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Independent Community Bankers of America

Before the

U.S. House of Representatives
House Committee on Agriculture
Subcommittee on General Farm Commodities, Risk Management, and Credit

Financing Farm Operations:
The Importance of Credit and Risk Management

July 16, 2025
2:00 p.m.

Introduction

Chairmen Scott and Vice-Chair Rouser, Ranking Member Davids and Members of the Subcommittee: Thank you for the opportunity to appear before you today and share my views on *Financing Farm Operations: The Importance of Credit and Risk Management*.

I am Brian Gilbert, Senior Vice President and Agriculture Banking Manager of the first National Bank in Sioux Falls, S.D. I am here today representing the Independent Community Bankers of America (ICBA) and I serve on ICBA's Rural America and Agriculture Committee.

I also am an operator of a family farm. Our farm runs a significant cow/calf operation. I finish about 500-750 head of cattle per year in South Dakota and Nebraska. Additionally, I own 300 cows personally and another 900 cows in a partnership. I am pleased to serve on the Board of Directors of the South Dakota Cattlemen's Foundation. The South Dakota Cattlemen's Foundation facilitates the generosity of the beef industry to educate and build trust with the state's consumers, ensuring the industry's long-term viability and provides educational opportunities to develop future leaders in our industry. I also own several hundred acres of crop land producing corn and soybeans.

In addition to operating a family farm, for the past 20 years I have worked as an ag banker at the First National Bank in Sioux Falls. First National is a $2 billion asset bank heavily involved in agricultural lending and risk management with a bank-owned crop insurance agency.

Commitment to Farmers and Ranchers

As SVP / Agriculture Banking Manager, I work with over a dozen ag lending specialists. Several of our lenders are also involved in their own family farms. Our Ag Bankers are ready to help producers buy that next parcel of land, add to their herd, or figure out how to make their operations smarter, more efficient, and more productive. When producers grow with us, they have a partner who will weather the ups and downs with them.

Our ag banking staff takes pride in helping farmers achieve their financial goals and we understand the importance of keeping the family farm's legacy strong through both calm times as well as challenging times. Our ag lender team members are industry leaders and experts that understand family farm ownership and the cyclical nature of agriculture.

Before commenting further on the role that First National Bank plays in meeting the needs of our farm and ranch customers, I'd like to briefly mention the role that community banks serve in meeting the needs of America's agricultural sector.

Community Banks Service to Farmers and Ranchers

Community Banks with under $10 billion in assets make approximately 78 percent of all agricultural loans made by commercial banks. This amounts to $150.7 billion of the $193 billion in ag loans from the commercial banking sector.[1]

There are over 4,000 community banks in this country with 45,000 locations. Community banks have deep roots in the communities they serve, often for many generations. More than 1,000 community banks are more than 100 years old and have survived the Great Depression, the Great Recession, and numerous other systemic shocks, standing by their customers in catastrophic times and good times. Others are de novo or new bank charters, that are poised for growth. When Congress considers adopting new legislation, it is important to ensure these policies do not disadvantage community banks by granting non-bank competitors who have favorable tax and regulatory policies competitive advantages over community banks.

In community banks, local deposits are reinvested back into local credit needs, not exported to distant markets. Community banks often serve communities overlooked by larger, out-of-market lenders. In one in three counties, community banks are the only on-the-ground banking option.

These points have been affirmed by the Federal Reserve Bank of Kansas City which stated, "Community banks are often known as 'relationship bankers.' Community banks serve businesses and consumers throughout the country, in both rural and urban areas, and are leading providers of credit to small businesses, often with strong relationships in their communities. At the core, community banks primarily rely on relationship lending, funding local loans with local deposits.[2]

The Kansas City Fed added that community banks "can offer personalized service and maintain greater connection to their customers. Community bankers are able to develop relationships, understand the needs of customers, and maintain vast knowledge of their local market. Community banks are typically locally owned and managed and are staffed by individuals that live in the communities they serve. This contributes to the health of the local economy through employment and provides close connections and understanding of community needs. In serving

