

**THE FARM CREDIT SYSTEM:
OVERSIGHT AND OVERLOOK OF
THE CURRENT ECONOMIC CLIMATE**

**HEARING
BEFORE THE
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE**

ONE HUNDRED FOURTEENTH CONGRESS
SECOND SESSION

MAY 19, 2016

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THE FARM CREDIT SYSTEM: OVERSIGHT AND OVERLOOK OF THE CURRENT ECONOMIC CLIMATE

Thursday, May 19, 2016

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC

The committee met, pursuant to notice, at 10:17 a.m., in room 328A, Russell Senate Office Building, and in room 328A, Hon. Pat Roberts, Chairman of the committee, presiding.

Present or submitting a statement: Senators Roberts, Boozman, Ernst, Tillis, Sasse, Grassley, Thune, Stabenow, Brown, Klobuchar, Bennet, Gillibrand, Donnelly, Heitkamp, and Casey.

STATEMENT OF HON. PAT ROBERTS, U.S. SENATOR FROM THE STATE OF KANSAS, CHAIRMAN, U.S. COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman ROBERTS. I call this hearing of the Senate Committee on Agriculture, Nutrition, and Forestry to order. Thank you all for coming.

Today's hearing will examine the overall climate of credit in rural America, the health of ag lending from both the commercial bank and the Farm Credit System perspectives, and what impact the current credit environment is having on our nation's farms. We will also examine whether the Farm Credit Administration is exercising appropriate oversight of the Farm Credit System.

Farmers and ranchers all across the country are experiencing difficult economic conditions as farm sector profitability is forecast to decline for the third straight year. Over the past three years alone, net farm income is expected to decline by 56 percent. As our nation's farmers and rural communities continue to deal with low commodity prices and always elevated input costs, access to affordable credit in rural America is absolutely crucial.

The Spring 2016 Agriculture Lenders Survey released by Kansas State University's Department of Agriculture Economics expects the credit environment for farmers to remain difficult for at least a few more years. Lenders indicate that demand for operating loans will continue to remain high as liquidity and cash flow are problematic for many farmers. Further, non-performing loans have increased and are expected to continue on this unfortunate trajectory due to low commodity prices.

In addition to the Lenders Survey, the Federal Reserve Bank of Kansas City painted a similarly bleak projection of the farm sector

credit conditions for the first quarter of 2016. Lenders note an increasing share of farmers carrying over outstanding debt from previous years, with an increased demand for loans and weakening repayment rates.

Now, for farmers, every year—every year—is a high-stakes bet as they put their confidence in their crops, livestock, and the business decisions they make all throughout the year. While farmers continue to manage their risk through a period of low commodity prices and stubbornly high input prices, it is vitally important we begin discussions regarding next year's borrowing decisions. There is no doubt that today's discussion is timely, especially considering it has been just under a decade, ten years, since we have had representatives from either the banking industry or the Farm Credit System before this committee to discuss some of the issues we will cover today.

Rural America relies on a network of credit providers consisting of the private sector and the Farm Credit System. Created under the Federal Farm Loan Act of 1916, the Farm Credit System is a nationwide system of privately owned cooperative lenders statutorily required to provide farmers and other rural borrowers with a permanent and affordable source of credit.

Currently, the Farm Credit System is comprised of 74 agricultural credit associations and four regional banks which provide the ag credit associations with funds to make loans to producers and other retail borrowers. The agency tasked with regulating the Farm Credit System is the Farm Credit System Administration, or the FCA. The Farm Credit Administration is an independent agency comprised of a three-member Board nominated by the President, and as we all know on this committee, confirmed by the Senate through our committee.

Like the banking industry, the Farm Credit System is not a lender of last resort. The lender of last resort for farmers who are otherwise unable to secure private financing is the Department of Agriculture's Farm Service Agency. Our commercial banks and the Farm Credit System often relies on USDA farm loan guarantees to make loans when borrowers are less creditworthy.

Now, to date, the Farm Service Agency has seen a 21 percent—that is 21 percent—increase in farm loans as compared to last year, a further troubling indication of a struggling agricultural economy. Obviously, much has changed since Congress established the Farm Credit System a hundred years ago. One thing that has not changed, however, is the importance of providing farmers and other rural borrowers with easily accessible and affordable credit.

Now, I along with a few of my colleagues on the Ag Committee here remember very well the difficult times with the farm economy during the 1980s. No one—no one—wants to see a repeat of those dark days. I look forward to hearing from our two distinguished panels of witnesses regarding the landscape of the current economic conditions in farm country, what is working or needs improvement from a legislative perspective to protect the financial well-being of our farmers and our rural communities.

Now, before we hear from our witnesses, I recognize our distinguished Ranking Member, Senator Stabenow, for any of her opening remarks.

**STATEMENT OF HON. DEBBIE STABENOW, U.S. SENATOR
FROM THE STATE OF MICHIGAN**

Senator STABENOW. Well, thank you very much, Mr. Chairman, and thank you to our witnesses as well as the leaders from the Farm Credit Administration. It is great to see all of you, and Mr. Chairman, this is a very important hearing, so thank you for holding it.

I want to especially welcome Mr. Tonsager and Mr. Hall, whose nominations this committee unanimously approved last year. It is wonderful to see you again.

I also want to give a warm welcome to Jed Welder, who will be on our second panel. Jed served in both the United States Marine Corps and the U.S. Army, and he and his wife, Milka, are now the proud owners of Trinity Farms in Greenville, Michigan. It is great to have you here today, and thank you for your service to our country and for taking time away from planting corn to join us and tell your story.

As many of us know, a hundred years ago, as the Chairman said, in 1916, Congress passed the Federal Farm Loan Act to address the serious problems facing our farmers and agricultural producers, a problem that threatened the long-term success of our rural economy. At that time, obtaining reliable credit was often unaffordable in most rural areas. Many lenders avoided farm loans altogether because the inherent risks of weather and price swings made lending to farmers unappealing. As a result, Congress established the Farm Credit System to fill the gap in credit and provide American farmers and producers the financing they needed to expand in good times and to weather the bad times.

A hundred years later, the Farm Credit System continues to ensure that producers of all types and sizes have adequate and reliable access to credit. In fact, farm credit lenders nationally provide more than \$200 billion in loans to rural America. In my home State of Michigan, GreenStone Farm Credit provides more than \$5 billion in loans to producers, including to more than 17,500 small, new, and beginning farmers that need access to capital. As we will hear from Mr. Welder, it was exactly this type of support that helped him secure land and create a new life for himself and his family after his military service.

However, as we look ahead to the next several years, we know that we are entering a period of low commodity prices, especially compared to what we have seen in the past few years, which will make it more challenging for farmers to make ends meet. This year alone, net farm income is projected to decline for the third consecutive year, a drop of 56 percent from 2013, and thank goodness, Mr. Chairman, we did the farm bill.

To weather this downturn, American farmers will continue to rely on commercial banks, USDA, and our Farm Credit System to provide the necessary short, medium, and long-term financing that will allow American agriculture to continue and prosper.

I am pleased that we will also be hearing today from lenders on our second panel who play an important role in providing credit throughout the entire food supply chain.

I would also like to briefly mention the longstanding support of the Farm Credit System by Senator Pat Leahy. I understand that

he is in an Appropriations Committee meeting and will be unable to attend today. But, Mr. Chairman, as Chair of the committee during the 1990s when many important reforms were made to the Farm Credit System, Senator Leahy has asked me to submit for the record a transcript of his and then-Ranking Member Lugar's floor statements during the consideration of one of those major changes, and I would ask the Chair to enter this into the record.

[The information of Senator Leahy can be found on page 46 in the appendix.]

Chairman ROBERTS. Without objection, it is so ordered.

Senator STABENOW. Thank you, Mr. Chairman.

Senator THUNE. Mr. Chairman, could I welcome a South Dakota witness?

Chairman ROBERTS. I would be delighted to have you do that. Why do you not just go right ahead.

**STATEMENT OF HON. JOHN THUNE, U.S. SENATOR FROM THE
STATE OF SOUTH DAKOTA**

Senator THUNE. Dallas Tonsager has a farming operation with his brother in northeastern South Dakota. He has also served as Under Secretary for Rural Development at USDA, someone who has a great and distinguished career in public service here. Thank you for being here and welcome to the committee. Give your family our best, all right. Thanks, Dallas.

Chairman ROBERTS. Thank you, Senator.

Today, I am pleased to welcome our first panel of witnesses who represent the Farm Credit Administration, led by our Chairman and CEO, the Honorable Kenneth Spearman. Mr. Chairman, we appreciate your joining us while you recover from a medical procedure, note that you are under doctor's orders to wear your chapeau. I think that is the proper term. As I told you in the back room, I was going to give you a black cowboy hat, a "caboy" hat, as we say in Dodge City, but we do not want this to be a hearing with black hats, so—

[Laughter.]

Chairman ROBERTS. But, you are permitted and you are looking good.

Mr. Spearman, appointed to serve on the Farm Credit System Board by President Obama on October 13, 2009, has an extensive background working in finance, agriculture cooperatives. From 1980 to 1991, Mr. Spearman served as the controller of a \$100 million citrus co-op in Orlando, where he handled financial management, reporting, and supervision of staff accounts. After serving in this capacity, Mr. Spearman went on to become Director of Internal Audit for Florida's Natural Growers, and then served as an outside director on the Ag First Farm Credit Bank Board until his appointment to the Farm Credit Administration Board.

Mr. Spearman is also a U.S. Army and Vietnam veteran. We thank you, sir, for your service.

Mr. Spearman, thank you for your service to our country. I look forward to hearing your testimony today after I introduce your fellow Board members.

Our next witness on this panel is the Honorable Dallas Tonsager, already introduced by my distinguished colleague. Mr. Tonsager

brings decades of experience working on issues concerning farm credit, rural America, and is now on his second stint serving on the Board of the Farm Credit Administration.

In addition to being a Board member of the Farm Credit Administration, Mr. Tonsager serves as Chairman of the Board of the Farm Credit System Insurance Corporation, which is responsible for insuring the timely payments of principal and interest on obligations issued on behalf of the Farm Credit Banks. Before being nominated by President Obama to serve on the Farm Credit Administration Board, Mr. Tonsager served as USDA's Under Secretary for Rural Development from 2009 through 2013, where he worked to expand broadband and other critical infrastructure projects all throughout rural America.

Mr. Tonsager hails from South Dakota, where he grew up on a dairy farm. It is a pleasure to have you back before the committee, Dallas, and I look forward to your testimony.

Our third witness on the panel is the Honorable Jeffery Hall. Mr. Hall was appointed to the Farm Credit Administration Board by President Obama on March 17, 2015. Prior to his appointment, Mr. Hall was President of an association management and consulting firm he co-founded in 2009.

Before working in the private sector, Mr. Hall was the Kentucky State Executive Director for USDA's Farm Service Agency, where he was responsible for farm program and farm loan program delivery and compliance, and was a scout for the University of Kentucky's basketball team, as I understand. I made that up, so you can leave that out.

[Laughter.]

Chairman ROBERTS. Prior to his time at the Department, Mr. Hall served as an Assistant to the Dean of Agriculture at the University of Kentucky and previously served as a Senior Staff Member to our Majority Leader McConnell from 1988 to 1994. Altogether, he has enjoyed a 30-year career in ag policy.

Jeffery, thank you so much for joining us today.

I look forward to hearing all three of your testimonies today, asking you some questions about the state of the Farm Credit System.

Mr. Spearman, why don't you kick things off.

**STATEMENT OF HON. KENNETH A. SPEARMAN, CHAIRMAN,
FARM CREDIT ADMINISTRATION BOARD, McLEAN, VIRGINIA**

Mr. SPEARMAN. Thank you, Mr. Chairman.

Chairman Roberts and Ranking Member Stabenow and members of the committee, it is a privilege to appear before you today to report on the mission of the Farm Credit Administration. I have a written statement to submit for the record.

President Obama appointed me to the FCA Board in October of 2009 and designated me FCA Chairman and CEO in March of last year. I have the pleasure of serving on the Board with two very distinguished colleagues, Dallas Tonsager and Jeff Hall, whom you will hear from in a moment.

FCA is an independent federal agency that regulates and examines the banks, associations, and related entities of the Farm Credit System, including Farmer Mac. Our responsibility is to ensure

that the System meets its Congressional mission to provide a dependable source of credit for agriculture and rural America.

FCA was created by an Executive Order of President Franklin Roosevelt in 1933. During the agricultural credit crisis of the 1980s, this committee restructured FCA, giving it regulatory and enforcement powers similar to those of other federal financial regulators. FCA is not an appropriated agency. We are funded primarily through assessments paid by System institutions.

The Farm Credit System is the nation's oldest government-sponsored enterprise. It is a nationwide network of borrower-owned cooperative financial institutions. Currently, the System includes four banks and 74 direct lending associations. The banks provide loan funds to associations, which in turn provide operating loans and long-term real estate loans to farmers, ranchers, and other eligible borrowers. One of the System's banks also has the authority to lend to agricultural cooperatives and rural utilities.

Farm Credit Banks and associations cannot take deposits. The System obtains loan funds by selling securities on the national and international money markets. The securities are not guaranteed by the federal government.

The System is the only GSE that makes loans at the retail level. It was established to provide a dependable source of competitive credit to farmers, ranchers, and farm cooperatives. Its mission is to serve American agriculture in good times and bad.

After several years of record farm income, the agricultural industry has entered a new period of lower profits. In 2016, net farm income is forecast to decline for the third straight year. Times like this underscore our nation's need for dependable, affordable agricultural credit. Because Congress had the foresight to establish the Farm Credit System some 100 years ago, our farmers and ranchers have been able to provide abundant, affordable food and fiber to people at home and around the world.

Of course, stress in the farm industry can also create stress for the Farm Credit System and we are already seeing signs of stress in a few institutions. However, I am happy to report that System banks and associations are fundamentally safe and sound, as is Farmer Mac.

FCA is taking steps to make sure the System remains safe and sound. The Board recently finalized a rule that updates our capital regulations and aligns them with the Basel III accord. We continue to emphasize robust internal controls in all System institutions and to monitor for emerging risks.

Regarding the System's similar entity authority, we have taken steps to ensure that it uses this authority only for the purpose of mitigating risk, and, as always, if we find a transaction that is outside the limits and purpose of the law, we require the institution to take corrective action.

We also emphasize mission fulfillment. The System must serve all eligible creditworthy potential borrowers regardless of race or gender and regardless of the commodities they produce or the size of their operations. We want to make sure the System also serves small organizations and operations that produce organic and value-added foods for local markets.

Mr. Chairman, this concludes my opening statement. Thank you, and I will be happy to answer any questions.

[The prepared statement of Mr. Spearman can be found on page 73 in the appendix.]

Chairman ROBERTS. Mr. Tonsager.

STATEMENT OF HON. DALLAS P. TONSAGER, MEMBER, FARM CREDIT ADMINISTRATION BOARD, AND CHAIRMAN, FARM CREDIT SYSTEM INSURANCE CORPORATION BOARD, McLEAN, VIRGINIA

Mr. TONSAGER. Chairman Roberts, Ranking Member Stabenow, and members of the committee, thank you for the opportunity to testify today.

I am pleased to now be serving a second term on the Board of the Farm Credit Administration with my distinguished colleagues, Chairman Spearman and Board Member Hall. I have previously served on the FCA Board from 2004 to 2009.

At the outset, I want the committee to know of my absolute commitment to the continued safety and soundness of the Farm Credit System as we navigate through the downward cycle in the agricultural economy. Rural America and the Farm Credit System are important to me, both in my role as an FCA Board member and in my personal connection to farming and rural America, as I was raised on a farm in South Dakota and was engaged in farming for over 40 years.

The Farm Credit System, which is cooperatively owned by farmers and ranchers, was well positioned to persist through the 2008 financial crisis. In fact, the System's capital and liquidity positions, risk profile, stress testing capacity, and lending practices in the agriculture sector have all significantly strengthened over the last eight years.

With the challenges now facing the agricultural economy, FCA's oversight role and the Farm Credit System's purpose to be there for agricultural producers and rural communities in bad times as well as good times are more critical than ever. I lived through the difficult years in agriculture in the 1980s and well understand the importance of the Farm Credit System to farmers and ranchers in such times. I have great confidence in the FCA's ability to ensure that the Farm Credit System institutions remain a source of sound, adequate, and constructive credit to those farmers and ranchers struggling to keep their ag operations going and remain in their rural communities.

In addition to my duties as a Farm Credit Administration Board member, I serve as Chairman of the Farm Credit System Insurance Corporation along with my colleagues on the FCA Board. Congress created the Insurance Corporation to ensure the timely payment of principal and interest on the debt issued by the Farm Credit System banks. Congress also gave the Insurance Corporation the responsibility to provide assistance to troubled Farm Credit System institutions and to act as a conservator or a receiver for failed System institutions.

By law, the Insurance Fund must maintain a secure base amount equivalent to two percent of the adjusted insured obligations of the System banks, and there is currently \$4.1 billion in the

Insurance Fund, an amount that is marginally under the base amount. This fund acts as a safety net for the farmer- and rancher-owners of the Farm Credit System in addition to the protections afforded by the joint and several liabilities agreements of the System banks.

That concludes my opening statement. Thank you to the committee, and I look forward to your questions.

[The prepared statement of Mr. Tonsager can be found on page 98 in the appendix.]

Chairman ROBERTS. Mr. Hall.

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

Mr. HALL. Thank you, Mr. Chairman, Ranking Member Stabenow, and members of the committee. My name is Jeff Hall, and it was just a little over a year ago I sat before this committee, and I appreciate your confidence in me in appointing me and I appreciate the chance to come back today as a Board member of the Farm Credit Administration.

The Farm Credit Administration is an independent arm's length regulator of the Farm Credit System and Farmer Mac. Our agency examines System institutions for safety and soundness and compliance with laws and regulations. FCA exercises increased oversight with institutions at a higher risk.

The Farm Credit System was created to provide a permanent, reliable source of credit to U.S. agriculture. When Congress enacted the Federal Farm Loan Act in 1916, credit was not always available and affordable in some rural areas. Many lenders avoided farm loans due to the inherent production and price risk of agriculture.

The foundation of the Farm Credit System is its cooperative structure. Agriculture has changed in many ways and will continue to change, but the guiding principles of the cooperative model continue to stand the test of time. Member ownership and governance are key ingredients of the System's success.

As Chairman Spearman has reported, the Farm Credit System is safe and sound. The health of the System today is due in no small part to the actions of this committee. During the agricultural credit crisis of the 1980s, Congress made some very important changes to the Farm Credit System that gave it the opportunity to emerge stronger and better able to serve rural America and meet its mission.

As you well know, farm income is projected to decline for the third consecutive year. Virtually all sectors of commodity prices are lower than any time in the last five years. Farm debt continues to increase, and many farmers and ag businesses have been forced to draw from the equity they had built. Fortunately, agriculture has entered this down cycle from a position of strength, with historically low interest rates helping to hold down debt levels.

There are challenges ahead and the Farm Credit System is well situated to remain a reliable source of credit.

Chairman Roberts told me as I sat at this table a little over a year ago to get outside of Washington and go meet people in the System. I have prioritized my travel to meet with borrowers, asso-

ciation boards, and employees who are dealing with these challenges on a daily basis. Also in my visits, I learn about the consequences of the rules and the regulations imposed by the Farm Credit Administration. My visits have helped me greatly in my role as a Board member. Without the input from the regulated community, my job would be much more difficult. I like to say, we will not always agree, but I will always listen.

At our March Board meeting, the Farm Credit Administration Board approved a new capital rule which will require the System to hold on to more and higher quality capital. By raising the capital requirements, farmers' investment in their associations is better protected from impairment.

The Farm Credit Administration Board also adopted guidance to the System on the use of similar entity lending activity. I understand that reputation risk is a valid concern and adopting this guidance will increase the examination and reporting requirements. It gives FCA an added tool to monitor similar entity lending activity. It also gives us an indication whether additional guidance from this Board is necessary.

Both the capital rule and the similar entity guidance are good examples of the additional focus on internal controls. From the beginning of my term, Chairman Spearman has made internal controls a stated priority.

Modern agriculture and the financial service industry are more complex than ever. The Farm Credit Administration and the System will continue to strengthen the internal controls in order to maintain your confidence and carry on the legacy of service to American agriculture and rural communities.

Thank you again for inviting me to testify. There are many challenges that face the System. Having been a Federal Land Bank borrower in the 1980s, I can say with confidence that the System is much better and much stronger than it was 30 years ago. I do not consider myself an advocate for the Farm Credit System. I do consider it my responsibility to ensure a safe and sound source of credit to eligible borrowers and owners of this cooperative. When the System is safe and strong, the agency is doing its job as a regulator, and the benefits of a dependable, competitive source of credit will help bring prosperity to rural America.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hall can be found on page 70 in the appendix.]

Chairman ROBERTS. Thank you all again for appearing today before our committee and for your statements.

Mr. Spearman, the reports I cited in my opening statement by the Kansas City Fed and Kansas State University paint a very bleak economic picture for farmers all throughout the country. I do not like saying that and you probably do not like agreeing to it.

Now, I served in Congress in the 1980s, during the last farm crisis, the big one, and I am confident that nobody—nobody—wants to see a repeat of those tough times. Today, what are the conditions of the farm economy and how do they differ from those present 35 years ago? I am hopeful they show we are not headed for another crisis. Even more importantly, what safeguards are in place to ensure our farmers are protected in the event we do see two, three,

four, five more years—I hope not, but if that is the case—of low commodity prices?

Mr. SPEARMAN. Mr. Chairman, thank you for that question. The Farm Credit System, as the three of us all stated, is well capitalized at this time. It is well positioned to withstand the possible downturns in the agriculture economy that are looming.

The capital position is very strong. There is 16 percent capital, with \$48 billion or so, roughly, in capital. The asset positions are strong in the System. The managements that are currently at the institutions are, I do not want to say a lot better, but they are kind of more informed, I think, today than they were back in the 1980s. The earnings are—were very well in the System, as you can see from our financial statements, and liquidity ratios are over the top. In fact, they are more than twice what the regulations require of 90 days.

I think that the System is well positioned, again, to withstand any downturns. Of course, there could possibly be some black swans out there that we are not aware of, but we have systems in place at the agency to keep us abreast of what those might be, and as an agency, we will take measures that will end up protecting the System more. Thank you.

Chairman ROBERTS. I appreciate that, Mr. Spearman.

Mr. Tonsager, your role as Chairman of the Farm Credit System Insurance Corporation is to ensure proper maintenance of the Farm Credit Insurance Fund in order to safeguard the timely payment of principal and interest on the debt issued by the System banks. This funding comes from a collection of premiums from System banks.

As you noted in your written testimony, in 2013, when times were pretty good, the Farm Credit System Insurance Corporation and the Federal Financing Bank entered into a \$10 billion line of credit agreement. Please explain what financial conditions within the Farm Credit System prompted this decision when we were in a much better situation, and what authority exists allowing the Insurance Corporation to take out this line of credit.

Mr. TONSAGER. The line of credit can only be used in times of economic emergency for the United States in general, not for agriculture specifically. It is a liquidity line designed to ensure the flow of capital to the Farm Credit System should there be an event similar to 2008 that might occur again. We simply cannot use it unless the Federal Financing Bank agrees with us, that it cannot be used in the event that the System fails to fund, or properly manage itself. It can only be used in those economic emergency occasions.

Similar lines of credit are available to the FDIC and to the National Credit Union Administration. The agency at that time felt it prudent, after watching what occurred in the 2008 time frame, to make this line of credit available and to have it there to assist us should there be a liquidity event within the markets.

Chairman ROBERTS. Well, that was not only prudent, but you were a prophet, these rather bleak times we are in. I appreciate that.

Let me ask a question of the full panel, so anybody is welcome to answer. Do not be bashful. One of the main criticisms we hear

about the Farm Credit Administration is that FCA's oversight of System lenders' loans is not thorough enough, that loans are being approved that fall outside the System's charter or scope. How do you respond to that criticism, and furthermore, how does the Farm Credit Administration execute its regulatory duties to ensure that System members are able to serve farmers, but in a way that complies with the statute? Feel free.

Mr. SPEARMAN. Mr. Chairman, what you may be referring to there is the similar entity lending process that the System is involved in. This was a practice that was included in the Act in 1992 as a risk mitigator. There are--one of the primary criteria for participating in that program is that they be ineligible loans that are functionally similar. There are limits on what the participation that these institutions can involve themselves in these type of loans, and the agency drafted and approved a booklet to provide guidelines for the System to actually update their procedures and get more approval from the Board on any of these loans that are entered into. The booklet also addressed the possible reputational risk with involving themselves in these type loans.

Chairman ROBERTS. I appreciate that.

Mr. Hall, in your testimony, you talked about a capital rule recently approved by the Farm Credit Administration Board this past March, just a couple of weeks ago. Can you expand a little further on this rule, the rationale for approving it, and explain what you hope it will accomplish.

Mr. HALL. The primary goal is to make the System more comparable to other banking institutions. The money comes from Wall Street, and when you have common terms and common factors that people on Wall Street look at buying paper, or buying the System's paper, this comparability was an important step. It is a program that I think the agency has been involved in for about three or four years, proposing rules, and in March, the Board approved the adoption of that rule.

Chairman ROBERTS. I appreciate that.

Senator Stabenow.

Senator STABENOW. Thank you very much, Mr. Chairman, and again, thank you, to all of you.

I wonder if you might just expand a little bit, because I am sure we are going to hear more about similar entity authority and some of the high profile cases that there have been concerns raised about, if you could expand a little bit more on steps that you have taken to address that, and again, how this mitigates risk from your perspective. Any of you are welcome to answer that, so Mr. Spearman.

Mr. SPEARMAN. Okay. I will start, Senator. Thank you. As I mentioned previously, some of the steps that have been taken have been to raise or heighten awareness that these type loans may create some controversy. There is—the Act does permit these type loans as a risk mitigator, and the way that it does is that the System is a monoline lender. They have to be there for agriculture in good times and bad.

The guidelines that we put out in our booklet are that the Board needs to be more involved in these type loans and that there—the policies and procedures are examined by our examiners

to make sure that they have been updated and that there is—the institutions are keenly aware that these are controversial type loans.

Senator STABENOW. Would anyone else like to respond? Yes.

Mr. TONSAGER. Yes, if I could. Thank you, Senator. I would just like to mention that Congress over the years has provided several elements within the Farm Credit Act that require banks and the Farm Credit System to work together, and this is one of those elements. For every dollar that is invested in a similar entity loan, there is a dollar from a private banker. These loans cannot be done without a private banker involved with it, and there has to be at least a 50 percent involvement by another party other than the Farm Credit System.

I believe there has been, there is some misunderstanding about these kinds of loans. They have been authorized for many, many years. They include, for CoBank's perspective, utility loans, communication loans, and other types of loans. You not only broaden the capacity of the System by having these loans, you strengthen the relationship with bankers in this particular area and other areas of the System. There is literally billions and billions of dollars done together with the banking community each year and thousands and thousands of transactions between the Farm Credit System and banking.

Senator STABENOW. Thank you.

Mr. Hall, did you want to add anything?

Mr. HALL. The only thing I would add is the reason behind the similar entity lending back in the 1990s was to allow the institutions to broaden their base of risk. They are functionally similar. They are not eligible loans, so I think that is where some of the confusion comes in. But, I think that we have monitored as an agency similar lending activity. We have asked for additional oversight and we will continue to monitor as an agency to make sure it is proper and appropriate.

Senator STABENOW. Thank you.

Changing a little bit to a different area of concern in terms of risk in agriculture, and that is the decline in the total number of farms, which is certainly something that we are all concerned about. According to the USDA, from 2014 to 2015, the United States lost more than 18,000 farms and over one million acres of farmland. The trend in the average age of the American farmer, as in all of our areas in the economy, the average age is 58 years old. I wonder if you might speak to and describe some of the work that your institutions are doing to support new and beginning farmers, which are very, very important, obviously, to all of us. Mr. Spearman.

Mr. SPEARMAN. Thank you, Senator, for that question. Yes. The YBS program that you alluded to was a program that was added to the Act in the early 1980s and it was added with the purpose of providing a vehicle to bring more young, beginning, and small farmers into the agricultural sector.

Some of the provisions that are provided under that Act is that there could be lesser interest rates charged in the underwriting process. Education is provided for those folks who are not very familiar with some of the operations of agriculture. We have passed

a booklet that encouraged farmers who borrow from the System to be more involved with the youth aspect of farming. The lenders are—the booklet addresses the fact that the System institutions who lend the money actually survey their territories and make sure that they are addressing underserved folks within the territories.

Senator STABENOW. Thank you.

Would anyone else like to respond to the role that you have with new and beginning farmers? Yes, Mr. Tonsager.

Mr. TONSAGER. I think it has been, for the Systems mission, it is a significant success story to look at the data that has been accumulated regarding the growth in those loans in those areas, and I think the System has taken this very seriously, in my discussions with them, the requirement to do this, and they have taken it to heart and actually aggressively pursued this program.

They each have their own individual programs designed for their region. We examine for them to execute those programs. The report is given to us each year, and we, in turn, report to Congress each year about the results of that effort.

Senator STABENOW. Great.

Mr. Hall, did you want to add anything?

Mr. HALL. Just one comment. Based on my previous experience working with the Farm Service Agency, I note there are a lot of partnerships between the System and the Farm Service Agency on guaranteed programs that are available. I know the System is very active in working with other partners and making sure that this population is served.

Senator STABENOW. Thank you, Mr. Chairman.

Chairman ROBERTS. Senator Tillis.

Senator TILLIS. Thank you, Mr. Chairman.

First, I am from North Carolina. We have a highly diversified farming community and some farmers are doing pretty well right now, but others are struggling. I just want to echo that we need to be careful. If this downturn in prices continues, we could see a greater number of farmers harmed over time and we need to make sure we are working to get things back on track.

Second, I want to talk about some of the future risks to farmers and the agricultural sector. It may seem odd asking this panel about GMOs, but is the Farm Credit Administration looking ahead and seeing how the different fixes for GMO labeling will affect farmers? If we do not fix this labeling issue, then people like Kellogg's and Campbell's, and a number of other major producers of food, are going to start reformulating. Over the course of the next few years, sugar beets will end being an input to most sugar in favor of sugarcane. Over 90 percent of all the corn grown in the United States is a product of GMO. I do not know what Campbell's is going to do to replace that in their soups.

The same reformulatory dilemma that sugar and corn present will happen, to a certain extent, with white potatoes. In 2014 53 percent of all the sweet potatoes grown in the United States were grown in North Carolina. Roughly seventy percent of the exports were from North Carolina. None of them are GMO. I assume that Campbell's will decide to replace white potatoes with sweet potatoes. It would be good for North Carolina, not necessarily good for the white potato growing states.

The point that I am making is this labeling issue represents a major risk in terms of demand in the near future. Has FCA looked at this in terms of your portfolios to analyze what it means if a labeling law completely shuts demand down for certain commodities, say, sugar beets?

Mr. SPEARMAN. Senator, a very good question. What we do as a safety and soundness regulator is to try and examine all risks. We do have economists on staff who report to us regularly——

Senator TILLIS. Have these economists done analysis on the particular policy and if Congress does not act, what the near, intermediate, and long-term effects will be on some of these commodity producers?

Mr. SPEARMAN. Well, they analyze all risks within the System, some known and some unknown to others——

Senator TILLIS. Would it be possible for my staff to get in touch with you to see to what extent they recognize the impact reformulation by Campbell's and Kellogg's and the major food producers will have on the farm economy? These food companies will increase demand that will exceed our own capacity, say, for sugar, corn, soybeans. If these commodities that are grown in the United States are not available, they will source them from other parts of the world. They will find other sourcing inputs, and it seems to me that will have a devastating impact on commodity prices. Unless economists have taken that analysis into account, recognizing this reformulating starting right now, it will start on steroids in July and August if nothing is done regarding this labeling issue. It is not one of these five-or ten-year market disruptions. This is probably a one-or two-year market disruption.

I would be very interested in getting any analysis on how ingredient reformulation would affect the portfolio of farmers who are in the crosshairs of these target commodities. There is no question in my mind that the major food producers, those who put cans and boxes on the shelves, are going to reformulate to the maximum extent that they can. When you are talking about commodities that are in the 90th percentile in terms of GMO products—safe products, I might add, at least according to the FDA, the Department of Agriculture, and the EPA—what are farmers going to do? Who are they going to sell to? If they do sell, with the demand being down, to what extent does this affect a portfolio, a financial portfolio in terms of farmers ability to pay their bills?

I do not expect you to answer that question now. You probably did not expect to get this question, and frankly, when I came into the room, I did not expect to ask the question.

[Laughter.]

Senator TILLIS. But, this is an example of risks that are dependent upon Congressional action or inaction, and I think it is something that you need to look at, because this labeling issue is a potential looming crisis for some of the farmers out there.

I will follow up with questions to the agency so that we can get specific information on how this could be destabilizing to the sugar beet growing states, the corn growing states, the potato growing states, the soybean growing states. I mean, it is an equal opportunity disrupter and I think we need to get some financial analysis behind it.

Thank you. Thank you, Mr. Chairman.

Chairman ROBERTS. Let me say before I recognize Senator Bennet, on behalf of the Ranking Member, our distinguished Ranking Member, that the responsibility and requirement that Mr. Tillis just raised with regards to agriculture biotechnology, note the difference. As opposed to GMO, it is just called agriculture biotechnology, ABT. It is a good question, and it is a challenge that the Farm Credit System ought to be thinking about, as well as every lender that we have at our disposal within the world of agriculture.

That responsibility is right here in this committee, and also right in the Senate of the United States. The House has acted. We will act. The distinguished Ranking Member and myself and staff have been working overtime to try to come to an agreement that we could bring to the floor where we could get 60 votes.

But, I think Mr. Tillis' admonition is a very good one, more especially to everybody in the farm lending field. Reformulation is a pretty fancy Senate word for we are not going to buy what you are selling, and that is happening today, as we speak, with the sugar beet producers. We know that we must act. Everybody on this committee knows we must act. I want you to know that, but I also want you to know that Mr. Tillis has raised a very, very important point.

Senator TILLIS. Yes. Mr. Chairman, if I may, it is just that we need to put a face on who is affected by this policy, and it is farmers. It is farmers that have got crops in the ground now. They have got plans to put crops in the ground next year. The big businesses will find out what they can buy to avoid what I think is ill advised policy, and the first evidence of this is in Vermont. They will be able to make the change because they have the resources and the reach to do it. The farmers do not.

Thank you, Mr. Chairman.

Chairman ROBERTS. Senator Bennet.

Senator BENNET. Thank you, Mr. Chairman. Thanks for holding this important hearing, and I wish you and the Ranking Member well in your negotiation. Time is not on our side.

I want to thank the witnesses for being here today and for your prudent oversight of the FCA. Mr. Chairman, you said that the mission of the FCA is to serve farmers and ranchers in good times and in bad times. As has been said, farmers and ranchers across the country are facing real financial hardships spurred by low commodity prices. Producers are bringing in less revenue, but their overall costs of farming have increased year over year and are forecasted to increase next year, as well. On top of that, persistent drought conditions have added extra volatility, which makes it clear to me that farmers need all available options when it comes to lending, and the Farm Credit System was designed to mitigate against these fluctuations and the risk posed by farming and ranching.

I wonder whether you could describe the role of the Farm Credit System, particularly in tough economic times, what role it plays in rural communities facing these economic hardships, and I would be happy to hear anybody on the panel address them.

Mr. TONSAGER. Sure. Thank you, Senator. I think that the obligation was made clear to us in the 1980s, in the struggling time we had back at that time, that there needed to be a level of strength and commitment, and in rural America, these are farmer-owned cooperatives. These farmer board members are extremely committed to their communities, and that is number one, that basic governance that occurs within that.

I think the System has an obligation to make sure the System remains safe and sound, that it is a reliable lender through that time, but it also has an obligation to make sure to work closely with producers, and I think they have developed pretty good strengths in their loan officers and how they work with clients and how they make sure they get the best opportunity for financing. I think that the financial strength of the System and the capacity of the System in their lending and working with producers is going to make a lot of difference.

In the 1980s, we saw a lot of producers that simply could not get the credit they needed at the time, or they were overextended credit, and so their income was replaced by credit and they lost ground. I think one of the critical elements of this is how loan officers, both in the Farm Credit System and the private sector, work with those individual producers and help them recognize the circumstances they are in, fund them if they possibly can, or help work with them if it becomes too challenging. It is a tough, tough thing that happened that time. We lost thousands of producers, and many of them were fundamentally personally harmed in the process of doing that.

Additionally, I would like to add that there are borrower rights involved in this. The law requires that the Farm Credit System provide rights to borrowers in the event they are foreclosed on or acted upon. By law, a process must be followed with individual producers when the time comes to make decisions about their credit.

Senator BENNET. Thank you for that thorough answer. Is it thorough enough?

I will ask a second question, then. Last year, Colorado producers exported more than \$1.8 billion in farm goods to countries around the world. Some Farm Credit institutions like CoBank, which is headquartered in Colorado, are engaged in export financing to support producers as they look to markets abroad. Could you talk a little bit about the sort of growth that we are seeing in export financing for ag in this country.

Mr. HALL. I think part of the change we have seen is previous USDA programs like GSM programs have been replaced or substituted with other private credit funding, and I think the ability for CoBank, in particular, to step up and add that kind of financing option helps improve the export market. Obviously, when you are dealing with billions of dollars, you are going to have to have some line of credit to be able to participate in the international markets.

Senator BENNET. It is becoming increasingly an important part of our rural economy, these exports. Eighty percent of the wheat that is grown in Colorado is exported from Colorado. Our dairy is exported, as well, and we are looking to open up these new markets and this can help.

Thank you, Mr. Chairman.

Chairman ROBERTS. I want to remind members that we will soon have three votes. We are going to keep the hearing going by alternating who holds the gavel. I appreciate everybody's help and patience.

Senator Ernst.

Senator ERNST. Thank you, Mr. Chairman.

Thank you, gentlemen, for joining us here this morning. I would like to talk about different groups that might be given funding through the FCS, groups like veterans or other minority groups. Are there certain areas that maybe you target or would like to see more participation, whether it is women farmers or ranchers? If you could delve into that a little bit, maybe talk if you have some of those programs where you are looking at veterans or others that want to get into farming, ranching, any opportunities that we might be able to express to our constituents.

Mr. SPEARMAN. Thank you, Senator. The YBS program provides an excellent entre for nontraditional agriculture. That program, it was structured for young, beginning, and small, but also we have expanded it to some degree with our rule, our diversity and inclusion rule that we passed a couple years ago, where we requested that the mandated institutions look at their system, look at their—the area that they operate in, their district, and because the mission of the System is to serve all qualified creditworthy folks. The System is doing that, and we are examining for it and we are definitely seeing a lot more improvement, at least since I have been on the Board, particularly in veterans areas. Also, thank you for your service.

Senator ERNST. No, thank you. No, I appreciate that. Any other thoughts or examples?

Mr. TONSAGER. I would like to say the FCA Board has been learning itself. We traveled together to Pine Ridge Indian Reservation last year to explore the challenges of lending in Indian country and got a great experience from that visit.

Senator ERNST. Very good.

Yes, Mr. Hall.

Mr. HALL. I would just add, I visited Texas just a few months ago and visited with a young producer who was a veteran, did not have much agriculture experience, but has become very successful as a borrower in the Farm Credit System. He was complimentary of the support that he receives and the other educational programs that are available.

I will also mention another example closer to home, from Kentucky, a young lady who used to be an employee of the Farm Credit System. She and her husband are involved in locally grown, community supported agriculture——

Senator ERNST. Oh, good.

Mr. HALL. —and recently recognized as one of the farm women of the year, and I know that they are System borrowers. There are great examples out there, but I will say there is always more that we can do.

Senator ERNST. Very good. Well, I appreciate your work with both veterans and others that might have challenges getting into farming. I think it is really important that the opportunity exists out there for them, so thank you for doing that.

Senator Tillis had brought up an interesting perspective with ABTs, or GMOs, whatever the term might be that we decide to use for different types of commodities. But, that does create a wrinkle that is out there. Whether you are facing challenges with legislation, whether you are facing challenges with drought or other natural disasters, which you really cannot plan for or predict, but with the outlook of the ag economy over the next several years, what are the steps that you can take within the Credit System to prepare for that? Maybe you could explain how that works.

Mr. SPEARMAN. Well, Senator, as a safety and soundness regulator, as I mentioned previously, we try to examine and anticipate all risks that may happen. In fact, our examinations are risk based. We try to look at what problems that might be on the horizon and we try to develop rules and regulations that would help us to do a better job to make sure that the System remains safe and sound.

