United States Government Accountability Office

Report to Congressional Committees

July 2019

AGRICULTURAL LENDING

Information on Credit and Outreach to Socially Disadvantaged Farmers and Ranchers Is Limited

GAO-19-539

GAO Highlights

Highlights of GAO-19-539, a report to congressional committees

July 2019

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Why GAO Did This Study

In 2017, there were about 2 million farm and ranch operations nationwide. Farmers and ranchers often require loans to buy agricultural real estate, make capital improvements, and purchase supplies and equipment. However, minorities and women comprise a disproportionately small share of agricultural producers, and certain minority groups have alleged discrimination in obtaining agricultural credit. Most agricultural lending is done by either commercial banks or the Farm Credit System, a network of lenders regulated by the Farm Credit Administration. USDA accounts for a small share of agricultural credit, but it makes direct loans and guarantees loans made by private lenders. USDA and Farm Credit System lenders have responsibilities to expand credit access.

Congress included a provision in statute for GAO to study agricultural credit services provided to SDFRs. USDA direct loans were outside the scope of GAO's review. This report examines (1) what is known about the amount and types of agricultural credit to SDFRs, (2) challenges SDFRs reportedly face in obtaining agricultural credit, and (3) outreach efforts to SDFRs regarding agricultural credit and related services.

GAO analyzed survey, census, and other USDA data; reviewed statutes and regulations governing collection of personal data on borrowers; and reviewed Farm Credit Administration and USDA documentation on outreach to SDFRs. GAO also interviewed SDFR advocacy groups, lending industry groups, and officials from the Farm Credit Administration, USDA, and the federal depository institution regulators.

View GAO-19-539. For more information, contact Anna Maria Ortiz at 202-512-8678 or ortiza@gao.gov

What GAO Found

Information on the amount and types of agricultural credit to socially disadvantaged farmers and ranchers (SDFR)—which the U.S. Department of Agriculture (USDA) defines as members of certain racial and ethnic minority groups and women—is limited. Comprehensive data on SDFRs' outstanding agricultural debt are not available because regulations generally prohibit lenders from collecting data on the personal characteristics of applicants for loans other than certain mortgages. A Consumer Financial Protection Bureau rulemaking pursuant to a provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act that requires collection of such data in certain circumstances would modify this prohibition for certain loans, possibly including some agricultural loans. The bureau delayed the rulemaking in 2018 due to stated resource constraints and other priorities, but reported that it plans to resume work on the rule later in 2019. An annual USDA survey of farmers provides some insights into agricultural lending to SDFRs but, according to USDA, may underrepresent SDFRs compared to more inclusive estimates from the 2017 Census of Agriculture. In the 2015–2017 surveys, SDFRs represented an average of 17 percent of primary producers in the survey, but they accounted for 8 percent of outstanding total agricultural debt. Loans to purchase agricultural real estate accounted for most of SDFRs' outstanding debt (67 percent).

SDFRs reportedly face a number of challenges that hamper their ability to obtain private agricultural credit. According to SDFR advocacy groups, lending industry representatives, and federal officials, SDFRs are more likely to operate smaller, lower-revenue farms, have weaker credit histories, or lack clear title to their agricultural land, which can make it difficult for them to qualify for loans. SDFR advocacy groups also said some SFDRs face actual or perceived unfair treatment in lending or may be dissuaded from applying for credit because of past instances of alleged discrimination. Additionally, they noted that some SDFRs may not be fully aware of credit options and lending requirements, especially if they are recent immigrants or new to agriculture.

Private lenders and federal agencies conduct outreach to SDFRs, but the effectiveness of these efforts in increasing lending is unknown. For example, lenders have sponsored educational events targeted to SDFRs and translated marketing materials for non-English speakers. Farm Credit Administration regulations require Farm Credit System lenders to prepare marketing plans that include specific outreach actions for diversity and inclusion. The Farm Credit Administration examines these plans and indicated that it has prescribed corrective actions in some cases. However, the Farm Credit Administration does not require lenders to meet specific lending goals, and the regulatory data restrictions noted previously constrain the Farm Credit Administration's ability to assess the effect of outreach efforts. USDA conducts outreach to SDFRs and lenders about its loan programs and collects data on the personal characteristics of loan applicants. However, USDA officials said they face challenges evaluating the impact of their outreach efforts, in part because outreach participants are reluctant to provide their demographic information.

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Abbreviations

2017 Census	2017 Census of Agriculture
CFPB	Consumer Financial Protection Bureau
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
ECOA	Equal Credit Opportunity Act
Federal Reserve	Board of Governors of the Federal Reserve System
SBA	Small Business Administration
SDFR	socially disadvantaged farmers and ranchers
USDA	U.S. Department of Agriculture

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

July 11, 2019

The Honorable Pat Roberts
Chairman
The Honorable Debbie Stabenow
Ranking Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate

The Honorable Collin C. Peterson
Chairman
The Honorable Mike Conaway
Ranking Member
Committee on Agriculture
House of Representatives

According to the 2017 Census of Agriculture (2017 Census), there are about 2 million farm and ranch operations nationwide (which we refer to as farms).[1] Farmers and ranchers often require loans to, among other things, buy agricultural real estate, make capital improvements, and purchase supplies and equipment. The U.S. Department of Agriculture (USDA) estimates that total outstanding agricultural debt was about $242 billion in 2017.[2] However, some demographic groups have alleged discrimination in obtaining agricultural loans or are considered underserved by the credit market.[3] In addition, according to USDA data, minorities and women comprise a disproportionately small share of agricultural producers relative to their numbers in the general population.

Congress has recognized some of the challenges these groups face by requiring USDA to target "socially disadvantaged farmers and ranchers" (SDFR) in programs that make direct loans or that guarantee loans made

[1]The Census of Agriculture is conducted every 5 years and provides a detailed picture of farms and the people who operate them.

[2]This figure includes debt used for agricultural purposes only. It excludes debt used for nonagricultural purposes that was secured by agricultural real estate or equipment.

[3]For example, see Congressional Research Service, *Garcia v. Vilsack: A Policy and Legal Analysis of a USDA Discrimination Case* (Washington, D.C.: Feb. 22, 2013). We discuss additional reports and legal cases about discrimination in agricultural lending later in this report.

by private lenders.[4] The Consolidated Farm and Rural Development Act, as amended, defines a socially disadvantaged group as one whose members have been subject to racial, ethnic, or gender prejudice because of their identity as members of a group without regard to their individual qualities.[5] USDA regulations further define SDFRs as belonging to the following groups: American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women. In this report, we use USDA's definition to identify SDFRs both in USDA's farm loan programs and in the broader population of agricultural producers.

Several types of private lenders make loans to farmers and ranchers. These include, but are not limited to, Farm Credit System associations, commercial banks and credit unions, farm implement dealers, and individuals. (We describe each of these in more detail in the background section of this report.) USDA guarantees some of the agricultural loans made by Farm Credit System associations and commercial banks.

The Agriculture Improvement Act of 2018 included a provision for us to study agricultural credit services provided to SDFRs.[6] Based on the language of the provision, we excluded USDA direct loans from the scope of our review and focused on lending by private entities.[7] This report examines (1) what is known about the amount and types of agricultural credit to SDFRs, (2) challenges SDFRs reportedly face in obtaining agricultural credit, and (3) outreach efforts to SDFRs regarding agricultural credit and related services.

For all objectives, we interviewed officials from USDA (including the Farm Service Agency, National Agricultural Statistics Service, and Economic Research Service), the Farm Credit Administration (which regulates Farm Credit System associations), and the federal depository institution

[4]These programs primarily serve farmers and ranchers who are unable to obtain credit from other lenders at reasonable rates and terms. USDA loan guarantees protect lenders against most losses—up to 95 percent of the lost principal and interest—in the event a borrower defaults.

[5]7 U.S.C. § 2003(e).

[6]Pub. L. No. 115-334, § 5416, 132 Stat. 4490, 4725 (2018).

[7]The provision defines an agricultural credit provider as a Farm Credit System institution, a commercial bank, the Federal Agricultural Mortgage Corporation, a life insurance company, and any other individual or entity, as determined by the Comptroller General of the United States.

regulators.[8] We also interviewed representatives from lending industry groups we selected to cover the major types of private institutional lenders that make agricultural loans. Additionally, we interviewed representatives from national advocacy or research groups that focus on one or more socially disadvantaged populations and on agricultural credit or finance issues. We selected these groups based on referrals obtained during prior GAO studies and recommendations from experts in the field. Because the group of organizations we interviewed is a nonprobability sample, the information they provided is not generalizable. In this report, we refer collectively to the federal officials, lending industry group representatives, and advocacy and research group representatives we interviewed as stakeholders.

To address the first objective, we reviewed statutes and regulations governing the collection of data on the personal characteristics of loan applicants. We interviewed officials from the federal depository institution regulators and the Consumer Financial Protection Bureau (CFPB) about these requirements and the status of a related ongoing rulemaking. We also analyzed USDA data from the Censuses of Agriculture for 2012 and 2017 and Agricultural Resource Management Surveys for 2015, 2016, and 2017.[9] USDA's National Agricultural Statistics Service and Economic Research Service provided us customized summary statistics from these data sources to facilitate our analysis. Additionally, we analyzed USDA data on farm ownership and farm operating loans guaranteed by the Farm Service Agency in fiscal years 2014 through 2018.[10] We focused on guarantees issued by the Farm Service Agency because it operates the

[8]The federal depository institution regulators include the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and National Credit Union Administration.

[9]The 2017 Census of Agriculture and Agricultural Resource Management Survey were the most current versions of these data sources at the time of our review.

[10]Throughout this report, we use the term "guaranteed loans" to refer to farm ownership and farm operating loans guaranteed by the Farm Service Agency. The agency also guarantees conservation loans and land contracts.

primary federal agricultural credit programs.[11] To assess the reliability of data from USDA, we reviewed agency documentation on how the data were collected and analyzed. We also interviewed USDA officials about interpretations of data fields and robustness of estimated values, among other things. We concluded that the data were sufficiently reliable for describing the size and characteristics of the SDFR population and the amount and types of agricultural credit SDFRs received.

To address the second objective, we conducted a review of government and academic literature and identified additional articles and reports through citations in literature we reviewed and from expert recommendations. To address the third objective, we reviewed USDA, Farm Credit System, and federal depository institution regulator documents on agricultural credit-related services for SDFRs, including marketing, outreach, and education activities. We collected information on how federal agencies and regulators oversee and evaluate these activities. We reviewed statistics from the Farm Credit Administration on its examinations of Farm Credit System association marketing plans, which are required to contain specific actions for diversity and inclusion. To supplement this work, we conducted a review of marketing plans from a nongeneralizable sample of Farm Credit System associations in areas with relatively high proportions of SDFRs. We also reviewed materials on the activities of USDA's Outreach and Technical Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers Program. Additionally, we interviewed officials from the Farm Service Agency's Outreach Office and documented their procedures for targeting outreach to SDFRs about USDA-guaranteed agricultural loans. For both the second and third objectives, we also drew upon information and analysis from our May 2019 report on agricultural lending on tribal lands.[12] Appendix I describes our scope and methodology in greater detail.

[11]The Small Business Administration (SBA) also guarantees loans to agricultural business operators, including to members of socially disadvantaged groups, through its 7(a) loan program. We did not include SBA's program in the scope of our review because 7(a) loans account for about 1 percent of agricultural lending. In fiscal year 2016, SBA approved approximately $708 million in 7(a) loans to agricultural businesses. At least 23.7 percent of that amount represented loans to minority- or women-owned businesses. SBA officials suggested that this percentage should be interpreted with caution because the demographic data are voluntarily self-reported by small business applicants and are not corroborated.

[12]GAO, *Indian Issues: Agricultural Credit Needs and Barriers to Lending on Tribal Lands*, GAO-19-464 (Washington, D.C.: May 9, 2019).

