant program—retained earnings and patronage—could be reduced.

In addition, we are transparent in the report about several ways that our analysis is limited. Our analysis does not consider Farm Credit Banks' ability to fund a grant program from multiple allocation categories (e.g., reductions in both cash patronage and retained earnings), and it does not consider or establish a relationship among allocation categories because those relationships could change in the future and would require additional assumptions. As AgFirst notes, Farm Credit Banks have distinct business strategies and processes to determine the distribution of net income to the allocation categories on an annual basis. Our analysis does not intend to anticipate how Farm Credit Banks could change their allocation strategies to patronage or retained earnings if required to implement an FCS grant program.

Third, the Farm Credit Council stated that our analysis does not fully capture regulatory capital requirements and the need to retain earnings to capitalize loan growth. Our report recognizes that a grant allocation could reduce capital reserves. We discuss Farm Credit Banks' obligations to meet regulatory capital requirements, and how reducing retained earnings could constrain Farm Credit Banks' capacity for making new loans and could decrease future loan volume. Because we used historical financial data for each of the Banks from 2013 to 2022, we assumed the Banks' strategies regarding allocations to member benefits and retained earnings during that period were consistent with capital adequacy requirements for the safety and soundness of the Banks, and also with their abilities to offer competitive patronage rates to their members. The report states that, according to the Banks, the period used for the analysis represents a period of relatively strong financial performance for the Farm Credit

System. Finally, the report also states that the Banks have the flexibility to use more than one allocation to fund a grant program as they seek to meet their capital requirements and offer competitive patronage rates to their members.

In its technical comments, the Farm Credit Administration suggested that we not attribute the following statement: "As previously reported, according to the Farm Credit Administration, FCS is not statutorily mandated to focus on providing financial opportunities tailored to socially disadvantaged farmers and ranchers." They explained that this statement is a plain reading of the law, not a particular perception of the Farm Credit Administration. However, we note that fair lending laws prohibit lenders from discriminating against borrowers with certain characteristics. We kept the statement with attribution because it is an important perspective to include.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 28 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, the Chairman and Chief Executive Officer of the Farm Credit Administration, the Director of the Federal Housing Finance Agency, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact point for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix XII.

William B. Shear
Director, Financial Markets and Community Investment

List of Requesters

The Honorable Rosa L. DeLauro
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Sanford Bishop
Ranking Member
Subcommittee on Agriculture, Rural Development, Food and Drug Administration
Committee on Appropriations
House of Representatives

The Honorable Shontel M. Brown
Ranking Member
Subcommittee on General Farm Commodities, Risk Management, and Credit
Committee on Agriculture
House of Representatives

The Honorable Alma S. Adams
House of Representatives

Appendix I: A Comparison of Selected Grant Program Models

Table 2 provides information on three federal grant programs, selected to illustrate three different models for funding and administering a grant program.

Table 2: Comparison of Grant Program Models

Program characteristic	Affordable Housing Program	Housing Trust Fund	Value-Added Producer Grant
Model	Private	Public-private	Public
Funding entity	Federal Home Loan Banks	Fannie Mae, Freddie Mac	Congress
Funding type	Private (percentage of government-sponsored enterprise income)	Private (percentage of government-sponsored enterprise income)	Public (federal funds)
Factors that determine funding amount	Market driven (depends on performance of government-sponsored enterprise)	Market driven (depends on performance of government-sponsored enterprises)	Congressional appropriations (mandatory and discretionary appropriations, subject to cuts and sequestration)
Administrator entity	Federal Home Loan Banks	Department of Housing and Urban Development	U.S. Department of Agriculture
Administrator type	Private (government-sponsored enterprise)	Public (federal agency)	Public (federal agency)

Source: GAO analysis. | GAO-24-106646

Appendix II: Objectives, Scope, and Methodology

This report (1) describes issues policymakers would need to consider in establishing a Farm Credit System (FCS) grant program and potential challenges such a program might face, (2) examines potential effects of a grant program on Farm Credit Banks, FCS, and borrowers, and (3) compares net income for FCS, which would potentially fund a grant program, with that of the Federal Home Loan Banks (FHLBank) to assess relative stability.

To address our first objective, we reviewed previous GAO reports, federal grant guidance, and the FHLBank System's AHP regulations to identify leading principles and practices that could apply to an FCS grant program. We reviewed prior GAO reports on grant management and federal grant guidance for leading principles and practices that relate to challenges identified by interviewees in the following areas: (1) workforce planning, (2) roles and responsibilities, (3) training and competence, (4) documenting key decisions, (5) communication, (6) program management, and (7) performance monitoring.[1] The leading principles and practices we identified are illustrative and may not represent all principles and practices that could apply to an FCS grant program.

In addition, we reviewed AHP regulations to identify practices that relate to challenges suggested by Farm Credit Banks: (1) temporary suspension of grant contributions, (2) identification of community needs, (3) Advisory Councils, and (4) member-sponsored applicants.[2] We also identified, based on reports from the Congressional Research Service, U.S. Department of Agriculture programs that reference socially disadvantaged farmers and ranchers that were active and funded as of year-end 2021.

To address our second objective, we obtained financial data for 2013–2022 from the Farm Credit Administration, including Farm Credit Banks' income and expenses and their distribution of net income to cash patronage, noncash patronage, cash dividends, and retained earnings. At the time of our analysis, 2022 data were the most recent available. To

[1]For a list of grant management guidance documents we reviewed, see app. III.

[2]*See* 12 C.F.R. §§ 1291.11, 1291.13, 1291.14, and 1291.21.

assess the reliability of the data, we compared them against call reports and Farm Credit Banks' annual reports. We identified one discrepancy. We sent data reliability questions related to the discrepancy, data sources, collection, and verification, and relevant audit standards to the Farm Credit Administration. Based on our review of the responses, we determined the FCS data were sufficiently reliable for evaluating the size and financial implications of a potential grant program.

To assess the potential effects of a grant program, we calculated the dollar amount of a grant program funded by 5, 10, and 15 percent of individual Farm Credit Banks' net income, which we compared with Farm Credit Banks' historical allocations of net income to member benefits (cash patronage, noncash patronage, cash dividends) and retained earnings. We selected the 10 percent funding allocation because it is the same allocation used by the AHP. We included the 5 and 15 percent allocation scenarios to provide a sensitivity analysis around a 10 percent allocation. With this comparison, we determined the number of years a Farm Credit Bank could have funded a grant program by decreasing allocations to only one of the member benefits or retained earnings.[3]

We calculated the percentage of net income each bank allocated to cash patronage, noncash patronage, cash dividends, and retained earnings from 2013 to 2022, and we used their year-to-year fluctuations to run simulations of changes for each bank's allocation category. Our simulations are based on various assumptions, including that each bank would use only one of the allocations.[4] Doing so provided a range of estimates to assess the extent to which Farm Credit Banks would be likely to reduce a category's allocation by the scenario sizes identified above. We considered Farm Credit Bank data for 2013–2022 to be reflective of Farm Credit Banks' ability to meet capital adequacy requirements and offer competitive patronage and interest rates during a strong economic period. For more information on our simulation methodology, see appendix VI. We assessed the reliability of our simulations by interviewing knowledgeable FCS officials and reviewing relevant data and supporting documentation describing the various inputs

[3]We did not incorporate dividends because, according to the Farm Credit Administration, the Farm Credit Banks are contractually obligated to pay dividends to preferred stockholders, who may not be members.

[4]We ran each simulation 100,000 or more times, depending on the distribution of the data.

and assumptions used, if applicable. We discuss the reliability of FCS data below.

Our analysis does not consider Farm Credit Banks' ability to fund a grant program from multiple allocation categories (e.g., reductions in both cash patronage and retained earnings), and it does not consider or establish a relationship among allocation categories. Farm Credit Banks have distinct business strategies and processes to determine the distribution of net income to the allocation categories on an annual basis. Our analysis does not anticipate how Farm Credit Banks could change their allocation strategies to patronage or retained earnings if required to implement an FCS grant program. In addition, we did not assess the extent to which a grant allocation could affect future net income, increase borrower costs, or reduce capital reserves.

We obtained stakeholder perspectives on the potential effects of a grant program. Specifically, we collected perspectives from the four Farm Credit Banks, the Farm Credit Administration, and the Farm Credit Council on the financial implications of a grant program for Farm Credit Banks and associations, borrowers, and the system itself. We also collected perspectives on the potential effects of a grant program for grantees from several advocacy groups. We selected the Socially Disadvantaged Farmer and Rancher Policy Research Center at Alcorn State University because it is the primary research group centered on socially disadvantaged farmers and ranchers. We selected the National Sustainable Agriculture Coalition, a nonprofit agriculture organization, and the Self-Help Credit Union, a member of that coalition, because they jointly published white papers advocating for a Farm Credit System grant program.[5]

To address our third objective, we obtained summary-level data from the Farm Credit Administration for FCS for the periods 1984–1993 and 2013–2022. We selected 2013–2022 because this was the most recent decade of FCS data available. We selected 1984–1993 because the Farm Credit Administration told us that the 1980s would illustrate a more distressed period for FCS. We assessed the reliability of Farm Credit Administration data for 1984–1993 and 2013–2022 by interviewing knowledgeable Farm Credit Administration officials about the steps they followed to ensure the

[5]National Sustainable Agriculture Coalition, *Creating an Equitable and Sustainable Ag Grant Program at Farm Credit* (updated January 2013).

reliability of the data, and we determined the data to be reliable for the purpose of assessing volatility within FCS during the selected periods.