Senator ERNST. Okay. Are you able to adapt quickly in those situations if the rules are going through the Board, reacting to the situation on the ground, whether it might be a drought or other crisis that you might see?

Mr. SPEARMAN. Well, I think “quickly” may be kind of relative. Not fast enough for me, personally, but we do spend time with it and we do try to plan and try to see if we can help the System do a better job in helping distressed areas.

Senator ERNST. Very good. Well, thank you, gentlemen. My time is expiring. Back to the Ranking Member. Thank you.

Senator STABENOW. [Presiding.] Thank you very much.

Senator Casey.

Senator CASEY. Thanks very much.

I want to thank you for your testimony. Chairman Spearman, I wanted to commend you on the answer that you gave about beginning and small—young and small farmers and the work you are doing there.

I wanted to also raise, though, a question about some of the new risks or new challenges that you face. I know we have a lot of evidence that, in light of what happened in the 1980s and the difficulties then, that you can learn lessons from that that you can apply. I would have to assume, and correct me if I am wrong, though, that because of technological innovations and both the technology-based financial and ag system we have now, that some of those lessons may not apply because the technology and other strategies have changed.

In light of that, if that is true, in light of that, how do you assess some of the risks you are going to face going forward that might be more based on the limits of the technology or based upon other challenges as opposed to the old 1980s problems that were encountered then?

Mr. SPEARMAN. Well, Senator, as I mentioned previously, our examinations are risk based. Our examiners make a determination as to where the greatest exposures might be and our resources are pretty much concentrated in that area.

You bring up a very interesting point there about technology. Cyber kinds of threats now are very apparent in almost all sectors of our economy. One part of our examination is to spend time in

the IT area with the institutions that are being examined, and if issues are found, corrective action is mandated.

Senator CASEY. Well, I hope if, when you encounter those, that you bring them to our attention and ask for resources where appropriate.

I also wanted to raise a question regarding when you assess that credit stress level in the System's loan portfolio is within, well within risk, within the risk bearing capacity, in light of that, but also when you reference declining protein and dairy product and grain prices driving a decline in profitability, I guess it follows from that that you will experience maybe moderate loan growth. If you could just pinpoint just for 2017, as best you can, what is your outlook just in terms of 2017 and loan repayments.

Mr. SPEARMAN. Well, Senator, one of the points that we look at when we make determinations for where to focus our efforts in our examinations is what is going to be anticipated in the allowance of doubtful accounts for the entities that are being examined, and we also look at, because of payback abilities there that could have a deleterious effect on an institution there. If we see an area of stress in that area, then we would indicate to the institution that they may want to look at their underwriting standards there because there may be something there that they are overlooking when they make a loan.

Senator CASEY. I appreciate that, and I will have some questions for the record for the witnesses in the interest of time. Thanks very much.

Senator STABENOW. Senator Brown.

Senator BROWN. Thank you, Madam Chair, and Senator Roberts, also.

Mr. Tonsager, if you would answer this, and then if others want to follow up. The farm economy continues to evolve, and we have heard discussion, obviously, about prices in the months and years ahead. Touch for us on how Farm Credit is equipped to withstand a possible higher delinquency rate on loans while ensuring continued access to credit for rural America. What is the state of the insurance fund? How much capital? Is there sufficient capital in the system? Share your thoughts about that, if you would, Mr. Tonsager.

Mr. TONSAGER. Well, if I could start with, I think there were lessons learned in the 1980s. Coming out of the 1970s, many farmers were very highly leveraged, so there were programs that allowed them to borrow a lot of money. After that, the crisis of the 1980s, the amount of debt leveraged was dramatically reduced. I think the System did a pretty decent job, as did most lenders, about not over-leveraging credit to current borrowers, and I think that is a big difference coming into the current circumstances we are in.

Capital-wise, there are about \$50 billion worth of capital in the Farm Credit System and about \$250 billion worth of loans. The total leverage comes to about 16 percent, which is a very strong position to be in overall for the position of the System.

Again, as I mentioned earlier, I think the ability of working with people on how they borrow money and how they work through their challenges is fundamentally different than it was previously.

There is a lot of relationship lending done where that engagement is part of that.

I think it is incumbent on the agency to be very diligent and to closely watch the situation evolve. As Chairman Spearman said, the payment rate is excellent still—the debt is being repaid. We have very low need for allowances for losses at this point. But, that can change quickly as we go into these coming years, and so it is necessary to look for that. I think it is going to be a balancing act for the agency on how hard we press the System to work with producers, whether we stress the safety and soundness of the System or the safety and soundness of producers. I think we have to keep learning. We have to diligently watch the situation evolve and watch what the System does in working with producers.

Senator BROWN. Thank you. I think, obviously, if we learned anything from 2008, it is the importance of capital, and that is Fannie and Freddie and it is Farm Credit and it is the nation's major financial institutions.

Let me shift, and for all three of you to answer this, if you would. There has been increasing interest in my state, especially in the city I live in, Cleveland, in locally grown food. In places like Senator Stabenow's Detroit and in my large urban areas, it is an increasingly viable use for land. Do you see Farm Credit institutions involved in these areas? What do we do to ensure that these non-traditional farmers have access to credit?

Mr. SPEARMAN. That is a very good question, Senator. That is particularly an interest of mine. In fact, I initially met Senator Stabenow up in Detroit once when I was at a convention there for locally grown and urban agriculture issues that were being discussed.

The entre into urban agriculture, the way that I look at it is that you are expanding the pie. I think it could help the System grow by getting more directly involved with the urban agriculture. As my colleague mentioned there, he visited a place in Texas, and I also went to a place in Texas where I saw a young farmer who started out in his backyard with a little garden and now, through the help of the System, he has 200 acres and he is involved in the CSA program, and one of his major customers is Whole Foods.

Getting out and seeing what is actually happening out in the field is something that I hold near and dear and I would like to see more of it.

Senator BROWN. Mr. Tonsager or Mr. Hall, any additional thoughts on that? Thank you, Chairman Spearman.

Mr. HALL. I would just add a couple of comments. One of the things that the FCA has required is for individual institutions to include this in their regular business planning and we examine to that. In addition to that, many of the institutions actually have local food coordinators where they work with people within the system to help support the local producers.

Senator BROWN. Okay. Mr. Tonsager, anything to add?

Mr. TONSAGER. Yes. I think we are very much focused on the producer side of this. USDA, the Marketing Service, Rural Development, and other agencies, they offer a lot of resources to the co-ops or the groups that want to establish niche or emerging markets. I

think the System is working closely with them to help make sure there is a flow of product.

Senator BROWN. Understand—and, obviously, you are more rural oriented than urban oriented—my city of Cleveland had a population the year I was born of about 950,000. Today, it is under 400,000, and there are lots of opportunities, maybe—I guess it is the right word—but opportunities for rural agriculture that people are really taking advantage of. There are a lot of kind of trendy new restaurants that want to source locally and can really matter. I just ask all three of you to always be aware of that. It is a relatively small part of your portfolio, but a crucial area for a lot of the things that you all three believe in, so thank you.

Senator GRASSLEY. [Presiding.] I guess I am the only one at the table now.

[Laughter.]

Senator GRASSLEY. First of all, even though Chairman Roberts is not here, I think it is very good for all of us to say it is a very appropriate oversight hearing to have, and particularly with regulators to be effectively enforcing our rules and regulations that are designed to preserve an important System for agriculture. Particularly, this hearing is appropriate because of the price of, maybe I should not say all agriculture products, but at least in Iowa where we are such a corn and bean state, with the production of those being way below the cost of production. We count on people like you keeping the System very sound.

I will ask any one of you that want to answer this, but I do not expect all of you to have to get in, how detailed are the audits of the Farm Credit Administration performed? By that, I mean does the Farm Credit Administration randomly pick different loan portfolios and examine them line by line to see if what is being reported matches up with the actual risk, or are the audits more at the 30,000-foot level in the nature of looking at totals and final projections?

Mr. SPEARMAN. A very good question, Senator, for a regulator. I would say off the top of my head, it is all three. The primary focus of the examinations is risk-based, though, to see where could the System be at more jeopardy of not remaining safe and sound. Each institution is examined once every 18 months—a report is issued once every 18 months, but the examinations can be ongoing all year. The one bank where we see the most risk is examined once a year. These reports are issued once a year on that institution. That is pretty much the approach that we take in our examination.

Senator GRASSLEY. You wanted to say something.

Mr. TONSAGER. If you do not mind, I would like to add to it. The examiners are extremely well trained; years of training are involved. The data comes from each institution all the time, so we have an ongoing look at the System's progress. Each institution, by statute, must be done every 18 months at a minimum. We have sat down and gone through with an examiner demonstrating what they go through in the examination process. It is extremely thorough. Each examiner reports to the boards of directors of each institution privately at the end of the examination to make sure the boards of directors are well aware of what has occurred in the examination. It is a very, very thorough process.

Senator GRASSLEY. Well, then, would it be—I gave two alternatives. Would it be assumed that your answer to my question that you randomly pick different loan portfolios and examine line by line to see if what is being reported matches up with actual risk, is that——

Mr. TONSAGER. Yes. It is——

Senator GRASSLEY. Is that the way it is done?

Mr. TONSAGER. Well, it is not random, it is planned.

Senator GRASSLEY. Okay. Now, my second question is, has the Farm Credit Administration ever required an institution to divest a loan that was not appropriate to the mission of the Farm Credit System?

Mr. HALL. Yes, sir, it has. There have been instances that the FCA has taken action, corrective action, and asked for an institution to actually divest. While we cannot give you specifics here, that has happened, yes, sir.

Senator GRASSLEY. Okay. My last question. Before I ask the question, I hope I am right. By law, Farm Credit lenders cannot take deposits. However, many advertise the ability of members to, quote, “advanced conditional payment accounts.” One of these accounts has an online advertisement that as of yesterday stated a person could, quote, “earn interest without tying up your funds,” end of quote. Quote again, another one, “easy access. Your funds are always available to you. Go online and use the phone.” And the last quote, “complete liquidity, contrary to CDs,” end of quote. Those are online advertisements.

Could you explain to me how these accounts are any different from checking or savings accounts? These Farm Credit accounts seem to function exactly like checking and savings accounts based upon the way that they are being marketed.

Mr. SPEARMAN. Senator, these accounts are not checking accounts. They are—this particular procedure is allowed for under the Act and they are actually prepayment or draft accounts where borrowers from the System can put funds in to pay their loans down.

Senator GRASSLEY. Then you are telling me—I think you just told me that they are not like checking and savings accounts, even though the advertisements online seem to lead people to believe that.

Mr. SPEARMAN. I would have to kind of see the advertising, but, no, they are not checking accounts.

Mr. TONSAGER. Senator, they are not insured by the Federal Deposit Insurance Corporation. They are at risk. Those funds are simply accounts that allow producers with long-term credits to build up their repayments and have these funds still available to them.

Senator GRASSLEY. Mr. Chairman, I have asked the questions that I have to ask this panel. Just in case I do not get back, since we have got two more votes, just in case I do not get back for the other panel, I have a constituent, Mr. Verlin Barker here from Oelwein, Iowa, and I would like to have you ask him a couple of questions I was going to ask if I do not get back.

Chairman ROBERTS. [Presiding.] I would be delighted.

Senator GRASSLEY. Thank you. Go ahead.

Chairman ROBERTS. Thank you.

Senator Klobuchar.

Senator KLOBUCHAR. Thank you very much, Chairman Roberts, and thank you to all of you.

Mr. Tonsager, we know how important credit is to rural America including the loans, loan guarantees, other financial tools offered by the Farm Credit System, as well as commercial community and farm banks. We know that each of these lenders provides about 40 percent of all farm debt, whether it is financing for farm real estate or for farm production.

Often, the Farm Credit System and our commercial and community banks work together on deals for the benefit of farmers, ranchers, and producers, and yet other times, Farm Credit banks provide loans that are non-agricultural loans. I have heard from a lot of our small banks from Minnesota that they believe there is an unfair advantage here because of how that is being handled. Could you explain what is happening and your view on this.

Mr. TONSAGER. Well, there are a couple of things to consider, I think. First, so, when the Farm Credit System is loaning to an individual producer, if that producer is a full-time farmer, the System can lend to him for all of his credit needs, including if he establishes other businesses. We have had some cases where farmers may choose to start another business of some kind and they are allowed by the statute to use the funds from the Farm Credit System for that purpose. It appears to some people as if Farm Credit is lending to those businesses without any link to agriculture. That is one key element, I think, that we run into from time to time about concern on that matter.

Senator KLOBUCHAR. Well, one thing that is always true in agriculture is that the price of commodities is changing and that is why we want to make sure that our end users and farm producers can safely use futures and options, and we have had some issues with this, as in rural America. It is also a reason why providing credit to the agricultural sector is complicated. About ten years ago, our grain elevator operators were facing some pretty big margin calls, as you know, and about two years ago, we saw price volatility in the swine market resulting in margin calls of about 300 to 350 million dollars.

What role do the Farm Credit System banks play when there is volatility in commodity prices?

Mr. TONSAGER. I recall when that happened, and the System was able to help address that challenge for producers and was able to fund several billion dollars to meet the margin calls, primarily of grain elevators in that case, which were seeing a huge price increase—well, it would be less than ten years ago, I suppose—but it was seeing a huge price increase in a very large crop, so it was able to meet those needs.

Senator KLOBUCHAR. Mr. Hall, with experience in farming yourself, the same type of question. Do you think the Farm Credit System is prepared to handle the current volatility in agricultural markets, and how is the current market situation similar to those that occurred in 2007 and 2008, or how is it different?

Mr. HALL. I think there are a lot of similarities and I think the system is prepared, and as examiners of the system, we want to make sure they are prepared as we go into periods of more vola-

tility. I will go back even to the 1980s. I think one of the big differences between now and then is the cost of money. At that point, a lot of the farm income was going to pay off debt. I think farmers have paid down debt coming into this current period, and I think with lower interest rates, they are going to be able to work their way through it. I do not see a comparison to the 1980s, but I do see that there is volatility and bigger challenges for producers which present challenges to the System and us as examiners and regulators.

Senator KLOBUCHAR. Mr. Spearman, do you want to add anything about the volatility in the market and how you think Farm Credit is prepared to handle that?

Mr. SPEARMAN. Well, as my two colleagues have said, the System is well positioned, a strong capital position, strong liquidity position, strong earnings it is a lot different than what it was, I think. Back during the 1980s, there were issues with land, where property had been borrowed on and unfavorable underwriting standards that today cannot happen. There is—the underwriting standards are a lot more modern and a lot more favorable. There is a lot that is going on today there that just did not exist at that time.

Senator KLOBUCHAR. Back to you, Mr. Hall. I know in your testimony, you talk about reforms that have been made after the agricultural credit crisis of the 1980s and that those reforms came about because of that crisis. Do you think that there is a reason to make more reforms to the system now?

Mr. HALL. At this point, I do not. It would not be our position as a regulatory agency to propose any reforms, but I do think that as a result of those things, things like restructuring of the system has made it much more efficient and better able to serve producer needs, and I think the similar entity lending was an important tool that this committee approved in order to diversify the portfolio of the System to help farmers, ultimately, by making sure that there is plenty of capital and credit available.

Senator KLOBUCHAR. All right. Thank you very much.

Chairman ROBERTS. I thank the Senator for her questions.

That concludes the first portion of our hearing this morning. Thank you, gentlemen, for appearing before our committee to discuss the state of credit in farm country and the role of the Farm Credit Administration in assuring our national Farm Credit System is both sound and operating within the bounds of the statute.

To my fellow members, we would ask that any additional questions that you may have for the record be submitted to the committee clerk five business days from today, or by 5:00 next Thursday, May 26.

We would now like to invite the second panel of witnesses to come to the table.

[Pause.]

Chairman ROBERTS. I would like to welcome all the members of the second panel. As you can see, we are in a process of having three votes on the floor of the Senate. I think to accommodate all members and to do this in a way that would be consistent with the time constraints that we have is that I am going to introduce—I am going to exercise executive privilege or Chairman privilege and introduce the gentleman from Kansas, and then if you would give

your statement, and then by that time, perhaps the distinguished Ranking Member will be here or whomever. We may have to recess the committee until somebody comes back.

But, at any rate, I am going to introduce Mr. Leonard Wolfe, and Leonard, then give your statement, and then, gentlemen, when you are introduced, if you could give your statement, we will let Senator Stabenow know what the order is.

Mr. Wolfe, Leonard is the President and the CEO and Chairman of the Board of United Bank and Trust in Marysville, Kansas. I have to add, home of the famous black squirrel.

[Laughter.]

Chairman ROBERTS. I know that this is the home of the famous black squirrel because some gentleman dresses up as a black squirrel.

Mr. WOLFE. It is not me.

Chairman ROBERTS. I know that.

[Laughter.]

Chairman ROBERTS. But, he tapped me on my back and I turned around to discover a life-size black squirrel. I hope that the EPA and Fish and Game folks and Interior will not list him as being endangered.

United Bank and Trust is a \$600 million agricultural bank with 15 branches in nine northeast Kansas communities. Leonard is the past Chairman of the Kansas Bankers Association. He currently serves as Chairman of the American Bankers Association Agriculture Lending Task Force, no small task.

A graduate of Southwestern College in Winfield, Kansas, Mr. Wolfe began his banking career in 1979, and first became President and CEO of a bank at the young age of 28.

Leonard, I really appreciate your being here and representing our great state. Thank you again to the witnesses for appearing. Basically, we will rotate back and forth, so Leonard, why don't you proceed.

STATEMENT OF LEONARD WOLFE, PRESIDENT, CHIEF EXECUTIVE OFFICER, AND CHAIRMAN OF THE BOARD, UNITED BANK AND TRUST, MARYSVILLE, KANSAS, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

Mr. WOLFE. Thank you, sir. Chairman Roberts, Ranking Member Stabenow, and members of the committee, my name is Leonard Wolfe. I am the President, CEO, Chairman of the Board for United Bank and Trust in Marysville, Kansas. We are the largest commercial agricultural lender in Kansas, second only to the Farm Credit System. I appreciate the opportunity to present the views of the ABA on credit conditions and availability in rural America.

The topic of today's hearing is very timely. While farm and ranch incomes over the past five years have been some of the best in history, there is no question that the agriculture economy is slowing. Despite this, the banking industry is well positioned to meet the needs of U.S. farmers and ranchers. Interest rates continue to be near historic lows. And the banks have the people, capital, and liquidity to help America's farmers and ranchers manage through any turbulence in the economy. Importantly, with the farm bill in

place, farmers, ranchers, and their bankers have certainty from Washington about future agricultural policy.

In 2015, farm banks, defined as any bank with more than 15.5 percent of their loans made to farmers or ranchers, now provide over \$100 billion in total farm loans. Small farmers rely particularly on banks for funding. Farm banks hold \$48 billion in small farm loans, with \$11.5 billion of that in micro small farm loans. Farm banks are healthy and continue to be forward looking, growing capital and increasing reserves. This provides flexibility to serve our nation's farmers and manage risk associated with any downturn in the agricultural sector.

I would like to thank Congress and especially the Agricultural Committees for repealing the borrower term limits on USDA Farm Service Agency guaranteed loans in the last farm bill. Banks work closely with the USDA to make additional credit available by utilizing guaranteed farm loan programs.

On the subject of USDA guaranteed farm loan programs, I believe that Congress needs to consider reforms to the programs, specifically to raise the cap on these loans due to the rising cost of agriculture along with the modernizing of the programs. The USDA Farm Service Agency guaranteed loans have allowed farmers to continue to access credit from banks like mine as they grow and assuring credit access for farmers across the country.

We remain concerned, however, with one area of the agricultural credit market, the Farm Credit System. Over the years, the Farm Credit System has veered away from its intended mission and now represents an unwarranted risk to taxpayers. As a government-sponsored enterprise, it represents a risk to taxpayers in the same way that Fannie Mae and Freddie Mac do.

The Farm Credit System was founded in 1916 to ensure that young, beginning, and small farmers and ranchers had access to credit. However, that is not its focus today. The Farm Credit System has grown into an enormous \$304 billion System offering complex financial services. To put this into perspective, the Farm Credit System—if the Farm Credit System were a bank, it would be the ninth largest bank in the United States, and it is larger than 99.9 percent of the banks in this country.

The Farm Credit System 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.

It is shocking that nearly half of the entire Farm Credit System's portfolio is to individuals that each owe more than a million dollars. These are not young, beginning, and small farmers and ranchers. The System now primarily serves large established organizations that do not need subsidized credit. It is clear that the Farm Credit System has become too large and unfocused, using taxpayer dollars to subsidize large borrowers.

We urge Congress to perform an autopsy on the system to ensure that its charter of helping young, beginning, and small farmers is being followed. If it is not, we urge Congress to remove the significant tax break provided to the System.

Banks like mine are proud of the work we do to support our nation's farmers and ranchers. The agricultural community is a critical part of our economy and America's banks remain committed to serve it through good times and bad.

Thank you, and I would be happy to answer any questions.

[The prepared statement of Mr. Wolfe can be found on page 103 in the appendix.]

Chairman ROBERTS. Our next witness is Mr. Gus Barker, President and CEO of the Community Bank of Oelwein, Iowa.

Mr. BARKER. Thank you, Mr. Chairman.

Chairman ROBERTS. Just a moment.

Mr. BARKER. Okay.

Chairman ROBERTS. I have got to say some other—

Mr. BARKER. Oh, okay. Sorry.

Chairman ROBERTS. —wonderful things on your behalf.

Mr. Barker grew up on a small grain and livestock farm in northwest Iowa, always had the dream of taking over that operation. But with escalating costs and little capital, Mr. Barker was forced to begin his banking career in the 1970s and has served in senior management positions in community banks ever since. He now serves as an elected federal delegate for the northern half of Iowa for the Independent Community Bankers of America.

Mr. Barker, thank you again for testifying and we welcome your statement.

STATEMENT OF VERLIN "GUS" J. BARKER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, COMMUNITY BANK OF OELWEIN, OELWEIN, IOWA, ON BEHALF OF THE INDEPENDENT COMMUNITY BANKERS OF AMERICA

Mr. BARKER. Thank you, Mr. Chairman. As you stated, I am Gus Barker, President and CEO of Community Bank of Oelwein, Iowa. I thank you for the opportunity to testify on behalf of the ICBA, the Independent Community Bankers of America.

Community Bank of Oelwein is a \$112 million full-service bank employing exceptional bankers who work with our customers, providing them products they need while treating them like friends and family. Our success is measured by the relationships we build with customers and providing individuals with hands-on service. We are located in northeast Iowa, serving ag borrowers who produce corn, soybeans, and livestock.

America's 6,400 community banks, located primarily in rural areas and in virtually every small town, do an outstanding job providing credit in good times and bad. Rural community banks provide more than one-half of all ag credit from the banking sector.

Most farmers are, at best, breaking even right now, and then only if they have low debt levels and low carryover debt. Most threatened are the young, beginning, and small, or YBS farmers, particularly if they have high debt levels or if they have little to no additional financial backing. YBS and less financially secure farmers are the most at risk of exiting agriculture in the future.

However, continuation of low farm prices will cause many farmers to exit, including those currently financially strong and larger farmers. We do urge Senators to discuss this with the banking regulators so they do not overreact to this situation. My written testi-

mony also makes recommendations on USDA farm loan programs to keep our farmers in business.

Regarding FCS, year-end 2015 FCS total assets were \$304 billion, an 86 percent increase from just ten years earlier of \$163 billion. FCS gross loans of \$236 billion represents a 92 percent increase from a decade earlier. FCS net income last year was \$4.7 billion, and the FCS effective tax rate is four percent. By comparison, my bank, a C Corp, is taxed at 34 percent Federal and five percent state, almost 40 percent total tax, 35 percent more than the FCS.

FCS has a huge advantage in pricing loans, enabling their cherry picking. FCS also grows their retained earnings greatly with this tax benefit. FCS has had tremendous growth over the last decade when FCS lobbied Congress and its regulator for expanded powers and inappropriately received many of those powers through their complicit regulator, the FCA.

We also question FCA's obtaining the \$10 billion line of credit at a time of record profits. FCS has an insurance fund supposedly to protect their lenders, but we note that their allowance for loan losses is only 54 basis points. By contrast, my bank's is 186 basis points. Perhaps if FCS had an adequate insurance fund and higher loan loss reserves, they would not need to dash to the Treasury for a \$10 billion line of credit with no Congressional involvement, contrary to what was recommended by the Brookings Institution report. Why did FCA act in secret behind Congress's back and without meaningful public transparency?

We have surveyed bankers in every geographical region on FCS issues in recent years. All bankers are alarmed by the FCS's cherry picking activities. FCS leverages tax and funding advantages as a government-sponsored enterprise, a GSE, to undercut loan rates on community banks' biggest and financially strongest customers and ignores the less creditworthy borrowers. Banks' larger, more stable borrowers are important to bank portfolios, allowing lending risks to be spread over both small and large operations, and losing the biggest and best borrowers elevates the risk in our banks' lending portfolios. This also diminishes banks' ability to serve agriculture and rural America. It lessens credit expertise available to the farmers. FCS below-market pricing lessens the credit choices for farm borrowers and lessens credit availability in rural America.

The regulator, FCA, wants to allow FCS to broadly make non-farm loans. While FCS will continue to make farm loans, they want to also cherry pick the very best non-farm loans from bank portfolios, although not authorized by law. FCA's proposed mission-related investment regulation would allow FCS lenders to gain approval for broad non-farm lending programs labeled as investments. Loans for manufacturing, apartments, and office buildings would be eligible.

FCA's lack of awareness of CoBank's \$725 million Verizon loan is alarming. Verizon and Vodafone are located in New York City and London. This is not rural Iowa. It is not rural America. It is not authorized by statute. FCA's excuse—allowed under the similar entity provision of the Act. Not credible. That provision is not intended to allow enormous non-farm loans of hundreds of millions

of dollars to the largest corporations in non-rural areas or in the world's largest cities.

FCS cherry picks the very best loans. FCS seeks to lend aggressively for non-farm purposes. FCS and CoBank are loaning to very large non-farm corporations. These activities undermine community banks' ability to remain in business and serve rural communities and farmers. This diminishes the number of rural community banks. FCS's actions, therefore, threaten rural credit availability. They are worse than a race car that has veered off-track and we suggest reforms are needed.

Thank you.

[The prepared statement of Mr. Barker can be found on page 56 in the appendix.]

Chairman ROBERTS. I appreciate your statement, sir.

Our next witness is Mr. Doug Stark of Omaha. Senator Sasse was scheduled to introduce you. We will save a little time, in that Senator Sasse usually repeats the Constitution of the United States before he asks a question.

[Laughter.]

Chairman ROBERTS. Mr. Stark is the President and CEO of Farm Credit Services of America and Frontier Farm Credit. Mr. Stark has been with the Farm Credit System for 35 years, having served in several capacities, beginning as an Assistant Loan Officer. During his career, Mr. Stark also worked for the Farm Credit Administration in Spokane, Washington, for two years as an examiner and supervisor.

Mr. Stark, thank you for joining us today, and hopefully, we will turn to our distinguished Ranking Member for the next witness, but if not, I will try to do the best job possible. Please go ahead, sir, with your statement.

STATEMENT OF DOUG STARK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FARM CREDIT SERVICES OF AMERICA AND FRONTIER FARM CREDIT, OMAHA, NEBRASKA, ON BEHALF OF THE FARM CREDIT SYSTEM

Mr. STARK. Okay. Thank you, Mr. Chairman, Ranking Member Stabenow and members of the committee. I appreciate the opportunity to testify 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.

Mr. Chairman, Senator Stabenow, thank you very much for being original cosponsors of the Congressional resolution congratulating Farm Credit on its 100th anniversary. We are very proud that so many of your colleagues on this committee are also resolution cosponsors.

We and our colleagues in the banking industry come before you today with good news. The commercial banking industry recently announced record profits, and the Farm Credit System is as financially strong as it has ever been. Given the challenges facing farmers and ranchers 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 Farm Credit System, as you have heard this morning, is made up of 78 individually and cooperatively owned and governed institutions. All have separate boards of directors elected by their customer owners. There are no federal funds or taxpayer dollars appropriated for the ongoing operations of the Farm Credit System.

As a cooperative, net income in Farm Credit goes to one of two places. It is either retained within the institution to build financial strength to serve customers or it is paid out to customers in the form of patronage dividends. As one of our directors wrote in a letter to a fellow customer this year, and I quote, "The board believes the cooperative lending system allows us to bring a unique and important value proposition to the market. We want stockholder capital to be held as close to the farm as possible," unquote. 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.

A healthy Farm Credit System and a healthy commercial banking industry bring greater stability and competition to the credit market. If we lose business to commercial banks, and we do, that means the lending market is working for producers. If we partner with a commercial bank to meet the credit needs of an enterprise serving rural America, and we do, that means the lending market is working for those communities. If a local bank cannot take on the risk of a beginning operation and refers a young farmer to Farm Credit, and it happens, that means the lending market is working for producers.

We know that competition makes all of us in lending work hard each day to be more efficient and customer-centric. We focus our time and energy on better serving producers versus asking for the elimination of competitors. There is room in the market for both commercial banks and Farm Credit. Producers need us both.

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 have restructured debt where appropriate. We are committed to working with our customers through tough times. Strong earnings have allowed Farm Credit to build equally strong capital levels to protect against deterioration in loan quality. We have sophisticated stress testing procedures and are thoroughly examined by a federal regulator and issue transparent audited financial statements. The Farm Credit System does not pose a risk to U.S. taxpayers. In fact, the System has never been stronger.

I personally take particular pride in the support we provide to our young and beginning and small producers. It is an important part of what we do every day. While some would have you believe that it is the sole reason we exist, our mission as spelled out by Congress is to serve all of agriculture, large, small, young, and old. In 2015 alone, the Farm Credit System made more than 62,000 loans to young producers, 80,000 loans to beginning producers, and 150,000 loans to small producers.

Farm Credit's mission also extends to supporting rural communities by financing vital infrastructure, helping bring clean water to rural families, reliable energy to farms and rural towns, and

modern high-speed telecommunications to connect rural America to the rest of the world.

We also help finance entities that are similar to our directly eligible borrowers. As defined by Congress, these similar entity loans are always made in partnership with and at the invitation of commercial banks.

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 agriculture producers, farmer-owned cooperatives, and rural infrastructure producers who own the Farm Credit System. They are the Farm Credit System.

On behalf of our customer owners, we look forward to the next 100 years of serving rural communities and agriculture.

Mr. Chairman, I have a variety of statements with me from groups representing producers, farmer-owned cooperatives, and others that reinforce the importance of Farm Credit's mission. I ask that those statements be made a part of the hearing record.

[The following information can be found on pages 120 through 169 in the appendix.]

Senator STABENOW. Without objection.

Mr. STARK. Thank you. I will be pleased to respond to your questions.

[The prepared statement of Mr. Stark can be found on page 84 in the appendix.]

Senator STABENOW. Well, thank you very much, and I apologize for the back and forth today. I know you understand about the votes that are occurring and members having to try to be several places at once. But we very much appreciate all of your testimony and it is an important part of our deliberations going forward.

I am pleased that I made it back in time to introduce Mr. Jed Welder, who, as I mentioned earlier, is taking time from a busy planting season to provide a producer perspective today. Mr. Welder served in both the U.S. Marine Corps and the U.S. Army and several tours in Afghanistan, Iraq, and Bosnia before returning to Greenville, Michigan, to start a farm with his wife, Milka, and two children, Daniella and Mirko. He is a proud alumnus of Central Michigan University, not far from where I grew up in Clare, and serves on the Inaugural Board of Directors for the Michigan Chapter of the Farmer Veteran Coalition.

We thank you very much for joining us and look forward to your testimony.

**STATEMENT OF JED WELDER, OWNER, TRINITY FARMS,
GREENVILLE, MICHIGAN**

Mr. WELDER. Thank you, Chairman Roberts and Ranking Member Stabenow, for the kind introduction, and thank you to all the members of the committee for this opportunity to testify today.

I am the owner of Trinity Farms, a mid-size farm in Greenville, Michigan, where my family and I raise corn, soybeans, and recently began growing several acres of hops. Before returning home to Michigan to begin my career as a farmer, I had the honor of serving as an officer in the United States Army for more than a decade.

My service included tours in Iraq, Afghanistan, and Bosnia, serving as an armor officer with some of the greatest men and women in the world.

In 2008, my wife and I made the difficult decision to leave the Army after repeated deployments and an ever increasing operational tempo. We wanted to start both a family and a farm back in Michigan. We loved moving to the country and enjoyed the challenges of this new profession, but we quickly realized we needed both land and capital to be able to farm full time.

Farmers are a close knit group. You cannot just Google how to do things. You actually ask mentors and experienced farmers in the area what has worked on their farms. When I asked older farmers in West Michigan about access to credit, they told me that years ago, I would have gone to a local bank and taken out an operating loan, but that banks do not do that anymore. Even a small farm requires hundreds of thousands of dollars in seed, fertilizer, and fuel each year to operate. My small farm uses older equipment, but even that cost more than a mortgage most local banks would handle.

There was a GreenStone Farm Credit Services office in my county that was recommended by several farmers, so I prepared a business plan and walked through their door. They understood what I wanted to do and what I needed to run my operation. They made good, solid recommendations and over time became a trusted partner. As my business changed and grew, they grew with me.

Today, I farm more than 800 acres of land and have been able to continue farming land my folks had farmed since the 1960s. This summer, as I was building a grain drying and storage system, my loan officer came out to see the progress and talk about it with me. We constructed one of the first hop yards in our county. As we did, GreenStone walked through the yard to see what hops were. Their office is 20 minutes away. They know how the crops in our area look and what the prospects for harvest are because they are in the business of working with farmers.

Last fall, an Army buddy contacted me because she wanted to buy land near my farm. She had talked to several banks, but she worked in Texas at the time and wanted to buy farmland near her family in Michigan. Every bank she talked to told her, "We do not do that anymore." When I put her in contact with my GreenStone office, they told her, "That is what we do." She ended up purchasing the land, and last Friday, my daughter and I planted that farm to corn. This fall, when we harvest that crop, this veteran will realize her dream of owning farmland even as my family expands its own operation.

This is a challenging time for farmers like me across the country. Right now, we are planting corn and soybeans with prices very near break even. Many of us have second full-time jobs just to provide enough income to stay on the farm.

There is an exciting revolution in precision agriculture and technology that will help us be more efficient, but at the same time, the costs of farming increase every year. Please understand, farmers, like veterans, are not victims. We are not looking for a free ride, just a fair deal. Having a lender that works with me, that

knows my farm and the challenges I face is more important than ever.

There is an old saying on the farm, “If it ain’t broke, don’t fix it.” The Farm Credit System is not broken. It is fulfilling its mission to serve farmers like me. Please do not break it now.

I would like to leave you with some idea of how important this issue is to me. We are currently in the middle of planting season of our major crops. Michigan farmers have a very short window of time after the last frost to get our seeds planted for maximum yield. Families learn that there are no after-school activities, trips, or days off until the crops are in. That being said, when I had the opportunity to testify before this committee, I parked my equipment and came out here to appear before you today because this is important to my family and the families of all farmers.

Thank you, and I would be happy to answer any questions you might have.

[The prepared statement of Mr. Welder can be found on page 101 in the appendix.]

Senator STABENOW. Well, thank you very much again, and thank you to all of you.

Let me start, Mr. Welder, if you could tell us a little bit more about how GreenStone Farm Credit has helped you both in looking to expand operations, even diversifying your farm. We talked earlier how hops is a growing new industry in Michigan, and I know across the country, but talk a little bit more about GreenStone Farm Credit and their role in helping you be able to do that.

Mr. WELDER. Yes, ma’am. GreenStone has provided some educational things and allowed producers to use their facilities for getting together for conferences. They have also provided—my local loan officer has provided input as we talked about expanding our business to doing custom work for other farmers. As we look to increase and purchase new equipment, they have worked with us and provided suggestions. When we traded in my 37-year-old combine two years ago and bought a slightly newer piece of equipment, that was something that we financed through GreenStone. They have been with us every step of the way.

Michigan is on the cutting edge of a new crop with hops. Hops is something entirely new, so it was gratifying to me when they came out and actually walked through the yard and took a look and learned what they were and knew what the challenges were that we face with this new industry.

Senator STABENOW. Thank you.

I am wondering—let me ask you and then anyone else on the panel that wants to respond—because in 2014 in the farm bill, we created several new opportunities for veterans coming home to either go back to the farm or to go into farming, including support for the new and beginning farmer and rancher development programs. In 2015, the National Farmer Veteran Coalition received funds from the farm bill to expand agriculture production, development, business development skills, and so on.

Mr. Welder, you are a board member of the Michigan Chapter of the Farmer Veteran Coalition. Can you describe some of the ways that the Coalition is working to support our military veterans in Michigan.

Mr. WELDER. Yes, ma'am. The Michigan Chapter of the Farmer Veterans Coalition is in its first year and it is very exciting what we are doing, working with veterans in all different areas of agriculture. I have got friends that I have developed through the Michigan Farmer Veteran Coalition that are raising grass-fed pigs, that are working in poultry, that are raising crops, that are raising row crops all across the state.

The Farmer Veteran Coalition is working to provide grants as well as educational opportunities in both the Upper and Lower Peninsula. We just held, in cooperation with the NRCS, a soil conservation class. We have also had grant writing classes that we have held with veterans who want to become farmers. Some of the best friends and peers I have in agriculture now are through the Farmer Veteran Coalition.

Senator STABENOW. Thank you.

Would anybody else want to respond to any programs or initiatives or benefits, either working with veteran farmers or veterans anywhere working in the food system?

Mr. STARK. Senator, I would just add simply that we have supported the efforts that you just described and were just described here, both financially and with our resources personally. As you may recall, last summer, the Farm Credit System helped sponsor here in Washington a Homegrown by Heroes event, so we are really trying to feature the products that are raised by our veterans and make them more visible to the general public so they can be featured and distributed and help them be successful. Thank you.

Senator STABENOW. Great.

Mr. BARKER. Ranking Member Stabenow, I just want to add that we do not have special programs for our veterans because we have honored them our entire careers in the community banking industry, and that would include rate concessions, some terms that maybe would be unusual in a normal situation, to try and stimulate their success.

I appreciate Mr. Welder's Farm Credit Office up there. He sounds just like a community banker that I know.

[Laughter.]

Senator STABENOW. All right. Well, let me ask, and again, I will start with Mr. Stark, of course, the 2014 farm bill made a number of reforms to the farm safety net. We strengthened and expanded crop insurance, particularly for specialty crops, and hops is one of those new specialty crops. I think as we expand, it will be interesting to see what other opportunities there are. Also to provide incentives for beginning farmers.

When producers approach your institution for loans, how do you take these safety net programs into account, and how important are things like crop insurance, particularly for beginning farmers, when you are looking at potential borrowers?

Mr. STARK. Yeah, that has been a key topic of focus of both this committee and of Congress here through these last couple years. We are very pleased to get a farm bill last year that included a strong crop insurance program, and I certainly think this is one thing that the banks and ourselves can agree upon. It is vitally important to the producers up there, and particularly the feature that

has revenue coverage for many of these producers because that really is a critical issue we have out here.

Most of the producers in the marketplace today carry some level of crop insurance. They make their own choices around that. Certainly, we take that into strong consideration, and especially so if they would decide not to consider it. In that case, we would require significant improvements in liquidity in order to continue their financing.

For young producers, it is essential and we counsel them a lot regarding the level of coverage that they might carry and the risk that they have the capacity to undertake, primarily as a result of the fact that most of them do not have working capital if, in fact, something should happen to their crop production year.

Thank you for your support of crop insurance and we would appreciate that continuing support as we go forward.

Senator STABENOW. Well, I think as we have moved from subsidies to risk management through crop insurance as well as conservation practices and other risk management tools, I think it is really important that we keep a strong system. I am also anxious to see as we go forward how the opportunities we have created through fruit and vegetable growers, specialty crops, whole farm policy for small growers, small farmers and so on, how we can continue to expand those opportunities for small as well as large farms so that they have that risk management tool. I think that is really important.

Let me ask—

Mr. WOLFE. Senator, could I—

Senator STABENOW. Yes, sir.

Mr. WOLFE. Could I respond to that, as well?

Senator STABENOW. Yes, please.

Mr. WOLFE. Okay. The first panel was asked, what are some of the differences in going into a potential crisis, this farm crisis—

Senator STABENOW. Right.

Mr. WOLFE. —this time as compared to the 1980s. I became a banker in 1979. That was my first experience, was to experience the 1980s as an ag lender. But, that is one of the primary differences. I mean, there are some real differences. I think the producers are much higher capitalized and lower leveraged than they were going into the 1980s. The Farm Credit System is higher capitalized. The community banks are higher capitalized going into this.