We conducted this performance audit from January 2019 to July 2019 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

The Agricultural Census and Socially Disadvantaged Farmers and Ranchers

USDA conducts the Census of Agriculture every 5 years, most recently in 2012 and 2017. The census provides a detailed picture of farms and the people who operate them. The census identifies several categories of farmers, including the following:

- **Producers.** Producers are individuals involved in farm decision-making.[13] A single farm may have more than one producer.
- **Primary producers.** The primary producer is the individual on a farm who is responsible for the most decisions. Each farm has only one primary producer.

The 2017 Census questionnaire substantially revised the way it collected certain data in order to better capture the contributions of all persons involved in farm decision-making. For example, the 2017 questionnaire asked for the names and demographic information of up to four producers per farm (compared to three in 2012) and used a series of questions on specific types of farm decisions to determine the primary producer (the 2012 questionnaire did not include these questions). Therefore, comparisons between the two censuses regarding the number and personal characteristics of producers and primary producers should be considered with the 2017 revisions in mind. While some changes may be the result of actual changes in the population of farmers and ranchers, other changes may be the result of changes in census methodology.

USDA's 2017 Census counted about 3.4 million producers across the roughly 2 million farms nationwide, compared to 3.2 million in 2012. This

[13]Decisions may include planting, harvesting, livestock management, and marketing decisions, among others. The producer may be the owner, a member of the owner's household, a hired manager, a tenant, a renter, or a sharecropper.

represents an approximately 7 percent increase over 2012 in the number of reported producers, despite a slight drop in the number of farms reported.[14] Many of these additional producers were SDFRs.[15] In 2017, SDFRs accounted for 41 percent (1,390,449) of all producers, compared to 36 percent (1,133,163) in 2012. The number of reported SDFR primary producers also grew between 2012 and 2017.[16] Among SDFR subgroups, women accounted for the largest increase in producers and primary producers.

In the 2017 Census, women also made up the largest group of SDFR producers and primary producers (see table 1). Women accounted for 88.3 percent of all SDFR producers and 81.0 percent of SDFR primary producers. Hispanic, Latino, or Spanish-origin producers were the next largest group, accounting for 8.1 percent of all SDFR producers and 11.0 percent of SDFR primary producers.

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 SDFR[a]	1,390,449	100.0	604,019	100.0

Source: GAO analysis of USDA's Census of Agriculture. | GAO-19-539

[14]The 2017 Census showed a 3 percent decrease from the 2012 Census in the number of farms reported.

[15]As previously mentioned, USDA regulations define SDFRs as belonging to the following groups: American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women.

[16]The 2012 Census used the term "principal operator" to identify the person on the farm responsible for the most decisions. For ease of presentation, we use the term primary producer in reference to both the 2012 and 2017 Censuses because the terms generally have the same meaning. In 2017, about 30 percent (604,019) of primary producers were identified as SDFRs, compared to 20 percent (419,365) in 2012.

Note: For the Census of Agriculture, the U.S. Department 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. SDFR is defined in statute by the Consolidated Farm and Rural Development Act, as amended, and in related regulation by USDA.

On average, farms for which an SDFR was the primary producer (SDFR farms) were smaller and brought in less revenue than non-SDFR farms in 2017. While representing 30 percent of all farms, SDFR farms operated 21 percent of total farm land and accounted for 13 percent of the market value of agricultural products sold in 2017 (see table 2). About 55 percent of SDFR farms had fewer than 50 acres, and 88 percent had less than $50,000 in total sales and government payments.[17] Additionally, a lower proportion of SDFR-operated farms (21 percent) received government payments compared to non-SDFR farms (36 percent).

Table 2: Number and Selected Characteristics of SDFR and Non-SDFR Farms, 2017

	Number of farms	Percent of farms	Total operated acres	Percent of operated acreage	Total market value of products sold (billions of dollars)	Percent of total market value
SDFR farms	604,019	30	185,644,330	21	51.6	13
Non-SDFR farms	1,438,201	70	714,573,246	79	336.9	87
Total	**2,042,220**	**100**	**900,217,576**	**100**	**388.5**	**100**

Legend: SDFR = socially disadvantaged farmers and ranchers

Source: GAO analysis of USDA's Census of Agriculture. | GAO-19-539

Note: SDFR farms are those for which the primary producer is a member of a socially disadvantaged group (ethnic and racial minorities and women) as defined in statute by the Consolidated Farm and Rural Development Act, as amended, and in related regulation by the U.S. Department of Agriculture (USDA). Non-SDFR farms are all other farms. 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.

Types and Sources of Agricultural Credit

Agricultural producers generally require financing to acquire, maintain, or expand their farms, ranches, or agribusinesses. Agricultural loans generally fall into two categories:

[17]The 2017 Census defines government payments as payments from federal farm programs made directly to farm producers, such as payments from the Conservation Reserve and Wetlands Reserve programs and disaster payments. Commodity Credit Corporation proceeds, payments from state and local government programs, and federal crop insurance payments were not included in this category.

- **Farm ownership loans.** These loans are used to acquire, construct, and develop land and buildings and have terms longer than 10 years. They are secured by real estate and are sometimes referred to as real estate loans.
- **Farm operating loans.** These loans are generally short-term or intermediate-term loans that finance costs associated with operating a farm. Short-term loans are used for operating expenses and match the length and anticipated production value of the operating or production cycle. Intermediate-term loans are typically used to finance depreciable assets such as equipment and usually range from 18 months to 10 years.[18] These loans may also be referred to as non-real-estate loans.[19]

Several types of lenders provide credit to agricultural producers, including, but not limited to, the following:

- **Farm Credit System.** The Farm Credit System is a government-sponsored enterprise, established, in part, to provide sound, adequate, and constructive credit to American farmers and ranchers. The Farm Credit System includes a national network of 73 banks and associations. The Farm Credit System lends money to eligible agricultural producers primarily through its 69 lending associations, which are funded by its four banks. All are cooperatives, meaning that Farm Credit System borrowers have ownership and control over the organizations. The Farm Credit System is regulated by the Farm Credit Administration, an independent federal agency.

  The Farm Credit System's statutory objectives include being responsive to the needs of all types of creditworthy agricultural producers having a basis for credit, with additional requirements to serve young, beginning, and small farmers and ranchers.[20] According to the Farm Credit Administration, the Farm Credit System is not statutorily mandated to focus on providing financial opportunities to any other group.

[18]The terms of USDA farm operating loans generally may not exceed 7 years.

[19]Throughout this report, we refer to real estate loans as farm ownership loans and non-real-estate loans as farm operating loans.

[20]Farm Credit System associations are required 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 units of the Farm Credit System serving the territory and with other governmental and private sources of credit. 12 U.S.C. § 2207(a).

- **Commercial banks.** Commercial banks are regulated by the federal depository institution regulators.[21] They vary in size and the type of credit they provide. In a January 2013 report, we found that large banks were more likely to engage in transactional banking, which focuses on highly standardized products that require little human input to manage and are underwritten using statistical information.[22] We also found that small banks were more likely to consider not only data models but information acquired by working with the customer over time. Additionally, we found that by using this banking model, small banks may be able to extend credit to customers who might not receive a loan from a larger bank. The American Bankers Association reported that in 2017, the majority of farm banks—those that made more agricultural loans than the industry average—were small institutions with a median asset size of $125 million.[23]
- **USDA Farm Service Agency.** USDA's Farm Service Agency makes direct loans to farmers and ranchers and guarantees loans made by commercial lenders and Farm Credit System associations. The Farm Service Agency is a lender that focuses on assistance to beginning and underserved farmers and ranchers who are unable to obtain credit elsewhere. For its guaranteed loans, the agency typically guarantees 90 percent of losses the lender might incur in the event that a borrower defaults, although the agency may guarantee up to 95 percent for qualifying loans to certain groups, including SDFRs. Guaranteed loan terms and interest rates are set by the lender, though USDA has established maximum rates and terms. Agricultural loans guaranteed by the Farm Service Agency generally account for about 4–5 percent of outstanding loans made by the Farm Credit System and commercial banks and credit unions.
- **Other lenders.** A variety of other businesses and individuals provide agricultural credit to farmers and ranchers, including credit unions, life insurance companies, farm implement dealers, and family members. According to the National Credit Union Administration, agricultural lending represents a small portion (less than several basis points) of

[21]The federal depository institution regulators for commercial banks include the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

[22]GAO, *Financial Institutions: Causes and Consequences of Recent Bank Failures*, GAO-13-71 (Washington, D.C.: Jan. 3, 2013).

[23]American Bankers Association, *2017 Farm Bank Performance Report* (Washington, D.C.: 2017).

credit union lending.[24] Historically, life insurance companies have used agricultural real estate mortgages as part of their investment portfolios.[25] Farm implement dealers sell machinery, parts, and services and offer financing for those products. According to USDA survey data, implement dealers currently provide almost one-third of the agricultural sector's farm operating debt with terms longer than 1 year and are an increasing source of agricultural credit.

According to USDA's Economic Research Service, in 2017, the Farm Credit System and commercial banks accounted for the bulk of agricultural lending in the United States, comprising about 80 percent of the total outstanding farm debt. The remaining debt was USDA Farm Service Agency direct loans and loans made by other lenders.[26]

Information Is Limited, but Survey Data Provide Some Insights into Credit to Socially Disadvantaged Farmers and Ranchers

[24]The National Credit Union Administration supervises federally chartered credit unions and insures deposits in federally chartered and the majority of state-chartered credit unions. A basis point is 1/100 of a percent.

[25]According to the American Council of Life Insurers, farm mortgages accounted for 4.2 percent ($22 billion) of total mortgages held by life insurers in 2017. American Council of Life Insurers, *Life Insurers Fact Book 2018* (Washington, D.C.: 2018).

[26]U.S. Department of Agriculture, Economic Research Service, *U.S. and State-Level Farm Income and Wealth Statistics*, accessed May 13, 2019. https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics/.

Regulatory Data Collection Restrictions Limit What Is Known about Agricultural Credit to Socially Disadvantaged Farmers and Ranchers

Information on the types and amount of agricultural credit to SDFRs is limited. Regulation B, which implements the Equal Credit Opportunity Act (ECOA), generally prohibits lenders from collecting data on the personal characteristics (such as sex, race, and national origin) of applicants for loans other than certain mortgages.[27] Therefore, financial institutions and their regulators generally do not have information on the types or amount of agricultural lending to SDFRs. In contrast, USDA collects and maintains personal characteristic data on applicants for the farm loans it makes or guarantees in order to target loans to traditionally underserved populations and fulfill statutorily mandated reporting requirements.[28]

The lack of personal characteristic data on a large portion of agricultural loan applications limits the ability of regulators, researchers, and stakeholders to assess potential risks for discrimination. In a July 2009 report, we found that federal enforcement agencies and depository institution regulators faced challenges in consistently, efficiently, and effectively overseeing and enforcing fair lending laws due in part to data limitations.[29] Additionally, we found that such data would enhance transparency by helping researchers and others better assess the potential risk for discrimination. For our current review, some federal depository institution regulators we spoke with said that additional data on nonmortgage lending would allow them to perform additional assessments of financial institutions' compliance with fair lending laws.[30] Some SDFR advocates we spoke with also expressed concern about the lack of accurate public information on lending to SDFRs, which they said forces them to rely on anecdotal evidence in attempts to monitor potential discrimination.

[27]*See* 12 C.F.R. § 1002.5(b); *see also* 12 C.F.R. § 1002.5(a) (setting forth certain circumstances when a creditor may obtain otherwise protected applicant information). ECOA prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, or age; because an applicant receives income from a public assistance program; or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act. 15 U.S.C. § 1691(a).

[28]*See eg.* 7 U.S.C. §§ 2003, 2008d, 2008x.

[29]GAO, *Fair Lending: Data Limitations and the Fragmented U.S. Financial Regulatory Structure Challenge Federal Oversight and Enforcement Efforts,* GAO-09-704 (Washington, D.C.: July 15, 2009).

[30]The regulators did not offer views on CFPB's rulemaking activities discussed later in this section.