We also obtained data on the FHLBank System's net income from 2013 through 2022 from Federal Home Loan Banks Combined Financial Reports for years 2014, 2018, and 2022. We spoke with representatives of the Federal Housing Finance Agency about the data collection and verification process, and we determined the data to be sufficiently reliable for the purpose of assessing the volatility of the FHLBank system. We used these three data sets—Farm Credit Administration data for 1984–1993 and 2013–2022 and FHLBank System data for 2013–2022—to calculate the variance for the given systems and periods as a method of comparing volatility in the systems.

We also reviewed Farm Credit Banks' annual reports and the 2022 Annual Statement of the Farm Credit System to identify risks unique to the agricultural sector and understand how they may affect future FCS performance.

To inform all three of our objectives, we interviewed officials of the four Farm Credit Banks, the Farm Credit Administration, and the Farm Credit Council.

We conducted this performance audit from February 2023 to November 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix III: Guidance for Effective Grant Management

Table 3 contains selected documents that offer guidance, including leading practices, relevant to grant management. This guidance could apply to Farm Credit Banks in implementing and managing a grant program.

Table 3: Guidance for Effective Grant Management

Category	Grant management guidance
Workforce planning	GAO*, Human Capital: Key Principles for Effective Strategic Workforce Planning* (GAO-04-39)
Roles and responsibilities	GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies* (GAO-06-15)
Training	GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G) Domestic Working Group, Grant Accountability Project*, Guide to Opportunities for Improving Grant Accountability*
Documenting key decisions	GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 2 C.F.R. § 200.202
Performance monitoring	GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G) Department of Justice, Office of the Inspector General*, Improving the Grant Management Process* Domestic Working Group, Grant Accountability Project, *Guide to Opportunities for Improving Grant Accountability* *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 2 C.F.R. § 200.301
Communication	GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G) Department of Justice, Office of the Inspector General, *Improving the Grant Management Process*
Program management	Project Management Institute, *The Standard for Program Management* *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 2 C.F.R. Part 200 Subpart C

Source: GAO. | GAO-24-106646

Appendix IV: Programs and Policies for Socially Disadvantaged Farmers and Ranchers

Table 4 lists statutorily authorized programs and policies administered by the U.S. Department of Agriculture that specifically addressed or provided preference to socially disadvantaged farmers and ranchers (SDFR) as of year-end 2021. The Congressional Research Service identified these programs and policies for SDFRs and other programs and policies serving other farmers and ranchers in a memorandum for Congress.[1] We reviewed the memorandum to identify programs and policies targeting SDFRs that expend taxpayer funds. Generally, SDFRs were also eligible for programs available to all U.S. farmers and ranchers.

Table 4 does not include programs and policies that had been repealed or superseded or were inactive or unfunded as of year-end 2021. It also does not include supplemental, temporary, or ad hoc non–Farm Bill assistance, such as provisions included in the American Rescue Plan Act of 2021, the Consolidated Appropriations Act of 2021, and the CARES Act.

Table 4: USDA Programs and Policies That Specifically Address or Provide Preference to Socially Disadvantaged Farmers and Ranchers, as of Year-End 2021

Program/policy (agency or office)	U.S.C. citation	Description
Federal Crop Insurance (Risk Management Agency)	7 U.S.C. § 1524	In providing crop insurance education and awarding grants for risk management education, the Secretary of Agriculture shall place special emphasis on risk management strategies, education, and outreach specifically targeted at beginning and veteran farmers or ranchers and socially disadvantaged farmers or ranchers, and “producers who are underserved by the Federal crop insurance program,” among other targeted groups.

[1]Congressional Research Service, *Selected USDA Programs and Policies That Address Beginning and Historically Underserved Producers* (Washington, D.C.: Feb. 7, 2022) (unpublished memorandum to Congress).

Program/policy (agency or office)	U.S.C. citation	Description
Local Agriculture Market Program (Agricultural Marketing Service)	7 U.S.C. § 1627c	Provides priority to grant applications that benefit “underserved communities” and operators of small and medium-sized farms and ranches structured as a family farm; also reserves 10 percent of available funds for beginning, veteran, and socially disadvantaged farmers or ranchers.
Conservation Loan and Loan Guarantee Program (Farm Service Agency)	7 U.S.C. § 1924 (d) and (e)	Specifies a priority for beginning and socially disadvantaged farmers to receive direct conservation loans and guarantees (7 U.S.C. §1924(d)). For guaranteed loans, provides for a higher guarantee proportion of 90 percent for beginning and socially disadvantaged farmers, rather than the general 80 percent guarantee limit (7 U.S.C. §1924(e)).
Assistance for Rural Entities (Rural Development)	7 U.S.C. § 1932	Provides cooperative development grants to nonprofit organizations to provide regional technical assistance to local and regional governments and related agencies to reduce or eliminate pollution of water resources and improve the planning and management of solid waste disposal facilities. If the total amount appropriated for the cooperative development grants exceeds $7.5 million, 20 percent is reserved for cooperative development centers, cooperatives, and groups of cooperatives that serve socially disadvantaged groups.
Down Payment Loan Program (Farm Service Agency)	7 U.S.C. § 1935	Provides a down payment loan program as part of the farm real estate loan program for beginning farmers and ranchers, socially disadvantaged farmers and ranchers, and veteran farmers and ranchers.
Beginning Farmer or Rancher and Socially Disadvantaged Farmer or Rancher Contract Land Sales Program (Farm Service Agency)	7 U.S.C. § 1936	Loan guarantee program for beginning or socially disadvantaged farmers or ranchers that covers seller-financed land contracts, with the U.S. Department of Agriculture (USDA) as the guarantor.
Relending Program to Resolve Ownership and Succession on Farmland (Farm Service Agency)	7 U.S.C. § 1936c	Relending program for farm ownership loans to assist heirs with undivided ownership interests to resolve ownership and succession issues on land that has multiple owners. USDA loans to heirs are provided through cooperatives, credit unions, and nonprofit organizations.
Farm Loan Program Target Participation Rates (Farm Service Agency)	7 U.S.C. § 2003	Within the Farm Loan Program, directs USDA to establish county-level target participation rates and to reserve funding for socially disadvantaged farmers and ranchers.
Socially Disadvantaged Farmers and Ranchers; Qualified Beginning Farmers and Ranchers (Farm Service Agency)	7 U.S.C. § 2008b	Allows loan guarantees of 95 percent of the principal for beginning and socially disadvantaged farmers and ranchers.
Farming Opportunities Training and Outreach (Office of Partnerships and Public Engagement; National Institute of Food and Agriculture)	7 U.S.C. § 2279	Provides outreach and competitive grants to support training, education, outreach, and technical assistance to agricultural producers, including beginning, socially disadvantaged, and veteran farmers and ranchers.

Program/policy (agency or office)	U.S.C. citation	Description
Competitive, Special, and Facilities Research Grants (National Institute of Food and Agriculture)	7 U.S.C. § 3157	Establishes a research grant program to promote research in food, agriculture, and related areas. Priority areas include research addressing "barriers and bridges to entry and farm viability for young, beginning, socially disadvantaged, veteran, and immigrant farmers and ranchers, including farm succession, transition, transfer, entry, and profitability issues."
National Food Safety Training, Education, Extension, Outreach, and Technical Assistance Program (National Institute of Food and Agriculture)	7 U.S.C. § 7625	Establishes a competitive grant program that gives priority to projects that target small and medium-sized farms; beginning, veteran, socially disadvantaged farmers and ranchers; small processors; or small fresh fruit and vegetable merchant wholesalers.
Noninsured Crop Assistance Program (Farm Service Agency)	7 U.S.C. § 7333(k)(2) and § 7333(l)(3)	Waives the service fee and allows for reduced premium for additional coverage for limited resource, beginning, socially disadvantaged, and veteran farmers or ranchers.
Biomass Crop Assistance Program (Farm Service Agency)	7 U.S.C. § 8111	Provides financial assistance to owners and operators of agricultural and nonindustrial private forestland who wish to establish, produce, and deliver biomass feedstocks. In selecting project areas, the Secretary of Agriculture shall consider the participation rate of beginning or socially disadvantaged farmers and ranchers.
Agriculture Risk Coverage and Price Loss Coverage Program Payment Acres (Farm Service Agency)	7 U.S.C. § 9014 (d)(2)	Beginning, veteran, and socially disadvantaged farmers and ranchers with less than 10 base acres may receive Agriculture Risk Coverage and Price Loss Coverage program payments.
Administrative Fee for Dairy Operations in Dairy Margin Coverage (Farm Service Agency)	7 U.S.C. § 9054(c)(4)	Exempts limited resource, beginning, veteran, or socially disadvantaged farmers from the administrative fee required to participate in the Dairy Margin Coverage program.
Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (Farm Service Agency)	7 U.S.C. § 9081(d)(4)	Provides 90 percent of the cost for covered losses to beginning, socially disadvantaged, limited resource, and veteran farmers or ranchers.
Emergency Conservation Program (Farm Service Agency)	16 U.S.C. § 2202a(b)	Provides an increased cost-share rate for limited resource, socially disadvantaged, and beginning farmers or ranchers.
Conservation Reserve Program Soil Health and Income Protection Pilot Program (Farm Service Agency)	16 U.S.C. § 3831c(b)(3)(E)	Provides an increased payment rate for establishing cover crops and higher annual rental rates for beginning, limited resource, socially disadvantaged, and veteran farmers and ranchers.