But one of the real fundamental differences is crop insurance. In the 1980s, probably less than five percent of all crops were insured in the United States. That number is reversed now and there is 95 percent that are and that makes a huge difference not only for our industry, but for the producers, to ensure that they will be around for the next season. We do thank you for that and it is a very critical part of what we do. Thank you.

Senator STABENOW. Well, I appreciate that. As we go forward, and I hate to start talking about the next farm bill—I get a headache thinking about all the challenges we have—

[Laughter.]

Senator STABENOW. —but this is going to be a very important debate. We are going to need your voices here as we are talking about

the increased importance of crop insurance as a critical risk management tool.

Mr. Wolfe and Mr. Barker, I wonder if you might talk just a little bit more, and I apologize, I was not here for your testimony, but describe the work of your institutions to support the rural food and agriculture businesses, not just farmers, but more broadly, sort of rural communities, food industry, and so on. Could you talk a little bit more about that.

Mr. BARKER. Locally, we have a lot of growers in the farmers market category. Those markets are very popular in the State of Iowa in our area. We have converted many producers to organic production, and in doing so made those some trying times. They are not profitable at first. It takes several years to get to the level where they are sustainable as organic farmers.

Some of the challenges that we face come from other states. I was involved in an egg production facility and the laws in California required that chickens needed more space in their cages. If they were familiar with agriculture, they would realize that the more space a chicken has, the more violent they get with each other and these laws are actually hurting those chickens. Also, it created a much more expensive operation. Those are some of the challenges we are facing now. We have had to loan more money to that facility to increase their buildings and their capacity to produce.

Senator STABENOW. Thank you.

Yes, Mr. Wolfe, did you want to respond?

Mr. WOLFE. Yes, just quickly. We are located in north central, northeastern Kansas and we are in that transition between plains and good dark farm ground. We have wheat as a primary row crop in the western part of our trade area and that transitions to corn, soybeans. We also have a lot of dairies, hog operations, beef cattle. We are very diversified. We have been—well, we are the largest ag lender in Kansas. I mean, that is not all that large. It probably ranks number 50 in the United States. But, we do our part to take care of our local producers. We have been around for a long time and we relish the opportunity, even in the down times, to be there for our customers.

Senator STABENOW. Thank you very much.

I am going to step away to vote, and Senator Thune just came in. I am going to pass the entire power of the Senate Agriculture, Nutrition, and Forestry Committee.

[Laughter.]

Senator STABENOW. I am a little nervous about this, but I would be happy to pass it to the Senator from South Dakota.

Senator THUNE. [Presiding.] Well, thank you, Madam Chair.

It is kind of a crazy day, and I would have liked to have been here to ask questions earlier of the previous panel, but we had the Administrator of the TSA up here to talk about wait lines at airports, so I was chairing that meeting. But, I appreciate the update today on what is going on in agriculture and particularly with regard to lending.

I do want to include for the record, and since I am the only one here, I will say this will be included without objection—

[Laughter.]

Senator THUNE. —a story from the Mitchell Daily Republic in which it talks about a study that looked at farm income. I know it has already been mentioned a couple of times today, but at least in my state, in 2015, we saw it drop by \$100,000, on average, last year, which is a 77 percent decline in net profit in 2015 compared to the year before. It goes on and elaborates and gets down into the specifics and drills down into the numbers a little bit about what that means in terms of our economy.

But, I think it just puts a fine point on how important it is that we are really focused on agriculture and making sure that we do everything we can to get our producers through what are some pretty difficult economic times and, hopefully, on to when we get a better price structure.

[The information of Senator Thune can be found on page 53 in the appendix.]

Senator THUNE. I know that we are planting in South Dakota, some of it is in, some of it is still going in, but we are hoping for a big crop. We need a big crop at the prices that we are dealing with today. But, I would be curious to know just from the lenders' standpoint, I know that, for example, Mr. Barker, you have got a smaller scale community bank with a portfolio of 35 percent agricultural loans. Could you talk a little bit about what your greatest challenge is today in terms of looking at the outlook for your agricultural borrowers.

Mr. BARKER. As far as our borrowers, our biggest challenge is the cash flow coming in. We are in times where most of our borrowers have equity to survive a year or two. Going forward, this equity is being used up with the low prices. With production roughly a dollar below cost of their sales prices on both corn and beans, it does not take long if they have any size at all for their equity to get used up.

We are going to need the USDA programs. The USDA guaranteed Farm Loans and Rural Development Loans are very important and we ask the Senate to really beef up funding for the programs because we really will need guarantees going forward to keep producers in business. Patience by our regulators is a virtue. Many examiners were not around in the 1980s when we went through the last ag credit crisis. They are young and they are being told that this is perhaps a panic situation and patience will be a virtue in dealing with all of this.

Senator THUNE. I would direct this to you and others on the panel, as well, but do you believe that your banks and other ABA banks coordinate more closely with the USDA Farm Service Agency than does FCS to obtain guaranteed loans for some of those eligible borrowers?

Mr. BARKER. Well, from my personal experience, the banking community does. In fact, I have had a few local small borrowers come to us because their credit was shut off by the Farm Credit System. We have tried to look at getting a guarantee for those folks. But, our experience is that the loyalty has been to the larger borrowers by the Farm Credit Services and the smaller folks in our area, were not taken care of as well, because their farms require a lot of lender involvement. It is easier to book a \$1 to \$5 million loan than a YBS loan.

Senator THUNE. Do any of you have examples of how the Farm Credit System neglects young, beginning, and small farmers and ranchers in your area?

Mr. BARKER. Personally, I do not see the Farm Credit System serving YBS farms. I know they talk about that, but I have a report from 2014, which shows the numbers of those young, beginning, small farmers are quite stagnant. One of the footnotes I thought ironic was if they qualify under each of those categories, they can be counted under each of those categories, so I am not sure how the numbers make any sense. I know in theory, that FCA would like to count these numbers at the regional levels, but on the local level, I just do not see FCS lending to YBS farmers.

[The following information can be found on page 173 in the appendix.]

Senator THUNE. Mr. Welder, you are a farm operator. When you are talking to other local farmers, have you noticed competition in ag lending driving down interest rates for borrowers? Have you seen any evidence of that?

Mr. WELDER. From my perspective in my very small operation, I have not seen that, Senator. We are getting competition from other large corporate farms that maybe have other lending resources. But at my level, no, not at all. The interest rates are staying pretty much constant for what we need to do for our operating loans, for our machinery loans.

Senator THUNE. From your perspective, to what extent do private banks, commercial banks, Farm Credit System, and FSA play a role in ensuring that credit exists for borrowers out there? How do you see that interaction working between the different entities?

Mr. WELDER. Again, I can only give a very micro perspective at my level, but the banks in my area do not deal with farmers as much other than checking and savings. The last farmer that had an operating loan with our very local Sidney Bank was my dad 20 years ago. At this point, because with 800 to 1,000 acres he might be talking a quarter-million dollar loan for an operating loan, most of that will go through the Farm Credit System as opposed to going through a banking system.

Senator THUNE. Okay. Mr. Barker, would you say your bank is consistently more competitive with loan rates and loan availability to, particularly as we talked about earlier, some of the younger, smaller, newer borrowers?

Mr. BARKER. We compete as much as we can. I cannot compete with the Farm Credit System on large loans. They have a funding structure that is very enviable. For example, on a million dollar loan, if I charge five percent, that is \$50,000 in interest annually. I pay my 40 percent tax bill out of that. I net \$30,000. The Farm Credit System is largely tax exempt, and they need only charge three percent on that same loan to net the same. They also do not have to charge appraisal fees, which I have to do, and there are other local fees in some states that they do not pay.

We try to stay competitive as much as we can and make use of anything we can as far as Federal Home Loan borrowings or deposits, but I just cannot seem to touch the whole array of benefits that the Farm Credit System has.

Senator THUNE. You indicate in your testimony that 14 percent of your portfolio consists of loans ranging from \$1,000 to \$249,000, which is 76 percent of your portfolio by total number of borrowers. Since many of these are likely young, beginning, and small farmers and ranchers, do you believe that your portfolio of borrowers, assuming that we have the present state of circumstances in agriculture for the next couple of years, is going to be negatively impacted, much more so than the larger scale type borrowers that you have in your portfolio?

Mr. BARKER. I think they will be hit harder quicker than the larger farmers, yes, because they have not had a chance to build up the equity that the larger farmers have.

Mr. WOLFE. Senator, could I respond to that, just quickly?

Senator THUNE. Yes, Mr. Wolfe.

Mr. WOLFE. Yeah. Mr. Welder brings up a great point, because his area is what I foresee if we continue to go down the same path that we are going, that the local banks cannot compete any longer, so they have given that market share away. They have given it away. They have quit competing. That is, I am afraid, where we are heading.

Just to give you an example, Mr. Barker used a similar example in Iowa, but in my state, I pay 34 percent federal income tax and 4.38 percent state income tax. As Mr. Barker says, on a five percent loan, they can charge three-and-a-quarter and start out the same place we do. My point is that when we go down that path, is that Farm Credit is not passing—if I were a borrower of Farm Credit today, I would be angry that they are not passing that entire savings along to them, because they could have been fully taxed like a C Corp bank in America would be and they would still make more money than banks would the last two years. That is the point that I would like to make.

Senator THUNE. Okay, thanks.

Mr. Stark, it looks like you want to—

Mr. STARK. Thank you. I would be delighted to respond to those comments. It is really unfortunate and disappointing to hear the allegations against a system which so many farmer-owned customers support and feel so strongly about. One thing I can say when it boils all down to the bottom line is what has been laid out here this morning is irrespective of our business structures, when it gets down to the bottom line, the fact of the matter is we are just different business models, and that is clearly, as I mentioned in my opening remarks, that was intended.

As a farmer-owned cooperative, we have a very different business structure. Frankly, community banks enjoy some of the same, or maybe I should say similar accesses and backing by the federal government that the Farm Credit System does in the forms of Federal Deposit Insurance, the access to the GSE through the Farmer Mac and the Federal Home Loan Bank. They have access to Subchapter S Corporations. I mean, we could compare and contrast our business models for hours here today.

The bottom line is, when you look at it over the last 50 years, community banks and commercial banks have 40 percent market share. We have 40 percent market share. By the testimony that was submitted here this morning, our colleague here, Mr. Barker,

indicated they have over half of the farm loans in their community. If you look at the data they presented even in their own testimony, they grew 7.9 percent last year. We grew 8.5 percent.

When you look at the facts, there is no evidence to indicate that the pendulum has really swung in favor of the Farm Credit System. Thank you for the opportunity to comment.

Senator THUNE. I appreciate that. Thanks, Mr. Stark.

Mr. BARKER. Could I rebut that just a bit? Sorry, Mr. Stark. There are a lot of GSEs out there, but I do not have any of the GSEs that directly compete with me and try to steal my loans. When we are not allowed to make a \$5 million real estate loan, for example, that is a big part of my loan portfolio that goes to the Farm Credit System, no matter what my bank may obtain in terms of small loans. There is just no way to compete. My rates to large farmers will be undercut no matter what rate I have quoted, and I am sure every community banker in the nation can say the same thing, that FCS rates just are not the same as those of the private sector.

The young farmer that comes in that has a quote from the Farm Credit Services gets a rate that is higher. They might get a rate that is six or eight percent compared to the three percent rate FCS gives large farmers. Does that really mean that they are taking care of those YBS farmers? When I price a loan to a YBS farmer, it is the same whether they are a multi-million dollar farmer or they are a young farmer that is really struggling and trying to start their farm. We are going to help them no matter what. But we do not get market distorting competition from the other GSEs as we do from the FCS.

Senator THUNE. Mr. Chairman, I would just say, and I appreciate you having this hearing because I think it is an important one and it is an issue that we need to pay close attention to, particularly over the next couple of years, because I think in production agriculture, if we do not see some improvement in the prices of our commodities, we are going to have more and more stress and there is going to be a real need on behalf of the lending community to be able to work with borrowers and figure out ways to get them through.

I am particularly concerned about the young, beginning, and small borrowers and what this means for them, people who perhaps are not as established or do not own their ground and are making cash rent payments, those sorts of things. It is going to be increasingly, I think, difficult given the current price structure, which I said I hope improves, but I think that availability of credit and being able to work with—and having all the various people who represent that community here today, I think, is really good, too, because it gives us an opportunity to explore a little bit more in detail what the various dynamics and who is lending to whom and where sort of the weak spots are.

If there is anything this committee can do in the days and weeks and months ahead, I hope that you all will communicate that to us, as well, because we want to make sure that we are being as responsive as possible when it comes to availability of credit for agriculture.

Mr. Chairman, I thank you, and I thank our panelists today for being here.

Chairman ROBERTS. [Presiding.] Senator Thune, thank you for that excellent statement. I share your concern with new, young—what was the other group?

Senator THUNE. Small, beginning.

Chairman ROBERTS. Oh, beginning. I am concerned about the older, established, and big producers who produce most of the food for this country as well as everybody else.

There is another vote pending, I would tell the gentleman, very quickly, in about ten minutes here, so we are going to have to adjourn this hearing.

I have a question for the three lenders on the panel. Your answer, of course, is if this does not occur, the question that I am asking, we will be writing the sequel to the Grapes of Wrath in farm country.

When you are considering whether or not to issue a farm loan, how important is the role of the federal crop insurance program? Let us just go down the line. Mr. Barker.

Mr. BARKER. Yes, sir. It is extremely important. It is just absolutely critical to the survival of the farmers out there and their stability.

Chairman ROBERTS. Mr. Stark.

Mr. STARK. Well, we totally agree and we thank the committee and your support, Mr. Chairman, and what you have done to get the last farm bill through as well as the provisions of the crop insurance program. It is imperative for this industry as we go forward.

Chairman ROBERTS. I thank you, sir.

Mr. Welder.

Mr. WELDER. As a producer, I maintain crop insurance, as do most of my peers. It is an important role as we move from a subsidy-based to a more market-based to stay with that crop insurance and I thank you for your support, sir.

Chairman ROBERTS. If you were in the service that was always faithful, Semper Fi—

Mr. WELDER. Oorah.

Chairman ROBERTS. —and then chose to go Army Strong—

Mr. WELDER. Yes, sir.

Chairman ROBERTS. —you could be strong, but I am not sure always faithful.

[Laughter.]

Chairman ROBERTS. Why on earth did you switch?

Mr. WELDER. Sir, I was offered an Army ROTC scholarship and I did not have money for college and they said I could jump out of perfectly good airplanes, so I took them up on it.

Chairman ROBERTS. Well put.

[Laughter.]

Chairman ROBERTS. Leonard.

Mr. WOLFE. Yes. I talked about this earlier, but a question was asked of the first panel, some of the major differences as we head into what potentially could be a downturn in ag and the differences compared to the 1980s. The primary difference in as far as the producer protection is crop insurance. In the 1980s, I saw statistics

that said that less than five percent—I was there, you were there—less than five percent of all crops were insured at that time. Today, that number is reversed. It is now 95 percent, and it is possible because of actions that this committee and you specifically have taken.

I think that is going to be paramount going into any downturn, whether this is it or not. Our regulators have been predicting this for seven years, so if it finally happens, I think they are taking a certain level of glee from that. But, we are ready for it and crop insurance is one of the things that has prepared us for this if this does occur. Thank you.

Chairman ROBERTS. I appreciate your answer. It is what it is. Every time—we are now doing our appropriation bills, which is a very good thing. We are going back to constitutionally Congressionally directed funding and that is a good thing, and we are doing it at a record pace. But when you open up the ag appropriation bill, we always have self-declared Secretaries of Agriculture wanting to change something and crop insurance is usually a target. Each one of you and every one of your organizations has a pretty loud megaphone and the value of crop insurance today means whether you make it or not, more especially with all of the climate change that we are experiencing.

Let me just ask all of you, I note the somewhat differences of opinion with regards to what the Farm Credit System has at its disposal as opposed to what our community banks have, more especially with Dodd-Frank, which was not especially—Dodd-Frank was not supposed to touch you. It was a big mess. Obviously, it is—I do not know whether it is a touch or a massage or what it is, but it is not good.

If, especially the three folks here that are representing our community banks, if there is one piece of legislation that could address your concerns, and that would probably fall to the Finance Committee—I happen to be on the Finance Committee—but what would that be? Let me start with you, Mr. Barker. I know that you want a whole series of things, but what is the one thing that we could do to make your life easier?

Mr. BARKER. Boy, that list is endless. Dodd-Frank is a huge thing for us right now and I think our topic here today is a really big concern for me locally and for all the community banks having the unlevel competition from the Farm Credit System. But, both of those topics are extremely important to us right now. Dodd-Frank and overregulation is causing a heavy burden on community banks, sorry.

Chairman ROBERTS. Do not be sorry. I agree with you. Quite a few people would now agree with you.

Mr. Stark, we are going to give you an opportunity, too. I do not want to leave you out.

Mr. STARK. Yeah. I think, even though we are not subject to the same regulatory impact as the counterparts here under Dodd-Frank, the Farm Credit System does whatever it can to comply with the spirit of those laws because they, in most part, make good financial sense. The first panel talked about that specifically with regard to the credit, or the capital requirements, and the Farm Credit System and through the FCA has adopted the regulatory

guidance under Basel III and implemented new capital requirements.

Nonetheless, the answer to your question is a continuation of the crop insurance program would be first and foremost. As we are a farmer-owned cooperative, we are here on behalf of our farmer owners and that is first and foremost on their minds. Consistency and predictability around their businesses in this time of volatility is as critical as we could imagine, and that will do more than anything.

The second would be trade. As you well know and we have talked about, that is a critical item for our producers, and depending on commodity, a majority of their, or a big majority of crops or a big percentage of crops in almost all our segments is traded overseas. U.S. production agriculture is extremely efficient and we need trade on behalf of our producers' customers.

Chairman ROBERTS. I thank you for your comments on trade, more especially TTIP and TPP. Today, unfortunately—well, it has just been this way as long as I have had the privilege. All trade agreements are over-criticized. All trade agreements are oversold. But, they are absolutely essential and I thank you for that.

Let us just keep going down the line. Mr. Welder.

Mr. WELDER. Senator, the one thing from my perspective would be certainty. Farmers do not like change and we certainly do not like change from Washington if we can help it. When we go to our local FSA office and ask about the farm bill or what is upcoming for crop insurance, generally, they have no idea. The more certainty we can have at my level for the farm bill and for crop insurance, the better off we are going to be.

Chairman ROBERTS. Let me just interrupt by saying that we are not going to open up the farm bill, period. You will have that stability, whether you have preferences or not, more especially the ARC program, the PLC program, and more especially crop insurance. I am not saying that it's going to be an easy job, because there are always folks that want to do that. But providing consistency and stability, I think, is paramount.

Leonard, what do you think?

Mr. WOLFE. Well, since you cannot do anything about the weather, because that is the biggest variable in agriculture—

Chairman ROBERTS. I brought you the rain, man. What else do you want?

Mr. WOLFE. You did, and now you need to make it stop.

[Laughter.]

Chairman ROBERTS. Okay.

Mr. WOLFE. Dodd-Frank is just a monster hanging over community banks today. I mean, it is threatening our model. A lot of things threaten our model, but as Mr. Barker says, frankly, in my bank, the biggest threat to me, seriously, is Farm Credit. If we could somehow—Mr. Welder mentioned a fair deal. That is all he is looking for, is a fair deal. If we could just get to the point—and I am not talking—there is a real misconception that banks want to eliminate the Farm Credit System. No, that is not correct. That is not—I am not an advocate of that. We have to coexist. We have to find a way to do that.

I think the—it is funny that you mention appropriations, because I have to take this opportunity to talk a little bit about last fall when we used a tax on banks to pay for the highway bill. We have something right here hanging in front of us that is a \$1.3 billion tax preferential treatment that is given to Farm Credit that could be used to pay for this—some other critical elements of agriculture, which is crop insurance, things of that nature. This can be done a lot of different ways, but there is more than one way to do this. Rather than tax them, we could also eliminate taxes on all agricultural real estate loans, whether they are originated by banks, by individuals, by insurance companies, or even Farm Credit. Just you could level the playing field in that way.

We all have different models. Even banks have much different models, as Mr. Stark points out. We recognize the difference between us and the Farm Credit, but there are a great deal of differences across the board, so thanks for the opportunity.

Chairman ROBERTS. I want to thank all seven of our witnesses. My staff has informed me I have four minutes to skedaddle over there and make the final vote. But thank you for taking your time and your willingness to testify here. I know you are very busy people. The testimony provided is timely, very valuable for my fellow lawmakers to hear firsthand.

To my colleagues who may not have heard it the first time, I would ask that any additional questions that they may have be submitted for the record, submitted to the committee clerk five business days from today, or by 5:00 p.m. next Thursday, May 26.

Now, Mr. Barker, I have to say that Senator Grassley, my senior colleague, basically his question was with regard to Dodd-Frank, and I think you have covered it.

Mr. BARKER. Yes, sir.

Chairman ROBERTS. I want the record to show that I have asked the question—

[Laughter.]

Chairman ROBERTS. There was a very timely response, more especially from his constituent.

With that, the committee stands adjourned. Thank you.

[Whereupon, at 12:45 p.m., the committee was adjourned.]

A P P E N D I X

MAY 19, 2016

Submission for the Record by Ranking Member Stabenow:

**THE FARM CREDIT SYSTEM AGRICULTURAL EXPORT AND RISK
MANAGEMENT ACT (Senate - October 05, 1994)**

[Page: S14234]

[Page: S14235]

Mr. FORD. Mr. President, I ask unanimous consent that the Senate proceed to the immediate consideration of H.R. 4379, the Farm Credit System Agricultural Export and Risk Management Act just received from the House; that the bill be deemed read the third time, passed, and the motion to reconsider be laid on the table, and that any statements relating to this matter be placed in the **Record** at the appropriate place as if read.

The PRESIDING OFFICER. Without objection, it is so ordered.

So the bill (H.R. 4379) was deemed read the third time, and passed.

Mr. LEAHY. Mr. President, I am pleased to join today with the distinguished ranking member on the Committee on Agriculture, Senator **Lugar**, to speak in support of final passage of the Farm Credit System Agricultural Export and Risk Management Act.

I believe that the act strongly merits passage by the Senate for three prime reasons. First, it expands the capacity of our Nation's financial system to provide credit for the export of U.S. agricultural products--a very promising growth area for rural economies that we must stimulate in every reasonable, affordable way we possibly can.

The act accomplishes this through modest expansion of the export lending authority of the National Bank for Cooperatives [CoBank], which has played a growing role in financing the export of American agricultural products since 1980.

Second, the act authorizes member lenders of the Farm Credit System--a Government-sponsored enterprise [GSE]--and the Nation's private banks to participate together in multilender transactions for the purpose of improving loan management capability and reducing the concentration of risk.

Finally and very important to the American taxpayer, the act moves in these two important directions without any Federal subsidy. Its provisions are modest and narrowly drawn. It will enhance credit opportunities for important rural ventures by carefully expanding CoBank's already-existing authority and by providing incentives for the Farm Credit System and private banks to cooperate and share risks.

The CoBank's present authority allows it to finance only exports produced by American agricultural cooperatives. This places an artificial limitation on its capacity to serve all of American agriculture. One of the act's central provisions will broaden CoBank's ability to finance the export of any U.S. agricultural product, regardless of the source.

CoBank has an excellent track record of providing significant financing for U.S. agricultural exports. In addition, it actively markets our products abroad and works with commodity and governmental organizations to develop new export opportunities.

In this rapidly changing era of NAFTA and GATT, it makes good sense to enhance this authority. CoBank--an experienced, technically proficient export lender that concentrates exclusively on agricultural products--can help our farm sector increase its exports dramatically without having to turn to the small group of foreign-owned banks that now dominate this relatively low-profit, high-risk business.

The act will accomplish something additional that I believe both the Farm Credit System and private banks have been seeking for some time and will find mutually beneficial. It creates the opportunity for farm credit institutions and private banks to manage and reduce their concentration of loan loss risk in terms of geography, industry, and account exposure by expanding the System's ability to purchase and sell loan participations from commercial banks and other nonsystem lenders.

The act may be modest in scope and neutral in its effect on the Federal budget. However, it is good for both America's private banks and for our Government-sponsored Farm Credit System, which has been so diligent in repaying the Federal obligations it incurred as a result of the 1987 Agricultural Credit Act, and in streamlining and improving its operations.

More important, the act is also good for the farms, ranches, and agriculture-related businesses of rural America, which will benefit from enhanced credit opportunities.

Most important of all, the act is good for American taxpayers and consumers, who will appreciate and support its reliance on nonfederal resources--and who have a real stake in improving the health of American agriculture. I strongly support and look forward to its final passage.

Mr. LUGAR. Mr. President, I strongly support the Farm Credit System Agricultural Export and Risk Management Act, which Senator **Leahy** and I offer today on behalf of ourselves and Senator **Dole**. This legislation will encourage U.S. agricultural exports, remove burdensome regulatory requirements from the Banks for Cooperatives, and clarify legal authorities for Farm Credit System institutions to manage risk through loan participations and similar transactions that will benefit not only the System but also commercial lenders.

The Farm Credit System's borrower-owned institutions have made a phenomenal recovery from their near-collapse in the mid-1980's. It is appropriate that Congress continue to encourage the System to manage its risks prudently, structure its operations in a manner consistent with the changing nature of the U.S. financial system, and facilitate its borrowers' participation in the international marketplace. I believe this legislation will help accomplish all these goals.

The key provision of this bill affects the ability of the banks for cooperatives to finance agricultural export transactions. These banks--primarily the National Bank for Cooperatives, or CoBank--have had export financing authority since 1980. CoBank finances about \$2 billion of

U.S. farm exports per year, nearly all of which is backed by the Agriculture Department's GSM-102 Credit Guarantee Program.

CoBank is, in fact, the dominant player among lending institutions participating in the GSM-102 Program. Relatively few U.S. commercial banks have financed GSM-102 transactions.

The law presently requires that, in order to finance an export sale, CoBank must ensure that the exported commodities originated with a cooperative. This does not mean that a co-op must actually be the exporter; more typically, a commercial grain company would export grain that was sourced from co-op elevators.

Since CoBank is owned by its cooperative borrowers, the institution has an obvious desire to source the exports it finances from co-ops whenever possible. In some cases, however, it is difficult or impossible for the exporter to certify co-op origin to CoBank. In such circumstances, CoBank simply loses business, often to foreign banks.

Two years ago, Congress absolved CoBank of the co-op sourcing requirement with respect to exports to the former Soviet Union, reflecting the high priority of maintaining trade ties to those republics unencumbered by unnecessary redtape. The legislation before the Senate will, in essence, extend this authority to all export destinations, while requiring that priority be given to commodities originating with cooperatives. In addition, following consultation with representatives of both CoBank and the commercial banking sector, this legislation will include a limitation on the total amount of noncooperative-sourced exports that can be financed without Federal guarantees.

As I have already indicated, I believe that by allowing some flexibility to CoBank, we will achieve a number of desirable goals. We will reduce a regulatory burden that sometimes results in export financing business being forfeited to offshore institutions. By virtue of CoBank's dominant role in GSM-102, we will enhance that program's efficiency and its ability to facilitate U.S. export sales. We will encourage an expansion of U.S. agricultural export sales at a time when exports of many commodities are in decline. And by reducing the administrative cost of some transactions, we will enhance efficient operations in a major Farm Credit System institution, further shoring up the safety and soundness of the entire System.

The bill has several other provisions, all of which enhance the Farm Credit System's ability to keep up with changing practices in the U.S. financial system. Specifically, the bill will--

Authorize the banks for cooperatives to finance international joint ventures and partnerships in which U.S. co-ops hold an ownership interest, while prohibiting any such financing that would lead to any U.S. facilities being moved overseas;

Authorize all Farm Credit System institutions to use risk management authorities presently available to the banks for cooperatives, by participating in loans to entities similar to those eligible to borrow from the System, but not holding more than a 50-percent interest in such loans;

Clarify the System's current authority to participate in loans originated by other financial institutions by ensuring that this authority will keep pace with evolving banking industry practice, permitting the System to take part in syndications and similar transactions.

In each case, these changes will enhance the System's ability to reduce its concentration of risk in terms of geography, industry, and account exposure. System institutions both purchase and sell participations from and to other lenders, a practice that is important particularly in the case of larger loans. For example, CoBank recently administered a \$650 million syndication for Farmland Industries, Inc., a major farmer-owned marketing and supply cooperative. Seven commercial banks joined CoBank to provide funding for the syndication, illustrating the growing number of cases where banks and System institutions are working together harmoniously to meet the credit needs of rural America.

It is important to note that the legislation will not give System institutions an unfair advantage over the commercial banking industry. For example, in the case of loans to agricultural entities that are similar to System borrowers, the System would be prohibited from providing 50 percent or more of the funds for such loans, ensuring that the System's use of loan participations will be limited to those cases where commercial lenders desire to involve the System, and that the System still will not be able to originate loans of this type. As I have previously mentioned, there are also strict limits on CoBank's ability to finance export transactions not originated by cooperatives where these transactions are not protected by Federal credit guarantees.

Mr. President, I am pleased to join Senators **Leahy** and **Dole** as a sponsor of this important bill. Identical legislation has been approved by the House Committee on Agriculture, and I hope congressional consideration of the measure can be concluded in this session and the bill sent to the President. Let me again urge all Senators to support the bill.

I would like to clarify one aspect of the legislation before us, and ask the chairman of the Agriculture Committee whether his understanding is the same as mine. In the expanded authority for CoBank financing of export transactions in section 4, the products eligible for such financing include farm supplies. Does the chairman concur that authority to finance sales of such products is also contained in current law, and that the existing statute uses the identical phrase "farm supplies"?

[Page: S14236]

Mr. LEAHY. That is my understanding. What is being changed in this bill is the current requirement that every export sale, without exception, be sourced from a cooperative. The product coverage of the current law is not being changed.

Mr. LUGAR. At present, I am told, farm supplies are understood to comprise inputs for use on the farm. The phrase is not considered to include such items as agricultural processing equipment, machinery used in food manufacturing, or similar capital goods for off-farm use. Does the chairman agree that nothing in this bill should be construed to imply a change in the current understanding of the phrase "farm supplies"?

Mr. LEAHY. The Senator is correct. We are not expanding that kinds of products that are eligible for CoBank financing; we are allowing for limited exceptions to the current requirement that all such products originate with cooperatives.

Mr. LUGAR. I thank the Chairman.

END

Senator Patrick Leahy - VT
Statement for the Record
U.S. Senate Committee on Agriculture, Nutrition, and Forestry
Farm Credit System Oversight Hearing
May 19, 2016

Vermont's agricultural economy, at \$776 million, is the largest in New England, and it is continuing to grow. We take pride in our dairy farmers, foresters, maple sugarmakers, apple farmers, cheesemakers, and so many others that make up Vermont's working landscape. Needless to say, the availability of capital to Vermont farmers and our nation's farmers, and to those businesses that support farmers, is essential to our agricultural and rural economy. In Vermont, the Farm Credit System (FCS) has filled that need. Yankee Farm Credit is a critical source of credit for farmers, serving over 1,000 customers across all 14 counties, as well as additional customers in several counties in New York and New Hampshire.

Vermont is home to more than 850 dairy farms that are owned and operated by some of the hardest working families you will ever meet. The dairy industry in Vermont contributes \$2.2 billion in economic activity to the state every year. Yankee Farm Credit has provided \$213 million in loans to more than 400 dairy farmers in the state, and the importance of this access to capital cannot be overstated. Business has not been easy for our dairy farmers, who are constantly on a roller coaster when it comes to their prices, and today the price of milk is stubbornly stuck at low levels. It is hard for established dairy farmers to make ends meet, and even more difficult for our young farmers to get started in the dairy industry. Yankee Farm Credit has helped generations of these farmers when they would not otherwise qualify for regular credit.

For example, Yankee Farm Credit in partnership with Sterling College, the Center for Agricultural Economy, and the Farmer Veteran Coalition, has established a Veteran College-to-Farm Program. Yankee Farm Credit helps veterans who are admitted and enrolled in the Sterling College program start farm and food businesses after graduation. Each veteran who meets the criteria of the program is provided with access to business and financial planning, consulting, and management development programs. Qualified participants are also eligible for the FarmStart program, which includes up to a \$50,000 working capital investment, a personal advisor, and assistance with a written business plan. It is wonderful to see this collaborative effort to help America's veterans who are transitioning from service to college, and from college to successful agricultural business owners.

In a small state like Vermont, farming is often at the core of our communities. Folding new farmers, like our veterans, into the fabric of our state is essential to the industry's success. Counter to some of the comments in the testimony before this Committee today, Yankee Farm Credit has played a particularly important role in supporting these young people in farming. In 2014, 36 percent of Yankee Farm Credit's loans went to small farms with less than \$250,000 in annual sales. And often, full-time farming only partially contributes to a family's income, so having a safety net of institutional support to help in the success of new farmers and their families is important. In Vermont, Yankee Farm Credit does just that and I know they are representative of what the FCS is doing across the country.

Whether a private lending institution, a cooperative, or one that lends through federal grant programs – it is our shared goal to build-up our economy and support our farmers through both good times and bad. As a former Chairman of the Agriculture Committee, and having worked closely with Senator Lugar on many bipartisan bills, I remember well the passage of the Farm Credit System Agricultural Export and Risk Management Act of 1994. That Act aimed to help Farm Credit institutions and private banks to better manage and reduce the concentration of loan loss risk by expanding the FCS's ability to purchase and sell loan participations from commercial banks and other non-system lenders.

We have heard arguments that the FCS has an unfair competitive advantage over the commercial banking industry and is not sticking to its original mission by lending to similar entities. However, in this very Committee we considered those concerns in 1994. The issue was debated at length, and provisions were included to limit participation in the FCS. Over the years, there have been many examples where private banks and the FCS have worked together to meet the credit needs of rural America and have found this cooperation to be mutually beneficial. In Vermont, Yankee Farm Credit works collaboratively with its partners to not only to share in our state's success stories, but to provide relief to an industry that is prone to economic vulnerabilities. There are several lending institutions in Vermont that make agricultural loans, and this provides a healthy choice for eligible borrowers. I continue to believe that the diversification of financing for rural communities will ultimately benefit all lenders and enhance America's agricultural and rural economy.

**SENATE COMMITTEE ON AGRICULTURE, NUTRITION &
FORESTRY**

FULL COMMITTEE HEARING

**The Farm Credit System: Oversight and Outlook of the Current
Economic Climate**

Thursday May 19, 2016

Senate Russell 328A Senate Office Building

Opening Statement

Senator John Thune

- Chairman Roberts and Ranking member Stabenow, thank you for holding today's hearing on "The Farm Credit System: Oversight and Outlook of the Current Economic Climate."
- Mr. Chairman, I request that this article from the *Mitchell Daily Republic*, a newspaper that serves the heart of South Dakota, be submitted for the record.

- According to this article, based on a study conducted by Mitchell Technical Institute, South Dakota farmers saw a drop in income of more than \$100,000 last year - or a decline of nearly 77 percent in net profit in 2015 - compared to the year before.
- Mr. Chairman, one of our witnesses here today is planting his corn and soybeans at a breakeven level for the second year in a row.
- And none of us here today expect the agriculture economy and net profit to improve any time in the next couple of years – or longer.
- With shrinking land values, and most commodity and livestock prices at or below production costs agriculture lending is critical to sustaining agriculture production in the United States – especially in states like my home state

of South Dakota with agriculture the number one industry.

- Mr. Chairman, we have witnesses here today from banks, the Farm Credit Service, Farm Credit Administration regulators, and a farmer.
- What we need to know today is whether there is anything under the jurisdiction of this committee it needs to do to ensure agriculture lending is stable, dependable, and consistent – and that ag lenders will be there for our farmers and ranchers during this downturn in our agriculture economy.
- I have a few questions for our witnesses:



**The Farm Credit System:
Oversight and Outlook of the Current Economic Climate**

Gus Barker

on behalf of the

Independent Community Bankers of America

United States Senate
Committee on
Agriculture,
Nutrition, & Forestry

May 19, 2016
Washington, D.C.

The Farm Credit System: Oversight and Outlook of the Current Economic Climate

Introduction

Mr. Chairman and members of the committee, thank you very much for the opportunity to testify today. This topic is of great interest to thousands of community banks serving rural America and the banking industry in general.

My name is Gus Barker. I serve as the President and CEO of the Community Bank of Oelwein in Oelwein Iowa. I am testifying today on behalf of the Independent Community Bankers of America (ICBA)¹.

Community Bank of Oelwein

Community Bank of Oelwein is a full-service bank employing exceptional bankers who work with our customers, providing them with products they need while treating them like a friend. We know our customers on a first name basis and work closely with them. Our success is measured by the relationships we build with our customers and the individualized hands-on service we provide to them. Our bank is located in the Northeastern part of Iowa. Our ag borrowers produce corn, soybeans and livestock; including hogs, dairy and cattle.

The town of Oelwein was laid out in a corn field purchased from G.A. Oelwein on the coming of the Burlington, Cedar Rapids and Minnesota Railroad (later called the Rock Island) in 1872. Today, Oelwein's population is approximately 6,400 people. Oelwein is proud of our wide variety of retail businesses, unique shops, restaurants, industries, hospital, airport and other public amenities. We are fortunate to have an excellent school system including the Regional Academy for Math and Science (RAMS) center and a Northeast Iowa Community College satellite center. In addition, Oelwein is home to a daily newspaper since the 1800's and a radio station for 65 years.

¹ About ICBA

The Independent Community Bankers of America® (ICBA), the nation's voice for nearly 6,400 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services. ICBA members operate 24,000 locations nationwide, employ 300,000 Americans and hold \$1.3 trillion in assets, \$1 trillion in deposits and \$800 billion in loans to consumers, small businesses and the agricultural community. For more information, visit www.icba.org

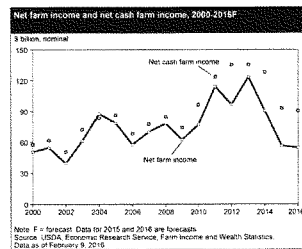
On a broader scale, community banks play an important role in the nation's economy. There are approximately 6,400 community banks in the U.S. and the vast majority of these are located in communities of 50,000 or fewer residents. Thousands of community banks are in small, rural, and even remote communities. Community banks provide more than one-half of all agricultural credit from the banking sector. Community banks under \$1 billion in assets extend approximately 56 percent of non-real estate loans to the farm sector and 62 percent of the real estate credit. Community banks also provide approximately 40 percent of all small business loans even though they hold only 10 percent of banking industry's assets.

Focus of Testimony

Mr. Chairman, given the growing awareness of the low prices and evolving stress in rural America, our testimony touches on this issue. We also discuss the key focus of this hearing – the activities of the Farm Credit System (FCS) and their complicit regulator, the Farm Credit Administration (FCA). Our testimony also provides several recommendations to the committee for consideration as we look to writing the next farm bill.

The Current Credit Situation in Rural America

This committee is obviously aware that the current low farm prices have resulted in a decline in net farm income to a projected level of \$54.8 billion for 2016 – the lowest level since 2002 in both real and nominal terms. That is less than one-half of the \$123 billion farmers received in 2013. This year's projected net farm income is also significantly less than the \$80 billion ten-year average. The 2016 projections therefore indicate a drop in **net farm income** of about three percent from 2015 levels and a drop in **net cash farm income** of 2.5 percent from 2015 levels to approximately \$91 billion.



Farm debt is projected to increase by 2.3 percent. The value of total farm sector equity is forecast down by about \$55 billion or 2.2 percent in 2016, as farm sector assets are seen declining and debt levels increasing relative to last year which includes farm real estate values being down slightly less than \$30 billion or 1.2 percent.

We had seen production expenses increase rapidly, at an annual rate of 9 percent from 2010 to 2014 but fortunately production expenses have dropped the last two years, with USDA's projected decrease of 1 percent this year, or \$3.8 billion following a decrease of about \$10 billion last year. Hopefully these projected declines in production expenses will be realized.

Over the last several years, community banks have been able to serve their farm borrowers by providing ample credit at near historically low interest rates. However, the decline in farm income noted above has placed stress on the ability of farm borrowers to cashflow. I would expect many community banks would be similar to ours in stating many of their farm borrowers are at best breaking even and that would only be if borrowers have low debt levels and low carryover debt. In the worst position would be young, beginning and small farmers (YBS) particularly if they have high debt levels or if they have little to no backing from their extended family or their parent's farm assets.

These are the farmers that would be most at risk of having to exit production agriculture. However, if low farm prices continue over the next couple of years we are likely to witness a larger exodus of farmers from agriculture, including larger farmers and ranchers.