A rulemaking pursuant to Section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) would modify the Regulation B prohibition for certain loans, including possibly some agricultural loans.[31] Section 1071 amended ECOA, requiring financial institutions to report information on credit applications made by women-owned, minority-owned, and small businesses. However, in April 2011, CFPB issued a letter stating that the requirements under Section 1071 do not go into effect until CFPB issues implementing regulations. The purpose of Section 1071 is "to facilitate enforcement of fair lending laws and enable communities, governmental entities, and creditors to identify business and community development needs and opportunities of women-owned, minority-owned, and small businesses."[32] Section 1071 is consistent with our 2009 report on fair lending issues, which said Congress should consider requiring additional data collection and reporting for nonmortgage loans.[33] Section 1071 did not specify a time frame for CFPB to complete its rulemaking.

As of June 2019, CFPB had not yet completed a rulemaking implementing Section 1071 of the Dodd-Frank Act.[34] In 2017, CFPB issued a request for information seeking public comment on topics related to the collection of data on small business lending. However, in November 2018, CFPB announced that it was delaying the rulemaking due to resource constraints and other priorities. CFPB reported in the Spring 2019 Unified Agenda of Federal Regulatory and Deregulatory Actions that it plans to resume pre-rulemaking activities later in 2019.[35]

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[31]Dodd-Frank Act, Pub. L. No. 111-203, § 1071, 124 Stat. 1376, 2056 (2010), codified at 15 U.S.C. § 1691c-2.

[32]Dodd-Frank Act, Pub. L. No. 111-203 § 1071(a), 124 Stat. 1376, 2056 (2010), codified at 15 U.S.C. § 1691c-2(a).

[33]GAO-09-704.

[34]Under the Dodd-Frank Act, the Board of Governors of the Federal Reserve System (Federal Reserve) retained ECOA rulemaking authority for certain motor vehicle dealers that offer credit and, therefore, responsibility for Section 1071 rules related to that industry. *See* Dodd-Frank Act, Pub. L. No. 111-203, § 1029(a) (2010). In September 2011, the Federal Reserve published a final rule that excepted motor vehicle dealers subject to the Federal Reserve's jurisdiction from complying with Section 1071 until the effective date of later implementing regulations. *See* 76 Fed. Reg. 59237 (Sept. 26, 2011). Agency officials have stated publicly and to Congress that implementation of Section 1071 rules should be done collectively with CFPB, either as a joint rule or as concurrent rules. Consequently, the Federal Reserve is following CFPB's timing and has not yet issued a rule.

[35]Bureau of Consumer Financial Protection, Semiannual Regulatory Agenda, 84 Fed. Reg. 29730 (June 24, 2019).

Survey Data Have Limitations but Provide Information on the Farm Debt and Credit Providers of Socially Disadvantaged Groups

USDA's annual survey of farm producers, the Agricultural Resource Management Survey, provides some insights into agricultural lending to SDFRs but has limitations when used for this purpose.[36] The limitations fall into two main categories, as follows:

- First, the sample size used in the survey does not allow for capturing potential differences in the credit needs and challenges of specific socially disadvantaged subgroups. The relatively small proportion of SDFRs in the survey's sample population renders estimates of SDFR farm debt less precise.[37] To increase the precision of its estimates, USDA averaged 3 years of survey data (2015–2017) to increase the sample size of SDFRs available for analysis. Due to the small size of several SDFR subgroups, we analyzed SDFRs as a single combined group.[38]
- Second, the survey may underrepresent the total outstanding farm debt of socially disadvantaged groups and should be interpreted with caution, according to USDA officials. As previously discussed, the 2017 Census questionnaire included revisions that better captured the role of SDFRs in farm operations, and its results suggest that the 2012 Census and the 2015–2017 surveys (which used similar methodologies) may have underreported the number of SDFRs

[36]The Agricultural Resource Management Survey is a multiphase series of interviews that uses a multiframe, stratified, probability-weighted sampling design. The survey does not include Hawaii or Alaska.

[37]A margin of error (or confidence interval) measures the precision of survey results by providing the range around a statistical estimate where the true value is likely to exist. If an estimate's margin of error is small, the estimate has a lower amount of random error and is therefore more precise and known with greater certainty.

[38]Women of any race or ethnicity comprised 70 percent of SDFRs in the survey, and members of Hispanic or nonwhite groups comprised 36 percent.

designated as primary producers, particularly women.[39] Specifically, in the 2015–2017 surveys, SDFRs represented 17 percent[40] of primary producers, whereas in the 2017 Census, SDFRs accounted for 30 percent of primary producers.[41] However, the potential underrepresentation issue should not affect the statistical significance of comparisons between the SDFR and non-SDFR subgroups within the survey.

With these caveats in mind, the 2015–2017 survey data suggest that SDFR primary producers had annual average outstanding farm debt of $20.0 billion ($17.5–$22.6 billion at the 90 percent confidence level).[42] This estimate represents debt used specifically for farm purposes.[43] Farm ownership debt was a larger share of SDFR outstanding farm debt than it

[39]The surveys identified primary producers (using the term principal operator, which generally has the same meaning) in a somewhat less systematic and inclusive way than the 2017 Census. The 2015 and 2016 surveys did not include specific decision-making questions and asked respondents to identify the primary producer. The 2017 survey asked respondents to identify the primary producer after answering questions about decision-making roles. The 2017 Census asked respondents questions about decision-making roles, but it did not have respondents identify the primary producer. Rather, USDA's National Agricultural Statistics Service used responses from the decision-making questions and a question about the amount of time spent working off the farm to designate the primary producer from among up to four principal decision makers. Specifically, USDA designated the person who made the most decisions for the farm, or, if equal decisions were made, the person who worked off the farm the least, as the primary producer. In the case of equal decisions and equal time off the farm, USDA chose the primary producer at random.

[40]The confidence interval for this estimate is 16–18 percent at the 90 percent confidence level.

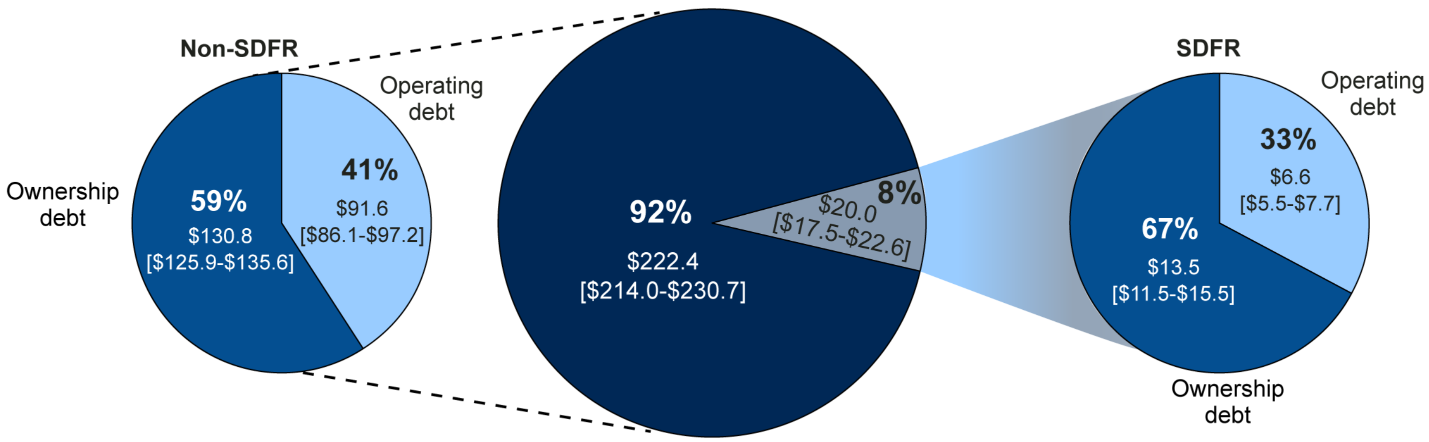
[41]The contribution of SDFR primary producers in the 2015–2017 survey is roughly comparable to the corresponding figure in the 2012 Census (20 percent), which used a similar methodology. Throughout this report, we rounded estimated percentages and associated confidence intervals to the nearest whole number.

[42]The data are adjusted for inflation to 2017 dollars. To create standard errors for 3-year averages, loan volumes were adjusted to 2017 dollars using the chain-type gross domestic product deflator. The confidence interval is the range that would contain the actual farm debt value for 90 percent of the farm operator samples that USDA could have drawn.

[43]The Agricultural Resource Management Survey measures farm business debt. Farm business debt excludes debt for producer dwellings that are not part of the farm operation, and also excludes nonfarm-use-dwellings and nonfarm debt secured by farm assets and held by the primary producer, nonproducer landlords, or others.

was for all other farmers and ranchers.[44] Among SDFR primary producers, farm ownership debt was estimated to account for 67 percent[45] of outstanding farm debt, compared to an estimated 59 percent[46] for non-SDFR primary producers (see fig. 1). Farm operating debt accounted for the remaining 33 percent[47] and 41 percent[48] of outstanding SDFR and non-SDFR farm debt, respectively.

Figure 1: Estimated Outstanding Farm Debt, Annual Average in 2015–2017 (dollars in billions)



Legend: SDFR = socially disdvantaged farmers and ranchers
[ ] = confidence interval at 90 percent

Source: GAO analysis of the Department of Agriculture's Agricultural Resource Management Survey. | GAO-19-539

Note: The estimates are part of a probability-weighted survey, so that each observation has a different weight to reflect its probability of selection across the 3-year timespan and, therefore, what part of the sampled universe it represents. To create standard errors for 3-year averages, loan volumes are adjusted to 2017 dollars using the chain-type gross domestic product deflator.

[44]The estimates come from survey data. USDA provided us with the 90 percent confidence interval associated with each estimate. Because the confidence interval around the estimate of SDFR farm ownership debt does not overlap with the confidence interval around the estimate of non-SDFR farm ownership debt, we conclude that the estimates are statistically different at the alpha = 10 percent level of significance.

[45]The confidence interval for this estimate is 63–71 percent at the 90 percent confidence level.

[46]The confidence interval for this estimate is 57–60 percent at the 90 percent confidence level.

[47]The confidence interval for this estimate is 29–37 percent at the 90 percent confidence level.

[48]The confidence interval for this estimate is 40–43 percent at the 90 percent confidence level.

SDFRs received proportionately fewer loans and less agricultural credit overall than non-SDFRs. Specifically, SDFRs accounted for an estimated 17 percent[49] of primary producers in the survey but only 13 percent[50] of farms with loans and 8 percent[51] of total outstanding farm debt.[52] SDFR debt represented an estimated 9 percent[53] of total farm ownership debt and 7 percent[54] of total farm operating debt (see table 3). Therefore, even though farm ownership debt comprised most outstanding SDFR farm debt (67 percent), SDFR primary producers were still less likely to have outstanding farm ownership debt than all other farmers and ranchers.[55]

[49]The confidence interval for this estimate is 16–18 percent at the 90 percent confidence level.

[50]The confidence interval for this estimate is 11–14 percent at the 90 percent confidence level.

[51]The confidence interval for this estimate is 7–9 percent at the 90 percent confidence level.

[52]Most farms in the survey (about 68 percent) did not have outstanding loans, which is consistent with previous survey results. The estimates come from survey data. USDA provided us with the 90 percent confidence interval associated with each estimate. Because the confidence intervals around the estimates do not overlap, we conclude that the estimates are statistically different at the alpha = 10 percent level of significance.

[53]The confidence interval for this estimate is 8–11 percent at the 90 percent confidence level.

[54]The confidence interval for this estimate is 5–8 percent at the 90 percent confidence level.

[55]The estimates come from survey data. USDA provided us with the 90 percent confidence interval associated with each estimate. Because the confidence interval around the estimate of the percentage of SDFR primary producers does not overlap with the confidence interval around the estimate of the percentage of SDFR primary producers with outstanding farm ownership debt, we conclude that the estimates are statistically different at the alpha = 10 percent level of significance.