Program/policy (agency or office)	U.S.C. citation	Description
Conservation Reserve Program Transition Incentive Program (Farm Service Agency)	16 U.S.C. § 3835(f) 16 U.S.C. § 3841(a)(1)(B)	Provides payments to existing Conservation Reserve Program contract holders who voluntarily transfer land to a beginning, veteran, or socially disadvantaged farmer or rancher to return land to production. Provides priority enrollment for such land to participate in other conservation programs. Allocates $50 million to the Transition Incentive Program, which facilitates the transfer of Conservation Reserve Program land from existing Conservation Reserve Program contract holders to beginning, veteran, or socially disadvantaged farmers or ranchers. Limits outreach and technical assistance to not more than $5 million.
Environmental Quality Incentives Program (Natural Resources Conservation Service)	16 U.S.C. § 3839aa-2(d)(4)(A) 16 U.S.C. § 3839aa-2(d)(4)(B) 16 U.S.C. § 3841(h)	Limited resource, socially disadvantaged, veteran, and beginning farmers or ranchers may receive up to 90 percent, and not less 25 percent, of the applicable cost to implement conservation practices. Allows limited resource, socially disadvantaged, veteran, or beginning farmers or ranchers to receive up to 50 percent of the estimated payment in advance of the completion of an approved practice for materials and contracting. All eligible producers must be notified of the option to receive advance payments. Allocates 5 percent of funding to beginning farmers or ranchers and another 5 percent to socially disadvantaged farmers or ranchers. Requires that preference be given to veterans.
Conservation Stewardship Program (Natural Resources Conservation Service)	16 U.S.C. § 3841(h)	Allocates 5 percent of funding to beginning farmers or ranchers and another 5 percent to socially disadvantaged farmers or ranchers. Requires that preference be given to veterans.
Administrative Requirements for Conservation Program (Natural Resources Conservation Service & Farm Service Agency)	16 U.S.C. § 3844 (a)	Authorizes incentives to encourage participation of beginning, limited resource, socially disadvantaged, and veteran farmers or ranchers when administering conservation programs.

Source: GAO analysis of Congressional Research Service memorandum. | GAO-24-106646

Note: Table excludes supplemental, temporary, or ad hoc non–Farm Bill assistance, such as provisions included in the American Rescue Plan Act of 2021, Consolidated Appropriations Act of 2021, and CARES Act. It also excludes programs or policies that have been repealed or superseded or that are currently inactive or unfunded. The exclusion of a program from this list does not necessarily reflect socially disadvantaged farmers' or ranchers' ineligibility for a program.

Appendix V: Estimated Size of a Hypothetical Farm Credit System Grant Program

In table 5, we estimate the funding that would have been available in 2022 and over the period 2013–2022 for a Farm Credit System (FCS) grant program for socially disadvantaged farmers and ranchers (SDFR) under three scenarios (program funded at 5, 10, and 15 percent of Farm Credit Bank net income).[1] Our estimates assume the program would be funded using these percentages of Farm Credit Bank net income and would not include funding from other FCS entities, such as the associations or Federal Farm Credit Banks Funding Corporation. This approach is analogous to how the Federal Home Loan Bank (FHLBank) System funds the Affordable Housing Program: 10 percent of the preceding year's net income of each of the FHLBanks and no funding from other FHLBank System entities or member financial institutions. The table includes the size of the Affordable Housing Program for comparison. Our estimates do not account for administrative costs to run the program, which could reduce the amount available for grants.

[1]The U.S. Department of Agriculture (USDA) defines SDFRs as farmers and ranchers belonging to the following groups: American Indian or Alaskan Native, Asian, Black or African American, Native Hawaiian or other Pacific Islander, and Hispanic or Latino. Some USDA programs also consider women to be SDFRs.

Table 5: Estimated Size of a Hypothetical Farm Credit System Grant Program Based on Three Allocation Scenarios

Funding scenario (percentage of Farm Credit Bank net income)	Program size in 2022	Range of annual size (2013–2022)	Average annual size (2013–2022)	Number of grants in 2022 ($315,000 each)[a]	Grant dollars per SDFR principal producer in 2022[b]
5 percent	$146M	$97M–146M	$115M	464	$242
10 percent	$292M	$195M–292M	$231M	927	$484
15 percent	$438M	$292M–438M	$346M	1,391	$725
Affordable Housing Program (for comparison)[c]	$267M	$267M–$432M	$347M	N/A	N/A

Legend: M = million; SDFR = socially disadvantaged farmer or rancher; N/A = not applicable

Source: GAO analysis of Farm Credit System and Federal Housing Finance Agency data. | GAO-24-106646

Note: The Affordable Housing Program is funded with 10 percent of the preceding year's net income of each of the Federal Home Loan Banks. In 2022, the maximum permissible Affordable Housing Program set-aside grant amount per household was $26,070, and the average set-aside grant amount was $7,866, according to the Federal Housing Finance Agency.

[a]The average grant size since 2010 for the U.S. Department of Agriculture's (USDA) 2501 program, which supports socially disadvantaged farmer and rancher education, was about $315,000. This number was calculated from the 615 grants awarded since 2010, which total $195 million. We use this program to illustrate the size of a potential Farm Credit Bank grant program.

[b]According to the 2017 Census of Agriculture, there were 604,019 SDFR primary producers. A primary producer is the individual on a farm who is responsible for the most decisions. Each farm has only one primary producer. The 2017 USDA Census of Agriculture was the most current source of data available at the time of our analysis.

[c]Affordable Housing Program data were provided by the Federal Housing Finance Agency.

Appendix VI: Simulations of Farm Credit Banks' Allocation of Net Income

The purpose of the analysis presented in this appendix was to assess the likelihood that Farm Credit Banks would reduce member benefits, retained earnings, or both to fund a hypothetical grant program. In our analysis, the grant program would be funded with a certain percentage of net income for each bank—5, 10, or 15 percent annually. The Farm Credit Banks currently distribute their net income between member benefits (consisting of cash and noncash patronage) and retained earnings.[1]

The Farm Credit System consists of four Farm Credit Banks that supervise and provide funding to 59 farm credit associations that, in turn, provide loans to farmers and ranchers, who are the member-borrowers. The banks are AgFirst, AgriBank, CoBank, and Farm Credit Bank of Texas.[2] We used historical financial data for each of the banks from 2013 to 2022. We assumed the banks' strategies regarding allocations to member benefits and retained earnings during that period were consistent with capital adequacy requirements for the safety and soundness of the banks. Also, the banks' strategies are consistent with their abilities to offer competitive patronage rates to their members.

Grant Program Would Result in Decreases in Banks' Allocations to Member Benefits and Retained Earnings

Net income (NI) is currently distributed among member benefits—which can be in the form of cash patronage (C) and noncash patronage (N)—

[1]Patronage consists of cash or noncash (allocated equities) payments for member associations. The distribution of net income includes dividends, which are mostly paid to third-party preferred stock investors.

[2]CoBank is organized as an agricultural credit bank, which gives it the same authorities as the Farm Credit Banks as well as some additional authorities, such as making loans to agricultural cooperatives, rural electric cooperatives, and other rural utility providers.

and retained earnings (R).[3] With the addition of a grant requirement (G), we can write the net income relationship as follows:

$NI = G + C + N + R$. (1)

Dividing through equation (1) by net income and writing the relationship in terms of percentage of net income, we get the following relationship:

$1 – g = c + n + r$.(2)

In equation (2), g, c, n, and r, are grant, cash patronage, noncash patronage, and retained earnings, respectively, as percentages of net income.