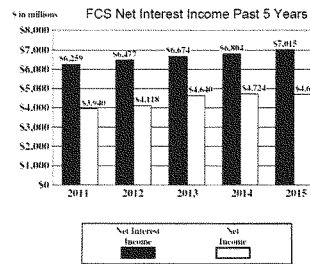
Many community banks will be seeking to keep their farm borrowers viable and will be looking to increase their use of USDA farm operating and real estate (ownership) loans. At the end of this statement are some of our initial recommendations for the next farm bill.

We have heard from bankers regulators are now very closely scrutinizing bankers' ag loan portfolios during examinations. Regulators have told bankers they are paying very close attention to ag loans. Since we may be only at the beginning of stressful times in agriculture, it is important that regulators not over react and put unnecessary pressures on ag lenders. Ag lending is often cyclical in nature with good times followed by bad and good ag lenders know how to weather these intermittent economic storms. As has been said, many of the best loans are made in difficult times. We urge members of this committee to discuss these issues with regulators and urge them not to over react or try to artificially limit ag lending.

Farm Credit System Growth and Tax Rate

At the end of 2015, the FCS's total assets had reached \$304 billion, an 86 percent increase from just 10 years earlier (2006) when FCS assets totaled \$163 billion. At the end of 2015, FCS gross loans stood at \$236 billion, an increase of 92 percent from a decade earlier. FCS had net income of approximately \$4.7 billion at the end of 2015 and paid slightly less than \$200 million in income taxes.

FCS income before taxes was slightly less than \$5 billion with an effective tax rate of



Farm Credit Bank Funding Corporation Annual Income Statement for 2015, page 39

approximately 4 percent. By comparison, my bank is taxed as a C Corporation with a tax rate of 34 percent at the federal level and 5 percent at the state level – nearly 40 percent tax burden in total. In addition, FCS can grow their retained earnings tax-free, also a significant benefit.

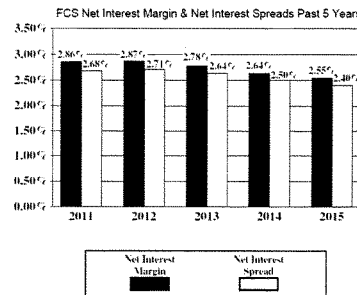
The FCS's allowance for loan losses (ALL) as a percentage of loans outstanding at year-end 2015 was only 54 basis points. Some FCS lenders have an even lower allowance for loan loss percentage (e.g. 23 basis points). By contrast, my bank's ALL is 186 basis points (1.86%). The FCS Funding Bank does admit, "The determination of the amount of allowance for loan losses taken on our assets is highly subjective and these estimates could materially impact our results of operations or financial condition."²

Our regulators require us to have adequate reserves for potential loan losses. These reserves come out of profits, thus reducing the amount of dividends we can provide our shareholders. FCS's lower ALL expense makes it easier to increase their equity allowing FCS to pay greater dividends, a key FCS marketing tool to attract new customers.

Either the FCS is taking a high degree of risk by not providing for adequate allowance for loan losses or the credit quality of their loan portfolio is extremely high. If the latter is the case, it is due to the FCS cherry-picking the best loans from community banks, leaving community banks with loans of lower credit quality.

This raises questions of whether the System is adequately protecting against potential future losses or whether the FCS is relying on the federal government bailing out the System in the event of a major future loss. For example, the FCA has in recent years obtained a \$10 billion line of credit (LOC) from the U.S. Treasury and did so without scrutiny by Congress in terms of having the appropriate Congressional oversight committees conduct hearings on the credit line. See comments on FCS's LOC below.

The FCS's Insurance Fund is currently capped at a "secured-base-amount" of 2 percent of the aggregate outstanding insured obligations (adjusted to reflect the System's reduced risk on loans and



Farm Credit Bank Funding Corporation Annual Income Statement for 2015, page 40

² 2015 Annual Information Statement of the Farm Credit System, Federal Farm Credit Banks Funding Corporation, March 7, 2016, page 30

investments guaranteed by federal or state governments). If FCA, which controls the insurance fund, believes a \$10 billion LOC is necessary, then the reality is the FCS likely needs to be collecting more FCS premiums to expand the insurance fund rather than rely on the U.S. Department of the Treasury and FCS associations need to raise their allowance for loan losses.

Due to its largely tax exempt status, the FCS is able to lower their rates to the cream of the crop borrowers while maintaining the same net interest margin and net interest spread, if not more, as community banks on the same loans. But community banks need to have a higher NIM/NIS on their loans to achieve a similar level of profitability as the FCS due to taxation and the higher costs of maintaining a deposit collection infrastructure. However, FCS typically has a significantly higher return on investments (ROI) than community banks.

With these significant government-derived advantages, where does the FCS place its focus? On young, beginning or small farmers? No. 86 percent of FCS loan volume is derived from loans over \$250,000. Two-thirds of FCS loan volume is from loans of over \$1 million. Over 45 percent of FCS loan volume comes from loans over \$5 million. By contrast, approximately 75 percent of my bank's farm loans are less than \$250,000. So it is obvious which type of lenders are really serving the young, beginning and small farmers – community banks.

Farm Credit System Abuses

In recent years we have asked bankers questions covering both the farm economy and the activities of the Farm Credit System (FCS) in their local markets. FCS is a tax advantaged, government sponsored enterprise (GSE) which was given tax and funding advantages by Congress in the early years of the previous century with the expectation the FCS would provide farmers and ranchers access to credit at a time when access to credit was much more limited than it is today, particularly for long-term, fixed-rate financing. However, the bankers' responses discussed below are quite troubling regarding the FCS's current activities.

Whenever we've asked ag bankers if they have lost loans to the FCS the response is always "yes". When we've asked whether the loss of loans to the FCS is a result of FCS undercutting banks on their loan rates or a result of the FCS providing better service, the response has always been that FCS lenders undercut loan rates of community banks by offering below market rates in an effort to cherry pick their best customers. In no case have bankers said the loss of loans is a result of FCS providing better service.

We also asked whether FCS's activities targeted primarily the financially strongest bank customers or a broad mix of customers regardless of financial strength. Nearly all bankers have stated FCS exclusively targets their financially strongest customers. As one banker stated, "I haven't seen FCS take any customers except the best and the biggest."

Bankers typically state that 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 FCS attempts to take them away once they become financially stronger."

In fact, within the past week a banker submitted the following quote from one of his young farm borrowers who is frustrated with the FCS's practice of charging higher interest rates to young, beginning and small borrowers and lower interest rates to the FCS's best customers:

I am a young beginning farmer and was offered a loan through my local FCS with a rate of 8.5 percent along with the requirement of additional real estate pledged by my parents and my dad's co-signature on the loan. My local community bank offered their base lending rate of 5.25 percent along with my dad's guarantee for a 5-year period. It was clearly obvious to me FCS was only interested in taking advantage of me with a higher rate. My neighbor, who is a large farmer, recently closed a real estate loan with an interest rate of 3 percent. Is this really the purpose of a tax subsidized entity? Upper Midwest YBS farmer

This young farmer asks a very legitimate question. Why is the FCS primarily using its tax subsidies to the benefit of larger farmers who have no problems accessing credit? Is this really why Congress chartered this GSE? We think not. While the FCS may lend to a few YBS farmers here and there, these farmers are not their preference and appear to be the exception, not the rule. The FCS has lost its way and its mission challenged.

The Harmful Impact of FCS Actions on Credit Availability to Rural America

We also asked bankers if FCS practices harm community bank loan portfolios and undermine community banks' ability to make agricultural credit available in their marketplace. Bankers say this is the case, noting FCS targets the best operations, attracting these businesses through below market rates that community banks are unable to match since they lack the tax and funding advantages of this GSE. Community banks cannot match the below market rates that FCS offers to the best customers and still remain profitable and pass regulatory scrutiny. Bankers note there is **stiff competition** among banks for farm loans; however, they cannot match the below market rates offered by the FCS to their best customers.

The large, more stable operations are important to community bank portfolios as they spread lending risks over both small and large operations. By targeting large and more stable borrowers, FCS's actions elevate the risks in community banks' agricultural loan portfolios.

As one banker explained, "Almost every community and regional bank in our market is more than willing to make agricultural loans (operating, equipment and real estate), yet find ourselves undercut by FCS in all those categories."

One bank stated, “Not only is there an issue with FCS lenders cherry picking the best loans in community bank portfolios, but also when FCS urges the newly acquired customers to move their deposit accounts to one of the large banks, thus taking deposits out of local, small communities and hurting the economic base of these remote, rural communities. This hurts community banks’ ability to loan funds locally because of lower deposit balances.”

FCS activities weaken community banks across the board. FCS primarily targets top borrowers, offers these top borrowers below market rates and is willing to fix those below market rates at longer terms or time periods. By taking top borrowers from community banks, FCS weakens the overall community bank portfolio, and leaves the less seasoned/younger borrowers and higher leveraged borrowers with community banks. Similarly, if community banks stretch to keep top borrowers, community banks must accept negligible returns and assume higher interest rate risk by fixing the rate for a longer period.

100 Years of Lavish Subsidies for the FCS

FCS has sought to mislead Congress and disparage these surveys by suggesting they are simply the result of bankers fearing competition and they suggest the survey results cannot be trusted. However, this ignores the fact that bankers compete with many lenders virtually every day in their local markets. Number wise, community banks are community banks greatest competition. There are thousands of community banks and thousands more bank branches. Competition is quite fierce. Therefore, the FCS’s attempts to disparage banker responses lack integrity and are self-serving; particularly since various FCS lenders release their own surveys from time to time.

The banker survey results are not an orchestrated attempt by ICBA to prevent greater competition for the community ag banking industry. In fact, the FCS’s Funding Corporation stated in its 2015 FCS annual income statement, “**The financial services industry is highly competitive.** The System operates in a competitive marketplace in which there is competition from banks and non-bank lenders.”³

We would urge Senators to randomly contact a variety of ag bankers in their states and ask these same types of questions. We believe the resulting conversations will cast much light on the inappropriate practices of the FCS.

The truth is the FCS recognizes it has significant advantages due to its lavish tax subsidies and funding advantages over community banks. Thus, FCS advocates desperately seek to protect these generous subsidies. While the FCS is celebrating its 100th anniversary this year, their longevity has resulted from 100 years of lavish subsidies and a multi-billion dollar bailout during the 1980’s farm credit crisis.

³ *Ibid.*, page 28

Meanwhile, there are many community banks over 100 years old and these banks have survived and stood with their customers through good times and bad times without access to the same subsidies enjoyed by the FCS.

However, currently, the FCS is becoming increasingly aggressive and disruptive in their efforts to cherry pick loans from community banks and is now seeking to expand into non-farm lending activities. By venturing into non-farm lending the FCS is seeking to become the equivalent of commercial banks but with huge tax and competitive advantages over community banks. This FCS mission creep, or more appropriately mission sprint, jeopardizes the viability of community banks including community banks that have served their communities for many decades.

The purpose of a GSE is to fill credit gaps. Congress intended for FCS to help ensure an adequate amount of credit was available for agriculture and work with community banks – not be a predator using government derived advantages to siphon off the best loans from small banks in rural America. FCS wrecks community banks loan portfolios while contributing nothing to the tax base of rural communities and while typically ignoring young, beginning and small farmers unless such farmers have significant assets backing them.

Removing the “FARM” from the “Farm” Credit System Mission

The FCS is positioning itself as a general purpose rural lender, thus taking the “Farm” out of the “Farm Credit System.” The FCS is a GSE, granted several unique advantages not afforded to the private sector. These advantages were intended to allow the FCS to serve the specialized niche of agricultural producers and their cooperatives, initially by providing long-term, fixed-rate financing. However, we are seeing the FCS plunge into non-farm related activities.

We asked bankers whether FCS was making non-farm loans in their marketplace. Several banks stated that FCS was indeed making non-farm loans. The FCS’s regulator, the Farm Credit Administration (FCA), is complicit in aiding and abetting this illegal behavior. This is despite Congress refusing to grant broad non-farm lending authorities to FCS when FCS sought such authorities as part of its misguided and ill-received “Horizons Proposal” during the 2008 farm bill deliberations.

Illegal Investment Schemes – Through its ‘Investments in Rural America’ scheme, the FCA has sought to grant the FCS powers to engage in practically all types of non-farm lending. These activities were initially granted as ‘pilot projects’ that enabled FCS lenders to engage in loans to hospitals, commercial offices (doctors, lawyers), manufacturing, apartment complexes, hotels and motels, etc. While their initial regulation to grant national, blanket authority for these activities was withdrawn due to a massive amount of objections, the FCA has now issued

guidance in the form of an “informational memorandum (IM)” to allow these same activities if approved by FCA on a case-by-case basis.

We point out that these are loans, not ‘investments’ and they are inconsistent with the statute’s focus on agricultural based lending. Under their IM guidance, FCA has claimed authority to make loans that go beyond the lending constraints of the Farm Credit Act (Act) if such loans are simply labeled as investments.

FCA issued its IM even before issuing its proposed regulation on this same topic.⁴ In discussing its investment proposal, the FCA stated (section 615.5143, management of ineligible investments) “we propose to clarify that no investment is ineligible if it has been approved by the FCA.” This statement indicates FCA’s belief the agency can approve any lending purpose if such loans are called “investments” even when the purpose of the investment exceeds the lending constraints of the Farm Credit Act (Act).

Congress did not authorize an “anything goes” mentality for FCA’s approval of investments. The rationale for FCS investments in the Act is to allow FCS to hold high-quality, readily marketable investments to provide sufficient liquidity for ongoing operations; to manage interest rate risk; manage surplus funds, for example, by allocating such funds to be deposited in commercial banks as stated in the Act and for other similar purposes. ICBA strongly objects to FCA’s approach to allow FCS to finance businesses and to finance community, infrastructure and other activities since such activities undermine the Act’s limits on loan purposes and since such activities represent a non-legislated, dramatic expansion of powers for FCS which has no basis in legislative history.

FCA’s interpretation of its investment parameters now include not only legitimate investments authorized in statute but many activities that would more appropriately be considered loans and does so in a way that allows an unlimited number of purposes and activities, as referenced in its informational memorandum.

FCA’s proposed regulation references “investment eligibility criteria,” but not in the context of scope and eligibility parameters but rather in terms of whether FCA views the investments as having appropriate risk characteristics, credit quality, and liquidity features. FCA’s proposal does not foster FCS adherence to the limited purposes of the Act’s loan making activities, but undermines adherence to the Act’s limitations on loan making.

⁴ Proposed Rule, Investments Eligibility, 12 CFR Parts 611 and 615, RIN 3052-AC84, October 30, 2014

Especially troubling is FCA calling loans “investments” in an effort to skirt the loan making constraints of the Farm Credit Act (Act) but refusing to define the difference between an investment bond and a loan. When asked, FCA nonchalantly responds that it isn’t aware of a definition distinguishing between bonds and loans even though FCA is the entity developing this regulatory hodgepodge.

FCA’s main response about the distinction between bonds and loans is that it would depend on what the structure of a credit is as to whether it is an investment. This is a total non-response aimed at facilitating a scheme to allow FCS lenders to make illegal loans while calling them “investments” when FCS desires to circumvent the Act.

Questions on FCA’s Investment Scheme – When was there ever a hearing on this subject in Congress? When did Congress ever discuss this major expansion of FCS powers? Why would Congress want to allow FCA to completely abrogate its authority and step out from under Congressional oversight on non-farm lending? What is the difference between an investment bond and a loan?

\$725 Million Verizon Loan – Additionally, the FCA apparently was completely unaware that CoBank, the FCS’s largest institution, had 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 based. While the FCA has excused this illegal loan as eligible under the Farm Credit Act’s ‘similar entity’ provision, this provision was never intended to allow FCS lenders to make loans that are completely different from loans that are eligible under the statute. FCA is again abandoning their regulatory oversight responsibilities in an effort to go to any length necessary to allow FCS lenders to make whatever types of non-farm loans they desire.

CoBank has also entered into several other “similar entity” loans while the FCA has hid its regulatory head in the sand. These loans include: \$225 million to U.S. Cellular; \$200 million to AT&T; \$350 million to Frontier Communications and a large loan to a fortune 500 alcohol distributor, Constellation Brands, among others.

FCS’s \$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 Farm Credit System Insurance Corporation (FCSIC) for the purpose of establishing a standby line of credit to provide FCS lenders funds at the Treasury’s cost of funds.

FCSIC was established by the Agricultural Credit Act of 1987 to ensure the timely payment of principal and interest on insured notes, bonds and other obligations issued on behalf of the FCS. 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? Why did the FCA not seek official Congressional approval for a \$10 billion line of credit? Where is the legislation Congress adopted authorizing this LOC specifically on behalf of the FCA's request? When was there a Congressional hearing on this matter? Where are the Congressional letters supporting a \$10 billion LOC for the FCS?

The FCS's response – on behalf of the FCA thus showing complicity – is that they had some undisclosed meetings with a few members of one of the Congressional agriculture committees in order to get a wink and nod to go forward. It is troubling that the FCS and FCA seek to conduct their activities behind closed doors without public accountability.

Why did the FCA take an action which ultimately puts the American taxpayer on the hook for bailing out FCS lenders if one or more were to fail? When the FCS failed in the 1980s, the farmland values which the FCS utilized as collateral had collapsed. 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, American taxpayers would be on the hook for the bailout.

It would appear the FCA desired to lower the FCS's costs even further by acquiring this LOC. The FCSIC was created to collect premiums from FCS institutions as a backstop in the event of financial deterioration within the System. With this massive LOC, the FCSIC apparently feels it won't have to collect appropriate levels of insurance premiums and won't have to force FCS lenders to increase their allowance for loan losses, allowing FCS lenders to continue providing below market loan rates, and allowing FCS lenders to siphon more loans from community banks, all on the back of the American taxpayers.

Further, a report⁵ to the FCSIC by the Brookings Institution on behalf of FCSIC stated: "FCS should be required to approach the Congress and the administration for legislative help." Yet, FCA did not go to Congress but secretly went to the Treasury to obtain this line of credit.

⁵ The Brookings Institution: Farm Credit System Liquidity and Access to a Lender of Last Resort, Report for the Farm Credit System Insurance Corporation, page 8, Kohn and McGarry;
<http://www.brookings.edu/~media/research/files/papers/2012/11/06%20farm%20credit%20system%20liquidity%20kohn/06%20farm%20credit%20system%20liquidity%20kohn.pdf>

FCA Refuses to Disclose Illegal Activities – This lack of transparency is troubling on the part of the FCA. It is also evident when the FCA refuses to disclose illegal activities and disciplinary actions in a public manner such as on their website. Banking regulators make such disclosures, why shouldn't the FCA? Apparently, the FCS is frightened that any of their illegal activities should come to light as this could cause "reputational" harm. Unfortunately, it again shows the covert collusion between the FCA and the FCS in an effort to maintain and prolong their 100 years of lavish subsidies. The public has a right to know what is going on within FCA and FCS.

There are a broad number of concerns that Congress needs to explore in their oversight capacity regarding the FCS. Congress should not lose sight of the activities of this GSE, particularly at a time when Congress is debating what to do with other GSEs. Certainly this GSE needs to have greater congressional scrutiny and greater transparency.

In addition, the Act needs to be amended to address the loopholes the FCA and FCS are utilizing to stray from their mission and harm community banks and rural America.

Preparing for the Next Farm Bill

With the writing of a new farm bill just around the corner, we offer these recommendations for the committee to consider. We plan to offer additional details on these proposals at an appropriate time.

Crop Insurance – The availability of crop insurance is a key element to ensuring credit access to our nation's farmers and ranchers. Crop insurance allows community banks security for loan repayments if disastrous weather strikes. It is important Congress not diminish the effectiveness of the crop insurance program through the adoption of amendments that result in restricting the ability of producers to enroll or discourage producers from obtaining high levels of coverage. Nearly 90 percent of insurable acreage is covered by federal crop insurance in the U.S., amounting to insuring approximately 300 million acres of production.

USDA Guaranteed Farm Loan Programs – It is extremely important that Congress raise the lending limits for the USDA guaranteed farm operating and ownership (real estate) programs from the current 1.4 million loan limit to \$2.5 million or greater to reflect the higher cost levels of modern day agriculture. We also need to ensure ample funding for these programs given the likelihood of greater demand by farm borrowers. This would be particularly useful to provide greater funds for the guaranteed farm operating program in the near future to ensure adequate funding to meet loan demand.

There is not a cost for guaranteed farm operating loan program as this program is self-funding based on the origination fee. There is only a very slight cost to the guaranteed farm ownership program. Therefore, Congress could accommodate billions of dollars in additional credit to farm borrowers with only a minimal cost to the federal government, ensuring the survival of thousands of family farmers. The direct loan programs could also be enhanced, thus providing additional help to farmers.

USDA Rural Development & Housing Programs – We were pleased to see USDA's announcement it will lower the origination fees for its guaranteed housing program effective October 1st. The upfront guarantee fee structure for the Single Family Housing Guaranteed Loan Program (SFHGLP) for fiscal year 2017 (Oct 1, 2016 – Sept. 30, 2017) will be reduced from 2.75 percent to 1.0 percent of the loan amount. The annual fee will also be reduced from 0.50 percent to 0.35 percent of the average scheduled unpaid principal balance for the life of the loan.

It is also very important the upfront fees be reduced for USDA's Business and Industry (B&I) loan program as well. For example, the upfront fee for the B&I program is currently 3 percent. Therefore, a \$1 million B&I loan would cost \$30,000 to the borrower just for the origination fee. On a \$5 million B&I loan, the origination fee would be \$150,000. Borrowers also have to pay for expensive studies, such as feasibility studies, business plans and so forth under very strict guidelines. We have been told the high cost of the fee is based on failed ethanol loans made over two decades ago. The fees need to be lowered for this program and reflect modern loss ratios.

Conclusion

Mr. Chairman, thank you for the invitation to testify today. Farm and ranch borrowers continue to benefit from very low interest rates. However, community bankers must be allowed by regulators to provide credit and work with farm customers particularly if low commodity prices endure for the next few years.

FCS has gotten off the farm in terms of its mission, the large customers they are targeting in an effort to lure them away from community banks and in terms of questionable similar entity loans and investments for non-farm purposes. More attention and scrutiny needs to be paid to the FCS's inappropriate activities and the illegality of their actions as well as to the FCA's *laissez-faire* attitudes towards regulating the mission of this GSE and the scope and eligibility of FCS borrowers. FCS's reckless actions undermine rural credit availability as FCS drives community banks out of rural markets by leveraging their unique GSE advantages to lend to the very best customers. FCS is mission challenged.

We look forward to making recommendations on farm credit and farm bill related issues and discussing these issues in more detail with committee members.

**Statement by Farm Credit Administration
Board Member Jeff Hall
U.S. Senate Committee on Agriculture
May 19, 2016**

Chairman Roberts, Ranking Member Stabenow, and Members of the Committee, it's a distinct honor to appear before you today. I am Jeff Hall and it has been a little over a year since this Committee forwarded my nomination for confirmation. I welcome this opportunity to return today to testify as a Board Member of the Farm Credit Administration (FCA).

The Farm Credit Administration is an independent, arm's-length regulator of the Farm Credit System which includes Farmer Mac. Our agency examines the System institutions for their safety and soundness and their compliance with laws and regulations, providing heightened oversight of institutions with higher risk.

The Farm Credit System (FCS or System) was created to provide a permanent, reliable source of credit to U.S. agriculture. When Congress enacted the Federal Farm Loan Act in 1916, credit often was not always available or affordable in some rural areas. Many lenders avoided farm loans due to the inherent production and price risks of agriculture.

The FCS is now authorized to lend to eligible and credit worthy agricultural producers. Loans may also be made to finance the processing and marketing activities of these borrowers; for home ownership in rural areas; certain farm or ranch-related businesses; and agricultural, aquatic, and public utility cooperatives.

The foundation of the System is its cooperative structure. Agriculture has changed in many ways and will continue to change, but the guiding principles of the cooperative model continue to stand the test of time. Member ownership and governance are a key ingredient of the System's success.

The System's nearly century-long mission of providing sound, dependable credit for U.S. agriculture and rural America is just as relevant today as it ever was. The Farm Credit System is our nation's leading lender to U.S. farmers, ranchers, and agricultural cooperatives. It has more than \$220 billion in outstanding loans to more than 500,000 members.

The health of the System today is due in no small part to the foresight of many Members of this Committee. During the agriculture credit crisis of the 1980s, Congress

made some very important changes to the Farm Credit System that gave it the opportunity to emerge stronger and better able to serve rural America and meet its mission.

As you well know, farm income is projected to decline for the third consecutive year. Virtually all commodity prices are lower than any time in the past five years. Farm debt continues to increase and many farmers and ag business have been forced to draw from the equity they had built. Fortunately, agriculture has entered this down cycle from a position of strength with historically low interest rates helping to hold down debt levels. There are challenges ahead and the Farm Credit System is well situated to remain a reliable source of credit.

One of the fundamental strengths of the Farm Credit System is its diversity. The geographic diversity helps spread weather and production risks and the diversity of the various enterprises and commodities help spread price risks. The diversification of the investment portfolio spreads industry risks. With over seventy different associations, management risk is not isolated in just a few hands. The broad mix of small farms and large farms, young farmers and experienced farmers helps spread concentration risks.

Chairman Roberts told me as I sat at this table a little over a year ago to get outside of Washington and go meet people in the System. I am following that call to action and have experienced firsthand this diversity.

I've prioritized my travel in a way to meet with System borrowers, association boards and employees, the owners of the System, who are dealing with the present challenges and stress within the agriculture economy. Also, on my visits I want to learn about the consequences of the rules and regulations imposed by the Farm Credit Administration.

My trips and visits with member borrowers have helped greatly in my considerations and deliberations as a Board Member. Without input from the regulated community, my job would be much more difficult. I like to say that we may not always agree, but I will always listen.

At our March Board meeting, the Farm Credit Administration Board approved the new capital rule which will require the System to hold on to more and higher quality capital. By raising the capital requirements now, farmer borrower's investment in their association is better protected from impairment.

From the beginning of my term, Chairman Spearman has made internal controls a stated priority. I appreciate that he was willing to take the additional time to reopen the comment period which resulted in a better rule.

The Farm Credit Administration Board also adopted a booklet which provides guidance to the System on the use of similar entity lending authority. I understand reputation risk is a valid concern and adopting the booklet's increased examination and reporting requirements will give FCA an added tool to monitor similar entity lending activity. It will also give us an indication whether additional guidance is necessary from the Farm Credit Administration Board.

Both the capital rule and the similar entity booklet are good examples of the additional focus on internal controls. Modern agriculture and the financial service industry is more complex than ever. The Farm Credit Administration and the System will continue to strengthen the internal controls in order to maintain your confidence and carry on the legacy of service to American agriculture and rural communities.

Thank you again for inviting me to testify. There are many challenges that face the Farm Credit System. Having been a Federal Land Bank borrower in the early 1980s, I can say with confidence that the Farm Credit System is a much different system than when I was a borrower. I don't consider myself an advocate for the Farm Credit System. I do consider it my responsibility to assure a safe and sound source of credit to eligible borrowers and owners of this cooperative. When the System is safe and strong, we are doing our job as a regulator and the benefits of a dependable, competitive source of credit will keep rural America prosperous for many more years.

**Testimony of the Honorable Kenneth A. Spearman
Chairman and Chief Executive Officer
Farm Credit Administration
Before the U.S. Senate Committee
on Agriculture, Nutrition, and Forestry
May 19, 2016**

Introduction

Chairman Roberts, Ranking Member Stabenow, and Members of the Committee, I am Kenneth A. Spearman, Farm Credit Administration (FCA) Board Chairman and Chief Executive Officer. Along with my colleagues on the FCA Board, Dallas P. Tonsager of South Dakota, Jeffery S. Hall of Kentucky, and on behalf of all the dedicated men and women of the agency, it is a privilege to appear before you today.

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 banks and associations of the FCS form a nationwide network of borrower-owned financial institutions that provide competitive credit to all creditworthy farmers, ranchers, and other eligible borrowers.

FCA Mission

As directed by Congress, FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. The FCA Board recently completed our five-year Strategic Plan. Within that plan we outline the two important ways in which we accomplish our mission.

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 System 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 issuances, 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 enforcement powers, providing borrower rights to System borrowers with distressed loans, establishing the Farm Credit Insurance Fund to protect System investors, and creating the Federal Agricultural Mortgage Corporation.

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 adhere to safety and soundness standards. The Insurance Fund also helps by strengthening investor confidence in System debt.

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 ensure 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 Congress intended.

Farm Credit System Mission

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 the Commonwealth of Puerto Rico.

The System 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, rural utilities, and international agricultural trade. In addition, the System funds and discounts loans for certain "other financing institutions." And together with commercial banks, it provides credit to agriculture and rural America through participations and syndications.

As required by law, System borrowers own stock or participation certificates in System institutions. The FCS had about 1.3 million loans and approximately 500,000 stockholders at year-end 2015. Approximately 86 percent of the stockholders 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. The U.S. Department of Agriculture's latest data show that the System's market share of farm debt was 40 percent, compared with 42 percent held by commercial banks.

One of FCA's oversight roles is to ensure that 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. In fact, the System has served its mission during the difficult markets of the past years to help producers and rural America. 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 customer-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 that time, the System has met increased demands for financing machinery and higher input costs for producers. System institutions also helped Midwest borrowers affected by floods and worked with livestock producers, especially dairy and hog producers, as they made difficult decisions during stressful market conditions. Overall, the System continued to have access to funds and was

able to increase its lending to agriculture and rural America during a financial crisis and severe recession.

Condition of the FCS

The FCS remains fundamentally safe and sound and is well positioned to withstand the challenges facing U.S. agriculture during the current cyclical downturn. The depth and duration of market weakness is unknown, but it will continue to present challenges for the System until markets rebound.

The U.S. Department of Agriculture is forecasting lower net cash income in 2016 for the third consecutive year as receipts for crops and livestock decline in tandem. Continued weak farm prices stem primarily from large U.S. and global crop supplies and expanding livestock production. Average prices received by farmers for corn and soybeans have dropped sharply from records posted in 2012 and remain near or below levels last received in 2007.

Because of lower prices, margins for many crop producers in 2016 are expected to remain low or negative. For livestock producers, lower crop prices translate into lower feed costs, but profitability has declined because of lower protein and dairy product prices. Lower grain prices have also caused softening in some farmland markets, specifically in the Midwest.

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 2016 from relatively strong levels in 2015. Supporting the overall condition of the FCS is moderate loan growth, adequate capital, and reliable access to debt capital markets.

The System continues to grow at a moderate pace. As of December 31, 2015, gross loans totaled \$235.9 billion, up \$18.8 billion or 8.7 percent from December 31, 2014. Real estate mortgage lending was up \$7.0 billion, or 6.9 percent, as demand for cropland continued in 2015. Production and intermediate-term lending increased by \$2.9 billion, or 6.3 percent, from the year before, and agribusiness lending increased by \$3.7 billion, or 11.1 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 December 31, 2015, System total capital equaled \$48.8 billion, up from \$45.7 billion the year before. The System's total capital-to-assets ratio was 16.1 percent, compared with 16.2 percent a year earlier. In addition, more than 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 2015, the System reported net income of \$4.69 billion compared with \$4.72 billion the year before. The small decline results from higher noninterest expenses and provisions for loan losses, which offset an increase in net interest income. The increase in net interest income stems from a higher level of average earning assets despite a nine-basis-point decline in net interest margin to 2.55 percent. Compression of net interest spread is expected to continue as interest rates change and borrowers prepay or reprice loans.

Credit quality in the System's loan portfolio continues to be strong. In each calendar year since 2010, the amount of nonperforming loans has declined, and capital has increased. As of December 31, 2015, nonperforming loans totaled \$1.6 billion, or 0.69 percent of gross loans, as compared with \$1.7 billion, or 0.80 percent, a year earlier. Relative to total capital, nonperforming loans represented 3.3 percent at year-end. For historical

comparison, at year-end 2010, nonperforming loans amounted to more than 10 percent of the System's capital.

Lenders expect an uptick in loan delinquencies and other indicators of loan repayment problems later in 2016, but they do not foresee a large increase in problem loans. With weak margins, more farmers are expected to change their operating structures to reduce production costs or rebalance their farm balance sheets by, for example, lengthening loan terms or selling unproductive assets.

The System continues to have reliable access to the debt capital markets. Investor demand for all System debt products has been strong, 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.

The Farm Credit Insurance Fund, which held just over \$4.0 billion at year-end 2015, further strengthens the System's financial condition. Administered by the Farm Credit System Insurance Corporation, this fund protects investors in Systemwide consolidated debt obligations.

System banks also maintain liquidity reserves to ensure they can withstand market disruptions. As of March 31, 2016, the System had sufficient liquidity to pay its debts and fund its operations for 172 days, which is significantly above the 90-day regulatory minimum required for each FCS bank.

A Changing Risk Profile in Agriculture

U.S. farmers and ranchers are in the midst of serious belt tightening. Commodity prices have declined sharply while input costs have been slow to adjust downward. Many crop and livestock producers are operating with narrow, or even negative, profit margins.

An extended downturn in the farm sector would be a major challenge for U.S. agriculture. Over the past two years, many farmers have been coping with a declining market by using working capital generated during the previous period of strong earnings. As a result, the System has recorded relatively low loan losses and maintains a strong financial position to date. However, if commodity prices continue to be weak for another year or two, we expect significant financial stress on borrowers as working capital erodes further and as farmers make additional cuts to capital expenditures, household spending, and operating costs.

Weakness in commodity prices is due to both supply and demand factors. Globally, good weather in major producing regions has resulted in large supplies of grain and oilseeds. Expanding stocks have insulated many markets from significant price volatility, and in the absence of major weather shocks, commodity prices could remain subdued.

Through 2015 and thus far in 2016, export demand for U.S. agricultural products has been slowed by the higher value of the dollar, which reduces our ability to compete in foreign markets. Also, while long-run trends are positive, modest economic growth tempers demand in major U.S. export markets, including China. Exports of high-value commodities, including meat, dairy, fruit, tree nuts, and vegetables, are particularly vulnerable to weaknesses in the economies of our trading partners. Further strengthening of the U.S. dollar or a downturn in global economic growth would represent additional risk to U.S. farm receipts and loan repayment capacity.

After rising rapidly in recent years, Midwest farmland values have begun a correction process that could take a few years. According to surveys conducted by several Federal Reserve Banks, the value of farmland dropped during the year ending fourth quarter 2015 in several areas. The declines varied based on region and type of acreage. Fortunately, the declines have been relatively modest so far. Most economists do not anticipate a correction of the magnitude experienced in the 1980s. Lower farmland values offer some advantage to producers who cash-rent their land. According to USDA, cropland rents in the Midwest have declined for the first time in 20 years.

During the next year, many observers expect farmland values to continue to weaken given the outlook for commodity markets. However, any downward movement could be limited by investors stepping into the market. Impacts of declining land values on the Farm Credit System would be mitigated by the System's underwriting procedures, which have been prudent during the recent run-up in land values.

Anticipation of higher interest rates remains part of the economic landscape. Nevertheless, rates are expected to remain relatively low and increase very slowly over the next couple of years, which should help maintain economic stability. Higher interest costs could put additional pressure on producers, especially those with liquidity problems, and any substantial rise in long-term rates would have negative effects on land values.

Farm program payments for major crops will assist many grain and oilseed producers through at least this year. Farm financial health also benefits from typical lender practices that require borrowers to obtain crop insurance and use other risk-mitigating strategies for marketing. Over time, though, if market prices remain relatively weak, farm program payments will provide less assistance to corn, soybean, and other producers who selected Agriculture Risk Coverage as revenue guarantees begin to adjust downward.

Examination Programs for FCS Banks and Associations

FCA is responsible for regulating and supervising the banks, associations, and related entities that compose the Farm Credit System. Our examination and oversight programs provide strategic, proactive risk supervision of the System. In conducting our institution-specific, risk-based oversight and examination activities, we assign highest priority to institutions that present the greatest risk.

We also perform nationally focused examinations that target specific issues and operational areas to monitor the condition and operations of the System as a whole. We actively monitor risks that may affect groups of System institutions or the entire System, including risks from the agricultural, financial, and economic environment.

Through our oversight, we require System institutions to have the programs, policies, procedures, and controls to effectively identify and manage risks. Our oversight program also requires compliance with laws and regulations. When institutions fail to address unsafe and unsound practices or to comply with laws and regulations, we take appropriate supervisory or enforcement action. We use a comprehensive regulatory and supervisory framework to ensure the System's safety and soundness. FCS institutions, on their own and in response to our efforts, continue to improve their risk management systems.

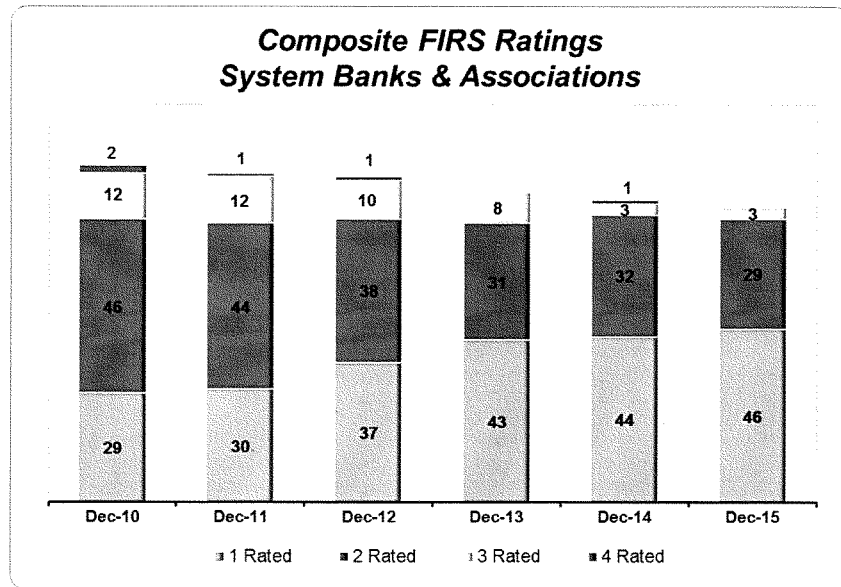
FCA uses the Financial Institution Rating System (FIRS) to assess the safety and soundness threats to each System institution. Similar to the systems used by other federal financial regulators, the FIRS is a CAMELS-based system, with component ratings for capital, assets, management, earnings, liquidity, and sensitivity, all factoring into an overall composite

rating. System institutions are assigned component and composite ratings based on FCA's evaluation of quantitative and qualitative factors. FIRS ratings range from 1 for a sound institution to 5 for an institution that is likely to fail.

Although the System's financial condition remains sound, a small number of individual institutions display some weaknesses. For the most part, these weaknesses stem from the financial stress that some borrowers are experiencing because of shrinking profit margins.

As the System's regulator, we have increased supervisory oversight and dedicated additional resources to institutions experiencing stress. As of December 31, 2015, three System institutions had a composite FIRS rating of 3 or worse. While these institutions represent less than 1 percent of System assets and do not meaningfully affect the System's consolidated performance, they require significantly more resources to oversee.

The chart below includes the System banks and their affiliated associations. The figures in the bars reflect the number of institutions by FIRS rating.



Regulatory Activities

Congress has given the FCA Board statutory authority to establish policy, prescribe regulations, and issue other guidance to ensure that System institutions comply with the law and operate in a safe and sound manner. We are committed to developing balanced, flexible, and legally sound regulations.

Over the past few years, we have revised our regulations or issued substantive guidance to accomplish the following objectives:

- To enhance our risk-based capital adequacy framework to more closely align it with that of other federal banking agencies and the Basel Accord. We amended our regulations to replace the current core and total surplus capital standards with a tier 1/tier 2 capital framework. The new framework provides more stringent rules for the quality and stability of capital and more sensitivity to risk—with buffers that restrict redemptions and payouts as levels approach regulatory minimums.
- To ensure that FCS institutions comply with the Farm Credit Act and FCA regulations when they purchase participations in loans originated by non-System lenders to qualified similar-entity borrowers. We issued substantive guidance (a booklet) that describes the policy, procedures, and internal controls needed to participate in similar-entity lending.
- To require each System institution's business plan to include strategies and actions to serve all creditworthy and eligible persons in its territory. In addition, the regulation encourages institutions to serve nontraditional customers, such as women and minorities, who often operate within local food systems by producing organic or specialty crops on small farms. The regulation also seeks to achieve diversity and inclusion in the workforce of System institutions.
- To ensure that System funding and liquidity requirements are appropriate and to ensure that the discounts applied to investments reflect their marketability.
- To ensure that prudent practices are in place for the safe and sound management of System investment portfolios.
- To establish a regulatory framework for the reporting of System accounts and exposures to FCA. The revisions reaffirm our authority to collect data on System institution accounts and exposures, including data on shared assets.
- To establish standards for Farmer Mac's capital planning process. The revised process emphasizes the quality and level of capital and annual stress testing.
- To increase the level and quality of assets held in Farmer Mac's liquidity reserve.
- To implement the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act by imposing margin requirements on noncleared derivatives transactions and removing references to credit ratings.
- To implement title III of the Terrorism Risk Insurance Program Reauthorization Act of 2015, which grants exceptions from the margin requirements of the final rule for noncleared swaps.
- To implement the provisions of the Biggert-Waters Flood Insurance Reform Act of 2012, as well as the additional provisions of the Homeowner Flood Insurance Affordability Act of 2014.
- To revise regulatory requirements for mergers or consolidations of banks and associations.
- To seek public input on FCA regulations that may duplicate other requirements, are not effective in achieving the stated objectives, are not based on law, or impose burdens that are greater than the benefits received.