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[1] *How the Composition of U.S. Commercial Banks Participating in Agricultural Lending has Changed Since 2007,* farmdoc daily, June 14, 2024, Table 2

[2] *The Critical Role of Community Banks*, Federal Reserve Bank of Kansas City. August, 2024 https://www.kansascityfed.org/banking/community-banking-bulletins/the-critical-role-of-community-banks/

local markets, community banks have a heavily vested interest in the success of their communities. Given a primary purpose of a community bank is to serve the credit needs of the community, these activities facilitate the growth and prosperity of local businesses."[3]

Unlike other institutions, community banks take the time and care to customize products and services based on the unique needs of our customers. Commoditized products are poor fit for many rural communities.

First National Bank in Sioux Falls Serves Farmers and Ranchers

The First National Bank in Sioux Falls began its long-term commitment to the Sioux Falls area in 1885. The oldest bank founded in Sioux Falls owes its longevity to a combination of service, stability, innovation, and family involvement.

For 140 years, The First National Bank in Sioux Falls has worked diligently to promote the growth and vitality of our city and the surrounding area. The Bank strives to continually be recognized as a community leader by reinvesting financial resources back into the communities it serves and encouraging active employee involvement in community volunteer organizations.

The First National Bank in Sioux Falls retains its 140-year commitment to be the principal locally owned, independent community bank in Sioux Falls and the communities it serves in the upper Midwest.

As a farmer myself, I can attest that agriculture can often be difficult and have great uncertainty due to the extreme fluctuations in prices, weather, domestic and foreign markets and disease outbreaks to name a few challenges. Our bank works with our farm customers to prepare them for a wide variety of challenges to ensure they will have viable farming operations well into the future. We look at several criteria to help farmers qualify as credit worthy.

Can the Producer Cash Flow? First, we want to ensure that producers can cash flow to see if their income will cover their expenses. If not, we may need to work with producers to restructure their operations or their loan. This could include selling some assets, extending loan terms and similar steps. We also want to see if the producer has positive working capital.

Over the past several years many crop producers have faced lower prices and higher production costs for items like seed, fuel, and fertilizer. This has led to many producers losing money each year on their operations. Community banks have tried to work with many of these producers. Some producers have decided to retire as a way to maintain their equity and prevent higher debt loads.

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[3] Ibid

The $10 billion in economic loss payments Congress passed in December was a lifeline for many farmers. The higher reference prices ranging from 10-20 percent increases will also be beneficial to the financial condition of many producers and will enhance their credit worthiness. However, some lenders will tell you that producers could use additional economic assistance this year.

If producers have very thin profit margins and do not qualify for standard bank loans, we may turn to USDA's guaranteed loan programs. First National Bank is a preferred lender, which allows us to get quicker loan approvals. I have made several recommendations on USDA guaranteed loans below.

Does the Producer Have Crop Insurance or Livestock Insurance? One of the most important tools lenders use to help producers is crop insurance. First National has an insurance agency to assist producers called First Ag Risk Management or FARM.

Due to the unpredictable weather in the Midwest, financial risks are always present in ag production. Drought, tornadoes, hail, and everything in between put farmers and ranchers and their crops and livestock in danger, often without advance notice. Having this protection better enables producers to repay their bank loans and enhances their ability to qualify for credit going forward.

Lenders across the nation and their farm and ranch customers greatly appreciate Congress providing up to $20 billion as part of the American Relief Act of 2025 to assist producers who suffered from severe natural disasters in 2023 and 2024.

To keep farmers protected and prevent immense financial loss in their operations due to circumstances beyond their control, First Ag Risk Management offers a variety of crop insurance and risk management services for producers.

One lesson we've learned is that crop insurance shouldn't be a one-size-fits-all or nuisance expense. It should be a custom-tailored solution that provides each producer with exactly what they need, and it should come from specialists who are producers themselves, who understand the coverage levels and who know the right questions to ask, which is what our FARM agency is all about.

For livestock producers, the Livestock Risk Protection program offered by USDA is quite important, although there'll be a number of changes as we move from 2025 into 2026. Producers will need to keep up with the evolution of the LRP program.

