

United States Senate

WASHINGTON, DC 20510

December 15, 2021

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue Northwest
Washington, D.C. 20551

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street Northwest
Washington, D.C. 20429

The Honorable Michael Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street Southwest
Washington, D.C. 20219

The Honorable Todd Harper
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

The Honorable Glen Smith
Chairman
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102

Dear Chairman Powell, Chairman McWilliams, Acting Comptroller Hsu, Chairman Harper, and Chairman Smith:

We write to highlight the specific impact that inflation and higher input costs are having, and will continue to have, on our nation's agriculture economy for the foreseeable future. As the cost of doing business continues to grow at a rate not seen in several years, we believe it is of utmost importance that you continue to provide community financial institutions with the regulatory flexibility they need to responsibly work with their agriculture clients as the profit margins of farmers and ranchers shrink. We also believe it would be helpful for you to specifically monitor how inflation and inflationary-related pressures are affecting the agriculture industry and, in turn, the community financial institutions that serve it. This information would be invaluable as Congress begins considering improvements to the producer safety net in the next farm bill.

The destructive impact of inflation has already affected individuals, families, and businesses across the nation, and no one is immune from these price increases. Caused in large part by an unprecedented increase in federal government spending, in addition to supply chain bottlenecks, these higher prices are not just increasing grocery bills and home heating costs, but they are also raising costs on businesses, including on our nation's farmers and ranchers.

As you are aware, year-over-year inflation is currently at its highest level in nearly four decades.¹ This problem has proven to be more than transitory, and estimates suggest that heightened inflation will remain well into next year.² This directly affects the ability of individuals, families, and businesses to purchase goods and pay their bills.

¹ <https://www.bls.gov/news.release/pdf/cpi.pdf>

² <https://www.banking.senate.gov/imo/media/doc/Powell%20Testimony%2011-30-21.pdf>

Specific to agriculture, inflation is hiking the cost of doing business on everything from fertilizer to fuel to machinery, among a number of other things needed to keep farm and ranch operations running. To name just a few examples, fertilizer prices have increased by 265 percent since May 2020,³ and farm diesel prices and used farm machinery prices are up year-over-year by over 50 percent and 34 percent respectively.⁴⁵ And these rising input costs are one of the factors contributing to declining optimism among farmers, according to a recent study by Purdue University.⁶

Net cash farm incomes, a broad measure of U.S. farm profitability, have been boosted in recent years by higher commodity prices and federal government payments, and they are projected to be approximately 23 percent higher in 2021 than they were in 2020 according to the U.S. Department of Agriculture's Economic Research Service.⁷ As a result, we believe farmers and ranchers are in a healthy financial position as they make strategic plans, in partnership with their lenders, going into the 2022 growing season. It is important to recognize, however, that in order for producers to weather the storm of higher input costs and lower profit margins, new regulatory burdens should not be imposed on financial institutions that service agriculture as farm and ranch customers experience increased credit needs.

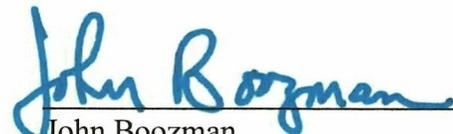
Therefore, as producers potentially seek greater amounts of credit, we urge you to not increase regulatory or examination burdens upon community financial institutions, which could interfere with their ability to extend credit to agriculture customers. We believe that community financial institutions have the necessary capital to help their farm and ranch borrowers keep up with rising input costs as profit margins tighten, while maintaining the proper safety and soundness considerations.

As you and your examiners continue your work to supervise community financial institutions, we look forward to working with you as you monitor the impacts of inflation on the agriculture economy and as you ensure these lenders have the flexibility they need to serve the agriculture sector in this time of heightened inflation. Thank you for your attention to our concerns.

Sincerely,



John Thune
United States Senator



John Boozman
United States Senator

³ <https://www.cobank.com/documents/7714906/7715335/Fertilizer-Inflation-Dec2021.pdf/69eed786-dfa3-5f88-eb64-effe7d8cc686?t=1638309836711>

⁴ <https://www.bloomberg.com/news/articles/2021-11-13/deere-strike-ignites-bidding-wars-for-used-tractors>

⁵ https://mymarketnews.ams.usda.gov/filerepo/reports?field_slug_id_value=&name=&field_slug_title_value=gr210&field_published_date_value=&field_report_date_end_value=&field_api_market_types_target_id=117

⁶ <https://www.purdue.edu/newsroom/releases/2021/Q4/farmer-sentiment-declines-in-september.-inflation-expectations-jump.html>

⁷ <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast/>


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