Currently, we are working on regulatory projects to accomplish these additional objectives:

- To clarify and strengthen the standards-of-conduct and ethics requirements for System directors, employees, and agents.
- To strengthen the safety and soundness of the investment activities of System banks by more accurately reflecting the risk in particular investments, and to comply with a

provision of the Dodd-Frank Act by replacing credit rating requirements with other standards of creditworthiness.

- To clarify or change the loan amortization limits for agricultural credit associations and production credit associations.
- To amend FCA regulations applicable to System lending to conform with the private flood insurance provisions of the Biggert-Waters Flood Insurance Reform Act of 2012.
- To ensure appropriate and effective risk governance and board oversight at Farmer Mac, and to clarify standards-of-conduct and conflict-of-interest requirements.
- To remove reliance on credit ratings from investment eligibility regulations pertaining to Farmer Mac and to maintain the quality and availability of Farmer Mac's liquid investments.

Corporate Activities

The number of FCS institutions has declined over the years as a result of bank and association mergers. Generally, System institution mergers result in larger, more cost-efficient and better-capitalized institutions with broad, diversified asset bases, both by geography and commodity.

However, these mergers also increase the complexity of the continuing institutions. The increased complexity places greater demands on both FCA staff resources, as well as the level of expertise required of staff, particularly in areas of regulation, policy, examination, and legal interpretation. As of April 1, 2016, the System consisted of the following:

- Seventy-four direct-lender associations
- Three Farm Credit Banks and one Agricultural Credit Bank
- Five service corporations that provide support, technology, leasing, human capital, and other services
- A funding entity that markets the securities—chiefly bonds and discount notes—that the banks sell in the capital markets to raise loan funds
- A GSE with the mission of providing a secondary market for agricultural real estate and rural housing mortgage loans

Federal Agricultural Mortgage Corporation

Congress established Farmer Mac in 1988 to provide a secondary market for agricultural mortgage and rural home loans to improve the availability of cost-effective long-term credit and liquidity to America's farmers, ranchers, and rural communities. Farmer Mac conducts secondary market activities that provide liquidity, lending capacity, and credit protection to agricultural and rural utility cooperative lenders. Loan originators that participate in Farmer Mac's secondary market programs include community banks, Farm Credit System institutions, mortgage companies, commercial banks, insurance companies, and credit unions. The 2008 Farm Bill expanded Farmer Mac's program authorities by allowing it to purchase loans for electric and telephone facilities made by cooperative lenders, and to guarantee securities backed by such loans.

Through a separate office required by statute (the Office of Secondary Market Oversight), FCA examines, regulates, and oversees Farmer Mac's operations and its safety and soundness. As the secondary market GSE devoted to agriculture and rural America, Farmer Mac has the statutory authority to, in extraordinary circumstances, issue obligations to the U.S. Treasury Department, not to exceed \$1.5 billion, to fulfill the guarantee obligations of its guaranteed securities. To date, Farmer Mac has not used this borrowing authority. Although Farmer Mac (including its subsidiaries) is an institution of the FCS, it is not liable

for any debt or obligations on any other institution of the FCS. Moreover, the Farm Credit System Insurance Corporation does not insure Farmer Mac's securities.

Farmer Mac continues to grow its business through an increasing network of rural lenders and to strengthen operations to advance its statutory mission. Farmer Mac's outstanding business volume reached \$15.9 billion as of December 31, 2015, on a compound annual growth rate of 12.6 percent from 1999 to 2015. By expanding its product offerings and its customer base, Farmer Mac grew its outstanding business volume by approximately \$1 billion on average per year over the past four years. In 2015, over 300 lenders participated in Farmer Mac programs, including commercial banks, FCS institutions, insurance companies and other lenders serving the needs of rural America.

Since 2010, Farmer Mac has steadily improved the quality of its capital base and risk-bearing capacity through retained earnings and capital restructuring. As of December 31, 2015, Farmer Mac's core capital totaled \$564.5 million, \$102.4 million above the minimum capital level required by Farmer Mac's statutory charter. As of yearend 2014, Farmer Mac's core capital level was \$766.3 million, which was \$345.0 million above the minimum requirement. Its capital in excess of the statutory minimum declined primarily because of the redemption of \$250.0 million of Farmer Mac II LLC preferred stock on March 30, 2015.

Lower-quality capital was replaced with higher-quality capital as part of Farmer Mac's capital restructuring initiative and new regulatory requirements. In accordance with FCA's capital planning rule, Farmer Mac has adopted a policy for maintaining a level of tier 1 capital sufficient to meet the general consensus of international regulatory thresholds. (Tier 1 capital consists of retained earnings, paid-in capital, common stock, qualifying preferred stock, and accumulated other comprehensive income allocated to investments not included in its four business lines.) At December 31, 2015, Farmer Mac reported a tier 1 capital ratio of 10.5 percent. FCA regulations require Farmer Mac to conduct stress tests to evaluate its ability to maintain adequate capital under adverse economic conditions and develop strategies to address potential risks to capital under such scenarios.

Farmer Mac's credit quality metrics continue to reflect low levels of risk. As of December 31, 2015, Farmer Mac's 90-day delinquencies increased over the 12-month period but remained low at \$32.1 million, or 0.56 percent of Farm & Ranch volume, compared with \$18.9 million, or 0.35 percent, as of December 31, 2014. The increase in delinquencies was related to two agricultural storage and processing facility loans. Nevertheless, the delinquency rate continues to be well below Farmer Mac's average rate of 1 percent over the past 15 years. Real estate owned as of December 31, 2015, was \$1.4 million, up from \$0.4 million a year earlier. Farmer Mac reported no delinquencies in its pools of rural utility cooperative loans. On December 31, 2015, Farmer Mac's allowance for losses totaled \$6.6 million, compared with \$10.1 million on December 31, 2014.

Farmer Mac continues to enjoy reliable access to the debt capital markets to support its mission of providing financing and liquidity to agriculture and rural markets. To improve its financial flexibility in the event of a financial or market disruption, Farmer Mac has taken significant measures to increase the quality of its \$4.0 billion liquidity investment portfolio.

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 System showed gains in both the number of new loans made and the dollar amounts of new loans made to each YBS farmer category. From

2014 to 2015, the number of new loans made to young, beginning and small farmers rose 5.1 percent, 7.5 percent, and 6.7 percent, respectively.

In 2015, the pace of new lending to YBS farmers equaled or exceeded the pace in overall System lending to farmers. Therefore, the share of new total System farm loan volume and loan numbers made to all three YBS categories equaled or 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.

FCA issued a booklet in August 2007 to encourage institutions to seek ways to better serve YBS borrowers. The booklet provides institutions with more flexibility to lend to YBS borrowers and encourages them to use credit enhancements to allow more YBS borrowers to qualify for credit. Credit enhancements for YBS borrowers may include the following:

- Customized loan underwriting standards
- Federal and state loan guarantees
- Lower rates and fees for YBS borrowers

In response to this guidance, a higher percentage of institutions are committing capital to assist in their YBS lending and are using advisory committees to update YBS policies and procedures. In addition, many institutions have stepped up their YBS outreach efforts and their coordination with outside parties or organizations to serve YBS producers.

In addition to providing credit to YBS borrowers, FCS institutions offer other financial services to YBS borrowers, and many institutions provide special training and educational programs that target YBS farmers and ranchers.

Our efforts to encourage System institutions to emphasize diversity and inclusion and to serve producers of local and regional foods also benefit YBS producers. In 2012, to ensure the System fulfills its congressional mission to serve all eligible and creditworthy borrowers, we issued a regulation requiring institutions to develop human capital and marketing plans that promote diversity and inclusion. Because many small and beginning farmers belong to underrepresented groups, this regulation helps strengthen service to YBS borrowers. Likewise, a booklet we issued in 2012 to provide guidance regarding service to local and regional foods producers also benefits YBS borrowers because many of these producers would be classified as young, beginning, or small.

Working with Financially Stressed Borrowers

Risk is an inherent part of agriculture, and the causes of risk are many:

- Adverse weather
- Changes in government programs
- International trade issues
- Fluctuations in commodity prices
- Crop and livestock diseases
- Interest rate increases

These risks can sometimes make it difficult for borrowers to repay loans. The Farm Credit Act provides System borrowers certain rights when they apply for loans and when they have trouble repaying loans. For example, the act requires FCS institutions to notify borrowers of the right to seek restructuring of loans before the institutions begin foreclosure. It also

provides borrowers an opportunity to seek review of certain credit and restructuring decisions. When a System institution acquires agricultural property through liquidation, the Farm Credit Act also provides borrowers the 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. Through these efforts, we ensure compliance with the law and help FCS institutions continue to provide sound and constructive credit and related services to eligible farmers and ranchers.

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.



FARM CREDIT

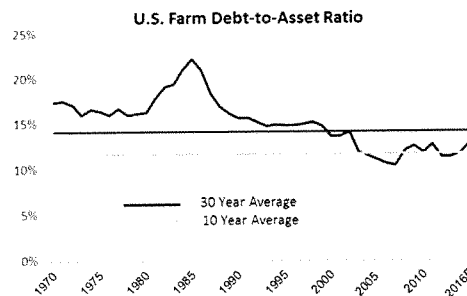
**Testimony of
Doug Stark, President and CEO
Farm Credit Services of America/Frontier Farm Credit
on behalf of the
Farm Credit System
before the
Senate Committee on Agriculture, Nutrition & Forestry
May 19, 2016**

Mr. Chairman, Ranking Member Stabenow, 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.

Mr. Chairman and Senator Stabenow, thank you very much for being original cosponsors of the congressional resolution congratulating Farm Credit on its 100th anniversary of supporting rural communities and agriculture. We are very proud that so many of your colleagues on this committee are also resolution cosponsors. We are grateful for the committee's support as we look forward to the next 100 years of fulfilling our mission.

The Committee's hearing today is timely. After years of strong performance, the agricultural economy now finds itself in very challenging times. Commodity prices have fallen while the cost of raising crops has remained high. Many row crop farmers found profits elusive the past two years and are projecting losses for the 2016 crop year. Cotton farmers are

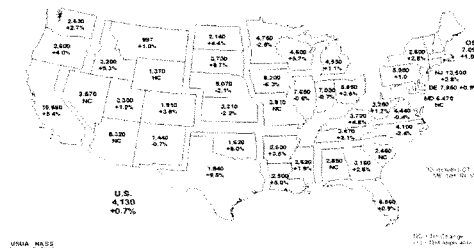


even harder hit, with many now facing multiple years of losses. Forecasters see little chance of a quick commodity price rebound barring unexpected changes in commodity demand, supply or both.

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 move up a bit in the past two years, they are still below the 30-year average and far below the levels seen in the mid-1980s.

The impact of the downturn on farmland values has been mixed depending on geography and land type. As farmland values rose sharply over the past decade, particularly in grain production areas, farmers and lenders both became increasingly conservative in leveraging real estate assets. Farmers were buying increasingly high-cost ground but largely were using cash generated from higher commodity prices and borrowing less on a percentage basis. FCS lenders and commercial banks, for the most part, 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 amount of dollars loaned per acre.

2015 Cropland Value by State
Dollars per Acre and Percent Change from 2014



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. Forecasters continue to predict low interest rates for the foreseeable future, keeping debt costs low.

Similar to the producers we serve, Farm Credit built financial strength in anticipation of an economic cycle. 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. Our loan quality remains high as our members continue to meet their obligations. Non-accrual loans at year-end 2015 were only 0.56 percent of our entire loan portfolio with 60 percent of those troubled loans staying current on payments. 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 customer-owners plan for the current environment. Our Farm Credit institutions proactively work with members to help them understand their financing options. 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 build 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 programs 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.

Farm Credit is committed to remaining dependable 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.

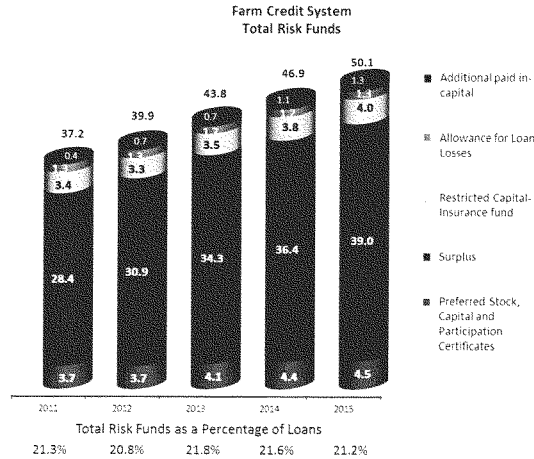
We understand that being dependable does not mean that we can save every operation. It does not mean that we will ignore good credit judgment or make credit decisions that are not constructive for the customer-owner or us as a lender. It does not mean that we will undertake undue risk or make all of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

One important part of Farm Credit's ability to support our members is through our regulator, the Farm Credit Administration. 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 FCA's continued good judgment.

Financial Strength to Fulfill Our Mission

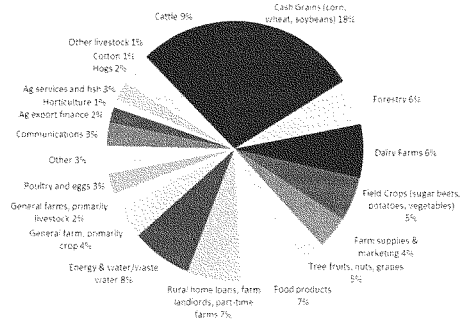
Farm Credit remains very strong financially and continues to experience moderate loan growth. Strong earnings across the past decade allowed Farm Credit to build capital levels to protect against deterioration in loan quality that might result from the downturn in the agricultural economy.

Farm Credit's permanent capital ratio stood at 16.1 percent at year-end 2016, more than double the 7 percent minimum level required by law and our regulator. Total Risk Funds, a measure of the total risk-bearing capacity of a financial institution, continued to climb in 2016, reaching just more than \$50 billion at year-end. This 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.



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 \$4.68 billion in combined net income during 2015. As a cooperative, net income in Farm Credit goes to one of two places. It either is retained within the institution to build financial strength to serve customers or it is paid out to customers in the form of patronage dividends.

Farm Credit System Loan Portfolio
(at 12/31/15)



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 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.

The largest segment of our portfolio consists of loans to cash grain producers and represents just 18 percent of our book of business. The next largest segment is the fed-cattle industry at 9 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.

Similarly, as the System 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 and represents just under 10 percent of the loan portfolio. Texas is next with 7 percent and all other states have about 5 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 527,000 borrowers Farm Credit supports, 76 percent have loans of less than \$250,000 and 87 percent have loans of less than \$500,000.

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

Farm Credit System Loan Portfolio
(at 12/31/15)

Range (\$ thousands)	Amount Outstanding (\$ millions)	% of Portfolio	# of Borrowers	% of Portfolio [# of borrowers]
\$1 -- \$249	32,643	14	402,724	76
\$250 -- \$499	20,871	9	59,528	11
\$500 -- \$999	23,956	10	34,298	6
\$1,000 -- \$4,999	51,137	22	26,454	5
\$5,000 -- \$24,999	35,954	15	3,654	<1
\$25,000 -- \$99,999	29,718	13	620	<1
\$100,000 -- \$249,999	21,158	9	135	<1
Over \$250,000	20,423	8	49	<1
TOTAL	235,890	100	527,462	100

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

- Farm Credit made more than 62,000 loans to young producers (under age 36) in 2015 for a total of \$9.4 billion. Those are actual new loans originated in 2015. 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 almost 80,000 loans to beginning producers (10 years or less experience) for \$12.7 billion in 2015. This is double the number of 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 just over 150,000 loans to small producers (less than \$250,000 in annual sales) for \$11.8 billion in 2015. Again, this is up substantially from the 114,000 loans made to small producers in 2001 for \$7.6 billion.

To put Farm Credit's lending to small farmers and ranchers into perspective, at year-end 2015 Farm Credit had just over 1 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 are engaged across the spectrum with those entering agriculture whether they are focused on organic, sustainable, or 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 is also helping ensure the vibrancy of communities throughout rural America.

Now in our 100th year, Farm Credit's mission remains vital to the success of rural communities and U.S. agriculture. Farm Credit is a nationwide network of 78 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 74 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.

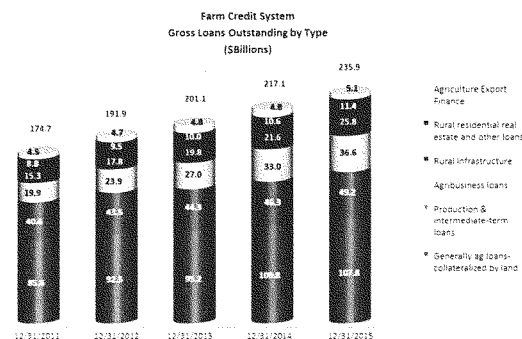
Farm Credit is well known for its 100-year-old mission providing financing to all types of U.S. farmers and ranchers. In addition, Farm Credit's agricultural mission includes financing aquatic producers, many agribusinesses, and U.S. agricultural exports. A constant supply of credit to all of these areas 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 homebuyers 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 in 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 Systemwide 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 modern cellular technology and 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. farm producers gear up to feed a planet of 9 billion people by the year 2050, a significant amount of capital will be needed to make sure our agriculture and the infrastructure that supports it are up to the task.

Through its rural infrastructure lending authorities, Farm Credit is helping to protect rural communities with affordable financing to upgrade, modernize and expand water and waste water systems to address aging infrastructure problems facing many communities. Rural Water System No. 1 in northeastern Iowa is one such Farm Credit customer.

Rural Water System No. 1 serves customers including rural residents, an ethanol plant, meat packing facilities and more than 15 million head of livestock such as dairy cows, hogs and poultry. During the summer months, it is not uncommon for livestock water usage to double in a day when temperatures reach or exceed 85 degrees. Such increases in demand were severely taxing the system, which needed more capacity and flexibility.

Working in partnership with CoBank and the U.S. Department of Agriculture, Rural Water System No. 1 created a strategic plan to dramatically increase the system's capacity by purchasing 300 acres of land for a new well field and more than doubling the size of one of the system's water treatment plants. The project, completed in 2011, allows Rural Water System No. 1 to tap different aquifers, creating a new supply of clean water that gives the system flexibility to meet the demands of local customers under any conditions.

Water is not the only vital infrastructure service essential for rural communities to thrive. Reliable access to high speed internet and phone service is also critical. Farm Credit finances a variety of communication providers across the country including the Kansas Fiber Network (KFN). KFN was formed in late 2010 by 29 Kansas independent rural telephone companies to provide wholesale connectivity for all the communication providers in Kansas including local, regional and national carriers. KFN connects medical, government and education industries, enabling them to provide advanced broadband and telecommunication services to rural Kansas. KFN covers over 2,500 route miles and is continually improving their linkages across the state.

Our cooperative structure and governance is designed specifically to ensure that Farm Credit lending and related financial service activities are driven by the needs of our customer-owners in a changing world and are based on nurturing long-term relationships. For example, Indiana Fiber Network (IFN) was founded in 2002 to give independent local telephone companies serving rural areas in the state access to leading-edge connectivity and communications technology. Since then, the company has deployed more than 4,000 route miles of fiber optic network infrastructure across the state, enhancing data, voice and video services for hundreds of rural businesses.

In 2015, IFN embarked on its broadest and most ambitious venture yet: Connecting 77 hospitals and clinics in the Parkview Health System network that stretches across northern Indiana from Fort Wayne to Lafayette. The project will allow rural health care providers to share diagnostic information and help give patients access to the same quality of care available at big-city hospitals. With a deep background in broadband and the necessary lending capacity, CoBank stepped in to help fund the project, which required a \$40 million loan as part of the overall financing strategy.

Rural power is another essential requirement for residents and producers in rural areas, and financing to ensure access to power is also part of Farm Credit's charge. Great River Energy, one

of the largest generation and transmission cooperatives in the country, provides wholesale power to more than 1.7 million members in rural communities across Minnesota and Wisconsin. It's also one of the most progressive, focused on including clean, renewable energy sources. GRE has invested heavily to add renewable energy to its portfolio of generation facilities, including power from wind, biomass, hydroelectric and anaerobic digesters. In addition, the cooperative has partnered with CoBank to install more than 650 kilowatts of solar arrays at its headquarters and throughout its service territory. That's enough power to meet the needs of 150 homes.

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 have not only 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. Bankers 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.

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.

We understand the concerns of some Congressional representatives over the similar entity loan participation involving Verizon. 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 FCA'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 hard limits on the aggregate amount of similar entity transactions any Farm Credit institution can hold to no greater than 15 percent of its total assets. This authority has existed for 24 years; today, only approximately 5 percent of Farm Credit's outstanding total loan portfolio is invested in similar entity participations. Farm Credit uses similar entity loan participation authority in a limited way to diversify loan portfolios, withstand industry downturns, and continue serving core customers.

More Efforts to Fulfill Farm Credit's Mission

In the 2002 Farm Bill, Congress authorized the formation of Rural Business Investment Companies 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, \$33.4 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 rural communications. The very first investment made by the Farm Credit-supported fund was in February of 2015 to Iowa Cage-Free, LLC, enabling the company to transition six traditional egg-laying facilities into cage-free operations.

The fund has also made investments in companies such as Hortau Corp., a California-based provider of precision irrigation management systems. Through the recent, extended period of drought in California, Hortau has been working 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 was able to broaden the Homegrown by Heroes labeling program from a single-state initiative to a nationwide program.

Farm Credit also 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 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. Last year, 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 deeply impact 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 the American Degree program, an award that is given to members who have demonstrated the highest level of commitment and made significant accomplishments in agriculture production and business. We also sponsor New Century Farmer, a program 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 DC to learn about the legislative and advocacy process, is another program we are proud to 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 provided 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 10,000 farm women have completed Annie's Project courses in 33 states.

To help future generations of agricultural producers, Farm Credit associations also make grants and donations to scholarship funds and other programs at land grant universities across the U.S. In the territory served by Farm Credit Services of America and Frontier Farm Credit, we commemorated our centennial this year with \$100,000 donations to each of the five land-grant schools in our area. These donations will create a long-term impact on agriculture education by funding new learning facilities, new curricula in leadership and global food systems, the

integration of ag education in K-12 STEM programs, and ensure the long-term future of the nation's top ag student business club.

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. Because our customer-owners understand the needs of their communities, these investments demonstrate their commitment 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 that other federal financial regulators have in order 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 over the limit should the specific need arise for more funding. For 2016, Congress set that 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 FCS Insurance Fund (the Fund). The Fund is there to protect investors in System debt securities against loss in the event an FCS 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, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to FCSIC.

Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System Banks in exigent market circumstances which 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, 2016, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is at FCSIC's discretion, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, 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 2 percent of the aggregate outstanding insured obligations of the System. FCSIC also has the authority to examine System 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 billion as of December 31, 2015.

Conclusion

We are grateful for the opportunity to testify today and update the Committee on Farm Credit's ongoing effort to fulfill the mission you have given 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 America'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 this winter, 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.

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 homebuyers, 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.

**Testimony of the Honorable Dallas P. Tonsager
Board Member of the
Farm Credit Administration
and Chairman of the
Farm Credit System Insurance Corporation
Before the U.S. Senate Committee
on Agriculture, Nutrition, and Forestry
May 19, 2016**

Chairman Roberts, Ranking Member Stabenow, and members of the Committee, thank you for the opportunity to testify today. I am Dallas Tonsager, a Board Member of the Farm Credit Administration, where it is my honor to serve with Chairman Spearman and Board Member Hall.

I am privileged to now be serving a second term on the board of the Farm Credit Administration, having previously served from 2004 to 2009. The Farm Credit System was well positioned to meet the challenges of the 2008 financial crisis. In fact, the System's capital and liquidity positions, risk profile, stress-testing capacity, and lending presence in the agricultural sector have significantly strengthened over the past eight years.

With the downward cycle in the agricultural economy, FCA's oversight role and the Farm Credit System's purpose to serve agricultural producers and rural communities in bad times as well as good times are more critical than ever. I have great confidence in FCA's ability to ensure that Farm Credit System institutions balance the need to provide sound, adequate, and constructive credit while also helping struggling farmers and ranchers to keep their ag operations and remain in their rural communities.

In addition to my duties as Farm Credit Administration Board Member, I serve as Chairman of the Farm Credit System Insurance Corporation, along with my colleagues on the FCA Board. While FCA and the Insurance Corporation have the same board members, by law, the same person cannot be chairman of both FCA and the Insurance Corporation.

Congress created the Insurance Corporation to insure the timely payment of principal and interest on the debt issued by the Farm Credit System banks. As of March 31, 2016, there was \$245 billion of insured debt outstanding. These debt obligations provide the primary source of funding for the operations of the System.

The Insurance Corporation's primary mission is to protect investors and taxpayers through the sound management of the Farm Credit Insurance Fund. To do this, we assess and collect premiums from System banks. In 2015, we collected \$261 million in premiums and earned \$31 million on our investments. Our costs are paid out of the Insurance Fund and no taxpayer funds are involved in our operation. We had total program costs of \$3.4 million in 2015.

Congress directed that we maintain a target amount in our Insurance Fund. The statutory target is equivalent to 2 percent of adjusted insured obligations of System banks. This amount is adjusted downward to reflect the reduced risk of federal and state guaranteed loans and investments. At March 31, 2016, we had \$4.1 billion in the Farm Credit Insurance Fund (which is 1.9 percent of adjusted insured debt).

Like other insurers, we independently review risk in setting our premium rates. Currently, we do not foresee any risk of loss to the Insurance Fund. However, a continuing challenge in maintaining the Insurance Fund at the target level is estimating future growth in insured debt when we establish annual premium rates. For the past two years, growth in bank-insured debt has been higher than estimated, leaving the Insurance Fund below the 2 percent target rate. This led us to approve a premium rate increase in excess of 30 percent for 2016, which at the present growth rate would result in about \$360 million in premiums.

We periodically undertake an actuarial review of Insurance Fund solvency and have, to date, always determined the statutory 2 percent secure base amount to be appropriate. However, under the Farm Credit Act, the Insurance Corporation could find a different percentage to be actuarially sound based on estimated insurance risks and then maintain the assets in the Farm Credit Insurance Fund at that target.

If a System bank cannot pay its share of insured debt, the Insurance Corporation is required to pay debtholders. The Insurance Corporation will make these mandatory payments until the Insurance Fund is exhausted. After the Insurance Fund is exhausted, FCA will call on the remaining banks to pay debtholders under their joint and several obligations.

In addition to this mandatory use of the Insurance Fund, the Insurance Corporation also has discretionary authority to use the Insurance Fund to provide assistance to a System institution. The Insurance Corporation's Board of Directors can provide assistance, in the form of a loan or other method, to a System bank or association to prevent a receivership, to restore normal operations, or to reduce risk caused by "severe financial conditions." By law, any assistance we provide must be the least costly alternative for the Insurance Fund.

In 2013, the Insurance Corporation entered into a \$10 billion credit line agreement with the Federal Financing Bank that would increase the amount in the Insurance Fund available for us to provide as assistance to System banks. This line of credit is only available in limited circumstances where external market conditions prevent the System from obtaining necessary funding; the credit line funds may not be used to assist a System institution that has internal credit or solvency problems. The Federal Financing Bank is an entity within the Treasury Department that lends money to or on behalf of eligible federal entities, including the Federal Deposit Insurance Corporation and the National Credit Union Administration. The Federal Financing Bank entered into this agreement with the Insurance Corporation after it independently determined that the Insurance Corporation was eligible to borrow under the Federal Financing Bank's statutory authorities and that providing the line of credit comported with the policy objectives of the Treasury Department.

Unlike other financial institutions, the System does not have guaranteed access to the Federal Reserve, the U.S. Treasury, or any other lender of last resort, leaving it vulnerable to a market crisis similar to what occurred in 2008. Although the Insurance Corporation's statutory assistance authority may be used to mitigate a liquidity crisis when external market conditions jeopardize the System's ability to fund itself, the Insurance Fund alone may not be sufficient to meet urgent funding needs. We therefore obtained the credit line to help support our mission to protect investors and taxpayers from losses and to help maintain the flow of credit to agricultural borrowers.

We are required to use the Insurance Fund first; any funds we borrow from the Federal Financing Bank to use as assistance will be loaned to System banks with interest. Also, no credit line funds may be lent to a System bank until the bank posts collateral at least equal in value to the amount of the funds received. In this way, there should be no risk of loss to taxpayer funds.

Finally, Congress gave the Insurance Corporation the responsibility to act as conservator or receiver for a failed System institution. However, unlike all other federal entities with receivership authority, the Insurance Corporation's resolution authorities have not been updated, creating potential legal uncertainty in the event of a System institution failure. For example, while other federal entities have express statutory directives on how to treat modern financial instruments such as derivatives in a receivership, the Insurance Corporation lacks that express authority. While we do not anticipate any receiverships or conservatorships in the near future, we believe that obtaining resolution powers comparable to other federal entities would benefit all interested stakeholders by providing legal certainty in the event of a System institution failure.

Full Testimony of Jed Welder
Owner, Trinity Farms, Greenville, MI

**Hearing on “The Farm Credit System: Oversight and Outlook of the Current
Economic Climate”**

**U.S. Senate Committee on Agriculture, Nutrition, and Forestry
May 19, 2016**

Thank you, Chairman Roberts and Ranking Member Stabenow for the kind introduction, and thank you to all the members of the Committee for the opportunity to testify today.

My name is Jed Welder, I am the owner and operator of Trinity Farms, a mid-size farm in Greenville, Michigan where my family and I raise corn and soybeans, and recently began growing several acres of hops.

Before returning home to Michigan to begin my career as a farmer, I had the honor of serving as an officer in the United States Army for more than a decade. My service included tours in Iraq, Afghanistan and Bosnia, serving as an armor officer with some of the greatest men and women in the world.

In 2008, my wife and I made the decision to leave the Army. After repeated deployments and an ever-increasing operational tempo, we wanted to start both a family and a farm back in Michigan. We loved moving to the country and enjoyed the challenges of learning this new profession, but we quickly realized we needed both land and capital to be able to farm fulltime. Farmers are a close-knit group; you can’t just Google how to do things, you actually ask mentors and experienced farmers in the area what has worked on their farms.

When I asked older farmers in West Michigan about access to credit, they told me that years ago I would have gone to a local bank and taken out an operating loan but that the banks “don’t do that anymore”. Even a small farm requires hundreds of thousands of dollars in seed, fertilizer, and fuel each year to operate. My small farm uses older equipment, but even that costs more than a mortgage most local banks would handle. There was a Greenstone Farm Credit Services office in my county that was recommended to me by several farmers, so I prepared a business plan and walked through their door.

They understood what I wanted to do and what I needed to run my operation, they made good, solid recommendations and over time became a trusted partner. As my business changed and grew, they grew with me. Today I farm more than 800 acres of land and have been able to continue farming land my folks had farmed since the 1960’s. This summer as I was building a grain drying and storage system, my loan officer came out to see the progress and talk about it with me. When we constructed one of the first hop yards in our county, Greenstone

walked through the yard to see what hops were. Their office is twenty minutes away; they know how the crops in our area look and what the prospects for harvest are because they are in the business of working with farmers.

Last fall an Army buddy contacted me because she wanted to buy farmland near my farm. She had talked to several banks but she worked in Texas at the time and wanted to buy farmland near her family in Michigan. Every bank she talked to told her “we don’t do that anymore”. When I put her in contact with my Greenstone office, they told her “that’s what we do”. She ended up purchasing the land and last Friday my daughter and I planted that farm to corn. This fall, when we harvest that crop this veteran will realize her dream of owning farmland even as my family expands its own operation.

This is a challenging time for farmers like me across the country. Right now, we are planting corn and soybeans with prices very near breakeven. Many of us have second full-time jobs just to provide enough income to stay on the farm. There is an exciting revolution in precision agriculture and technology that will help us be more efficient, but at the same time the cost of farming increases every year. Please understand, Farmers, like Veterans are not victims, we are not looking for a free ride, just a fair deal. Having a lender that works with me, that knows my farm and the challenges I face, is more important than ever. There is an old saying on the farm, “If it ain’t broke, don’t fix it”. The Farm Credit System is not broken; it is fulfilling its mission to serve farmers like me. Please don’t break it now.

I would like to leave you with some idea of how important this issue is to me. We are currently in the middle of planting season for our major crops. Michigan farmers have a very short window of time after the last frost to get our seeds planted for maximum yield. Families learn that there are no after school activities, trips, or days off until the crops are in. That being said, when I had the opportunity to testify before this Committee, I parked my equipment and came out here to appear before you today because this is important to my family and the families of all farmers. Thank you, and I’d be happy to answer any questions you might have.

Testimony of

Leonard Wolfe

On Behalf of the

AMERICAN BANKERS ASSOCIATION

before the

Agriculture, Nutrition and Forestry Committee

United States Senate



Testimony of

Leonard Wolfe

On behalf of the

American Bankers Association

before the

Agriculture, Nutrition and Forestry Committee

of the

United States Senate

May 19, 2014

Chairman Roberts, Ranking Member Stabenow, and members of the Committee, my name is Leonard Wolfe, and I am the President, CEO and Chairman of the Board of United Bank and Trust in Marysville, Kansas. United Bank is a \$585 million bank with fifteen branches serving Marshall, Nemaha, Brown, Clay, Washington, Cloud, and Riley counties in Kansas. We have over \$233 million in agricultural real estate and production loans in our portfolio – over half of all of our loans are to farmers and ranchers. In addition, we finance businesses that support, in some way, the needs of farmers and ranchers in our part of the state.

I am also the Past Chairman of the Kansas Bankers Association and I serve as Chairman of the American Bankers Association's Agricultural Credit Task Force. I appreciate the opportunity to present the views of the ABA on credit conditions and credit availability in rural America.

The American Bankers Association 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 2 million people, safeguard \$12 trillion in deposits and extend nearly \$8 trillion in loans. ABA is uniquely qualified to comment on agricultural credit issues as banks have provided credit to agriculture since the founding of our country. Over 5,000 banks – over 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 2016 for the third consecutive year. However, farm and ranch incomes for the past five 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 when looking for agricultural loans. My bank's agricultural credit portfolio is very diverse – we finance large and small farms, urban farmers, beginning farmers, women farmers and minority farmers. To bankers, agricultural lending is good business and we 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, mine included.

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 like mine 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 represents 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 ranches. Since the Farm Credit System's inception 100 years ago, it has grown into an enormous \$304 billion system offering complex financial services. To put this size into perspective, ***if the Farm Credit System were a bank it would be the ninth largest in the United States, and larger than 99.9 percent of the banks in the country.***

This system operates as a Government Sponsored Enterprise and represents 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 a government backing, formalized by the creation of a \$10 billion line of credit with the U.S. treasury in 2013.

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, who 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.

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 wellbeing 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.

In my testimony today I would like to elaborate on the following points:

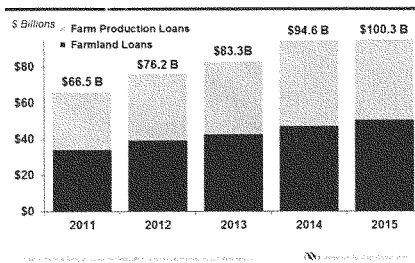
- Banks are a primary source of credit to farmers and ranchers in the United States;
- Banks work closely with the USDA to make additional credit available via the Guaranteed Farm Loan Program
- The Farm Credit System has become too large and unfocused, using taxpayer dollars to subsidize large borrowers.

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

For my bank and for many of ABA's members, agricultural lending is a significant component of their business activities. 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. 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 one in every three dollars lent by a farm bank is an agricultural loan.

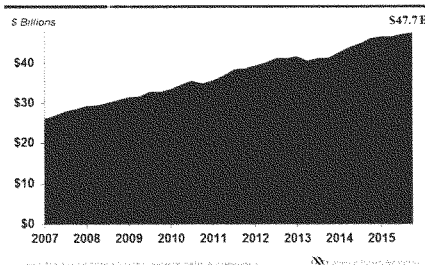
Farm Banks Exhibit Solid Farm Loan Growth



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.

Farm Banks Increase High-Quality Capital



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 farmers and acting as a buffer from the risks associated with any downturn in the agricultural sector.

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 I know 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. We watch the farm real estate market very closely, as do my customers. USDA estimates a 1.2 percent decline in the value of farm real estate in 2016. In recent years, over four-fifths 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. At my bank, to further manage risk, we regularly stress test our 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

I would like to thank Congress, especially the Agricultural 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 ten years, there are some farmers who would not have been able to obtain credit from banks like mine 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 like my bank 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 five years, with less than \$9 billion outstanding at the close of FY 08 to nearly \$12 billion today. The loans made by banks like mine 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, we 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 set-back. 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 five 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. We urge you to continue to support this very worthwhile program.

III. The Farm Credit System is a Large Government Sponsored Entity That Primarily Serves Large Borrowers at the Expense of Taxpayers

I mentioned earlier in my testimony that the market for agricultural credit is very competitive. I compete with several other banks in my service area, 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 I 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 \$304 billion in assets*. If it were a bank, it would be the ninth 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 onto 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 2015¹.

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

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

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.

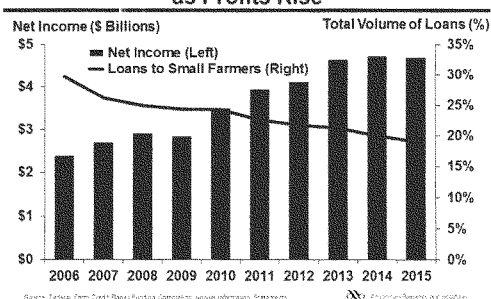
Large Borrowers Benefit Most from Farm Credit System Subsidy

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 five million dollars*. 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 one million dollars. 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 half of the entire Farm Credit System's portfolio at the end of 2015 was to individuals who owed it much more than a million dollars. 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

Farm Credit: Loans to Small Farmers Decline as Profits Rise



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 percent of total new loan volume in 2003³ 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.

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, since Verizon provides telephone

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

services like a rural telephone cooperative, the loan is a 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.

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 half of the entire Farm Credit System's portfolio at the end of 2015 was to individuals who owed it much more than a million dollars. 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. I would be happy to answer any questions that you may have.

DOCUMENTS SUBMITTED FOR THE RECORD

MAY 19, 2016



Study: Farm income plummets in 2015

By Jake Shama on Apr 18, 2016 at 6:25 p.m.



A farmer works a field northeast of Mount Vernon back in September. (Republic file photo)

On average, South Dakota farmers saw a drop in income of more than \$100,000 last year.

Farms in South Dakota experienced a nearly 77 percent decline in net profit in 2015 compared to the year before, according to a study released Monday by the South Dakota Center for Farm/Ranch Management at Mitchell Technical Institute.

The average farm income in 2015 was \$38,898, which accounts for sales, expenses and depreciation. The average income in 2014 was \$168,361, close to the five-year average of \$162,915.

"This decrease in net profit was primarily driven by the lower grain prices and considerable drop in livestock values in 2015," said Jared Hofer, director of the Farm

Management Program at MTI. "Most grain farming operations showed above-average yields in 2015, which created a slight profit, despite land and input costs continuing to rise while grain prices stayed low."

Although the numbers show farmers making a small profit, the net income doesn't take family living expenses into account, which averaged \$83,335 in 2015.

Joseph Calmus, a 38-year-old farmer from Canova, of Miner County, said his living expenses were light enough to keep him in the black, but he plans on budgeting more this year and cutting expenses.

"Try to cut your expenses wherever you can," he said, "whether it's being more efficient or trying to do things a little differently to get the same outcome with less expense."

Calmus plans to use less chemicals on his corn, soybeans, wheat, oats and alfalfa, and he plans to feed his cattle lower-quality hay supplemented with distillers grains, though he said ranchers must ensure the cows still get enough minerals.

