

STATEMENT OF  
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REGARDING  
UPDATE ON THE FINANCIAL HEALTH OF FARM COUNTRY

BEFORE THE  
U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE  
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT  
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ROOM 1301, LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, DC

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to provide an update on the financial health of rural America.

My name is Kevin Paap. I am President of the Minnesota Farm Bureau Federation, but today I would like to give you some perspectives on the financial health of farm country as a fourth generation corn and soybean farmer from Blue Earth County, Minnesota. Immediately after your invitation to testify I consulted my local bankers, farm management instructors, crop insurance agents, farm equipment dealers and other farmers for their assistance. I believe you can best describe the financial health of farm country in two words, "it depends".

The good news in Minnesota is that the median income for all farms in 2014 was up 3% over 2013.<sup>1</sup> However, this figure does not tell the complete story. Agriculture is comprised of varying sectors where some face good years, and others more challenging. Crop farmers continue to face steep declines in crop prices with high input costs, while livestock producers saw 2014 as one of their best years ever.

One sector of agriculture that is arguably one of the hardest hit right now are turkey and chicken growers. Minnesota is proud to be the number one state in turkey production, however, the current conditions of outbreaks of Highly Pathogenic Avian Influenza H5N2, more commonly referred to as avian influenza, has been ravaging Minnesota poultry farms at a rapid rate since late this winter. As of May 28, 2015, ninety-eight Minnesota farms in twenty-two

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<sup>1</sup> 2014 FINBIN Report on Minnesota Farm Finances, April 2015, Center for Farm Financial Management, University of Minnesota, p. 2.

counties totaling over 8,269,432 birds have been affected by this disease. According to a study conducted by the University of Minnesota, as of May 11, 2015, an estimated \$113.6 million of poultry production has already been lost in the state.<sup>2</sup> However, our poultry farmers are not the only ones impacted by this outbreak. With fewer birds making it to market and delays for incoming stocks of the next flocks, there is less need for inputs such as feed and other supplies. There are incredible ripple effects affecting the bigger economy. According to a University of Minnesota study, the \$113.6 million in losses as of May 11, 2015, have an estimated loss of \$202.5 million in economic activity in Greater Minnesota and nearly 800 jobs have been affected.<sup>3</sup> Unfortunately, this continues to be a devastating problem and will only continue to affect not only the agriculture industry, but the greater economy, possibly for several years. A loss of just \$1 million in direct losses causes a loss of \$450,000 in lost farm and household income, and if the lost jobs at processing plants are factored in, a \$1 million could cause \$9.3 million in lost household income.<sup>4</sup> That is a significant amount of money that will no longer make it back into the local economy.

Despite this devastating effect on Minnesota agriculture, there are still bright spots. We are off to a great start on this year's crops, the weather has cooperated to give us timely planting and continues to bless us with the right amount of rainfall and sunshine. Because of increased worldwide demand for the products we grow combined with past higher prices because of

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<sup>2</sup> Impact of Poultry and Egg Production Losses and Poultry Processing Losses Due to the Avian Influenza, 2015, Regents of the University of Minnesota, available at <http://blog.lib.umn.edu/umnnext/news/2015/05/extension-analysis-economic-impact-of-avian-flu-nears-310-million-as-of-mid-may.php>.

<sup>3</sup> Ibid, p. 6.

<sup>4</sup> Ibid, p. 2.

smaller crops due to the weather, farmers have grown working capital which will certainly help deal with another tough financial year.

Financial stress, it is here, it is real and it will be challenging for many. But I believe we are not reliving the 1980's- I graduated from an agriculture college in 1981 and gained a considerable amount of additional education while starting to farm on my own through the 80's! Today I believe farmers are not nearly as leveraged, as lenders have a very different attitude towards borrowing money against real estate.

A topic that is very familiar in farm country is working capital burn. With significantly lower commodity prices and our direct and overhead costs of land rent, seed, fertilizer, etc. not coming down, farmers are losing \$50 to \$100 dollars per acre. We are spending our cash on cash flow losses, we are burning our working capital. Every farmer only has so much working capital.

Financial stress, it's here, it's real and it is challenging for many. Because of working capital burn, many farmers are restructuring their debt to stretch out capital payments. We are seeing many more FSA guaranteed loans, and we are seeing bankers backing out of direct loans. The question many times is will the FSA direct loan program run out of money?

The number one thing this subcommittee can help rural America with, the must have tool we need in farming, the topic that is important enough to be in your subcommittee name is risk management. The risk management tools of crop and revenue insurance are critical to the

financial health of farm country. This private-public partnership allows farmers to customize our risk management plans and coverage levels to accurately reflect our individual yields and risks. Crop insurance allows me to use my growing crops as collateral. Crop insurance is my banker's best friend!

As a fourth generation farmer and father, and with a son living one half mile down the road in the house his great grandfather built and sleeping in the same bedroom his grandfather was born in, I cannot help but think about the next generation. Farmers are an aging population, we need the tools to help our beginning farmers.

If I was asked what is something this subcommittee can do to help beginning farmers, the answer would be two words - risk management. Crop insurance helps beginning farmers and all farmers be competitive and be innovative. Risk management tools are a must have for beginning farmers, their collateral to borrow money is the growing crops, they must be able to protect it. Crop insurance is their banker's best friend. An important part of a beginning farmers risk management is coverage, the ability to transfer Actual Production History (APH) yields makes a huge difference in their coverage. Insuring the corn crop at a 190 bushel per acre APH versus 170 bushel APH per acre calculated by county yield or transitional (T) yields means \$80 per acre. It may be the deciding factor of loan or no loan to a beginning farmer.

When I asked my friend, fellow farmer and farm management instructor Paul Lanoue from Marshall, Minnesota about the financial health of farm country his answer was also two words - "it stinks!" His comments after that made a lot of sense. Farmers must understand our financial

ratios, farmers must be able to see the train wreck ahead of us and be ready to manage the things we can manage. There will be many opportunities ahead, all we need to do is hold it together through this current financial stress.

Again, I sincerely appreciate the opportunity to appear before the subcommittee, and I look forward to answering your questions.