In terms of year-to-year percentage point changes (∆), equation (2) can be rewritten as follows:

$-\Delta g = \Delta c + \Delta n + \Delta r$.(3)

With no grant program ($\Delta g = 0$), the year-to-year percentage point changes in the other allocations—cash patronage, noncash patronage, and retained earnings—must sum to zero, meaning that when some allocations increase, other allocations must decrease. Similarly, if the amount of funding allocated to the grant as a percentage of net income increases—for example, by 10 percent from the current rate of zero percent—the combined allocations to member benefits and retained earnings as percentages of net income should decrease by 10 percent. However, which allocation would likely decrease and to what extent is generally unknown.

Table 6 shows the distribution of the banks' allocations of net income across member benefits and retained earnings for 2013–2022. It shows that banks, on average, allocated most of net income to member benefits, mostly to cash patronage, and the rest to retained earnings.

[3]We define net income as net of dividends because Farm Credit Banks are contractually obligated to pay dividends to preferred stockholders, who may not be members.

Table 6: Farm Credit Banks' Allocations to Member Benefits and Retained Earnings, 2013–2022

	Percentage of net income			Year-to-year percentage point change		
	Average	**Minimum**	**Maximum**	**Average**	**Minimum**	**Maximum**
AgFirst						
Cash patronage	83.4%	52.1%	98.2%	-2.8%	-43.5%	16.9%
Noncash patronage	3.7	0.0	31.0	3.4	-0.4	30.1
Retained earnings	12.5	-0.1	27.4	-0.5	-16.7	13.4
AgriBank						
Cash patronage	69.1	39.6	97.3	-0.3	-46.5	36.5
Noncash patronage	13.2	0.0	58.2	4.6	-36.2	46.6
Retained earnings	15.1	0.0	40.1	-4.4	-34.8	0.6
CoBank						
Cash patronage	47.9	39.5	60.1	2.3	-6.4	9.3
Noncash patronage	28.7	12.5	39.6	-2.4	-14.0	18.0
Retained earnings	16.4	2.8	32.2	0.2	-17.9	19.4
FCB of Texas						
Cash patronage	56.5	39.8	79.9	4.5	-3.2	11.4
Noncash patronage	2.0	0.0	3.4	0.1	-1.8	3.0
Retained earnings	17.3	0.1	30.7	-3.4	-11.7	12.8

Source: GAO analysis of Farm Credit Administration data. | GAO-23-106646

Note: The allocations to member benefits (cash patronage, noncash patronage) and retained earnings are percentages of net income. The percentages of net income for the allocations do not add up to 100 percent because dividends are excluded. The year-to-year percentage point changes in the allocations have shown no perceptible trends. However, according to the Farm Credit Administration, capital ratios and return on assets trended down at three banks, and earnings retention rates are recently significantly increasing at three banks to maintain capital ratios.

The year-to-year percentage point changes in member benefits and retained earnings for each of the four banks varied.

- **AgFirst**, on average, increased noncash patronage, while cash patronage and retained earnings decreased.
- **AgriBank**, on average, increased noncash patronage while cash patronage and retained earnings decreased.
- **CoBank**, on average, increased cash patronage and retained earnings, while noncash patronage decreased.
- **FCB of Texas**, on average, increased cash and noncash patronage, while retained earnings decreased.

Banks' Allocations to Member Benefits and Retained Earnings under a Hypothetical Grant Program Would Likely Vary

If a grant program were established, banks could fund it by reducing their allocations of net income to member benefits, retained earnings, or both. Our analysis uses illustrative examples to provide insight into the extent to which these allocations could be reduced to fund a grant program. Because an analysis of the banks' strategies and the estimates that we derive are necessarily uncertain and speculative, we made several assumptions.

First, we assumed that to fund a program, banks would reduce only one allocation type, either to member benefits or retained earnings. This assumption recognizes that the nature of the relationships among the allocations would likely change with a grant program. Specifically, as discussed above, without a grant program, the combined allocations to member benefits and retained earnings have a zero-sum relationship (i.e., some allocations increase while others decrease). In contrast, with a grant program, the combined allocations have to offset the grant funding (e.g., all of the allocations could decrease), which means the relationships among the allocations would likely be different from what they are currently. Therefore, the current relationships between the allocations are not a good predictor of the banks' future strategies if more than one allocation changes. Furthermore, while this approach is restrictive, assuming a grant program would be funded by a corresponding decrease in only one of the banks' allocations could provide useful insight into potential stressful situations. This is because banks would have more flexibility in funding a grant program if they could decrease more than one of the allocations.

In addition, we made assumptions about how much banks would reduce member benefits or retained earnings to fund a grant program. The extent to which an allocation can be reduced to accommodate a program depends on the allocation's relative share of net income, which indicates how much allowance there is to reduce the allocation. Because we reviewed grant program size between 5 and 15 percent of net income, we assumed the allocations to member benefits or retained earnings over the period 2013–2022 should, on average, be reduced by at least 10 percent of net income to fund the program.

Table 6 above shows the banks' historical allocations to member benefits and retained earnings as percentages of net income. Assuming the banks' allocation should, on average, be at least 10 percent of net income, it follows that each bank would most likely use one of these allocations—AgFirst (cash patronage or retained earnings), AgriBank (cash patronage, noncash patronage, or retained earnings), CoBank (cash patronage, noncash patronage, or retained earnings), and FCB of Texas (cash patronage or retained earnings).

As noted above, allocating a portion of net income to a grant program would require a decrease in percentage terms in member benefits or retained earnings, which means that the average year-to-year percentage point change in an allocation in table 6 should be negative. This assumption, plus the assumption that the average share of an allocation should be at least 10 percent of net income, would imply that each bank would likely reduce one of these allocations—AgFirst (cash patronage or retained earnings), AgriBank (cash patronage or retained earnings), CoBank (noncash patronage), and FCB of Texas (retained earnings).

To assess the likelihood that each bank would reduce member benefits or retained earnings to varying degrees, we conducted simulations using data for year-to-year percentage point changes in the allocations from 2013 to 2022. We ran simulations to represent the distributions of the data, assuming they were normally distributed.[4] The assumption of normal distribution of the data resulted in each bank most likely using these allocations: AgFirst (retained earnings), AgriBank (cash patronage), CoBank (noncash patronage), and FCB of Texas (retained earnings).

We used the distributions from the simulations (in the form of percentiles) to estimate the likelihood that year-to-year percentage point decreases in member benefits or retained earnings could be large enough to fund various grant requirements (of 5, 10, or 15 percent of net income). These simulations are not predictions of what will happen, but rather models of what could happen given certain assumptions. The results of the simulation in table 7 show that, for each bank, there is more than a 50 percent probability that the bank could decrease its allocation to either member benefits or retained earnings. However, the likelihood of the

[4]We ran each simulation 100,000 times or more, depending on the data. We conducted the analysis for cases where the data were normally distributed based on a statistical test, using the Shapiro-Wilk test in Stata (see https://www.stata.com/manuals13/rswilk.pdf, accessed June 8, 2023).

decreases would vary among the banks, the allocations, and the size of the grant program.

Table 7: Simulations of Probability of Decreases in Farm Credit Banks' Allocations to Member Benefits and Retained Earnings

Bank (allocation)	Decrease[a]	5 percent decrease[b]	10 percent decrease[c]	15 percent decrease[d]
AgFirst (retained earnings)	52%	31%	15%	6%
AgriBank (cash patronage)	51	44	37	30
CoBank (noncash patronage)	60	39	22	10
FCB of Texas (retained earnings)	67	42	19	6

Source: GAO analysis of Farm Credit Administration data. | GAO-24-106646

Note: The allocations to member benefits (cash and noncash patronage) and retained earnings are percentages of net income. We assumed the year-to-year percentage changes in net income were normally distributed. Our test for normality, based on the Shapiro-Wilk test using Stata (see https://www.stata.com/manuals13/rswilk.pdf, accessed June 8, 2023), suggested the data were normally distributed for each of the cases.

[a]Year-to-year percentage point change in an allocation is negative.

[b]Year-to-year percentage point change in an allocation is less than or equal to negative 5 percent.

[c]Year-to-year percentage point change in an allocation is less than or equal to negative 10 percent.

[d]Year-to-year percentage point change in an allocation is less than or equal to negative 15 percent.

Specifically, if banks use only one of their allocations to member benefits or retained earnings to fund a grant program,[5]

- AgFirst could reduce its allocations to retained earnings,
- AgriBank could reduce its allocations to cash patronage,
- CoBank could reduce its allocations to noncash patronage, and
- FCB of Texas could reduce its allocations to retained earnings.

Furthermore, the probability of a bank decreasing an allocation to fund a grant program varied:

- The likelihood of a bank reducing a given allocation by 5 percent of net income ranged from 31 to 44 percent.
- The likelihood of a bank reducing a given allocation by 10 percent of net income ranged from 15 to 37 percent.

