AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

REVIEW OF THE FARM CREDIT SYSTEM

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

MARCH 29, 2017

Serial No. 115–4

Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PUBLISHING OFFICE

24–919 PDF WASHINGTON : 2017

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON AGRICULTURE

K. MICHAEL CONAWAY, Texas, *Chairman*

GLENN THOMPSON, Pennsylvania
Vice Chairman
BOB GOODLATTE, Virginia,
FRANK D. LUCAS, Oklahoma
STEVE KING, Iowa
MIKE ROGERS, Alabama
BOB GIBBS, Ohio
AUSTIN SCOTT, Georgia
ERIC A. "RICK" CRAWFORD, Arkansas
SCOTT DESJARLAIS, Tennessee
VICKY HARTZLER, Missouri
JEFF DENHAM, California
DOUG LAMALFA, California
RODNEY DAVIS, Illinois
TED S. YOHO, Florida
RICK W. ALLEN, Georgia
MIKE BOST, Illinois
DAVID ROUZER, North Carolina
RALPH LEE ABRAHAM, Louisiana
TRENT KELLY, Mississippi
JAMES COMER, Kentucky
ROGER W. MARSHALL, Kansas
DON BACON, Nebraska
JOHN J. FASO, New York
NEAL P. DUNN, Florida
JODEY C. ARRINGTON, Texas

COLLIN C. PETERSON, Minnesota, *Ranking Minority Member*
FILEMON VELA, Texas, *Vice Ranking Minority Member*
DAVID SCOTT, Georgia
JIM COSTA, California
TIMOTHY J. WALZ, Minnesota
MARCIA L. FUDGE, Ohio
JAMES P. MCGOVERN, Massachusetts
MICHELLE LUJAN GRISHAM, New Mexico
ANN M. KUSTER, New Hampshire
RICHARD M. NOLAN, Minnesota
CHERI BUSTOS, Illinois
SEAN PATRICK MALONEY, New York
STACEY E. PLASKETT, Virgin Islands
ALMA S. ADAMS, North Carolina
DWIGHT EVANS, Pennsylvania
AL LAWSON, JR., Florida
TOM O'HALLERAN, Arizona
JIMMY PANETTA, California
DARREN SOTO, Florida
LISA BLUNT ROCHESTER, Delaware

MATTHEW S. SCHERTZ, *Staff Director*
ANNE SIMMONS, *Minority Staff Director*

CONTENTS

	Page
Adams, Hon. Alma S., a Representative in Congress from North Carolina, prepared statement	5
Conaway, Hon. K. Michael, a Representative in Congress from Texas, opening statement	1
Prepared statement	2
Lucas, Hon. Frank D., a Representative in Congress from Oklahoma, prepared statement	5
Peterson, Hon. Collin C., a Representative in Congress from Minnesota, opening statement	3
Scott, Hon. David, a Representative in Congress from Georgia, opening statement	4
WITNESSES	
Tonsager, Hon. Dallas P., Chairman and Chief Executive Officer, Farm Credit Administration, McLean, VA	5
Prepared statement	7
Supplementary material	69
Submitted questions	80
Hall, Hon. Jeffery S., Member of the Board, Farm Credit Administration, McLean, VA	12
Dodson, James F. "Jimmy", Chairman, Board of Directors, Farm Credit Bank of Texas, Robstown, TX; on behalf of Farm Credit System	14
Prepared statement	15
Stark, Douglas R., President and Chief Executive Officer, Farm Credit Services of America/Frontier Farm Credit, Omaha, NE; on behalf of Farm Credit System	18
Prepared statement	19
Halverson, Ph.D., Thomas, President and Chief Executive Officer, CoBank, Denver, CO; on behalf of Farm Credit System	29
Prepared statement	31
Submitted questions	83
SUBMITTED MATERIAL	
Johnson, Roger, President, National Farmers Union, submitted letter	70
American Bankers Association, submitted statement	71
Independent Community Bankers of America, submitted statement	77

REVIEW OF THE FARM CREDIT SYSTEM

WEDNESDAY, MARCH 29, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Committee met, pursuant to call, at 9:59 a.m., in Room 1300 of the Longworth House Office Building, Hon. K. Michael Conaway [Chairman of the Committee] presiding.

Members present: Representatives Conaway, Thompson, Lucas, King, Gibbs, Austin Scott of Georgia, Crawford, Hartzler, LaMalfa, Davis, Yoho, Allen, Bost, Rouzer, Abraham, Kelly, Comer, Marshall, Bacon, Faso, Dunn, Arrington, Peterson, David Scott of Georgia, Walz, Fudge, McGovern, Vela, Lujan Grisham, Kuster, Nolan, Bustos, Maloney, Adams, Evans, Lawson, O'Halleran, Panetta, Soto, and Blunt Rochester.

Staff present: Caleb Crosswhite, Haley Graves, John Weber, Josh Maxwell, Stephanie Addison, Lisa Shelton, Liz Friedlander, Troy Phillips, Nicole Scott, and Carly Reedholm.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

The CHAIRMAN. Good morning. This hearing of the Committee on Agriculture entitled, *Review of the Farm Credit System,* will come to order.

Ralph, would you lead us in a quick prayer?

Mr. ABRAHAM. Pray with me, if you please.

Father, we humbly ask for your knowledge, your guidance, your discernment, your wisdom, all those things that we lack on a daily basis, Lord, give it to us. We hope we will use it in a good and peaceful manner. We appreciate all the blessings that you bestow upon us every day. We ask these things in your name. Amen.

The CHAIRMAN. Ralph, thank you.

Good morning. Today's hearing is to review the Farm Credit System. Before I begin, I would like to let everyone know that our thoughts and prayers are with the Spearman family this morning. As many of you know, Ken Spearman passed away this week. Ken served as a Director and former Chair of the Farm Credit Administration for many years. He served in the office with honor and will be greatly missed. Our prayers and condolences are not only with the other Board members who knew him well, but his family also this morning.

Today's hearing is entitled, *Review of the Farm Credit System,* but the objective is twofold.

First, we hope to educate ourselves and the public on the history and purpose of the Farm Credit System institutions that provide vital credit to rural America. Since its inception over 100 years ago, the Farm Credit System has never wavered in its mission of providing credit to our rural communities in good times and in bad.

Second, we will review the health of the System. As farm incomes continue to decline, credit availability remains vital to producers. In our view, a diversified, well-capitalized System is a healthy Farm Credit System that can function and serve clients independently. Our Committee has an obligation to proactively review the System to ensure its soundness. And to help us do that, we have brought together a panel composed of two different parts. At one end, we are joined by the representatives of the Farm Credit Administration, the independent agency tasked with regulating the Farm Credit institutions to ensure they fulfill their mission and stay within the scope of that mission. But a review of the System would not be complete without hearing from the very institutions that provide credit. To offer that perspective, I am pleased to have witnesses who can provide us with the association perspective, including one who has a nationwide charter that provides credit to farmer-owned cooperatives and rural utilities across the country.

Today, modern agriculture is far more complex that it was 100 years ago. Our farmers compete in a volatile market, they have greater regulatory burdens and increased input costs. Still, they continue to advance through hard work and innovation.

Innovation, however, often requires increased capital. It is essential that credit availability keep pace with the demands of modern producers. To meet the modern challenges of today's credit needs, Congress has taken steps over the years to ensure that the Farm Credit System is properly diversified and capitalized.

Today, I believe that the Farm Credit System is fundamentally safe and sound and in a position to endure the challenges that it will inevitably face. Along with commercial and community banks, and USDA loan programs, I am confident that the Farm Credit System will play a pivotal role in meeting the credit needs of rural America for years to come.

I look forward to your testimony and the discussion to follow.

[The prepared statement of Mr. Conaway follows:]

PREPARED STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Good morning, and welcome to today's Committee hearing to review the Farm Credit System.

But before we begin, I would like to let everyone know that our thoughts and prayers are with the Spearman family this morning. As many of you know, Mr. Ken Spearman passed away this week. Ken served as a Director and former Chair of the Farm Credit Administration for many years. He served in the office with honor and will be greatly missed.

Today's hearing is entitled, *Review of the Farm Credit System,* but the objective is twofold.

First, we hope to educate ourselves and the public on the history and purpose of the Farm Credit System institutions that provide vital credit to rural America. Since its inception over 100 years ago, the Farm Credit System has never wavered in its mission of providing credit to our rural communities in both good times and in bad.

Second, we will review the health of the system. As farm incomes continue to decline, credit availability remains vital to producers, new and old. In our view, a diversified, well capitalized system is a healthy Farm Credit System that can function and service clients independently. Our Committee has an obligation to proactively review the System to ensure its soundness. And to help us do that, we have brought together a panel composed of two different parts. At one end, we are joined by representatives of the Farm Credit Administration, the independent agency tasked with regulating the Farm Credit institutions to ensure they fulfill their mission and stay within the scope of that mission.

But a review of the System would not be complete without hearing from the very institutions that provide credit. To offer that perspective, I'm pleased to have witnesses who can provide us with the association perspective, including one who has a nationwide charter that provides credit to farmer-owned cooperatives and rural utilities across the country.

Today, modern agriculture is far more complex that it was 100 years ago. Our farmers compete in a volatile world market, have greater regulatory burdens and increased input costs. Still, they continue to advance through hard work and innovation.

Innovation, however, often requires increased capital. It is essential that credit availability keep pace with the demands of modern producers. To meet the modern challenges of today's credit needs, Congress has taken steps over the years to ensure that the Farm Credit System is properly diversified and capitalized.

Today, I believe that the Farm Credit System is fundamentally safe and sound and in a position to endure the challenges that it will inevitably face. Along with commercial and community banks, and USDA loan programs, I am confident that the Farm Credit System will play a pivotal role in meeting the credit needs of rural America for years to come.

I look forward to your testimony and the discussions to follow.

With that, I yield to my Ranking Member, Mr. Peterson for any comments he may have.

The CHAIRMAN. And with that, I yield to the Ranking Member, Mr. Peterson, for any comments he may have.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Well, thank you, Mr. Chairman, and welcome to today's witnesses.

I want to echo the Chairman's comments on the passing of Ken Spearman. I worked with Ken for a number of years, and I was always impressed with his tremendous knowledge of agriculture, and always enjoyed our visits during his time as Chairman of the Farm Credit Administration. And my thoughts and prayers are with his family.

I want to thank the Chairman for calling another hearing to allow us to hear from the Farm Credit System and its regulator today. There is no question that access to credit is necessary for farmers to stay in business, but access to capital is also necessary for ag businesses and rural communities.

This hearing is a good opportunity for us to get a better understanding of the current credit situation as we look to the potential changes in the next farm bill. And that is both in the commodity and rural development titles.

Now, we have also seen a budget submission that seems to overlook the continuing infrastructure needs in rural America, from basic drinking water to the state of our hospital facilities that rural areas deserve. I have been pleased to see commercial banks and Farm Credit institutions team up in my district to help ensure that first-class health care is available closer to home. There have been two small hospitals financed with a combination of Farm Credit and the banks in my area, that wouldn't have happened otherwise.

Again, Mr. Chairman, access to credit is vital for America. I look forward to working with you and other Members of the Committee to ensure that our rural communities and ag producers have access to that credit from both the Farm Credit System and from commercial banks.

And with that, I would yield back.

The CHAIRMAN. I thank the gentleman.

And I would like to recognize David Scott for a couple of comments on Mr. Spearman. David.

OPENING STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Mr. DAVID SCOTT of Georgia. Thank you very much, Mr. Chairman.

Last evening, we all received the unfortunate news of the passing of Mr. Kenneth Spearman, a man who came along at the right time, was in the right place, was doing the right thing.

The great philosopher, Aristotle, was once asked, "Aristotle, what does it take to be a great man?" And Aristotle said, "In order to be a great man, you must first of all know thyself." Well, Ken Spearman not only knew who he was, he also knew whose he was; that he was truly a child of God.

Ken Spearman became the absolute first African American Chairman of the Farm Credit Administration, a history-making achievement of soaring magnitude, but that achievement did not come easy. Ken Spearman was a man truly of great prominence, great intelligence, who showed remarkable endurance over the various challenges in life, the various hardships. Life is not an easy road if you are a high-achiever. He had mountains and valleys, but he overcame whatever obstacles there were to let his light shine, to become a world leader in agricultural financing, farming, and credit.

Ken and I became good friends. He would often stop by the office whenever he was up at the Capitol. I looked forward to our visits. He encouraged me in so many ways. He and I shared a very similar commitment in helping the beginning farmer knowing the obstacles they faced. He was really dedicated to helping beginning farmers. And he had a special interest in helping get young people into farming, and especially young African Americans into farming. And he was a great source of encouragement to me 2 or 3 years ago when we began to enlist the help of our 1890s African American colleges to get scholarships for youngsters, to graduate and go into agribusiness careers.

He was a magnificent storyteller. And Ken Spearman's name will forever be held in the highest esteem as a history-making pioneer in the world of agriculture, finance, and Farm Credit. And he was a fighter, strong, with unwavering courage, and yet he was a humble man, and he understood the true meaning of implicit love, especially for his wife, Maria, his children, Michelle, Rochelle, and Ken, and of course, his untiring love for the United States of America, and his unparalleled love in the trust, in his confidence in All Mighty God.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, David. I appreciate that.

The chair would request other Members submit their opening statements for the record so our witnesses may begin their testimony, and to ensure there is ample time for questions.

[The prepared statements of Mr. Lucas and Ms. Adams follow:]

PREPARED STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM OKLAHOMA

Mr. Chairman, in the spirit of today's hearing I'd like to recognize one of the institutions created in the aftermath of the farm crisis of the 1980's, the Federal Agricultural Mortgage Corporation, also known as Farmer Mac. This institution has continued to fulfill its' Congressional mission, as directed by this Committee, for nearly 30 years. Farmer Mac continues to work with agricultural lenders across the nation to provide the capital and liquidity that is essential to the success of America's farmers, ranchers, and rural electric consumers. As we continue to discuss the future of rural America, let us never forget the great benefit that a safe and healthy secondary market provides to both agriculture and rural America.

PREPARED STATEMENT OF HON. ALMA S. ADAMS, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Thank you Mr. Chairman, and thank you to FCA Chairman Tonsager and President Halverson of CoBank for being here.

My office has a great relationship with Carolina Farm Credit in the 12th District of North Carolina which I represent. They provide loans to several farms and agribusinesses in Mecklenburg County.

Through their corporate mission fund, in 2015 Carolina Farm Credit also awarded a grant to North Carolina A&T for the university's extension project at Cove Creek Gardens in Greensboro.

The CHAIRMAN. I would like to welcome our witnesses this morning. We have the Honorable Dallas P. Tonsager, Chairman of the Board, CEO, Farm Credit Administration, here in Virginia; the Honorable Jeffery Hall, Member of the Board, Farm Credit Administration, McLean, Virginia; Mr. Jimmy Dodson, Chairman, Farm Credit Bank of Texas Board of Directors, from Robstown, Texas; Mr. Doug Stark, who is President and Chief Executive Officer of the Farm Credit Services of America, Omaha, Nebraska; and Dr. Tom Halverson, President and CEO of CoBank, Denver, Colorado.

Mr. Tonsager, you are recognized for 5 minutes, at your pleasure.

STATEMENT OF HON. DALLAS P. TONSAGER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FARM CREDIT ADMINISTRATION, MCLEAN, VA

Mr. TONSAGER. Thank you, Chairman Conaway, Ranking Member Peterson, and Members of the Committee, it is a privilege to appear before you today to report on the Farm Credit System. I have a written statement to submit for the record.

President Obama appointed me to the FCA Board in March of 2015. Last fall, the President designated me FCA Board Chairman and CEO. I have the pleasure of serving on the Board with Jeff Hall, who is here today. I would also like to mention my former colleague, Ken Spearman, who passed away on Monday.

Since 2009, Ken has served on the Boards of the FCA and the Farm Credit System Insurance Corporation. He also served terms as Chairman for both organizations. Ken was well loved at the agency, and our hearts and prayers are with the Spearman family as we all grieve his loss.

FCA is an independent Federal agency that regulates and examines the banks, associations, and related entities of the Farm Credit System, including the Federal Agricultural Mortgage Corporation, or Farmer Mac. Our responsibility is to ensure that the System meets its Congressional mission to provide a dependable source of competitive credit for agriculture and rural America in good times and in bad.

FCA is not an appropriated agency. We are funded primarily through assessments paid by System institutions. Congress oversees our administrative expenses and sets an annual cap on them.

The Farm Credit System, which was established in 1916, is the nation's oldest government-sponsored enterprise. It is a nationwide network of borrower-owned cooperative financial institutions and affiliated service organizations. Currently, the System includes four banks and 73 direct lending associations. The banks provide loan funds to the associations, which in turn make loans to farmers, ranchers, and other eligible borrowers.

Under the Farm Credit Act, the System has the authority, subject to certain conditions, to make the following types of loans: ag real estate, ag production and equipment, aquatic production loans, loans to ag processing facilities and farm-related businesses, agricultural cooperative loans, rural home mortgages, ag export and import loans, rural utility loans, and loans to farmers and ranchers for other credit needs.

Also under the Similar Entity Authority, the System may participate with other lenders to make loans to those who are not eligible to directly borrow from the System, but whose activities are functionally similar to those of eligible borrowers. Through this participation, the System diversifies its portfolio, reducing the risks associated with serving a single industry.

Farm Credit banks and associations cannot take deposits. The Systems obtain loan funds by selling securities on the national and international money markets. The securities are not guaranteed by the Federal Government. For more than 100 years, the System has helped our nation's agricultural producers provide abundant, affordable food and fiber to people at home and around the world. Currently, the System supplies 41 percent of the nation's Farm Credit.

I am pleased to report that the System's banks and associations are fundamentally safe and sound. In 2016, the System reported modest loan growth, solid earnings, and higher capital levels. But as a regulator of the System, we do have some concerns. In the farm economy, debt-to-asset levels are rising, while net farm income is declining. Interest rates, while still low, have begun to rise. And crop prices are expected to remain weak through the Fiscal Year of 2017. These factors are causing the value of Midwest farmland to slip. Prices in the protein and dairy sectors are also weak. As a result, the credit quality of the System's long portfolio has declined slightly.

To help the System and its borrowers weather this downturn in the farm economy, we are monitoring conditions closely and examining institutions for concentration and collateral risk. We are also encouraging the System to do everything it can within the bounds of safety and soundness to help borrowers in difficulty, particularly

young, beginning, and small producers for whom this downturn is especially difficult. We want the System to help ensure the best possible outcome for every borrower. This involves being proactive, identifying borrowers who are just beginning to struggle, and helping them develop strategies to increase their income and preserve their capital.

As the regulator of the Farm Credit System, we will work hard to ensure that the System continues to meet the credit needs of our farmers and ranchers, even in challenging times like this.

I thank you and I look forward to answering your questions.

[The prepared statement of Mr. Tonsager follows:]

PREPARED STATEMENT OF HON. DALLAS P. TONSAGER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FARM CREDIT ADMINISTRATION, MCLEAN, VA

Introduction

Chairman Conaway, Ranking Member Peterson, and Members of the Committee, I am Dallas P. Tonsager, Board Chairman and CEO of the Farm Credit Administration. On behalf of my colleagues on the FCA board, Jeffery S. Hall of Kentucky and Kenneth A. Spearman of California, and all the dedicated men and women of the agency, I am pleased to provide this testimony.

FCA is an independent agency responsible for examining and regulating the banks, associations, and related entities of the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).

The FCS is a government-sponsored enterprise (GSE) created by Congress in 1916 to provide American agriculture with a dependable source of credit. The System's banks and associations form a nationwide network of cooperatively organized lending institutions that are owned and controlled by their borrowers, serving all 50 states and Puerto Rico.

FCA Mission

As directed by Congress, FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America. We accomplish this mission in two important ways.

First, we protect the safety and soundness of the FCS by examining and supervising all FCS institutions, including Farmer Mac, and we ensure that they comply with applicable laws and regulations. Our examinations and oversight strategies focus on an institution's financial condition and any material existing or potential risk, as well as on the ability of its board and management to direct its operations. We also evaluate each institution's compliance with laws and regulations to ensure that it serves all eligible borrowers, including young, beginning, and small farmers and ranchers. If a System institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to take appropriate corrective action.

Second, we develop policies and regulations that govern how System institutions conduct their business and interact with customers. Our policies and regulations protect the System's safety and soundness; implement the Farm Credit Act; provide minimum requirements for lending, related services, investments, capital, and mission; and ensure adequate financial disclosure and governance. We approve the corporate charter changes of System institutions, System debt issuance, and other financial and operational matters.

Through the oversight and leadership of the House and Senate Agriculture Committees, many important reforms were made to the Farm Credit Administration and the FCS as a result of the agricultural credit crisis of the 1980s. This included restructuring FCA as an independent arm's-length regulator with formal enforcement powers, providing borrower rights to System borrowers with distressed loans, and establishing the Farm Credit Insurance Fund to protect System investors.

Since then, the Farm Credit System has restored its financial health and the public trust. Using our authority as an arm's-length regulator, we have contributed to the System's success by ensuring that System institutions adhered to safety and soundness standards. The Insurance Fund also helped to restore investor confidence.

Both the System and FCA learned much during the crisis of the 1980s, and those lessons helped build a much stronger Farm Credit System, as well as a stronger regulator. We will continue to focus on ensuring that the System remains safe and

sound by promulgating regulations, providing appropriate guidance, and maintaining strong and proactive examination and supervisory programs.

With the dynamics and risks in the agricultural and financial sectors today, we recognize that FCS institutions must have the appropriate culture, governance, policies, procedures, and management controls to effectively identify and manage risks. Today the System is a dependable provider of credit to agriculture and rural America as intended by Congress.

Farm Credit System Mission

According to the Farm Credit Act of 1971, Congress created the System to improve "the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations."

In fulfilling this mission, the System provides credit and other services to agricultural producers, aquatic producers or harvesters, and farmer-owned cooperatives. It also makes loans for agricultural processing and marketing activities, rural housing, farm-related businesses, rural utilities, and foreign and domestic companies involved in international agricultural trade. In addition, the System provides funding and discounting services to certain "other financing institutions" and forms partnerships with commercial banks to provide credit to agriculture and rural America through participations and syndications.

As a regulator, we pay careful attention to the System's Congressional mandate to serve the needs of young, beginning, and small farmers and ranchers. By offering competitive interest rates, flexible underwriting standards, and their expertise in the agricultural industry, System institutions make it possible for more people to enter farming and to stay in it. This is good for producers, as well as for the rural communities in which they live.

The System has successfully fulfilled its mission for more than 100 years. It adds value to agriculture and rural America at all times, but it really proves its worth in difficult times. In early 2008, when commodity prices soared, operators of grain elevators could not find the financing they needed to operate, so System institutions stepped in to meet that need. If the System had not been there, those operators would have faced a financial crisis.

This was a classic example of a GSE doing exactly what Congress intended it to do. And I'm confident that the System will again prove its value by meeting the credit needs of farmers and ranchers during the current downturn in the farm economy.

The Farm Economy and Agricultural Credit

After years of historic highs, farm income reached a peak in 2013, and it has been dropping every year since then. USDA expects this trend to continue in 2017, falling another nine percent to $62.3 billion. That would be just ½ of the $123.7 billion in net farm income recorded for 2013.

Crop and livestock sales and cash production expenses are expected to stay flat this year. At the same time, government payments, which rose 20 percent in 2016, are expected to fall four percent.

As a result of the growing stress in the farm economy, many farmers and ranchers are now having difficulty covering their costs, and this is beginning to reduce the quality of agricultural loans. While farm lenders, including the Farm Service Agency, continue to report that overall loan quality remains good, many loan performance indicators are now weaker.

Non-accrual rates for System farm mortgages stood at 0.76 percent as of September 30, 2016, up from 0.69 percent a year earlier. And non-accrual rates for farm production loans were at 1.04 percent, up from 0.80 percent a year earlier.

Federal Reserve Bank surveys of commercial bankers in the fourth quarter of 2016 also suggest a worsening credit climate. According to the surveys, repayment rates on agricultural production loans have declined, and the number of renewals and extensions has increased.

Although lenders expect an increase in loan delinquencies in 2017, they do not expect a *large* increase in problematic loans. With expectations for tight profit margins to continue through 2017, more farmers are likely to rebalance their farm balance sheets or change their operating structures to lower their production costs.

The condition of the farm economy also depends in part on interest rate policy. Currently, interest rates on farm loans remain historically low, but an improving economy and labor market is prompting the Federal Reserve to make incremental interest rate increases. The average interest rate on all System loans held nearly steady at about four percent during 2016.

Condition of the FCS

Despite conditions in the farm economy, the FCS remains fundamentally safe and sound and is well positioned to manage this downturn. The depth and duration of market weakness is unknown, but it will continue to present challenges for the System until markets rebound.

While the current credit stress level in the System's loan portfolio is well within its risk-bearing capacity, asset quality is expected to decline modestly in 2017 from relatively strong levels in 2016. Moderate loan growth, adequate capital, and reliable access to debt capital markets are supporting the overall condition of the FCS.

The System continues to grow at a moderate pace. As of September 30, 2016, gross loans totaled $242.1 billion, up $15.3 billion or 6.7 percent from September 30, 2015. Real estate mortgage lending was up $9.5 billion or 9.2 percent as demand for cropland continued in 2016. Overall, real estate mortgage loans represent 46.7 percent of the System's loan portfolio. Production and intermediate-term lending increased by $0.2 billion or 0.3 percent from the year before, and agribusiness lending increased by $2.6 billion or 7.7 percent.

The System also continues to enhance its capital base, which strengthens its financial position as low or negative farm returns increase financial stress on borrowers. As of September 30, 2016, System total capital equaled $52.4 billion, up from $48.9 billion the year before. The System's total capital-to-assets ratio was 16.7 percent as compared with 16.8 percent a year earlier. Moreover, 82 percent of total capital is in the form of earned surplus.

The increase in total capital is due in large part to the System's strong earnings performance. For the first 9 months of calendar year 2016, the System reported net income of $3.6 billion compared with $3.5 billion for the same period the previous year.

Credit quality in the System's loan portfolio continues to be strong. Relative to total capital, non-performing assets represented 3.9 percent as of September 30, 2016. For historical comparison, non-performing assets represented 11.6 percent of capital at year-end 2010.

The System continues to have reliable access to the debt capital markets. Investor demand for all System debt products has been positive, allowing the System to continue to issue debt on a wide maturity spectrum at very competitive rates. Risk spreads and pricing on System debt securities remained favorable relative to corresponding U.S. Treasuries.

Another factor that makes System debt attractive to investors is the Farm Credit Insurance Fund, which has a balance of over $4.4 billion. Administered by the Farm Credit System Insurance Corporation, this fund protects investors in System-wide consolidated debt obligations. System banks also maintain liquidity reserves to ensure they can withstand market disruptions. As of September 30, 2016, the System's liquidity position equaled 177 days, significantly above the 90 day regulatory minimum required for each FCS bank.

As required by law, System borrowers own stock or participation certificates in System institutions. The FCS had approximately 1.3 million loans and 513,000 stockholders in 2016. Of these stockholders, 86 percent were farmers or cooperatives with voting stock. The remaining 14 percent were nonvoting stockholders, including rural homeowners and other financing institutions that borrow from the System. USDA's latest data (as of December 31, 2015) show that the System's market share of farm debt was 41 percent, compared with 43 percent for commercial banks.

Examination Programs for FCS Banks and Associations

To help ensure the safety and soundness of FCS institutions, FCA uses examination and supervision processes to address material and emerging risks at the institution level and across the System. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model.

We monitor agricultural, financial, and economic risks that may affect groups of institutions or the entire System. Given the increasing complexity and risk in the System and human capital challenges at FCA, we continue to implement initiatives to improve operations, increase examination effectiveness, and enhance staff expertise in key examination areas.

The frequency and depth of examination activities vary based on risk, but each institution is examined at least once every 18 months and receives a summary of examination activities and a report on its overall condition. FCS institutions are required to have effective loan underwriting and loan administration processes to properly manage assets and liabilities, to establish high standards for governance, and to provide transparent disclosures to shareholders.

Our examination and supervision program promotes accountability in FCS institutions by working to ensure institutions identify and manage risks. Currently, we are closely watching real estate values because lower grain prices and a rise in long-term interest rates are pushing land prices down in certain sections of the country. When necessary, we use our enforcement powers to require institutions to change their policies and practices to correct unsafe or unsound conditions or violations of law or regulations.

To assess the safety and soundness of each FCS institution, we use our Financial Institution Rating System (FIRS). This system provides a framework of ratings to help examiners evaluate significant financial, asset quality, and management factors. FIRS ratings range from 1 for a sound institution to 5 for an institution that is likely to fail.

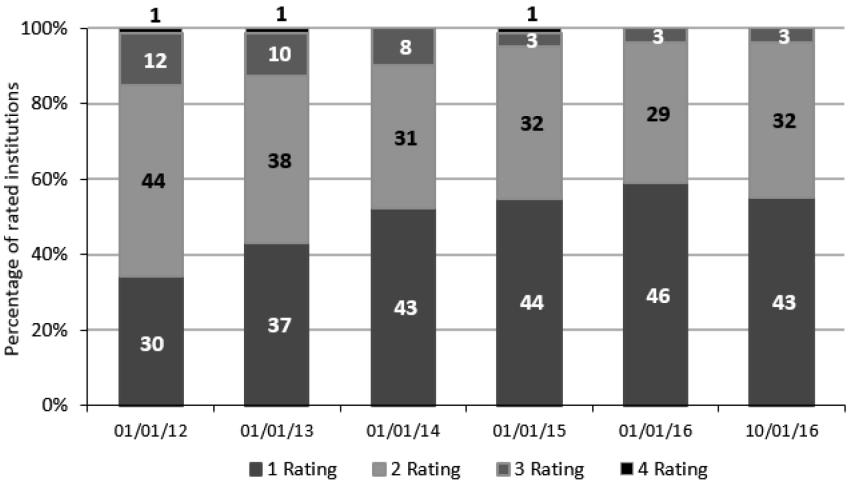
As the chart below indicates, the System remains financially strong overall. Institutions are well capitalized, and the FCS does not pose material risk to investors in FCS debt, the Farm Credit System Insurance Corporation, or to FCS institution stockholders.

Although the System's condition and performance remain satisfactory overall, several institutions are experiencing enough stress to require special supervision. Factors causing the stress include weaknesses in the nation's economy and credit markets and a rapidly changing risk environment in certain agricultural segments. Also, in some cases, System institutions experience stress because their management fails to respond effectively to these risks and operational challenges.

As of December 31, 2016, three System institutions were operating under a higher level of FCA supervisory oversight. While these institutions do not materially affect the System's consolidated performance, they require significantly greater time and agency resources to examine and oversee. No FCS institutions were under formal enforcement actions, in conservatorship, or in receivership.