Now more than ever, a sound risk management plan will be key to maintaining profitability should margins become compressed. There are many ways to manage risk through futures, options, and the Livestock Risk Protection program.

Our experts understand how crop insurance fits into a bigger system of inputs, marketing, and risk mitigation for producers' bottom line. Why? Because we're producers too. Our FARM solutions help producers build a customized risk management plan that's optimized for their operation's goals and needs.

Nationally, the federal crop insurance program (FCIP) covers approximately 540,000 acres with producers holding 2.3 million policies. Approximately one-half of this total is for forage crops, which have low indemnity rates. Keep in mind that farmers and ranchers pay 35-40 percent of the cost of premiums for their crop insurance protection.

Farmers N' Bankers Education

As the ag industry continues to change and develop, it's important for South Dakota family farms to grow and adapt their operations accordingly. Through our Farmers 'N Bankers program, we bring together area producers for interactive sessions, excursions, and leadership experiences that will give them the additional tools they need to succeed while preparing them to meet today's challenges while ensuring they'll one day be able to pass their operation on to the next generation.

This program offers producers sessions throughout the year. For example, we all know that death and taxes are two guarantees in life, and planning for these events can be easy to move down the "To Do" list. Because of this, we give participants the opportunity to hear from industry professionals on why these topics are important and what can be done to simplify the process. During the "Farmers 'N Bankers" sessions throughout the year, we discuss topics in key areas to strengthen producers financial and risk management skills. These include:

- Financials
- Crop insurance
- Marketing
- Trust and estate settlement
- Taxes

We also give producers the opportunity to tour local ag-related businesses and learn more about how they operate.

I mentioned the importance of producers having sound financials and enrolling in adequate crop insurance programs. In addition, having strong marketing skills can enable a producer to have a profitable year whereas their neighbors with similar operations but without good marketing skills may encounter losses. The education and skills that successful producers need in the current farm economy are multi-faceted and a lifelong learning experience.

USDA Guaranteed Loan Programs

USDA loan guarantees allow banks to work with borrowers who cannot qualify for conventional credit. As mentioned above, our bank is a preferred lender, allowing us to get quicker loan approvals. However, not all banks can qualify for this status due to insufficient demand or other factors.

Express Loan Program. Lenders who do not have the preferred status can face significant delays in their loan approval times. Some loan applications face considerable delays of 30 to 60 days or more. This can be a long time for producers to wait on their financing during critical junctures of the production cycle.

ICBA has proposed a USDA Express loan program to require USDA to approve guaranteed loan applications within a couple of days in exchange for a lower guarantee of 50-75 percent for loans up to $1 million. The SBA's Express loan program has worked well as applicants quickly obtaining financing. The language in the 2024 farm bill version from the House Ag Committee is a good first step but only applies to preferred lenders, which basically adopts current USDA procedures. With banks taking much more risk due to the lower guarantee, there is little risk in extending the Express program to certified and standard lender categories.

USDA needs some accountability on this issue. The language could have benchmarks that USDA should meet during the life of the farm bill as they work to improve application approval timeframes. Under the Express loan program, lenders are shouldering a much greater level of risk due to the lower guarantee level. The program should also reduce USDA staff hours since banks will determine eligibility and do the underwriting on these loans, which they will need to do in order to minimize the bank's losses. We can provide the committee with recommended legislative changes.

Increase Loan Limits. The House Ag Committee's farm bill language setting higher guaranteed loan limits at $3.5 million for agricultural real estate loans and $3.0 million for guaranteed operating loans is quite necessary given the rise in land values in recent years. Cropland values now average $4,000 per acre. However, cropland in several states are three to five times that number.

Converting Guaranteed Loans to Direct Loans. This provision should have tight limitations to ensure that the USDA doesn't end up competing with private sector lenders on good quality loans. Limitations should include only allowing conversions when the guaranteed loan is in foreclosure or bankruptcy.