[5]Our simulations used changes in the allocations that have happened over the period that we analyzed. It is likely that some banks may have difficulty in the future reducing retained earnings to support a grant program most likely because of concerns with regulatory compliance.

- The likelihood of a bank reducing a given allocation by 15 percent of net income ranged from 6 to 30 percent.

In our analysis, we assumed that each of the four banks could reduce only one of its allocations to member benefits or retained earnings to fund a 5, 10 or 15 percent grant program as a percentage of net income. As indicated above, we found that the likelihood of reducing an allocation to fund a grant program is lower for a 10 or 15 percent grant program compared to a 5 percent grant program.

Caveats and Limitations

We made several assumptions, and the insights offered by our analysis should be interpreted carefully. The results of our analysis rely on both the historical data and key assumptions we made about how these data might correspond to future performance of the banks. Further, our analysis of the banks' strategies and the estimates are necessarily uncertain and speculative. Specifically:

- Our analysis used data on the financial conditions and allocation strategies of the banks from 2013 to 2022. This period, according to the banks, represents a period of relatively strong financial performance for the Farm Credit System.
- In conducting the simulations, we relied on historical data for year-to-year percentage point changes in member benefits and retained earnings to generate simulations that could represent these outcomes, assuming the outcomes were normally distributed. While the data were consistent with the assumption, it is uncertain that future allocations would be similarly distributed.
- We assumed banks would reduce only one of the allocations to member benefits or retained benefits to accommodate the introduction of a grant allocation. Although our simulations did not consider the possibility that more than one of the allocations could be reduced, reducing more than one of the allocations is feasible. The banks could have more flexibility using more than one allocation to fund a grant program as they seek to meet their capital requirements and offer competitive patronage rates to their members.
- The estimated probabilities of decreases in the banks' allocations of net income to member benefits or retained earnings to fund a grant program represent the expected outcomes if the program is started, but not necessarily what could happen several years into the future. For instance, our analysis does not directly take into account the

impact of the grant program on the associations and their financial strength, and thus their ability to contribute capital to the bank or pay patronage to their own members, or retain earnings.

Appendix VII: Comments from the Farm Credit Council

October 31, 2023

Mrs. Karen Tremba
Assistant Director
Government Accountability Office

Delivered Via Electronic Mail to TrembaK@gao.gov

Dear Mrs. Tremba:

Thank you very much for the opportunity to comment on the Government Accountability Office (GAO) proposed report entitled Farm Credit System: Policy Considerations for a Potential Grant Program for Socially Disadvantaged Farmers and Ranchers (GAO-24-106646). We appreciate the work GAO has done to try to better understand the Farm Credit System, carefully consider the many issues related to the report, and engage with Farm Credit Council and our members during the report drafting process.

We are providing comments on behalf of our members, the institutions of the Farm Credit System. We understand that the four Farm Credit System banks likely will provide additional comments related to their individual perspectives.

We are attaching an annotated version of the proposed report showing some specific areas where we believe the report could be improved and/or clarified. We greatly appreciate the effort GAO made to incorporate our previous comments and, as a result, we believe the report is greatly improved from the previous draft. As before, we would be pleased to discuss any of our comments directly at your convenience.

The proposed GAO report covers a wide range of issues related to a hypothetical grant program for Socially Disadvantaged Farmers and Ranchers. We believe the report is comprehensive and have no suggestions for new areas of study.

We believe, however, that the proposed report should be altered to better explain the impact of the grant program on Farm Credit's customers and the ability of Farm Credit to fulfill its statutory mission. The cost of any grant program, including any amounts to be granted and the overhead associated with administering a program, will ultimately be borne by Farm Credit's customers – the farmers, ranchers, rural homebuyers, and rural businesses that borrow from and own the Farm Credit System – and, therefore, would undermine Farm Credit's statutory mission.

Congress created Farm Credit as a Government Sponsored Enterprise (GSE), assigned its mission to support rural communities and agriculture, and structured Farm Credit as a cooperative. GAO correctly described the basic ownership structure where retail borrowers (farmers, ranchers, rural utilities, and rural businesses) own the local Farm Credit association that lends to them. These Farm Credit associations, in turn, own the Farm Credit Bank from which they borrow funds to engage in retail lending.

As a result of this federated cooperative structure, the maximum benefit is delivered to customers. The entire value of Farm Credit accrues to the benefit of its customers. Without exception, the cost

A

of the hypothetical grant program studied by GAO would decrease the value of Farm Credit and diminish the benefits provided to its customers.

Farm Credit cooperatives are run on a for-profit basis and the entirety of their profits benefit their customer-owners. In a Farm Credit cooperative, profits (or net income) have only two uses. Profits are either retained in the organization (retained earnings) or are returned to customers based on the amount of business done with the cooperative (patronage dividends).

Retained earnings serve as capital within Farm Credit institutions and that capital provides the financial strength to lend to customers in good times and bad and to grow as customer demand increases. This means that Farm Credit can fulfill its congressionally mandated mission to provide a competitive source of financing irrespective of the swings in market conditions.

Patronage dividends, most often paid in cash, directly offset a portion of the cost of interest charged on loans, thereby lowering the effective cost of credit to customers. This is true whether it is the patronage returned to Farm Credit associations from their Farm Credit Bank or if it is the patronage returned to a farmer from their local Farm Credit association lender.

It would not be possible for Farm Credit banks to fund a hypothetical grant program at 5-, 10-, or 15-percent of net income without taking the money either from retained earnings – which reduces Farm Credit's capacity to serve customers – or patronage dividends – which directly increases the cost of loans to customers.

GAO tries to demonstrate, using a financial model based on past Farm Credit financial performance, how a Farm Credit Bank might fund a grant program entirely from either retained earnings or from patronage. We believe this analysis is overly simplistic and the results are in no way predictive of how a Farm Credit Bank, if forced to structure, staff, fund, and execute a grant program, would behave. We suggest deleting this portion of the report as it is confusing to the reader.

Farm Credit Banks could not reduce their retained earnings to fund a grant program and continue to comply with regulatory capital requirements imposed by Congress and the Farm Credit Administration. GAO's analysis does not appear to fully contemplate the full range of regulatory capital requirements for Farm Credit Banks, including capital conservation buffers and total leverage ratios. In addition, GAO's analysis does not appear to contemplate the need to retain earnings to capitalize loan growth.

Farm Credit Banks manage their capital levels very carefully to comply with regulatory requirements and maintain adequate capacity to ensure that credit is available to customers. Beyond retaining earnings for those requirements, earnings are returned to the banks' association customers. This lowers the cost of funds for associations and they, in turn, can pass on those lower costs to customers. From 2019-2022, Farm Credit loan growth averaged 9-percent annually as loan demand from customers surged. So, lowering retained earnings, and thereby decreasing capital, to fund a grant program would have decreased Farm Credit's ability to fund surging loan demand as Congress intended.

If Farm Credit's regulatory capital requirements remain the same and future Farm Credit loan growth continues in the range experienced over the past decade, nearly all the funds devoted to a hypothetical grant program would necessarily be taken from patronage dividends – directly

increasing the cost of credit to customers. There simply are not sufficient "excess" retained earnings to devote to the grant program.

GAO devotes substantial attention to detailed recommendations on best practices related to administering grant programs. Many of these best practices are taken from productive efforts by government agencies that were designed to administer grants. While these best practices are interesting and informative, there is no attention given to the costs of structuring, staffing, or administering the grant programs.

GAO's proposed report accurately indicates that Farm Credit Banks would have to entirely create the infrastructure related to a hypothetical grant program. Given the volume of best practices recommended in the proposed report, we estimate that the overhead costs of administering the grant program would be significant – and would effectively be paid for by Farm Credit's customers, undermining Farm Credit's mission to support rural communities and agriculture.

Again, we appreciate the work GAO has done to understand the many complicated and dynamic issues related to a hypothetical grant program as described in the proposed report. We hope our comments above are helpful in clarifying the critical issue of the hypothetical grant program's impact on Farm Credit's customers and mission.

Thank you again for allowing us to comment. We look forward to continuing our discussions with the GAO team.

Sincerely,

Todd Van Hoose
President and CEO

Text of Appendix VII: Comments from the Farm Credit Council

October 31, 2023

Mrs. Karen Tremba Assistant Director

Government Accountability Office

Delivered Via Electronic Mail to TrembaK@gao.gov

Dear Mrs. Tremba:

Thank you very much for the opportunity to comment on the Government Accountability Office (GAO) proposed report entitled Farm Credit System: Policy Considerations for a Potential Grant Program for Socially Disadvantaged Farmers and Ranchers (GAO-24-106646). We appreciate the work GAO has done to try to better understand the Farm Credit System, carefully consider the many issues related to the report, and engage with Farm Credit Council and our members during the report drafting process.