Table 3: Estimated SDFR Share of Farms and Farm Debt, Annual Average, 2015–2017

	Estimated SDFR share of total (percent)	Ninety percent confidence interval (percent)
Farms	17	16–18
Farms with outstanding debt	13	11–14
All outstanding farm debt (ownership and operating)	8	7–9
Outstanding farm ownership debt	9	8–11
Outstanding farm operating debt	7	5–8

Legend: SDFR = socially disadvantaged farmers and ranchers

Source: GAO analysis of USDA's Agricultural Resource Management Survey. | GAO-19-539

Note: Percentages represent the share of farms or farm debt belonging to farms whose primary producer was an SDFR. The percentages and associated confidence intervals are rounded to the nearest whole number. The estimates are part of a probability-weighted survey, so that each observation has a different weight to reflect its probability of selection across the 3-year timespan and, therefore, what part of the sampled universe it represents. To create standard errors for 3-year averages, loan volumes are adjusted to 2017 dollars using the chain-type gross domestic product deflator.

While the survey data show that SDFRs had proportionately less agricultural credit than non-SDFRs, the survey does not provide information on the reasons why. However, a number of factors may help explain these differences. For example, the 2017 Census shows that SDFRs are more likely than non-SDFRs to operate smaller farms with less market value, and smaller farms may require less credit to operate. In addition, as discussed later in this report, SDFRs may have greater difficulty qualifying for agricultural loans or may be dissuaded from applying for credit.

SDFR primary producers generally borrowed from the same type of lenders as non-SDFRs and reported using a range of agricultural credit providers. The distribution of SDFR and non-SDFR farm debt by lender type in the survey was roughly similar, with all differences within the margin of error (at the 90 percent confidence level). According to the survey data, an estimated 51 percent[56] of SDFRs' outstanding farm debt was lent by commercial banks and savings associations. Lending by

[56]The confidence interval for this estimate is 45–57 percent at the 90 percent confidence level.

Farm Credit System institutions (28 percent[57]), USDA's Farm Service Agency (6 percent[58]), and other lenders, such as individuals and equipment dealers (15 percent[59]), comprised the remainder.[60] SDFRs received a larger share of their operating credit, compared to ownership credit, from lenders in the "other" category.[61] This was true for non-SDFR operating debt as well.[62]

These results should be interpreted cautiously because the information is self-reported and respondents may not have known the specific types of lenders they used. The survey results for all farms appear to overrepresent debt from commercial banks and savings associations when compared with data collected by USDA's Economic Research

[57]The confidence interval for this estimate is 22–34 percent at the 90 percent confidence level.

[58]The confidence interval for this estimate is 3–9 percent at the 90 percent confidence level.

[59]The confidence interval for this estimate is 12–18 percent at the 90 percent confidence level.

[60]According to the survey data, 52 percent (50–53 percent at the 90 percent confidence level) of non-SDFRs' outstanding farm debt was attributable to lending by commercial banks and savings associations. Lending by Farm Credit System institutions (30 percent, 27–33 percent at the 90 percent confidence level), USDA's Farm Service Agency (4 percent, 3–5 percent at the 90 percent confidence level), and other lenders such as individuals and equipment dealers (15 percent, 12–17 percent at the 90 percent confidence level) comprised the remainder.

[61]The estimates come from survey data. USDA provided us with the 90 percent confidence interval associated with each estimate. Because the confidence interval around the estimate of SDFR operating debt does not overlap with the confidence interval around the estimate of SDFR ownership debt, we conclude that the estimates are statistically different at the alpha = 10 percent level of significance.

[62]Non-SDFRs received 11 percent (6–16 percent at a 90 percent confidence interval) of their ownership loans and 20 percent (18–23 percent at a 90 percent confidence interval) of their operating loans from the "other" category.

Service on farm-sector balance sheets.[63] It is possible some respondents mischaracterized some debt from Farm Credit System institutions as debt from commercial banks.

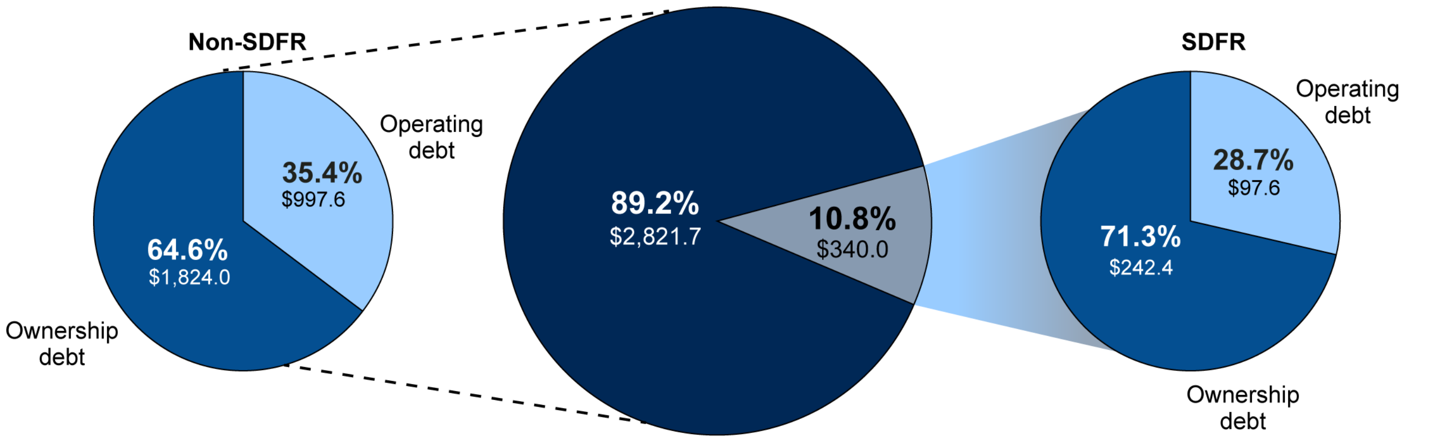
About 11 Percent of Lending Guaranteed by the Farm Service Agency Went to Socially Disadvantaged Farmers and Ranchers

While loans guaranteed by USDA's Farm Service Agency make up a small percentage of overall agricultural lending, the agency tracks how much of this lending goes to SDFRs and the purpose of the loans (ownership or operating).[64] In fiscal year 2018, the Farm Service Agency guaranteed $3.2 billion in new agricultural loans. About $340 million (10.8 percent) of this amount went to SDFRs (see fig. 2). By dollar volume, farm ownership loans accounted for about 71 percent of the guaranteed loans to SDFRs. Farm operating loans accounted for the remaining 29 percent. Guaranteed farm ownership loans to SDFRs averaged about $519,000, while farm operating loans averaged about $279,000.

[63]Differences between the survey and balance-sheet data limit the comparability of the two sources. The balance sheet data use a more expansive definition of farm debt and are compiled from information filed by lenders, while the survey data are gathered from farm producers. However, according to the balance sheet data, in 2015–2017, commercial banks and savings associations accounted for 41 percent to 43 percent of outstanding farm debt, and Farm Credit System institutions accounted for 40 percent to 41 percent. In the survey data, commercial banks and savings associations accounted for 51 percent (50–53 percent at the 90 percent confidence level) of outstanding farm debt, and Farm Credit System institutions accounted for 30 percent (27–32 percent at the 90 percent confidence level). U.S. Department of Agriculture, Economic Research Service, *U.S. and State-Level Farm Income and Wealth Statistics*, accessed May 13, 2019. https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics/.

[64]Loans guaranteed by the Farm Service Agency account for about 4–5 percent of outstanding debt each year.

Figure 2: Loans Guaranteed by the Farm Service Agency, Fiscal Year 2018 (dollars in millions)



Legend: SDFR = socially disdvantaged farmers and ranchers

Source: GAO analysis of Farm Service Agency data. | GAO-19-539

A 1988 amendment to the Consolidated Farm and Rural Development Act states that USDA should establish annual target participation rates for SDFRs on a county-wide basis for farm ownership loans and, to the greatest extent practicable, reserve funds for certain loans it makes or insures under these targets.[65] However, in August 2007, USDA's Office of General Counsel provided a legal opinion that stated that the statute could be read to apply only to the direct loan program.[66] As a result, officials at the Farm Service Agency told us it does not set annual target participation rates by county or reserve funds for guaranteed loans.[67]

Over the last 5 fiscal years (2014–2018), the Farm Service Agency guaranteed an increasing number of loans to SDFRs each year. The agency guaranteed 489 loans to SDFRs in fiscal year 2014 and 817 loans in fiscal year 2018—a 5-year high. Over that period, the total dollar amount of guaranteed loans to SDFRs increased by 69.6 percent when

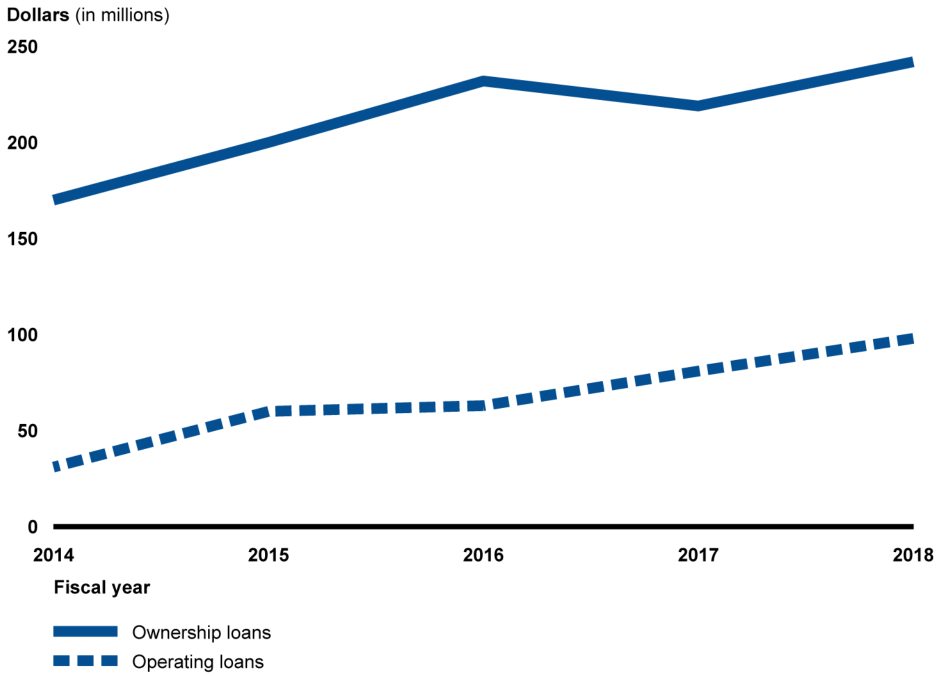
[65] *See* Pub. L. No 100-233, § 617 (1988) (codified as amended at 7 U.S.C. § 2003).

[66] An evaluation of USDA's legal opinion on the statutory provision was outside the scope of our study.

[67] For fund control purposes, the Farm Service Agency allots guaranteed loan funds for SDFRs and adjusts the allotment depending on demand for and availability of funding, according to agency officials. While the agency does not have specific performance targets for guaranteed lending to SDFRs, it has an annual performance measure for the combined percentage of direct and guaranteed loan borrowers who are socially disadvantaged.

adjusted for inflation.[68] The increase was similar for farm ownership and farm operating loans (see fig. 3).