Farm Credit System Financial Institution Rating System (FIRS)

Composite Ratings



Source: FCA's FIRS Ratings Database.

Note: This chart reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers in the bars indicate the number of institutions by FIRS rating.

Federal Agricultural Mortgage Corporation

Congress established Farmer Mac in 1988 to create a secondary market for agricultural real estate and rural housing mortgage loans. Farmer Mac has authority to create and guarantee securities and other secondary market products that are backed by agricultural real estate mortgages and rural home loans, USDA-guaranteed farm and rural development loans, and rural utility cooperative loans.

Farmer Mac is committed to enhancing the availability of reasonably priced credit to agriculture and rural America through its secondary market activities. Under specific circumstances defined by statute, Farmer Mac may issue obligations to the U.S. Treasury Department, not to exceed $1.5 billion, to fulfill the guarantee obligations on Farmer Mac guaranteed securities.

As measured using generally accepted accounting principles (GAAP), net income in FY 2016 (ended September 30) was up 12.8 percent from FY 2015 to $53.7 million. The increase was due primarily to unusual costs in the prior year associated with the redemption of $250 million of Farmer Mac II preferred stock. That redemption resulted in an $8.1 million one-time, after-tax loss recorded in the first quarter of FY 2015. Despite a slight drop in net effective spread in FY 2016, earnings were up because of higher program loan volume, as well as higher guarantee and commitment fees.

As of September 30, 2016, Farmer Mac's core capital totaled $587.1 million, which exceeded its statutory requirement of $474.8 million by $112.3 million. The total portfolio of loans, guarantees, and commitments grew 10.4 percent to $17.2 billion.

Regulatory and Corporate Activities

Regulatory Activities—Congress has given the FCA board statutory authority to establish policy, prescribe regulations, and issue guidance to ensure that FCS institutions comply with the law and operate in a safe and sound manner. We are committed to developing balanced, flexible, and legally sound regulations. Current regulatory and policy projects include the following:

- Revising regulations on eligibility and creditworthiness of FCS institution. investments.
- Clarifying and strengthening standards-of-conduct regulations.
- Clarifying or changing the amortization limits for agricultural credit associations and production credit associations.
- Revising regulations on eligibility and creditworthiness of Farmer Mac investments.
- Revising the criteria in the regulations for reinstating non-accrual loans.
- Reviewing stress testing done by System institutions.
- Reviewing cybersecurity requirements for System institutions.
- Clarifying the disclosure and servicing requirements in the borrower rights regulations.
- Evaluating regulations to reduce regulatory burden.

Corporate Activities—Because of mergers, the number of FCS institutions has declined over the years, but their size and complexity have increased, placing greater demands on both examination staff resources and expertise. Generally, these mergers have resulted in more cost-efficient and better-capitalized institutions with broader, more diversified asset bases, both by geography and commodity. As of January 1, 2017, the System had 73 direct-lender associations, four banks, five service corporations, and two special-purpose entities. Since December 31, 2010, these System institutions have increased their staff by approximately 2,100 employees to 14,140 at December 31, 2016.

Serving Young, Beginning, and Small Farmers and Ranchers

As part of their mission to serve all eligible, creditworthy borrowers, System institutions are required to develop programs and make special efforts to serve young, beginning, and small (YBS) farmers and ranchers.

In 2015, the pace of new lending to YBS farmers generally exceeded the pace of overall System lending to farmers. The number of loans made in 2015 to young, beginning, and small farmers increased by 5.1 percent, 7.5 percent, and 6.7 percent, respectively, from 2014.

Since the total number of farm loans made by the System was up by only 3.7 percent, the share of total System farm loans made to all three YBS categories rose from that of 2014. These results are encouraging given the high costs of starting a farm, the declining number of people entering agriculture, and the rising average age of farmers.

To help YBS farmers qualify for credit in 2015, FCS associations offered differentiated loan underwriting standards for YBS borrowers or made exceptions to their regular standards. More than ⅓ of associations provided concessionary loan fees, and more than ½ offered lower interest rate programs for YBS borrowers. Many associations partnered with state and Federal programs to provide interest rate reductions, guarantees, or loan participations for YBS borrowers.

Working with Financially Stressed Borrowers

Risk is an inherent part of agriculture, and the causes of risk are many: bad weather, changes in government programs, international trade issues, high interest rates, *etc.* These risks can sometimes make it difficult for borrowers to repay loans.

To provide some protection from these risks, the Farm Credit Act gives System borrowers certain rights when they apply for loans and when they have trouble repaying loans. For example, the [A]ct requires FCS institutions to notify borrowers of the right to seek restructuring of loans before the institutions begin foreclosure. When a System institution acquires agricultural property through liquidation, the Farm Credit Act also provides borrowers the first opportunity to buy or lease back their former properties.

FCA enforces the borrower rights provisions of the Farm Credit Act and examines institutions to make sure they are complying with these provisions. We also receive and review complaints from borrowers who believe their rights have been denied.

This year, because of the additional stress in the farm economy, we are emphasizing the need for System institutions to do everything they can within the bounds of safety and soundness to help borrowers in difficulty. We encourage them to seek the best possible outcome for every borrower.

System institutions can use their vast agricultural, financial, and business expertise to help borrowers develop strategies to weather the storm. We are encouraging System institutions to monitor their portfolios carefully for early signs of borrower stress. When they identify struggling borrowers, we urge the institutions to reach out to them before their situations become dire—while they still have options. In doing so, System institutions can successfully fulfill their Congressional mission of meeting the credit needs of our farmers and ranchers even in challenging times like these.

Conclusion

We at FCA remain vigilant in our efforts to ensure that the Farm Credit System and Farmer Mac remain financially sound and focused on serving agriculture and rural America. While we are proud of our record and accomplishments, we remain committed to excellence, effectiveness, and cost efficiency, and we will remain focused on our mission of ensuring a safe, sound, and dependable source of credit for agriculture and rural America. This concludes my statement. On behalf of my colleagues on the FCA board and at the agency, I thank you for the opportunity to share this information.

The CHAIRMAN. Thank you, Dallas.

Mr. Hall.

STATEMENT OF HON. JEFFERY S. HALL, MEMBER OF THE BOARD, FARM CREDIT ADMINISTRATION, McLEAN, VA

Mr. HALL. Thank you, Mr. Chairman, Ranking Member Peterson, Members of the Committee. I appreciate the opportunity to be here, and especially appreciate the comments for our former colleague, Mr. Spearman. It was an honor to serve with him. He was a man I respected both personally and professionally. And my thoughts and prayers go to Maria, his wife, and their family.

The Farm Credit Administration continuously monitors the financial conditions of the agriculture economy and the impact on the Farm Credit System. The financial strength of the borrowing base is what matters most to the financial strength of the System.

The Farm Credit Administration's role as a safety and soundness regulator gives us the responsibility to ensure the System meets its Congressional mission to provide a dependable source of credit for agriculture and rural America. We fully understand that financial conditions are not static, and credit risks are intensifying. These risks are magnified when you look at certain geographic areas, certain farm enterprises, and individual farm operations. Looking forward, factors like interest rates, land values, and persistence of these lower commodity prices during this down cycle are very critical to the credit markets, and even more critical to the farmer bor-

rower. While the System is well positioned to provide credit through an extended agricultural downturn, there are borrowers that will need extra assistance. The unique feature of the Farm Credit Act is the requirement to extend borrower rights to all direct borrowers. The Act provides System borrowers the right to restructure distressed loans. Borrowers also have the right of a secondary review if they receive an adverse decision.

In addition to protecting borrowers from extremes in the agricultural economy, in 1987 Congress sought to protect taxpayers from exposure to future credit crises. Congress created the Farm Credit Insurance Corporation to ensure the timely payment of principle and interest on insured Farm Credit System debt and obligations held by investors. There has not been a default on System debt in the 30 year history of this fund.

FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. We do this in two ways. First, by creating regulations and guidance for System institutions to follow; and second, by examining System institutions for compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices. By statute, our Office of Examination reviews associations and banks at least every 18 months. Each institution is scored based on key financial and management factors. If a System institution is found to be in violation of a law or a regulation, or its operations are deemed to be unsafe and unsound, FCA will issue and enforce corrective action. FCA also reports to Congress on the financial condition and performance of the Farm Credit System.

Additionally, FCA will evaluate compliance with mission-related regulations and guidance by evaluating the administration of programs to provide competitive credit to meet the needs of young, beginning, and small farmers. FCA also encourages and supports System involvement in local food initiatives, urban agriculture, farmer veteran programs, and other activities that support the goals of diversity and inclusion.

As an arms-length regulator, FCA stresses the importance of effective internal controls for every institution. Every year the Office of Examination issues an operating plan which guides the examination staff and notifies the System where there will be added emphasis. There is special added emphasis on Board governance.

Management is probably the most important element in an institution's operation. Management must have a thorough understanding of how their decisions will affect the financial soundness of the institution, the entire Farm Credit System, and also consider any risk to the System's overall reputation. Since the System operates as a cooperative with institution governance directed by member-elected Boards, there is added responsibility and expectations placed on the institution's leadership.

So in conclusion, here are some key priorities for FCA as we move forward. First, is to ensure the safety and soundness of the Farm Credit System. Second, monitor stress at producer level, making sure that borrower rights are always fully exercised, and watch for added stress in groups that are particularly vulnerable. We view our current regulations for effectiveness and the need for any new regulations.

I thank you for the opportunity to be here this morning, and will be glad to answer any questions. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Thank you, Mr. Hall.

Jimmy, 5 minutes.

STATEMENT OF JAMES F. "JIMMY" DODSON, CHAIRMAN, BOARD OF DIRECTORS, FARM CREDIT BANK OF TEXAS, ROBSTOWN, TX; ON BEHALF OF FARM CREDIT SYSTEM

Mr. DODSON. Chairman Conaway and Members of the Committee, I want to thank you for the opportunity to testify on behalf of Farm Credit this morning.

My name is Jimmy Dodson and I am Chairman of the Board of the Farm Credit Bank of Texas. More importantly, I am a third generation farmer, raising cotton, corn, and grain sorghum, and also a little wheat and hay, on our family farm near Corpus Christi, Texas, down on the coast.

Thank you, Mr. Chairman, Ranking Member Peterson, Congressman Scott, and Congressman Scott. Last year you all were the original cosponsors of the Congressional resolution congratulating Farm Credit on its 100th anniversary of support for rural communities and agriculture. We are very proud that so many of your other colleagues here on this Committee also cosponsored that resolution, and we are grateful for the Committee's support.

As has been mentioned here already today, Farm Credit is a federation of cooperatives owned and governed by their own customers. That means that farmers and ranchers who are their customer-owners elect directors from the ranks that make decisions about the strategic direction of their organizations.

Farm Credit has a specific mission assigned to us by Congress more than 100 years ago, and refined to ensure that farmers like me and rural communities like mine have a reliable, consistent source of financing, irrespective of cycles in the economy or the vagaries of the financial markets.

As I put together my farm operating plan for this year, I knew, just like thousands of other farmers knew around the nation, that Farm Credit had the financial strength and strong desire to finance that plan and to help me succeed. My Farm Credit story is typical of the men and women who serve on Farm Credit Boards. My father began his farm in 1937 in the middle of the Great Depression. His timing wasn't very good. In the 1950s, when I came along in 1953, the drought was terrible and my dad needed credit in the worst way, but his banker couldn't make him a loan because his bank decided to withdraw from the ag risk that was so great during that great drought. My dad's friends told him to try the local Farm Credit Association, then known as Coastal Bend PCA, or Production Credit Association. Farm Credit made my dad that loan, Dad made a crop, and our farm was saved. His relationship with Farm Credit deepened as he expanded his operation over the years.

When I graduated from college I was glad to partner with my dad, and began farming in 1974. Farm Credit gave me the loan that helped me get started. Our operation has grown and become more capital and technology-dependent, and my Farm Credit lender has broadened their experience and improved its loan diversification to be even more dependable for me.

There are thousands of other stories like mine in Farm Credit. They are the reason Farm Credit makes extraordinary efforts to serve young, beginning, and small farmers. They are the reason that Farm Credit works hard to find successful outcomes for producers, no matter what their size, even during the toughest times.

Farm Credit's mission is as vital today as it has ever been. For the past few years, accomplishing that mission has been more difficult as farmers like me are facing a long run of low prices for the products that we grow. We know that credit alone can't fix chronic low prices, but farmers need a lender that understands this cycle and can help them understand options as they plan for their future. Farm Credit is that lender.

The current cycle in agriculture makes this Committee's work on the next farm bill so crucial. We need a strong farm bill to provide a safety net against sustained market downturns. We pledge our support for this Committee's efforts to pass a strong farm bill next year.

Farm Credit's mission extends well beyond the farmgate. Our mission includes financing for farmer-owned co-ops and other businesses that farmers depend on to succeed. We finance U.S. agricultural exports and make home loans for families in very rural settings.

Farm Credit finances rural electric co-ops, rural water systems, and rural telecommunications and broadband providers. These loans improve the quality of life in our rural communities, providing clean drinking water, broadband for our schools, and reliable energy for rural families and businesses.

Farm Credit is financially sound and poses no threat to the Federal Treasury. We do not use federally appropriated funds. We are not guaranteed by the Federal Government. We are privately owned by our customers.

Farm Credit is leaning into this downturn in ag prices. We expected this cycle would come, and we built financial strength to meet it and fulfill the mission this Committee has given us. We will do our part to help our customers through this difficult time.

We are grateful for the opportunity to testify today, and grateful for this Committee's support for Farm Credit, its mission, and for agriculture. I am happy to answer your questions.

[The prepared statement of Mr. Dodson follows:]

PREPARED STATEMENT OF JAMES F. "JIMMY" DODSON, CHAIRMAN, BOARD OF DIRECTORS, FARM CREDIT BANK OF TEXAS, ROBSTOWN, TX; ON BEHALF OF FARM CREDIT SYSTEM

Chairman Conaway and Members of the Committee, it is an honor for me to be here today. Thank you for the opportunity to testify on behalf of Farm Credit.

My name is Jimmy Dodson and I am the Chairman of the Board of Directors of the Farm Credit Bank of Texas. More importantly, I am a third-generation farmer, raising cotton, corn, wheat, hay, and grain sorghum on our family farm near Corpus Christi, Texas. My colleagues and I are here today to provide the Committee with a clear view into how Farm Credit is organized, the breadth of its activities, and its financial strength. But, most importantly of all, we are here today to talk to you about Farm Credit's vital mission to support rural communities and agriculture and how we are accomplishing that mission in the face of some pretty difficult times in agriculture.

Please let me start by saying thank you. Mr. Chairman, Ranking Member Peterson, Congressman Scott and Congressman Scott, last year the four of you were the original cosponsors of the Congressional resolution congratulating Farm Credit on

its 100th anniversary of support for rural communities and agriculture. We are very proud that so many of your colleagues on this Committee also cosponsored that resolution. We are grateful for the Committee's support as we begin the next 100 years of fulfilling our mission.

It is planting season in south Texas right now and we are working long days and nights on the farm, but I was willing to break away to testify because Farm Credit is important to me and many other American farmers and rural Americans. We have a good story to tell.

Farm Credit is different from other financial institutions in two essential ways. First, we are a cooperative, owned and governed by our customers. This ownership and governance structure means that farmers and ranchers who are our member-borrowers elect directors from their ranks who make the decisions about the strategic direction of the organization. Farm Credit's primary motivation is to help make its customers successful. From strategic decisions about product offerings, to building financial soundness, to evaluating organizational leadership and structural options, our boards of directors start with one simple question: "Is it good for our customer-owners?" When our organizations succeed financially, the profits go to improve services, build capacity, and to patronage dividends for our borrowers!

Our board at Farm Credit Bank of Texas is typical of Farm Credit leadership, with all seven members having agricultural backgrounds and six having day-to-day leadership of farms and ranches. In addition to me, our Vice Chair Lester Little grows corn, milo, hay, and wheat in Lavaca County, Texas. Brad Bean is a dairy farmer in Gilsburg, Mississippi. Ralph "Buddy" Cortese is a rancher in Fort Sumner, New Mexico. Linda Floerke raises cattle and hay in Lampasas County, Texas. Betty Flores, one of our two appointed outside directors, was mayor of Laredo, Texas, serves on the board of the Texas Agricultural Cooperative Council, and is a partner in a ranching/real estate operation. Phil Guthrie, our other appointed outside director, is rooted in his family farm in Louisiana although he does not actively manage that operation today. They serve because they believe in Farm Credit's mission. They understand that our mission is as vital today as it was 100 years ago and they want to see that mission continue for generations to come.

The second reason Farm Credit is different is that we have a specific mission, assigned to us by Congress more than 100 years ago, to ensure that farmers like me and rural communities like mine have a reliable, consistent source of financing irrespective of cycles in the economy or vagaries of the financial markets. As I put together my farm operating plan for this year, I knew—just like thousands of other farmers around the nation know—that Farm Credit had the financial strength and strong desire to finance that plan and to help me succeed.

My Farm Credit story is typical of the men and women who serve on Farm Credit boards. It began for our family in 1953, even though our Texas farming roots were planted in 1867, when my grandfather moved to east Texas with his family. When he was thirty, he moved to Corpus Christi and bought 80 acres. With hard work, he raised his family and kept the farm going, and his youngest son—my father—began his farm in 1937 in the middle of the Great Depression. As you might imagine, Dad's timing wasn't the best and his farm struggled, but he persevered. He and Mom had three children had several good years in the 1940's.

The year I was born, 1953, things got worse. The 1950s drought was terrible and Dad needed credit in the worst way, but his banker would not make him a loan. It wasn't personal—the bank had decided to lessen their exposure to farm lending as the drought deepened. Dad's friends told him to try the local Farm Credit institution, then-known as Coastal Bend Production Credit Association. Farm Credit was created to provide liquidity to credit in agriculture to help creditworthy farmers like my dad, and unlike that banker, the local Farm Credit loan officer knew something about farming. He made Dad a loan, Dad made a crop, and our farm was saved. His relationship with Farm Credit deepened as he expanded his operation. One of my earliest memories is of going along with Dad to the local Farm Credit office to make his payments and to set up annual operating loans. I can still remember eating peppermints given to me by Mrs. Rader, who worked in the front office.

A few months before I graduated from college, my father was offered an opportunity to buy out a neighbor's operation, but he couldn't handle the extra land by himself. I was glad to partner with him and began farming in 1974. Farm Credit gave me the loan that helped me get started. Our operation has grown and become more capital and technology-dependent, and my Farm Credit lender has broadened its expertise and improved loan diversification to be even more dependable for me. My children are part owners with my wife Barbara and me, and I have a younger partner now as well. All of them have a relationship with Farm Credit. Farm Credit makes a priority of helping young and beginning farmers.

Knowing this story, you can understand why I was glad for an opportunity to serve on the board of my local Farm Credit association back in 1982. I understood at a personal level what Farm Credit meant to farmers in my area and wanted to help make sure that it was ready for the needs of future generations of farmers.

There are thousands of other stories like mine in Farm Credit. They are the reason Farm Credit makes extraordinary efforts to serve young and beginning farmers. They are the reason that Farm Credit works hard to find successful outcomes for producers—even during the toughest of times. Seeing what Farm Credit is accomplishing for people in agriculture and rural America is gratifying. The time I've spent serving Farm Credit has been worthwhile—it's been a growing relationship that has spanned all of my 64 years.

Farm Credit's mission is as vital today as it's ever been. Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. Farm Credit's mission is to help these areas grow and thrive by financing critical infrastructure and communication services and providing farmers and agribusinesses with the capital they need to make their businesses successful. Because a steady flow of credit means more jobs and economic growth, Farm Credit is also helping ensure the vibrancy of communities throughout rural America.

For the past few years, accomplishing that mission has been more difficult as farmers like me are facing a long run of low prices for the products we grow. For many grain farmers, this is the fourth year in a row with prices below break-even. For cotton farmers like me, this will be the fifth year of tough prices, and producers are struggling. We know that credit can't be a fix for chronic low prices, but farmers need a lender that understands this cycle and can help them understand options as they make plans for the future. Farm Credit is that lender.

The current cycle in agriculture makes this Committee's work on the next farm bill crucial. We need a strong farm bill to provide a safety net against sustained market downturns. American farmers are the most efficient in the world, but they cannot compete against foreign governments when they manipulate prices and limit market access. The Federal Crop Insurance Program remains a critical part of that safety net. We pledge our support for this Committee's efforts to pass a strong farm bill next year. Thank you for your hard work!

Farm Credit's mission extends well beyond the farmgate. Our mission includes financing for farmer-owned cooperatives and other agribusinesses that farmers depend on to succeed. Farm Credit finances over $5 billion in exports of U.S. agricultural products. We make more than $7 billion in loans for families to buy homes in very rural areas.

Rural infrastructure is also a critical part of Farm Credit's mission. Tom Halverson will describe our infrastructure efforts in detail in a few moments but I want to make a point that the infrastructure needs in rural America are unique. Farm Credit finances nearly $28 billion in rural infrastructure, including rural electric co-ops, rural water systems, and rural telecommunications and broadband providers. These loans improve the quality of life in our rural communities, providing clean drinking water, broadband for our schools, and reliable energy for rural families and businesses.

As my colleagues will tell you in a few moments, Farm Credit is institutionally strong and financially sound and poses no threat to the Federal treasury. We do **not** use federally appropriated funds. We are **not** guaranteed by the Federal Government. We are privately owned by our customers and fund our operations by issuing debt in the capital markets.

We pay the full cost of our Federal regulation by the Farm Credit Administration, which has the full range of examination and enforcement authorities attributable to all independent Federal financial regulatory agencies. We pay the full costs of an insurance fund that guarantees timely payment of the debt securities we issue to fund our loans.

Our financial strength, our cooperative ownership, and our mission are all reasons that Farm Credit is leaning in to this downturn in agricultural prices. We expected this cycle would come and we built financial strength to meet it and fulfill the mission this Committee has given us. We will do our part to help our customers through this difficult time. When farmers are successful, especially in spite of trials, all Americans benefit. Affordable, abundant, and safe food and fiber helps every one of our citizens, and proportionally those on fixed and low income benefit the most. What a blessing! What a great result of people and policy working together!

We are grateful for the opportunity to testify today and grateful for this Committee's support for Farm Credit and its mission. I am happy to answer your questions.

The CHAIRMAN. Thanks, Mr. Dodson.

Mr. Stark, 5 minutes.

STATEMENT OF DOUGLAS R. STARK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FARM CREDIT SERVICES OF AMERICA/ FRONTIER FARM CREDIT, OMAHA, NE; ON BEHALF OF FARM CREDIT SYSTEM

Mr. STARK. Mr. Chairman, Ranking Member Peterson, and Members of the Committee, thank you for the opportunity to testify today on behalf of Farm Credit System.

My name is Doug Stark, and I am President and CEO of Farm Credit Services of America, and also have the privilege of serving as President and CEO of Frontier Farm Credit, headquartered in Omaha, Nebraska, and Manhattan, Kansas, respectively.

As has been mentioned here this morning, the Farm Credit System is made up of 77 individually and cooperatively owned and governed institutions. All have separate Boards of Directors, elected by customers that use their services. There are no Federal funds or taxpayer dollars appropriated for the ongoing operations of the Farm Credit System.

Unlike most of our competitors, as a cooperative our net income goes to one of two places; it is either retained within the institution to build financial strength to serve those customers, or it is paid out to customers in the form of patronage dividends. The cooperative lending system allows us to bring a unique and important value proposition to the market. Sharing profits with our customers and holding capital of stockholders as close to the farm as possible, that is the beauty of the Farm Credit System that Congress had the foresight to create in 1916. Farm Credit's cooperative business model is fundamentally different by design. Given the challenges farmers and ranchers are facing today, and the extraordinary capital requirements of this industry, our nation's agricultural producers need the Farm Credit System and the commercial banking industry to be viable and strong. The commercial banking industry recently announced another year of record profits, and the Farm Credit System is as financially strong as it has ever been. A healthy Farm Credit System and a healthy commercial banking industry bring greater stability and competition to the credit market. This is especially important during challenging times when commodity prices decline, our Farm Credit team members speak with genuine pride about finding ways to counsel and provide constructive credit for producers.

We also share in our customers' heartaches. I have stood beside a rancher on a hillside in South Dakota, looking out on the hundreds of cattle they lost in an early snowstorm. In moments like that, words fail. It is easy to celebrate when our returns are bountiful. It is during times of adversity that our character and mission have the brightest opportunity to shine.

While the farm economy is presented with challenges, we are very pleased to report that credit availability is not a problem. The farm finance environment remains fiercely competitive, and the various participants, including commercial banks, insurance companies, and the Farm Credit System all leverage their unique value propositions to attract customers and win business. The Farm Credit System offers a unique value to all producers simply by its competitive presence in the market. This competition keeps rates low and service high for farmers and ranchers.

Farm Credit wins many customers, but we also lose business every week to others offering similar products. The competition is robust but fair.

At Farm Credit associations, we have been proactive in helping customers prepare for the challenges of the current cycle. We have counseled around the importance of working capital, and restructured debt, where appropriate. We have already met with thousands of customers, reducing their fixed costs by re-amortizing land payments over longer terms, as well as locking in fixed rates to eliminate rising interest rate risk, and have advanced against real estate equity to restore working capital and risk-bearing ability. We are committed to working with our customers to meet their individual needs.

We have worked hard to build efficient lending institutions that have resulted in strong earnings, allowing Farm Credit to build strong capital levels and protect against loan deterioration and credit quality. We have sophisticated stress testing procedures, and are thoroughly examined by a Federal regulator, and issue transparent audited financial statements. Let me emphasize, the Farm Credit System does not pose a risk to U.S. taxpayers, and, in fact, the System has never been financially stronger.

I take particular pride in the support we provide to our young, beginning, and small producers. It is an important part of what we do every day. Many Farm Credit Associations, including ours, offer special lending programs focused on young and beginning producers. It is heartwarming to hear their stories at our summer conference as they describe getting their start in production agriculture, and as they describe benefitting from our expertise and assistance.

In summary, I see farmers and ranchers working hard to adjust to the current decline in commodity prices and profits. They take enormous pride in what they do, and many are trying to carve out a way for their sons and daughters to continue a family tradition. We are honored to serve these agriculture producers, farmer-owned cooperatives, and rural infrastructure providers who own the Farm Credit System. They are the Farm Credit System.

Thank you for the opportunity to testify today. I will be pleased to respond to your questions.

[The prepared statement of Mr. Stark follows:]

PREPARED STATEMENT OF DOUGLAS R. STARK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FARM CREDIT SERVICES OF AMERICA/FRONTIER FARM CREDIT, OMAHA, NE; ON BEHALF OF FARM CREDIT SYSTEM

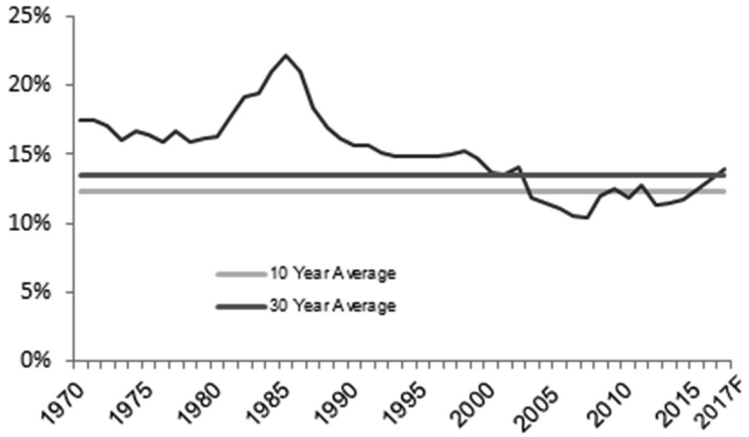
Mr. Chairman, Ranking Member Peterson, and Members of the Committee, thank you for the opportunity to testify today on behalf of the Farm Credit System. My name is Doug Stark and I am President and CEO of Farm Credit Services of America and Frontier Farm Credit, headquartered in Omaha, Nebraska, and Manhattan, Kansas, respectively.

Farm Credit Services of America and Frontier Farm Credit are part of the nationwide Farm Credit System. My testimony today will provide some background on the Farm Credit System, an overview of current credit conditions, and comments on the diverse ways that we in Farm Credit are fulfilling our mission to support rural communities and agriculture.

The Committee's hearing today is timely. After years of strong performance, the agricultural economy now finds itself in very challenging times. Last month, the Committee heard testimony from Federal Reserve Bank of Kansas City economist Nathan Kauffman, who described the outlook for the U.S. farm economy as "sub-

dued," with producers realizing a modest increase in financial stress over the past year. We agree.

U.S. Farm Debt-to-Asset Ratio



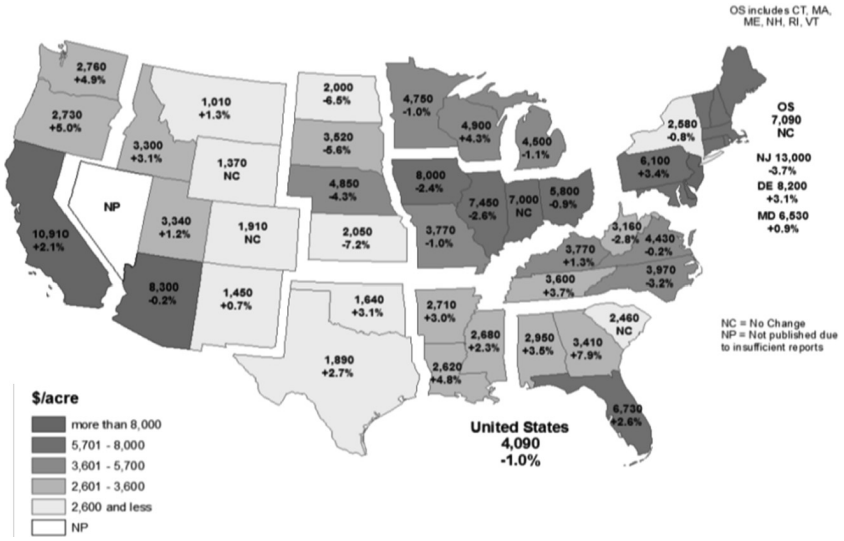
Commodity prices have fallen while the cost of raising crops has remained high. Many row crop farmers found profits elusive the past 3 years and are projecting barely break-even or losses for the 2017 crop year. Cotton farmers are even harder hit, with many now facing multiple years of losses. Forecasters see little chance of a quick commodity price rebound barring unexpected changes in commodity demand, supply, or both.

Fortunately, the industry balance sheet was mostly strong entering this cycle after several years of favorable profits in agriculture. While we have seen debt-to-asset ratios increase slightly in the past 3 years, they remain nearly even with the 30 year average and far below the levels seen in the mid-1980s. The trend, however, is concerning.