We are providing comments on behalf of our members, the institutions of the Farm Credit System. We understand that the four Farm Credit System banks likely will provide additional comments related to their individual perspectives.

We are attaching an annotated version of the proposed report showing some specific areas where we believe the report could be improved and/or clarified. We greatly appreciate the effort GAO made to incorporate our previous comments and, as a result, we believe the report is greatly improved from the previous draft. As before, we would be pleased to discuss any of our comments directly at your convenience.

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homebuyers, and rural businesses that borrow from and own the Farm Credit System – and, therefore, would undermine Farm Credit's statutory mission.

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As a result of this federated cooperative structure, the maximum benefit is delivered to customers. The entire value of Farm Credit accrues to the benefit of its customers. Without exception, the cost of the hypothetical grant program studied by GAO would decrease the value of Farm Credit and diminish the benefits provided to its customers.

Farm Credit cooperatives are run on a for-profit basis and the entirety of their profits benefit their customer-owners. In a Farm Credit cooperative, profits (or net income) have only two uses. Profits are either retained in the organization (retained earnings) or are returned to customers based on the amount of business done with the cooperative (patronage dividends).

Retained earnings serve as capital within Farm Credit institutions and that capital provides the financial strength to lend to customers in good times and bad and to grow as customer demand increases. This means that Farm Credit can fulfill its congressionally mandated mission to provide a competitive source of financing irrespective of the swings in market conditions.

Patronage dividends, most often paid in cash, directly offset a portion of the cost of interest charged on loans, thereby lowering the effective cost of credit to customers. This is true whether it is the patronage returned to Farm Credit associations from their Farm Credit Bank or if it is the patronage returned to a farmer from their local Farm Credit association lender.

It would not be possible for Farm Credit banks to fund a hypothetical grant program at 5-, 10-, or 15-percent of net income without taking the money either from retained earnings – which reduces Farm Credit's capacity to serve customers – or patronage dividends – which directly increases the cost of loans to customers.

GAO tries to demonstrate, using a financial model based on past Farm Credit financial performance, how a Farm Credit Bank might fund a grant program entirely from either retained earnings or from patronage. We believe this analysis is overly

simplistic and the results are in no way predictive of how a Farm Credit Bank, if forced to structure, staff, fund, and execute a grant program, would behave. We suggest deleting this portion of the report as it is confusing to the reader.

Farm Credit Banks could not reduce their retained earnings to fund a grant program and continue to comply with regulatory capital requirements imposed by Congress and the Farm Credit Administration. GAO's analysis does not appear to fully contemplate the full range of regulatory capital requirements for Farm Credit Banks, including capital conservation buffers and total leverage ratios. In addition, GAO's analysis does not appear to contemplate the need to retain earnings to capitalize loan growth.

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GAO's proposed report accurately indicates that Farm Credit Banks would have to entirely create the infrastructure related to a hypothetical grant program. Given the volume of best practices recommended in the proposed report, we estimate that the overhead costs of administering the grant program would be significant – and would effectively be paid for by Farm Credit's customers, undermining Farm Credit's mission to support rural communities and agriculture.

Again, we appreciate the work GAO has done to understand the many complicated and dynamic issues related to a hypothetical grant program as described in the

proposed report. We hope our comments above are helpful in clarifying the critical issue of the hypothetical grant program's impact on Farm Credit's customers and mission.

Thank you again for allowing us to comment. We look forward to continuing our discussions with the GAO team.

Sincerely,

Todd Van Hoose President and CEO

Appendix VIII: Comments from AgFirst

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October 31, 2023

Mrs. Karen Tremba
Assistant Director
Government Accountability Office

Delivered Via Electronic Mail to TrembaK@gao.gov

Dear Mrs. Tremba:

Thank you very much for the opportunity to comment on the Government Accountability Office (GAO) proposed report entitled Farm Credit System: Policy Considerations for a Potential Grant Program for Socially Disadvantaged Farmers and Ranchers (GAO-24-106646). AgFirst Farm Credit Bank ("AgFirst" or "Bank") appreciates the effort GAO has taken to better understand the Farm Credit System ("System") and to interact with the Bank, the Farm Credit Council and the other System banks during the report drafting process.

AgFirst fully agrees with the comment letter provided by the Farm Credit Council ("FCC"). The following comments are intended to be in conjunction with the FCC letter and also emphasize matters specific to AgFirst.

A key function of the Farm Credit System is to support rural communities with **reliable** credit and financially related services. As the GAO correctly describes and the Farm Credit Council letter emphasizes, the current structure consists of a nationwide network of **customer-owned** financial institutions with customers in every state, and Puerto Rico. Both the purpose and structure are unique and differentiate the System from commercial and community banks. Therefore, the impact of implementing a grant program on the very constituents who capitalize and benefit from the System should not be ignored.

Reliable is highlighted because the System exists for more than simply funding agriculture. Reliability means that through good times and bad, the System strives to provide a steady source of capital to rural communities, businesses and the infrastructure providers that supply clean water, reliable energy, and vital internet access. System lenders are required to determine the best outcome for them and their customers when financial problems arise. These lenders work with distressed customers steadily and carefully, following certain steps not required by commercial and community banks to preserve relationships and family farms. **The Farm Credit System is here to steady the supply of funding to farmers and ranchers through business and commodity cycles, therefore helping to protect and preserve the System is vital to ensuring a steady supply of food and agricultural goods.** Agriculture lending is inherently risky, and that risk is the reason many commercial and community banks limit agriculture

portfolios. Despite this, Farm Credit remains steadfast in its mission to serve rural America with reliable, consistent credit and financial services.

Moreover, the System's federated cooperative structure delivers the maximum benefit to its customers/owners. Without exception, the cost of the hypothetical grant program studied by GAO would decrease the value of the System and diminish the benefits provided to its customers/owners.

Patronage Dividends and the AgFirst Farm Credit Bank Relationship with its associations ("District Associations")

The Farm Credit Council letter details how patronage dividends work within the System. To reiterate, patronage dividends, most often paid in cash, directly offset a portion of the cost of interest charged on loans, thereby lowering the effective cost of credit to its customers. This is true for the patronage returned to Farm Credit System associations from their Farm Credit Bank, as well as the patronage returned to farmers from their local Farm Credit association lenders.

It would not be possible for Farm Credit Banks to fund a hypothetical grant program at 5%, 10% or 15% of net income without reducing retained earnings necessary for capitalizing growth (which would effectively reduce Farm Credit's capacity to serve customers), or patronage dividends to its System associations (which would directly increase the cost of borrowing for customers).

GAO makes an effort to demonstrate, using a financial model based on past Farm Credit financial performance, how a Farm Credit Bank might fund a grant program entirely from either retained earnings or from patronage. The Farm Credit Act and subsequent regulations allow for Farm Credit Banks (funding banks) and their district associations to define their relationships within certain guardrails. As a result, each Farm Credit Bank has distinct relationships with their associations, and no two Farm Credit Bank/district association relationships are the same. These relationships create different financial performances across the System. Therefore, the GAO analysis is overly simplistic and the results are in no way predictive of how a Farm Credit Bank, if forced to structure, staff, fund, and execute a grant program, would behave. The comments below illustrate the potential impact to AgFirst and other Farm Credit Banks.

AgFirst, like the other System banks, has a unique relationship with its District Associations. In this regard, each Farm Credit Bank in the System independently establishes the price charged on the money it lends to its district associations. This leads to differing levels of profitability for each Farm Credit Bank. From an Association's perspective, the difference in pricing is equalized through patronage paid by its Farm Credit Bank. In other words, one Farm Credit Bank may establish its association lending relationship to generate a relatively high level of net income and pay more patronage to its associations, while another Farm Credit Bank may opt for a lower level of net income and a correspondingly lower level of patronage for its associations. Therefore, any grant program based upon the profitability of a Farm Credit Bank would need to account for the varying earnings/income strategies.

It is essential to recognize that the Farm Credit Banks make a profit, but they are not profit centers similar to commercial and community banks. Farm Credit Banks serve to benefit their

associations and the Farm Credit Bank/Association relationship is an administered relationship (i.e., not market driven).

Another factor that the GAO analysis does not appear to consider is the variability of earnings that arise from varying market conditions. For example, in a falling rate environment, AgFirst's profitability tends to improve due to its ability to call and reissue debt at more favorable rates. This was the rate environment during much of the period from which the GAO derived its analysis. With market rates increasing significantly over the past two years, profitability is much tighter now for AgFirst and, by extension, its District Associations. In addition, for the past three years AgFirst has been upgrading its systems and services to benefit its District Associations and their customers. Costs associated with the upgrades have lowered profitability, resulting in a profile that is materially different than the time period contemplated in the GAO's feasibility study.