Streamlining USDA Guaranteed Loan Applications. USDA's guaranteed loan applications should be streamlined similarly to how direct loan applications were streamlined by USDA.

USDA guaranteed farm loans are an important backstop for many producers especially when times are tough in agriculture. Guaranteed loans can also be used to help beginning farmers get started. For example, I used the USDA's Down Payment loan program in which producers put down 5 percent of the loan, USDA provides up to 45 percent and a commercial lender provides the remainder of the funding. Commercial lenders can receive a 95 percent guarantee of the loan. I used the program to purchase my first farm ground, buying 240 acres of farmland. I subsequently purchased the adjacent 80 acres using a traditional community bank loan. This was a great loan to have available when I was getting my farm started.

We need to ensure the USDA guaranteed loan programs are efficient, with streamlined applications and adequate USDA staff levels and quicker approval times. We appreciate the work of the committee and members of congress in helping improve these programs and look forward to working with you.

Farmer Mac Proposals

Farmer Mac, the secondary market for ag real estate loans, has proposed four additional solutions for the farm bill which we support. For example, allowing Farmer Mac to purchase all types of USDA guaranteed loans, including loans from programs established outside of the *Consolidated Farm and Rural Development Act of 1971* (Con Act), would provide additional liquidity to all lenders in rural America. Allowing Farmer Mac to purchase infrastructure loans from lenders that are not cooperatives would also be helpful in supplying more capital and liquidity to the marketplace.

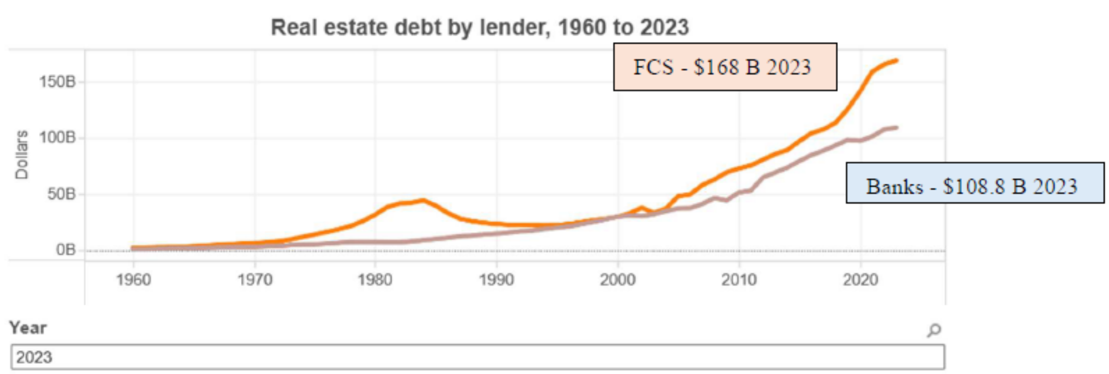
Block the FCS's Expanded Powers Push

The Farm Credit System (FCS) apparently intends to use the new farm bill as their own Christmas tree arrayed in the ornaments of many new powers for non-farm lending purposes. They have presented to Congress a half dozen major expansion and regulatory proposals. As is the case whenever the farm credit system proposes expansive new powers, they are couched in the terminology of "technical corrections or minor adjustments," and "ways to assist their borrowers." In reality, these proposals if granted could provide the FCS with tens of billions of dollars, or more, of new lending authority with the worst part being almost all of it coming at the expense of tax paying community banks.

The FCS is a **government sponsored Enterprise** or GSE and therefore has tremendous tax and funding advantages, and other benefits not afforded to the private sector. Traditionally, the purpose of GSE's is to fill gaps in specific credit markets or compliment private sector lending, as is the case with Fannie Mae and Freddie Mac. But the FCS competes directly with private sector tax paying community banks which is why Congress limited FCS's lending authorities.

The FCS pays no taxes on interest income from real estate loans. FCS lenders also do not pay taxes on their retained earnings, which they use to grow their business. The FCS utilizes their tax advantages to underprice loans in local markets. This ultimately drives out private sector lenders like community banks from many markets and market segments. How can this be a good recipe for serving the credit needs of rural America? It's not. These proposals are simply a way to grant FCS more and more latitude to take away loans from the private sector.