Depending on geography and land type, the impact of the downturn on farmland values has been mixed. As farmland values rose sharply in the past decade, particularly in grain production areas, farmers and lenders both became increasingly conservative in leveraging real estate assets. Farmers bought increasingly high-cost ground but largely were using cash generated from higher commodity prices and borrowing less on a percentage basis. For the most part, Farm Credit lenders and commercial banks were unwilling to loan much more than 50 to 60 percent of farmland values in areas where prices had jumped most aggressively. Some even put hard caps on the dollar amount loaned per acre.

2016 Cropland Value by State

Dollars Per Acre and Percent Change from 2015



USDA–NASS, August 5, 2015.

Crop input prices, including cash rent, have not yet fallen in step with commodity price declines, squeezing profitability at the individual farm level. While we anticipate adjustments will come, it remains difficult to accurately predict timing. Perhaps the best news for farmers is that interest rates remain historically low and are often at fixed *versus* variable rates, another key difference compared to the downturn in the 1980s. While forecasters predict slightly rising rates over the coming months, those small increases start from an extremely low level. Debt costs are expected to remain low by historical standards.

Similar to the producers we serve, Farm Credit built financial strength in anticipation of this challenging economic cycle. We have been fulfilling our mission for more than 100 years and have deep experience in the inevitable cycles of agriculture. Like most in agriculture, we could not predict with accuracy when this cycle would begin or end. But we knew it was coming, and our institutions prepared for it. We built capital. We loaned conservatively. Today, Farm Credit is financially the strongest it has ever been and is prepared to use that strength to support our customers and fulfill our mission.

We continue to see modest loan growth in both our agricultural and rural infrastructure loan portfolios. The credit quality of our loan portfolio remains high as our members continue to meet their obligations. Credit quality in Farm Credit loan portfolios hit all-time highs during the years of high commodity prices but has now fallen back down to historical averages. While we anticipate some deterioration in our loan quality as this cycle continues, we are committed to working with our customers.

Our philosophy on credit today is this: we know our customers well, understand and respond to their needs, and work cooperatively with them to analyze and structure our transactions to give them the best chance to succeed.

We have been working for some time to help our customer-owners plan for the current environment. Many of our institutions, including my own, have allocated more resources specifically to work with producers most impacted by lower commodity prices. We are proactively reaching out and helping our customers understand their financial position so they can work through business plans and make good decisions that, hopefully, lead to the most positive outcome for them. We are restructuring debt to spread out payments and are providing other loan structuring options when necessary and appropriate. We are working to make sure that our members have the best information to help them manage costs and strengthen their risk-bearing capacity.

As price forecasts stay low, most producers' only option is to very closely manage the cost structure of their operations. We are seeing many producers eliminate non-essential expenses, scale back expansion plans, and delay new equipment purchases. This is also a time when supporting key tools such as crop insurance, the current farm bill, the renewable fuels standard, and promoting strong export markets has never been more important to maintaining the viability of the industry. Passage of a strong farm bill next year is essential.

Farm Credit is committed to remaining reliable and supportive of rural communities and agriculture, just as we have for the last 100 years. That means we are staying abreast of industry cycles, identifying risks, and consulting with our customers about them. We know we must be patient and allow time for adjustments, while potentially exploring enhanced controls on terms, collateral, and conditions as appropriate. We continue to have a positive long-term outlook for U.S. agriculture, with the knowledge that Farm Credit's financial strength and expertise position us well to support our customer-owners through industry cycles.

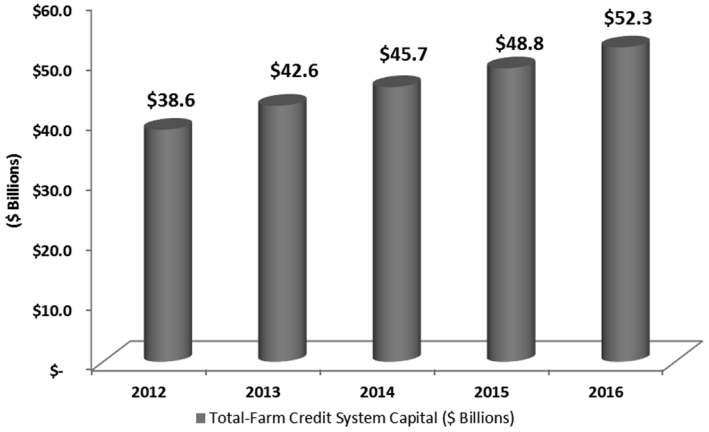
We understand that being dependable does not mean that we can save every operation. It does not mean that we are able to ignore good credit judgment or make credit decisions that are not constructive for the customer-owner or us as a lender. It does not mean that we will undertake undue risk or make all of the adjustments. We and our customer-owners will both need to make adjustments—and we are working hard to take those steps together.

One important part of Farm Credit's ability to support our members is through our regulator, the Farm Credit Administration (FCA). We are fortunate that our independent Federal regulator has deep knowledge of agriculture and considerable experience in the inevitable business cycles our members face. Their ability to look holistically at a customer's operation and understand an individual customer's risk-bearing capacity and equity position will, in many cases, determine whether we can continue with that customer. If the FCA is overly restrictive in its approach, it might tie our hands as we work to help members through this cycle. We are optimistic about the FCA's continued good judgment.

Financial Strength to Fulfill Our Mission

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. Fulfilling that mission, especially during downturns in the agricultural economy, takes extraordinary financial strength—strength that Farm Credit has built over decades. After all, we have been supporting farmers and ranchers for more than 100 years and understand the inevitable cycles in agriculture.

Farm Credit remains very strong financially and continues to experience moderate loan growth. Strong earnings across the past decade allowed Farm Credit to build capital levels to protect against deterioration in loan quality that might result from the downturn in the agricultural economy.



The first line of defense against an economic downturn for any financial institution is earnings, and Farm Credit earnings have been strong for many years. Farm Credit generated $4.85 billion in combined net income during 2016. Farm Credit institutions are customer-owned cooperatives. The net income they generate can be used in only two ways: retained within a Farm Credit institution as capital to build

financial strength that ensures continued lending, OR passed to customer-owners by way of cooperative dividends, which effectively lowers the cost of borrowing for our customers.

At the end of 2016, Farm Credit's more than $52 billion in capital represented almost 16.4 percent of its total assets—more than double the minimum required by law. This strength means that Farm Credit can support its customers in difficult times and help keep American farmers, ranchers, and rural communities strong.

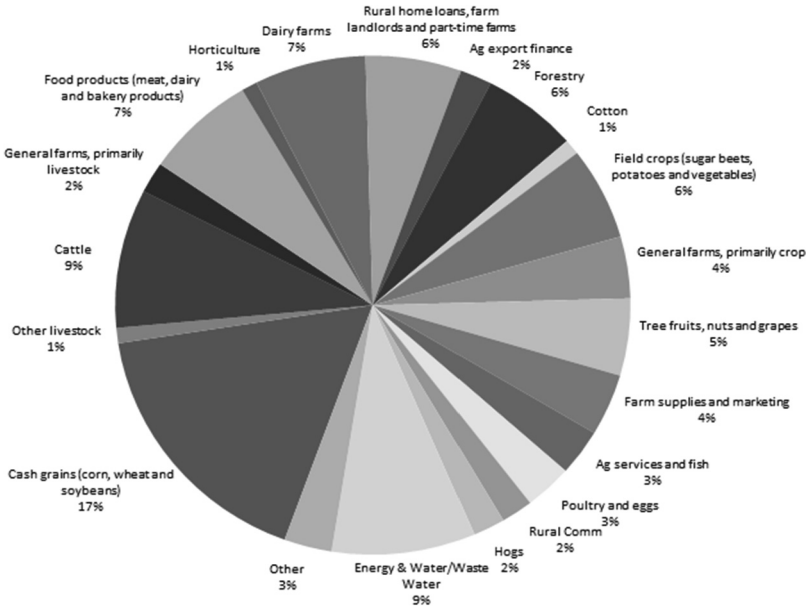
This financial strength also means that the investors who continue to make their capital available to farmers, ranchers, and rural America through Farm Credit feel secure that they will be repaid. That confidence is mirrored in the high ratings Farm Credit has earned from the credit rating agencies.

Risk Mitigation Through Diversification

With our defined mission of supporting rural communities and agriculture, Farm Credit does not enter and exit agricultural lending as farm profitability strengthens or weakens. Instead, we are committed to supporting these vital industries in good times and bad, regardless of economic cycle. Diversification is one of the keys to our financial strength through the many cycles of rural lending. By diversifying the industries we serve, the size of loans we make, the areas of the country we serve, and the rural infrastructure upon which it all depends, Farm Credit is able to minimize risk and counter the innately cyclical nature of many of the industries we serve.

Farm Credit System Loan Portfolio

(At 12/13/16)



The largest segment of our portfolio consists of loans to cash grain producers and represents just 17 percent of the total. The next largest segment is the cattle industry at nine percent of the overall portfolio. Even within our agricultural loan portfolio, Farm Credit benefits from significant industry diversification with several industry segments that are countercyclical to each other—infrastructure helps to balance agriculture, livestock often balances out with grain, and specialty crops balance more conventional plantings.

Similarly, since Farm Credit lends in all 50 states and Puerto Rico, the geographic diversification of our portfolio minimizes the overall potential impact of local agricultural events and helps us effectively manage risk. California is home to Farm Credit's greatest geographic concentration but represents just ten percent of the loan portfolio. Texas is next with just under seven percent and all other states have about five percent or less.

Farm Credit also diversifies its portfolio by making loans of all sizes, many of which are considered small. Of the more than 552,000 borrowers Farm Credit supports, 77 percent have loans of less than $250,000 and 88 percent have loans of less than $500,000.

The chart [below] demonstrates the diversity in size of borrowings from Farm Credit. Our loans range from a few thousand dollars to get a beginning farmer started to the millions of dollars necessary to finance rural electric cooperatives and farmer-owned cooperatives all across the country.

Farm Credit Loans By Size

(As of 12/31/2016)

Loans Size Range ($ thousands)	Amount Outstanding ($ millions)	% of Portfolio (volume)	No. of Borrowers	% of Portfolio (borrowers)
$1–$249	32,925	13	425,256	77
$250–$499	21,146	9	60,331	11
$500–999	24,404	10	34,917	6
$1,000–$4,999	53,102	21	27,450	5
$5,000–$24,999	37,255	15	3,774	<1
$25,000–$99,999	32,749	13	702	<1
$100,000–$249,999	21,970	9	148	<1
Over $250,000	25,217	10	60	<1
Total	**248,768**	**100**	**552,638**	**100**

Farm Credit makes extraordinary efforts to support young, beginning, and small (YBS) farmers and ranchers. Unlike commercial banks, Farm Credit institutions are required to report specifically on their YBS lending activities. Each year, the Farm Credit Administration compiles data on Farm Credit YBS lending and reports it to Congress.

Based on reports from the Federal Farm Credit Banks Funding Corporation and the Farm Credit Administration:

- Farm Credit made more than 64,000 loans to young producers (under age 36) in 2016 for a total of $9.3 billion. Those are actual new loans originated in 2016. When Farm Credit first began reporting this specific information in 2001, new loan levels were at 33,000 loans to young producers for $3.1 billion.
- Farm Credit made more than 81,000 loans to beginning producers (10 years or less experience) for $12.7 billion in 2016. This is double the number and triple the dollar amount of beginning farmer loans made in 2001 when Farm Credit made 37,000 loans for $4.2 billion to beginning farmers.
- Farm Credit institutions made more than 155,000 loans to small producers (less than $250,000 in annual sales) for $12.2 billion in 2016, a substantial increase from the 114,000 loans for $7.6 billion made in 2001.

To put Farm Credit's lending to small farmers and ranchers into perspective, at year-end 2016 Farm Credit had more than one million loans of all kinds outstanding, and slightly more than 500,000 of those loans outstanding were to small farmers and ranchers.

The numbers above cannot be combined. A single loan to a 25 year old rancher in her third year of ranching with annual sales of $100,000 could be counted in the young, beginning, and small categories. We report this way for two reasons: our regulator requires it and, more importantly, it is the most accurate portrayal of who we serve.

Farm Credit institutions go beyond just providing loans to YBS farmers, in many cases offering special incentives, education, and other support to these producers. Farm Credit organizations nationwide provide training and host seminars on topics such as intergenerational transfer of family farms, risk management techniques, and establishing and maintaining effective business plans.

We engage across the spectrum with those entering agriculture, whether they are focused on conventional, organic, sustainable, local food-related operations, direct-to-retail, or other emerging business models.

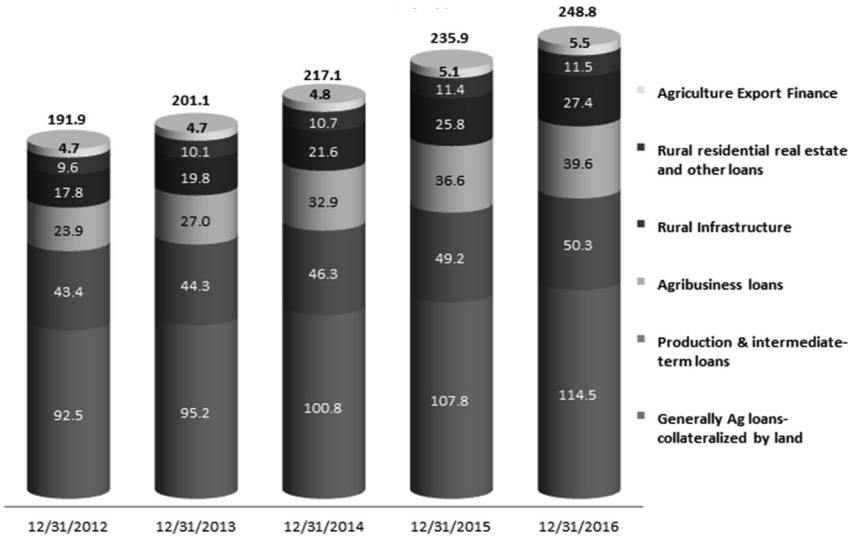
Farm Credit's Mission to Support Rural Communities and Agriculture

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. Farm Credit's mission is to help these areas grow and thrive by financing vital infrastructure and communication services and providing farmers and agribusinesses with the capital they need to

make their businesses successful. Because a steady flow of credit means more jobs and economic growth, Farm Credit helps ensure the vibrancy of communities throughout rural America.

Farm Credit System Gross Loans Outstanding By Type

($ Billions)



Farm Credit is a nationwide network of 77 borrower-owned lending institutions that all share a critical mission assigned to them by Congress. These independent, privately owned institutions include four wholesale banks and 73 direct lending local associations, all of which are cooperatively owned by their customers: farmers, ranchers, farmer-owned cooperatives and other agribusinesses, rural utilities, and others in rural America.

Farm Credit is well-known for its 100 year old mission providing financing to all types of U.S. farmers and ranchers. In addition, Farm Credit's agricultural mission includes financing aquatic producers, many agribusinesses, and U.S. agricultural exports. A constant supply of credit to all of these areas has helped make agriculture one of the driving engines for the U.S. economy and enables our nation's agricultural producers to feed the world.

Farm Credit's mission beyond agriculture is just as important. Rural home buyers face obstacles unknown in more urban settings, and Farm Credit provides loans tailored to these unique circumstances. Farm Credit also provides financing for companies that provide vital infrastructure to rural communities in the U.S., helping to bring clean water to rural families, reliable energy to farms and rural towns, and modern, high speed telecommunications that connect rural America to the rest of the world. Modern infrastructure makes rural communities competitive, provides jobs, and helps improve the quality of life for rural families.

All the loans Farm Credit makes directly support our mission and are authorized under the Farm Credit Act of 1971, as amended. While Congress sets Farm Credit's mission, Congress does not appropriate any dollars for Farm Credit System operations. There is no Federal funding for Farm Credit. Instead, the four Farm Credit System banks together own the Federal Farm Credit Banks Funding Corporation that markets to the investing public the debt securities that are used to fund the lending operations of all Farm Credit institutions. Detailed information about the Farm Credit System's specific financial results and about Farm Credit System debt securities is available on the Funding Corporation's website at *www.farmcreditfunding.com*.

Unlike commercial banks, Farm Credit institutions cannot fund their loan-making activities through secured deposits guaranteed by the Federal Deposit Insurance Corporation and backed by the full faith and credit of the U.S. Government. Instead, we rely on the investment community, which consistently recognizes the value and stability of our Farm Credit System-issued debt securities. Farm Credit System debt securities are **not** explicitly guaranteed by the U.S. Government. Rural communities

and agriculture are at the heart of what we do. With each loan we make, we're committed to showing how it supports our mission. Whether it's helping a company find the capital to invest in a small rural town's electrical infrastructure or high speed Internet, our loans help support rural communities as well as the agriculture that exists alongside them.

Farming and rural life have changed dramatically since the Farm Credit System was established 100 years ago. As a result, Farm Credit is constantly evaluating our programs to ensure that we are able to serve the full breadth of capital needs for rural communities and agriculture. As U.S. agricultural producers gear up to feed a planet of nine billion people by the year 2050, a significant amount of capital will be needed to make sure our agriculture industry and the infrastructure that supports it are up to the task.

That is why Farm Credit helped organize the Rebuild Rural coalition of more than 200 organizations representing agricultural producers, rural businesses, rural communities, and rural families to advocate for aggressive efforts to meet the unique infrastructure needs of rural communities and agriculture.

Those of us in rural communities have seen our infrastructure deteriorate, jeopardizing jobs, our agricultural competitiveness, and the health of rural families. Past infrastructure initiatives often focused on urban and suburban infrastructure while not adequately addressing the unique needs of rural communities.

American agriculture truly feeds the world and creates millions of jobs for U.S. workers. Our nation's ability to produce food and fiber and transport it efficiently across the globe is a critical factor in U.S. competitiveness internationally. Infrastructure that supports rural communities and links them to global markets has helped make the U.S. the unquestioned leader in agricultural production. Our deteriorating infrastructure threatens that leadership position.

Transportation infrastructure improvement is the most obvious need in rural communities, but not the only one. Highways, bridges, railways, locks and dams, harbors, and port facilities all need major investment if we are to continue efficiently transporting our agricultural products to market. In addition, critical needs exist in providing clean water for rural families, expanding broadband to connect rural communities to the outside world, and enhancing the ability to supply affordable, reliable, and secure power for the rural economy.

The scope of the investment needed is staggering. Clearly the Federal Government must continue to play an important role in providing funding and those Federal investments should increase. However, Federal resources likely cannot fill the need entirely. Creative solutions that pair Federal investment with state/local government investment and private sources of capital hold promise for raising a portion of the funds necessary to accomplish the job.

Farm Credit's mission encompasses the breadth of rural America and agriculture: young and beginning farmers and alternative business models; traditional production operations and established agribusinesses; rural homeowners; and essential rural infrastructure providers. We exist to provide reliable access to credit to help rural communities thrive. As the Farm Credit Act makes clear, our responsibility is to meet the needs of a wide range of rural enterprises and agricultural producers that have a basis for credit.

Collaboration, Participation, and Competition

Working in collaboration with, as well as competing with other lenders, Farm Credit exists to ensure borrowers not only have access to a sufficient amount of capital but also a choice in lenders. Despite what the banking lobby would have you believe, commercial bankers work with Farm Credit regularly in ways that serve all parties well—including, and most importantly, the borrower. Banks invite Farm Credit to participate in loans to ensure sufficient credit in the marketplace and to diversify their own risk. Farm Credit lenders invite commercial banks into loans as well.

Bankers are not only our allies on the business side, many are our customers. As the former head of Schwertner State Bank and the current operator of a successful cattle operation, Texas businessman Jim Schwertner has been a long-time Farm Credit customer. Jim financed his farm business with Capital Farm Credit and its predecessor Farm Credit organizations from the very beginning.

Here's what Jim has to say about Farm Credit: "Farm Credit understands agriculture. They understand the volatility of the markets, and they're willing to adapt and change as the industry changes. They've always been there for us, and we know that as long as we keep them posted on our operation, they'll stick with us. That's important in an industry that requires more and more capital. Today, we need to be very efficient, and having a banker who will respond with a moment's notice is key."

Similar entity loan participations are an important way that commercial banks and Farm Credit partner to serve customers. Similar entity transactions support Farm Credit's mission by providing valuable diversification that helps ensure Farm Credit can support its core customers through good times and bad. The authority is especially important in the current environment as falling commodity prices are impacting the incomes of many of the farmers, ranchers, and agribusinesses we serve.

My colleague [Dr.] Halverson will discuss Farm Credit's similar entity loan participation activity in detail in his testimony.

More Efforts to Fulfill Farm Credit's Mission

In the 2002 Farm Bill, Congress authorized the formation of Rural Business Investment Companies (RBIC) and made clear that Farm Credit institutions could create and invest in these entities to further the goal of making available subordinate debt and equity capital for rural entrepreneurs. The final regulations went into place in 2013, allowing our institutions to utilize this authority. Each RBIC operates similar to a private equity investment fund, where a professional investment fund manager raises capital from a group of investors and then invests that money in a variety of private businesses. Under the RBIC structure, the fund is licensed by USDA but no taxpayer funds are utilized.

Farm Credit institutions committed to invest $150 million of their members' equity in the Advantage Capital Agribusiness Partners, L.P. investment fund. To date, $54.4 million of that capital has been deployed as subordinate debt and equity investments in later-stage, small businesses involved in agriculture, processing and marketing of agricultural products, farm supply, input suppliers, and branded food products. Since the first investment in February 2015, the fund has put capital to work in ten companies with operations around the U.S.

The fund also has made investments in companies such as Hortau Corp., a California-based provider of precision irrigation management systems. During the recent extended period of drought in California, Hortau worked to provide innovative tools designed to help agricultural producers manage water shortages. Through investments like these, the Farm Credit-supported RBIC will continue to provide investment dollars to exciting agriculture-related businesses that are vital to rural communities' ongoing economic strength, providing jobs and making rural communities an appealing place to live and work.

Farm Credit is also proud of our partnership with the Farmer Veteran Coalition (FVC) to serve veterans involved in agriculture. Using a grant from Farm Credit, FVC launched a program to allow farmers who are veterans to use a special label to allow consumers to support veterans as they purchase products. With partnership and funding from Farm Credit, FVC broadened the Homegrown by Heroes labeling program from a single-state initiative to a nationwide program.

Farm Credit has a long legacy of partnership with organizations like the National 4–H Council and FFA, whose important work helps ensure a strong future for rural communities and agriculture. Our financial support of National 4–H Council currently provides for scholarships that afford young people from historically black land-grant universities and Tribal colleges the opportunity to attend Citizenship Washington Focus, a summer program on civic engagement. Hundreds of students attend a weeklong educational program to receive education and collaboratively develop a community action plan to implement back at home. Students also spend an entire day visiting Congressional offices on Capitol Hill. In 2015, students from five of the land-grant universities were able to attend the Congressional hearing recognizing the 125th anniversary of the land grant system. Through this partnership, Farm Credit is able to educate students from rural communities who otherwise would not have the opportunity to learn about the legislative process.

Farm Credit and FFA partner on several programs including New Century Farmer, an annual conference where students develop their careers in production agriculture through practical experience and entrepreneurial leadership training. The FFA Washington Leadership Conference, a summer program that brings thousands of FFA students to Washington, D.C. to learn about the legislative and advocacy process, is another program we proudly support. Finally, our funding of FFA's broadly attended annual convention goes to supporting diversity and inclusion and alumni development initiatives.

Farm Credit has been a long-time supporter of Annie's Project, an educational program dedicated to strengthening women's roles in the modern farm enterprise. Farm Credit provides grants and expertise to support course development and online resources, bring together Annie's Project educators for professional development programs, and expand the program's reach into more communities. To date more than 12,000 farm women have completed Annie's Project courses in 33 states.

Because Farm Credit employees live and work in the rural communities they serve, Farm Credit's commitment to organizations like FVC, 4–H, FFA, and Annie's Project extends far beyond just a financial contribution. Each year Farm Credit employees dedicate thousands of volunteer hours toward making these and other local agriculture events and programs a success.

The future of rural communities and agriculture is dependent upon making rural America a desirable place to live. Because of Farm Credit's capital strength, institutions are also making investments that support the quality of life in rural communities such as bonds issued to support critical care hospitals, nursing facilities, housing for the elderly, and schools. These investments demonstrate the commitment of our customer-owners to making their hometowns a place in which the next generation will choose to live and work.

Regulatory Oversight by the Farm Credit Administration

All Farm Credit System institutions are regulated by the Farm Credit Administration (FCA). The FCA is an arm's-length, independent financial safety and soundness regulator. Its three Board members are nominated by the President and confirmed by the Senate. The FCA has oversight and enforcement powers similar to other Federal financial regulators to ensure that Farm Credit institutions operate in a safe and sound manner. Farm Credit System institutions pay the full cost of FCA oversight.

FCA examines each Farm Credit institution at least once every 18 months and, in many cases, each year. These exams are comprehensive, consistent with commercial bank examinations, and exam results are reviewed directly with an institution's board of directors. As one who is on the receiving end of yearly examinations, I can assure you that FCA is thoroughly doing its job.

The Farm Credit System's mission, ownership structure, and authorizing legislation are unique among financial institutions. As a result, it is critically important that Farm Credit's safety and soundness regulator fully understands our mission and what it takes to be successful in accomplishing that mission. As in any regulatory oversight relationship, we disagree with FCA from time to time on a wide range of topics but have full confidence in the Agency's competence and professionalism. Investors in Farm Credit debt securities take great comfort from FCA's oversight effort and Farm Credit institutions benefit from strong safety and soundness oversight by the Agency.

Though FCA assesses Farm Credit institutions to cover the full costs of their regulatory efforts, Congress, through the annual appropriations process, sets a limit on the overall amount FCA can assess. The appropriations language typically includes a provision to allow FCA to assess more than the limit should the specific need arise for more funding. For 2016, Congress set the amount FCA can assess Farm Credit institutions for their regulation at $65.6 million.

Self-Financed Insurance Fund to Protect Investors

The Farm Credit System Insurance Corporation (FCSIC), another independent Federal regulatory agency, was created in 1988 to protect investors in Farm Credit System debt securities. There are no Federal appropriations to support FCSIC. Instead, Farm Credit institutions pay premiums each year to pay for FCSIC operations and to create the Farm Credit System Insurance Fund (the Fund). The Fund exists to protect investors in System debt securities against loss in the event a Farm Credit institution defaults.

There is no taxpayer backstop for the Fund. The Farm Credit System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, FCSIC has an agreement with the Federal Financing Bank (FFB), a Federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB would advance funds to FCSIC.

Under its existing statutory authority, the FCSIC may use these funds to provide assistance to Farm Credit Banks in exigent market circumstances that threaten the banks' ability to pay maturing debt obligations. Importantly, the FFB line of credit is not available in the event that the Farm Credit System makes bad loans or other mistakes under its control. Instead, the FFB line of credit is only available if general funding market conditions prohibit Farm Credit from its normal funding mechanisms.

In this circumstance, the agreement provides for advances of up to $10 billion and terminates on September 30, 2017, unless otherwise renewed. The decision whether to seek funds from the FFB is at FCSIC's discretion, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions. As a result, there can be no assurance that funding would be available if needed by the Farm Credit System.

The Farm Credit Act sets the funding goal for the Fund at two percent of the aggregate outstanding insured obligations of the System. FCSIC also has the authority to examine Farm Credit institutions and would act as the conservator or receiver of a System institution should one fail. The Fund is invested only in U.S. government guaranteed securities and had assets of $4.45 billion as of December 31, 2016.

Conclusion

We are grateful for the opportunity to testify today and update the Committee on Farm Credit's ongoing efforts to fulfill the mission with which you have charged us. We welcome the Committee's interest in and oversight of our activities. Currently, we face a challenging economic environment and stand ready to confirm our commitment to continuing to fulfill our mission of financing our country's rural communities and agriculture.

We especially appreciate the opportunity to provide an accurate portrayal of Farm Credit and its mission that stands in sharp contrast to the misleading information routinely peddled by lobbyists for the commercial banking industry who seek to gain advantage by trying to damage Farm Credit's reputation. If successful, their efforts would weaken competition for rural loans to the detriment of those who need them. Their message makes clear their view that banker profits are more important than the success of farmers and rural families.

We have no desire to fight with the commercial bank lobby. No good can come of it. No customer will be served and no community will be improved as a result of political bickering between commercial banks and Farm Credit. Not long ago, then-American Bankers Association chief Frank Keating called for the elimination of Farm Credit. Just a year ago, the Independent Community Bankers Association of America joined in the commercial bankers' chorus to kill Farm Credit. We urge them to stop taking self-interested positions that would, by any rational analysis, do harm to agriculture and rural communities.

As more than 50 farm, commodity, and rural organizations said last year in a letter to Congress, "the Farm Credit System and commercial banks play critical roles in ensuring that farmers, ranchers, and other rural Americans have access to constructive, competitive credit on an ongoing basis.. We need all the resources that can be made available to sustain agriculture and rural America now and in the future."

While the market today has its challenges, we remain optimistic. Farmers, ranchers, and rural Americans remain enterprising, entrepreneurial, and committed to their way of life. We pledge to continue fulfilling our mission and working in the best interest of U.S. farmers and ranchers, agribusinesses, rural home buyers, and companies that provide vital infrastructure services to rural America. We look forward to the next 100 years of Farm Credit.

I will be pleased to respond to your questions.

The CHAIRMAN. Thank you, Mr. Stark.

Dr. Halverson, 5 minutes.

STATEMENT OF THOMAS HALVERSON, PH.D., PRESIDENT AND CHIEF EXECUTIVE OFFICER, COBANK, DENVER, CO; ON BEHALF OF FARM CREDIT SYSTEM

Dr. HALVERSON. Thank you. Good morning, Chairman Conaway, Ranking Member Peterson, Members of the Committee. Thanks for the opportunity to testify today on behalf of the vital role that the Farm Credit System plays in supporting rural America.

My name is Tom Halverson, I am the President and CEO of CoBank. I had the opportunity to spend some of my formative years in my parents' hometown of Eagle Grove, Iowa, which sits squarely in Mr. King's district in north central Iowa. Many of my family still live there. Several of them have been lifetime farmers.

Now, sadly, when I go to visit them or talk to them, I am finding that I am unqualified to get behind the wheel of any of their sophisticated farm machinery and implements. Being a banker, I discovered, is actually easier than being a modern farmer.

CoBank is unique in the Farm Credit System. We serve farmer-owned co-ops, agribusinesses, and rural infrastructure providers,

rather than individual farmers. Given the importance of these customers to production agricultures and to rural communities, CoBank is an integral part of the Farm Credit System. We are also the funding bank for 23 farmer-owned Farm Credit associations, lending themselves to more than 70,000 farmers and ranchers all around the country. We are also a cooperative owned by our customers. Our Board of Directors is comprised predominantly of men and women from agricultural co-ops, rural infrastructure companies, and from Farm Credit associations. Many are also farmers and ranchers in their own right.