Conclusion

Farm Credit was created to ensure a reliable, affordable source of financing for agriculture. Given the inherent volatility of agriculture (which is the underlying reason the System was created), the institutions of the System must maintain strong balance sheets and stable revenue streams. To maintain this stability, there is a delicate fiscal relationship between the Farm Credit Banks and their customers, and diverting funds risks the stability and reliability of the System.

In addition, we hope the GAO can use the facts included in this letter to understand that each Farm Credit Bank has many nuances that contribute to its profitability. It is AgFirst's desire that the report reflect that each Farm Credit Bank has unique financing strategies that would be inconsistently impacted by a grant program and that diverting funds away from the System and its customers/owners, potentially weakens the strength and stability of the System designed to protect the Nation's food supply and rural infrastructure.

We appreciate the work GAO has done to understand the many complicated and dynamic issues related to a hypothetical grant program, as described in the proposed report. We hope our comments, along with the comments of the Farm Credit Council and other System banks, are informative in clarifying the critical issues of the hypothetical grant program's impact on Farm Credit's customers and mission.

Thank you again for allowing the opportunity to comment. We look forward to continued discussions with the GAO team.

Sincerely,

William E Brown

Will Brown
EVP & Chief Credit Officer
AgFirst Farm Credit Bank

Text of Appendix VIII: Comments from AgFirst

October 31, 2023

Mrs. Karen Tremba Assistant Director

Government Accountability Office

Delivered Via Electronic Mail to TrembaK@gao.gov

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Therefore, the impact of implementing a grant program on the very constituents who capitalize and benefit from the System should not be ignored.

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and community banks to preserve relationships and family farms. The Farm Credit System is here to steady the supply of funding to farmers and ranchers through business and commodity cycles, therefore helping to protect and preserve the System is vital to ensuring a steady supply of food and agricultural goods. Agriculture lending is inherently risky, and that risk is the reason many commercial and community banks limit agriculture portfolios. Despite this, Farm Credit remains steadfast in its mission to serve rural America with reliable, consistent credit and financial services.

Moreover, the System's federated cooperative structure delivers the maximum benefit to its customers/owners. Without exception, the cost of the hypothetical grant program studied by GAO would decrease the value of the System and diminish the benefits provided to its customers/owners.

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It would not be possible for Farm Credit Banks to fund a hypothetical grant program at 5%, 10% or 15% of net income without reducing retained earnings necessary for capitalizing growth (which would effectively reduce Farm Credit's capacity to serve customers), or patronage dividends to its System associations (which would directly increase the cost of borrowing for customers).

GAO makes an effort to demonstrate, using a financial model based on past Farm Credit financial performance, how a Farm Credit Bank might fund a grant program entirely from either retained earnings or from patronage. The Farm Credit Act and subsequent regulations allow for Farm Credit Banks (funding banks) and their district associations to define their relationships within certain guardrails. As a result, each Farm Credit Bank has distinct relationships with their associations, and no two Farm Credit Bank/district association relationships are the same. These relationships create different financial performances across the System. Therefore, the GAO analysis is overly simplistic and the results are in no way predictive of how a Farm Credit Bank, if forced to structure, staff, fund, and execute a grant program, would behave. The comments below illustrate the potential impact to AgFirst and other Farm Credit Banks.

AgFirst, like the other System banks, has a unique relationship with its District Associations. In this regard, each Farm Credit Bank in the System independently establishes the price charged on the money it lends to its district associations. This leads to differing levels of profitability for each Farm Credit Bank. From an Association's perspective, the difference in pricing is equalized through patronage paid by its Farm Credit Bank. In other words, one Farm Credit Bank may establish its association lending relationship to generate a relatively high level of net income and pay more patronage to its associations, while another Farm Credit Bank may opt for a lower level of net income and a correspondingly lower level of patronage for its associations. Therefore, any grant program based upon the profitability of a Farm Credit Bank would need to account for the varying earnings/income strategies.

It is essential to recognize that the Farm Credit Banks make a profit, but they are not profit centers similar to commercial and community banks. Farm Credit Banks serve to benefit their associations and the Farm Credit Bank/Association relationship is an administered relationship (i.e., not market driven).

Another factor that the GAO analysis does not appear to consider is the variability of earnings that arise from varying market conditions. For example, in a falling rate environment, AgFirst's profitability tends to improve due to its ability to call and reissue debt at more favorable rates.

This was the rate environment during much of the period from which the GAO derived its analysis. With market rates increasing significantly over the past two years, profitability is much tighter now for AgFirst and, by extension, its District Associations. In addition, for the past three years AgFirst has been upgrading its systems and services to benefit its District Associations and their customers. Costs associated with the upgrades have lowered profitability, resulting in a profile that is materially different than the time period contemplated in the GAO's feasibility study.

Conclusion

Farm Credit was created to ensure a reliable, affordable source of financing for agriculture. Given the inherent volatility of agriculture (which is the underlying reason the System was created), the institutions of the System must maintain strong balance sheets and stable revenue streams. To maintain this stability, there is a delicate fiscal relationship between the Farm Credit Banks and their customers, and diverting funds risks the stability and reliability of the System.

In addition, we hope the GAO can use the facts included in this letter to understand that each Farm Credit Bank has many nuances that contribute to its profitability. It is AgFirst's desire that the report reflect that each Farm Credit Bank has unique

financing strategies that would be inconsistently impacted by a grant program and that diverting funds away from the System and its customers/owners, potentially weakens the strength and stability of the System designed to protect the Nation's food supply and rural infrastructure.

We appreciate the work GAO has done to understand the many complicated and dynamic issues related to a hypothetical grant program, as described in the proposed report. We hope our comments, along with the comments of the Farm Credit Council and other System banks, are informative in clarifying the critical issues of the hypothetical grant program's impact on Farm Credit's customers and mission.

Thank you again for allowing the opportunity to comment. We look forward to continued discussions with the GAO team.

Sincerely,

Will Brown

EVP & Chief Credit Officer AgFirst Farm Credit Bank

Appendix IX: Comments from AgriBank

October 31, 2023

Ms. Karen Tremba
Assistant Director
Government Accountability Office

Delivered Via Electronic Mail to TrembaK@gao.gov

Dear Ms. Tremba:

Thank you for the opportunity to comment on the Government Accountability Office (GAO) proposed report entitled Farm Credit System: Policy Considerations for a Potential Grant Program for Socially Disadvantaged Farmers and Ranchers (GAO-24-106646). We appreciate the work GAO has done to try to better understand the Farm Credit System, carefully consider the many issues related to the report, and engage with us during the report drafting process.

We appreciate the effort GAO made to incorporate our feedback and, as a result, we believe the report is greatly improved from the previous draft. We would welcome the opportunity to discuss any of our comments directly at your convenience.

We support the comments submitted by the Farm Credit Council (Council), the national trade organization representing us and the entire Farm Credit System and would like to reiterate some key points made by them.

As the Council points out, there is an opportunity to better explain the impact implementation of a grant program would have on Farm Credit's customers and the ability of Farm Credit to fulfill our statutory mission. The cost of any grant program, including any amounts to be granted and the overhead associated with administering a program, will ultimately be borne by our customer-owners and ultimately their customers – the farmers, ranchers, rural homebuyers, and rural businesses that borrow from and own the Farm Credit System.

Congress created Farm Credit as a Government Sponsored Enterprise (GSE), assigned its mission to support rural communities and agriculture, and structured Farm Credit as a cooperative. GAO correctly described the basic Farm Credit ownership structure where retail borrowers (farmers, ranchers, rural utilities, and rural businesses) own the local Farm Credit association that lends to them. These Farm Credit associations, in turn, own the Farm Credit Bank from which it borrows funds to engage in retail lending. As one of those Banks, we take our responsibility to prudently provide funds and financial solutions to our customer-owner associations seriously.

AgriBank and the other Farm Credit cooperatives like us are run on a for-profit basis and the entirety of our profits benefit our customer-owners and their customer-owners. As a cooperative Farm Credit Bank, our profits (or net income) have only three uses. Profits are either retained in the organization (retained earnings), are returned to our customers based on the amount of business done with the cooperative (patronage dividends), or distributed as dividends under obligation to preferred stock holders of record.

Retained earnings serve as capital and that capital provides us with financial strength to lend to our customers in good times and bad and to grow as customer demand increases. This means that we can fulfill

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our congressionally mandated mission to provide a competitive source of financing irrespective of the swings in market conditions.

Patronage dividends, most often paid in cash, directly offset a portion of the cost of interest charged on loans, thereby lowering the effective cost of credit to our customers. This is true whether it is the patronage returned to our customer-owners or if it is the patronage returned to a farmer from those local associations.

It would not be possible for us to fund a hypothetical grant program at 5-, 10-, or 15-percent of net income without taking the money either from retained earnings – which reduces our and our customer-owner associations' capacity to serve customers – or patronage dividends – which directly increases the cost of loans to retail borrowers.