It is clear what happens when the FCS is allowed broad entry into specific credit markets. The chart below shows that while the FCS and banks had roughly the same amount of ag real estate loans as recently as 2003, the FCS now has $40 billion more in ag real estate loans than banks. The FCS, quite frankly, raids the best customers of community banks by offering below market pricing, pricing that is below any other private sector lender in the local area.



Many members of congress recognized that offering banks a reduced tax rate on their interest income on ag real estate loans would help banks' farm and ranch customers. This is why the OBBB included the ACRE legislation (S838 / HR 1822), although the tax exemption was limited to 25 percent. The 25 percent tax reduction on interest income will help producers, particularly less credit worthy producers, qualify for credit and thus remain viable in their operations. However, it is not a full 100 percent exemption which the FCS enjoys, and we urge Congress to further increase the exemption under ACRE for the benefit of producers.

These FCS proposals, such as the ‘essential community facilities’ (ECF) proposals, or the proposal to allow FCS to own up to 75 percent of a Rural Business Investment Corporation (RBIC) involved in FCS ineligible activities for equity investments, are not tailored to filling credit gaps. In the case of RBICs, what would prevent FCS from using RBICs to engage in non-farm business lending all across rural America? While the RBICs may have a few banks as partners, they would be able to take away financing that is **already being provided** by community banks and other lenders.

Key Question on FCS Expansion Proposals – A question that applies to each of the expanded powers proposals the FCS seeks is what prevents the FCS from using their tax advantages to take away loans ***that are already being made*** by tax-paying, private sector lenders? Such FCS expansion would not be “cost free.” In addition to siphoning away the best loans from community bank portfolios, these expansions will siphon away enormous sums of revenue from states and local governments, forcing them to increase taxes to maintain services.

Analyzing FCS’s Essential Community Facilities (ECF) Proposal – For example, we analyze the FCS proposal to finance ECFs.

1. **Need for Blocking and Limiting FCS Authorities** – FCS seeks non-farm financing of “essential community facilities” without the current case-by-case approval of their regulator, the Farm Credit Administration (FCA). The FCS’s proposal does not define “essential community facilities” other than referencing the Con Act. The Con Act allows financing of essential community facilities that serve rural businesses and other rural residents. This language should prohibit FCS from financing rural businesses and the general public.

2. FCS’s description of these loans as being health care related is misleading as the “etc.” and “and more” used in their descriptions means many other types of loan could be made. If ‘health care’ facilities are the intended focus, limit the authority to just health care facilities.

3. **Questions that Need to be Asked** – Would restaurants, grocery stores, accounting firms, lawyers offices, funeral homes, car dealers, “etc.” and “and more” be eligible?’

4. The text in last year’s farm bill requires FCS to offer the loan as a participation with a community bank first, a step in the right direction, although we have additional concerns. Due to FCS’s tax advantages, they can offer rates significantly below community banks’ rates and could forego community bank involvement using the justification the bank’s loan rate, which would be higher than the FCS’s loan rate, is not “at terms acceptable to the customer,” since the customer will only want the FCS’s lower rate. To be workable, any such proposal needs to be based on a blended rate offered to the customer. Also, does “an offer” mean the FCS loan officer quickly phones the bank loan officer and before moving on to a large national lender?

5. As a GSE, FCS institutions should not be the driving force for ECF financing. FCS should be restricted to being a **supplemental** lender when additional credit is needed and once private sector lenders have committed to a majority of the financing. This would ensure private sector financing to the maximum extent.

6. No Accounting for FCS's Minimal Tax Rate – Will FCS be required to pay taxes on interest income from loans made under this authority like all other lenders? If not, why not? Community banks would not be able to compete on these deals due to the tax-exempt lending status of the FCS, which had **only a 2.0 percent effective tax rate** in 2024. FCS could undercut community banks on these loans.