CoBank's customer-owners are in capital-intensive industries. They need reliable access to credit, regardless of market conditions. We have focused on building financial strength to ensure our reliability for our customers. Our earnings are used to build bank capital and to fund patronage dividends distributed to our customer-owners. Our capital levels are well above regulatory minimums, and we practice a strong credit underwriting culture. Most importantly, we have deep expertise and experience in our customers' industries.

Farm Credit's key value proposition is dependability, and we stand by our customers in good times and difficult times. That includes conditions like today, when downward pressure on commodity prices impact farmers, ranchers, and co-ops. We are monitoring credit quality carefully, and working closely with our customers to ensure their access to credit that is required to manage successfully through these difficult times.

High commodity prices can also be challenging, just as low prices can be. In 2007 and 2008, a spike in global prices for corn, soybeans, and wheat stressed farmer-owned grain elevators throughout the Midwest, the majority of which were CoBank customers. Our customers requested emergency increases to credit facilities to fund grain purchases and margin calls. And without this financing, liquidity shortages could have put them out of business. CoBank doubled its credit to the grain industry, increasing by nearly $8 billion in less than a year. Farm Credit support proved essential at a critical time for our customers.

Equally important, CoBank has a $20 billion loan portfolio with rural infrastructure providers, including electric cooperatives, water companies, and communication providers; the backbone of the U.S. rural economy. Our mission is to provide them the credit that they need.

We also support the mission of Farm Credit in many other ways, including an ambitious corporate social responsibility program. Our Board of Directors targets one percent of net income for contributions to nonprofits, predominantly in rural areas.

Early this month, CoBank recently provided emergency relief funding and response to the devastating grassland wildfires that were occurring in Kansas, Oklahoma, Texas, and Colorado. With our affiliated associations and customers, we contributed a total of over $400,000 to local relief efforts.

Finally, it is important to discuss the similar entity participation authority extended by statute to all Farm Credit institutions. Despite past criticisms with which I am sure you are all familiar, similar entity participations, in fact, support Farm Credit's mis-

sion. Similar entity participations provide risk and income diversification in portfolios that are heavily concentrated in production agriculture and commodities. Diversification is the key reason Congress extended this authority in 1992, and it remains critical today. Each Farm Credit institution is permitted to hold similar entity participations up to 15 percent of their total assets, though they constitute only three percent of the consolidated assets of the Farm Credit System. By law, similar entity participations must be originated by commercial banks. This authority remains a prudent risk management tool, and allows Farm Credit institutions diversification, and strengthens their mission service capacity across rural America.

Thank you again for your attention. I very much look forward to answering your questions.

[The prepared statement of Dr. Halverson follows:]

PREPARED STATEMENT OF THOMAS HALVERSON, PH.D., PRESIDENT AND CHIEF EXECUTIVE OFFICER, COBANK, DENVER, CO; ON BEHALF OF FARM CREDIT SYSTEM

Good morning Chairman Conaway, Ranking Member Peterson, and Members of the Committee. Thank you for the opportunity to testify today on behalf of the vital role the Farm Credit System plays in the U.S. rural economy.

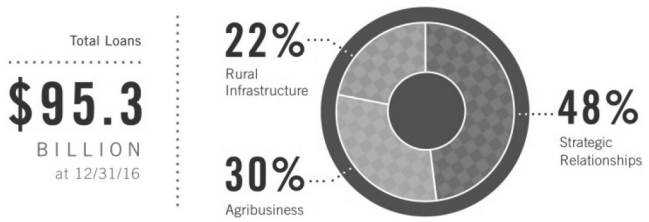
My name is Tom Halverson and I am President and CEO of CoBank.

CoBank is a proud member of the Farm Credit System, and we share the Farm Credit mission to support rural communities and agriculture. CoBank is unique in Farm Credit in that we are chartered to serve farmer-owned cooperatives, agribusinesses, and rural infrastructure providers. We also finance the export of about $5 billion worth of U.S. farm products around the world.

Unlike most Farm Credit institutions, CoBank doesn't directly lend to farmers. Instead, we provide funding to 23 farmer-owned Farm Credit associations that make loans to more than 70,000 agricultural producers in 23 states in the Northeast, Plains, and West. In addition to providing funding to Farm Credit associations, CoBank directly loans to cooperatives and other businesses in the agribusiness, rural power, rural water and rural communications industries in all 50 states.

Like all Farm Credit institutions, we are a cooperative owned by our customers, and our board of directors is comprised predominantly of men and women from agricultural co-ops and rural infrastructure companies we serve or from the Farm Credit lending associations we fund. A substantial percentage of CoBank board members are themselves farmers or ranchers. Our board members live and work in rural communities throughout the country; they have a generational mindset and are deeply committed to the bank's mission to support rural communities and agriculture.

CoBank Industry Portfolios



CoBank's customer-owners operate in highly capital-intensive sectors, and need reliable access to credit, regardless of market conditions. CoBank has built financial strength to deliver that reliable access to credit. We maintain our capital levels far in excess of regulatory minimums. We have a strong credit underwriting culture. And most importantly, we have deep expertise and experience in industries in which our customers operate.

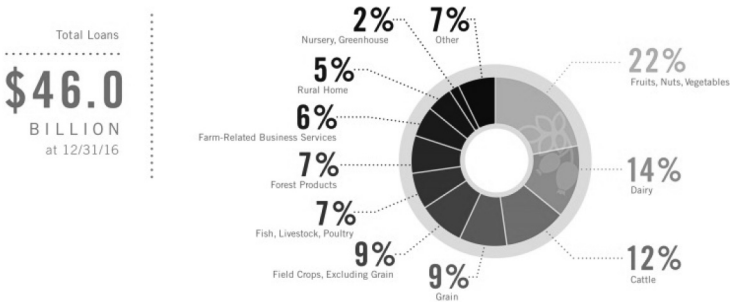
With commodity prices continuing at low levels, we are watching closely for signs of stress among our customers. Loan quality for CoBank, however, remains very

strong by virtually every measure, despite stresses in the rural economy that have impacted our customers.

The first line of defense for any financial institution is its earnings, and CoBank is no different. Like other Farm Credit institutions, CoBank's cooperative structure means that the bank's net income can only be used in two ways—either retained within the bank to build financial strength to withstand downturns and continue meeting the needs of our customers, or returned to those customers in the form of cooperative dividends (known as patronage distributions) that directly lower the cost of borrowing.

Like every member of the Farm Credit System, CoBank is focused on providing credit and financial services to production agriculture. Lending Farm Credit associations comprises nearly ½ of our portfolio. Our affiliated associations serve farmers and ranchers in many of the states represented on the Committee.

Strategic Relationships Portfolio



One of these associations is Farm Credit East, headquartered in Enfield, Connecticut, serving 14,000 customers in seven states reaching from New Jersey north to Maine. Agriculture and the future of our rural communities depend on the next generation of farmers getting started. To help in that effort CoBank partnered with Farm Credit East on their FarmStart program.

FarmStart invests working capital up to $75,000 to give new farmers in their first 3 years of operation a healthy start as agricultural producers. The producers start with a business plan and work with a FarmStart advisor to create a roadmap to success. Recently, FarmStart made its 200th investment in the future of agriculture in the Northeast. Yankee Farm Credit, another CoBank-affiliated association serving Vermont and parts of New York and New Hampshire, is also a partner in FarmStart.

One FarmStart success story is Abigail Barrows of Deer Isle, Maine. In early 2015, Abigail combined her science background and her interest in farming with an investment from FarmStart and a loan from the USDA Farm Service Agency to purchase the Long Cove Sea Farm. She appreciates the flexibility of FarmStart in accommodating the seasonal nature of her business. Marketing at a local night market and via FaceBook, her first season's demand exceeded supply. Now she is hoping to grow her business while improving the marine environment.

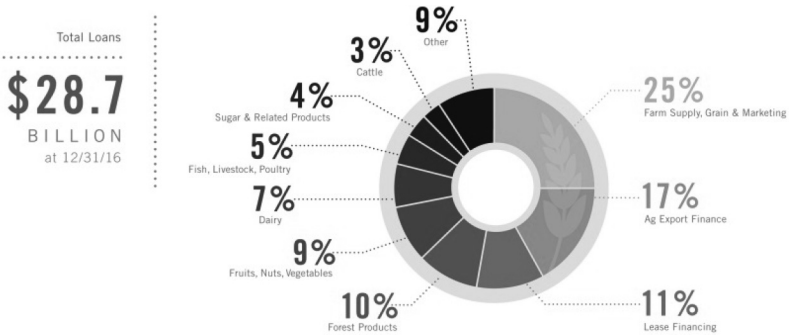
Another FarmStart success story is Hudson Valley Seed Library in Accord, New York. Founded by Ken Greene and Doug Muller, its mission is to produce ethically grown and regionally sourced seeds to add to the diversity available to farmers. As their business grew faster than expected, FarmStart helped Greene and Muller make an investment in cold seed storage, improved germination testing equipment, and add an employee to help with sales and marketing. Today they boast a certified organic catalog of 400 vegetable, flower and herb varieties. They are creating local jobs and increasing the genetic diversity of plants found in their region.

Thirty percent of CoBank's loan volume is with agribusiness. These loans support grain handling and marketing, farm supply, food processing, biofuels, and all types of agricultural products. These businesses provide the inputs and market the products of farmers and ranchers across the U.S. and abroad. CoBank serves agribusinesses in all 50 states.

The cooperative business model has a long history of helping farmers and ranchers manage their input costs and market their products more efficiently, allowing producers to keep more of the revenue. That is especially important when times are tough in the agricultural marketplace. Like the entire Farm Credit System, CoBank has a long track record as a dependable provider of credit to co-ops of all sizes and

shapes, from start-ups to well-established brands. We support our customers in good times and bad.

Agribusiness Portfolio

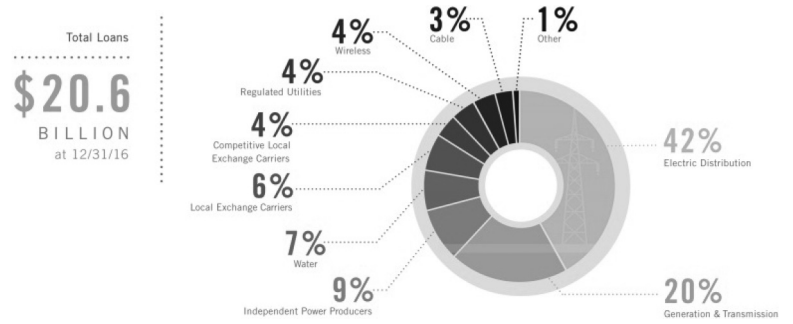


In 2015, CoBank customer CHS undertook a joint venture with CF Industries to help provide CHS and its member-owners with a dependable source of fertilizer through supply chain efficiency, thereby generating economic value for farmers and ranchers. The longstanding CHS relationship with CoBank meant the deal could move quickly while partnering with other Farm Credit institutions and commercial banks to get the transaction closed smoothly.

Banking in agriculture doesn't require low prices to be challenging. In 2007 and 2008, a huge spike in global prices for corn, soybeans, and wheat placed enormous stress on farmer-owned grain elevators throughout the American Midwest, the vast majority of which were CoBank customers. During that period, hundreds of these cooperatives requested emergency increases to seasonal lines of credit and term loans from CoBank to fund grain purchases from their members and resulting margin calls. Without this financing, elevators were at risk of liquidity shortages that could have prevented them from meeting their obligations to producers and ultimately put them out of business. CoBank, consistent with its mission, expanded the availability of credit to the grain industry, approving incremental commitments to grain and agronomy customers that added more than $6 billion of loan volume between September 2007 and September 2008. Doing so helped avert tremendous dislocation for our agribusiness customers and the U.S. grain industry as a whole.

Today, 22 percent of CoBank's business is rural infrastructure. These loans provide the capital that rural telephone co-ops, rural water systems, and rural electric cooperatives need to provide affordable and reliable service across all 50 states. While these three businesses are organized separately within CoBank, they are inextricably linked in rural America. CoBank and the entire Farm Credit System provide the capital that finances agriculture and rural communities.

Rural Infrastructure Portfolio



Union Wireless is a CoBank customer in Mountain View, Wyoming, serving 4,000 wireline customers and ten times that many wireless customers. Union covers over 120,000^2 miles, relying on over 40 towers. CoBank has worked with Union for more than 25 years, including financing their 2016 network upgrade.

As electric co-ops have brought more renewable resources on-line, CoBank has been there as a partner. Indiana's generation and transmission co-op, Hoosier Energy, provides power to 18 distribution co-ops serving more than 300,000 homes, businesses, and industries in central and southern Indiana and southeastern Illinois. In 2015 CoBank financing helped Hoosier construct the first of ten planned 1MW solar arrays, on the way to Hoosier's goal of ten percent renewables by 2025.

Since CoBank is a financial cooperative, our owners share in the bank's financial success. Earlier this month, CoBank returned $588 million in patronage distributions, and we have returned over $2.4 billion over the past 5 years. Patronage effectively lowers the net cost of borrowing for our customers, and provides them with funds they can reinvest in their businesses and in their local communities.

CoBank's board has generously committed to additional direct investment in support of rural economic development. To date, the bank has committed $45 million as a limited partner in equity funds that promote economic growth and job development in rural communities, including two funds formed under the auspices of the USDA's Rural Business Investment Program. Additionally, the bank is an active investor in rural health care, senior care, and other community facilities through bond purchases that support individual projects, with investments totaling more than $80 million over the past 5 years.

A great example of rural community investment by CoBank is Cook County Hospital in the rural town, Grand Marais, Minnesota. CoBank partnered with four local community banks and Farm Credit's AgStar Financial Services to fund a full-scale renovation of the hospital that began in 2016. The 16 bed critical access facility provides a community of 1,300 with 24-hour emergency services, inpatient care and outpatient services. The project will update the facility, which was first built more than a half-century ago, meaning local residents won't be forced to drive 90 minutes for care. This investment will help the hospital remain a reliable resource for the community.

CoBank also supports rural communities by providing funds for a wide array of charitable organizations throughout the country. Consistent with the cooperative principle of concern for community, the board targets one percent of budgeted net income for charitable giving in rural areas and where the bank has business operations. In 2016, that meant CoBank invested $8.3 million in charitable contributions. Additionally, CoBank supports organizations and associations of the industries we serve. In 2016, CoBank provided $3 million directed to supporting cooperative advocacy and industry organizations.

CoBank's *Sharing Success* program matches contributions directed by our customers, making their local contributions go twice as far. Those investments help fund public safety equipment like thermal imaging equipment for the volunteer fire department in Centerville, South Dakota.

CoBank is also ready to lend a hand when disaster strikes. On March 16, 2017, CoBank announced the establishment of a $150,000 matching fund to support wildfire relief in Kansas, Oklahoma and Texas. In Kansas, $80,000 of that pledge matches contributions from the five Kansas Farm Credit associations. The remainder is available to match contributions from other customers, or Farm Credit banks or associations. We subsequently increased the size of the fund to $200,000 in response to requests from customers who wanted to contribute to relief efforts.

Moreover, like our Farm Credit partners, we focus on financial strength and stability to ensure we can be the dependable source of credit and financial services during our customer's good times and bad.

CoBank, like other Farm Credit institutions, however, face unique challenges when it comes to portfolio diversification. We are, as you, know limited by statute to financing agriculture rural utilities and other infrastructure companies. Therefore, given the nature of our authorities there is a natural and inherent concentration in the loan portfolio that we diversify though our participation authorities.

This leads me to the topic that I would like to focus the remainder of my testimony today on the "similar entity" participation authority that has been extended by statute to all Farm Credit institutions. Critics, especially trade associations from the commercial and community banking sectors, have frequently pointed to System participations under this authority as an indication that Farm Credit is straying beyond its mission. I respectfully submit that similar entity participations help fulfill Farm Credit's mission by providing a vital source of diversification.

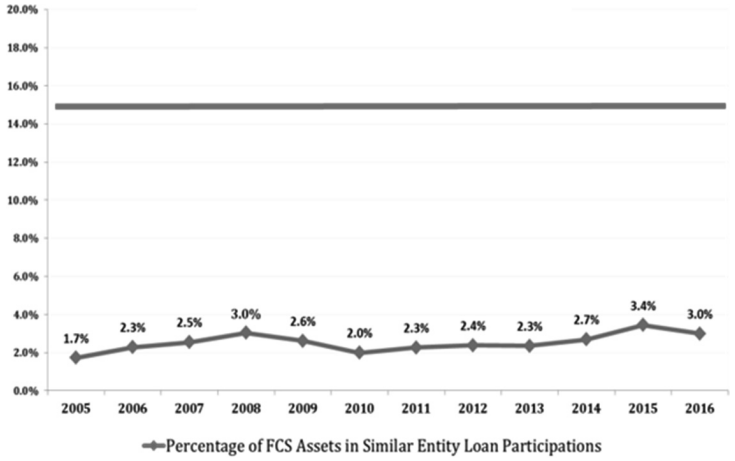
Similar entity loan participations are an important way that commercial banks and Farm Credit partner to serve customers. Similar entity transactions support Farm Credit's mission by providing valuable diversification that helps ensure Farm Credit can support its core customers through good times and bad. The authority is especially important in the current environment as falling commodity prices are

impacting the incomes of many of the farmers, ranchers, and agribusinesses we serve.

Similar entity loan participation authority is designed to encourage Farm Credit and commercial banks to partner on loans to entities that are not directly eligible to receive loans from Farm Credit but that are functionally similar to the entities that are eligible. The authority applies to all types of loans Farm Credit is eligible to make, including loans to agricultural and aquatic producers, certain agribusinesses, and rural infrastructure providers.

Congress placed significant restrictions on similar entity participation authority. Farm Credit cannot, in the aggregate, hold a majority of an individual loan in this category. Commercial banks must hold at least half of every similar entity loan. In other words, without directly partnering with commercial banks, Farm Credit cannot participate in any similar entity lending transactions.

Similar Entity Loan Participations Remain Well Below 15% Statutory Cap



We understand the concerns of some Members of Congress over the similar entity loan participation involving Verizon made 4 years ago in 2013. Even though this transaction was fully authorized by law, we respect the views of the Congress and have imposed a variety of self-discipline measures that support the Farm Credit Administration's expectation of robust due diligence regarding the size and scope of similar entity loan participation activities while preserving their value as a diversification tool.

Congress also mandated a hard limit on the aggregate amount of similar entity transactions any Farm Credit institution can hold to no greater than 15 percent of its total assets.

Similar entity participation authority has existed for nearly 25 years and, as the chart above demonstrates, today only three percent of Farm Credit's assets are invested in similar entity participations.

Farm Credit uses similar entity loan participation authority in a limited manner to diversify loan portfolios, withstand industry downturns, and continue serving core customers. It is a small but meaningful way we are able to build the financial strength necessary to support customers during the kind of cycle we are experiencing right now in agriculture.

Along with benefits from portfolio diversification for mission achievement, similar entity lending is important in providing support for rural infrastructure that CoBank is expected to serve. The U.S. rural economy encompasses far more than production agriculture; rural communities also depend on power, water, and communications services in order to remain vibrant and competitive.

The area of greatest change and impact for rural infrastructure is communications services. In the rural communications space, our directly eligible borrowers include small, medium, and large carriers that provide communications services to rural areas. However, rural communications has evolved tremendously over the past 2 decades due to disruptive technology change and the transition of the industry away from the old utility-based business model of local phone service. The proliferation of broadband and mobile technology has fundamentally altered the requirements of

consumers, and they have reshaped the industry as well, changing the appearance of those providers—CoBank customers—which serve rural America.

Similar entity authorities not only support mission service through portfolio diversification but also through support of needed rural infrastructure services, including within the communications and broadband sectors. That infrastructure is critical to enabling farmers to take advantage of the latest technology to increase their efficiency. That broadband is critical to providing telemedicine services so people can live in their rural communities longer. And that communications technology is important to draw young people back to rural communities, to enhance the education of their children, and to power the new web-supported jobs that are possible anywhere.

Congress was visionary when it established Farm Credit more than a century ago. That vision has helped produce great productivity in rural America. A quarter-century ago Congress provided similar entity authority to help Farm Credit diversify, manage risk, and today serve our mission in ways unimagined in 1992. And today, there still remains a need for capital investment in rural communities across this country. CoBank is proud to stand ready with our partners in Farm Credit to meet those needs.

Thank you for the opportunity to testify and I would be happy to address any questions from the Committee.

The CHAIRMAN. Thank you, Dr. Halverson. I appreciate that.

The chair would remind Members they will be recognized for questioning in order of seniority for Members who were here at the start of the hearing. After that, Members will be recognized upon arrival. And I appreciate the Members' understanding.

And I will recognize myself for 5 minutes.

Well, gentlemen, thank you very much for being here today. I appreciate the testimony.

The FCA has a role and a responsibility to make sure the System is safe and sound. The banks themselves have responsibilities for making sure that they are safe and sound, and I am confident, based on what we have seen this morning, that even in these hard times that we have currently and the ones we see over the horizon, that the System is safe and sound. But there is also responsibility to make sure that the System lenders stay within their statute lanes. While the analogy is not too precise, nevertheless, it is not too flawed either. In NASCAR, when folks share lanes, there is rubbing, and sometimes rubbing just means swapping paint, and other times rubbing means bending fenders and all that kind of stuff. As the administrator, is your role, in reviewing the banks, when you make sure that the banks and the lending associations, I will use the term *banks* in the generic, with these lending authorities set forth in the statute, and when there are instances or if there are instances where you believe they have made a loan they shouldn't have made, what are the remedies, and what steps do you take to remedy this situation?

Mr. TONSAGER. Thank you, Mr. Chairman. I would just say that one of the biggest challenges for the agency is to make sure—let me say that more correctly. Our responsibility is, along with everything else, is to make sure they do stay within those lanes. And we have built off the statute provided to us by you, we have built regulations and we have built processes to assure that we have the capacity to deal with that. From time to time, we have had to require divestiture of certain loans that have come outside of the System.

Most of our work is focused on post-lending activities. We have a category called mission-related investments where the Board actually approves individual loans before they are made, but mostly

the System goes out, does its lending work, we provide guidance to them, and then we have examination units that go in, look at the loans. We sometimes receive reports from institutions that say we believe this has gone outside of the category. We review those, our General Counsel's office reviews them, our regulatory unit reviews them. We have had six instances in the last several years where we have required a divestment of the loan. Out of many tens of thousands and hundreds of thousands of loans, that is the number that we have actually had to deal with, where we believe they have moved outside of the category.

The CHAIRMAN. All right. And so if the bank disagreed with you, do you have the authority to require the divestiture if your lawyers say that it is outside the lane?

Mr. TONSAGER. We do.

The CHAIRMAN. Okay. Jimmy, Mr. Stark, and Tom, your banks are originating loans. Do you participate those loans out? In other words, I understand the diversification where you buy participations, but do you sell participations into the private-sector, and if so, is that tracked as to how many of your loans, what is the volume of your loans that you guys have actually asked other non-FCS institutions to share the risks with you?

Mr. DODSON. Yes, we do that. We have a portfolio that is both originated by commercial banks and that we originate and share with commercial banks. We track those loans by the originator or by the participants. In our bank we do that quite regularly.

The CHAIRMAN. All right, Dallas, you may have this, $250 billion in loans, is that right?

Mr. TONSAGER. Yes, that is approximately right.

The CHAIRMAN. So that is your risk. What is the number of participations that the commercial banks and insurance companies, other folks, own in those loans on their books? Any idea what that number is? Do you track that total?

Mr. TONSAGER. Yes, we do, but I don't happen to have the number——

The CHAIRMAN. Would you mind getting that for us? It would be helpful for all of us to understand that while you are originating a lot of paper, you are offloading some of that risk to the commercial market, and those banks are sharing in whatever those loans have done. Does that make sense?

Dr. HALVERSON. That is absolutely true, and it is actually a tremendous success story from our perspective for rural America. The amount that CoBank alone buys and sells back-and-forth with commercial banks, the sum total is in the vicinity of $20 billion. Between us and them, we are able to catalyze a substantial amount of capital that comes to rural America in the industries that we serve that might not otherwise get there but for this activity. We think it is actually a tremendous success story. We would be very happy to provide you the exact numbers.

The CHAIRMAN. Jimmy.

Mr. DODSON. The other option that I wanted to mention is the associations and banks have the options to trade and do commerce between each other.

The CHAIRMAN. Sure. Sure.

Mr. DODSON. And so we do that for loan diversification, if we have a concentration in a certain industry or certain commodity, instead of having to merge your balance sheets you can trade loans.

The CHAIRMAN. No, I understand that.

Mr. Peterson, 5 minutes.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Tonsager, last week the University of Minnesota extension announced that it will begin offering a one-to-one financial counseling to farmers that are in serious financial stress. This program is being modeled on similar financial counseling programs that are offered by the extension services in Iowa and Kansas, and I hear that there are similar programs in North Dakota, Nebraska, and South Dakota. Are your institutions participating with state extension services who are offering these counseling services?

Mr. TONSAGER. I believe so. I would have to find out for sure to the degree they are participating with them. I would certainly encourage it, and I would like to add that one of our big challenges is what happens with those producers who are struggling, and one of the lessons from the 1980s is how we handle that going into this one.

Mr. PETERSON. You haven't actually seen these work directly yourself?

Mr. TONSAGER. I have seen the programs that were used in the 1980s, some were funded by USDA at the time.

Mr. PETERSON. Right, but you haven't seen what is going on now?

Mr. TONSAGER. I have not seen one during the current circumstances.

Mr. PETERSON. How about the state mediation programs?

Mr. TONSAGER. I have personally seen state mediation programs and used state mediation programs back at that time, I am quite familiar.

Mr. PETERSON. And so you are not exactly sure how much you are participating in those?

Mr. TONSAGER. We have not surveyed, but we are addressing directly with the System frequently the need for them to work with producers who are in trouble and challenged.

Mr. PETERSON. Okay, thank you.

Mr. Stark, I am beginning to get calls from constituents who claim that they are trying to work with the System lenders, and they feel some of them, at least, feel like they are not getting flexibility on loan terms that they think they should be able to get. Are your institutions permitted to provide flexibility to these borrowers facing stress, and is there anything that the regulators could do that could assist? I guess it goes back to what we were talking about earlier, these situations.

Mr. STARK. Yes. Thank you for the question, Mr. Peterson. We are doing a lot to proactively, actually, reach out to modify loan terms with customers even before they have experienced stress. Even going back as far as 2 years ago, we started meeting with customers to amortize loan payments to reduce their overall debt burden on a per acre basis to a more manageable level. We also re-advanced against real estate equity to restore working capital for some of those same customers. Customers that had prepaid

their loans down during the good times, we went back and either re-amortized those loans or restored working capital to give them that flexibility. And then we are really looking also at setting up those loan terms, extending terms such that maybe they had a 10 year term initially, we may be stretching those out to a 15 or 20 year term to allow them to pay them on a more scheduled basis. Yes, we are doing much of that on a proactive basis. We have been doing that over the last 2 years.

Certainly, times are challenging, and not everybody has all of those options available to them. We are having one-on-one conversations with those producers, and there is no doubt that some producers are going to be challenged to make more severe cuts, including some asset sales or changes in their operation as they go forward. Those decisions are tough for individual producers that are in that position.

Mr. PETERSON. Thank you. It seems to me, at least in my part of the world, we had some years that were pretty good and people built up some equity and land and so forth, but the young producers generally don't have any land, and they are probably paying more for rent than they should, because they have to. It seems to me that those are the people that are really vulnerable in this situation as we go forward. Are there any kind of special conditions that are being thought about to deal with these young producers that have no equity to speak of and rented land?

Mr. STARK. Mr. Peterson, we are doing a lot to work with young producers. We love working with them, helping them get started, as well as making sure that they succeed. We certainly, as you had guessed, don't go into any lending relationship with the idea that these operations are not going to be successful. When we have a young producer which we acknowledge doesn't have the equity or the net worth that some of our more seasoned, established producers do, we recognize that, and the first thing that we would look at is their operating plan as well as apply a level of patience that will allow us to work with them over time. If they can come to us with a reasonable plan, we are more than willing to work with them and to re-establish them over the longer-term.

Mr. PETERSON. All right. Well, thank you.

Thank you very much. I yield back.

The CHAIRMAN. The gentleman yields back.

Mr. Lucas, 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman. And you are absolutely right, the quorum is important to the panel.

Under Dodd-Frank, banks are required to do stress testing. Can you explain how Farm Credit Administration does stress testing of the Farm Credit System, and in particular how often these tests are done and how the tests compare to those done by commercial banks, that sort of thing?

Mr. TONSAGER. Yes. The institutions do stress testing. We examine for the stress testing. They are not the same kind of stress tests necessarily as required by Dodd-Frank. I spent 3 months last year going from institution to institution to look at their stress testing model, and what I found was, I thought, exceedingly high quality, excellent work. And they are treating it as a learning process. As

they go through each year, they are looking and updating their stress tests with different scenarios.

So from my perspective, it is a wonderful regime that they have taken without a lot of direction, but have developed stress testing, and we have examined to make sure they are doing their stress testing.

Mr. LUCAS. And has it brought up any variations within region or within particular commodity areas?

Mr. TONSAGER. Yes, it varies significantly by institution. The Bank of Texas is quite a bit different than you might find in the Northeast Farm Credit area.

Mr. LUCAS. One other question. In Oklahoma, we have a state law that says the banks cannot hold real estate for more than 5 years, and, of course, the logic behind that principle is that banks should be lenders and not long-term asset holders. And according to the 2015 FCA annual report, the Farm Credit System had about $76 million in income from mineral royalties on property. Could you visit with us for a moment about where these mineral rights are owned and how long the assets have been held by the System, and what ultimately the plan is for these old assets?

Mr. TONSAGER. Yes. I can't recall the year, but there was a change prior to, I think it was 1985, institutions could keep those assets permanently, but then the statute changed, and the newly acquired assets the mineral rights had to be sold off. And so primarily, those assets held before the change in the statute continued to be held in many cases, but since that time it is no longer the case.

Mr. LUCAS. And I assume those are minerals acquired through repossessions or where they were put up for collateral?

Mr. TONSAGER. Yes, I believe that is correct.

Mr. LUCAS. Forfeited?

But at this time, the intent would still be, based on the old law, to hold those assets?

Mr. TONSAGER. It is based on the statute, that prior to that period in the 1980s they can be maintained and held by the institutions.

Mr. LUCAS. From your perspective as an administrator, and we have discussed quite a bit, the health of the agricultural economy and the trends that we are on, do you have any particular request of us that you can see that might help enhance the challenges you will face in the coming years if this present price level is maintained for a period?