Figure 3: Farm Service Agency–Guaranteed Loans to Socially Disadvantaged Farmers and Ranchers, Fiscal Years 2014–2018



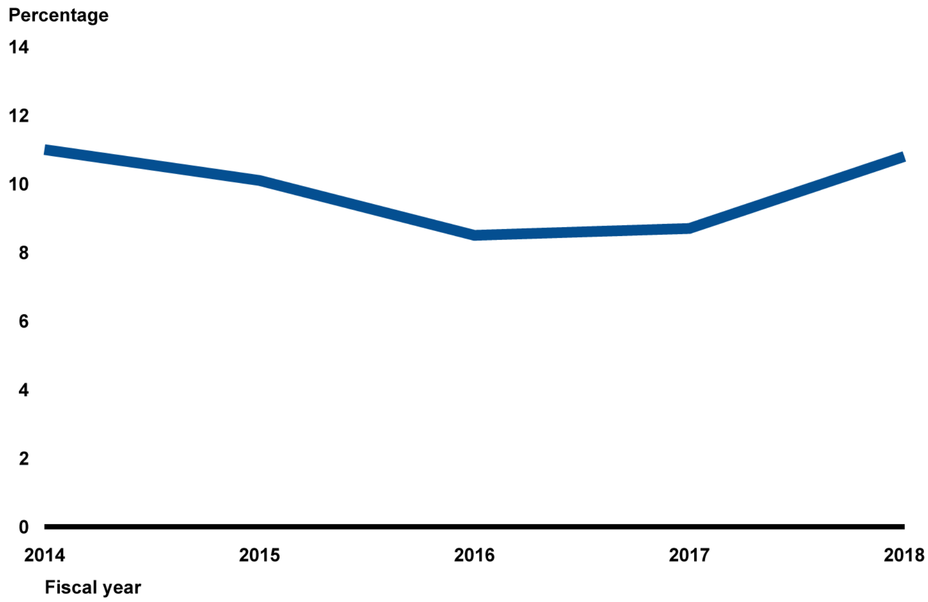
Source: GAO analysis of Farm Service Agency data. | GAO-19-539

Note: Guaranteed loan volumes are adjusted to 2018 dollars using the gross domestic product price index.

While the total dollar amount of guaranteed loans to SDFRs increased each year, the percentage of guaranteed loans that went to SDFRs, by dollar volume, decreased from fiscal years 2014 through 2016 (see fig. 4). This percentage started increasing in fiscal year 2017, when SDFRs accounted for 8.7 percent of guaranteed loans by dollar volume. However, guaranteed loans to SDFRs still accounted for a slightly smaller portion of all guaranteed loans in fiscal year 2018 (10.8 percent) than in fiscal year 2014 (11.0 percent).

[68] Guaranteed loan volumes were adjusted to 2018 dollars using the gross domestic product price index.

Figure 4: Percentage of Farm Service Agency–Guaranteed Loans, by Dollar Volume, to Socially Disadvantaged Farmers and Ranchers, Fiscal Years 2014–2018



Source: GAO analysis of Farm Service Agency data. | GAO-19-539

In fiscal year 2018, the dollar amount and percentage of guaranteed loan funds that went to SDFRs differed substantially by state (see table 4). Hawaii and Puerto Rico were the only two states or territories where SDFRs received more than one-half of all guaranteed loans (farm ownership and operating loans combined). However, Hawaii and Puerto Rico received 0.1 percent of all guaranteed loans. For several states where SDFRs received a large dollar amount of guaranteed loans, these loans represented less than 20 percent of the state's guaranteed loan funds (for example, Arkansas, Missouri, and South Dakota). In contrast, several states with the largest proportions of guaranteed loans to SDFRs had less guaranteed loan funds overall (for example, Florida, Wyoming, and Maryland). The Farm Service Agency did not guarantee any loans to SDFRs in Alaska, Connecticut, New Hampshire, or Rhode Island in fiscal year 2018.

Table 4: Top 10 State Recipients of FSA-Guaranteed Loans to Socially Disadvantaged Farmers and Ranchers (SDFR), Fiscal Year 2018

Top states by dollar amount				Top states by percentage of guaranteed loans			
	Guaranteed loan amount (dollars in millions)				Guaranteed loan amount (dollars in millions)		
State	All borrowers	SDFR borrowers	SDFR percentage of all borrowers	State	All borrowers	SDFR borrowers	SDFR percentage of all borrowers
Oklahoma	$109.4	$42.7	39	Puerto Rico	$1.7	$1.7	100
Texas	149.9	37.4	25	Hawaii	1.5	1.0	64
Arkansas	184.4	28.2	15	California	42.0	20.6	49
California	42.0	20.6	49	Delaware	11.5	4.8	42
Missouri	106.4	14.5	14	Oklahoma	109.4	42.7	39
Georgia	59.4	13.8	23	Florida	17.6	5.4	30
North Carolina	51.6	11.5	22	Wyoming	16.5	4.7	29
South Dakota	112.4	11.5	10	Maryland	14.8	3.9	26
Mississippi	57.6	10.7	19	South Carolina	40.0	10.3	26
South Carolina	40.0	10.3	26	Texas	149.9	37.4	25

Legend: FSA = Farm Service Agency

Source: GAO analysis of FSA data. | GAO-19-539

Stakeholders Identified Multiple Challenges That Socially Disadvantaged Farmers and Ranchers Face in Obtaining Private Agricultural Credit

Smaller Operations, Weaker Credit Histories, and Land Ownership Issues Reportedly Present Hurdles to Obtaining Agricultural Credit

According to representatives from some SDFR advocacy groups, federal depository institution regulators, and lending industry associations we interviewed, SDFRs can have difficulty obtaining agricultural credit from private-sector lenders because they operate smaller farms and in some cases do not meet standards for farm revenue, applicant credit history, and collateral.[69]

Farm size. As previously discussed, SDFRs are more likely than other farmers and ranchers to operate small farms, which can make it difficult for them to qualify for private credit. According to data from the 2017 Census of Agriculture, SDFRs represented 30 percent of primary producers but operated 39 percent of farms smaller than 50 acres and 16 percent of farms 500 acres or larger.[70] Some SDFR advocates and lending industry association representatives we interviewed said lenders have several incentives to lend to larger farms. First, one advocate noted that operators of smaller farms typically need smaller loans, and making many small loans is more time- and resource-intensive than making fewer, larger loans. Second, one industry association and one SDFR advocate noted that large farms often produce major commodities such as corn, soybeans, and beef cattle, while small farms often produce specialty crops. The SDFR advocate said underwriting loans to large farms that produce major commodities is easier and less risky because more data are available on the market for those products. Third, representatives of one SDFR advocacy group and one industry association noted that programs such as crop insurance are geared toward large, major-commodity farmers. They said these programs mitigate repayment risk and make lenders more likely to approve a loan or provide more favorable terms, such as lower interest rates. In contrast, representatives from the Office of the Comptroller of the Currency noted

[69]Collateral is an asset pledged as security to a lender until a loan is repaid. If the borrower defaults, the lender generally has the legal right to seize or force the sale of the collateral to pay off the loan.

[70]The most recent data available at the time of our review indicate that these general patterns held true for most SDFR subgroups. According to the 2012 Census of Agriculture, only American Indian or Native Alaskan farmers and ranchers operated larger farms on average than white farmers and ranchers. As of April 24, 2019, the Race/Gender/Ethnicity Profile that documents this information was not yet available for the 2017 Census of Agriculture.

that the Community Reinvestment Act can provide incentives for banks to lend to smaller farms.[71]

Farm revenue. Consistent with their smaller size, SDFR farms also generate less revenue on average than non-SDFR farms. As previously noted, SDFR primary producers accounted for a disproportionally small portion (13 percent) of total agricultural product sales in 2017 relative to their overall representation among primary producers (30 percent).[72] Additionally, according to one SDFR advocate, SDFRs may have more difficulty than other farmers and ranchers in documenting their revenue because they are more likely to sell their products through informal cash transactions.

Operating a lower-revenue farm and having limited documentation of revenue can be hurdles to obtaining private credit because these factors may negatively affect a lender's assessment of the applicant's repayment ability. Federal depository institution regulators have noted that farm revenue is critical to demonstrating a borrower's capacity to repay an agricultural loan. For example, in its risk management expectations for agricultural credit, the Board of Governors of the Federal Reserve System says banks should review borrower-prepared cash-flow statements to identify potential repayment-ability problems.[73] Lenders consider farm revenue when calculating an applicant's debt-to-income ratio (the percentage of income that goes to recurring debt payments), which is a central underwriting criterion. In general, having lower income relative to recurring debt payments indicates weaker repayment ability. Consistent with this principle, Farm Credit Administration regulations require Farm Credit System associations to have written policies and procedures that include underwriting standards that demonstrate an applicant's

[71]The Community Reinvestment Act is codified at 12 U.S.C. §§ 2901-2908. The act gives consideration for (1) small farm loans whose original amounts are $500,000 or less and were reported as either ''Loans to finance agricultural production and other loans to farmers'' or ''Loans secured by farmland'' in the Reports of Condition and Income, Schedule RC–C, Part I; and (2) within this group of loans, loans to farms with gross annual revenues of $1 million or less.

[72]The most recent data available at the time of our review indicate that these general patterns held true for most SDFR subgroups. According to the 2012 Census of Agriculture, only Hispanic and Asian farmers had higher average product sales than white farmers. As of April 24, 2019, the Race/Gender/Ethnicity Profile that documents this information was not yet available for the 2017 Census of Agriculture.

[73]Board of Governors of the Federal Reserve System, *Supervisory Expectations for Risk Management of Agricultural Credit Risk* (Washington, D.C.: Oct. 26, 2011).

repayment capacity when approving a loan.[74] Additionally, representatives of one industry lending association said that revenue is the most important factor that banks consider in underwriting agricultural loans.

Credit history. Some SDFRs may have relatively low credit scores or limited credit histories, which can make it difficult to obtain agricultural credit.[75] Some SDFR advocates and lending industry association representatives we interviewed said that some SDFR subgroups are more likely than members of nondisadvantaged groups to have difficulty meeting credit score standards for agricultural loans. Prior research provides some evidence to support this view. For example, the Board of Governors of the Federal Reserve System reported in 2007 that African Americans and Hispanics had lower credit scores on average than non-Hispanic whites and Asians, although the study did not specifically examine farmers and ranchers.[76]

While private agricultural lenders are not subject to federal statutory or regulatory credit score requirements for approving agricultural loans, federal depository institution regulators emphasize the importance of evaluating applicants' creditworthiness in their lending guidelines. For example, the Office of the Comptroller of the Currency's handbook on agricultural lending states that current credit information is essential to a bank's ability to evaluate borrowers' creditworthiness.[77] Lending industry association representatives we interviewed also noted that underwriting for agricultural lending is increasingly standardized and reliant on credit scores. For example, representatives from the Farm Credit Council (the trade association for the Farm Credit System) said approval decisions for about one-half of the loans that Farm Credit System associations make each year are made using credit scorecards. Credit scorecards are algorithms that statistically quantify a borrower's probability of repayment using inputs such as the borrower's credit score. Additionally,

[74]12 C.F.R. § 614.4150(g)(1).

[75]Credit scores are numeric indicators of a borrower's ability to repay future obligations. They generally range from 300 to 850 and are calculated based on credit reports from the national credit bureaus.

[76]Board of Governors of the Federal Reserve System, *Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit* (Washington, D.C.: August 2007).

[77]Office of the Comptroller of the Currency. *Comptroller's Handbook: Agricultural Lending, Version 1.3* (Oct. 15, 2018).

participation in the secondary market for agricultural loans may require lenders to comply with credit score criteria.[78] For example, the Federal Agricultural Mortgage Corporation (commonly known as Farmer Mac)—a federal government-sponsored enterprise that purchases and securitizes agricultural loans—has minimum credit score standards that range from 660 to 720.

Collateral. Some SDFRs face challenges using their agricultural land as collateral. Many long-term agricultural loans require the borrower to pledge land as collateral to secure the transaction. For example, long-term loans (up to 40 years) made by Farm Credit System associations must be secured by a first-position lien on interests in real estate, generally enabling the Farm Credit System to obtain ownership or control of the land in the event of default. Federal regulators, lending industry association representatives, and SDFR advocates we spoke with identified several reasons why SDFRs, especially African Americans and American Indians on tribal lands, have difficulty using agricultural land as loan collateral.