7. What Proof Exists that FCS Needs These Authorities? Community banks, either individually or jointly through loan participations, already finance essential community facilities. FCS points to a 'study' showing a need of $89 billion in rural America, but this 'study' has no substantive data disclosed. Did the FCS fund the study?

8. Removes the FCA from Close FCS Oversight, Increasing Risks – FCA's preapproval review of FCS investments for this broad category of lending would be eliminated. FCA's preapproval was designed to ensure a modicum of rationale for an FCS entity to engage in this type of **non-farm** financing. By removing the regulator's oversight with case-by-case approvals of such loans, this proposal raises FCS's safety and soundness risks and opens the floodgates for non-farm lending. FCS would grant **themselves** the ability, with no regulatory pre-approval, to determine who qualifies for these loans.

Congress should reject these proposals and have substantive hearings to reform and refocus the FCS. We are happy to continue to make available our full set of concerns on all of the FCS's proposals: ECFs; RBICs; residential mortgages; businesses serving aquaculture; etc.

FCS's Deposit Equivalent Accounts

While the FCS and their regulator, the Farm Credit Administration (FCA), claims the FCS does not take deposits, this is a dubious line given FCS's ongoing collection of uninsured deposits. FCS institutions, for example, operate 'Funds Held Account' programs (aka, "advanced payment accounts" or "future prepayment accounts") which allow deposits from customers equal to the amount of a loan a borrower has. FCS promotes these accounts as:

- Paying interest up to the amount of the loan rate.
- Offering unlimited number of withdrawals.
- Allowing disbursements to pay down the loan or "for other purposes."
- Providing gains that are not taxed at the state or local level.

In essence, FCS institutions are operating like banks that collect deposits that, although 'uninsured,' are backed by a **government sponsored enterprise**. These "FCS banks" offer cash management services that compete with the cash management services offered by community banks. My bank, for example, has lost **over $25 million** of deposits to these programs.

If the FCS were to obtain the significantly expanded powers they seek, we conclude that FCS institutions would offer "funds held" deposit-like accounts to essential community facilities, small businesses financed by RBICs, businesses that serve aquaculture and others. This could cause major damage to the deposit base of community banks. The relevant section (Sec. 4.37. Application of Uninsured Accounts) of the Farm Credit Act is loosely worded, allowing inappropriately broad latitude to the FCA to write the regulations to allow these accounts far beyond the use of farmers and ranchers. We urge the committee to limit the use of these accounts and to ensure they apply only to farm and ranch accounts. Siphoning deposits out of community banks was not ever the intention of Congress in creating the FCS.

Scope and Eligibility Issues

The FCA allows loans for non-eligible purposes inconsistent with the Farm Credit Act. For example, although the statute states that FCS lenders may finance rural housing, this is required to be only in towns of up to 2,500 population. Yet, the FCA will allow FCS to finance a home anywhere, even in towns of 20,000 population or more, if the owner of the home is a "producer." Under FCA definitions, a producer is anyone who is or is expecting to be involved in agriculture in the future. Likewise, the FCA will allow FCS to finance a business in a non-rural area if the FCS can claim that **one** of the owners of the business is a 'producer.'

It's easy to understand how such lax oversight of FCS activities can lead to tremendous abuse of their authorities. Should community banks and the public trust how any new powers will be administered by the FCA? Not without reforms to the Farm Credit Act to prevent the FCS from sidestepping the intent and purposes of the statute by playing definitional games. The farm bill should tighten eligibility for financing non-farm purposes.

Conclusion – Need for a New and Improved Farm Bill

We appreciate the Committee's work on a new farm bill. Let's be sure we get the details in the "skinny farm bill" right. We urge the committee to adopt the recommendations regarding USDA loan programs and Farmer Mac and we urge you to deny the FCS's expanded powers push or provide limitations to ensure the FCS fulfills the traditional role of a GSE as a **supplemental** source of credit to private sector lenders while keeping their focus on their mission of serving farmers and ranchers. To ensure adequate credit for rural America, it is important to ensure the FCS not be allowed to muscle community banks off of MainStreet USA. Thank you.