Mr. TONSAGER. We don't have significant proposals for modifications of our process. We have a few small technical areas that we hope to visit with the Committee as the process for the farm bill goes on, but they are very technical and I would be reluctant to go into them now.

And so no, we don't have a significant request at this time.

Mr. LUCAS. With that, Mr. Chairman, I will yield back.

The CHAIRMAN. The gentleman yields back his time.

Mr. Scott, 5 minutes.

Mr. DAVID SCOTT of Georgia. Thank you, Mr. Chairman.

I want to begin my questioning with complimenting Farm Credit on your excellent program helping beginning farmers. I think that

is a very crucial crisis facing our nation, getting more young people into farming, because as you well know, the average age of our farmers and food producers now is right there about 60 years of age. I know you have an excellent program, and I want to congratulate you on that.

Mr. TONSAGER. Thank you, sir.

Mr. DAVID SCOTT of Georgia. But, Mr. Stark, let me ask you, the System's use of what is called similar entry authority has been the subject of significant back-and-forth between the System and commercial banking. Could you please share with us the legislative history of this activity, and also could you provide our Committee with your perspective as to the benefits to Farm Credit borrowers across the nation?

Mr. STARK. Well, at a real high summary level, I don't know the exact legislative history, but I do know that that law has been in place for something close to 25 years, so it is not something that is brand new to the Farm Credit System. Over time, the System has used that, it has ranged between one and three percent of our total assets. There are strict limits on our ability to use that in terms of the amount of assets we can employ in that regard. And, frankly, the ability to use that really helps us with the diversification of our loan portfolios, as well as income to keep us safe and sound and a strong manner. That is really the high-level summary that I can provide to you.

Mr. DAVID SCOTT of Georgia. That is great.

And, Mr. Dodson, could we get your perspective on that?

Mr. DODSON. The similar entity authority is very valuable to get risk diversification for us. A company or a bank, or anything really gets into trouble when it can't make payroll and it is liquidity that causes the problem. And so whenever you have a similar entity loan that is outside your normal focus for your borrowers or for your territory, it allows you to have income diversification as well as risk diversification. And so that income is very valuable for us to supply steady earnings during times when part of our ag portfolio is in trouble. It has been a valuable tool, but I agree with the assessment that it is a minor slice of our asset base.

Mr. DAVID SCOTT of Georgia. And let me continue with you, Mr. Stark. With the current decline in crop and livestock prices leading to tightening credit conditions, many people are quick to compare the situation with what happened in the 1980s. How are your institutions prepared to handle any possible loan defaults, and in what ways are you more prepared for economic downturn when they compare to the situation in the 1980s?

Mr. STARK. Well, Mr. Scott, the current cycle we are in is one that we have anticipated for some time. We knew, looking back 5 years or so, that the times we were seeing in agriculture at that point were not going to be sustained forever, and so we employed a philosophy that we still carry today and that is to be conservative in good times so we can be courageous in tough times. And so rather than tighten our lending standards during tougher times, we are actually trying to lean into the wheel, as I mentioned earlier, by re-amortizing loan payments, extending additional credit to restore liquidity, and having patience over loan terms and the length of terms to help them and assist them through these times.

Our business, we know it is cyclical, we know that we were going to run into these kind of issues and we prepared for that, as well as building strong capital, as we talked about in our opening testimonies, and really working to make our operations more efficient and lean, such that when we had to put more of our funds in our allowance for loan losses, we still had the capability of doing that, supporting producers, and showing a strong financial statement ourselves.

Mr. DAVID SCOTT of Georgia. Very good.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman yields back.

Mr. Crawford, 5 minutes.

Mr. CRAWFORD. Thank you, Mr. Chairman. Thank you, gentlemen, for being here today.

I want to start with Dr. Halverson. The last time we had a hearing on Farm Credit System I asked a few questions about CoBank's use of similar entity authority to make certain loans. Can you give us a snapshot of how CoBank determines whether or not to make a loan under its similar entity authority, and specifically, do you have any internal practices in place that you use to review this type of lending decision?

Dr. HALVERSON. Absolutely. Thank you for the question, Congressman Crawford.

We have a robust, vigorous legal review, we have a robust internal set of processes, policies, and procedures where we look at the facts and circumstances of every single transaction, make an analysis as to whether it falls comfortably within the lanes of what the authorities are. Everything obviously has to be within the lane comfortably. There will be cases, as you can imagine, where it may fit within the letter of the law in the regulation, but there may be facts and circumstances that we think people might criticize, there might be reputational risk associated with it, and those are run through an additional screening process where we will render a good judgment as to whether we think we are comfortable with the reputational risk before we actually execute it. In addition, there are policies and procedures that we collectively, as the System leadership, have put in place over the last several years that involve a reduction in the size of the holes of the positions that we will take, and a vigorous review and assessment of disciplines that are commonly applied across the System.

So we think we have a vigorous process for doing that, and we would be happy to share those details with you and anyone else who would like to look at them.

Mr. CRAWFORD. Thank you.

I had a couple of other questions I was going to ask, but I kind of want to continue down the road that Mr. Scott started in talking about our mean age of farmers, what do we do to incentivize young people back onto the farm. There have been a couple of attempts in drafting legislation to create sort of a student loan payoff. I think that is dangerous because we are $20 trillion in debt, we don't really have the resources to repay student loans, but I do think the private-sector can play a pretty critical role. We have been, in fact, I have worked with Mr. Scott on this, we have drafted some legislation to essentially sort of create the conditions to allow

the private-sector to help an accelerated pay-down to incentivize young people to come back to the farm.

Can you imagine, and this is to all of you, can you envision a role that you could play to help structure production loans, rolling in a student loan to help pay down that debt at an accelerated rate, and the byproduct of that being that if you have a young person who has now come back to the farm, and they have four or five crops under their belt, they are probably going to stick around for a while. That is just the nature of agriculture.

So if you would, anybody that wants to weigh in on this, because I want to make sure, I don't think that we need to be trying to craft legislation to guarantee a student loan repayment in the condition that we are in financially, but I do think we need to be proactive in creating the conditions to incentivize young people to come back to the farm, and student loan debt is going to be a critical factor in that. Mr. Tonsager, we will start with you, if you want to weigh in on that and what you feel like the role you could play in that regard.

Mr. TONSAGER. Well, I would love to see what you are proposing and have an opportunity to read about it, just for my own benefit. I can say the System has developed an elaborate process regarding young, beginning, small farmers, and it has done very well. And we would love to provide you the information about how that works. It individualizes the needs by banks, so in some institutions it is lower interest rates, there are different steps that each institution deals with that they believe their area is the best.

And I will pass it off to somebody else.

Mr. STARK. I would be glad to talk about that, because we do a lot relative to young producers in particular, and beginning producers, and this hits right in the sweet spot of what we enjoy doing as well.

All the way from several years ago we started, and most of my colleagues around the System at the association do something very similar, we started what we call an Ag Start Program. Basically, we threw out the normal underwriting standards for traditional producers and say we know they don't have the equity on the balance sheets that they do, and we are willing to lean into them. They had only three criteria, and that was they had to have a repayment plan that said, okay, we can reasonably repay, they had to have a good track record of handling credit already with a credit card and such, and they had to have a mentor, because we found that that mentorship was the most important factor in their success long-term, whether that be a family member or somebody else that could provide that direction, marketing advice, those kind of things. That was it. We made loans that were limited as no equity for some of those producers to start their first farm, lease their neighbor's operation, farm with their dad's equipment, those kind of things we allowed.

Furthermore, our Board pushed us to do even more than that, and they said, "Doug, you can do even more," and so we developed in this last year what we call a development fund. It is almost like a venture capital fund to help young producers, strictly young producers, to expand their operation and/or to build working capital to

allow them to withstand the adversity, as we were talking about here a little bit ago, to get through a downturn of the cycle.

Mr. CRAWFORD. Right. I appreciate it and unfortunately, I am out of time, but I would love to confer further with you all on this.

Mr. STARK. We would love to talk more with you about that.

Mr. CRAWFORD. Thank you. I appreciate it.

The CHAIRMAN. The gentleman yields back.

Ms. Kuster, 5 minutes.

Ms. KUSTER. Thank you, Mr. Chairman. And thank you for all of you for being here.

I am from New Hampshire, where we are served by Yankee Farm Credit and Farm Credit East, and I just had the opportunity to meet with them this week, including Brenda Frank, the new CEO of Yankee Farm Credit. It was great to meet her and good to get an update on credit conditions in the Northeast.

Two questions: My first question is for the whole panel. In the last 10 years, the Farm Credit System total assets have grown 86 percent from $163 billion to $304 billion. Where is the largest growth of the System, and how have you focused your workforce to ensure that the agency is well positioned to ensure the safety and soundness of the System?

Mr. TONSAGER. I would offer a couple of thoughts. One is, I believe the growth has been primarily in farm real estate much of it, and rural utilities have had a significant growth in the portfolio as well.

I am sorry, the second part you were asking?

Ms. KUSTER. I am just wondering how can you focus your workforce to ensure that the agency is positioned to ensure the safety and soundness of the System.

Mr. TONSAGER. Yes. We have done it two ways. One is by having a very high standard for our examiners. Examiners go through a 4 year training program before they are fully certified. And we are finding the complexity has grown greater, and so we feel we have to have a greater capacity of talent for the employees. And second is technology. We have a platform that allows any examiner, anywhere to look at the same data of any institution when they are sitting in that institution's office. They have unparalleled access to the information about the institution, and it is available to them anywhere in the United States.

Ms. KUSTER. Great. And then my second question, I want to pick up where Mr. Peterson left off on the young, beginning farmers. We very much appreciate that program in New Hampshire. I understand this program provides working capital of up to $75,000, but can you go a little more in-depth on how the FarmStart Program works, and what type of feedback you have been hearing from producers who participate in the program?

Mr. STARK. Well, thank you for the question. The FarmStart Program is very similar to what I talked about in our institution, the Ag Start Program. It is a program that was specifically designed for young producers that are just getting started, that really goes beyond the normal credit standards.

I am familiar with Farm Credit East program. It was one of the first and most proactive programs in the country. They have done a really good job. I know CoBank has also invested with them in

that program to help them support those young producers. Every Farm Credit association around the country has something very similar to what Farm Credit East and we have developed as well.

Ms. KUSTER. For a typical investment, can you tell us what producers are spending that type of capital on, and do you have any recommendations for this Committee about how we can further incentivize young people to pursue a career in agriculture?

Dr. HALVERSON. It would depend very much on what they were intrinsically producing. It could be any number of things. That is a great question, your second part of that question. We would love to come back to you separately, if you don't mind, and make some specific recommendations. We partner, as Doug indicated, with Farm Credit East, we are the wholesale funding bank for both Yankee and for Farm Credit East, and we would love to have a little more dialogue with you about some recommendations.

Ms. KUSTER. Great.

Mr. DODSON. Could I add something?

Ms. KUSTER. Sure. Yes, please do.

Mr. DODSON. One of the primary reasons that some of my kids and my nephews and nieces are not on the farm is because farm prices didn't offer them the opportunity to project a profit. And so I would suggest that one of the strongest things that we can all do together is provide a strong farm bill with a safety net in it that has crop insurance and it has the title I programs in it. Pretty much we don't need a lot of changes, pretty much a little tweaking here and there in certain commodities. But that is very important for a young person looking at working hard and risking 50 or 60 or 100 percent of their net worth each year until they get established. And so that safety net is a vital portion of it. And we appreciate all your help in that.

Ms. KUSTER. Great. Thank you very much.

And with that, I yield back.

The CHAIRMAN. The gentlelady yields back.

Mr. Gibbs, 5 minutes.

Mr. GIBBS. Thank you, Mr. Chairman.

First, I guess, a comment. A lot of people ask about what happened in the late 1970s, early 1980s when the whole system collapsed. I do believe that there were some different lending practices back then, and I think we learned. I am confident that what you are saying, you are in a lot better position than you were back when we had the collapse in the early 1980s.

I want to go back first to Mr. Stark and Mr. Dodson, you mentioned, or maybe it was Mr. Stark, about the similar entity authority, it is one to three percent. There are four banks and there are all kinds of associations, is that based on the banks or the associations that are part of the portfolio?

Mr. STARK. That would be the total assets of the Farm Credit System that less than three percent, yes.

Mr. GIBBS. Okay. The reason I ask that because I have my rural community bankers they were in last week, they are not happy, and I am trying to kind of sort through this. Of course, if it is one or two percent of the total System, you guys are big, and a small bank, a $50 million bank or whatever they are, I can see where there could be some issues.

I don't know if I heard the Chairman's answers correctly when he asked a question about divesture, Mr. Tonsager, did I hear you say that a bank could challenge a Farm Credit loan if it is not within the Act?

Mr. TONSAGER. When it comes to similar entity lending, we examine the loans after they have been made and look for loans that we think might be of concern, or we have, from time to time, an institution, like a bank, has pointed out to us a loan that they are not pleased with, and we look at those as well. Our General Counsel looks at them, our regulatory office looks at them, and we will make a judgment about whether or not we believe it falls as an authorized loan under the Farm Credit Act.

Mr. GIBBS. Track record: have there been many of those requests from banks, and if there has, have there been some overturned, or the association divested those loans, or what is the record?

Mr. TONSAGER. Well, we have had six instances in the last several years out of many hundreds where we felt that it went outside the parameter of the statute. And I can't recall if those were found by our examiners or individual institutions. It seems to me there has been a case at least where that has occurred.

Mr. GIBBS. Most of the time it is the banking examiners come in and they raise a red flag, the possibility this is out of your scope?

Mr. TONSAGER. Right. It may not be in the scope of the program.

Mr. GIBBS. Okay. Well, like I said, I have a lot of my community banks, they are not happy, and I am trying to sort through all this.

Mr. TONSAGER. Yes. And I would remind that every similar entity loan must be initiated by a bank, and the System buys into those loans as a participation. And banks have to hold a half or greater in the total loan.

Mr. GIBBS. Yes. And I got that part. And that has actually been good. The positive things is, like you say, Farm Credit is able to diversify some, so that is positive, and then also, as you say, banks have to come to Farm Credit first if they want to sell a loan or be partner in a loan to get more capital in. So those are positive aspects.

Mr. TONSAGER. Yes.

Mr. GIBBS. But, on the other side of it, my bankers talk about that they don't really think it is a fair, competitive playing field, and they have some issues.

I am just raising a cautionary note, whatever we can do to address that. When you say one or two percent, but if we are looking at the whole Farm Credit System, that is still a lot of money——

Mr. DODSON. Yes, each institution is limited to 15 percent or less of their assets. There is a little variation in the System, but it never gets over 15. And I don't think anybody is approaching that even.

Mr. GIBBS. Okay.

Mr. DODSON. I would say though that this authority was granted by Congress to bolster our finances and our capital and our diversity for just such a time we are entering right now.

Mr. GIBBS. Yes. No, I understand that, and it is kind of a balancing act.

Mr. DODSON. Right.

Mr. GIBBS. But, on the other side of it, and you testified on the importance of banks, especially community banks, and we are losing them, I have heard projections maybe one per day in the United States, and that raises an alarm too because there are a lot of small businesses, not ag businesses but related in that community, so it is very important.

Mr. DODSON. Sure.

Mr. TONSAGER. I want to offer one clarification. The overall amount in that category is seven percent System-wide at this time.

Mr. GIBBS. All right, thank you.

And I yield back, Mr. Chairman.

The CHAIRMAN. Well, just to clarify, the divestitures of loans that were directly made by the institution, these are divested participations, right?

Mr. TONSAGER. These are participations, yes.

The CHAIRMAN. So you ask them to divest of a participation. Have there been circumstances where a bank, or an institution, has made a direct loan themselves, originated the loan, that you saw was outside the scope and you made them divest of that? Because that is really what the commercial bankers are complaining about. I don't think they are complaining about participation, they are complaining about loans that are made directly by the institution. Have there been circumstances where you have had an institution make something, you had them divest?

Mr. TONSAGER. Yes.

The CHAIRMAN. How many?

Mr. TONSAGER. We have had direct loans. It is very few. And since my time back at the agency, it is one or two.

The CHAIRMAN. Okay, we may want some information with respect to the record on that, because that is really where the issue is. It is not the participation, I wouldn't think.

Mr. GIBBS. Yes, and I appreciate you interjecting and clarifying. I appreciate that.

Ms. Blunt Rochester.

Ms. BLUNT ROCHESTER. Thank you, Mr. Chairman. And thank you for starting the clock again. I want to thank the panelists.

We have a lot of conversation about immigration, we have heard a lot of testimony in the past few weeks about the impact on farmers and being able to have a reliable source of labor, actually. And so my question is tying that to credit, if you could talk about the inability to secure a reliable labor market and what effect that has on creditworthiness of your members.

Dr. HALVERSON. Well, CoBank is the funding bank for a number of affiliated associations in the West, particularly, for example, in California, I have spent some time out there earlier this year. There is a significant amount of agricultural activity in the State of California. It is the single largest state exposure of the Farm Credit System. And without going into individual details of all the different components of the agricultural complex in California, it is fair to say that labor is a significant issue there. And to the extent that producers, whether they be growing grapes or tomatoes or leaf lettuce, or whatever it happens to be, if they can't maintain the labor force to harvest their crops, or whatever it is that they need to do, that may cause an issue for them. We pay close attention to

that, as we do to any other component of their creditworthiness. Our affiliated associations in California are paying very close attention to that, and they are dialoguing with their Members of the House of Representatives to express their views.

Ms. BLUNT ROCHESTER. Anyone else want to respond? Thanks.

Mr. DODSON. This is a highly variable thing depending on the industry and the location of the producers, but we all need able-bodied workers, and we all need access to those labor markets. And so immigration is a high concern for the people that own our cooperatives. We haven't led that, but we are trying to join in that conversation.

Ms. BLUNT ROCHESTER. Got you. Thank you.

I would go a little deeper, but I will not because I have another question. And it is just about the overall state of credit conditions. Can you talk both generally, but also regionally, the differences?

Mr. STARK. I would be glad to answer. In the general sense, and certainly from the region I am in, the grain industry in the Midwest is probably one of the hardest hit areas in terms of the impact of credit and credit availability, credit quality. We are certainly seeing that, and we are impacted by that as much as any in the Farm Credit System. But we think that we are really pleased on one side that we haven't seen the deterioration in land values that we might expect, and certainly that we saw in the 1980s, a big difference. Most producers are starting to make adjustments, and making adjustments in their operations to restore profitability. We, by far, still have the majority of our producers are in really strong and sound financial shape. They have built equity, they have working capital reserves. That is really demonstrated in what we see in land values today as well when land comes up for sale in these local areas, there is still pretty active bidding on it, and that tells us that producers are still doing fairly well.

There is a concern in the ag and farm economy and with those producers though, every year as we look out, and then sitting here in March and April, what is this year going to bring and what do we have to look forward to. And so that is a key issue for us. But across the country it varies. I would say we are probably, in the grain industry and the livestock industry which we have is probably one of the stronger hit areas.

Mr. HALL. Could I add one thing to point out the differences, we have compared to the 1980s crisis several times. One of the biggest differences is the interest rate, the amount of income that producers have to dedicate to repay debt is significantly lower than it was in the 1980s, and that improves debt-to-asset ratios and financial ability. In the last few years, they were able to put aside some capital and build equity, so we are coming into it. A lot of the lending practices are now stronger than they were several years ago, and those factors make a difference.

Mr. DODSON. I would say a regional report in Texas and the Southwest, we have a highly diverse portfolio in Farm Credit, and so even though there are some sectors that are in some trouble, overall our credit is strong and our risk is being managed pretty well. But there are individual producers in the cotton industry that are really struggling. And they have had some high prices looking back 5, 6, 7 years, and we have had some of the worst droughts

during those years, so they didn't have anything to sell whenever prices were high. And now they are rolling into low-price scenarios and they are really stressed.

Ms. BLUNT ROCHESTER. Okay.

Mr. DODSON. I guess it just depends. You can go into the Southeast and look at the Carolinas, they have had two floods in a row, and Georgia has had a drought, so those things have really caused problems.

Ms. BLUNT ROCHESTER. Thank you so much.

Thank you.

The CHAIRMAN. The gentlelady's time has expired.

Mr. Allen, 5 minutes.

Mr. ALLEN. Thank you, Mr. Chairman. And thank you for coming out today and giving us an idea of what is going on in the credit markets. I have been in the district and my folks are a little nervous. Of course, I am the Georgia District 12 Representative, and cotton is a big crop.

And, Mr. Dodson, as a farmer yourself, you mentioned in your testimony the downturn in the farm economy over the past few years, and how accomplishing Farm Credit's mission has been more difficult during this time of low commodity prices. In fact, we have had testimony from several commodity groups, and in their testimony they said the good news is they thought we were at the bottom. The bad news is they don't see much improvement. I don't know how long we have to live with this. But like I said, specifically, in my district, cotton is among the largest crop planted. As you are aware, conditions for cotton growers are dire, and we have many of our farmers concerned.

How are these conditions affecting credit to the cotton producers, from your viewpoint?

Mr. DODSON. I agree with your assessment that it is a trial we are going through. There are parts in my territory where associations have been working with cotton producers to do all the steps we have been talking about, re-amortizing debts, even getting to the point of planning an asset sale. Going into this year no one could project a profit in cotton, and they went ahead and planted it, that is their only option. And I would say that they made record crops in most of my area. And that extraordinary yield enabled them to survive another year, to kind of kick the can down the road another year, but there are a lot of producers that are on the bubble. If it hadn't have been for those record crops, it would have already been in process right now as we are analyzing their performance. They don't have much time. It is a serious situation.

And that is not every producer, it varies, but it is regionally and in that commodity it is especially tough.

Mr. ALLEN. Right. Well, how is Farm Credit working with these producers to assist them in weathering these conditions, going forward?

Mr. DODSON. We are doing all that we can do to readjust their balance sheet and to extend terms and all those tools. But there is a point to where you can't go any farther, and so we are nervous about some of our producers reaching that point right now.

Mr. ALLEN. And have you got any projections on when we have a farm bill, obviously, we have one coming up and we have to ad-

dress cotton. The last farm bill was negotiated in the highest commodity prices we have seen in a long time and, of course, there are repercussions to that.

Mr. DODSON. That is right.

Mr. ALLEN. And, of course, we have the farm bill coming up. Can we make it to the new farm bill, I guess is what I am trying to say?

Mr. DODSON. I mentioned tweaks earlier in the farm bill, that is one I was referring to and if that happens to those producers, it won't make them well, it is not going to turn red ink black, but it is going to turn it a shade of purple, and that will be enough to keep many of them on the land, I believe.

Mr. ALLEN. Right.

Mr. DODSON. It is vital.

Mr. ALLEN. Right. Okay. Any other comments with regard to——

Mr. STARK. Yes, Mr. Allen, I would add, as you talk about the farm bill and this Committee's role in that, one of the critical things, obviously, in the farm bill is the crop insurance program. The System is on record as supporting a strong safety net for agriculture, including cotton, but all the crops that are included in that. And one of the things that it provides, obviously, the protection from the disasters of Mother Nature, but it also provides producers another opportunity that is not often talked about, and I will give the example, we had a young producer, as a matter of fact, told me this story, and this was a year ago while I was visiting with him, the fact that he uses his crop insurance for his marketing opportunities as much as he does for the crop protection itself.

Mr. ALLEN. Yes.

Mr. STARK. And the reason that is, is because he can insure up to 85 percent of his crop, and he knows he has that kind of money or crop to work with, and he can go to the commodity markets then and hedge that, and when the opportunity is there, to lock in a profit.

Mr. ALLEN. Right.

Mr. STARK. The crop insurance program is much more than just a disaster program from Mother Nature, it really provides a foundation for our producers not only in that regard, but, of course, the revenue coverage that it provides, and then also the marketing opportunities it provides them as well. That is becoming an increasing part of farmers' approach to profitability today. It is a very critical program for us, going forward, and I just wanted to leave that with you as you think about that and your Committee's role.

Mr. ALLEN. Okay, good.

Thank you very much, and I yield back.

The CHAIRMAN. The gentleman's time has expired.

Mr. Soto, 5 minutes.

Mr. SOTO. Thank you, Mr. Chairman.

First off, I come from Florida, and we have had quite a hit on citrus greening. I was wondering what programs you all have in place that will assist with replanting a lot of these trees?

Dr. HALVERSON. Well, Congressman, we have a number of customers, like Florida's Natural, in Florida. We work closely with our customers in support of the activity that they themselves and the

industry are undergoing to do the research and development to try and figure out the causes and potential cures for citrus greening. We are aware that it increases the costs and is forcing people to destroy a lot of trees and replant them. We are working with our customers to support them as they go through this process.

I am not sure off the top of my head whether we are specifically supporting university and other research programs, but I will certainly come back to you separately with an answer on that specifically, because at CoBank we support a number of educational institutions and I want to make sure that I get the answer right, and I will come back to you on that.

Mr. SOTO. I would strongly encourage you all to consider a pilot program to help with that replanting, since we are down 70 percent in production.

My second question is have we seen any effect in labor costs, there has been an attempted crackdown on immigration, has that been something that you have seen to affect prices or costs?

Dr. HALVERSON. For a specific commodity that you have in mind?

Mr. SOTO. Well, just overall.

Dr. HALVERSON. I personally haven't seen anything that I could generalize in that regard. It would be very specific to the specific physical location and the specific commodity and geography of the country.

Mr. SOTO. What states do you think are most at risk?

Dr. HALVERSON. Jimmy, I wonder if you have a view with respect to Texas. I would have thought California would be susceptible.

Mr. DODSON. Can you repeat the question?

Mr. SOTO. Yes, given an attempted push for more strenuous immigration crackdown, which states would be most at risk for increased labor costs?

Mr. DODSON. I would think the fruits and vegetable industry would be. In Texas, we do have some fruits and vegetables and citrus in south Texas, but that industry is not as large as it used to be. I would expect California, Florida, the temperate zones that have irrigation water and producing fruits and vegetables will be first to be affected. I think the dairy industry would be too. But, that is just my opinion, I don't have numbers to support that.

Mr. SOTO. Sure. My next question is with prices being stagnant, is there an oversupply problem generally? Is that one of the main driving reasons that prices continue to be stagnant?

Mr. STARK. Well, in response to that, the answer to that is yes, American agriculture is one of the most prolific industries in the country and we are proud of that fact, and certainly our role in that on behalf of Farm Credit. You can go down by the industries: soybeans, 50 percent or so are shipped overseas; corn, ⅓; livestock, cattle, and meat, ten percent. We are very dependent on trade for our country's agriculture and produce, and that will have a big impact, and what happens with trade internationally will have a big impact on commodity prices here right at home. Yes, it does have a big impact.

Mr. DODSON. Another factor is the value of the dollar *versus* the foreign currencies. Sometimes when the dollar is strong and the U.S. economy is picking up and doing better, it is good for the local

economy but for those of us that are selling a lot of our commodities overseas, it prices us out of markets.

And the other thing I might point out is that U.S. farmers are very efficient, and they produce wonderful food, and it is safe and it is very low priced as a percentage of income, but we can't compete with foreign governments very well. Producers can compete with other producers anywhere, but whenever we have to compete with governments that manipulate prices or manipulate access to markets, it is very difficult. Trade is very important, and immigration is very important, but we are going to be more challenged in the future to keep producing more food to feed all the people that are going to be on the planet. We don't want to get too concerned with surpluses, we just want to make sure it gets delivered to the people that need it.

Mr. SOTO. We don't have an oversupply problem, we need more customers then. Is that what you are saying? Well, thank you.

The CHAIRMAN. The gentleman yields back.

Mr. King, 5 minutes.

Mr. KING. Thank you, Mr. Chairman.

First, I would like to also like to express my sympathies to the family of Ken Spearman. And we had a terrific conversation just a little over a year ago in my office, the day before the hearing here, and I look back on those times fondly. And I appreciate the service of all of you and the credit services that are there, and have been for a long time. I have lived through the 1980s farm crisis and the years hence, and I have a feel and a flow for what has happened within the Farm Credit System, the banking system, and the stresses that come with trade, as we just mentioned, and other factors.

But I wanted to go back and mention a couple of things that are part of those memories. One of them is a hearing here on June 25, 2014, when I had an exchange then with Dr. Lauren Thompson, seated in your seat, I believe, Mr. Tonsager, and we had the discussion about who writes the mission statement for the Farm Credit. And the answer was, well, her answer was that would be the Board of the Farm Credit Administration. And so then I asked then, and who approves it, and it came back, pretty much the same people that wrote it. And so that was always on my mind.

Mr. TONSAGER. Sure.

Mr. KING. And then when we had this discussion in December 2, 2015, this was with Mr. Spearman, and I asked a similar question, and I asked who makes sure that you stay within the bounds of the mission statement, and his answer was that you receive legal guidance from your attorneys, and you referenced that in this testimony today, and that Farm Credit Administration then follows the guidance of the legal team, pretty much what I heard here today. And you referenced six instances where there was concern that you at least had the applications to go outside the bounds of the mission statement. Could you identify what those six were, or give us a sense of the scope of those six that you referenced?

Mr. TONSAGER. We could certainly provide you with the information. I don't have it right in front of me to be able to list the six, of course.

Mr. KING. Okay, and the status of the Verizon loans that were part of our discussion here over the last few years, can you tell us what they are now?

Mr. TONSAGER. It is my belief that there are no longer any loans held by the System on that.

Mr. KING. Yes, and that is my understanding too. And I appreciate that, and I see that as perhaps a direct reaction to Congress' concern about the expansion of the mission statement.

And so then I look at that mission statement that was the subject of our discussions in the two previous hearings that I mentioned, and I really don't have a lot of heartburn when I read the mission statement, it is more concern about how we stay within those definitions. These hearings have helped define those definitions, and yet I thought it would be a good idea to go back and look at the mission statement again, and I find that it doesn't look the same as the one we were discussing in those previous years, and so it seems to be apparent that you have written a new mission statement. And when I look at that new mission statement, I see there are words inserted such as *vital rural infrastructure and communication services,* and that is the first component. It seems to me that definition might encompass Verizon again. But can you tell us why this mission statement was rewritten, what your level of dissatisfaction was? It looks to me like some of the things we were concerned about the expansion and the interpretation of the existing mission statement might have been encompassed now in the new mission statement.

Mr. TONSAGER. I would like to say we have remembered your concerns about the mission statement, and I went back to the original Act, and I would like to cite that if I could. The Farm Credit System mission, as stated in the preamble of the Farm Credit Act, "to further provide for the farmer-owned cooperative system of making credit available to farmers and ranchers and their cooperatives for rural residence, and to associations and other entities upon which farming operations are dependent, to provide for an adequate and flexible flow of money to rural areas." It is good if we step back and look at this original statement that is part of what Congress has authorized us to do, and we examine our mission statement in that context.