"They've got to get what they need," he said.

Hofer said the 2015 net income was lower than every year since at least 2008, when a "farm boom" caused commodity prices to rise. At its peak, corn was sold for about \$7 per bushel. Today, a bushel of corn sells for about \$3.

"There was a five- to six-year run there where it was very profitable to be a farmer, but unfortunately, reality has kind of set back in," Hofer said. "The commodity prices, they're probably slightly higher than they were before the boom, but the expenses are significantly higher. There's just not much margin left for the farmer."

Average gross income, the amount of money earned without considering expenses, also took a dip from about \$1.065 million to about \$1.016 million despite higher yields. Hofer said cattle prices were to blame, as there wasn't much change in the amount of beef harvested from cattle.

"The biggest reason the gross income is down is because livestock values dropped probably 25 percent from the prior year," Hofer said.

Calmus said the biggest problem for his operation was the low grain prices. He sold his grains for about 50 percent less than last year, whereas his cattle prices only dropped about 30 percent.

"They both play a big part of my income, but the grains being a bigger percentage drop than the cattle did, I'd say the grains hurt me more," Calmus said.

Hofer said some ranchers bought calves at 500 pounds when prices were higher, raised them to 1,500 pounds and sold them for the same price at which they bought them after prices dropped.

The Center for Farm/Ranch Management has tracked farmers' profits since about 1989, Hofer said. Numbers from 2015 were gathered from a sample of 111 farming operations throughout South Dakota.

Hofer said the center helps farmers around the state keep records and manage their operations for a fee of about \$1,450 per year. Each year, they compile data and put together a report that is used as a benchmark by lenders, accountants, legislators.

Looking ahead, Hofer said 2016 doesn't look better for farmers, as he expects a drier season, average yields and still-high operating expenses.

"Those factors are kind of concerning, that if we get back to an average production with these lousy prices, it's going to be ugly," Hofer said. "Overall, just with prices and moisture, we need a few things to go our way to have an average year again."

Calmus shared his concern, though he has already experienced a dry summer.

"I live in a pocket where it was dry (last summer). I had some grains that didn't perform as well as they did in 2012, and that was a major drought (year)," Calmus said.

The 2015-2016 winter was the wettest in years, but Calmus said the water hasn't stuck in the ground. But with a few good spring rains, the future could still hold promise.

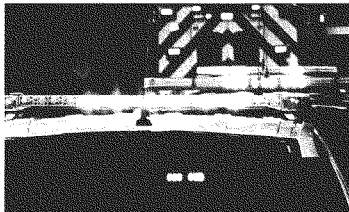
"The outlook right now doesn't look very good, but I'm hoping to kind of hold things together and see what the next year brings," Calmus said. "Hopefully some good yields

will offset the prices a little bit, which is, I think, what everybody out there's thinking right now."

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Testimony to the Senate Agriculture Committee

Submitted for the Record by John Larson
Executive Director of Programs
American Farmland Trust

May 19, 2016

Farm Credit System

Mr. Chairman Roberts and Ranking Member Stabenow, the American Farmland Trust appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

I am John Larson, Executive Director of Programs of American Farmland Trust (AFT). AFT is the only national conservation organization dedicated to protecting farmland, promoting sound farming practices, and keeping farmers on the land. Since its founding in 1980 by a group of farmers and conservationists concerned about the rapid loss of farmland to development, AFT has helped save more than 5 million of acres of farmland from development and led the way for the adoption of conservation practices on millions more.

I am writing on behalf of the AFT Board of Directors, staff and 35,000 members across the nation in support of the Farm Credit System. The Farm Credit System provides a critical service to farmers and ranchers with a credit and financial system that is tailored to their specific and unique needs. Of particular interest to AFT, its impact stretches far beyond that into the economic future of the next generation of producers, their communities and the nation. Today, many AFT leadership and staff actively rely upon Farm Credit for their successful operations. For example, John Hardin, Indiana farmer and AFT Vice Chairman has been a Farm Credit customer for the last four decades. John bought his first farm in 1975 with a loan from Farm Credit and has maintained a continuous relationship ever since. He also has served on the nominating committee to select candidates for the board that governs Farm Credit's Louisville bank that serves the 4-state region.

In addition to personal relationships, the programmatic collaboration between AFT and the Farm Credit System is a long and productive one. As far back as 1984, AFT produced a report called "Soil Conservation in America: What do we have to lose?" which set the stage for the establishment of the historic conservation title in the 1985 Farm Bill. The second chapter on soil erosion conditions and conservation practices would not have been possible without data and analyses from Dr. Arnold Miller, an economist with Farm Credit Administration. His extensive and creative analysis of the 1977 National Resources Inventory was instrumental for this document and partnership with AFT. In AFT's experience, Farm Credit is an essential institution dedicated to ensuring a vibrant future for agriculture in America.

The Farm Credit system's focus on agriculture and rural America for the past 100 years has shown exemplary leadership, and created an impressive and influential legacy. The capital and expertise that Farm Credit provides to borrowers/owners is an essential component in keeping American farming thriving and *growing for today and tomorrow*. Their steadfast support of young and beginning farmers contributes substantially to the potential and vibrancy of the next generation at a time when entering agriculture is particularly tough. True to the founding mission, Farm Credit has been there for "*agriculture through good times and bad, through fluctuating economic cycles and environmental catastrophes*." Farm Credit supplies one-third of the credit needed by U.S. agriculture—clearly illustrating the network's pivotal and steadfast influence.

In 2016, American Farmland Trust remains the only national non-profit organization dedicated to protecting farmland as it celebrates 35 years of working to provide more and better conservation options for farmers. This same year, Farm Credit celebrates 100 years of providing farmers, ranchers and rural communities with credit and financial services to support this vision of a bountiful and beautiful America.

I'd like to thank the Senate Agriculture Committee for holding this hearing to allow American Farmland Trust and others to share our thoughts on how important the Farm Credit System is to the needs of American agriculture and rural communities.

Thank you for your consideration of our views.

John Larson
Executive Director for Programs
American Farmland Trust
jlarrison@farmland.org
202-378-1219



Testimony to the Senate Agriculture Committee
 Submitted for the Record by
 Clemson University Emerging and Small Scale Farming Extension Program
 May 16, 2016

Dear Chairman Roberts and Ranking Member Stabenow,

My name is Dave Lamie. I am an Associate Professor of Agribusiness and Rural Development at Clemson University where I have worked for nearly eleven years. I sincerely appreciate the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System. I serve in several related leadership capacities in South Carolina including the Director of the South Carolina New and Beginning Farmer Program, Chair of the Midlands Local Food Collaborative, South Carolina leader of our statewide "MarketMaker" program, and immediate past Chair of the South Carolina Food Policy Council. These positions provide me with a unique perspective to provide this testimony. However, my comments today primarily emanate from my role as leader of the Clemson University Emerging and Small Scale Farming Extension Programs.

Agriculture, when combined with forestry, is our state's largest industry, with about \$42 billion in annual economic impact and about 220,000 jobs. South Carolina supports a very diverse mix of crop and livestock enterprises, including major commodities such as cotton, peanuts, soybeans, corn, poultry, swine, and beef. In addition, there is a strong and growing interest in specialty crops (2nd nationally in peach production) and food products destined to fuel the strong and growing demand for regionally sourced products by restaurants, grocery retailers, and households. Clemson University, particularly through Extension and applied research programs and typically working with key partners including Farm Credit Banks, has a long history of nurturing this cornerstone industry through the generation of new knowledge and direct engagement with farmers and others in their supply chains. I am confident that this committee has a deep understanding of the importance of Land Grant Universities (like Clemson) in their mission to support agriculture all across the United States and her territories. Clemson is deeply committed to support all aspects of the agribusiness sector in South Carolina, to provide expertise to both existing farmers and new entrants, and to encourage sustainable growth of this important sector while working closely with industry partners.

As a good example of Land Grant University programs, the Clemson University Emerging and Small Scale Farming Extension Program represents the interests of and provides training and technical assistance to new and beginning, socially-disadvantaged, and small scale farmers. We launched this program in 2010 with USDA-NIFA Beginning Farmer and Rancher Development Program support. We will be graduating our current class of 48 participants this week, adding them to the more than 200 program alumni. The focus of our program is to help aspiring beginning farmers to develop thoughtful and informed business plans, to help them link with federal, state, and other resources,



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Clemson University Cooperative Extension Service offers its programs to people of all ages, regardless of race, color, sex, religion, national origin, disability, political beliefs, sexual orientation, marital or family status and is an equal opportunity employer.

and to network with their peers and others who can assist them toward financial sustainability. Our program advisory committee is composed of all significant statewide stakeholders that share our mission, including representatives from the two Farm Credit Banks that operate in South Carolina; AgSouth and ArborOne. Likewise, other Clemson programs including Annie's Project that directly supports women in agriculture through educational programs, networking, and mentoring opportunities.

ArborOne and AgSouth coupled with resources from the Farm Credit Council, often working in concert with the USDA Farm Service Agency, collaborate very effectively with Clemson Extension programs, providing important information related to farm financial literacy, farm financial management advice, and crucial access to financial resources. Without Farm Credit, many new and beginning, young, small, and socially disadvantaged farmers would find it difficult to access capital to get their farm businesses off the ground and to expand them into new market opportunities. As the average age of farm operators continues to increase, it is very important that we support the effective integration of new entrants and help existing businesses to expand; stabilizing the farm and food sector and helping to increase the viability of rural communities.

This past year has brought unprecedented production challenges to the South Carolina agricultural sector including a severe drought followed by an historic flood. Farm revenue has been cut in half. These challenges, coupled with declining commodity prices are expected to wreak havoc on producers' financial stability. Farm Credit has worked with customers to do what is necessary to facilitate recovery including restructuring loans if necessary. The need for a solid Farm Credit System has never been more important than now. The viability of this important institution means that we have an effective collaborator as we deploy training and technical assistance programs to these farmer audiences. Likewise, the Farm Credit System also works alongside in the development of important supply chain infrastructure. Their continued support for programs like Food Industry MarketMaker and food hub financial viability research in collaboration with the National Good Food Network, provide important building blocks for enhancing the sustainable development of new market structures. We actively leverage all of this work in our programs in the Clemson Emerging and Small Scale Farming Extension Programs.

I thank the committee for their continued interest and support for the investments in the policies, programs, and institutions that are playing important roles in the development of the agriculture and food sectors and in the viability of rural America. If I can provide additional information useful to your efforts or ever be of further assistance in other ways, please do not hesitate to contact me directly.

Sincerely,



Dr. R. David Lamie
Clemson University
Associate Professor of Agribusiness and Rural Development
Director, Emerging and Small Scale Farming Extension Programs



May 24, 2016

Dear Members of the Senate Agriculture Committee:

I am writing in regard to your recent hearing concerning the work of the Farm Credit System, to share information about the collaboration and support the Drake University Agricultural Law Center has received from Farm Credit for our work in supporting new and beginning farmers. In my role as the Director of the Center, I have had nothing but positive experiences in dealing with the Farm Credit System over the last seven years. In the spring of 2010 we organized and planned a two-day Drake Forum on America's New Farmers held in Washington DC and attended by over 160 people from 25 states. Senator Tom Harkin and Secretary Vilsack both spoke at the Forum, an event considered to have played a fundamental role in helping energize the national conversation about efforts to support the next generation of American farmers. I worked closely with Gary Matteson the vice president for Young, Beginning, Small Farmer Programs and Outreach with the Farm Credit Council in planning the conference and Farm Credit provided a substantial grant to Drake to sponsor the Forum, helping us pay the travel costs of young farmers from across the country. Over the next three years the Center organized two additional workshops on New Farmer Policy and Issues, both held in Des Moines, and we were pleased to partner with Farm Credit in sponsoring both meetings. In the fall of 2014 Drake was able to partner with the Farmer Veterans Coalition to organize the first national gathering focused on helping veterans find careers in agriculture. Again, we were pleased to have the support of Farm Credit in planning and holding the meeting.

Throughout the years of Drake's work on issues relating to new farmer policy our partnership with Farm Credit has been a great source of stability and optimism, as we share a commitment to helping new and young people find a future in American agriculture. From my perspective here in Iowa, the center of America's agriculture future, Farm Credit is doing outstanding work in supporting a broad and diverse range of programs and efforts to expand the pool of people in farming. Thank you for giving me this opportunity to share my experiences.

Sincerely

A handwritten signature in black ink, appearing to read "Phil Hanks", written over a horizontal line.

128 Cartwright Hall
250th University Avenue
Des Moines, Iowa
50311-4505

T 515 271-2824
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Empire State
Council of Agricultural Organizations, Inc.

TO: Members of the Senate Committee on Agriculture

The Empire State Council of Agricultural Organizations (CAO) is comprised of 25 members who represent many facets of New York's diverse agricultural industry.

The CAO enables its members to work together on a wide range of policy positions, which are adopted unanimously by the membership. Many of these issues are specific to New York State, but the CAO also has policy positions on a number of federal issues.

I understand that the Senate Agriculture Committee is holding a hearing on the Farm Credit System this month. I'm writing to share with you the CAO's policy regarding the Farm Credit System.

Farm Credit System

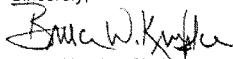
The Farm Credit System is America's largest cooperatively owned lender and is a vital source of credit to agriculture and rural America. A strong Farm Credit System helps meet the credit needs of farmers, agricultural cooperatives and other rural businesses and enhances exports of U.S. agricultural goods.

We Recommend:

1. *Support for continuation of the Farm Credit System as a cooperative lender with an independent regulatory agency (Farm Credit Administration) and under the jurisdiction of the House and Senate Agriculture Committees. As financial services legislation is considered, we oppose new regulatory approaches that will add additional costs to the Farm Credit System or undermine the ability of Farm Credit to serve its customers. We support the efforts of the Farm Credit System to access financial markets to ensure an adequate supply of capital to agriculture.*
2. *Support for legislative and regulatory actions to expand Farm Credit lending authority for agriculture, small rural businesses, and rural communities.*
3. *Opposition to any changes to federal and state tax provisions for Farm Credit Institutions that could adversely affect the farmer-owners of the Farm Credit Cooperatives.*
4. *Opposition to restrictions by Congress or regulatory agencies on the Farm Credit Systems' ability to serve the equine industry and other rural, farm and forest product related businesses.*

The CAO values the vital role Farm Credit East and Yankee Farm Credit play in serving agriculture, forest products and commercial fishing in New York and would ask you to convey that message to your colleagues on the Committee at the hearing.

Sincerely,



Bruce Krupke, Chairman

On behalf of:

Christmas Tree Farmers Association of New York	New York State Grange
Dairy Farmers of America Northeast Area	New York State Horse Council
Empire Sheep Producers Association	New York State Horticultural Society
Empire State Potato Growers, Inc.	New York State Maple Producers Association
Farm Credit Associations of New York	New York State Nursery & Landscape Association
New York Apple Growers Association, Inc.	New York State Turfgrass Association, Inc.
New York Association of Agricultural Educators	New York State Vegetable Growers Association
New York Corn and Soybean Growers Association	New York State Veterinary Medical Society
New York Farm Bureau	Northeast Agribusiness and Feed Alliance, Inc.
New York Wine & Grape Foundation	Northeast Cooperative Council
New York State Agri-business Association	Northeast Dairy Foods Association, Inc.
New York State Agricultural Society	Upstate Niagara Cooperative, Inc.
New York State Flower Industries, Inc.	

May 18, 2016

The Honorable Pat Roberts, Chairman
U.S. Senate Committee on Agriculture, Nutrition, & Forestry
328A Russell Senate Office Building
Washington, DC, 20510

Dear Chairman Roberts:

Thank you for scheduling the upcoming hearing related to credit in rural America and the important role the Farm Credit System plays delivering this vital resource. We wish to formally add our names to the hearing record standing firmly in support of the Farm Credit System. As members of the Senate Committee on Agriculture, Nutrition and Forestry we know that you share our concern that agriculture and rural communities have access to a broad range of lenders to meet their credit needs. Farm Credit fills an important role, as do other lenders including commercial banks, in meeting the needs of the producers our respective organizations represent.

As you know, prices of agricultural commodities have increasingly come under pressure. Concerns are growing that we may be entering a prolonged period of instability in the agricultural economy. Credit availability in good times is singularly important to our respective members. Credit availability in tough times may well mean the difference between producers staying on the land or being forced to abandon their operations.

It is our belief that 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. The array of credit products offered by both the Farm Credit System and commercial banks, often in a collaborative, cooperative manner, ensures that agricultural producers and their industry sector partners have access to financial tools that are vital to their success. We need all the resources that can be made available to sustain agriculture and rural America now and into the future.

Sincerely,

AgSmarts
American Agricultural Movement
American Agri-Women
American Association of Crop Insurers
American Cotton Shippers Association
American Farm Bureau Federation
American Feed Industry Association
American Fruit Processors & Growers Coalition
AmericanHort
American Mushroom Institute
American Sheep Industry Association
American Society of Farm Managers and Rural Appraisers
American Soybean Association
American Sugar Alliance
American Sugarbeet Growers Association

American Sugar Cane League
 Association of Equipment Manufacturers
 California Association of Winegrape Growers
 Florida Fruit and Vegetable Association
 Fruit and Produce Growers
 Intertribal Agriculture Council
 Irrigation Association
 Montana Women Involved in Farm Economics
 National Association of Farmer Elected Committees
 National Association of State Departments of Agriculture
 National Association of Wheat Growers
 National Barley Growers Association
 National Black Growers Council
 National Cattlemen's Beef Association
 National Christmas Tree Association
 National Corn Growers Association
 National Cotton Council
 National Council of Farmer Cooperatives
 National Farmers Union
 National Grain and Feed Association
 National Pork Producers Council
 National Sorghum Producers
 National Sunflower Association
 National Turkey Federation
 NTCA—The Rural Broadband Association
 SNF, Inc.
 Southeast Dairy Farmers Association
 Southern Peanut Farmers Federation
 The Land Improvement Contractors of America
 United Egg Producers
 United States Beet Sugar Association
 US Cattlemen's Association
 US Canola Association
 US Dry Bean Council
 USA Dry Pea & Lentil Council
 US Poultry & Egg Association
 USA Rice
 Western Growers
 Women Involved in Farm Economics

To be sent to all members of the Senate Ag Committee



President: Gary Matteson
VP Beginning, Small Farmer Programs,
Farm Credit Council
Washington, DC

Vice President: Charles Kruse
Brigadier General ANG (retired)
Past Pres., Missouri Farm Bureau
Dexter, MO

Secretary: Larry Jacobs,
Co-CEO, Jacobs Farm/Del Cabo
CEO Farm Fuel, LLC
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Treasurer: Kathy Hadley
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Garrett Dwyer,
OIF/USMC Veteran
Cattle Rancher
Bartlett, NE

Bill Field, EdD,
Director, National AgrAbility Project,
Purdue University
West Lafayette, IN

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Todd Stucke
Senior Vice President
Kubota Tractor Corporation
Torrance, CA

Donn Teske,
Vice President,
National Farmers Union
Wheaton, KS

Testimony to the Senate Agriculture Committee
Submitted for the Record by
MICHAEL O'GORMAN, FOUNDER AND DIRECTOR
FARMER VETERAN COALITION
May 19, 2016

Mr. Chairman and Ranking Member Stabenow, the Farmer Veteran Coalition appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

The mission of the Farmer Veteran Coalition is mobilizing veterans to feed America. We are the nation's leading organization connecting returning servicemen and women with viable employment and meaningful careers in agriculture.

When we first looked into forming FVC nine years ago we found 40,000 groups in the country with the name veteran in their title – groups set up to help our veterans as they returned home. But we could not find one that helped veterans transition into farming, nor one, surprisingly, with the focus of helping veterans return to our rural communities, where our all-volunteer military increasingly hailed from.

Now we have a network of over 7,500 veterans who have come to us for help in launching or supporting their agricultural careers. We administer a label, Homegrown By Heroes, that is used by more than 500 veterans in 46 states, with aggregate yearly sales of over \$50 million. Our Farmer Veteran Fellowship Fund has awarded more than one million dollars to 300 veterans, making purchases of farm equipment, livestock, well-drilling and other critical investments on their behalf.

No group has helped us grow more than Farm Credit. And their support is not just monetary, but a commitment of time, and a willingness to use whatever influence they have, in DC and across the country, on behalf of the Farmer Veteran Coalition and the veterans we serve. They have not been just our supporter – they have been our partner.

Farm Credit has lent us their Vice President of Young, Beginning and Small Farmers Programs and Outreach to lead our Board of Directors, helping us open doors at the USDA, other farm organizations, and important partners and funders from within the agricultural industry.

The Farm Credit banks – CoBank, AgFirst, AgriBank and Farm Credit of Texas – came together in 2013 to support our national expansion of the Homegrown By Heroes label. Homegrown By Heroes was started by Kentucky Department of Agriculture, and through the backing of Farm Credit and its banks, it is becoming recognized nationally as the label giving veteran farmers, ranchers and fishermen a leg-up in the marketplace.

Dozens of Farm Credit personnel throughout their national network of associations, have volunteered their time to our important work. One serves as our temporary Chief Operating Officer. Two serve as advisors to our Fellowship Fund. At least one serves on every board of our state chapters.

May 19, 2016
Page 2

But more importantly, Farm Credit serves our veterans. In a topsy-turvy world where angel investors, crowd funders and other lenders focus on funding what is new or trendy or well-packaged, Farm Credit and Farmer Veteran Coalition have worked hard to support the men and women who are grounded in their determination to take up a life-time of farming after giving so much of their life to serving their country. Farm Credit knows what to look for in an aspiring farmer, because they are farmers.

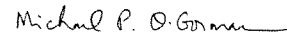
And Farm Credit does not send our veterans home because they do not have a polished business plan; they will help them create one. Furthermore, Farm Credit has the tools to speak to our rural veterans and teach them the basics of financial literacy, business planning and cash flow analyses. Farm Credit personnel have spoken to hundreds of our aspiring farmers at dozens of events all around the country.

Time and time again, I have sent anxious young men and women starting out on their civilian career in farming to Farm Credit. "Don't be nervous," I tell them. "They are just like you, like your Dad, like your Grandfather – they are farmers." They always come back grateful. Even if they are not funded immediately, they always feel supported.

Farmer Veteran Coalition has found an important group of our veterans that weren't feeling supported by the urban-based veteran groups pushing them into tech industries and advanced degrees. They have found us and they have found Farm Credit, two organizations that understand and support them and know how important their fledging farming career is to the future of this country.

Thank you, Senators, for giving the Farmer Veteran Coalition this opportunity to speak about the men and women of rural America who are hoping to serve their nation twice – once by defending it and once by feeding it – and the critical role Farm Credit has played in helping them to do that.

Respectfully,



Michael O'Gorman
Executive Director



FRESHFARM

nourishing our food future

Testimony to the Senate Agriculture Committee

Submitted for the Record by

FRESHFARM

May 19, 2016

Mr. Chairman and Ranking Member Stabenow, FRESHFARM appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

FRESHFARM represents over 130 farmers and producers in the Mid-Atlantic food shed, who farm more than 9,000 acres, and representing 5 states. FRESHFARM operates more than 13 farmers markets in the DC metro area. We aim to create vibrant markets in order to create economic opportunities for farmers and food producers. FRESHFARM is the leading voice for farmers markets in the Washington, DC metropolitan region.

Farm Credit has been an important colleague and ally in our work to support farmers in the region. Farm Credit has provided financial skills "train the trainer" training to FreshFarm and other DC based local food organization staff that is focused on local food system producers' business models. This gave our staff, and the staff of collaborating organizations, a more nuanced understanding of farm business models; the ability to ask critical questions about business models; and a stronger ability to train farmers in considering the business models and in supporting their growth.

In addition, Farm Credit has done groundbreaking work by using its expertise to create the Food Hub Benchmarking Study, which will be a resource to the entire region as we work with collaborators on developing a DC specific solution.

Farm Credit's work is incredibly important to our membership. Developing economically viable farmers markets, depends on the skills and training Farm Credit brings to the table. Their research, training, and education supports our farmers in becoming better at their jobs, keeping farmland in production, and the region's population well-fed. We anticipate that Farm Credit will also provide vital loans to our membership in the years to come.

We strongly endorse Farm Credit's work and mission, and we look forward to working with them in the years to come!

Thank you for your interest in the credit needs of agriculture and all you do to support rural communities, and to support a nourishing food future for us all.

Sincerely,

Melina Shannon-DiPietro
Director, Markets & Programs

Statement for the Record
Hearing on the Farm Credit System: Oversight and Outlook of the Current Economic Climate
United States Senate Committee on Agriculture, Nutrition and Forestry
May 19, 2016

Chairman Roberts, Ranking Member Stabenow and Members of the Committee. I am Kathleen Quinn Abernathy, Executive Vice President, External Affairs, of Frontier Communications. Thank you for the opportunity to submit this brief statement for the record. Frontier Communications is a Fortune 500 company with a focus on expanding broadband access in rural America. Frontier provides service in 29 states. The company offers a variety of services to residential and business customers over its fiber-optic and copper networks, including video, high-speed internet, and voice with a workforce based entirely in the United States.

I am submitting this statement today to offer our strong support for the Farm Credit System and specifically CoBank. Earlier this year, Mr. Wolfe had published his opinion that CoBank – a bank devoted to serving agribusiness, rural infrastructure providers and Farm Credit associations throughout the United States – was not sufficiently committed to rural America. In particular, Mr. Wolfe pointed to a CoBank loan to Frontier Communications, arguing that this loan was outside of CoBank's mission, suggesting that Frontier was too large of a company to help serve rural areas. Mr. Wolfe misrepresented the critical role that both CoBank and Frontier play in providing service to rural America.

With roots as a rural telephone provider, Frontier Communications has built its business on investing in and expanding broadband access to customers across its mostly rural footprint. For example, just since 2012, Frontier has delivered broadband access to over 200,000 previously unserved or underserved rural households. And over the next five years, Frontier has committed to expanding broadband access to an additional 750,000 rural households. These are areas where no other provider, large or small, has stepped up to serve. CoBank's loan was integral to Frontier delivering this life changing critical service to rural communities and this infrastructure investment sets the table for future economic development.

CoBank and Frontier, together with DISH and the Weather Channel, continue their investment in rural America through the America's Best Communities Contest – a three-year, \$10 million prize competition that is inspiring small towns and rural communities to find innovative ways to grow local economies and improve quality of life. This community development initiative channels the innovative, competitive spirit that is part of the American identity and inspires small towns and cities to pursue projects that jumpstart economic revitalization.

CoBank and Frontier have a demonstrated history of partnering to deploy rural broadband infrastructure and promote economic development for hundreds of thousands of Americans, and both companies have proven that they are dedicated to serving rural America.

I thank the Committee for focusing on the critical importance of the Farm Credit System and CoBank in particular and encourage the Committee to continue its support of the Farm Credit System's mission to invest in Rural America.

IOWA STATE UNIVERSITY
Extension and Outreach

Madeline Schultz
Women in Agriculture
1029 N. University Avenue
Ames, Iowa 50011-3611
515-294-0588
schultz@iastate.edu

Testimony to the Senate Agriculture Committee
Submitted for the Record by
Iowa State University Extension and Outreach Women in Agriculture
May 19, 2016

Dear Mr. Stabenow:

Mr. Chairman and Ranking Member Stabenow, Iowa State University Extension and Outreach Women in Agriculture appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

Iowa State University Extension and Outreach Women in Agriculture partners closely with the Illinois-based Annie's Project – Education for Farm Women non-profit organization. Since our first collaboration in 2004, we helped educate more than 12,000 women from 38 states on how to manage and reduce farm and ranch business risks. And, since 2004, the Farm Credit System has been right beside us, helping us and supporting these efforts.



ANNIE'S PROJECT
EMPOWERING WOMEN IN AGRICULTURE

Annie's Project features a series of six weekly classes on a variety of agricultural business and risk management topics. The goal of the educational program is to empower farm and ranch women who want to be even more knowledgeable about their agricultural enterprises. Annie's Project creates a comfortable and supportive learning environment focused on the best farm business management practices. This enables women to be even stronger business partners in their farming or ranching operation.

Examples of Farm Credit support of Educators and Farm/Ranch Women:

1. Farm Credit financial and training support helped educators new to reaching the women in agriculture audience begin to offer Annie's Project courses in several states. Farm Credit Mid-America, provided financial sponsorship and also presented information on financial planning at the first Annie's Project course offered by Kentucky State University in October, 2014. Support also helped bring Ruth Hambleton, Annie's Project Founder, to the program as a guest instructor.
2. Ten Farm Credit Associations were partners on a 3-year BFRDP grant beginning in 2011 to create a new farm transitioning course for women. Farm Credit contributed many hours of work to content development and program delivery. Farm Credit also

Iowa State University Extension and Outreach programs are available to all without regard to race, color, national origin, religion, sex, age, or disability.

supported educator training to help professionals meet the learning needs of farm/ranch families who want to transition a business to the next generation. The face-to-face 15-hour course continues to be popular. We are now developing an online video version of the course.

3. The Farm Credit National Contributions Program has been instrumental in training educators and supporting new states in delivering educational programs for farm/ranch women. Training events included national conferences as well as local workshops for groups of educators across the country. The most recent professional development was September 2015 in Iowa and was attended by educators from 23 states who said they planned to deliver 275 courses and other programs for farm/ranch women in the next 18 months. Support also went directly to several states to help cover program delivery expenses and increase outreach to farm/ranch women participants.
4. Farm Credit Services of America presented information on financial and lending topics at the first Annie's Project course in Iowa in 2004 and provided sponsorship to help cover course costs. Over time, they grew their sponsorship of Annie's Project programs to include Iowa, Nebraska, South Dakota and Wyoming on a statewide basis. They helped share success stories, increase awareness of programs and teach financial skills.

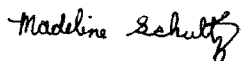
Annie's Project educators feel a sense of shared mission with Farm Credit. Through our many partnerships over the years, we have helped farm/ranch women in rural America improve their profitability, apply for FSA and NRCS programs and improve family and community relationships.

The public value of Annie's Project and teaching women farmers/ranchers risk management skills is to bring greater financial security and well-being to their families. Annie's Project helps farms, ranches and communities be sustained through more vibrant rural economies, improved natural resource conservation and enhanced food security.

Across the nation, the support of Farm Credit year after year helped us to continue programs even in those years when our state extension budgets were cut or our RMA, E-RME, SARE, BFRDP or other USDA grant applications were not successful. We could never have reached women in 38 states without the partnership and encouragement of the Farm Credit system.

On behalf of the national network of Annie's Project educators, I thank you and the committee for its interest in the credit needs of agriculture and rural communities.

Sincerely,



Madeline Schultz
Program Manager
Iowa State University Extension and Outreach Women in Agriculture



Testimony Submitted for the Record

RE: Farm Credit System

Mr. Pat Roberts, Chairman
 Ms. Debbie Stabenow, Ranking Member
 The Senate Agriculture Committee

May 19, 2016

Chairman Roberts and Ranking Member Stabenow,

Land For Good, Inc. (LFG) appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

LFG is a New England nonprofit organization that specializes in farm access, tenure and transfer. We help farmers find and get onto land, negotiate secure tenure agreements, and plan for succession. We do not have members; we serve over 1,000 clients and other beneficiaries annually. We work directly with beginning and established farm seekers, transitioning farm families and non-operator landowners, providing information, education and technical assistance. We also assist communities to plan for agriculture, conduct research, train professionals, and promote supportive and innovative local, state and national policies on these topics.

Farm Credit has been one of our most valuable partners for over a decade. We work closely with Farm Credit East (FCE) on farm succession planning. We often bring in FCE consultants as part of the succession planning team. In fact, *their expertise is essential*. Farm Credit understands and supports our efforts to help farmers acquire land and embraces transition planning as part of its mandate to provide financial services to farmers.

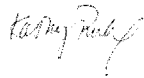
We very much appreciate that the Farm Credit System "thinks regionally." For us, Farm Credit's focus on Northeast food, farming, forestry and fisheries means that its personnel are leaders in our region as well as truly engaged supporters of our land access and food systems work. LFG especially appreciates Farm Credit's expansive view of agriculture, and its focus on helping small, new and beginning farmers. Farm Credit personnel participate in a wide range of agri-food activities, from buy local initiatives to state food system planning to farmer conferences in our New England region.

We do not have many agricultural service providers or lenders in New England. FCE fills a critical niche and stands out as a reputable, responsive, generous and competent organization that offers a suite of essential financial and related services to its farmer-members and to our farming community. Its training and financial services for beginning farmers and local food producers are highly praised. FCE sponsors various events, and is a desirable and sought-after partner and participant in a wide range of projects. FCE staff have presented at our workshops, advised our staff, and co-written educational materials. As a key partner on our USDA Beginning Farmer and Rancher Development Program grant, FCE is co-designing and delivering an innovative new curriculum on farm succession planning. In turn, LFG routinely refers our clients and inquirers to FCE.

LFG is grateful for all that Farm Credit provides, for championing all agricultural sectors, and for its strong ethic of service, partnership and collaboration.

Thank you for providing this opportunity to comment on how Farm Credit is fulfilling its mission, and for your Committee's commitment to addressing the needs of agriculture.

Cordially,

A handwritten signature in dark ink, appearing to read "Kathryn Ruhf". The signature is fluid and cursive, with the first name "Kathryn" and last name "Ruhf" clearly distinguishable.

Kathryn Ruhf
Senior Program Director



Local Food Strategies LLC

Testimony to the Senate Agriculture Committee
Submitted for the Record by
Local Food Strategies LLC
May 19, 2016

Mr. Chairman and Ranking Member Stabenow, Local Food Strategies LLC appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

Local Food Strategies LLC is a consulting firm, owned and operated by Dr. Alan R. Hunt, and is based from his family's farm in Hampton, New Jersey. Dr. Hunt, has a PhD in Rural Development from Newcastle University (UK), was a Fulbright Scholar in 2010-2011, and recently authored "Civic Engagement in Food System Governance: a comparative perspective on American and British local food movements."¹ As a beginning farmer, since 2013, Dr. Hunt has begun transitioning his family's 28-acre farm into a small livestock operation after the farm skipped a generation.

Local Food Strategies LLC provides consulting services on local and regional food system development, including policy research and analysis, evaluation, and program development. Local Food Strategies LLC has provided services to a wide range of organizations, including the Farm Credit Council, the Michigan State University Center for Regional Food Systems, Fair Food Network, Wholesome Wave, PolicyLink, and the Wallace Center at Winrock International.

Since 2009, through Local Food Strategies LLC, Dr. Hunt has been providing consulting services to the Farm Credit Council, to provide insight on the local and regional food sector, including its trends, business potential, and identifying opportunities to engage with sector leaders. If you recall, in 2009, "local food" was a new term to many. The 2008 Farm Bill had brought the issue to the attention to this Committee and demonstrated that the idea of "local food" was not a fad, but a potential avenue to revitalize the economic potential of small and mid-sized farms. The Farm Credit Council recognized this emerging local and regional food sector as something it and its Farm Credit Institutions needed to learn more about, especially in connection to the mission of serving young, beginning, and small farmers.

Together, we developed a concept of "Retail Agriculture," to describe the growing segment of farmers that are responding directly to changes in consumer demand, and taking on retailing themselves or are seizing new marketing opportunities driven by the retail sector. We observed these changes through Census of Agriculture and other data sources, which showed a trend toward direct-marketing, adoption of Community Supported Agriculture, and growth in farmers markets across the country.² Most revealing was a commercial level of sales coming from direct-marketing farms, both those that focused on direct-marketing and those that utilized it as an add-on to an existing farming operation. The term "Retail Agriculture" caught on, because it was approachable and made sense. As a result, many state Farm Bureaus have taken actions to ensure the local and regional agriculture sector is included in their policy books. Some, like the Indiana Farm Bureau, hired a Retail Ag Business staff. The Farm Credit

¹ <https://www.routledge.com/Civic-Engagement-in-Food-System-Governance-A-comparative-perspective-of/Hunt/p/book/9781138888432>

² The Emergence of Retail Agriculture: Its Outlook, Capital Needs, and Role in Supporting Young, Beginning, and Small Farmers http://www.fcccouncil.com/files/Emergence%20of%20Retail%20Ag%20-%202012%20Revisions_for%20_web.pdf



Local Food Strategies LLC

Council took an early interest in the local and regional agriculture sector and emerged as a national thought leader, engaging its Farm Credit Institutions and other agricultural organizations, in better understanding the sector's business needs.

Based on the report we did on Retail Agriculture, we saw the limits to USDA data collection efforts for collecting and reporting on farms utilizing a variety of marketing channels to reach local and regional markets. Together, Gary Matteson, a Vice President for Farm Credit Council, and I co-authored an article, "More than Counting Beans," in 2012 for a peer-reviewed journal, which made clear the limitations of USDA data collection on marketing diversification, including in the organic sector, and made clear recommendations for improvements.³

Again, Farm Credit Council played a thought-leader role. We provided recommendations to the Advisory Committee on Agricultural Statistics, which endorsed our recommendations in 2013. This Committee endorsed a "Local Food Survey" as Census of Agriculture follow on survey in 2014. The USDA National Agricultural Statistics Service currently has it out in the field now, with data to be reported in December of 2016. Outreach to USDA NASS was conducted collaboratively, including Wholesome Wave, the National Sustainable Agriculture Coalition, the National Farm to School Network, the Farmers Market Coalition, and others. Through our work together, Farm Credit strengthened its ties with a wide range of agricultural organizations through the local and regional food sector.

The Farm Credit System has also sought to fill in gaps in our understanding of how the upward supply chain for local and regional distribution and aggregation from multiple farms impacts local and rural economies. The Farm Credit Council, working with Farm Credit East, conducting a "food hub benchmarking study" utilizing firm-level sales and expense data.⁴ This project showed that food hubs have a gross margin of 21% and a net margin of 3%, indicating their profitability and suitability for investment. Farm Credit Institutions have an inherent interest in supporting small businesses that aggregate and distribute product for local and regional markets, as it increases the share of the retail food dollar retained by farmers and helps smaller-volume producers compete with wholesalers.

Credit is one of many needs of the local and regional agriculture and food sector. While several USDA grant programs can help in the feasibility assessment and piloting phases, accessing credit can be a challenge. USDA financing programs can provide farmers and community facilities with direct loans, however, rural businesses can only access loan guarantees from USDA. Sometimes programs and Farm Credit Agency regulations can create unintended barriers or delays that hinder business development. The continuing support of lenders that understand the agriculture sector and have patience for its seasonal nature is important for the local and regional agriculture and food sector to continue to develop. I thank Committee for its interest in the credit needs for agriculture and rural communities.

Sincerely,

Alan R. Hunt, Ph. D.

³ 2012. Alan R. Hunt and Gary Matteson. "More than Counting Beans: Adapting USDA Data Collection Practices to Track Marketing Channel Diversification." *Journal of Agriculture, Food Systems, and Community Development*.

⁴ COUNTING VALUES: Food Hub Financial Benchmarking Study. <http://ngfn.org/resources/ngfn-database/knowledge/Food%20Hub%20Benchmarking%20Study.pdf>



Testimony to the Senate Agriculture Committee
 Submitted for the Record by
 National Food MarketMaker Program
 May 19, 2016

Chairman Roberts and Ranking Member Stabenow, the National Food MarketMaker Program appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

MarketMaker is a mission driven program that assembles and disseminates valuable food marketing information through an interactive technology based platform and through the grass roots engagement of farmers and food based enterprises. By making strategic marketing information widely and democratically accessible to farmers we can accelerate the development of emerging markets and improve farmer access to those market opportunities. Our program was built through the efforts of land grant institutions, State Departments of Agriculture and Food and Ag related NGO's around the country.

We have had an active working relationship with Farm Credit since 2008. Gary Matteson, VP Young, Beginning, Small Farmer Programs and Outreach, The Farm Credit Council, has served on our Policy Advisory Council for the past three years. His experience and understanding of the diversity in agriculture continues to guide our strategic vision for the program.

Our community of MarketMaker users and network of partners have benefitted greatly from the Farm Credit financial skills training and beginning farmer programs. We see these as vital resources and Farm Credit has been most responsive when we have asked for their assistance with our stakeholders. While we are focused on highlighting emerging market opportunities for farmers, Farm Credit brings complementary skills and resources to our program that better prepare our farmers to capitalize on those market opportunities.

MarketMaker is a network of cooperating organizations who lead the program within their respective states and communities. Local Farm Credit Associations have actively supported and sponsored these programs around the country. Their financial support has helped resource the grass roots engagement that makes our program unique from other information sharing programs. The most recent example was the launch of the Virginia MarketMaker program.

