

Statement of
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Kansas Senate Committee on Financial Institutions

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Chairman Longbine and members of the Committee, thank you for the opportunity to present today. My name is Kevin Swayne, and I am the CEO of High Plains Farm Credit from Hays, Kansas. In addition to working for the Farm Credit System for 25 years, I am also a fifth generation Kansas farmer from Bogue, KS and am committed to Farm Credit's mission to serve all segments of agriculture.

I am here on behalf of the Farm Credit Associations of Kansas – four independent financial services cooperatives that finance agriculture. Each of our associations is a part of the national Farm Credit System, with retail offices across the state and services provided to farmers and ranchers in every Kansas County. Our four associations provide more than \$5 billion in financing to over 21,000 customer-owners located in each of Kansas' 105 counties. The four associations along with our partners at CoBank were able to pay back more than \$74 million in cash patronage to the farmers and ranchers of Kansas in 2019.

For you Kansas trivia buffs, were you aware that the first Farm Credit loan in the United States was made in Pawnee County, Kansas, in 1917? Certainly, there have been updates to the *structure* of the Farm Credit System since that time, but the *mission* remains unchanged - ensuring the availability of stable and reliable credit for Rural America - irrespective of swings in the economy or turmoil in the financial markets. Hundreds of thousands of farmers around the country have developed a farm operating plan for this upcoming season knowing that Farm Credit has both the financial strength and the desire to help meet their financial needs.

Farm Credit's unique cooperative structure means that the customer-owners who serve as our directors are living, working, and raising their families in rural Kansas communities. They are deeply invested in the success of those communities and are interested in finding more ways for Farm Credit to contribute to that success.

There is no federal funding provided to Farm Credit. Instead, through the Federal Farm Credit Banks Funding Corporation, consolidated debt securities are sold to the investing public that in turn fund all Farm Credit institutions. As a single industry lender, Farm Credit has learned the importance of creating and maintaining a diverse lending portfolio. Through diversification of our lending – by geography, commodity and loan size – Farm Credit manages risk and insulates itself against the cyclical nature of the industries we serve.

The Farm Credit System plays a significant role in rural development, revitalizing rural infrastructure, strengthening the rural economy, and creating good jobs for rural families. Earlier I mentioned \$74 million dollars of cash patronage paid to Farm Credit borrowers in Kansas, which by the way is taxable income to farmers and ranchers. From a rural economic development standpoint, the Committee would be hard-pressed to find a better example of providing real value to rural Kansas each and every day. We look forward to working with the Committee on ways that we, together, can continue to unlock more economic value for all rural Kansas, as well as working with our partners in the community banking sector to find ways that all of us can contribute more to the vitality and success of our state.

Senate Bill No. 15

Senate Bill No. 15 is an act concerning financial institutions; enacting the Kansas economic recovery loan deposit program; relating to credit unions, field of membership; relating to banks, trust companies and savings and loan institutions, privilege tax, deduction of net interest income received from certain agricultural real estate loans and single family residences.

I would normally take some time to update the Committee on the Kansas Farm Economy. However, I am aware the statehouse is on a tight schedule given the pandemic we are experiencing. I am more than happy to take questions on the Farm Economy from the Committee as time permits. In summary, our agriculture and rural communities are in need of help. Farmer and Rancher reserves have been depleted after years of depressed commodity prices, flat land values, weather stress, cattle processing plant fires and most recently the pandemic. The potential for an additional credit source provided by the economic recovery loan deposit program will add another tool in the toolbox for lenders, farmers and ranchers. Likewise, the expanded field of membership for credit unions provides Kansans additional financial services options.

The Farm Credit Associations of Kansas have a neutral position on Senate Bill No. 15 because we have concerns with the privilege tax exemptions being proposed. Specifically, those concerns are:

1. There is not a direct benefit for farmers, ranchers and rural communities. You will hear testimony that the privilege tax exemption may result in a 0.25% reduction in interest rates to rural borrowers, but there is not a requirement for this benefit to be passed on. Last year the privilege tax deduction was introduced in House Bill 2619. The Fiscal Information for that bill was estimated at \$3.9 million on an annual basis. According to the FDIC website, there are 473 bank offices in Kansas Rural Opportunity Zones. If that \$3.9 million were divided equally amongst those 473 bank offices, it would imply only \$8,245 of privilege tax savings (before being shared with rural borrowers). However, those tax savings will not be dispersed evenly to rural community banks. Kansans receive financial services from community banks and large national/regional corporate banks. The reality is the \$3.9 million is going to go to large corporate banks and a few bank owners, who will decide how much benefit to share with rural communities through lending practices.

Farmers, Ranchers and Rural Communities promote business growth, create jobs and invest in rural housing. The best way to help these stakeholders is directly. Senate Bill No. 15 privilege tax deduction is for big banks and a few others. The Kansas Farmers and Ranchers that own the Farm Credit Associations of Kansas pay taxes on the \$74 million of cash patronage they receive. If Senate Bill No. 15 is passed, we should

consider providing a similar bank owner benefit to Farm Credit owners which would directly help rural communities.

2. The privilege tax exemption in Senate Bill No. 15 goes beyond the federal tax exempt status granted to Farm Credit Associations in Kansas. This is explained thoroughly in the remainder of my testimony.

The Farm Credit Associations in Kansas are federally chartered financial institutions under the Farm Credit Act. We operate as Agricultural Credit Associations which is the parent company to a taxable entity (Production Credit Associations) and a non-taxable entity (Federal Land Credit Associations). The Production Credit Association provides short-term financing for operating notes, equipment, livestock and leases. The Federal Land Credit Association provides long-term real estate lending subject to additional requirements.

You will hear testimony that the intent of the privilege tax deduction is to put other lenders on a level playing field with Farm Credit. Senate Bill 15 is attempting to align the privilege tax exemption with the Federal tax exemption for Federal Land Credit Associations. This is the reason why the definition for “single family residence” includes the population limit of 2,500 or less (Farm Credit regulations provide for rural home loans with the same population limit). However, the definition of “qualified agricultural real estate” in Senate Bill 15 goes beyond Farm Credit’s federal tax exemption. To comply with the intent of leveling the playing field testimony presented to the Committee, the “qualified agricultural real estate” definition should include refinements to align with the *Farm Credit Act §614.4030 and §614.4200*. Those potential refinements are underlined below:

"qualified agricultural real estate loans" means loans made on real property that is substantially used for the production of one or more agricultural products that:

(A) have maturities of not less than 5 years nor more than 40 years.

(B) must be secured by a first lien interest in real estate, except that the loans may be secured by a second lien interest if the institution also holds the first lien on the property.

(C) the outstanding loan balance after the advance is less than 85 percent of the appraised value of the real estate, except that a loan on which private mortgage insurance is obtained may exceed 85 percent of the appraised value of the real estate to the extent that the loan amount in excess of 85 percent is covered by such insurance.

In conclusion, the agricultural economy in Kansas is still searching for stability after the pandemic, a long-run of slumping commodity prices and weather stress. As the agricultural economy moves through cycles, the Farm Credit Associations of Kansas dedication to supporting the Kansas farmers, ranchers and rural communities will remain steadfast. The Farm

Credit System has been and will continue to be a strong advocate for the farmers and ranchers in Kansas. I encourage the Committee to continue to look for ways to provide direct benefits to our rural communities and consider Federal regulations as you evaluate changes to Kansas regulations.

Thank you for the opportunity to provide these comments and observations, and I look forward to any questions the Committee may have.