Mr. KING. Well, thank you, but I still don't understand why we have a 2017 Farm Credit mission statement in front of me that, in comparison to the previous mission statement, has the words by financing vital rural infrastructure and communication services. It looks to me like it is clearly an expansion. And as our clock ticks down, I would just submit to you and to all of you, I do appreciate this service, and I appreciate the capital that is available, but I want to look at this and have more conversations, perhaps we can have those on the side and get to a better understanding about how to restrain this, because it is a natural thing for all of us to try to do more with what we have. I will come back to each of you on this in a way that asks for your input, and Congress may want to take a better look at this.

Thank you very much, and I yield back.

Mr. TONSAGER. Thank you.

The CHAIRMAN. The gentleman's time has expired.

Mr. Lawson, 5 minutes.

Mr. LAWSON. Thank you, Mr. Chairman.

Mr. Stark, I also serve on the Small Business Committee and the issues that keep coming up from last week in different groups is access to capital for minority-owned businesses and women-owned businesses. And so my question would be, and you might not be the only one to elaborate on it, is that have we shown any improvement in having access to capital, some barriers sometime exist among African American and women-owned businesses that keeps them from accessing capital, and do you have any way that you all keep up with the amount of capital loans that have been made to these individuals to see what kind of progress is being made?

Mr. TONSAGER. Doug, would you answer that?

Mr. STARK. Well, I would say in direct response to your question, we take exerted efforts to extend both outreach and lending activities to minorities as well as women in agriculture. Specifically, in my area we do a lot in the women in agriculture area, sponsoring groups, educational sessions specifically for women, and a host of activities that are designed to keep them involved not only independently in farm operations, but also in conjunction with their family operations so they have a bigger role and understand how their role can be effective in that. A number of sessions in that regard are really worked on within our association specifically.

Mr. DODSON. I would say that is common in our district as well. For the women's outreach, there is a program called Annie's Project, we support that and fund it, to work with women in agriculture and help them prepare.

One of the things that helps us more than anything else, besides the community investment that we do with the 1995 universities with Tuskegee, with Prairie View A&M, other universities that are focused in communities that are typically under-served, is our diversity inclusion program and inclusion program in our banks, in our associations, to try to help associations realize the value in having a more diverse workforce. We want to look like the communities that we serve, and that is the best thing that we can do to promote providing services in all the different communities in our district. So that is a big focus for us. We try to be a leader in the System doing that. And it is gaining some ground, we are getting some traction. Beyond that, we work with the extension service in Texas, which is highly active in working in under-served markets, and we try to help support them as well. Several other independent groups, but I don't have all the information with me today.

Mr. TONSAGER. Could I add to that a bit? We carry out a required program that each institution must have a plan to offer their services to their entire district, including the population inside that. We examine the institutions to see if they have established that program and they comply with it. We are not allowed to collect information on ethnicity of people that are served, so we don't have data on how many minorities are involved or how many are being served.

Mr. LAWSON. Okay. And one other thing I might say, that is very interesting information, the Congresswoman who left asked about how you encourage families to stay in the area and continue farming. I grew up in the country and there were a lot of different pro-

grams to FFA and 4–H clubs and stuff to get this kind of exposure, but what is happening today, even though I was in the country, I went to school in the city, and they were not exposed to the same kind of things that I was exposed to. Even, Mr. Chairman, in this farm bill, hopefully, is that there can be resources that are allocated to keep those programs in those high schools, so that they can get that kind of exposure, because by the time I finished high school I raised hogs, cattle, crops, everything that you can think of, but they don't get that today when you talk about families having to continue the process, it really starts early on, it just doesn't happen to somebody who has been out of school. I guess I will go into farming right now, it really starts early on. I hope that you all can encourage, and the Chairman here, to make sure that those programs, especially historically black colleges, that they have a strong component to continue to encourage people to get them involved while they are young.

I yield back, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

Mr. Marshall, 5 minutes.

Mr. MARSHALL. Yes, thank you, Mr. Chairman.

My first question is for Dr. Halverson, who is very familiar with my district. And, Mr. Halverson, a common question, what am I going to do to help rural Kansas survive. And people talk about infrastructure, so talk specifically what CoBank is doing to help rural Kansas survive, and give some specific examples, if you want to.

Dr. HALVERSON. Sure. Look, thank you for the question, Congressman Marshall. This will be a good one for Congressman King as well. CoBank is uniquely configured within our authorities to originate infrastructure loans. Okay? As I said at the beginning, we originate infrastructure loans for water, electric generation and transmission co-ops, as well as a lot of components of the communications infrastructure. As you travel around your district, as I travel around the country, what you find is for local communities to survive in your district and in other rural parts of the country, people, whether they are in agricultural production or, frankly, any other component of rural life and business, they require, obviously, good water, they require electricity, and these days increasingly they require communications infrastructure. You will not get people to stay there, you will not get people to open a business, and these days you cannot get a combine or a tractor to operate unless it has wireless Internet connectivity. It drives itself, it has GPS, it collects data, it sends data, it gets remotely diagnosed when it doesn't start by somebody sitting hundreds of miles away. And so we believe quite strongly because of the convergence of our infrastructure businesses and their vitality to rural life and rural business, particularly their criticality to modern production agriculture, that these things are all interlinked. And we are doing everything we can to bring all of those lending authorities and resources to bear, whether they are in your district or others. We have a large Internet investment in Kansas and other areas of the country there, with local educational institutions, hospitals, agricultural producers, co-ops, and others can tap into that allows them to have the benefits that they need to sustain their life and their business.

Mr. MARSHALL. Okay, yes. Yes, thank you, and thank you for your contributions to that.

My next question is for Mr. Stark. We see mergers and acquisitions across the agriculture industry, including Farm Credit associations. Farm Credit Services of America and Frontier Farm Credit have taken up a different path with their alliance agreements. Can you describe a little bit how that agreement works and what changes your customers have seen as a result?

Mr. STARK. Yes, thank you. Yes, Farm Credit Services of America and Frontier Farm Credit came together a little over 2 years ago and started exploring ways that they could work together for the benefit of customers, for producers in Kansas and the four states of Farm Credit Services of America. The Board at Frontier Farm Credit felt that, by the nature of what they had available to them, they were constrained in some regards and didn't have access to some of the technology that we had employed with Farm Credit Services of America, wanted that available to their producers, particularly when you look at the Internet, the speed of decision making, the analytics that we can apply, and decision making which applies to service and better service for customers, and really just getting their operation more efficient. That was a big outcome of the alliance between Frontier and Farm Credit Services of America. That is really evident this year and this very week, and last week as our dividend checks went back to customers. In Frontier Farm Credit's territory, we have been able to increase in this second year now from $7 million to $9 million amount of dividends that goes back to producers in the eastern third of Kansas. We have been able to significantly reduce the net operating rate for producers and for the Frontier Farm Credit Association. Those are some of the key benefits and the reason we brought them together.

Even though we have two separate entities, we operate as one company, and so we share services and products across those two organizations in those five states.

Mr. MARSHALL. Okay, thank you.

My last question. I would like to go back to Dr. Halverson. You guys contribute through infrastructure and, of course, to the common farm loans that we see. Ethanol is becoming more and more important. In my state, we have now ten ethanol plants. Do you guys ever participate in any projects like that, ethanol plants, those types of things?

Dr. HALVERSON. Well, CoBank is, if I have my facts correctly, the largest investor in the ethanol industry, in the United States as a lender. We partner very closely with Farm Credit Services of America and other associations, and we are a very significant investor in the ethanol industry, have a substantial loan portfolio and a substantial amount of subject matter expertise. If you have someone out there that you would like us to talk to, we would be delighted to do it.

Mr. MARSHALL. Okay, thank you.

Thank you, I yield back.

The CHAIRMAN. The gentleman's time yields back.

Mr. Walz, 5 minutes.

Mr. WALZ. Thank you, Mr. Chairman. Thank you for holding an aggressive hearing schedule and getting ready for the next farm bill. It is appreciated.

I would like to give a thank you to Mr. Davis for chairing and Mr. Soto yesterday for attending the mock hearing with our 4–H-ers from across the country in their leadership conference. If you wanted to feel good about where America is going in agriculture, being there with those young people, talking about all of these important issues from their perspective is really encouraging. Thank you to both of you.

And thank you all for being here. I am lucky that I have a wonderful agricultural area in southern Minnesota, and I have a really great Farm Credit Service in AgStar out there. And I have to tell you something that I am listening to all of you talking about the cyclical nature of this, it was about 12 months ago they proactively reached out to us, brought myself and my staff in, sat down with some really smart people, some economists and everyone, and showed us what your portfolio looked like, showed us the scatterplot on there and made observations that, as you manage that portfolio in each of those producers, some folks are struggling to get by when corn was $6, others are making it at $3.25, and they talked about the differences in how you manage those and the skillset that you bring in. I thought it was really thinking where we were going to end up. In Minnesota talk, you were skating to where the puck was going to be, and I appreciate that because it is what we need to do.

And also in Minnesota vernacular, we are Minnesota Lutherans, if you do a good deed and talk about it, it doesn't count. The way we get around that is we have others say it for us. I am very proud of what we did in risk management in the last farm bill, and I would like each of you, in just a word or two, to let us know how important is crop insurance? You said it a little bit, but I can't get over we need to say it a lot. If you could each give a word or two, how important is crop insurance to vitality out in rural American food supply?

Mr. DODSON. It is the most important part of the safety net. It is not the only part, but it is the most important part, as we look at it.

Mr. STARK. Yes, I would add it is critical, as I mentioned earlier, not only for the protection it gives from natural disasters, Mother Nature, but now it has become a real marketing tool for even young producers to be able to go to the futures exchanges and those kind of things, to forward price their product when they see opportunities for a profit, and not wait for what just comes to them. It has evolved into a very robust tool for producers, including young producers.

Dr. HALVERSON. I agree completely with my colleagues.

Mr. WALZ. All right.

Mr. HALL. I will add it is extremely important, but an area that you might look at are some of the crops that are not necessarily covered in all areas with crop insurance.

Mr. WALZ. Okay.

Mr. HALL. And I know that there is the NAP program at USDA that does provide some coverage, but being able to look at broad-

ening the coverage for some other crops is very important, particularly to young farmers who are participating——

Mr. WALZ. Some aren't working quite right. We heard barley yesterday, they said they have some issues on how that is implemented.

Mr. HALL. Yes.

Mr. TONSAGER. Yes, and I would just say in the middle 1980s, 14 percent of farmers had crop insurance, and today 91 percent of farmers have crop insurance. This is a reassuring factor for all of us.

Mr. WALZ. Well, if you can say it a lot, it certainly helps us. I will say it a lot while we are here, but all of you know there will be a discussion and a fair debate during the farm bill, and there will be those that will ask us to severely restrict or even some will ask us to remove it as an unfair government subsidy. And so that discussion will come up, we are going to need to make that case.

I just want to ask a final question on this, because we hear this, this would probably not surprise any of you but when my bankers come in, they have some critiques that they level. Could you tell me simply, as simply as you can, how do I respond to my constituents when they talk about that you have an unfair tax advantage? How do you respond to that?

Mr. STARK. Mr. Walz, I would say when you look at the bottom line how it washes out, it is really borne out on a market share. For 100 years the Farm Credit System has been in existence. They have 40 percent market share, we have 40 percent market share. Last year, even by the ABA's own testimony, the ag banks grew by 7.9 percent, we grew 5½ percent. When you wash out all the differences in our structure, it comes down to the fact that we are really, really level at this point in time when it comes to serving and how we impact producers.

Mr. WALZ. And, Mr. Stark, it is your belief then that that gives ample opportunity for access to capital for our producers?

Mr. STARK. Yes. Simply, our business models are different. You can't debate that. I mean it is, it is the nature, it is never going to change, and so when you get down to the bottom line it provides competitive alternatives for producers that makes us all better, it keeps our pencils sharp, and it keeps our businesses more effective and efficient in the long run.

Mr. WALZ. I appreciate it.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman yields back.

Mr. Arrington, 5 minutes.

Mr. ARRINGTON. Thank you, Mr. Chairman. And I thank the panelists for your time and input. And thank you for your contribution to agriculture and the rural America, which is who I represent in District 19 in the great State of Texas, Mr. Dodson. I think that we all agree that the health and future viability of rural America and agriculture are inextricably linked, and without access to credit for the risky business of agriculture, my dad was in agriculture for over 40 years, as we grew up in an ag community there in Plainview, Texas, if we didn't have the access to credit we wouldn't have farmers and ranchers, and we wouldn't have the capacity to feed and clothe the American people. And that wouldn't just be a

bad thing for the millions of jobs, that would be a bad thing with respect to national security. I know we all agree on that, but I just want to make that statement of affirmation for the role you play.

I understand the tension between my commercial bankers, my community bankers. It is real, it is there. Most of them work in partnership with you. Most of them love working with you, participate, and it is a very collegial relationship, but I appreciate that they want the scope of practice to be limited to the mission of the Farm Credit System. I think you would agree, and we need to make sure that it is enforced so that there is not mission creep.

And so I won't ask a question there. I think enough questions have been asked in that regard, but I want to say for the record that there is more collaboration than there is conflict, but I would also be remiss if I didn't say, if I was a commercial banker I would have the same tension as I look to you guys to work together, but not in competition with me, because of the benefit that you enjoy. Do you all agree with that, generally?

Okay, I will let you speak more specifically to that, but let me ask this question. And, Mr. Dodson, you are probably in the best position to answer it. Obviously, historical downturn, historically low prices, cost of production up, it is a bad situation. But you know what, it is not just bad, it is disastrous, it is a threat to the lifeblood of west Texas because our cotton farmers are out of the safety net that is title I in the farm bill. Could you quantify for me, and anybody could answer this, but quantify for all of us the effects from the perspective of the financial institution, that is, the write-off or the non-performing assets, or the loan evaluations, give me the banking or financial institution metrics on how disastrous it has been specifically for cotton producers.

Mr. DODSON. I can't speak for associations. I am at the bank level, I don't look down into the association loans, but what I am hearing from the country is that a lot of producers are losing ⅓ of their net worth a year. And that will turn you upside down in a hurry.

This year, Congressman Arrington, they had extraordinary yields in your part of the country, and that was the only thing that kept them from being off the bubble, so to speak, and really going down.

I mentioned this earlier in your absence, but the lenders out there are working with producers trying to re-amortize debt and stretch payments, and work with them to give them tools to handle this. But in some cases they are getting close to running out of options, and so it is urgent that something is done.

Mr. ARRINGTON. Thanks for the feedback.

In the interest of time, let me go on to the next question. And as a former regulator, I served at the FDIC during the Bush Administration, I understand that diversification is a cornerstone for safety and soundness in the system, in the financial system. What are the challenges that you have to address as a regulator with respect to needing that diversification, but having the constraints of the scope of practice?

Mr. HALL. The statute is pretty clear from the Farm Credit Act what the lines of authority are. Staying within those lines of authority as a safety regulator is vital. We look at the diversification of the portfolio and some of the changes that have been made since

the 1971 Act allow the System to go outside of what was traditionally just lending for farm loans.

Mr. ARRINGTON. In the interest of time, do we need more tools for diversification?

Mr. HALL. That would be a question best asked of the System, but we will be glad to respond back.

Mr. ARRINGTON. I yield back, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

Mr. Comer, 5 minutes. Jamie.

Mr. COMER. Thank you, Mr. Chairman.

And let me say this. I have been in agriculture all my life, and I have been to a lot of cattle shows and ag events all over Kentucky and Tennessee, and I don't ever remember an event that Farm Credit wasn't a sponsor of something. I appreciate what you do in the agriculture community, in addition to helping farmers and young farmers have access to credit. You are a great community citizen and I appreciate that.

And I have to recognize my friend, Jeff Hall, a good Kentucky boy. And we end up on the same flight a lot coming out of Louisville, heading to this great city, so it is good to see Jeff.

My first question is for Mr. Tonsager and Jeff Hall. Many Farm Credit institutions are seeing customers with a third year of losses, and are preparing for customers to, unfortunately, have a fourth year of losses. However, individual Farm Credit institutions see their customers are economically viable and plan to continue to work with these customers. Will FCA examiners provide flexibility to Farm Credit institutions when examining?

Mr. HALL. We will provide flexibility. And that is one of the advantages of the System that, being a sole source for agriculture through good times and bad, we are allowed to provide that flexibility. And I will add too that that flexibility is available because of the diversification of the portfolio, not only within ag spread across the country, but the other things that we are able to do that allow the System to stay with producers.

Mr. COMER. Right.

Mr. TONSAGER. Yes, I agree with Mr. Hall as well. But I would like to add two things. I found we have a dual responsibility at the agency. One is the scorekeeper of the banks and the quality of the credit, and we have to continue to score accurately and completely and transparently for our bondholders' market so they are comfortable with it. But we also have a mission responsibility, and we have an equal responsibility there to make sure now and the bad times that we are carrying out that mission and making sure producers have access to credit.

Mr. COMER. Yes. Good deal.

Next question is for Mr. Stark. When I was Commissioner of Agriculture in Kentucky, I worked to create the Homegrown by Heroes labeling program, and I was also proud to partner with Farm Credit and the Farmer Veteran Coalition to make that label available to farmer veterans across the nation. In your view, are labeling programs like this helpful to producers in marketing their products, and can you provide an update to the Committee on Homegrown by Heroes?

Mr. STARK. I don't have the specific updates on where we are with Homegrown by Heroes. My understanding that we have over 800 participants in that now that are using that brand. Certainly, every little thing like that helps, and when you have a group like our veterans, we do want to help and support them in their efforts to get established in agriculture operations. Yes, from the time we provide that initial seed capital to launch that brand, to where we are at today, my understanding it has grown to over 800 participants.

Mr. COMER. Right. That is great. That is great. Yes.

Mr. HALL. It has grown beyond the states. USDA has taken over a major role and several states have done that, it was a great thing that you started.

Mr. COMER. Good deal. I appreciate Farm Credit. You took it to the next level and took it nationwide, and it has made a big difference with veteran farmers all over Kentucky, I know, and have a pretty good sense all over America. Thank you for that and all that you do for farm families all across America.

I yield back, Mr. Chairman.

The CHAIRMAN. The gentleman yields back.

Mr. Austin Scott, 5 minutes.

Mr. AUSTIN SCOTT of Georgia. Thank you, Mr. Chairman.

Gentlemen, I apologize, I have been running back-and-forth among three meetings. I know many of the things that I had to say have been said.

I just want to reiterate a couple of points. One is, I am glad to hear you talk about trade. As we renegotiate some of the agreements, I am extremely concerned that other countries might pick individual commodities, and that can create a tremendous amount of turmoil in different segments of the economy. And so if they pick corn, for example, it might be horrible for the Midwest and not have much impact on the Southeast, but if they picked peanuts it would be the exact opposite. And so we are going to have to make sure that our commodity groups hold together and our trade relationships. I look forward to your input and advice on that.

I know that there has been a lot of discussion about the similar entity lending. I look at Farm Credit as one system. If one bank does something that is outside of the parameters, I think that all of you in the end will be held accountable for it. I want to encourage you to hold your brothers accountable to the standard that has been set for you so that we don't end up becoming a referee in that, where one bad actor causes problems for the rest of you.

And then I want to mention that specialty crops have become a bigger and bigger part of the ag economy in many areas. Specialty crops offer a unique opportunity for people to get into farming without much acreage. And we have in Georgia a lot of farmers have begun planting blueberries and other specialty crops along those lines. We had a huge loss with blueberries due to a late year freeze. And any input that you have for how we help those farmers in those specialty crop areas when they suffer a loss, the way our blueberry farmers in Georgia did this past year, open the input on that as we go into the farm bill.

With that said, I would just ask one question, primarily for the regulators. The overall credit quality of the Farm Credit System

portfolio, are there any particular segments in it that you feel that have been particularly hard hit, or that are going to be an issue for non-performing loans, going forward? And with regard to potential trade issues, how will you address the potential issues with if we see a certain country attack, if you will, attack a certain commodity?

Mr. TONSAGER. The overall quality of the Farm Credit System's loan portfolio is very good. The non-performing assets are less than one percent of the portfolio today, about $2 billion out of the whole thing. And there are numerous sectors that are suffering, that are being more challenged, of course, in the commodity sectors. We think, in the Northern Plains, the corn and soybeans typically have been problematic when we have had downturns. They had great yields this year that helped them get through 1 more year without a lot of changes. But, the sectors you identified are all challenging to us, and all we are going to have to be watchful about as commodity prices continue to be weak.

Mr. HALL. The thing that we don't know and wish we did know is how long this down cycle is going to last, and that is the hardest thing to predict. We know we are coming into it with a considerable amount of capital and equity, but it is just eating away a little bit at a time.

And your point on trade is right-on because the export market is so vital to our commodity prices, particularly when they are this low. And not just in terms of trade, we have to be able to produce and provide for that export market, because that is where USDA says 30 percent of the income is coming from the export market.

Mr. AUSTIN SCOTT of Georgia. Yes. Absolutely.

Mr. Chairman, my time has expired, but I do want to just reiterate, I am extremely concerned about individual commodity groups being attacked, and the impact on certain regions, and making sure that when that happens to one of our commodity groups, that the other commodity groups rally around to protect them.

With that, I yield the remainder of my time.

The CHAIRMAN. The gentleman yields back.

Mr. Yoho, 5 minutes.

Mr. YOHO. Thank you, Mr. Chairman. I appreciate you all enduring this hearing.

I am going to touch on a question that Congressman Soto kind of briefly touched on, but I want to come at it a different way. As you know, citrus greening is of great concern to the citrus industry. My state, production has dropped from over 400 million boxes to below 70 million boxes, with nearly all groves affected. The question is, can you describe Farm Credit's capacity to work with the affected customers in such a large volume, and would any private entity by willing to work with such a challenged crop outside of the Farm Credit System? What are your thoughts on that?

Dr. HALVERSON. As I said to your colleague earlier, Congressman Yoho, we at CoBank are banking with cooperatives in the citrus industry in your state and your district right now. It requires patience and perseverance to support them as they go through this unprecedented situation. I can't speak to hypothetically how other lenders outside of the Farm Credit System would respond to this sort of a situation. I can say that we are working very closely with

our customers who are part-owners of the bank, equity holders in the bank, and we are doing everything we can to help them be successful as they try to figure out what is, in fact, a very difficult problem that is taking a long time, and is likely to take significantly longer to work their way to a solution.

Mr. YOHO. Thank you. Does anybody else want to tackle that, or is that pretty much all that needs to be said? Okay.

Let me move on to the next question. As you know, the USDA is administering direct loans to farmers. Some are high risk, some are minorities, and others are new farmers. Now, it is my understanding, based on the numerous meetings I have had over the years, that both Farm Credit and private lenders are both capable of and willing to provide these loans *in lieu of* USDA. My question to you all is what are your thoughts on eliminating this program from the USDA, and transferring these kinds of loans to the Farm Credit and private lenders, but with a 90 percentage guarantee provided by the USDA? Because they are already doing the loans, but they have the bureaucracy of administering the loan and lending that out, and transferring it to the private-sector or you guys.

Mr. HALL. I would like to address that. I worked for USDA and the Farm Service Agency in a previous job.

Mr. YOHO. Yes, sir.

Mr. HALL. I will tell you, at least in Kentucky, the direct and guaranteed program was an important part of keeping a lot of operations in business. There is always a lot of pressure on both of those to make sure they are adequately funded. Your idea of rather than having direct loans, have a higher guarantee, is an interesting one that it would be worthwhile to look at. The System and private lenders would be interested in that.

Mr. YOHO. Well, we are at a point where we are running into some budgetary constraints, and you are going to hear those coming up real soon.

Mr. HALL. Right.

Mr. YOHO. And so we have to look at reforming programs to make them more efficient, and instead of duplicating that which can be done in the private-sector or through Farm Credit, remove that, leave the guarantee there that the USDA will stand behind, add a percentage, and I have talked to some and they have said, heck, we would be happy to do it at 90 percent.

Mr. HALL. Yes.

Mr. YOHO. And so it would still be a guaranteed loan from the USDA at high risk. Those are the things we want to think outside the box to reform the Department of Agriculture, to make it more productive, to get those things out. I am glad to hear that thought. Does anybody else want to weigh in on that?

Mr. HALL. Could I add one more point that I think is important?

Mr. YOHO. Yes, sir.

I have a minute and 16 seconds.

Mr. HALL. There are caps on the direct loan program, so you have to look at taking those caps away and that would free-up more capital.

Mr. YOHO. All right. And then, Dr. Halverson, you said you lend to the rural area infrastructure and companies. What kind of projects do you finance?

Dr. HALVERSON. We finance electric generation co-ops, electric distribution co-ops all over the United States.

Mr. YOHO. What about sewer and water?

Dr. HALVERSON. We do sewer and water as well. And we also do a significant amount of renewable energy lending.

Mr. YOHO. And then broadband?

Dr. HALVERSON. Absolutely. We have a substantial communications business that includes fiber builds, cell phone businesses, towers, data centers, cable TV companies, all of the above.

Mr. YOHO. Okay. Well, Mr. Chairman, those are my questions. I yield back and thank you for your time.

The CHAIRMAN. The gentleman yields back.

Mr. YOHO. Thank you.

The CHAIRMAN. Mr. Thompson, 5 minutes.

Mr. THOMPSON. Mr. Chairman, thank you. Thank you for this hearing. Gentlemen, thank you for being here.

My question specifically is for Mr. Tonsager or Mr. Hall, but if there are others that have input on this, I serve as the Chairman of the Subcommittee on Nutrition, and I am interested in the intersection between agriculture and nutrition. It is pretty strong, given the fact that farmers and feeding is a pretty strong, pretty busy intersection. And I understand that Farm Credit Services producers who are heavily involved in farmers' markets and in particular, farmers' markets which are EBT-capable, do you have any anecdotal or other information regarding how Farm Credit customers view the business opportunities of having EBT at farmers' markets?

Mr. TONSAGER. I would just say that I would like to turn the question over to my colleagues from the System. We have seen that, we are aware of it, and think of it as a very positive thing, but these folks are in a better position to give you a good answer.

Mr. THOMPSON. Sure.

Mr. STARK. Well, I would just say this, we find this as a very much new and evolving area of the business, and we are supportive of farmers' markets and the inclusion that you talked about. We are supporting some directly through some grants, and also we have producers that are producing for farmers' markets. It is not uncommon that you go to a farmers' market and you will find a number of Farm Credit customers there. Maybe the scope of their operation includes a commercial operation, but they also have a part of their operation that is growing locally grown and produced or direct-to-retail type of activity. We very much are we in support of that. We are financing them, some both directly and indirectly through their farming operations, directly through those activities. Although I would tell you, undoubtedly, it is limited at this point, but it is an area we are continuing to watch and evolve and we have an interest in.

Mr. DODSON. In Texas, we are financing a lot of organic locally grown foods, and it is interesting though, it is difficult for us to actually finance the farmers' markets or the hubs because they are typically privately owned and not owned by the producers. And so we were talking about lanes, the Chairman earlier mentioned that, that is outside of our lane.

Mr. THOMPSON. Okay. Well, thank you. And I appreciate what you are able to do for that. Obviously, we are trying to, farmers' markets are just great access points, especially in food deserts where folks are not fortunate enough live. Farmers' markets, first of all, play a great role for access to nutritious food; and second, it helps our producers earn sometimes a premium for their product.

Mr. Stark, I want to touch on dairy a little bit, because right now we know that our dairy farmers, and probably many of your customers, are really challenged financially. And I am looking specifically in Pennsylvania, but obviously, like most dairy producers across the country are struggling. Can you describe the services and tools that Farm Credit offers to Pennsylvania dairy producers or anywhere in the country at this particular time when runaway prices are such that they are having a challenging time?

Mr. STARK. Yes. And I can't specifically talk to maybe all that is going on in Pennsylvania, but certainly, those producers have the same access to products and services that our other producers would. Specifically, I know a program that Farm Credit East has in New York, which is right there, and through the Northeast, where they actually have a benchmarking service that they provide to dairy producers where they bring in the financial information, they are able to benchmark their peers, and help producers understand where they may be out of alignment in their cost, to help them provide counsel as well as insights to their operation, to get to a point that they are more effective and efficient.

Mr. THOMPSON. Very good.

Dr. HALVERSON. I would supplement that, if I might?

Mr. THOMPSON. Please.

Dr. HALVERSON. Associations are the ones who will be financing the individual dairy producers and their farming operations. We at CoBank bank many of the co-ops that they supply, and we have been supporting substantial investments by some of the nation's largest dairy co-ops as in other commodity products, to the extent that they can pull together through a co-op and develop higher value-added products and services, in addition to milk production. That is good for their members, they can get a premium for their product. And we have a very substantial portfolio of investments supporting dairy co-ops all across the country.

Mr. THOMPSON. Very good.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman yields back.

Mr. Bost, 5 minutes.

Mr. BOST. Thank you, Mr. Chairman. I want to thank you for being here. And there is one specific question, and it is a leading question, okay, just so you know, and I wanted to ask that of Mr. Dodson, Mr. Stark, and Dr. Halverson. And that is, as a lender, do you believe that the current limits on FSA guaranteed loans are adequate to support the needs of the modern farmer?

Mr. DODSON. I would say they are not adequate at these levels. They need to be raised.

Mr. BOST. Okay.

Mr. STARK. Yes, I would agree with that. It was illustrated earlier with the way loan volume and the trends in agriculture and

the cost of both commodities and land has increased, the limits need to be re-evaluated.

Dr. HALVERSON. I would strongly support my colleagues.

Mr. BOST. Yes, we will try this. Let me switch to a different microphone. How about that. That is better. All right. Let me just say that whenever I am dealing with a lot of the farmers that I am working with right now, and you know what their costs are and what their overheads are, and what a combine runs, what an investment it is, when we are trying to get young farmers. The reason why I am leading that question is I have a particular bill to raise it to $2½ million, above the $1.39 million that it is at right now. In today's farming, it has been since the early 2000s since we have raised that, and it is vitally important and it is time that we do that when farm costs have risen the way they are. Thank you for what you do.

That was as simple as I could be. I waited all day to do that, just to ask that one question. But thank you for being here.

The CHAIRMAN. The gentleman yields back.

Mr. LaMalfa, 5 minutes.

Mr. LAMALFA. Well, thank you, Mr. Chairman. And we are getting down to being lonely in here again, aren't we? I am in, again, multiple committees at the same time, so if I didn't hear, and I hope I didn't miss something I should have heard earlier that pertains to the questions I would have.

So basically, I will boil it down to this here. And Mr. Yoho touched on it here at the end of his comments. Broadband is a big deal these days in rural America and I have a very rural district in northern California near where I farm as well. And so expanding the base of rural broadband is a pretty big deal in order to be able to keep up.