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.[79] SDFR advocates and officials from the Farm Credit Administration told us these issues have particularly affected African American farmers due to historical factors that limited their access to legal services. In our May 2019 report about lending on tribal lands, we discussed how these issues also have posed problems for American Indian farmers.[80]

[78]In the secondary market, lenders sell loans to entities that package the loans into securities and sell the securities to investors.

[79]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).

[80]GAO-19-464.

As we also reported in May 2019, American Indian farmers on tribal lands face additional challenges in using tribal land as collateral for agricultural loans because of statutory restrictions and some lenders' concerns about their ability to enforce a foreclosure.

Farmer Advocates Report Additional Challenges for Socially Disadvantaged Farmers and Ranchers Seeking Agricultural Credit

SDFR advocates we spoke with said that in addition to difficulty meeting loan underwriting standards, SDFRs face challenges related to historical discrimination, ongoing unfair treatment by lenders, and a lack of familiarity with some programs and technologies when trying to obtain private agricultural credit.

As the Congressional Research Service reported in 2013, allegations of unlawful discrimination against SDFRs in the management of USDA programs are long-standing and well-documented.[81] For example, in 1965, the U.S. Commission on Civil Rights found evidence of discrimination in the delivery of USDA farm programs, including loan programs.[82] A subsequent report by the commission in 1982 and a report by the USDA Civil Rights Action Team in 1997 found continuing problems with the experience or treatment of SDFRs in USDA programs.[83] USDA has also settled several class action lawsuits that SDFRs filed for, among other things, discrimination in the agency's farm assistance programs.[84] The allegations in these lawsuits included that USDA systematically denied SDFRs agricultural credit and other program benefits in violation

[81]Congressional Research Service, *Garcia v. Vilsack: A Policy and Legal Analysis of a USDA Discrimination Case* (Washington, D.C.: Feb. 22, 2013).

[82]U.S. Commission on Civil Rights, *Equal Opportunity in Farm Programs: An Appraisal of Services Rendered by Agencies of the United States Department of Agriculture* (Washington, D.C.: Feb. 27, 1965).

[83]U.S. Commission on Civil Rights, *The Decline of Black Farm Ownership in America*. (Washington, D.C.: 1982) and U.S. Department of Agriculture, *Civil Rights at the United States Department of Agriculture: A Report by Civil Rights Action Team*. (Washington, D.C.: February 1997).

[84]*Pigford v. Glickman* was filed on behalf of African American farmers in 1997 and settled in 1999, *Keepseagle v. Vilsack* was filed on behalf of Native American farmers in 1999 and settled in 2010, *Love v. Vilsack* was filed on behalf of female farmers in 2000, and *Garcia v. Vilsack* was filed on behalf of Hispanic farmers in 2000. *See* P*igford v. Glickman, N*os. 97–1978, 98–1693 (D.D.C. filed Aug. 28, 1997, July 7, 1998)*; Keepseagle v. Vilsack,* No. 99–03119 (D.D.C. filed Nov. 24, 1999)*; Garcia v. Vilsack,* No. 00–2445 (D.D.C. filed Oct. 13, 2000)*; Love v. Vilsack,* No. 00–2502 (D.D.C. filed Oct. 19, 2000). *Garcia* and *Love* were consolidated on appeal and settled in 2011. In a 2010 settlement referred to as *Pigford II,* additional funds were made available to African American farmers who filed claims after the filing deadline for funds available under *Pigford.*

of ECOA and failed to investigate complaints of discrimination, as required by USDA regulations.[85] The settlements made more than $4 billion in awards available to farmers and ranchers whose claims were approved through administrative procedures.

Some SDFR advocates told us that historical discrimination in agricultural lending adversely affects SDFRs' current ability to obtain private credit in several ways. First, they said SDFRs who were unfairly denied USDA loans and other program benefits in the past have not been able to develop their farms in the same ways as farmers and ranchers who did receive loans, thus reducing their ability to obtain private credit today. The advocates elaborated that USDA agricultural credit allows recipients to expand operations and to purchase land and equipment that can later be used as collateral, making it easier to get subsequent and larger loans. Some SDFR advocates also stated that historical exclusion from credit markets and farm programs has limited SDFRs' familiarity with lending standards and resulted in less formal recordkeeping, which impairs their ability to obtain private-sector credit. Finally, advocates said that historical discrimination has led generations of SDFRs to distrust institutional lenders, making them less likely to apply for credit.

Some SDFR advocates we spoke with said that unfair treatment by private lenders is also a barrier to SDFRs obtaining private agricultural credit. One SDFR advocate said some lenders discriminate against SDFRs in loan approval decisions but that they more frequently treat SDFRs unfairly with respect to loan terms and conditions (for example, interest rates, fees, and collateral requirements) and loan servicing (for example, restructuring and foreclosure mitigation actions). Another noted that adverse loan terms and conditions and servicing practices can increase the risk that borrowers will lose their farm, house, and other property by making the loan unaffordable or reducing the chances that borrowers will catch up on payments if they fall behind. For example, this SDFR advocate said they were aware of cases in which (1) lenders required SDFRs to pledge potentially excessive collateral for loans, such as the borrower's home in addition to the farm land, and (2) loan servicers moved more quickly to foreclose on SDFR borrowers who were behind on

[85]We previously reported that USDA's Office of Civil Rights had significant problems in processing discrimination complaints in a timely manner. See GAO, *U.S. Department of Agriculture: Recommendations and Options to Address Management Deficiencies in the Office of the Assistant Secretary for Civil Rights*, GAO-09-62 (Washington, D.C.: Oct. 22, 2008).

loan payments than on other borrowers and did not provide repayment options that may have allowed them to continue their operations. One SDFR advocate also stated that some SDFRs report not feeling welcome at lending institutions based on the perception of having been repeatedly dismissed by lender staff, while another said that in some cases, SDFRs have not been provided timely or helpful information on the loan application process. One SDFR advocate we spoke with said these practices are prevalent in some agricultural credit markets and that they had been or were currently involved in litigation related to these types of practices.

However, banking industry association representatives said they did not believe that SDFRs are being treated unfairly and that denying loans to qualified applicants would cause lenders to decrease profits in a competitive market. They noted that lenders face significant competition, which incentivizes them to make loans to all qualified borrowers, and that lending decisions and loan terms are based only on the applicant's ability to repay a loan and other underwriting criteria. We did not attempt to independently verify claims of unfair treatment of SDFRs by private-sector lenders, in part because data limitations discussed earlier limit the identification and analysis of possible discriminatory practices.

Some SDFR advocates also said that some SDFRs may not be obtaining private agricultural credit because they are not aware of all potential credit options and related programs and are not always familiar with the technology needed to access them. For example, one advocate told us some SDFRs may not be aware that they could qualify for private agricultural loans, especially if they are recent immigrants or new to agriculture. This problem may be particularly true for loans from the Farm Credit System associations. Two advocates said SDFRs are not familiar with these lenders, and representatives of the Farm Credit Council told us people who did not grow up in farming tended not to know about the Farm Credit System. SDFR advocates we spoke with said this issue is exacerbated by limited outreach by private lenders to SDFRs, as discussed in more detail later in this report. Advocates also noted that historically disadvantaged groups are less likely to have access to or be familiar with computer technology and the internet, and that credit applications and related financial education programs are now provided online.

Lenders and Federal Agencies Conduct Some Outreach to Socially Disadvantaged Farmers and Ranchers, but the Effectiveness of These Efforts Is Unknown

Farm Credit System Outreach Is Not Specifically Targeted to Socially Disadvantaged Groups, and Data Collection Restrictions Prevent Assessment of Impact

The Farm Credit System does not have a specific mandate to serve SDFRs, but its associations conduct some outreach to SDFRs in implementing the following statutory requirements and Farm Credit Administration regulations.

- The Farm Credit Act of 1971 was amended in 1980 to require the Farm Credit System to serve young, beginning, and small farmers.[86] Related Farm Credit Administration regulations require the associations to implement effective outreach programs to these groups. While these requirements do not mandate outreach to SDFRs specifically, Farm Credit Administration officials said that many SDFRs qualify as young, beginning, or small farmers and, therefore,

[86]Pub. L. No. 96-592, § 403 (1980) (codified as amended at 12 U.S.C. § 2207). The Farm Credit Administration defines young farmers as farmers, ranchers, or producers or harvesters of aquatic products who are 35 years old or younger as of the loan transaction date and beginning farmers as those who have 10 years or less of farming, ranching, or aquatic experience as of the loan transaction date. Small farmers are those who normally generate less than $250,000 in annual gross sales of agricultural or aquatic products. The Farm Credit System is not statutorily mandated to focus on providing financial opportunities to any other groups of eligible agricultural producers besides young, beginning, and small farmers. The Farm Credit System is tasked by statute to be responsive to the credit needs of all types of eligible and creditworthy agricultural borrowers.

that Farm Credit System outreach efforts reach SDFRs to some extent.[87]

- In 2012, the Farm Credit Administration amended its regulations on business planning to help ensure the Farm Credit System is responsive to the credit needs of all eligible and creditworthy persons.[88] The regulations, which first applied to 2013 business plans, require Farm Credit System associations to develop marketing plans describing, among other things, (1) the demographic groups in their service areas, (2) ways to market their services to all qualified farmers and ranchers, and (3) specific outreach toward diversity and inclusion in each market segment.[89] The supplementary information included with the publication of the final rule cites the perception of some SDFR advocates that Farm Credit System associations are not accessible to underserved farmers and have not conducted sufficient outreach to those populations about programs and services.

The full extent of the Farm Credit System associations' outreach to SDFRs is unknown. Neither the Farm Credit Administration nor the Farm Credit Council maintains aggregated information on the number or type of completed outreach activities involving SDFR participants. However, our nongeneralizable review of recent marketing plans from six Farm Credit System associations in areas with relatively high proportions of SDFRs identified some examples of outreach to SDFRs. For instance, some associations have partnered with a nonprofit organization to provide educational programs designed to strengthen women's roles in the modern farm enterprise. Associations have also participated in agricultural conferences at historically black colleges and universities and translated marketing materials for non-English speakers.

[87]Data from the 2017 Census support this view. For example, in 2017, 26 percent of SDFR primary producers had less than 10 years of farming experience, which would qualify them as beginning farmers, and at least 87 percent would qualify as small farmers based on their sales of agricultural products.

[88]Farm Credit System associations are not evaluated under the Community Reinvestment Act, which requires certain federal banking regulators to assess whether financial institutions they supervise are meeting the credit needs of the local communities.

[89]Farm Credit System marketing plans are also required to include strategies and actions to promote diversity and inclusion within the bank or association's workforce and management, in part on the basis that diverse perspectives within institutions can help increase diversity among customers. *See generally*, 12 C.F.R. § 618.8440 and 77 Fed. Reg. 25577 (May 1, 2012).

Despite some outreach, some SDFR advocates we spoke with said that Farm Credit System associations' outreach has had limited effects on the amount of credit provided to SDFRs and SDFRs' familiarity with the system. One SDFR advocate we spoke with said that while some Farm Credit System associations engage with socially disadvantaged communities, the outreach has not increased the diversity of the system's borrowers. Others said that Farm Credit System outreach to SDFR communities has been insufficient and that some SDFRs are still not aware of the Farm Credit System. However, one SDFR advocate noted that the Farm Credit System's outreach to young, beginning, and small farmers has been beneficial for those populations.