Farm Credit also currently sponsors a MarketMaker initiated program that recognizes partners and collaborators who have made innovative use of MarketMaker resources. This *Farm Credit Innovation Award* has stimulated a culture where best practices are openly shared and good ideas are perpetuated throughout our network of partner states.

Fundamental to the success of our efforts is our role as a trusted and neutral source of valuable information. For that reason, our stakeholders judge us very closely by the partnerships we cultivate. As an organization, Farm Credit has the trust, respect and credibility within the agricultural community that makes us very proud to have this longstanding relationship with them.



MARKET MAKER™

Linking Agricultural and Seafood Markets

Thank you for this opportunity to share our appreciation and support for the Farm Credit System.

Thank you to the Senate Agriculture Committee for your interest in addressing the credit needs of both traditional and non-traditional agriculture, as well as our rural communities.

Sincerely,

Richard K Knipe, Ph.D.
MarketMaker Co-Founder

Darlene Knipe, MBA
MarketMaker Co-Founder



Testimony to the Senate Agriculture Committee
Submitted for the Record by
Matson Consulting, LLC

May 19, 2016

Mr. Chairman and Ranking Member Stabenow, Matson Consulting appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

Matson Consulting is an agribusiness consulting firm that provides business and technical assistance to small and rural farmers across the nation. Since 2001, Matson Consulting has provided business expertise to many rural businesses, enabling them to thrive and grow. Located in Aiken, South Carolina, the firm is represented by James Matson and supported by an enthusiastic staff with unique industry experience in helping client projects succeed. Some of the firm's clients include individuals, groups, producer cooperatives, state and local government entities, international organizations, and nonprofit foundations, working across the agricultural industry. Matson Consulting also partners with multiple groups, including Farm Credit, which has supported the firm's mission for years.

Matson Consulting and Farm Credit have cooperated for many years on activities such as training, workshops, and project work. The firm has used this partnership to better provide valuable services to new and beginning farmers in rural areas. This type of work has helped multiple groups better determine funding opportunities for their business and will continue to help these farmers grow and sustain a viable business. This has been of particular import for the training on financial literacy and planning that Farm Credit personally provide to new and beginning farmers. This training makes a strong impact on the success rates of these farms.

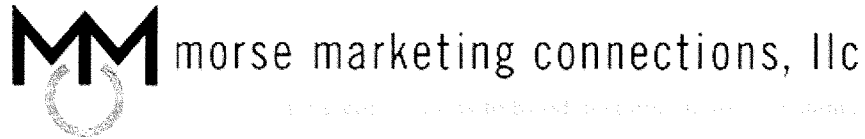
Much of the support Farm Credit has provided to the firm centers on Matson Consulting's work with local foods and food hubs. Farm Credit has done groundbreaking work by using its expertise to create the Food Hub Benchmarking Study, which Matson Consulting has used countless times. For example, in the past month, the firm used the chart of accounts provided in the benchmarking study to assist a group of first generation Hispanic producers as they attempt to achieve their ability to market into food deserts.

Farm Credit has also provided financial skills training to beginning farmers that is focused on local food system producers. This work, combined with the study above, has helped support Matson Consulting's efforts and continues to provide the training and information needed for beginning farmers to grow and succeed.

On behalf of Matson Consulting, I, James Matson, would like to thank the Committee for its interest in the credit needs of agriculture and rural communities. I look forward to continuing my work with them through Matson Consulting for years to come.

Sincerely,

James Matson
Managing Member and Principal,
Matson Consulting
(803) 233-7134



Testimony to the Senate Agriculture Committee

Submitted for the Record by
 Marty Gerencer
 Principal, Morse Marketing Connections, LLC
 May 19, 2016

Mr. Chairman and Ranking Member Stabenow, Morse Marketing Connections appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

Morse Marketing Connections based in Michigan is a national consultancy providing marketing and business consulting to local foods businesses and beginning farm operations. My work assists beginning farmers and local foods entrepreneurs to strengthen their business practices and develop more profitable, sustainable livelihoods through agriculture.

Since 2011, Morse Marketing Connections has partnered with Farm Credit to conduct dozens of Boot camp for Farmers Business Training Workshops around the nation, supported by USDA BFRDP, RMA and Specialty Crop grants. Also, at the state level, a Michigan Department of Agriculture and Rural Development grant supported twelve Boot camp for Farmers Workshops throughout Michigan.

Farm Credit develops the materials and conducts the business training to farmers during the workshops at no cost. In addition, Farm Credit has frequently provided the meeting room space for these workshops. Morse Marketing Connections works with local partners to conduct extensive outreach to seek out women, veterans, Native Americans, African Americans, Hispanics and other minorities, and invites all farmers in rural and urban areas who are interested in starting a farm operation to attend a Boot camp Workshop.

The Boot camp for Farmers Workshop is unique in that the farmers have the opportunity to begin to write their business plan during the small groups sessions with the assistance of a Farm Credit professional who has years of experience mentoring farmers. Also, after the workshop, farmers have now met a Farm Credit mentor that they can call for follow up assistance and guidance on loan eligibility.

Through the Boot camp Workshops, Farm Credit has stepped up to serve the small farmers producing local foods to equip them with the skills they need to be successful in the marketplace. Farm Credit professionals have strengthened beginning farmer business training and have raised the business focus within the local foods sector to assist in increasing the sector's prosperity.

Here are statistics from the farmer evaluations after attending the Boot camp Workshops:

Attendees responded with a rating of **3.01** out of 5 that they planned to complete a Business Plan before the workshop; attendees responded with a rating of **4.01** out of 5 that they planned to complete a Business Plan after the workshop (**20%** increase).

Attendees responded with a rating of **3.02** out of 5 that they were aware of whom to turn to for financial assistance and credit inquiries before the workshop; attendees responded with a rating of **3.98** out of 5 that they were aware of whom to turn to for financial assistance and credit inquiries after the workshop (**19.02%** increase).

For those farmers more likely to engage in business planning, reasons to do so were reported by farmers as follows:

- **57.32%** reduced financial risk and increased time efficiency
- **54.88%** increased financial efficiency
- **50%** benchmarking related to other farmers
- **32.93%** better access to loans and other capital and increased diversification

As a consultant and technical assistance provider for small farmers and local foods businesses across the nation, I am extremely grateful for the partnership with Farm Credit in this work. Farm Credit has conducted highly professional, competent training programs for small farmers based on their many years of experience. The breadth and depth of this experience from Farm Credit makes the Boot camp Workshops sought after by farmers and highly regarded by funders. Most importantly, collectively we are providing a service for our nation's beginning farmers to adequately equip them with the information they need to develop a business plan for their operation. The mentorship and the support system from Farm Credit increases the likelihood of local foods farmers' success in the marketplace.

My sincere thank you to the Senate Agriculture Committee for your interest and support in the credit needs of our nation's agriculture and rural communities. Successfully equipping our beginning farmers with the business resources needed for their farm operations will increase the likelihood of their success and will strengthen our rural and urban communities and our agricultural system throughout the nation.

Marty Gerencer
Principal, Morse Marketing Connections, LLC
800 E. Ellis Road, #536
Norton Shores, MI 49441
www.morseconnections.com

Testimony to the Senate Agriculture Committee
Submitted for the Record by
National Rural Electric Cooperative Association
May 19, 2016

Mr. Chairman and Ranking Member Stabenow, the National Rural Electric Cooperative Association (NRECA) appreciates the opportunity to submit testimony for the record as part of the Senate Agriculture Committee's "The Farm Credit System: Oversight and Outlook of the Current Economic Climate" hearing.

NRECA is the national service organization for America's Electric Cooperatives. The nation's member-owned, not-for-profit electric co-ops constitute a unique sector of the electric utility industry – and face a unique set of challenges. NRECA represents the interests of the nation's more than 900 rural electric utilities responsible for keeping the lights on for more than 42 million people across 47 states. Electric cooperatives are driven by their purpose to power communities and empower their members to improve their quality of life. Affordable electricity is the lifeblood of the American economy, and for 75 years electric co-ops have been proud to keep the lights on. Because of their critical role in providing affordable, reliable, and universally accessible electric service, electric cooperatives are vital to the economic health of the communities they serve.

Access to credit is crucial for America's rural electric cooperatives so that they may serve and grow with their consumer members. We obtain financing from the government through the Rural Utilities Service (RUS), through private cooperative lenders, commercial banks, the secondary market, and in some cases from investors directly. All of these resources are needed and used on a daily basis. The Committee has always been supportive of ways to ensure that rural America enjoys reliable access to credit and we applaud their efforts.

As the Committee knows, America's electric cooperatives serve 19 million businesses, homes, schools, churches, farms, irrigation systems, and other establishments in 2,500 of 3,141 counties in the United States. These institutions make up the backbone of rural America, and electric cooperatives provide them with not only electricity, but serve as a hub for economic and community development, making our rural areas attractive for current residents and for potential employers searching for high quality locations where they might construct manufacturing and industrial facilities. It is critical that our partners in rural America also continue to have access to credit, and we appreciate the Committee's diligence in conducting the proper oversight to ensure this access continues.

As the Committee is focusing on oversight of the Farm Credit System in particular, we would be remiss if we did not point out that indeed it is the mission of the Farm Credit System to support rural communities and agriculture with reliable, consistent credit and financial services. Ensuring that rural electric cooperatives have access to credit is a part of that mission. For nearly a half-century, Farm Credit has provided electric cooperatives with financial services to help meet their critical infrastructure needs in an ever-changing rural landscape. Electric cooperatives are able to rely on their partnerships with cooperative lenders, in addition to the RUS electric loan program, in order to fulfill their obligations to consumer-members.

NRECA thanks the Committee for your continuous leadership in supporting the needs of rural America, including the credit needs of rural communities.



National Rural Water Association

2915 South 13th Street, Duncan, Oklahoma 73533
580-252-0629 • Fax 580-255-4476

Testimony to the Senate Agriculture Committee
Submitted for the Record by
National Rural Water Association
May 19, 2016

Chairman Roberts and Ranking Member Stabenow, the National Rural Water Association appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System (FCS).

The National Rural Water Association (NRWA) is a nationwide non-profit association with state affiliated non-profit associations that operate in all 50 states and territories. NRWA represents over 31,000 small and rural communities and their utilities. Rural communities have the very important responsibility of supplying the public with safe and affordable drinking water and sanitation every second of every day.

Most U.S. water utilities are small in scale; 94% of the country's 51,651 drinking water supplies serve communities with fewer than 10,000 persons, and 80% of the country's 16,255 wastewater supplies serve fewer than 10,000 persons. Small and rural communities often have difficulty providing safe, affordable drinking water and sanitation due to limited economies of scale and lack of technical expertise. Access to affordable credit is required to meet these challenges.

As you are aware, in 1990 Congress amended the Farm Credit Act of 1971 to provide additional financial and technical assistance resources targeted to rural communities under populations of 20,000 for installing, maintaining, expanding, improving, or operating water and waste disposal facilities. This change was in recognition of the need for additional credit resources to address the challenges of financing critical infrastructure.

Our membership utilizes the FCS for their water and waste water utilities, essential community facilities, farming operations and other agribusinesses. We have developed a partnership with CoBank which takes into account the uniqueness of rural water systems that includes their scale, user rates and repayment history. Recently, CoBank and other FCS lenders have provided additional resources dedicated to refinancing existing higher interest loans, providing interim construction financing and participating with the Department of Agriculture's Guaranteed Water and Waste Water loan programs.

NRWA believes Rural America, and specifically the water and waste water industry, should have access to various forms of credit to address the critical needs that are unique to each community. The FCS infrastructure loans complement existing federal programs that are offered by the Department of Agriculture and the Environment Protection Agency. One area that is specifically underserved is communities that fall between the 10,000 and 20,000 population limit. The Rural Utilities Service is limited with their water and waste water programs to serve communities at the 10,000 population limit. The FCS has stepped in to provide credit resources to fill this gap.

Rural America has been strengthened from the credit products created through the FCS as they facilitate achievement of our shared goal of providing safe and affordable water and waste water services to all rural Americans. No community can grow and improve without the sustaining resources of water and wastewater services. Ensuring that rural communities have multiple financing options available to build and improve water and waste water infrastructure is essential to making that growth possible. The vitality of our rural communities is directly linked to the national economy. The vast majority of our energy, manufacturing and recreation occur in these rural communities. It is a direct link that we simply cannot ignore.

Thank you for your continued interest and support of programs and policy to improve and enhance the water and waste water infrastructure and services for our small and rural communities.



1775 Eye Street, NW
8th Floor
Washington, DC 20006
P: (202) 638-6222
info@ncba.coop
www.ncba.coop

May 18, 2016

The Honorable Pat Roberts
Chairman
U.S. Senate Committee on Agriculture, Nutrition and Forestry
328-A Russell Senate Office Building
Washington, D.C. 20510

The Honorable Debbie Stabenow
Ranking Member
U.S. Senate Committee on Agriculture, Nutrition and Forestry
328-A Russell Senate Office Building
Washington, D.C. 20510

Dear Chairman Roberts and Ranking Member Stabenow:

The National Cooperative Business Association CLUSA International (NCBA CLUSA) appreciates the opportunity to provide you with our views and comments and thanks the Committee for holding a hearing on credit in rural America.

For over 100 years, NCBA CLUSA's mission has remained consistently focused on developing, advancing, and protecting the cooperative business model. NCBA CLUSA is the apex trade association for cooperative business in the United States and an international development organization. In the United States, we help lend a voice to the more than 40,000 cooperative businesses and 150 million consumers that use cooperative services; many in rural communities. Our work provides cross-sector education, support, and advocacy that helps cooperatives thrive. We also engage with cooperative sectors around the world to ensure we help meet our nation's international development needs and create self-sustaining communities.

The Farm Credit System is vitally important to rural communities and farmer cooperative members. The Farm Credit System supports the financing of rural utilities that provide clean and safe water, reliable and inexpensive electricity, and access to modern telecommunications services including broadband. Importantly, the Farm Credit System partners with other providers of credit to reduce the utility divide between rural and urban areas, and the inherent interconnection between rural and urban utility services and rural areas in feeding/fueling urban communities.

All lenders, commercial bankers and the Farm Credit System should work together to solve the complex issues and needs in rural America, which are critical and significant. NCBA CLUSA supports the Farm Credit System because:

- (1) It is critically important to the success of farmers and agriculture cooperatives in rural communities. They provide agricultural and utility financing for cooperative enterprises that thrive in rural America.
- (2) As cooperatives, the customers are the member-owners and participate in the governance and economic success, through patronage dividends, of

Farm Credit institutions that provide them financial services and in turn support their rural communities.

- (3) Farm Credit institutions follow a set of guiding business principles that include; voluntary and open membership free of discrimination, democratic member control, member economic participation, autonomy and independent self-help organizations, education, training and information, cooperation among cooperatives, and finally concern for the community.



In following these seven principles, the Farm Credit System business activities are aligned with the interests of their cooperative, farmer, rancher and other rural members, particularly in support of the economic success of rural communities in which these members live, work, and raise their families.

- (4) We are discouraged to hear that commercial banks continue to focus on reforming the Farm Credit System to significantly and adversely impact its vital contributions to rural community agriculture and providers of utility services to rural areas. A better solution for rural America is to partner with cooperatives and Farm Credit institutions.

Congress, in a bipartisan way, continues to recognize the importance of the cooperative business model as a strong and vibrant alternative to other forms of corporate ownership. Through the recently formed Congressional Cooperative Business Caucus, one of its main goals is to seek opportunities for education and awareness initiatives to help policymakers and the general public become better informed about the cooperative business model and its importance. This will help reinforce the impact that cooperative businesses have on the nation's economy and encourage their involvement in recognizing and supporting this movement. Also, the Caucus works closely alongside and complements the U.S. Department of Agriculture's Interagency Working Group on Cooperative Development, authorized under the most recent Farm Bill, which convenes all federal agencies and engages with them on issues affecting cooperatives in federal policy.

The cooperative business model has the unique organizational feature of balancing and aligning the interests of its customers with purpose and operation of the business in a manner that creates both positive economic and social outcomes.

I would like to thank the Committee for its interest in the credit needs of rural communities and their support of cooperatives in strengthening rural economies.

Sincerely,

 A handwritten signature in cursive script that reads 'Judy Ziewacz'.

Judy Ziewacz
President and CEO



**Testimony to the Senate Committee on
Agriculture, Nutrition and Forestry
Submitted for the Record by the
National Council of Farmer Cooperatives**

Regarding

Oversight Hearing on the Farm Credit System

May 19, 2016

Mr. Chairman, Ranking Member Stabenow, and members of the Committee, the National Council of Farmer Cooperatives (NCFC) appreciates the opportunity to submit testimony for the record as part of the Senate Agriculture Committee's oversight hearing on the Farm Credit System.

NCFC represents the interests of America's farmer cooperatives. There are nearly 3,000 farmer cooperatives across the United States whose members include a majority of our nation's more than 2 million farmers. NCFC members also include 22 state and regional councils of cooperatives.

Farmer-owned cooperatives are central to America's abundant, safe, and affordable food, feed, fiber, and fuel supply. Through their cooperatives, farmers are able to improve their income from the marketplace, manage risk, and strengthen their bargaining power, allowing individual producers to compete globally in a way that would be impossible to replicate as individual producers.

By pooling the buying power of hundreds or thousands of individual producers, farmer cooperatives are able to supply their members—at a competitive price—with nearly every input necessary to run a successful farming operation.

Likewise the cooperative structure has been critical in providing for access to a dependable source of credit. For 100 years, Farm Credit's structure has offered agricultural producers and farmer-owned cooperatives stable access to credit through all types of agricultural, business and economic cycles. The cooperative structure of Farm Credit also ensures that profits are returned

to customer-owners through patronage distributions or are used to support new, mission-related lending activities.

Credit availability is absolutely critical to NCFC members, especially in times of market stress and volatility. A prime example of this was during the incredible turmoil that rocketed through the agricultural commodity markets in the late 2000's, when extreme price fluctuations meant that many firms struggled to maintain adequate levels of capital and liquidity. Throughout that period, Farm Credit provided a backstop to many NCFC members as they managed through a very difficult market. This strong customer-borrower relationship between cooperatives and Farm Credit helped largely avoid the problems that broadly beleaguered the agriculture industry.

Looking at the bigger picture, for cooperatives and their producer members to remain competitive in a global economy, rural areas need to offer the same basic services that other locales provide – such as broadband internet, affordable electricity, and water and wastewater infrastructure. The utility infrastructure to support these services is more difficult and significantly more expensive to build in rural areas than in urban. For example, running fiber-to-the-home in a city can reach hundreds of families in one large housing complex, while providing the same access in a rural area can require miles of fiber to reach a single home. Farm Credit plays a critical role in financing those basic infrastructure needs that support rural communities and that are essential to agriculture-related businesses.

Ensuring that farmer-owned cooperatives and their members continue to have access to a competitive source of credit is a critical part of Farm Credit's mission. As such, NCFC is very supportive of their mission and their ability to play a vital role in ensuring access to constructive, competitive credit on an ongoing basis. The array of credit products offered by Farm Credit ensures that agriculture producers and the businesses they own have access to financial tools that are vital to their success and economic sustainability.

Thank you for your interest in the credit needs of rural communities, and your support of a strong agricultural economy.



Testimony to the Senate Agriculture Committee
 Submitted for the Record by
 NTCA-The Rural Broadband Association
 May 19, 2016

Mr. Chairman and Ranking Member Stabenow, NTCA-The Rural Broadband Association (NTCA) appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

NTCA represents nearly 900 community-based telecommunications carriers that provide voice, broadband, wireless and/or video service to rural consumers across the country. These small, rate-of-return rural broadband providers serve about 5% of the U.S. population spread throughout roughly 40% of the country's landmass. These companies operate in rural and tribal areas long ago left behind by larger service providers because these markets were too high-cost—too sparsely populated, too far from larger towns and cities, and/or just too challenging to serve in terms of topography or terrain. As anchors in the communities they serve, these small businesses create jobs, drive economic activity, and connect rural America to the world.

NTCA members have often relied upon a mix of hometown commitment, entrepreneurial spirit, a culture of innovation, predictable and cost-effective governmental loan and support programs, and financing from private lenders like CoBank to meet and overcome the challenges of rural service. These collective assets and combined public-private efforts have helped NTCA members deploy modern, broadband-capable networks in many rural areas where it is otherwise difficult to justify investment.

Congress has mandated that CoBank provide financial support to improve, among other things, rural America's access to modern telecommunications and broadband services. In fulfilling this mission, CoBank makes loans and provides specialized financial products to a range of telecom industry enterprises, including NTCA member companies. The organization is an experienced lender to the communications sector. It has more than \$4.6 billion in loan commitments to more than 165 rural communications companies nationwide. CoBank and its affiliated Farm Credit associations provide: short-term loans for one-time or line-of-credit borrowing or asset-based loans for operating companies-back loans; and intermediate- and long-term loans for construction of new facilities, and land or equipment purchases. NTCA member companies are eligible to receive these loans if they are eligible to receive financing through the U.S. Department of Agriculture's Rural Utilities Service (RUS).

In the last year alone, CoBank has added 10 new small carrier customers like those in NTCA's membership and continues to explore opportunities with other companies in this sector. In addition, CoBank has syndicated \$4.3 billion in communication loans to the Farm Credit System and commercial banks. In some cases, these transactions have helped to enable the refinancing of existing NTCA member company loans or the financing of acquisitions that help smaller carriers gain scope and scale in delivering services to rural communities.

NTCA Testimony
May 19, 2016
Page 2

CoBank also provides wholesale loans and other financial services to affiliated Farm Credit Associations serving farmers, ranchers and other rural borrowers in 23 states around the country. These are the customers that use networks provided by NTCA members to carry out vital commerce activities and promote economic opportunities for the benefit of rural communities and the nation as a whole.

NTCA-The Rural Broadband Association would like to thank the Senate Agriculture Committee for scheduling today's hearing and for its interest in the credit needs of agriculture and rural communities. NTCA's small business members play an essential role in deploying broadband to rural areas, and the services enabled by broadband are essential to the startup, operation, and growth of other rural small businesses. NTCA member companies are willing to invest the necessary capital to deliver affordable and reliable broadband service to rural communities, and access to adequate financing available through the Farm Credit System and other lending institutions is indispensable in carrying out this shared mission.



food systems for a healthier world

33 Lynwood Dr., Battle Creek, MI 49015
www.originz.com 616-581-1360

Testimony to the Senate Agriculture Committee
Submitted for the Record by Originz, LLC

May 19, 2016

Mr. Chairman and Ranking Member Stabenow, Originz, LLC appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

Originz, LLC is a consultancy that works with agriculture and food enterprises in the creation of *"food systems for a healthier world"*. Originz and Farm Credit have cooperated for many years in providing financial educational and business planning resources and training to beginning farmers to advance the establishment of thriving and sustainable enterprises within local food systems.

As a primary lender to young, beginning and new farmers and ranchers nationally Farm Credit has led in doing groundbreaking work by putting its credibility behind the local foods sector, helping reduce the barriers between big and small agriculture. One example is the suite of One-Page business planning and financial management resources that Farm Credit has developed for use by beginning farmers so they can apply appropriate financial management discipline within their operation to improve the likelihood of success. This is critically important to the clients Originz, LLC serves and the future of a national food system wherein large and small food and farm enterprises together meet the need for healthy and affordable food.

Farm Credit's understanding of the broad farming and ranching sector and its discipline in guiding its membership on sound financial management equip it well to meet the needs of beginning farmers targeting the local food system market channel.

Thanks you for your interest in the credit needs of agriculture and rural communities.

Sincerely yours,

Joe Colyn
President, Originz LLC

T 510 526 1793 DAVID BROWER CENTER • 2150 ALLSTON WAY, SUITE 320 • BERKELEY, CA 94704



www.sagecenter.org

Testimony to the Senate Agriculture Committee
Submitted for the Record by
Poppy Davis, Program Director, Sustainable Agriculture Education (SAGE)
May 19, 2016

Mr. Chairman and Ranking Member Stabenow, on behalf of Sustainable Agriculture Education (SAGE) I appreciate the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

SAGE works with local governments and agricultural stakeholders to address the unique needs of farmers and ranchers operating in rapidly urbanizing counties and regions. In addition to the challenges of zoning and transportation, producers in urbanizing regions lose access to specialized knowledge infrastructure, such as the specialized knowledge of an experienced agricultural lender. Without access to the Farm Credit System many producers attempting to continue operations in the face of development pressures would have to seek financing from institutions more geared to construction, housing, and retail development than to production agriculture.

In my current work with SAGE, and for many years prior in various roles with the USDA, I have worked closely with various Farm Credit lenders. I would like to emphasize to the Committee the value of Farm Credit as educators and advisors as well as lenders. There are many sources of credit, but few lenders with agricultural expertise. In my previous positions with the USDA Risk Management Agency and more recently as the National Program Leader for Small Farms and Beginning Farmers and Ranchers, I researched the many obstacles different types of farmers and ranchers face when seeking professional advice in accounting, taxation and the appropriate use of credit and insurance. Time and again I found the best services were offered through a Farm Credit lender, or through referrals made by a Farm Credit lender.

Farm Credit also plays an important role in building the institutional capacity of farmer associations. In my former role as the founding Treasurer of the Board of the Farmer Veteran Coalition I worked closely with Gary Matteson, the Vice President for Beginning Farmers and Ranchers for the Farm Credit Council. The perspective of a knowledgeable lender on the board helped to shape programs so veterans seeking careers in agriculture would be assured access to appropriate educational and financial resources. The reach of the Farm Credit lender network also allowed the Farmer Veteran Coalition to develop a national network and a national strategy for serving farmer veterans. While other lenders may also play a valuable role in growing institutional capacities, Farm Credit brings unique knowledge of agriculture and a specialized ability to network with other agricultural experts.

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The many advances in agricultural production systems, technologies, and programs can sometimes cloud the fact that individual farmers and ranchers still need advisors to help them chart the course of their business. As small town banks have merged and Main Street professionals have consolidated we have lost much of the specialized knowledge infrastructure of agricultural business and farm-family wealth management. At the same time agriculture has become more diverse and the need for specialized ag business management services has grown. The Farm Credit system is a critical component of the farm safety-net. Along with Extension and USDA county offices, Farm Credit provides specialized knowledge inputs to help America's hard-working agricultural producers and working-lands owners grow and preserve family wealth in a dynamic global economy.

Thank you for your interest in the unique credit needs of agriculture.

Sincerley,



Poppy Davis
Program Director
SAGE



Southern Sustainable Agriculture Working Group (SSAWG)

Mailing Address: PO Box 1552, Fayetteville AR 72702-1552

Physical Address: 1825 West Preservation Dr. #3 72703-1389

Contact Information: (479) 251-8310 | info@ssawg.org | www.ssawg.org

**Testimony to the Senate Agriculture Committee
Submitted for the Record by
Southern SAWG (Sustainable Agriculture Working Group)
May 19, 2016**

Mr. Chairman and Ranking Member Stabenow, the Southern Sustainable Agriculture Working Group appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

Southern SAWG is a non-profit organization whose leadership includes farmers, agricultural educators and assistance providers, and community food advocates from across the 13-state Southern region. We are widely recognized as a major resource for providing high quality educational materials and training opportunities on sustainable and organic production, marketing strategies, and community food systems development. We have assisted over 11,000 farmers and hundreds of farm service organizations in our 25 year history.

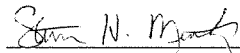
SSAWG and Farm Credit have cooperated for many years in efforts to support farmers across our region. Notably, we have partnered on a BFRDP grant to assist beginning farmers and are currently working together on a Southern SARE Professional Development Project to assist farm service providers in their efforts to support small and mid-scale horticultural producers with business decision making. Here are a few other ways our work is supported by Farm Credit:

- Farm Credit has developed and shared simple, effective tools to assist farmers in understanding and communicating their farm's financial position
- Farm Credit has provided financial skills training to beginning farmers that is focused on local food system producers
- Farm Credit has done groundbreaking work by using its expertise to create the Food Hub Benchmarking Study

Southern SAWG prides itself on providing practical tools and information for the farmers we seek to serve. These farmers are innovators who are farming in new ways, marketing in new ways and collaborating in new ways. Among them are many young and beginning farmers who often lack not only the agricultural knowledge necessary to succeed, but the financial tools as well. The only way these farmers will be successful is if they find good information from individuals and organizations that are approachable and reputable. This is particularly true when it comes to the world of agricultural business and financing. It can be both complex and intimidating. Farm Credit has been successful in setting themselves apart as a very approachable organization that provides sound, practical tools and assistance for the kinds of farmers that

Southern SAWG serves. This is a key piece of the puzzle we face in establishing a new generation of farmers. Southern SAWG is very thankful to have found such a strong partner in Farm Credit and we look forward to our continued relationship.

Again, we appreciate the opportunity to share our thoughts on the Farm Credit System and their value in supporting the credit needs of agriculture and rural communities.



Steven Muntz, Executive Director
Southern Sustainable Agriculture Working Group

**The Federation of Southern Cooperatives
Land Assistance Fund
www.federation.coop**



**Public Relations and Fundraising Office
2769 Church Street
East Point, GA 30344**

**Telephone: (404) 765-0991
Facsimile: (404) 765-9178
E-Mail: info@federation.coop**

**Cornelius Blanding
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May 19, 2016

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**Testimony to the Senate Agriculture Committee
Submitted for the Record by
FEDERATION OF SOUTHERN COOPERATIVES/LAND ASSISTANCE FUND**

Mr. Chairman and Ranking Member Stabenow, on behalf of the membership and board of directors of the Federation of Southern Cooperatives/Land Assistance Fund, I appreciate the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

The Federation of Southern Cooperatives/Land Assistance Fund is a non-profit, cooperative association involving over 20,000 limited resource farmers, landowners and rural families organized into more than 75 cooperatives, credit unions and community based economic development groups across the rural south.

We were founded in 1967 as a direct outgrowth of the civil rights movement by 22 cooperatives from all over the south and chartered to work in 13 southern states including some of the most economically depressed communities in the Black Belt Region. We have board representation from 8 southern states with offices and staff in 6 deep southern states, including Alabama, Mississippi, Georgia, South Carolina, Louisiana and Florida.

We strive toward the development of self-supporting communities through cooperative economic development, land retention, advocacy and other initiatives that increase income and enhance other opportunities for limited resource farmers and landowners.

We have and continue to work collaboratively with many partners nationally to serve our membership in the southern region as it relates – but not limited - to land retention issues, farm and forest management, cooperative development and access to credit. We have partnered with Farm Credit for many years to provide financial skills training that is focused on beginning farmers, local food system producers and small farmers that our Federation serves. Specifically, Farm Credit has sponsored and actively participated in some of our meetings providing education and technical assistance to our member farmers and we have plans to continue that by doing "train the trainer" sessions with our staff in order to strengthen the relationship with Farm Credit and better serve our membership and other limited resource farmers in the south.

Page 2
May 19, 2016

Farm Credit's mission to help rural communities and agriculture grow and thrive by financing vital rural infrastructure and communication services, and providing farmers and agribusinesses with the capital they need to be successful is extremely important to our membership and communities. One of the major challenges for limited resource farmers and cooperatives is access to credit. Our partnership with Farm Credit is crucial in making sure all farmers – including our membership - have access to capital for the purchase of land, equipment and operating loans in order for agriculture to grow and thrive all over this country.

In closing, I want to once again thank the Committee for the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System and its interest in the credit needs of agriculture and rural communities of this country – including those of limited resource farmers, cooperatives and rural communities in the South.

Cooperatively,

A handwritten signature in black ink, appearing to read 'C. Blanding', with a stylized flourish at the end.

Cornelius Blanding,
Executive Director



THE OHIO STATE UNIVERSITY

JOHN GLENN COLLEGE OF PUBLIC AFFAIRS

Testimony to the Senate Agriculture Committee

Submitted for the Record by

Jill K. Clark, PhD

May 19, 2016

Mr. Chairman and Ranking Member Stabenow, I appreciate the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

My name is Jill Clark and I'm a professor of food and farm policy at the John Glenn College of Public Affairs at Ohio State University. In addition, I lead a statewide network of 22 local food policy councils from across Ohio. Food policy councils are made up of community members represent that entirety of the food chain. These councils and work with local governments to identify and create methods to improve local food systems for the purposes of local economic development, farm viability, healthy food access and social justice. It is from my research experience and 10 years of work with local food policy councils that I write this testimony.

My research agenda is focused on farmers engaging in local and regional markets, local and regional market infrastructure and the role of local government and civil society governance is supporting these systems. I have cooperated and partnered for many years with Farm Credit at conferences and visits to Washington, DC when sharing findings of my research and determining how to match the needs of first generation and beginning farmers who engage in local markets to the technical and financial resources available to them. Farm Credit has provided the financial skills training in tune with the unique needs of these farmers.

A major challenge in developing local and regional food systems is the missing middle infrastructure that enables the scaling-up of direct markets. Food policy councils and local governments are increasingly looking for ways to support the development of this middle infrastructure. Farm Credit has used its expertise to create a landmark study to address this need. The Food Hub Benchmarking Study provides the type of baseline financial and operations data needed for local decision-making.

Farm Credit's mission, expertise and actions serve beginning farmers and local food systems. Thank you for your interest in the credit needs of farmers, local agriculture and rural communities.

Sincerely,

Jill K. Clark, PhD

Testimony to the Senate Agriculture Committee
Submitted for the Record by
The Rural Advancement Foundation International - USA
May 19, 2016
Contact Name and Email: Scott Marlow, smarlow@rafiusa.org

Mr. Chairman and Ranking Member Stabenow, the Rural Advancement Foundation International – USA (RAFI) appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee’s oversight hearing on the Farm Credit System.

A 501(c)(3) nonprofit organization based in Pittsboro, NC, RAFI’s mission is to cultivate markets, policies and communities that sustain thriving, socially just, and environmentally sound family farms. RAFI works nationally and internationally, focusing on North Carolina and the southeastern United States.

As a part of our services, we provide emergency technical assistance to farmers in crisis as well as grants and technical support to farmers who are developing new farm enterprises. Farm Credit is the lender for many of the farmers who receive these services from RAFI.

In recent years, RAFI has collaborated with Farm Credit to provide education and outreach to beginning farmers, farmers producing for specialty and local markets, and socially disadvantaged farmers and ranchers who were historically underserved by the credit system. We have partnered on a series of workshops for beginning farmers on building credit worthiness. Farm Credit was also an important partner in our work addressing the needs of returned veterans transitioning into agriculture, and assessing the use of crop insurance in lending.

As part of their outreach, Farm Credit has created an effective series of resources for farmers that RAFI has employed in its work with individual farmers, including the “One-Page Business Plan,” the “One-Page Financial Plan” and the “One-Page Risk Management Plan.”

In addition, RAFI has been a part of Farm Credit’s work to educate the lenders within the Farm Credit system. In 2015, RAFI participated in a system-wide training of Farm Credit loan officers focused on extending lending to small-scale, beginning, and local-market farmers. They have also produced the “Field Guide to the New American Foodshed,” which provides information to loan officers on emerging, entrepreneurial farm enterprises.

Access to credit that serves the specific needs of farm entrepreneurs and farms as small businesses is a critical piece of the agricultural financial infrastructure, and plays a critical role in the economic development of rural communities. The funding choices made by bankers guide what agriculture and rural communities look like

now and in the future. Farm Credit has a very important role to play in providing that credit and building entrepreneurial opportunities for farmers across the country.

Thank you for your attention to this important issue, for your commitment to strong agricultural and rural economies, and for your consideration of this testimony.



Testimony to the Senate Agriculture Committee

Submitted for the Record by
 Indigenous Food and Agriculture Initiative
 Director, Janie Simms Hipp, J.D., LL.M. (Chickasaw)
 May 17, 2016

Mr. Chairman and Ranking Member Stabenow, the Indigenous Food and Agriculture Initiative at the University of Arkansas School of Law appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System. This testimony is presented by me personally as the Director of the Initiative.

The Indigenous Food and Agriculture Initiative at the University of Arkansas School of Law was launched in 2013 as the nation's only law school-based food and agriculture policy, education, research, and technical assistance organization working solely in the intersection of food and agriculture and Indian law. We were created to work with all tribal governments in the United States to build strong and sustainable Native food systems that will improve the agricultural-based economies of tribes, improve the health and well-being of American Indian and Alaska Native citizens, improve the success of tribal businesses, Native farmers and ranchers by improving the strategic planning, strategic business assessment, strategic community engagement and access to professional certifications and training in key business aspects of a strong food sector. The Farm Credit system has been our partner in this work since our inception.

By focusing on the unique needs of tribes in the United States, we can improve their community economic development based in agriculture and food production and can increase their important participation in the nation's food sector which not only contributes meaningfully to our nation's food security, but also provides key building blocks to ensure Indian Country's own food security.

We work with tribal governments, tribal businesses, individual Native farmers and ranchers, food businesses and communities across the United States in the over 30 states in which lands and assets of Indian Country are found. We also work with the growing number of Native young and beginning farmers and ranchers as this demographic in the nation's food sector is on the rise. We also regularly work with other intertribal organizations to improve Native farmers and ranchers and tribal government's access to USDA programs and services. Finally, we engage in ongoing research, education, extension of knowledge, and have undertaken the

drafting of a model food and agriculture code that all tribal governments can use to provide specific policy compliance in furtherance of the nation's strong food and agriculture regulatory portfolio. Farm Credit has been a continual and unwaveringly staunch supporter and ally in our work.

Farm Credit and its system institutions and leadership have embraced our mission, vision and goals at IFAI and the aspirations of the communities we serve. They have financially supported our work since the inception of our Initiative. We work closely with loan officers, system officials, Farm Credit leadership at every level and do so on an ongoing basis. We work seamlessly with Farm Credit to bring their important family of credit resources into greater knowledge, acceptance and use in Indian Country.

Farm Credit supports our mission tirelessly by providing key training expertise in important financial skills development in every location we serve, and by providing key national insight as we develop new programs within our Initiative's focus and design. Farm Credit has committed its organization deeply to the support of Native young and beginning farmers and ranchers in Indian Country by their financial support and professional expertise and through their support for key partner organizations we serve alongside. Their commitment to realizing the true potential of Indian Country food and agriculture sector is extremely important and our gratitude for their support is expressed continually. They invest their time and resources to ensure that Indian Country's role as a critical player at the nation's food security table is secure and stable and we look forward to many years of collaboration and cooperation to these ends.

Farm Credit's mission is as relevant today as it has been for the last 100 years. They continue to meet their mission day after day. Farm Credit's service to our community in Indian Country has never been more important. IFAI and my staff work with far flung Native communities, many of located in the most remote and rural reaches of our country. The presence of Farm Credit in every region of the country is important, but what is even more important is the critical expertise they maintain in understanding agriculture. The continued commitment of Farm Credit is essential to our future. They see the role that food and agriculture development has in the growth and stabilization of our communities. They see the potential for our young and beginning farmers and ranchers and they do everything they can to help us realize that promise.

Thank you to the Committee, for its continued support for Farm Credit and your interest in the credit needs of agriculture and rural communities. Farm Credit's role in serving those needs will continue in the coming years. Our need for Farm Credit is even greater today than it was in the first year of its creation 100 years ago.

Respectfully submitted,

Janie Simms Hipp, J.D., LL.M. (Agricultural Law), Director, Indigenous Food and Agriculture Initiative



Testimony to the Senate Agriculture Committee
 Submitted for the Record by
 Wallace Center at Winrock International
 May 19, 2016

Mr. Chairman and Ranking Member Stabenow, the Wallace Center appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

The Wallace Center is a not for profit organization that supports entrepreneurs and communities as they build a new, 21st century food system that is healthier for people, the environment, and the economy. The Wallace Center applies a market-based strategy to increase the economic viability of small and mid-size farms and foster greater use of sustainable agriculture practices in the U.S. Wallace integrates research with practice to develop, understand, document and disseminate viable enterprise models and engages in cross-sector collaboration to help regions adapt these models to their unique environments. Through several initiatives, including National Good Food Network (NGFN) and the National Food Hub Collaboration, we have a national reach into regional, on-the-ground food systems efforts. The NGFN has the capacity and experience to engage with farmers to grow regional food supply and drive more active regional food economies and the National Food Hub Collaboration works to ensure that the products from these farms are successfully connected to lucrative markets by supporting existing and emerging food hubs in the U.S.

The Wallace Center has collaborated with Farm Credit toward these ends in several ways. As a member of the National Food Hub Collaboration, Farm Credit has participated in increasing the vitality of small farms through food hubs, advising and participating many pieces of our work, including our biennial national Food Hub Conference, and biennial National Food Hub Survey. Especially notable is Farm Credit's groundbreaking work in leveraging its expertise in benchmarking studies, as well as its understanding of retail agriculture to develop and execute the Food Hub Benchmarking study, run in 2014 and 2015. One active investor in the domain of local and regional food businesses reported that over time she "expects this study to act like a compass – a true north of sorts— revealing the operational trends that will validate an organization's business model and path to self-sufficiency... For funders, these trends will inform how we choose to support and capitalize this movement."