So my question would be geared to you, Dr. Tom Halverson, on the issue. When we are looking at it, we need to work to make it affordable. And again, you have issues with rural and ratios of people to customers to infrastructure ratios aren't as easy as in urban areas. But, with the advance of technology we need for all aspects of rural life, what can we see as a way to advance that infrastructure? Tom, what is Farm Credit doing to help our rural broadband users in the broad sense?

Dr. HALVERSON. Thank you for the question, Congressman. As I said earlier, we at CoBank are uniquely chartered among the institutions in the System to originate infrastructure lending, which includes a broad array of capacities in our communications business, which includes broadband. Now, we support doing that in all 50 states throughout rural areas of the country. We do that with customers in the form of communications, rural local exchange carriers, but, frankly, we do it also with other industries. We support some broadband build-outs with rural electric distribution co-ops.

Mr. LAMALFA. Let me jump in, please. How is that playing out lately? What kind of trending are you seeing on that?

Dr. HALVERSON. We are seeing a constant demand for that, a lot of growth.

Mr. LAMALFA. And is it financeable, is a lot of it making sense, do you have to turn some of it away because it isn't adding up, how does that look?

Dr. HALVERSON. We have to strike the same balance that we all have to strike in our agricultural businesses and other businesses, which is the desire to fulfill our mission and to do what our customers want us to do on the one hand, *versus* the desire and the need, and the requirement, to do safe and sound business, make sure that we are going to get paid back, be able to retain some earnings, and pay patronage to our customer-owners.

So the answer is we are doing a lot of that business. We would like to do more. We do turn it away from time to time. When we turn it away it is because it may not be financeable in the construct as it is brought to us, but we will certainly go much further, much longer, much more patiently than some other private-sector investors might do and support them.

Mr. LAMALFA. Do you find it boils down most of the time to just, again, number of ratio of customers to the infrastructure? If it is too rural you are unable to do it, or are there other factors?

Dr. HALVERSON. That is an important factor, right, how many customers per mile, but, frankly, that is not much different than what we have been dealing with for 75 years with the local wireline telephone companies.

Mr. LAMALFA. CoBank, Farm Credit——

Dr. HALVERSON. It is not very——

Mr. LAMALFA.—you are able to fund things in a little different direction, you can push a little harder than like what——

Dr. HALVERSON. Absolutely.

Mr. LAMALFA. Yes.

Dr. HALVERSON. Absolutely. We will go as far as we possibly can, but at the end of the day we have to do things that are bankable, but we are able to do things for companies and co-ops where that may be a minor part of their business, and they can build out something there and do it with the reliance on the creditworthiness of their consolidated company.

Mr. LAMALFA. All right. Anybody else on the panel want to touch on that, like who has the most rural base there? Maybe, Mr. Jimmy Dodson, have you got that in Texas?

Mr. DODSON. Yes, I agree with the assessment Dr. Halverson gave. And as a matter of fact, there are times when CoBank will originate a loan and we will participate in that loan when it impacts an area that we are sensitive to, or it fits our portfolio well. I would agree with his assessment, and agree with the value of this ability to participate in those kinds of loans.

Mr. LAMALFA. Thank you. One last one for anybody on the panel. My understanding is that there are four main banks for Farm Credit, four main facilities there, and so I just wonder is that spreading it out far enough, is there too much concentration of risk with the four main banks? Am I understanding that correctly?

Mr. TONSAGER. The four banks, they have numerous associations underneath them that own the banks, and so there is a diversity of locations, of course. As far as risk, the System operates under a shared risk agreement that are based at the banks, so we want to make sure that bondholders have a comfort level when they buy and sell their bonds to help finance the System, and this agreement requires the banks to back each other up in providing that

capital. The agency in turn makes sure there are adequate capital at the banks to support that.

It is part of the structure of the aid system that we are going to continue to look at and make sure that we have enough stability to make sure that the bondholders are comfortable, and that we have adequate funds.

Mr. LAMALFA. All right. Thank you.

I had better stop there. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

Well, thank you very much for being here today. One of our missions was to review the safety and soundness of the System, and we have gotten great comments from the regulator and the regulated about the professionalism with which you approach a banking function that is important. The road forward for all of production agriculture doesn't look particularly smooth, but I am encouraged that your System, your banks, and your associations are ready to stand in the breach with the other lending options that folks have access to. And so I appreciate all of you being here this morning. I don't have any other questions, and with that, let me get my official language here.

Under the Rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member. And I did have that question about the participations that commercial lending has purchased from you guys.

This hearing on the Committee on Agriculture is adjourned. Thank you.

[Whereupon, at 12:21 p.m., the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY HON. DALLAS P. TONSAGER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FARM CREDIT ADMINISTRATION

Farmer Mac's agricultural loan portfolio is geographically diverse. The company's direct credit-risk loan portfolio, the Farm & Ranch line of business, stood at $6.1 billion on more than 11,000 loans at the end of 2016. Regionally, loan volume tracks the distribution of national agricultural cash receipts. Approximately 34 percent of the Farm & Ranch loan portfolio is in the mid-North region.[1] In comparison, the states in the mid-North region generated an average of 36 percent of all agricultural cash receipts generated between 2010 and 2015.[2] The Southwest region is the other primary ag-producing region; it contains approximately 30 percent of the Farm and Ranch portfolio, and farms in the region generated nearly 17 percent of the agricultural value-added between 2010 and 2015. Producers in the Northeast states make up the smallest sub-portfolio at just under four percent; this region makes up nearly ten percent of all agricultural cash receipts. *Table 1* details the current outstanding balance by region as well as the cumulative originations within the Farm and Ranch portfolio since Farmer Mac's inception in 1987.

Table 1: Farmer Mac Farm & Ranch Portfolio by Region

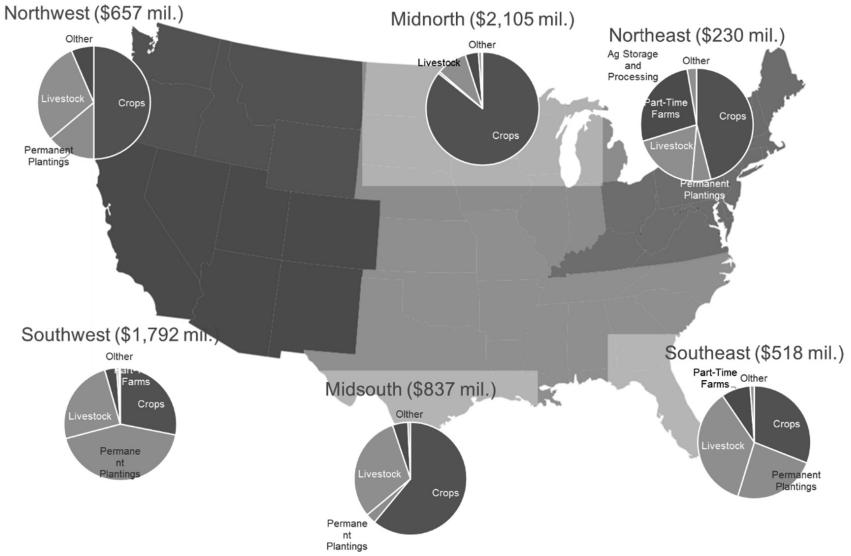
Region	12/31/2016 Ending Balance (millions)	Percentage of Total	Cumulative Originations (millions)	Percentage of Total	Average Percentage of Agricultural Cash Receipts from 2010–2015
Mid-North	2,105	34%	5,540	25%	36%
Mid-South	837	14%	2,598	12%	18%
Northeast	230	4%	1,310	6%	10%
Northwest	657	11%	2,909	13%	7%
Southeast	518	8%	1,910	9%	12%
Southwest	1,792	29%	7,488	34%	17%
Total	**6,139**	**100%**	**21,754**	**100%**	**100%**

The Farm and Ranch portfolio is also diversified by production typology. Farmer Mac has underwritten more than 130 different commodities, from alfalfa to zucchini. *Figure 1* displays the company's geographic regions overlayed with a breakout of the 12/31/2016 loan balances by commodity group. Operators in the mid-North region tend to be concentrated in crop production, and thus Farmer Mac portfolio volume has a high concentration in crop production (*i.e.,* corn, soybeans, wheat, *etc.*). Loan typology is more diverse in the Southwest, mid-South, Southeast, and Northeast regions, which follows[:]

[1] Geographic regions: Northwest (AK, ID, MT, OR, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); mid-North (IA, IL, IN, MI, MN, NE, ND, SD, WI); mid-South (AR, KS, LA, MO, OK, TX); Northeast (CT, DE, KY, MA, MD, ME, NH, NJ, NY, OH, PA, RI, VA, VT, WV); Southeast (AL, FL, GA, MS, NC, SC, TN).

[2] USDA Economic Research Service, *Farm Income and Wealth Statistics. https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics/data-files-us-and-state-level-farm-income-and-wealth-statistics/*.

Figure 1: Farmer Mac Farm and Ranch 2016Q4 Balance by Region and Commodity Group



Farmer Mac is committed to serving all of America's farmers and ranchers, regardless of location or production type. This analysis highlights that commitment, demonstrating the presence of the company's loan products from coast-to-coast and from crop-to-crop.

SUBMITTED LETTER BY ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION

March 29, 2017

Hon. K. MICHAEL CONAWAY,
Chairman,
House Committee on Agriculture,
Washington, D.C.;

Hon. COLLIN C. PETERSON,
Ranking Minority Member,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Conaway and Ranking Member Peterson:

Thank you for holding today's hearing entitled, *Review of the Farm Credit System.* As you are well aware, the farm credit system (FCS) plays an integral role in providing credit to America's farmers, ranchers, and rural communities. Our members, engaged in all forms of agriculture, have relied on FCS and other lending institutions for generations, so that they may feed, fuel, and cloth our nation.

The cooperative model, central to the FCS, is very important to National Farmers Union (NFU) members. Cooperatives, in their many forms, are of critical importance. Our members firmly believe that government policies and programs should help to better develop, protect, advance, and promote cooperatives and the work they carry out. NFU opposes any attempt to revise cooperative laws, administratively or legislatively, that would diminish or jeopardize the democratic nature of cooperatives, their unique governance structure, and ability to maintain financial and ethical integrity.

Cooperatives allow farmers and ranchers to reduce costs of production, maintain a reliable source of inputs, and effectively market and process farm products. Our members across the country actively serve on cooperative boards and provide leadership in the patronage, direction, operation, and development of cooperative enterprises, and in the education of members and the public as to cooperative philosophy and principles. There is no other governing structure that provides for such intimate involvement in the development and direction of business entities.

It is also not lost on NFU, that this hearing is being held in the House Committee on Agriculture and not the House Financial Services Committee. Our members sup-

port jurisdiction of the FCS remaining with the Committees on Agriculture. As previously stated, FCS is critical to the agricultural economy, there is no Committee that understands the needs of agriculture better than this one. As you review the structure and operations of the FCS, we ask that you take the opportunity to explore the health of FCS borrowers. As previous hearings in this Committee have shown, farmers and ranchers are struggling in this depressed farm economy.

As you are well aware, net farm income has declined 50 percent since 2013. This decline has put significant stress on agricultural operations. Financial institutions across the board are seeing that stress manifest itself within their loan portfolios. Our members have shared stories of their loan officers creatively working towards solutions in order to provide needed credit. At the same time we have heard other situations where our members, despite having strong debt-to-asset ratios, are increasingly challenged to obtain operating credit without selling off assets.

NFU is greatly concerned over the implications of commodity prices remaining lower than the cost of production over a multiyear timeframe. This multiyear downward trend, if uncorrected in the next year or two will do even greater harm to family farmers than what we have already witnessed. The capital burn rate over the last few years has left our producers in a very vulnerable and unsustainable position. As the U.S. Department of Agriculture pointed to earlier this year, financial liquidity measures, including working capital, are forecasted to weaken again in 2017.

As you review the FCS we urge you to explore financial health indicators, which you have done in part during previous hearings, but which nonetheless require continuous attention. NFU remains concerned over the increase of non-performing loans, decline in real estate values, higher collateral requirements, weaker debt-to-asset ratios, increased rolling of short and medium-term debt into long-term debt, high demand for Farm Service Agency loans, and a number of other trends.

The timing of this hearing is particularly important. As many of our nation's farmers are preparing for the spring 2017 planting, credit is a particularly relevant subject. We urge this Committee as you explore the FCS, to provide particular focus on a producer's access to credit.

We greatly appreciate your attention in this matter.

Sincerely,

ROGER JOHNSON,
President, National Farmers Union.

SUBMITTED STATEMENT BY AMERICAN BANKERS ASSOCIATION

Chairman Conaway, Ranking Member Peterson, and Members of the Committee, the American Bankers Association (ABA) writes to thank you for holding a hearing to review the Farm Credit System. On behalf of the approximately 2,000 agricultural banks we represent, the ABA wishes to provide our views and perspective on the Farm Credit System for the record.

The ABA is the voice of the nation's $16 trillion banking industry, which is composed of small, regional and large banks that together employ more than two million people, safeguard $12 trillion in deposits and extend nearly $8 trillion in loans. The ABA is uniquely qualified to comment on agricultural credit issues as banks have provided credit for agriculture since the founding of our country. Over 5,000 banks—more than 82 percent of all banks—reported agricultural loans on their books at year end 2015 with a total outstanding portfolio of over $171 billion.

The topic of today's hearing is very timely. The agricultural economy has been slowing, with farm sector profitability expected to decline further in 2017 for the fourth consecutive year. However, farm and ranch incomes for the past 5 years have been some of the best in history.

With the new farm bill in place, farmers, ranchers, and their bankers have certainty from Washington about future agricultural policy. Interest rates continue to be at or near record lows, and the banking industry has the people, capital and liquidity to help American farmers and ranchers manage through any turbulence in the agricultural economy.

Banks continue to be one of the first places that farmers and ranchers turn to when looking for agricultural loans. Banks have very diverse agricultural credit portfolios—they finance large and small farms, urban farmers, beginning farmers, women farmers and minority farmers. To bankers, agricultural lending is good busi-

ness and banks make credit available to all who can demonstrate they have a sound business plan and the ability to repay.

In 2015, farm banks—banks with more than 15.5 percent of their loans made to farmers or ranchers—increased agricultural lending 7.9 percent to meet these rising credit needs of farmers and ranchers, and now provide over $100 billion in total farm loans. Farm banks are an essential resource for small farmers, holding $48 billion in small farm loans, with $11.5 billion in micro-small farm loans (loans with origination values less than $100,000). These farm banks are healthy and well capitalized and stand ready to meet the credit demands of our nation's farmers large and small.

In addition to our commitment to farmers and ranchers, thousands of farm-dependent businesses—food processors, retailers, transportation companies, storage facilities, manufacturers, *etc.*—receive financing from the banking industry as well. Agriculture is a vital industry to our country, and financing it is an essential business for many banks.

Banks work closely with the USDA's Farm Service Agency to make additional credit available by utilizing the Guaranteed Farm Loan Programs. The repeal of borrower limits on USDA's Farm Service Agency guaranteed loans has allowed farmers to continue to access credit from banks as they grow, ensuring credit access for farmers across the country.

However, we remain concerned with certain areas of the agricultural credit market. In particular, we are worried that the Farm Credit System—a government-sponsored enterprise—has veered away from its intended mission and now presents an unwarranted risk to taxpayers. The Farm Credit System was founded in 1916 to ensure that young, beginning and small farmers and ranchers had access to credit. However, today's Farm Credit System provides many of the same products and services as the banking industry, and often neglects the young, beginning and small U.S. farmers and ranchers. Since the Farm Credit System's inception 100 years ago, it has grown into an enormous $320 billion system offering complex financial services. To put this size into perspective, ***if the Farm Credit System were a bank it would be the seventh largest in the United States, and larger than 99.9 percent of the banks in the country.***

This [S]ystem operates as a government-sponsored enterprise and it presents a risk to taxpayers in the same way that Fannie Mae and Freddie Mac do. It benefits from significant tax breaks—valued at $1.3 billion in 2015—giving it a significant edge over private sector competitors. Moreover, the Farm Credit System enjoys government backing, formalized by the creation of a $10 billion line of credit with the U.S. treasury in 2013 that has been renewed annually without the need for Congressional approval.

The Farm Credit System has moved dramatically away from its charter to serve young, beginning and small farmers and ranchers, and now primarily serves large established farms, which could easily obtain credit from the private-sector. In fact, the majority of Farm Credit System loans outstanding are in excess of $1 million. Any farmer able to take on over $1 million in debt does not need subsidized credit. **In addition to these loans, the Farm Credit System currently has eight loans between $750 million and $1 billion, and two loans of over $1 billion.**

Our nation's farmers and ranchers are a critical resource to our economy. Ensuring that they continue to have access to adequate credit to thrive is essential for the well-being of our whole nation. America's banks remain well equipped to serve the borrowing needs of farmers of all sizes. An important step in ensuring credit availability is to oversee and closely examine entities such as the Farm Credit System and ensure that they stick to their charter of helping young, beginning and small farmers.

This statement for the record will elaborate on the following points:

- ➢ Banks are a primary source of credit to farmers and ranchers in the United States;
- ➢ Banks work closely with the USDA to make additional credit available via the Guaranteed Farm Loan Program;
- ➢ The Farm Credit System has become too large and unfocused, using taxpayer dollars to subsidize large borrowers.

I. Banks Are a Primary Source of Credit to Farmers and Ranchers in the U.S.

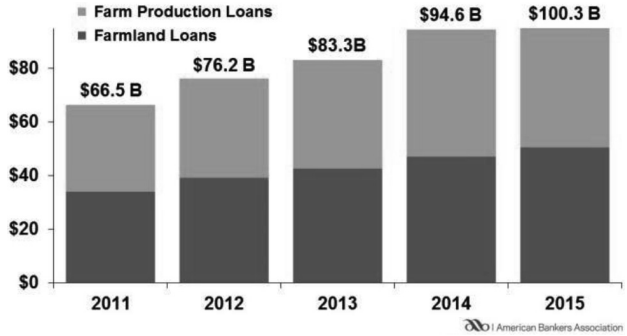
For many of the ABA's members, agricultural lending is a significant component of their business activities. The ABA has studied and reported on the performance of farm banks for decades, and we are pleased to report that the performance of these highly specialized agricultural lending banks continues to be strong. The ABA

defines a farm bank as one with more than 15.5 percent farm or ranch loans (to all loans).

At the end of 2015, there were 1,976 banks that met this definition. Farm lending posted solid growth during 2015. Total farm loans at farm banks increased by 7.9 percent to $100.3 billion in 2015 up from $94.6 billion in 2014. Approximately $1 in every $3 lent by a farm bank is an agricultural loan.

Farm Banks Exhibit Solid Farm Loan Growth

$ Billions



Source: Federal Deposit Insurance Corporation & American Bankers Association analysis.

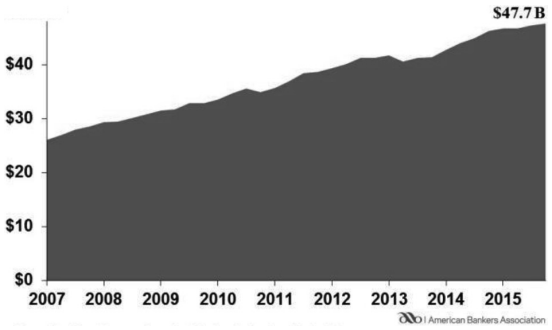
Farm real estate loans grew at a faster rate than farm production loans. Outstanding farm real estate loans grew at a pace of 9.1 percent, or $4.2 billion, to a total of $50.6 billion. Farm production loans rose by 6.6 percent, or $3.1 billion, to $49.8 billion.

Farm banks are a major source of credit to small farmers, holding more than $47.8 billion in small farm loans (origination value less than $500,000) with $11.5 billion in micro—small farm loans (origination value less than $100,000) at the end of 2015. The number of outstanding small farm loans at farm banks totaled 761,192 with the vast majority—over 496,200 loans—with origination values less than $100,000. Farm banks are healthy and well capitalized and stand ready to meet the credit demands of our nation's farmers large and small.

Equity capital—often thought of as the strongest form of capital—at farm banks increased 4.9 percent to $47.7 billion in 2015. Since the end of 2007, farm banks have added $19.5 billion in equity capital, building strong high-quality capital reserves. These capital reserves give farm banks flexibility as the agricultural sector adjusts to lower commodity prices, allowing bankers to work with and serve the needs of our nation's fa[r]mers and acting as a buffer from the risks associated with any downturn in the agricultural sector.

Farm Banks Increase High-Quality Capital

$ Billions



Source: Federal Deposit Insurance Corporation & American Bankers Association analysis.

One area of concern for farm bankers and their customers has been the rapid appreciation in farmland values in some areas of the country. The run up in farmland values has not been a credit driven event. After several years of large increases in farmland values, the consensus view among bankers is that the increase in cropland values has slowed—USDA estimates of lower commodity prices for the third consecutive year in 2016 seem to have modestly cooled off the demand for farm real estate. Banks watch the farm real estate market very closely. USDA estimates a 1.2 percent decline in the value of farm real estate in 2016. In recent years, over 4/5 of the agriculture sector's asset values were held in real estate. Farm banks are actively managing the risks associated with agricultural lending and underwriting standards on farm real estate loans are very conservative. The key consideration in underwriting any loan is the ability of the customer to repay regardless of the collateral position in the loan. To further manage risk, banks regularly stress test their loan portfolios to judge repayment capacity under different scenarios.

II. Banks Work Closely with the USDA's Farm Service Agency To Make Additional Credit Available by Utilizing the Guaranteed Farm Loan Programs

The ABA would like to thank Congress, especially the Agricultur[e] Committees, for repealing borrower term limits on USDA Farm Service Agency guaranteed loans. Term limits restricted farmer access to capital, and with the expansion of the farm economy over the past 10 years, there are some farmers who would not have been able to obtain credit from banks without a guaranty from USDA. The USDA's Farm Service Agency guaranteed loan program has been a remarkable success. Today, nearly $12 billion in farm and ranch loans are made by private sector lenders and are guaranteed by the USDA. There are nearly 43,000 loans outstanding. Some farmers have more than one guaranteed loan, so this number does not match one-to-one with the number of individual farmers and ranchers; nonetheless the numbers of individuals accessing credit under this program is very significant.

This program has grown over the past 5 years, with less than $9 billion outstanding at the close of FY08 to nearly $12 billion today. The loans made by banks under this program are modest in size. The average outstanding guaranteed real estate loan is $480,969 and the average outstanding guaranteed non-real estate secured loan is $309,700. Clearly, banks are reaching customers who have modest-sized operations, who are in the process of starting their farm or ranch operation, or who are recovering from some sort of financial setback. Despite the fact that these customers do not have either the earnings or collateral to qualify for conventional credit, losses in the program have been extremely small. Over the last 5 fiscal years, losses have ranged from a high of 0.5 percent in FY11 to a low of 0.2 percent in FY15. These are extremely low losses—especially for customers who are perceived to be a higher risk than other customers, hence the need for the USDA credit enhancement. Bankers who utilize the guaranteed farm loan programs offered by USDA know what they are doing and work very closely with their farm and ranch customers to properly service these loans. The Farm Service Agency deserves a great deal of credit for administering such a successful public/private partnership. The ABA urges the Committee to continue to support this very worthwhile program.

III. The Farm Credit System Is a Large Government-Sponsored Enterprise That Primarily Serves Large Borrowers at the Expense of Taxpayers

As mentioned earlier in this testimony, the market for agricultural credit is very competitive. Banks compete with several other banks in particular service areas and with finance companies from all of the major farm equipment manufacturers, several international banks, life insurance companies and finance companies owned by seed and other supply companies to name a few.

The most troublesome competitor banks face is the taxpayer-backed and tax-advantaged Federal Farm Credit System (FCS). The FCS was chartered by Congress in 1916 as a borrower-owned cooperative farm lender at a time when banks did not have the legal authority to make long-term farm real estate loans. Over the ensuing 100 years, the FCS has received numerous charter enhancements, and has ventured into areas that are not appropriate for a farmer-owned farm lending business. In fact, today's FCS provides many of the same services and products as a commercial bank, while benefiting from a special tax-treatment status.

Today, ***the FCS is a large and complex financial services business with nearly $320 billion in assets.*** If it were a bank, it would be the seventh largest bank in the United States. It is tax-advantaged and enjoyed a combined local, state and Federal tax rate in 2015 of only 4.0 percent (a significant decrease from the effective tax rate of 4.5 percent in 2014). Despite Congress's intentions, the FCS's tax subsidy has not been passed on to its customers. The tax advantages enjoyed

by the FCS in 2015 was worth $1.296 billion or 28 percent of the Farm Credit System's net income in 2015[.][1]

The Farm Credit System Is a Government Sponsored Enterprise

The Farm Credit System presents the same kind of potential threat to the American taxpayer as Fannie Mae and Freddie Mac. As a government-sponsored enterprise (GSE) like Fannie Mae and Freddie Mac, the American taxpayer is the ultimate back stop should the Farm Credit System develop financial problems. This reality was formalized in 2013 when the Farm Credit System Insurance Corporation arranged a $10 billion line of credit "with the Federal Financing Bank, a Federal instrumentality subject to the supervision and direction of the U.S. Treasury—to which the Federal Financing Bank would advance funds to the [Farm Credit System] Insurance Corporation. Under its existing statutory authority, the [Farm Credit System] Insurance Corporation will use these funds to provide assistance to the System Banks in exigent market circumstances which threaten the Banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion."[2] The line of credit has been extended annually, for 12 month periods, and now expires on September 30, 2016.

We believe the farmers who own stock of the Farm Credit System—and the American taxpayers who back it—deserve a better understanding of the deep financial commitment between the Farm Credit System and the U.S. Treasury, but very little information is available to the public. Unlike the housing GSEs, which are subject to reform efforts to lessen the taxpayer's exposure, the Farm Credit System seems to be increasing its dependence upon the U.S. Treasury.

Large Borrowers Benefit Most from Farm Credit System Subsidy

The Farm Credit System's tax subsidy benefits have not been passed along to those Congress intended to benefit from the taxpayer subsidized loans—young, beginning and small farmers and ranchers. Instead, a review of the 2015 Annual Information Statement from the Federal Farm Credit Banks Funding Corporation indicates that 45.5 percent of all Farm Credit System outstanding loans at the end of 2015 were in ***excess of $5 million.*** At December 31, 2015, just 4,458 persons or entities—less than one percent of the FCS's 527,462 borrowers—had each borrowed at least $5 million from the FCS for a total of $107.3 billion in lending.

Further analysis shows that the FCS has one loan outstanding of *$1 to $1.5 billion,* and five loans of *$750 million to $1 billion* outstanding.

The Farm Credit System does not provide the public with aggregated data by borrower; if it did, we would see a much higher percentage of borrowers with debt in excess of $1 million. In addition, the Farm Credit System does not disclose approved, but unfunded commitments. If it did, the numbers would be even higher. In short, nearly ½ of the entire Farm Credit System's portfolio at the end of 2015 was to individuals who owed it much more than $1 million. Any farmer able to take on over $1 million in debt does not need taxpayer subsidized credit.

Congress created the Farm Credit System as a public option for farm finance when farmers were having trouble getting the credit they needed from non-government sources. The conditions that led to the creation of the Farm Credit System nearly 100 years ago no longer exist, and yet we continue to have a government assisted, tax advantaged lender providing credit to customers who could easily borrow from taxpaying institutions like mine.

In fact, ***the heavily subsidized credit that FCS provides goes to those who need it least.*** Despite amendments to the Farm Credit Act of 1980 requiring each FCS lender to have a program for furnishing credit to young, beginning and small farmers and ranchers (YBS), the share of new YBS loans to total new FCS loans continues to be dismal—even as the assets of the system have expanded enormously. Loans to small farmers have steadily dropped over the past several years with small farm loans declining from a high of 30.3 percent of total new loan volume in 2003[3] to just 14.1 percent in 2015. Clearly, those who would benefit the most from the highly subsidized credit made available by the FCS are not receiving the benefits that Congress intended them to receive.

---

[1] Federal Farm Credit Banks Funding Corporation; *2015 Annual Information Statement of the Farm Credit System;* March 7, 2016. Page F–3.

[2] Federal Farm Credit Banks Funding Corporation; *2013 Annual Information Statement of the Farm Credit System;* February 28, 2014, page 23.

[3] "FCA's Annual Report on the Farm Credit System's Young, Beginning, and Small Farmer Mission Performance: 2013 Results". Office of Regulatory Policy, June 12, 2014 Board Meeting.

Farm Credit System Lending Outside of Mission

The Farm Credit System has wandered dangerously off course into areas of finance that have nothing to do with agriculture, or rural America for that matter. Two recent Farm Credit System loans demonstrate this point:

In 2013, Denver based CoBank, the largest Farm Credit System bank, approved a $750 million loan to Verizon. CoBank's loan was part of a financing package that totaled over $6 billion. Financial institutions from all over the world shared a portion of the loan. CoBank was the only government sponsored enterprise to be a participant in the loan. CoBank's share of the loan was the largest single piece of the credit package. The purpose of the loan was to enable Verizon to purchase the portion of Verizon Wireless that it did not already own. The proceeds of the loan, which closed in 2014, went to London based Vodafone, the corporate entity that owned the rest of Verizon Wireless. The Farm Credit Administration, the regulator of the FCS, has publicly stated that the loan is perfectly legal because Verizon is a "similar entity" to a rural cooperatively owned telephone company. In other words, the FCA believes that since Verizon provides telephone services like a rural telephone cooperative, the loan is legal for a Farm Credit System lender to make. This clearly stretches any reasonable interpretation of the FCS charter.

On June 2, 2014, CoBank entered into a $350 million "credit agreement" with Connecticut-based Frontier Communications Corporation to help finance a $2 billion acquisition by Frontier Communications from AT&T. Frontier Communications is a $16 billion publicly traded company. CoBank played a major role in this financing package in that they are credited with being the "administrative agent and lead arranger" by Frontier. As with the Verizon loan, this too stretches the chartered purpose.

It is interesting to note that many of these loans and credit agreements are syndicated loans. The Farm Credit System often says that banks ask them to join in these loan agreements, but that is stretching the truth. Banks ask ***all other financial institutions*** if they would like to join these loans. To say that banks are seeking out the Farm Credit System is very misleading. It would be more accurate for the Farm Credit System, and its regulator for that matter, to state that the Farm Credit System is asking to join these syndicated loans, not the other way around.

What new benefit has accrued to rural America as a result? These loans facilitated corporate deals designed to maximize shareholder returns. In the case of the Vodafone buyout, U.S. taxpayer supported money was transferred to European investors. All taxpayers should be concerned that the Farm Credit System can be involved in these deals and that its regulator is working to aid and abet these activities which are clearly beyond the scope envisioned by Congress.