The impact of Farm Credit System associations' outreach to SDFRs is also not known. The marketing plan requirement does not oblige Farm Credit System associations to meet specific lending goals or favor any type or group of agricultural producers in their underwriting. Accordingly, the associations are not expected to quantify the extent to which they are meeting their diversity and inclusion outreach plans in the information they provide to their boards of directors. Moreover, Farm Credit Administration officials said Regulation B, discussed earlier, prevents the associations from collecting data on the race, ethnicity, and sex of loan applicants that would be needed to assess the effects of outreach efforts on lending to socially disadvantaged groups. In contrast, the officials noted that Farm Credit System associations are required to set lending targets for young, beginning, and small farmers; monitor outreach to those groups; and report on performance results of their young, beginning, and small farmer programs. In 2018, the Farm Credit System reported that all direct-lender institutions with young, beginning, and small farmer programs within the system were in compliance with these requirements.[90]

While the Farm Credit Administration has not evaluated the impact of outreach by Farm Credit System associations, its reviews of association marketing plans have found that most of the plans comply with requirements for outreach toward diversity and inclusion but that some lack specificity. The Farm Credit Administration told us it examines all of the associations' marketing plans for regulatory compliance every 3

[90]Farm Credit Administration, *Fiscal Year 2018 Performance and Accountability Report* (McLean, Va.: 2018).

years.[91] Farm Credit Administration officials reviewed their examinations from 2014 and 2017, the two scheduled examination cycles after the new requirements were implemented in 2012. They found that 85 percent of the 78 Farm Credit System associations examined in 2014 complied with the marketing and outreach requirements, and 94 percent of the 71 associations examined in 2017 complied. In cases where examiners identified deficiencies in marketing plans, the agency said it prescribed corrective actions, including requiring associations to do the following:

- obtain sufficiently detailed information to analyze and understand potential markets;
- develop specific action plans and outreach strategies to market the institution's products and services to potentially underserved markets; and
- ensure appropriate reporting on progress in accomplishing marketing plan strategies and actions.

Farm Credit Administration officials said they hold periodic discussions with managers of Farm Credit System associations to monitor the status of corrective actions and conduct follow-up examinations to determine the adequacy of the corrective actions and, if applicable, the need for additional enhancements.

The results of our review of a nongeneralizable sample of association marketing plans were broadly consistent with the Farm Credit Administration's findings. We reviewed the most recent available plans of the six Farm Credit System associations noted previously for evidence of demographic information on the institution's service area and for diversity and inclusion outreach efforts. Among the plans we reviewed, five included demographic information, but one did not. Farm Credit Administration officials said they also had identified that deficiency in their examination of that marketing plan. Additionally, five of the plans had examples of planned outreach efforts to SDFRs, but another one did not.

[91]The Farm Credit Administration also told us it conducts supplemental examinations of individual associations in between regularly scheduled examinations based on a risk assessment.

Other Lenders Conduct Little Outreach to Socially Disadvantaged Farmers and Ranchers and Are Not Required to Do So

According to representatives of lending industry associations we interviewed, commercial banks generally do not target outreach for agricultural lending to specific demographic groups. Officials from the federal depository institution regulators noted that commercial banks and credit unions are not required to conduct outreach on agricultural lending, and that the extent to which any lender conducts outreach is a private business decision. However, officials from one federal depository institution regulator noted that some lenders have participated in conferences organized by SDFR groups. They also said that in fulfilling responsibilities under the Community Reinvestment Act, lenders engage with community groups in their assessment areas to help identify credit needs.[92] The officials said these efforts would likely engage SDFRs in areas where agriculture was prevalent and where agricultural lending was part of a bank's business model.

Some SDFR advocates we interviewed said that outreach and engagement by commercial banks was insufficient. For example, despite their familiarity with agricultural lending, some noted that they did not know of any specific outreach to SDFRs by private-sector lenders. They also noted that additional outreach is needed because some SDFRs are not familiar with agricultural lending products offered by commercial banks.

Federal depository institution regulators do not monitor outreach to SDFRs by the institutions they supervise but have conducted some additional outreach themselves. Officials from the regulatory agencies told us they do not collect data on the amount of, types of, participation in, or impact of outreach conducted by their regulated institutions. However, as part of their efforts to promote the availability of credit and other services, the federal depository institution regulators have engaged in some outreach to SDFRs, as shown in the following examples.

- The Office of the Comptroller of the Currency has established an Office of Minority and Women Inclusion and an Office of External Outreach and Minority Affairs, which help to address fair credit access issues affecting minority communities and have worked with some national SDFR groups to coordinate, facilitate, and implement conferences, roundtables, and seminars.

[92] *See generally* 12 U.S.C. §§ 2901-2908.

- The Federal Deposit Insurance Corporation's Community Affairs Branch has engaged bankers, nonprofits, and other stakeholders to provide small business training for SDFRs. This training provides examples of small business lending and has highlighted programs for which participants may qualify.
- In 2017, the Federal Reserve Bank of St. Louis and the Board of Governors of the Federal Reserve System engaged with federal agencies, businesses, and groups representing SDFRs to develop and publish a guide titled Harvesting Opportunity, which focuses on how credit can provide greater support for local food-related businesses and farmers.[93]

USDA Conducts Outreach to Socially Disadvantaged Groups on Its Lending Programs, but Data-Collection Challenges Hamper Evaluation of Outcomes

USDA facilitates and provides outreach to SDFRs that some SDFR advocates say has been beneficial, but outreach on USDA-guaranteed farm loans is just one component of this broad-based effort. USDA's Office of Partnerships and Public Engagement implements the Outreach and Technical Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers Program, referred to as the Section 2501 program.[94] The program is designed to enhance coordination of outreach, technical assistance, and education efforts authorized under agricultural programs to improve SDFR and veteran farmer and rancher participation in the full range of USDA programs, including guaranteed farm loans. USDA officials said this program primarily provides grants and technical assistance to community-based organizations and develops materials describing best practices for national, state, and local outreach efforts. Two SDFR advocates we interviewed said outreach programs coordinated through the Section 2501 program have improved SDFRs' understanding of USDA's farm lending programs, and that the program's efforts to engage SDFRs in programs and services are better now than they have been historically. USDA officials said they track these outreach activities but do not maintain data on activities that specifically address guaranteed loans because the outreach is generally intended to connect

[93]Federal Reserve Bank of St. Louis and the Board of Governors of the Federal Reserve System, *Harvesting Opportunity: The Power of Regional Food System Investments to Transform Communities* (2017).

[94]Section 2501 of the Food, Agriculture, Conservation, and Trade Act of 1990 established this program. *See* Pub. L. No. 101-624 § 2501, 104 Stat. 3359 (1990). As amended, the act establishes the program to encourage and assist SDFRs and veteran farmers or ranchers in owning and operating farms and ranches, and in participating equitably in the full range of agricultural programs offered by USDA. *See* 7 U.S.C. § 2279(c)(2)-(3).

socially disadvantaged groups with any USDA program that may be appropriate.

In addition to department-level outreach activities, USDA's Farm Service Agency conducts outreach to increase SDFR participation in its programs through activities targeted to underserved populations. Farm Service Agency outreach efforts are conducted by the agency's field offices and overseen by the Outreach Office. The outreach includes lender trainings and partnerships with community-based and tribal organizations to engage socially disadvantaged communities. Farm Service Agency officials said that they have partnered with private-sector lenders to conduct some outreach events specifically related to the guaranteed farm loan program but that most of the outreach is more general.

Farm Service Agency officials told us they use data on guaranteed loans to SDFRs to target outreach to underserved communities. As previously discussed, unlike other providers of agricultural credit, USDA generally collects data on the personal characteristics of guaranteed loan applicants and borrowers. Farm Service Agency officials told us that state executive directors, farm loan chiefs, and outreach coordinators plan their outreach in annual strategy sessions. As part of this planning, state offices review the state's lending goals for SDFRs, Census of Agriculture data on the state's farmer population, and data on Farm Service Agency direct and guaranteed loans made to farmers belonging to different socially disadvantaged groups to target outreach to underserved communities. While the outreach is planned by state offices, the Farm Service Agency's Director of Outreach said the Outreach Office has emphasized the use of lending goals and loan data in targeting outreach efforts.

Although it maintains data on guaranteed loans made to SDFRs, USDA generally does not evaluate whether SDFR outreach participants go on to use Farm Service Agency lending programs or otherwise evaluate the impact of its outreach on lending to SDFRs. Farm Service Agency officials said that they track outreach activities at the national level by monitoring the number of activities, the groups engaged, and the number of participants, but that they face challenges evaluating the impact of outreach efforts. The officials said any personal or demographic information on outreach participants must be voluntarily provided by the participants, but that many of them are reluctant to do so.[95] As a result, data on the characteristics of outreach participants are limited. The lack of data, in turn, makes it difficult to assess how effectively the outreach was targeted and whether it could be expected to increase lending to socially disadvantaged groups. Representatives from one SDFR advocacy organization said that while outreach programs may increase SDFRs' understanding of USDA's loan programs, it is unclear how much outreach programs help SDFRs obtain credit because USDA does not track participant outcomes. Farm Service Agency officials said that some of their state offices have begun trying to track the progress of individual outreach participants in obtaining loans through Farm Service Agency programs (using voluntarily provided information), but that these efforts were in the early stages.

Agency Comments and Our Evaluation

We provided a draft of this report to USDA, the Farm Credit Administration, the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the National Credit Union Administration for their review and comment. The Board of Governors of the Federal Reserve System and the National Credit Union Administration did not provide comments. USDA, the Farm Credit Administration, the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Agriculture, the Acting Chairman and Chief Executive Officer of the Farm Credit Administration, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

[95]Farm Service Agency officials said that in the past the agency gathered demographic information by visual observation of outreach participants but that the information was unreliable.

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

Anna Maria Ortiz
Acting Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to examine (1) what is known about the amount and types of agricultural credit to socially disadvantaged farmers and ranchers (SDFR), (2) challenges SDFRs reportedly face in obtaining agricultural credit, and (3) outreach efforts to SDFRs regarding agricultural credit and related services.

In this report, we use the term SDFR as defined in the Consolidated Farm and Rural Development Act, as amended, and related U.S. Department of Agriculture (USDA) regulations. The act defines a socially disadvantaged group as one whose members have been subject to racial, ethnic, or gender prejudice because of their identity as members of a group without regard to their individual qualities.[1] USDA regulations further define SDFRs as belonging to the following groups: American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women.[2] Although the act and USDA regulations defined SDFR for purposes of classifying participants in USDA programs, in this report, we use USDA's definition to identify SDFRs both in USDA programs and in the broader population of agricultural producers, consistent with the statutory provision this report responds to.[3]

Additionally, based on the language of the statutory provision, we excluded USDA direct loans from the scope of our review and focused on lending by private entities. The provision defines an agricultural credit provider as a Farm Credit System institution, a commercial bank, the Federal Agricultural Mortgage Corporation, a life insurance company, and any other individual or entity as determined by the Comptroller General of the United States.

Estimates of the Numbers of Farms and Socially Disadvantaged Farmers and Ranchers

For the background section of this report, USDA's National Agricultural Statistics Service provided estimates from the 2012 and 2017 Censuses of Agriculture on the number of farm and ranch operations (which we refer to as farms) whose primary producer—that is, main decision maker—qualified as an SDFR, broken down by different SDFR subgroups. The service also provided estimates on the characteristics of farms whose primary producer was an SDFR, including the total acreage

[1] 7 U.S.C. § 2003(e).

[2] 7 C.F.R. § 761.2.

[3] *See* Pub. L. No. 115-334, § 5416(a)(2), 132 Stat. 4490, 4725 (2018).

and market value of products sold. We compared the 2017 Census estimates of SDFR primary producers to analogous estimates from the 2012 Census and calculated numerical and percentage differences. We reviewed documentation on the methodologies used by the 2012 and 2017 Censuses to identify the main decision maker on a farm. We also interviewed National Agricultural Statistics Service officials about methodological differences between the two censuses and their likely effects on the number of reported SDFR primary producers. The 2012 Census used the term “principal operator” rather than “primary producer” to identify the main farm decision maker, but for ease of presentation we use the term primary producer in reference to both the 2012 and 2017 Censuses because the terms generally have the same meaning.