We, along with the other Farm Credit Banks, could not reduce our retained earnings to fund a grant program and continue to comply with regulatory capital requirements imposed by Congress and the Farm Credit Administration. GAO's analysis does not appear to fully contemplate the full range of regulatory capital requirements for Farm Credit Banks, including capital conservation buffers and total leverage ratios. In addition, GAO's analysis does not contemplate the need to retain earnings to capitalize loan growth.

We manage our capital levels very carefully to comply with regulatory requirements and maintain adequate capacity to ensure that credit is available to our customers. Beyond retaining earnings for those requirements, earnings are returned to our customer-owners who then may pass those earnings on to their customers. This lowers the cost of funds for associations and they, in turn, can pass on those lower costs to customers.

Under our current regulatory capital requirements any funds devoted to a hypothetical grant program, including costs to administer the program, would be taken from patronage dividends – directly increasing the cost of credit to customers. There simply are not sufficient excess retained earnings to devote to the grant program.

Additionally, GAO devotes substantial attention to detailed recommendations on best practices related to administering grant programs. Many of these best practices are taken from productive efforts by government agencies that were designed to administer grants. While these best practices are interesting and informative, there is no attention given to the costs of structuring, staffing, or administering the grant programs.

GAO's proposed report accurately indicates that we would have to create the infrastructure related to a hypothetical grant program. Given the volume of best practices recommended in the proposed report, we estimate that the overhead costs of administering the grant program would be significant – and would be paid for by customers.

We appreciate the work GAO has done to understand the many complicated and dynamic issues related to a hypothetical grant program as described in the proposed report. We hope our comments above are helpful in clarifying the critical issue of the hypothetical grant program's impact on us customers and our mission.

Sincerely,

Jeff Moore
Chief Financial Officer

Text of Appendix IX: Comments from AgriBank

October 31, 2023

Ms. Karen Tremba Assistant Director

Government Accountability Office

Delivered Via Electronic Mail to TrembaK@gao.gov

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Retained earnings serve as capital and that capital provides us with financial strength to lend to our customers in good times and bad and to grow as customer demand increases. This means that we can fulfill our congressionally mandated mission to provide a competitive source of financing irrespective of the swings in market conditions.

Patronage dividends, most often paid in cash, directly offset a portion of the cost of interest charged on loans, thereby lowering the effective cost of credit to our customers. This is true whether it is the patronage returned to our customer-owners or if it is the patronage returned to a farmer from those local associations.

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Appendix X: Comments from CoBank

Thomas E. Halverson
President and Chief Executive Officer

October 31, 2023

Mrs. Karen Tremba
Assistant Director
Government Accountability Office

Delivered Via Electronic Mail to TrembaK@gao.gov

Dear Mrs. Tremba:

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The draft report raises important and complex questions. As you point out, the Farm Credit System is a Government Sponsored Enterprise (GSE) with an important public mission. We receive benefits from our GSE status including our debt issuance status and tax benefits for certain lending activities. We do not have publicly traded common stock. As a cooperative, the earnings we generate are retained to maintain financial soundness or returned to our customer shareholders. We are not a recipient of public funds. Consequently, and as recognized in the report, the costs of a grant system would be borne by our customer/stockholders through increased interest rates and/or reduced patronage dividends. In a period of already higher interest rates, this will likely harm many farmers, ranchers, rural homebuyers, rural businesses, and rural utility providers and other customers.

As pointed out in the FCC letter, the report could better explain the impact of these increased costs on the borrowers of the System and on the System's ability to serve its primary mission. The three scenarios in the report estimate annual grants ranging from $115 million to $346 million. Add in the costs of a process to administer the funds and you create a significant expense on our creditworthy customer-owners. The financial burden on existing customer-owners would be significant, and quantifying this cost would be beneficial to the report.

The FCC letter also discusses the impact of trying to fund the grant program out of the System's retained earnings. The System is subject to regulatory and statutory requirements that would be impacted by such an approach. In order to

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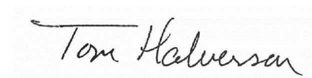
Phone: 303-740-4056 • thalverson@cobank.com • www.cobank.com

remain compliant with our safety and soundness regulations, the System must maintain sufficient retained earnings to capitalize growth and serve our mission into the future.

We appreciate consideration of the needs of socially disadvantaged farmers and ranchers. The System, through its Young, Beginning and Small lending programs provides resources to many disadvantaged farmers and ranchers through reduced interest rates, lower down payments, training and mentorships, philanthropic contributions, and other benefits. These programs are made available to all eligible farmers and ranchers, including those who are not current customers. Information on these programs can be found on the websites of every individual System institution.

We appreciate the opportunity you have provided to us and the FCC to review and comment on your draft report. We support efforts to improve conditions for all of rural America, including those that are socially disadvantaged. CoBank and the Farm Credit System take our mission seriously and give generously to support our local communities as documented in our sustainability report. Thank you for giving us the opportunity to comment.

Sincerely,



Tom Halverson

Appendix X: Comments from CoBank

October 31, 2023

Mrs. Karen Tremba Assistant Director

Government Accountability Office

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President and Chief Executive Officer

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Sincerely,

Tom Halverson

Appendix XI: Comments from Farm Credit Bank of Texas

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October 31, 2023

Mrs. Karen Tremba
Assistant Director
Government Accountability Office

Delivered Via Electronic Mail to TrembaK@gao.gov

Dear Mrs. Tremba:

Thank you very much for the opportunity to comment on the Government Accountability Office (GAO) proposed report entitled Farm Credit System: Policy Considerations for a Potential Grant Program for Socially Disadvantaged Farmers and Ranchers (GAO-24-106646).

We fully support the comments made by the Farm Credit Council ("FCC") on behalf of Farm Credit System institutions ("System" or "Farm Credit") in response to the proposed grant program for Socially Disadvantaged Farmers and Ranches. In addition to supporting the position of the FCC regarding the grant program, Farm Credit Bank of Texas ("FCBT") submits the following comments for your consideration.

A grant program would compromise FCBT's financial flexibility and risk-bearing capacity. As stated in the GAO's report, Farm Credit has a statutory mandate to support agriculture, related businesses, and rural mortgages. Agriculture is a cyclical industry and Farm Credit supports agriculture in both good markets and bad. System institutions are required to retain sufficient capital levels as established by Congress and the Farm Credit Administration, and supplemented by institution board targets that exceed those regulatory minimums. Retaining sufficient capital affords Farm Credit banks the opportunity to continue to serve agriculture and rural America across the full spectrum of market conditions, including periods of adverse credit conditions. Funding this hypothetical grant program would reduce a bank's ability to weather these periods of financial stress.

A grant program would reduce FCBT's future lending capacity, impacting our ability to fulfill our statutory mission of supporting agriculture and rural America. As noted above, Farm Credit banks are mandated to retain capital levels that exceed the regulatory minimums. In particular, loan growth must be sufficiently capitalized. Retained earnings serve as capital, and if retained earnings are diminished by the funding of a grant program, capital levels will be reduced and constrain our ability to capitalize loan growth. Over the past 5 years, annual loan growth within our district has exceeded 10% as loan demand has surged. Any reduction in retained earnings to fund a grant program will diminish the Farm Credit system's ability to meet the loan demands of farmers, ranchers, and other members of rural America who supply food and other agricultural products to our nation.

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A grant program increases borrowing costs to Farm Credit customers. The funding of a grant program would also limit our ability to pay patronage to our affiliated associations. As noted in GAO's report, Farm Credit operates under a cooperative structure in which the Farm Credit banks pay patronage to associations, who then pay patronage to their borrowers. Patronage dividends, most often paid in cash, directly offset a portion of the cost of interest charged on loans, thereby lowering the effective cost of credit to customers. Because FCBT may only fund a grant program out of either retained earnings (which serves as capital) or patronage, the funding of the proposed grant program would result in lesser patronage paid by FCBT to its associations, ultimately increasing the borrowing costs of Farm Credit customers.

Thank you again for the opportunity to comment on the proposed grant program. We hope that our comments herein, as well as those submitted by the FCC and other System institutions, are helpful in clarifying the impact of any grant program on Farm Credit's customers, which are the sole focus of its statutory mission.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Brandon Blaut
Chief Operating Officer

Text of Appendix XI: Comments from Farm Credit Bank of Texas

October 31, 2023

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Government Accountability Office

Delivered Via Electronic Mail to TrembaK@gao.gov

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If you have any questions, please do not hesitate to contact me.

Sincerely,

Brandon Blaut

Chief Operating Officer

Appendix XII: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the contact name above, Karen Tremba (Assistant Director), Davis Judson (Analyst in Charge), Brendan Cirillo, John Karikari, Alberto Lopez, Marc Molino, Christina Pineda, David Raymond, and Jennifer Schwartz made key contributions to this report.

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