

December 11, 2015

The Honorable Tom Vilsack  
Secretary of Agriculture  
U.S. Department of Agriculture  
Washington, DC 20250

Dear Secretary Vilsack:

The undersigned trade associations for agriculture lenders write out of concern for our member's ability to continue to meet the lending needs of America's cotton farmers in years to come. Passage of the farm bill early in 2014 brought dramatic changes to cotton producers' safety net – this did not go unnoticed by lenders. Unfortunately, since 2013 when the bill was being developed cotton prices have plummeted.

U.S. average market revenue declined \$156 per harvested acre in 2014 compared to 2013 levels. Current expectations for prices and yields indicate that market revenue will decline by another \$24 in 2015. The reductions in revenues of cotton lint and cottonseed production come at a time when costs of production remain at elevated levels. The projection of continued declines in market revenue coupled with elevated levels of cost of production cause serious concerns among the lending community. There is no doubt there will be cotton farmers who cannot qualify for financing next year.

Throughout the country, cotton production is very important to local economies. With 2015 plantings of 8.56 million acres, U.S. cotton area is the lowest since 1983. 2015 planted acres fell by 22% from 2014 and are down 42% from the recent high set in 2011. Regional declines in the Mid-South and West are even more pronounced. The 2015 total of 980 thousand acres in the Mid-South region are the lowest in the recent decades, falling short of the 1983 level. While 95% of the cotton acreage is insured, producers are not reimbursed for the full costs of production. Following multiple year losses, farmers are also faced with declining actual production histories (APH) and increasing premium rates for crop insurance. Cotton is the only traditional 'program' crop that does not have any fixed price protection policy delivered by the Farm Service Agency in the 2014 Farm Bill. While this was the result of the WTO case brought by Brazil challenging U.S. cotton policies and trade effects from more than a decade ago, there still exists an ability and opportunity to provide support for a major co-product of cotton production – cottonseed.

The 2014 Farm Bill (and previous farm bills) includes statutory authority for USDA to designate 'other oilseeds' for purposes of farm bill programs. As previously discussed, the U.S. cotton industry, and cotton producers specifically, are struggling with the effects of low prices for cotton, weak demand, and growing competition from heavily-subsidized foreign producers. The infrastructure for the U.S. cotton industry (gins, warehouses, marketing coops and merchants, and cottonseed crushers and merchandizers) will continue to shrink unless there is a stabilizing policy for cotton to help sustain the industry in periods of low prices such as currently exists today. This policy will be important to ensure continued crop diversity in many parts of the Cotton Belt and the resulting continued economic activity in rural areas.

Equally concerning for agriculture lenders is that losses in cotton area translate into pressure on associated businesses, infrastructure and rural economies who are also our customers. Prolonged production declines of this scale will result in severe strain on the entire cotton infrastructure, which continues to be the backbone of many small, rural communities across the country. A thriving cotton economy is critical to the success of many local economies.

From a lenders point of view, it is imperative that actions be taken that can have a stabilizing effect on the U.S. cotton industry. We strongly recommend you use all authorities at your discretion to assist in this situation and specifically that you designate cottonseed as an 'other oilseed' for purposes of the Agriculture Risk Coverage and Price Loss Coverage programs. This designation would help bring much needed stability and support to producers, and in these times of low prices, allow them to have the balance sheets necessary to procure production financing.

Thank you for your consideration of our views.

Sincerely,

American Bankers Association  
Independent Community Bankers of America