Conclusion

The banking industry is well-positioned to meet the needs of U.S. farmers and ranchers.U.S. agriculture has begun to adjust to lower commodity prices after enjoying one of the longest periods of financial prosperity in history. While it is true that debt-to-asset and debt-to-equity ratios have risen some—to 13.23 and 15.25 percent, respectively—each remains low relative to historical levels. During the past few years, while farmers experiences unprecedented high commodity prices and rising farm profits, farmers used their excess cash profits to retire debt and to acquire additional equipment and land. As a result, farmers and ranchers today have the capacity to tap their equity should there be a decline in farm profitability resulting in diminished cash flows. While no farmer or rancher wants to take on additional debt, the strength of the U.S. farm and ranch balance sheet gives producers options to do so if the need arises.

When the agricultural economy collapsed in the middle 1980s, the banking industry worked closely with farmers and ranchers to restructure their businesses and to rebuild the agricultural economy. Since that time banks have provided the majority of agricultural credit to farmers and ranchers. While other lenders, including the Farm Credit System, shrank their portfolios of agricultural loans or exited the business altogether, banks expanded agricultural lending. Bankers saw opportunity where others did not. Bankers still see great opportunities in agriculture.

Bankers remain concerned that the Farm Credit System now represents an unwarranted risk to taxpayers. In addition, the Farm Credit System does not pass the benefits of its tax subsidy onto those intended by Congress. Nearly ½ of the entire Farm Credit System's portfolio of loans at the end of 2015 was to individuals who owed it much more than $1 million. Borrowers who can amass over $1 million in credit do not need taxpayers to subsidize their debt. The Farm Credit System's regulator has expanded the authorities of the Farm Credit System, to the point today where the Farm Credit System provides similar products and services as a typical tax-paying commercial bank. All taxpayers should be concerned about where the

Farm Credit System is choosing to lend taxpayer subsidized credit and that its regulator is working to aid and abet these activities.

Thank you for the opportunity to express the views of the American Bankers Association.

SUBMITTED STATEMENT BY INDEPENDENT COMMUNITY BANKERS OF AMERICA

The Farm Credit System Flouts the Law and its Historic Mission

On behalf of the more than 5,800 community banks represented by the ICBA, thank you for convening today's full Committee hearing: *Review of the Farm Credit System.* We appreciate that Chairman Conaway has sought to have an aggressive oversight of the policies and programs under the Committee's jurisdiction. This type of review is especially important in regards to the Farm Credit System (FCS), a government sponsored enterprise (GSE), which has run amuck of the law and its historical mission.

ICBA noted in previous Congressional testimony on credit availability in rural America: "We could raise a number of additional issues regarding FCS abuses. We believe these types of issues and questions warrant a series of separate hearings. There are many concerns Congress should explore in their oversight capacity over the FCS." We continue to urge this Committee and its Senate counterpart to conduct a series of in-depth hearings on the FCS's questionable and nontransparent activities.

Not only do we believe further hearings on the FCS are warranted, particularly in advance of a farm bill, but they should involve the full participation of the community banking industry. Community banks are impacted every day by the activities of the FCS and should have a seat at the table when FCS issues are reviewed and discussed. Obviously the FCS prefers not to have the banking industry involved in hearings on the System as they apparently fear their controversial activities will be brought to light in advance of finalizing a farm bill. Transparency is warranted particularly when it involves GSEs.

Adrift from its Historic Mission

Congress created the FCS to specifically serve *bona fide* farmers and ranchers, farmer cooperatives and a narrow group of businesses that provide on-farm services. However, the Farm Credit Administration (FCA), the System's regulator, in recent years has become a willing accomplice aiding and abetting the FCS's efforts to expand into non-farm financing and has created crafty ways to circumvent the law to accommodate FCS's desires. FCS has sought to morph from a GSE with a narrowly targeted mission of serving agriculture into a generalized rural lender serving all types of borrowers in rural credit markets and even non-farm borrowers in non-rural areas. In this sense, the FCA, quite frankly, has become a captive regulator, often willing to do the System's bidding at the drop of a hat while claiming to be independent.

Illegal Investment Schemes: One example of FCA's capitulation to FCS's expansionist agenda to engage in non-farm lending is the agency's tortured effort to implement its 'Investments in Rural America' program. The FCA allowed FCS lenders to create a series of pilot programs which often included non-farm lending projects. FCA also released a major proposed regulation to allow FCS non-farm lending if such illegal lending was characterized as "investments."

FCS lenders could, for example, extend credit for hospitals, commercial offices (doctors, lawyers, and dentists), manufacturing facilities, apartment complexes in cities, hotels and motels, trucking and towing companies, auto dealerships, *etc.*). Any limitations would only be based on the FCA/FCS's lack of imagination.

After 5 years, the FCA announced it was withdrawing its proposed rule and ending its allowance of FCS rural investment pilot programs. However, these actions were just a dubious sleight of hand by the regulator. While eliminating the pilot programs, the FCA allowed the financed projects to continue through the term of the financing which in some cases will last for decades. The FCA then briefly published on its website a guidance memo instructing FCS lenders on how to apply and gain approval to engage in investment programs that included financing for non-farm businesses, communities, rural areas and infrastructure projects. In other words, even though the FCS lobbied Congress for years to receive expanded powers—appeals that were typically rejected by Congress—the FCA has suddenly and quietly decided to just allow FCS lenders to do whatever they want as long as FCA provides their rubber stamp of approval.

ICBA submitted several letters with comprehensive questions to FCA asking for details on FCA's intentions based on the guidance memo. FCA refused to answer

the questions for many months and when finally pressured by the Senate Agriculture Committee, FCA only answered the questions partially. This raises a further question—why is the FCA adamantly against transparency and accountability to taxpayers that are the ultimate backstop against another bailout of the FCS?

When FCA did partially respond to questions, FCA's lame response was its investment authorities are in a separate section of the Farm Credit Act (Act) and therefore financing of FCS investments were virtually unlimited and could go beyond the constraints Congress put in place for the loan making sections of the Act. ICBA adamantly rejects this preposterous interpretation and notes the complete lack of legislative history supporting FCA's position. Congress did not intend to limit the purposes of FCS loan making in one section of the Act and then allow unlimited purposes for FCS financing in another section of the Act.

Similar Entity Provision: Much attention has been focused on FCS activities under the so-called "similar entity" provision of the Act. It was revealed that CoBank, the behemoth FCS lender to cooperatives, made a $725 million loan to Verizon to buyout Vodafone's interest in a joint venture. Verizon and Vodafone are headquartered in New York City and London and this extremely large loan was not rural in nature nor should it ever have included CoBank's participation.

Verizon (NYSE: VZ) has a market capitalization of over $200 billion. Vodafone (NASD[A]Q: VOD) has a market cap of over $70 billion. Can anyone seriously claim that these Fortune 500, non-rural, nonagricultural corporations headquartered in some of the world's largest cities were what Congress envisioned the FCS and CoBank would be lending to when it enacted, at the FCS's request, the similar entities provisions? We think not.

This provision was never meant to allow CoBank or any FCS lender to make ineligible loans to large corporations. FCA is again abandoning their regulatory oversight responsibilities to go to any length necessary to allow FCS lenders to make whatever types of non-farm loans they desire. During debate on the 2008 Farm Bill, ICBA noted that the FCS's Horizon Project proposals were loosely worded and would allow FCS lenders to engage in financing large Fortune 500 companies. FCS representatives haughtily derided this contention and claimed it was misleading. But what has happened since then, even though Congress rejected the misguided Horizons proposal?

CoBank has provided major financing to Verizon, AT&T, U.S. Cellular, Frontier Communications, Constellation Brands, a leading beverage alcohol and liquor company and other very large corporations. Recently CoBank participated in a $1.5 billion loan to Cyrus One.

In the Verizon instance, CoBank's financing did not target a "rural" telecommunications cooperative. Vodafone is a British multinational telecommunications company headquartered in London and ranks as the world's second-largest mobile telecommunications company in terms of revenues and number of subscribers. Verizon Communications, headquartered in New York City, reported at the time quarterly profits of over $2 billion and revenues of over $30 billion and hardly represented a rural telephone cooperative in need of financing by a government sponsored enterprise.

Cyrus One (NASDAQ: CONE), a publicly traded company with a $4.4 billion market cap, operates 33 data centers across the U.S., the United Kingdom and in Singapore. A data center is a facility used to house computer systems and associated components. Their data centers are not located in rural areas as anyone can see by linking to their locations map (*https://cyrusone.com/data-center-locations/*). Neither is Cyrus One an agricultural entity.

Constellation Brands (NYSE: STZ), a Fortune 500® company with a $31.8 billion market cap is a leading international producer and marketer of beer, wine and spirits with operations in the U.S., Canada, Mexico, New Zealand and Italy. Constellation is the No. 3 beer company in the U.S. with high-end, iconic imported brands such as Corona Extra, Corona Light, Modelo Especial, Modelo Negra and Pacifico.

CoBank's newly found lending activities appear to be an effort to leverage their GSE advantages deeply into the realm of multi-national, non-agricultural, non-rural and non-cooperative corporate financial deals. CoBank has been, not just a participating lender, but the lead lender, in some of these loans. This is not the purpose for which CoBank and other FCS lenders were created.

Recently FCS representatives have tried suggesting to Congress the 'similar entities' provision is an outgrowth of the 1980's ag crisis. However, this provision was enacted by Congress in the mid-1990's and had nothing to do with the 1980's farm credit crisis a decade earlier. In fact, the intent of Congress was underscored by the FCA's final rule on the similar entity provision which FCA published on January

30, 1997. FCA stated the similar entity rule: "*expressly prohibits FCS institutions from participating in nonagricultural loans to similar entities*"[1] (emphasis added).

Congress clearly did not intend for this authority to allow FCS and CoBank to finance any large nonagricultural Fortune 500 corporation as is being done today. Keep in mind the FCA has raised the lending limit for FCS entities to $1.5 billion and the FCS already has several very large loans in their portfolio. Congress should require a list of these large borrowers and the amounts financed.

If the FCA wants to ignore the legislative history and suggest the activities currently being engaged in by FCS lenders is compliant with their regulations, then both the Act and their regulations need an overhaul to ensure the FCS is complying with their mission to serve agriculture as a GSE. The FCS and FCA need to stop hiding behind excuses such as 'diversification' and 'risk management' as cover for engaging in non-rural and non-agricultural loans intended to line the pockets of FCS lenders with millions of dollars of profits.

$10 Billion Line of Credit: On September 24, 2013, the Treasury Department, through its Federal Financing Bank, entered into a $10 billion note purchase agreement with the FCS Insurance Corporation (FCSIC) to establish a standby line of credit to provide FCS funds at the Treasury's cost of funds. This line of credit, which the FCA sought in secret, raises a number of serious questions. For example, why did the FCA seek a $10 billion line of credit at a time when FCS lenders were reporting record profits of $4.64 billion in 2013?

Why did the FCA not seek Congressional approval? When the FCS failed in the 1980s, the farmland values which the FCS utilized as collateral had collapsed significantly. Yet, the $10 billion line of credit, according to FCA, is "collateralized" meaning the collateral backing this line of credit could be dramatically reduced. If the FCS were to collapse, as it did in the 1980s, taxpayers would be on the hook once again for a sizeable bailout.

The FCSIC was created to collect premiums from FCS institutions as a backstop in the event of financial deterioration within the System. Why then did the FCA seek and obtain a line of credit from the Treasury's FFB as additional protection? A report to the FCSIC prepared by the Brookings Institution stated: "FCS should be required to approach the Congress and the Administration for legislative help" in seeking a line of credit. Yet, **FCA did not go to Congress** but secretly went to the Treasury to obtain the line of credit. There should have clearly been Congressional hearings on a GSE seeking a $10 billion line of credit. This is another example of FCA/FCS seeking to avoid transparency and accountability.

FCA and FCS Diminishing Ag Credit Markets

When ICBA has surveyed bankers about their experiences with the FCS the responses are always quite informative. Bankers complain about the FCS cherry-picking activities and notes FCS almost exclusively targets the best and largest farm and ranch borrowers, offers these targeted borrowers below market rates and is willing to set those below market rates at longer terms.

By taking the best borrowers from community banks, FCS weakens the overall community bank portfolios and leaves the less seasoned/younger borrowers and higher leveraged borrowers with community banks. Similarly, if community banks stretch to keep these prime borrowers, community banks must accept less return and assume more interest rate risk by fixing the rate for a longer period of time, which is difficult to do based on the short term nature of deposits. Bankers typically point out the FCS largely ignores young, beginning and small farmers. As one banker stated, "FCS wants us to get these types of farmers started first and then later attempts to take them away once they become financially stronger."

With Farm Financial Stress on Horizon FCS Needs to Focus on Farm Sector

USDA has projected net farm income to decline by 8.7 percent to $62.3 billion, the fourth consecutive year of declines after reaching a record high in 2013. In addition, farm asset values are forecast to decline by 1.1 percent in 2017, and farm debt is forecast to increase by 5.2 percent. Farm sector equity, the net measure of assets and debt, is forecast down by $51.2 billion

With low prices expected to continue next year and potentially greater financial stress over the next year and possibly beyond, this is not the time for the FCS to dilute its emphasis on farmers and ranchers by seeking to finance non-farm borrowers. FCS needs to remain focused on its mission as a GSE intended to serve the narrow niche of production agriculture.

---

[1] *Final Rule, Eligibility and Scope of Financing,* January 30, 1997, 62 FR 4429.

Conclusion

We thank the Committee for conducting this review of the FCS. The FCA has clearly lost respect for the Act's constraints established to keep the FCS as a narrowly targeted GSE focused on agricultural lending. By thumbing their noses at the Act, the FCA and FCS are also thumbing their noses at Congress and the history and legislative intent of the Act. If FCA believes the Act is so loose as to allow it to grant any type of financing desired by FCS lenders, then the Act needs to be tightened.

Congress never intended for FCS to be a general purpose rural lender. If the FCA and FCS do not want to play by the rules, there are other lenders that would welcome the enormous subsidies enjoyed by the FCS as a GSE with significant tax and funding advantages. The FCS has an almost nonexistent tax burden and should not, as a GSE, be crowding out private-sector, taxpaying community banks from lending markets and should not be abusing their authorities by making indefensible loans to the world's largest corporations.

A series of hearings focused on FCS abuses and FCA's complicity in circumventing the law and intent of Congress should be pursued. These hearings should obviously involve the banking industry. We look forward to discussing these and other issues in more depth with Committee Members. Thank you again for holding this hearing and for the opportunity to submit this statement for the record.

SUBMITTED QUESTIONS

Response from Hon. Dallas P. Tonsager, Chairman and Chief Executive Officer, Farm Credit Administration

Question Submitted by Hon. K. Michael Conaway, a Representative in Congress from Texas

Question. Gentlemen, the Federal Agricultural Mortgage Corporation (Farmer Mac) is requesting several revisions to their charter. They are:

- Elimination of the provision which constrains Farmer Mac to purchases of land under 1,000 acres unless the value of the loan over a thousand acres is less than $12.6 million and allow the corporate board of directors and its regulator to determine loan size constraints using the same capital-based lending limit restrictions to which banks and Farm Credit System Institutions adhere.
- Clarifying that an "eligible borrower" can also include family trusts and other family farming structures and not only "individuals, partnerships, and corporations".
- Allowing Farmer Mac to purchase the guaranteed portions of USDA loans outside of the ConAct of 1972, such as certain guaranteed operating loans, rural home loans, water and waste infrastructure loans, and renewable energy loans.

As the regulator of the Farm Credit System and Farmer Mac, we would appreciate your evaluation of these potential revisions. Thank you.

Answer.

The 1,000 Acre Rule

The Federal Agricultural Mortgage Corporation (Farmer Mac) is chartered to operate a secondary market for agricultural real estate mortgage loans, rural housing loans, and loans to rural utility cooperatives. Farmer Mac was designed to increase the availability of long-term credit at stable interest rates to rural communities and to provide eligible borrowers with the benefits of capital market pricing and product innovation.

Section 8.8(c)(1) of the Farm Credit Act of 1971, as amended, forbids Farmer Mac from treating an agricultural loan as a qualified loan if its principal amount exceeds $12.6 million (as adjusted for inflation). However, section 8.8(c)(2) allows a qualified loan to exceed this cap on the principal amount of the loan if it is secured by agricultural real estate that in the aggregate comprises no more than 1,000 acres. This is commonly referred to as the "1,000 Acre Rule."

Under section 8.11 of the [A]ct, the Office of Secondary Market Oversight (OSMO) oversees the safety and soundness of Farmer Mac. OSMO is responsible for reviewing Farmer Mac's underwriting, servicing, and loan portfolio risk management It also evaluates the effectiveness of Farmer Mac's credit exposure policy limits relative to its regulatory capital base and overall risk-bearing capacity. Further, OSMO evaluates Farmer Mac's effectiveness at managing risk concentrations to single borrowers, industry segments, and geographic regions. As shown by Farmer

Mac's history of low delinquency and default rates, Farmer Mac's loan underwriting and lending policy limitations have been effective in managing credit risk.

If Congress were to remove the "1,000 Acre Rule," it would not create any unmanageable oversight challenges or safety and soundness concerns for OSMO. The Farm Credit Act gives OSMO the authority to establish regulatory limitations and policy requirements to ensure that Farmer Mac's credit exposure remains appropriate relative to its capital base and that it maintains sufficient capacity to grow and serve all aspects of its program business (including small and family farms).

Eligibility

Farm Credit System (FCS) associations, commercial banks, and insurance companies have authority to lend to trusts. Amending section 8.0(9)(A)(iii) to authorize lending to trusts would better enable Farmer Mac to provide liquidity and credit to retail farm lenders.

OSMO does not perceive any significant safety and soundness concerns or oversight challenges that would result from this change. We would need to ensure that Farmer Mac reviews and updates (as necessary) its underwriting and servicing guidelines and other business processes to ensure it maintains appropriate legal reach to address performance issues, defaults, and other issues that may arise.

USDA Guarantees

Farmer Mac conducts its secondary market activities through four lines of business:

- Farm and Ranch.
- USDA Guarantees.
- Rural Utilities.
- Institutional Credit.

The 1990 Farm Bill granted Farmer Mac the authority to purchase farm ownership and operating loans guaranteed by USDA. The USDA Guarantees Program (formerly Farmer Mac II) was created to boost the liquidity of rural lenders by purchasing portions of loans guaranteed by USDA Rural Development and the Farm Service Agency (FSA).

Currently, the USDA Guarantees Program allows Farmer Mac to purchase USDA loans under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 *et seq.*), which includes the Community Facility, Business and Industry, Water and Environmental, and FSA Farm Ownership and Operating Guaranteed Loan programs. As of December 31, 2016, Farmer Mac successfully held and managed $2.1 billion in USDA guarantees.

The USDA Guarantees Program is well established, and Farmer Mac has sufficient operating capacity to further develop its USDA-guarantee loan purchase program. OSMO does not believe that any safety and soundness concerns would arise from allowing Farmer Mac to purchase the guaranteed portions of USDA loans outside of the Consolidated Farm and Rural Development Act.

It's worth noting that Farmer Mac is also permitted to purchase and guarantee rural electric and telephone loans made by cooperatives that are eligible to receive loans under the Rural Electrification Act of 1936. As of December 31, 2016, the aggregate outstanding principal balance of the Rural Utilities Program was $4.47 billion.

Question Submitted by Hon. Stacey E. Plaskett, a Delegate in Congress from Virgin Islands

Question. Farmer-owned cooperatives have made significant contributions to rural America, providing services to farming and ranching operations of all sizes.

Why is it important for the financial industry in agriculture to have farmer-owned cooperatives dealing with the needs of farmers and ranchers?

Answer. In early 20th Century America, farm real estate loans were difficult to obtain at affordable rates and terms and in some cases farm credit was unavailable at any terms. If a farmer or rancher did have access to credit it was at much higher rates and for shorter terms than for manufacturing and commercial borrowers.

This lack of available, much less competitive farm credit lead to the study of American farm credit needs by several governmental and nongovernmental commissions. Between 1908 and 1912 Congress received a number of reports examining and recommending European cooperative credit systems as a solution to American's lack of available farm credit. The first (unsuccessful) bill providing for a long-term agricultural mortgage credit system was introduced in the Senate in 1912. Between 1913 and 1915, about 60 bills were introduced in Congress dealing with agricultural credit.

Also in 1912, the Southern Commercial Congress—a nongovernmental organization—organized an agricultural commission (the "American Commission") to study agricultural cooperation in Europe; Congress subsequently passed a joint resolution accrediting this commission to foreign governments. The American Commission was joined by the "United States Commission," authorized by Congress and appointed in early 1913 by President Wilson. Each Commission issued reports influential in the development of the 1916 Federal Farm Loan Act, establishing the Farm Credit System (System).

Overall, the American Commission was greatly impressed with the productivity and efficiency of European farmers and praised it for the revival of European agriculture over the preceding 30 years. The Commission attributed this success to the "cooperative spirit" among farmers in all phases of agriculture, including credit delivery. The American Commission's Majority Report found cooperation effective because farmers working collectively could achieve what they could not achieve individually, and banks seek profits for investors while cooperatives save for farmers/members what would otherwise be profits for banks.

Today, the System is a sophisticated financial organization that provides credit and financially related services to agricultural producers, aquatic producers or harvesters, and farmer-owned agricultural and aquatic cooperatives. It also finances agricultural processing and marketing activities, rural housing, farm-related businesses, and international agricultural trade. In addition, the System funds and discounts loans for certain "other financing institutions." And through participations and syndications with commercial banks, it provides additional credit to agriculture and rural America.

The Farm Credit Administration's oversight role is to ensure the System's safety and soundness. It also ensures the System fulfills its mission to agriculture and rural America by maintaining its presence in the agricultural marketplace and providing competitive and dependable credit for all eligible and creditworthy farmers, ranchers, aquatic producers or harvesters, and agricultural cooperatives. The System is expected to serve its mission during difficult market conditions and downturns in the agricultural economy. For example, when commodity prices soared in early 2008, System institutions stepped forward to meet the critical financing needs of the grain elevator industry. Loans to this borrower-owner segment at CoBank alone increased 176 percent, from $4.2 billion at February 28, 2005, to $11.6 billion at May 31, 2008. Similar increases in loan demand from grain elevators occurred at the other System banks.

Since then, the System has met increased demands from financing machinery and higher input costs for producers. System institutions also helped Midwestern borrowers affected by floods and worked with livestock, dairy, and hog producers during stressful market conditions. Overall, the System continued to have access to funds and increased its lending to agriculture and rural America during a financial crisis and severe recession.

In conclusion, over 100 years ago, Congress was seeking a way to make farm credit more readily available and affordable for American farmers. The result is the cooperative Farm Credit System which is owned and controlled by its borrower/owners. Congress created the Farm Credit System to provide creditworthy farmers, ranchers and their cooperatives with equitable and competitive credit. As of December 31, 2016, the Farm Credit System had approximately 500,000 borrower/members and assets totaling $320 billion.

Question Submitted by Hon. Alma S. Adams, a Representative in Congress from North Carolina

Question. As a follow-up to Chairman Tonsager, how is the Farm Credit Administration shaping its policies and regulations to encourage more lending to small farmers that serve regional food systems?

Answer. Local and regional food systems are among the fastest growing segments of the agriculture industry. USDA estimates that more than 160,000 farmers are benefiting from direct connection to consumers interested in where and how their food is grown. USDA projects that by 2019 local and regional food systems will generate $20 billion in sales annually.

Section 1.1(b) of the Farm Credit Act mandates that the Farm Credit System be responsive to the credit needs of "all types of agriculture producers having a basis for credit." To emphasize this point, FCA issued a book-letter (BL–66) on October 11, 2012, which provides guidance on how FCS associations can meet the credit and related service needs of producers who market their goods through local and regional food systems. The book-letter provides guidance in the following areas:

- Determining eligibility and scope of financing for local food farmers.

- Determining when a local food hub, aggregator, or support business qualifies for financing as a farm-related service business, processing or marketing operation, or similar entity.
- The application of creditworthiness and underwriting standards to local food farmers.
- The role of FCS banks in supporting association lending.
- Educational support for local food farmers.
- Developing a strategic business plan for emerging agricultural markets.

Also, section 4.19 of the Farm Credit Act requires each FCS association, under policies of the district Farm Credit Bank board, to prepare a program for furnishing sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers. FCA has also promulgated a regulation (§ 614.4165) and published a book-letter (BL–40) to implement this statutory section. Many farmers and ranchers who market their agricultural products through local and regional food systems meet the definitions of young, beginning, or small producers. Therefore, FCS institutions are already meeting the credit needs of many local and regional food producers.

Identifying and reaching potential YBS farmers is key to fulfilling the Farm Credit System's mission. That's why the YBS programs of FCS institutions include strategies to reach out to YBS producers in their territories. Through these programs, institutions also offer educational programs for YBS producers, and local and regional food producers often participate in these education programs.

Associations foster early relationships with potential YBS producers by partnering with state or national young-farmer groups, colleges of agriculture, land grant extension offices, state or national cooperative association leadership programs, local chapters of 4–H and National FFA, Ag in the Classroom, and other agricultural organizations.

Associations reach out to these potential YBS farmers by providing grant money, participating in conferences related to local and regional food systems, advertising in different languages through diverse media outlets, and creating specific programs to enhance credit opportunities to all YBS farmers. Included in these activities are local and regional YBS food producers and supporters of local food systems, as well as producers who are veterans and members of minority groups.

Response from Thomas Halverson, Ph.D., President and Chief Executive Officer, CoBank, Denver, CO; on behalf of Farm Credit System

Question Submitted by Hon. David Rouzer, a Representative in Congress from North Carolina

Question. I understand that a WTO decision has severely diminished the ability of USDA's GSM program to help keep U.S. agriculture products competitive in overseas markets. Has that decision impacted CoBank's efforts to finance U.S. exports?

Answer. Thank you very much for your question. The GSM Program is less competitive than in past years and as a result CoBank uses it less. That decline was starting before the WTO dispute settlement case regarding the cotton dispute between Brazil and the US but the decline continues. There are likely additional factors that currently make the program less competitive.

If the terms and pricing were more competitive we believe the program would be useful in helping export more U.S. commodity volume and in the current market that would be positive.

Questions Submitted by Hon. Alma S. Adams, a Representative in Congress from North Carolina

Question 1. Mr. Halverson, much attention in the media has been directed to the availability of 'locally grown' food and urban agriculture. Do you see Farm Credit Institutions involved in these areas?

Answer. Thank you very much for your question. Farm Credit's mission is to serve all of agriculture, that means supporting urban agriculture and non-traditional agriculture that increases the availability of locally grown food. I'd like to highlight a couple of projects CoBank supports, the National Farm to School network, the National Food Hub Collaboration, D.C. Central Kitchen, L.A. Kitchen and the Campus Kitchen Project. These nationally recognized programs are leading the way for other communities to create sustainable systems to support a locally grown food system and urban agriculture.

The National Farm to School network supports the efforts of communities to introduce healthy local foods into their school system. With support from CoBank, the organization is bringing together participating schools and local farmers to share

best practices and strategies to purchase and promote local food use in school systems across the country. We are also supporting a pilot project to assist farmers to become GAAP certified to sell to their local school district.

The National Food Hub Collaboration is working with established and fledgling food hubs across the country to provide technical assistance, outreach and research needed to promote the use of local foods by institutional buyers such as schools and hospitals.

CoBank supports D.C. Central Kitchen and L.A. Kitchen in their efforts to increase their use of local food. D.C. Central Kitchen uses local food in their Healthy Corner Programs, their school lunch program, their new value-add program with Union Kitchen and their preparation of 5,000 meals a day for over 70 organizations in D.C. L.A. Kitchen partners with St. Vincent Meals on Wheels to incorporate local produce into healthy meals for senior citizens.

CoBank supports the Campus Kitchen Project (CKP) and their student-led efforts to address rural hunger with local food in 60 schools across the country. Last school year, the CKP engaged 28,697 student volunteers to dedicate 88,039 volunteer hours to recover 1,306,163 pounds of food and to prepare 349,376 nutritious meals. These meals were delivered to 19,745 clients along with 913 sessions on nutrition education, community gardening and more. This added $2 million in economic value from meals and extra food provided.

I am pleased to report that Fayetteville State University won a "launch video" contest and received a $5,000 grant to start their Campus Kitchen Project last year. CoBank also supported the creation of a Rural Hunger Solutions initiative that fosters the creation of new and replication of existing programs that address rural hunger.

CoBank supported other projects focused on local food and non-traditional agricultural including:

CoBank sponsors the American Community Garden Association Annual Meeting which provides a national forum for other communities to learn from each other with their focus on local foods and urban agriculture.

CoBank supports the Appalachia Sustainable Development's work to create a regional food distribution system in Appalachia by building on a successful food hub model. The goal is to create the Appalachia Food Enterprise Corridor, a 43-county collaboration in five states, Kentucky, Ohio, Tennessee, Virginia, and West Virginia that will develop a coordinated local food distribution network throughout central Appalachia.

CoBank and MidAmerica Farm Credit support Cleveland Crops which provides employment training and customized support for persons with developmental disabilities in Cuyahoga County to encourage independence and to improve the quality of employment skills with vegetable production and culinary job training. Cleveland Crops employs 60 adults with developmental disabilities. In addition, CoBank funded kitchen equipment for the facility that houses Ohio State University Extension. OSU teaches a Market Gardening class at this facility to educate Clevelanders how to create a business plan to market locally grown product.

CoBank, AgriBank and MidAmerican Farm Credit support the Gardening for Greenbacks program in Cleveland which provides grants to beginning urban farmers.

In Colorado, CoBank supports Denver Urban Gardens and GrowHaus to increase the marketing of local foods in Denver. CoBank is also supporting the Colorado Farm to School Task Force to increase the GAAP certification of small and medium-scale farms to sell to school districts.

Question 2. Last, Mr. Halverson, consumer food co-ops are becoming increasingly popular throughout North Carolina and the 12th District. Can you discuss some of your work with co-ops and what authorities you use to support them?

Answer. As a cooperative, one of our core principals is helping other cooperatives. CoBank supports the development of new cooperatives by supporting cooperative development centers across the U.S. that belonging to Cooperation Works! We also provide financial support for training of new cooperative developers.

In reference to food coops specifically, CoBank sponsors the Up & Coming Food Co-op conference. This conference is focused on helping communities start their own food co-ops. It offers resources and workshops for co-ops in the first years of operation, with the aim of helping them achieve success.

CoBank is also a sponsor of CCMA 2017, the largest gathering of U.S. food cooperatives in the country. This year's event will welcome 400–500 food co-op general managers, board members, consultants, buyers, staff members and member-owners.

CoBank recognizes that consumer food co-ops often source from local farmers. In the case of Mandela Food Coop in Oakland, CA, CoBank was able to provide a lease

for a refrigerated truck for the local farmers to use to transport their project to the coop.

CoBank doesn't have the authority to lend to food coops directly, but we would welcome the opportunity to partner with other financial institutions to support this important sector of the food and agriculture economy.

○