Amount and Types of Credit to Socially Disadvantaged Farmers and Ranchers

To examine what is known about the amount and types of agricultural credit to SDFRs, we reviewed requirements in the Equal Credit Opportunity Act and its implementing regulation (Regulation B) governing the collection of data on the personal characteristics of loan applicants.[4] We interviewed officials from the Consumer Financial Protection Bureau (CFPB), which has primary responsibility for issuing Equal Credit Opportunity Act regulations, about these requirements and the status of a related rulemaking pursuant to a provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act.[5] We also interviewed officials from the federal depository institution regulators—the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and National Credit Union Administration—about the extent of information available on agricultural lending to SDFRs and about data restrictions stemming from Regulation B. We also drew upon information and analysis from our June 2008 and July 2009 reports on data limitations in nonmortage lending.[6]

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[4]The Equal Credit Opportunity Act is codified at 15 U.S.C. §§ 1691-1691f. Regulation B is codified at 12 C.F.R. pt. 1002.

[5]The CFPB rulemaking relates to Section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. *See* Pub. L. No. 111-203, § 1071, 124 Stat. 1376, 2056 (2010) (codified at 15 U.S.C. § 1691c-2).

[6]GAO, *Fair Lending: Race and Gender Data Are Limited for Nonmortgage Lending,* GAO-08-698 (Washington, D.C.: June 27, 2008) and *Fair Lending: Data Limitations and the Fragmented U.S. Financial Regulatory Structure Challenge Federal Oversight and Enforcement Efforts,* GAO-09-704 (Washington, D.C.: July 15, 2009).

Additionally, we analyzed data from USDA's Agricultural Resource Management Survey. The survey is a multiphase series of interviews that uses a multiframe, stratified, probability-weighted sampling design. The survey does not include Hawaii or Alaska. USDA's Economic Research Service provided us customized summary statistics from the 2015, 2016, and 2017 surveys combined. Specifically, the service averaged survey data for those 3 years to provide a robust sample size of surveyed SDFRs. The service provided estimates and associated confidence intervals on the proportion of primary producers who were and were not SDFRs;[7] the annual average amount of outstanding farm debt each group had over the 3-year period, by type of debt (ownership or operating); and the lending source for this debt (USDA Farm Service Agency, Farm Credit System institution, commercial bank and savings associations, or other).[8] The service adjusted debt information for inflation. Specifically, to create standard errors for the 3-year averages, the service adjusted outstanding debt to 2017 dollars using the chain-type gross domestic product deflator. We compared and contrasted survey statistics for SDFRs and non-SDFRs, focusing on the volume and percentage of total outstanding farm debt, farm ownership and operating debt, and lender type. We interviewed Economic Research Service officials about limitations of the survey data. The limitations include the small size of several SDFR subgroups (which prevented more detailed analysis of different demographic groups), the potential underrepresentation of SDFRs in the survey, and potential overreporting of debt from commercial lenders. With regard to lender type, respondents may not have known the specific types of lenders they used. The survey results for all farms appear to overrepresent debt from commercial banks and savings associations when compared with data collected by the service on farm-

[7]The surveys defined main farm decision makers similarly to the 2012 Census and called them principal operators. For presentation purposes, we refer to these individuals as primary producers (consistent with terminology from the 2017 Census) because the terms generally have the same meaning.

[8]The survey measures farm business debt, which excludes debt for producer dwellings that are not part of the farm operation, non-farm-use dwellings, nonfarm debt held by the primary producer, debt held by nonproducer landlords, and nonfarm debt held by others.

sector balance sheets.[9] It is possible some survey respondents mischaracterized some debt from Farm Credit System institutions as debt from commercial banks. These issues and their implications are discussed in the body of this report.

To assess the reliability of the survey data, we reviewed methodology and quality review documents and compared results to other publicly available sources, such as farm balance-sheet data and the 2017 Census. We concluded that the data were sufficiently reliable for describing the amount and types of agricultural credit SDFRs received, the sources of this credit, and how SDFRs and non-SDFRs compared along these dimensions.

We also analyzed USDA data on farm ownership and farm operating loans guaranteed by the Farm Service Agency in fiscal years 2014 through 2018. We focused on guarantees issued by the Farm Service Agency because it operates the primary federal agricultural credit programs.[10] For the 5-year period, we analyzed the annual amount and percentage of guaranteed loans (by dollar volume and adjusted for inflation) that went to SDFRs. We also separately examined trends in guaranteed farm operating and farm ownership loans to SDFRs. Finally, we analyzed the volume of guaranteed loans to SDFRs by state. We used this analysis to identify the top 10 states (or territories) in terms of (1) the dollar amount of guaranteed loans that went to SDFRs and (2) the

[9]Differences between the survey and balance-sheet data limit the comparability of the two sources. The balance-sheet data use a more expansive definition of farm debt and are compiled from information filed by lenders, while the survey data are gathered from farm producers. However, according to the balance-sheet data, in 2015–2017, commercial banks and savings associations accounted for 41 percent to 43 percent of outstanding farm debt, and Farm Credit System institutions accounted for 40 percent to 41 percent. In the survey data, commercial banks and savings associations accounted for 51 percent (50–53 percent at the 90 percent confidence level) of outstanding farm debt, and Farm Credit System institutions accounted for 30 percent (27–32 percent at the 90 percent confidence level). U.S. Department of Agriculture, Economic Research Service, *U.S. and State-Level Farm Income and Wealth Statistics*, accessed May 13, 2019. https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics/.

[10]The Small Business Administration (SBA) also guarantees loans to agricultural business operators, including to members of socially disadvantaged groups, through its 7(a) loan program. We did not include SBA's program in the scope of our review because 7(a) loans account for about 1 percent of agricultural lending. In fiscal year 2016, SBA approved approximately $708 million in 7(a) loans to agricultural businesses. At least 23.7 percent of that amount represented loans to minority- or women-owned businesses. SBA officials suggested that this percentage should be interpreted with caution because the demographic data are voluntarily self-reported by small business applicants and are not corroborated.

proportion of guaranteed lending to the state or territory that went to SDFRs.

To assess the reliability of data from USDA, we conducted electronic testing—including checks for missing data and erroneous values—and compared the data to publicly available sources. The loan guarantee data we present are somewhat different than publicly available information on USDA's website because we used loan closing dates to group loans by fiscal year, while the publicly available data used the dates on which USDA obligated commitment authority for the loans. According to USDA officials, the closing date is a more accurate representation of the actual amount of loans guaranteed in a fiscal year, because some loans for which commitment authority is obligated may close in the following fiscal year or not close at all. We also interviewed USDA officials about interpretations of data fields and robustness of estimated values, among other things, and reviewed USDA internal policies and procedures for data entry. We concluded that the data were sufficiently reliable for describing the amount and proportion of farm lending guaranteed by the Farm Service Agency that went to SDFRs and non-SDFRs nationwide and by state.

Finally, we reviewed documents and interviewed officials from the Farm Service Agency on the agency's performance goals and target participation rates for farm lending to SDFRs. We also reviewed a 2007 USDA Office of General Counsel legal opinion on a statutory provision concerning establishment of target participation rates for SDFRs.[11] However, an evaluation of the legal opinion was outside the scope of our study.

SDFR Credit Challenges and Outreach Efforts to SDFRs

To examine challenges SDFRs face in obtaining agricultural credit and outreach efforts to SDFRs regarding agricultural lending, we conducted searches of government and academic literature for research on private agricultural lending to socially disadvantaged groups. We searched the internet and various databases, such as AGRICOLA, EconLit, ProQuest Newsstand Professional, and Social SciSearch. Using broad search terms, we identified articles related to our research objectives that provided useful context and discussion topics for interviews with stakeholders. We did not identify any government or peer-reviewed

[11]*See* Pub. L. No. 100-233 § 617 (1988) (codified as amended at 7 U.S.C. § 2003).

academic literature that directly addressed private agricultural lending to socially disadvantaged groups, barriers those groups may face when trying to obtain agricultural credit, or outreach to disadvantaged groups by private agricultural lenders. We also solicited expert recommendations for academic literature on agricultural lending to socially disadvantaged groups. Several SDFR advocates identified the Socially Disadvantaged Farmers and Ranchers Policy Research Center as a potential source for academic literature on the subject.[12] We found that the center had conducted some potentially relevant research but that the work had yet to be published in academic journals or government publications.

To review efforts by agricultural lenders and their regulators to provide and oversee credit-related services to SDFRs—including marketing, outreach, and education activities—we reviewed data and documents from the Farm Credit System, USDA, and the federal depository institution regulators. We reviewed summary statistics from the Farm Credit Administration's 2014 and 2017 examinations of Farm Credit System association marketing plans to determine the extent to which the associations had met requirements for outreach for diversity and inclusion. We supplemented this effort by reviewing marketing plans from a sample of six Farm Credit System associations in areas with substantial proportions of SDFRs from each of the socially disadvantaged groups identified in USDA regulations. While we included associations from different geographic regions of the country, the sample was not intended to be representative of all associations. We documented the extent to which the marketing plans we reviewed contained information on the demographic characteristics of the population in the associations' service areas and planned outreach activities for diversity and inclusion. We also documented examples of outreach to SDFRs that were ongoing or that they had completed. Further, we also reviewed illustrative examples of outreach materials to SDFRs developed by USDA and the federal depository institution regulators, and we interviewed officials from these agencies about their outreach efforts.

To gain further insight into challenges faced by and outreach efforts to SDFRs, we interviewed (1) SDFR advocacy and research organizations,

[12]The Socially Disadvantaged Farmers and Ranchers Policy Research Center, located at Alcorn State University, was authorized in the Agricultural Act of 2014 and is funded by USDA for the purpose of developing policy recommendations for the protection and promotion of the interests of SDFRs. *See* Pub.L. No. 113–79, § 12203, 128 Stat. 649, 984 (2014) (codified at 7 U.S.C. § 2279(c)(5)).

(2) industry group representatives, and (3) federal agency officials. We refer collectively to the entities we interviewed as stakeholders. To select SDFR advocacy and research organizations, we used a snowball sampling technique that identified organizations based on referrals obtained during prior GAO studies and referrals from stakeholder interviews during this study. We limited our interviews to organizations that are national in scope and that focus on one or more socially disadvantaged populations and on agricultural credit or finance. Based on the snowball sampling, we identified and interviewed representatives from the following five groups: Socially Disadvantaged Farmers and Ranchers Policy Research Center, National Sustainable Agriculture Coalition, National Black Farmers Association, Rural Coalition, and Rural Advancement Foundation International-USA. The snowball sampling did not identify a national advocacy organization focused on women farmers—the largest SDFR subgroup—but we identified American Agri-Women based on an internet search, and we interviewed representatives from that organization as well. Because the group of organizations we interviewed was a nonprobability sample, the information they provided is not generalizable.

We also interviewed representatives from lending industry groups—the American Bankers Association, the Independent Community Bankers of America, and the Farm Credit Council—that we selected to cover the major types of private institutional lenders that make agricultural loans, including large commercial banks, community banks, and the Farm Credit System. Additionally, we contacted industry associations representing insurance companies and community development financial institutions—both of which provide some agricultural credit—but representatives from these associations said they did not have information directly related to our research topic.

Finally, we interviewed officials from USDA and its Farm Service Agency, the Farm Credit Administration, CFPB, and the federal depository institution regulators.

For our work on credit challenges faced by SDFRs, we also drew upon information and analysis from our May 2019 report on agricultural lending on tribal lands.[13] Among other things, that report describes (1) what is known about the agricultural credit needs of Indian tribes and their

[13]GAO, *Indian Issues: Agricultural Credit Needs and Barriers to Lending on Tribal Lands*, GAO-19-464 (Washington, D.C.: May 9, 2019).

members, (2) barriers stakeholders identified to agricultural credit on tribal lands, and (3) Farm Credit System authority and actions to meet those agricultural credit needs.

We conducted this performance audit from January 2019 to July 2019 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 II: GAO Contact and Staff Acknowledgments

GAO Contact

Anna Maria Ortiz, (202) 512-8678 or ortiza@gao.gov

Staff Acknowledgments

In addition to the contact named above, Steve Westley (Assistant Director); Jeremy Anthony (Analyst in Charge); Katherine Carter; William Chatlos; Tom Cook; Sam Portnow; Jennifer Schwartz; Jena Sinkfield; Tyler Spunaugle; and Farrah Stone made key contributions to this report.

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