Farm Credit has also been a partner with Wallace Center on several projects, over the course of many years, where the explicit goal is training small and beginning farm operations, particularly those who participate in retail agriculture. We have together trained farmers, increasing the sophistication of their financial thinking so that they may run their businesses more effectively. We have collaborated on a project designed to train farmer trainers, increasing their capacity to train the farmers with whom they work, especially in the domain of financial literacy and mastery. Almost all farmer trainings and train-the-trainer trainings have included at least one (and often times several) members of the local Farm Credit lending



institutions, demonstrating their commitment to working with this sector of agricultural entrepreneurs regardless of farmer current loan readiness or need. Moreover in feedback about sessions it has become clear that attendees highly value the new connections they make to the Farm Credit representatives.

Farm Credit's commitment to bring inexpensive, needed capital in to the domain of agriculture, particularly for smaller farms using sustainable farming practices is absolutely critical to the success of small agriculture in this country. Moreover we have been impressed with their ability to provide coaching and training services, even in cases where they are not immediately reducing their risk (i.e. for those farmers who are currently their debtors).

We feel that the value of this work for small, young, and beginning farmers is high – we derive this conclusion from feedback from farmer and farmer-trainer participants in the events where we have worked together with Farm Credit. In fact we would press strongly for more of this high quality work to take place – more trainings, more regions of the country, longer trainings (for instance multi-day; even multi-week trainings), and a wider variety of trainings including to, and through, food hubs. Our assessment is that Farm Credit can, and should, be more of a part of the solution for farm viability in retail agriculture.

We would like to thank the Committee for your interest in the credit needs of agriculture, and how appropriate credit can lead to thriving rural communities.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Fisk', written over a faint circular line.

John Fisk
Director, Wallace Center at Winrock International
jfisk@winrock.org
(703) 879-6556

**Testimony to the Senate Agriculture Committee
U.S. Senate
Submitted for the Record by
WTA – Advocates For Rural Broadband**

May 19, 2016

Chairman Roberts and Ranking Member Stabenow, WTA – Advocates for Rural Broadband appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee’s oversight hearing on the Farm Credit System.

WTA is a national trade association whose membership is comprised of more than 300 rural telecommunications carriers providing affordable high-quality voice, data, and video-related services across the United States. On average, WTA’s individual member companies provide service to fewer than 3,500 customers in the aggregate and fewer than 500 customers per exchange. WTA’s members serve some of the most rural and hard-to-serve communities in the country. Yet, they are on the forefront of bringing 21st Century telecommunications services to rural America. The ability to secure low-interest financing has helped to make this happen.

WTA’s members have had a long partnership with the Farm Credit System, particularly with CoBank, a member of the Farm Credit System. This partnership is even more important today than it has been in the past due to the increasing demand for constantly evolving communications services across the country and the limited number of other sources of financing for small, rural telecommunications carriers. Because of the isolated nature of many rural communities served by WTA members, quality voice communication service and high-speed broadband connections are a vital link to the rest of

the country and the world. The Farm Credit System has played, and continues to play, a key role in making sure rural high-cost areas are not left behind in the new era of communications and technology by providing reasonable-termed loans focused on rural areas that might not be of priority to more traditional avenues of credit.

If policymakers want Americans living in remote, rural, tribal and other hard-to-serve communities to have access to communications services reasonably comparable to those in urban and suburban communities – as is required by the Communications Act of 1934, as amended – then a strong Farm Credit System is vital. WTA members have experienced first-hand the value the Farm Credit System provides and strongly encourages Congress to continue supporting the program.

Thank you for allowing WTA to submit these comments on behalf of small, rural-based telecommunications providers and the customers and for your attention to the needs of rural America.



Michel Nischan
 Founder & CEO
 Gus Schumacher
 Founding Board Chair

Testimony to the Senate Agriculture Committee
 Submitted for the Record by Wholesome Wave
 May 19, 2016

Mr. Chairman and Ranking Member Stabenow:

Wholesome Wave appreciates the opportunity to submit testimony for the record as part of the Agriculture Committee's oversight hearing on the Farm Credit System.

Wholesome Wave is a growing national non-profit that strives to create a vibrant, just and sustainable food system. By making fresh, locally grown fruits and vegetables affordable and available, we help under-served consumers make healthier food choices. Our innovative initiatives are improving health outcomes among low-income families, generating additional revenue for small and mid-sized farm businesses and bolstering local and regional economies.

Our work is implemented in 40 states and Washington DC through a network of over 110 members and program partners at more than 730 farmers markets and retail sites, community health centers, hospital systems and food hubs. Each year, our initiatives benefit over 150,000 under-served consumers and thousands of farmers.

The Farm Credit system's local associations provide credit and support business planning for a number of farmers, allowing them to participate in programs that increase access to affordable healthy food, like nutrition incentive and fruit and vegetable prescription programs at farmers markets.

Matt Harsh, a Smithsburg Maryland farmer, sells produce at our partner farmers market in the District of Columbia, and benefits from operating and equipment loans provided by Mid-Atlantic Farm Credit. These loans made it possible for him to become a consistent supplier at the Columbia Heights market, which offers nutrition incentives to low-income consumers to double SNAP benefits when spent on fruits and vegetables. Matt has reported a significant increase in sales as a direct result of nutrition incentive programs at this and other DC markets.

This illustrates how the Farm Credit system contributes to reinvigorating regional food systems that directly reach low-income consumers with healthy produce. As direct marketing opportunities grow for farmers throughout the country, including beginning and minority farmers, local Farm Credit Associations are supporting this growth by providing operating, farm purchase, and equipment loans, as well as technical support to improve farmers' financial skills.

We are also encouraged by the expanding support from Farm Credit Associations in the Southeast and in the Northeast through their growing direct grant programs to support to farmers markets. This expanding grant programs help these markets cover the costs of EBT

equipment and SNAP transaction fees¹ to ensure the success of nutrition incentive programs, such as the *Market Match* program in Stokes County, North Carolina, sponsored by Carolina Farm Credit and Wholesome Wave.²

At Wholesome Wave, we are especially grateful to the Chair, Senator Roberts, and the Ranking Member, Senator Stabenow, for their continuing support of these programs and for understanding the critical role that the farm credit system can play in maintaining robust and diverse farm businesses throughout America.

Sincerely,



Michel Nischan-Founder and CEO



Gus Schumacher-Founding Board Chair

Wholesome Wave

¹Fort Smith Farmers Market gets grant. *Times Record*, April 25, 2016. Retrieved from: <http://swtimes.com/business/fort-smith-farmers-market-gets-grant>

² King Farmers Market opens at YMCA, *The Stokes News*. April 28, 2016. Retrieved from: <http://thestokesnews.com/news/4741/king-farmers-market-opens-at-ymca>

QUESTIONS AND ANSWERS

MAY 19, 2016

Senate Committee on Agriculture, Nutrition, & Forestry

The Farm Credit System: Oversight and Outlook of the Current Economic Climate

Thursday, May 19, 2016

Questions for the Record

Mr. Verlin (Gus) J. Barker

Chairman Pat Roberts

1. **Mr. Barker, in your written testimony you highlight and repeat a number of times the term – “below market rates,” when discussing interest rates offered by your competitors. Is this an issue you experience when competing with other banks, or typically just Farm Credit System lenders?**

Senator Roberts, we only see the “below market rates” from the Farm Credit System due to their tax free status and cheaper funding as a government-sponsored enterprise (GSE) which enables the FCS to raise funds slightly above the Treasury’s cost of borrowing. These benefits allow the FCS to offer much lower pricing than my bank and other local banks. When my bank competes with other community banks in our marketplace, we all have access to similar funding. Based on our funding costs, we then price our loans centered on guidance from our board of directors and the level of interest margin considered acceptable. There may be minor differences in the rates offered between local banks but the winning banker’s bid is never even close to the low loan rate offered by the FCS if the FCS chooses to go after a prime, i.e. larger customer’s business.

Senator John Thune

1. **Mr. Barker, as president and CEO of a smaller scale community bank with a portfolio of 35 percent agricultural loans what would you say is your banks greatest challenge today?**

I have two major challenges in running our bank. First is the difficulty building our loan portfolio. We make many consumer loans and residential real estate loans but they are on a small scale. If we were able to compete for the business of the larger farm borrowers, we could get loans that are much larger which would improve the overall quality of our loan portfolio. For these larger farmer loans, I can’t even get close enough to the rate offered by the Farm Credit System for the farmer gives us a second look.

The second great challenge for my banks is the overwhelming burden of regulation that has come from the Dodd-Frank Act (DFA) in addition to other regulations. There is even further rulemaking planned based on the DFA that will add more burdens upon the backs of community banks. Although, community banks were supposed to be exempt from many of the regulations, the regulations are being imposed on us through the efforts of the CFPB. ICBA and community banks are trying to reduce some of the burden through legislation ("Clear Relief Act"; S 812 / HR 1233). While Congress has passed a few regulatory relief provisions, the passage of additional very important regulatory relief measures for community banks has been a slow process to this point.

2. Would you say your bank is consistently more competitive with its loan rates and loan availability to YBS borrowers than FCS?

I've been employed in several banks around Iowa during my career and in all cases my bank has been the lender the YBS borrowers come to for assistance. They come to us because they are quoted rates from the FCS that are much higher than rates offered by our bank. However, when it comes to larger borrowers, we are higher on rates. FCS will typically ask the farmer to get a quote from a local community bank with the promise that FCS will subsequently offer a rate below the bank's quote if they are competing for a larger farmer. We price the YBS borrower at a rate that may be only slightly higher than what we offer to the larger borrower because of our desire to be fair to YBS borrowers to keep them in business and help them grow into the larger farmer category. My experience has seen the FCS prices the larger borrower 2-3 percent below the competitive local bank rate whereas FCS prices the YBS borrowers at a rate that is 2-3 percent higher than the local bank rate. I have never lost a YBS loan to FCS in my career. I have only lost the larger credits.

Senator Robert Casey

1. Can you describe the services and tools that community banks offer to dairy producers?

The best thing we can do for our producers is to be their "partner" in business. They need to know they can count on us for competitive rates and terms that align with their production schedule. We can offer leasing of equipment and cows if that is an advantage for them and sometimes we can make use of guarantees from SBA and USDA to assist us in lending to their operation. Over the years, I've also tried to hook up non-farmers who wish to have a farming experience, such as bucket feeding calves, with our dairy customers who have limited time and thus try to benefit multiple customers and broaden the knowledge of our local dairy industry.

2. What is the percentage of the agricultural marketplace that community banks serve in Pennsylvania?

According to the preliminary data we have pulled from call reports, community banks have over \$2 billion of loans to farmers and ranchers in Pennsylvania. We will take a closer look at the available information to see if we can provide your office with additional information.

3. Where do you see performance of agriculture portfolios at community banks in the next year and in a few years?

My personal opinion is that we will start to see stress in the ag loan portfolios next year if commodity prices don't increase. We will have to depend more on guarantees through the SBA and USDA to avoid issues with the regulators. We are in a better position now than we were in the 1980's because we have much lower loan rates and much higher equity in the ag sector for established farmers. However, the younger farmer can become financially stressed much faster and these farmers will be the first to be at risk.

4. How concerned are you about increased numbers of problem loans?

With cash flows today at break even or worse, we really need to see a decrease in cost of production and/or an increase in commodity prices to prevent an increase in problem loans. Since we can't see into the future, it will depend on how long these conditions persist and the longer it lasts the more stress will appear in the ag and rural banking sectors.

5. How have interests rates on young, beginning, and small farmers changed in the past few years with the downturn in the agricultural economy? Is it understood that these farmers will be more leveraged than normal in the short-run and still receive favorable interest rates to get their farms off the ground, or have the interest rates increased?

From a community bank perspective, rates only rose slightly with the last increase by the Federal Reserve. Any move the Fed makes could have a direct impact on the loan pricing models to all farmers. For the YBS farmer, community banks have been the place to be. I can give numerous examples for myself where I started with people with little to no net worth and by working closely together, they now have substantial net worth. My banking colleagues and I have never priced those YBS farmers at a significantly higher rate as that would stifle their ability to succeed. It is not uncommon for me to visit a community that I previously worked in and receive numerous hugs and thanks from people for helping them be successful and some have said "you saved my life".

Senate Committee on Agriculture, Nutrition, and Forestry
The Farm Credit System:
Oversight and Outlook of the Current Economic Climate
Thursday, May 19, 2016
Questions for the Record
Honorable Jeffery S. Hall

Questions from Senator John Thune

1. Mr. Hall, one concern I consistently hear from the bankers in my state is regarding interest rates charged to lenders by FCS. As one of the FCS regulators do you examine FCS lenders for compliance with the statute that requires FCS cannot charge an interest rate below competitive market rates? If so, how do you go about that process and what do you do if you find a lender that prices loans below private rates?

The Farm Credit Act requires loans made by the Farm Credit System to provide the types of credit needed by eligible borrowers at the lowest reasonable costs on a sound business basis. In setting the rates System lenders must take into consideration the cost of money to the lender, necessary reserve, and expenses.

While examination reports are issued to each Farm Credit association every 18 months and each Farm Credit bank annually, examinations are consistently ongoing. Our commissioned examiners routinely verify compliance with the Farm Credit Act. If any loan fails to comply with this or any other section of the Farm Credit Act or the Farm Credit Administration's rules and regulations, we require the institution to take corrective action immediately.

Beyond our regular examination process, we review any claim of an anti-competitive rate that is brought to our attention.

2. Mr. Hall, in your testimony you provided that the Farm Credit System is facing many challenges – in your opinion what is the greatest challenge facing the Farm Credit System today?

As our farmers and ranchers go, so goes the Farm Credit System. Currently the biggest challenge facing our farmers and ranchers is low prices. In my mind, that makes low prices the single biggest challenge facing the Farm Credit System, as well. Low prices challenge the farmer's ability to repay. As an increasing number of loans are reclassified to something less than "performing status," lenders have to hold on to more capital, preparing for losses. The lack of timely payment leads to less money the System can lend to creditworthy borrowers.

Lower commodity prices have translated into lower farm income. Net cash income is projected to fall for the fourth consecutive year in 2016 because of lower farm receipts for most crop and livestock products. Net cash income is estimated at \$90.9 billion for 2016, a 2.5 percent decrease from 2015 and a third lower than the record \$135.3 billion that farmers netted in 2012. Although net cash income is down in recent years, it is still above its long-run average of \$83.5 billion (in inflation-adjusted 2009 dollars).

While many grain and soybean producers have the financial wherewithal, along with crop insurance and government farm programs, to survive a few lean years, farmers who have not taken steps to preserve their working capital may find the next few years very challenging. Cash grain farms account for about 18 percent of the System's total loan portfolio, making it the largest commodity risk for the System. The service providers to these industries or producers may also experience increasing risk.

Senate Committee on Agriculture, Nutrition, and Forestry
The Farm Credit System:
Oversight and Outlook of the Current Economic Climate
Thursday, May 19, 2016
Questions for the Record
Honorable Kenneth A. Spearman

Questions from Chairman Pat Roberts

Following up on Senator Grassley's question to the first panel regarding Farm Credit Services of America's CashPlus account, I would appreciate your clarification on a few of the service's functions.

1. Can deposits or funds placed into CashPlus accounts be used by FCS of America to fund or finance any other activities carried out by FCS of America, such as lending to other borrowers?

Funds placed into CashPlus accounts by the borrower-members of FCS of America are invested in short-term bonds issued by AgriBank to the borrower-members. While the funds are not directly available for use by FCS of America to fund other borrowers, they do offset a small portion of the short-term bonds issued by AgriBank that would otherwise be issued to outside investors in the bond market. AgriBank can use these funds for operations the same as funds obtained from other sources. CashPlus accounts in the AgriBank district total just over \$922 million or less than 1 percent of AgriBank's total debt issued to fund loans.

2. Can a borrower maintain a CashPlus account with no outstanding loan balances, and if so, what statutory or regulatory authority allows FCS of America to maintain these accounts without an outstanding loan?

To maintain CashPlus accounts, member-borrowers must hold the stock or participation certificates they acquired when they obtained their System loans. Their CashPlus accounts are linked to their loan accounts. If a member has an outstanding balance on a loan, the funds placed in the CashPlus account can either be applied to that balance or held for future use at the member's discretion. Currently, CashPlus accounts receive the short-term bond rate from AgriBank, which is 0.15 percent.

Section 4.2 of the Farm Credit Act (12 U. S. C. § 2153) authorizes Farm Credit System banks to obtain funds for their authorized business purposes by issuing notes, bonds, and other evidence of debt independently or jointly with any other System banks. Ordinarily, such funding is carried out through the Federal Farm Credit Banks Funding Corporation. Section 4.2 provides, however, that "any bank or banks may issue investment bonds or like obligations other than through the Federal Farm Credit Banks Funding Corporation." Sections 615.5110 and 615.5120 of FCA regulations authorize System banks to issue investment bonds directly to "members and employees of Farm Credit banks and associations." An individual must be a current member of a bank or association to purchase investment bonds.

3. What, if any, restrictions are placed on borrowers wishing to withdraw funds to pay for expenses?

No restrictions are placed on the withdrawal of funds for paying expenses. However, since most CashPlus accounts are linked to line-of-credit loan accounts, the use of these funds are restricted to those expenses allowed under the borrowers' loan agreements.

4. Other than not being federally insured, how else do CashPlus deposits differ from a traditional checking account?

CashPlus accounts can only be established for eligible association members because they are linked to the members' loan accounts. Therefore, the accounts are not readily available to the general public as checking accounts are. Members can access CashPlus balances through the use of "drafts." A draft differs contractually from a check in that a member bears all the risk that funds are available to cover the amount of the draft. Also, because CashPlus accounts are

investment bond accounts, the CashPlus balances are “invested” in short-term bonds, and withdrawals represent liquidation of the bond investments.

Questions from Senator Thom Tillis

On Thursday, May 19, 2016 the Senate Committee on Agriculture, Nutrition, and Forestry held a hearing on the Farm Credit System, focusing on oversight and an outlook of the current economic climate for farmers across the country. After Mr. Spearman and the other members of the Farm Credit Administration (FCA) Board testified, I expressed my interest in the opinion of economists on staff with the FCA regarding their analysis of labeling laws directed at food containing genetically engineered (GE) ingredients.

In Mr. Spearman’s response to my question, he stated that FCA has “economists on staff who report to [the Board] regularly” and “analyze all risks within the system, some known and some maybe unknown to others.” I hope that FCA economists have analyzed how labeling laws will affect the farm economy and the Farm Credit Systems’ vulnerabilities because we need some financial information behind this fundamental shift in how we distribute food. There is a potential looming crisis for some farmers and there are members in Congress who need to better understand this goes beyond just adding words or symbols to a label.

Given the importance of this topic, please respond to the following:

1. Vermont’s Act 120, passed in May 2014 “requires labeling of food produced with genetic engineering” and the subsequent Consumer Protection Rule CP 121, adopted by the Vermont Attorney General’s Office on April 17, 2015 “clarifies the scope and reach of the law, providing the specific requirements for the labeling of food, including size and placement of the required disclosures.” Has FCA completed analysis of these mandates to decipher if it would affect the production of American crops?

For this question, as well as questions 2, 4, and 6 through 9, please see our response to question 10.

2. Numerous other states are actively working to join Vermont, Connecticut and Maine with labeling laws directed at food containing GE ingredients. Has the FCA completed a fiscal analysis to determine the consequences of a 50-state patch-work of labeling laws, vis-à-vis commodity demand and impact on costs?

3. There were 88 million acres of corn planted in the U.S. in 2015. GE varieties of all corn planted in the U.S. grew to 92% in 2015, meaning there were an estimated 81 million acres of GE corn planted in 2015. How many of those acres were planted via loans from Farm Credit Systems?

The Farm Credit System does finance many corn producers. Cash grain farmers (including corn, wheat, and soybean farmers) account for about 18 percent of the System's portfolio. However, we do not have the data needed to answer this question.

4. If Vermont's Act 120 and Consumer Protection Rule CP 121 resulted in just a 1% decrease of GE corn planted across the U.S., that would equate to roughly 810,000 less acres of corn planted in 2017. If the average U.S. acre produced 168.4 bushels of corn in 2015, that 1% decrease would cost American farmers 136,404,000 bushels of corn. What impact would a decrease of 136,404,000 bushels of corn have on the Farm Credit Systems across the country, especially in states like Iowa, Illinois and Nebraska where corn is such a staple crops?

5. There were 85.1 million acres of soybeans planted in the U.S. in 2015. GE varieties of all soybeans planted in the U.S. grew to 94% in 2015, meaning there were an estimated 80 million acres of GE soybeans planted in 2015. How many of those acres were planted via loans from Farm Credit Systems?

The Farm Credit System does finance many soybean producers. Cash grain farmers (including corn, wheat, and soybean farmers) account for about 18 percent of the System's portfolio. However, we do not have the data needed to answer this question.

6. If Vermont's Act 120 and Consumer Protection Rule CP 121 resulted in just a 1% decrease of GE soybeans planted across the U.S., that would equate to roughly 800,000 less acres of soybeans planted in 2017. If the average U.S. acre produced 48 bushels of soybeans in 2015, that 1% decrease would cost American farmers 38,400,000 bushels of soybeans. What impact would a decrease of 38,400,000 bushels of soybeans have on the Farm Credit Systems across the country, especially in states like Illinois, Iowa and Minnesota where soybeans are such a staple crop?
7. Using the figures above, would a loss of 174,804,000 bushels of corn and soybeans create new vulnerabilities to the Farm Credit Systems?
8. There is no question in my mind that the major food producers, those who put cans and boxes on the shelves, are going to reformulate to the maximum extent that they can if Vermont or any other state is able to enforce their GE labeling laws. When the demand for GE corn and soybeans decrease because of reformulation, farmers will see a significant increase in input costs, including the need for additional pesticides, herbicides and insecticides. Yields will also be down resulting in a need for additional agricultural land. This will affect farmers' needs when requesting operating loans. Can FCA estimate if these changes to American agricultural production will affect the ability of the Farm Credit Systems to adequately finance their customers?

9. There is a push among some GE labeling proponents to label meat products based on the diet of the animal. If the animal's feed consists of GE products, a label would be necessary on the meat sold to consumers. Has FCA completed a fiscal analysis to determine the affect this would have on the Farm Credit Systems, i.e. higher operating loan requests due to a reformulation of feed and the corresponding crop price fluctuations that would occur?

10. If FCA has not performed the analyses mentioned in the questions above, has FCA contacted the United States Department of Agriculture's Chief Economist for information?

We have not performed the analyses you discuss in your previous questions, but we plan to monitor the potential risks that labeling laws could have on the System's ability to provide sound and constructive credit to all eligible creditworthy farmers and ranchers in a safe and sound manner.

We have contacted USDA's Office of the Chief Economist to discuss this issue. We would also be available to meet with you and your staff to discuss this further.

Questions from Senator Chuck Grassley

1. Advanced Conditional Payment Accounts are an increasingly popular service farm credit institutions offer to customers. Beyond not being insured by the FDIC, which was discussed during the hearing, are there any other major distinctions between those accounts and modern checking or savings account from community banks?

Voluntary Advanced Conditional Payment (VACP) accounts are only available to association members because they are linked to loan accounts. They are not readily available to the general public as checking or savings accounts are. Another distinction is the statute requires funds in a borrower's VACP account to "be immediately applied as payment against the indebtedness of any outstanding loans of such borrower if the institution is placed in liquidation." While most

associations allow members to use “drafts” to access balances in their VACP accounts, drafts differ contractually from checks in that members bear all the risk that funds are available to cover the drafts.

Funds received from borrowers with VACP accounts are either applied to their outstanding loan balances or held for future payments or for paying expenses. Interest is paid on funds held (typically at the institution’s short-term cost of funds). Appropriate disclosures are made to the borrowers that funds placed in these accounts are not federally insured.

VACP accounts are subject to FCA’s regulatory and supervisory authority under the current statutory framework. Currently, FCA regulation § 614.4175 and an FCA booklet (BL-30) provide guidance on the offering of VACP accounts by FCS institutions.

2. Cumulatively, across all the farm credit institutions, how many dollars are held in Advanced Conditional Payment Accounts? If substantial fluctuations exist, please provide the highest dollar amount and lowest dollar amount that was held in the accounts during 2015.

Across all System institutions (as reported to FCA via Call Reports) at year-end 2015, these accounts held slightly over \$2.8 billion (or 1.2 percent of total Systemwide debt securities). Substantial fluctuations did not occur during 2015. However, this amount decreased to just under \$2.5 billion at March 31, 2016. We expect this downward trend to continue as farmers experience low commodity prices and cash flow demands erode working capital.

3. Please provide a general list of loans Farm Credit institutions have been forced to divest over the last 15 years.

Over the past 15 years, FCA has required Farm Credit System institutions to divest loans that are deemed ineligible. Divestiture is typically required when a loan is not eligible under the Farm Credit Act and FCA regulations. Some of the more common types of loans deemed

ineligible and that required divestiture include loans that did not meet the following requirements:

- The requirements or restrictions under the System's similar-entity authority (e.g., the loan did not meet the definition of a similar entity, or the System's percentage of the loan held exceeded 50 percent of the total loan)
- The requirements for borrower eligibility (e.g., the loan was not made to a bona fide farmer or rancher, legal entity or person as defined in FCA regulations).

When FCA identifies a pattern or practice related to ineligible loans, we can take other actions to address the violation. For example, we can require the entire loan portfolio be reviewed for similar loans. We can also require the institution to change its policies and procedures to reduce the likelihood of recurrence. If the area of concern affects more than one institution, we can issue Systemwide guidance to address the problem. Examples of Systemwide guidance include "Lending to Similar Entities," a Bookletter we issued on March 10, 2016, and "Financing Agricultural Land In Transition," a Bookletter we issued on May 28, 2009.

While divestiture is one option we use to address ineligible loans, another general practice is to require the institution to remove the loan(s) from the collateral base securing the institution's debt. When removed from collateral, the loan must be financed from the institution's own loanable funds – it cannot be financed via Systemwide debt. This option can also be used when loans do not meet scope-of-financing authorities (e.g., loans for other credit needs of part-time farmers who are not sufficiently engaged in agriculture). Other factors that FCA considers when deciding which option to use include whether there is a pattern or practice or whether it is an isolated incident.

Questions from Senator John Thune

1. As you know, the Farm Credit System has been scrutinized for participation in lending outside of the scope of what we view as their traditional mission. I understand that earlier this year the Farm Credit Administration published additional guidance regarding this “similar lending authority.” Can you expand upon how Farm Credit institutions have implemented this guidance and examiners will be using it to ensure both the guidance and the law are being followed?

System institutions that have policy, procedures, and internal controls for similar-entity lending will review and, if needed, revise them based on this guidance. Institutions planning to participate in similar-entity lending that have not yet developed a similar-entity policy, procedures, and internal controls are using this guidance to develop them. Each System institution that engages or plans to engage in similar-entity lending is submitting its policy and procedures, as well as a description of its internal controls, to its examiner-in-charge at FCA. System institutions will also evaluate their compliance with previously issued guidance on reporting requirements. FCA will continue to study and assess other issues and risks associated with System lending to similar entities. We may issue further guidance about similar-entity lending that we deem necessary or appropriate. FCA examiners will scrutinize the revised policies and procedures and ensure that System institutions maintain adequate internal controls over similar-entity lending.

2. Mr. Spearman, in your testimony you spoke of special efforts to serve young, beginning, and small (YBS) farmers and ranchers. You testified that the percentage of loans to YBS farmers and ranchers is growing. Do you believe the interest rates offered by FCS institutions to YBS farmers and ranchers are competitive?

Yes, interest rates offered by FCS institutions to YBS farmers and ranchers are competitive. Each association is required by statute to maintain a lending program for YBS farmers and ranchers. As a part of these programs, the majority of associations offer concessionary interest rates to young, beginning, and small producers. Concessionary interest rates provide these producers

with reductions from the rates offered to larger established farmers. Providing these concessionary rates helps young and beginning farmers establish and maintain their operations.

3. In your oversight capacity have you experienced any circumstances where FCS institutions have charged higher interest rates to YBS farmers and ranchers to discourage them from borrowing from FCS because they are considered higher risk borrowers?

No, in our oversight, we have not found any such circumstances. If we had, we would have taken appropriate action, including the use of our enforcement powers to require corrective action. And based on our ongoing examinations of each association's YBS program, we do not have any reason to believe that any System institution has engaged in such actions. We have found System institutions fully willing and able to lend to creditworthy YBS farmers and ranchers on a competitive basis in accordance with their mission.

4. I understand the Farm Credit System differs in a number of ways from traditional banks, including the way in which the relationship between the institution and an appraiser is regulated. As a regulator, what safeguards are in place to ensure the appropriate independence exists between appraisers and loan officers in the Farm Credit System?

There are differences between traditional banks and Farm Credit System institutions relating to appraisal requirements. However, these differences do not lessen or weaken the independence of the appraisal and lending processes at System institutions.

The federal financial regulatory agencies, as required by Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, originally established real estate appraisal regulations requiring "functional independence" between the appraisal and lending processes. For institutions of the Farm Credit System, FCA found that full functional independence could serve as an impediment to the associations' ability to extend credit to their customers on an economical basis. This was found to be especially true with smaller associations where the separation of the appraisal and lending staff would be burdensome. In our final collateral evaluation regulations, we adopted a "transactional independence" requirement for certain types of evaluation (collateral valuations of personal and intangible properties, as well as real

property not requiring an appraisal (§ 614.4260)) rather than a “functional independence” requirement. Functional independence continues to be required for real estate appraisals where a state-licensed or-certified appraiser is required to complete the transaction.

FCA’s “transactional independence” guidance is very similar to the final independence guidance that has been provided to the traditional banks through the Interagency Appraisal Guidelines of the federal financial regulatory agencies. The interagency guidelines also recognize the burden of “functional independence” on small traditional banks where the separation of collateral evaluation and lending staff would be difficult. The guidelines state, “For a small or rural institution or branch, it may not always be possible or practical to separate the collateral valuation program from the loan production process. If absolute lines of independence cannot be achieved, an institution should be able to demonstrate clearly that it has prudent safeguards to isolate its collateral valuation program from influence or interference from the loan production process. In such cases, another loan officer, other officer, or director of the institution may be the only person qualified to analyze the real estate collateral. To ensure their independence, such lending officials, officers, or directors must abstain from any vote or approval involving loans on which they ordered, performed, or reviewed the appraisal or evaluation.”

Questions from Senator Heidi Heitkamp

1. Everyone’s testimony highlights reports showing our farmers and ranchers are in a better position financially and less leveraged now than they were in the 1980s, and there seems to be agreement that we can weather this downturn for now. But when I talk to farmers and ranchers back in North Dakota, they don’t paint such an optimistic picture, and I worry that by focusing on this high level data we may be missing some producers who are really hurting already. What are we doing now for these producers who don’t match the statistics? How can we help those who maybe can’t make it more than a year or two?

System lenders have many tools available to them to assist borrower through difficult times. Fortunately, the Farm Credit System has the financial capacity and risk-bearing ability to work with borrowers experiencing stress. We expect System institutions to use this capacity to work with borrowers as they navigate through stressful periods. We recently provided additional guidance to System institutions for servicing loans to borrowers in distressed industries. This guidance stressed the need for System institutions to intensify loan servicing efforts as borrowers begin encountering increased stress. Loan servicing is always important, but it becomes critically important when a large number of borrowers are potentially threatened by weak industry conditions.

Borrowers from the System are provided additional statutory rights when facing financial difficulties. When servicing actions involve a loan that meets the regulatory definition of “distressed,” institutions must ensure compliance with all applicable borrower rights provisions. We expect institutions to work with borrowers consistent with the System’s mission to furnish sound, adequate, and constructive credit. In this regard, we expect all System institutions to fully comply with FCA’s borrower rights regulations (12 CFR Part 617), especially in the areas of distressed loan restructuring, right of first refusal, and credit review committees.

2. What do we need to be doing in Congress to make sure we’re able to make it through this downturn? Are there any policy changes from USDA you’d like to see? Any changes in laws we should be considering?

As was discussed at the hearing, crop insurance has become perhaps the most important risk management tool for both agricultural producers and their lenders. We encourage Congress to maintain its support for crop insurance and continue to look for ways to improve this critical risk management program. We do not believe it is appropriate for FCA to comment on USDA policies or other laws not within our purview.

Questions from Senator Robert Casey**1. What has the FCA done to ensure that young, beginning and small farmers are getting the support they need?**

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 System showed gains in both the number of new loans made and the dollar amounts of new loans made to each YBS farmer category. From 2014 to 2015, the number of new loans made to young, beginning, and small farmers rose 5.1 percent, 7.5 percent, and 6.7 percent, respectively.

In 2015, the pace of new lending to YBS farmers equaled or exceeded the pace in overall System lending to farmers. Therefore, the share of new total System farm loan volume and loan numbers made to all three YBS categories equaled or 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.

FCA issued a Bookletter in August 2007 to encourage institutions to seek ways to better serve YBS borrowers. The Bookletter provides institutions with more flexibility to lend to YBS borrowers and encourages them to use credit enhancements to allow more YBS borrowers to qualify for credit. Credit enhancements for YBS borrowers may include: customized loan underwriting standards, federal and state loan guarantees, and lower rates and fees for YBS borrowers.

In response to this guidance, a higher percentage of institutions are committing capital to assist in their YBS lending and are using advisory committees to update YBS policies and procedures. In addition, many institutions have stepped up their YBS outreach efforts and their coordination with outside parties or organizations to serve YBS producers.

In addition to providing credit to YBS borrowers, FCS institutions offer other financial services to YBS borrowers, and many institutions provide special training and educational programs that target YBS farmers and ranchers.

Our efforts to encourage System institutions to emphasize diversity and inclusion and to serve producers of local and regional foods also benefit YBS producers. In 2012, to ensure the System fulfills its congressional mission to serve all eligible and creditworthy borrowers, we issued a regulation requiring institutions to develop human capital and marketing plans that promote diversity and inclusion. Because many small and beginning farmers belong to underrepresented groups, this regulation helps strengthen service to YBS borrowers. Likewise, a Bookletter we issued in 2012 to provide guidance regarding service to local and regional foods producers also benefits YBS borrowers because many of these producers would be classified as young, beginning, or small.

Senate Committee on Agriculture, Nutrition, & Forestry

The Farm Credit System: Oversight and Outlook of the Current Economic Climate

Thursday, May 19, 2016

Questions for the Record

Mr. Doug Stark

Chairman Pat Roberts

1. **Mr. Stark, thank you again for appearing today before our Committee. Can you provide any examples of loans your business has partnered on, whether that be with a bank or Farm Credit System member, that would fall under the “similar entity” provision of the Farm Credit System Agricultural Export and Risk Management Act of 1994? Also, please explain how some of these loans have benefited the rural communities you serve.**

Similar entity loans participations help Farm Credit institutions to diversify their risk and build financial strength so they can continue to serve their core mission customers during downturns in the agriculture and rural infrastructure sectors.

Congress authorized similar entity loan participations for Farm Credit institutions as a risk diversification tool. By definition, similar entity loan participations are loans made to borrowers who are not eligible to borrow directly from Farm Credit institutions. As a result, Congress placed strict limits on these transactions to ensure they were used to diversify the risk inherent in the limited scope of Farm Credit’s direct lending. Similar entity loan participations may only be done in cooperation with commercial banks or other non-Farm Credit System lenders. Farm Credit entities, collectively, are restricted by statute to holding no more than 50 percent of any similar entity loan participation transaction.

In addition to the diversification benefits of Farm Credit participating with commercial banks in the financing transactions below – which helps build financial strength at Farm Credit so we can serve our core customers in difficult economic times – each of the examples below are companies that are closely related to agriculture and provides direct

benefits to producers by providing markets for agriculture products. These transactions also build strong partnerships between Farm Credit and commercial banks that help Farm Credit's directly eligible customers who need multi-lender transactions to meet their financing demands. Participation in these transactions also helps build expertise in financial structuring and industry dynamics that Farm Credit puts to use on behalf of its directly eligible customers.

Some examples of transactions in which Farm Credit Services of America/Frontier Farm Credit has partnered with commercial banks on similar entity loan participations include:

Valmont Industries, Inc. – Based in Omaha, NE, Valmont manufactures Valley center pivot and linear irrigation equipment, windmill support structures, lighting and traffic poles and steel utility poles. JP Morgan led the loan transaction in which Farm Credit participated.

Dean Foods – Based in Dallas, TX, Dean Foods is a food and beverage manufacturer and distributor that specializes in dairy products. JP Morgan led the loan transaction in which Farm Credit participated.

Green Plains Operating Company – Based in Omaha, NE, Green Plains is an ethanol production, marketing and commodities company. Bank of America led the loan transaction in which Farm Credit participated.

AGCO Corporation – Based in Duluth, GA, AGCO is an agricultural equipment manufacturer and produces a line of tractors, combines, hay tools, sprayers, forage and tillage equipment. Rabobank led the loan transaction in which Farm Credit participated.

- 2. Following up on Senator Grassley's question to the first panel regarding Farm Credit Services of America's CashPlus account, I would appreciate your clarification on a few of the service's functions:**

Can deposits or funds placed into CashPlus accounts be used by FCS of America to fund or finance any other activities carried out by FCS of America, such as lending to other borrowers?

Absolutely not. These funds are held for the sole use of customers to fund their operations or to make installment payments on debt they owe.

Can a borrower maintain a CashPlus account with no outstanding loan balances, and if so, what statutory or regulatory authority allows FCS of America to maintain these accounts without an outstanding loan?

Each Farm Credit Bank has authority to issue investment bonds within its district.

AgriBank's Farm Cash Management® (FCM®) is an investment in AgriBank bonds. FCM investments can only be purchased directly from AgriBank, FCB. FCM is offered to members and employees of AgriBank and its associations as either a stand-alone investment account or as an investment account linked with a line of credit. A stand-alone investment account is for members who are interested in a convenient way to invest excess cash, but do not have or need a line of credit.

An AgriBank Money Market Account is a liquid variable rate money market account made up of AgriBank Investment Bonds. An Investment Bond is an alternative source of funding permitted for AgriBank. Typically AgriBank issues Farm Credit Bonds sold through Wall Street broker/dealers. Unlike the Farm Credit Bonds, Investment Bonds are not a general liability of the Farm Credit System, but the sole obligation of AgriBank.

The Investment Bonds that make up an AgriBank Money Market Investment account are an unsecured offering by AgriBank and are not insured or guaranteed. Only members and employees of the AgriBank District are eligible to purchase Investment Bonds.

What, if any, restrictions are placed on borrowers wishing to withdraw funds to pay for expenses?

The cash plus account is not a checking/savings account; not commingled with personal living expenses; not liquid – can't walk in and get cash; just a convenient means to move funds in support of the underlying loan.

Other than not being federally insured, how else do CashPlus deposits differ from a traditional checking account?

The investments are not FDIC insured by or a direct obligation of the United States government. However, they are a safe investment because AgriBank's overall financial position remains strong.

FCA has always examined these investment bonds to assure strict compliance with disclosure requirements. Particular attention is given to the adequacy of disclosure of the characteristics of the instrument being sold and the financial condition of the selling institution and to compliance with the procedural restrictions on association involvement in the program.

In 1990 The Commissioner of the Department of the Treasury granted express exemption of securities registration for the Investment bonds. Treasury said these exemptions are appropriate given the current structure of the Farm Credit System, the unique nature of the IBs, and the limited activities of the associations and their employees. Treasury consulted with the staff of the Securities and Exchange Commission as well as the FCA in reaching their decision.

Senator John Thune

1. **Mr. Stark, according to your testimony, approximately 14 percent of your portfolio is loans ranging from \$1,000 to \$249,000 which is 76 percent of your portfolio by the total number of borrowers.**

Since many of these are very likely young, beginning and small (YBS) farmers and ranchers, should the agriculture economy continue in its present state for the next

two years, do you believe this portfolio of borrowers will be negatively impacted much more so than the larger scale borrowers in your portfolio?

Not necessarily. Many of these young operators are in the start-up phases of establishing their agricultural operation and while the downturn in the ag economy will definitely impact their operation, many also have non-farm related income. As a result, they probably have options available to them that would not be sufficient for supporting a larger fully developed agricultural business. Furthermore, one of the biggest issues that young producers face is access to land. The resulting challenge is, in some cases, bringing land on to the market at more reasonable prices or rents that may allow for the expansion of their operation.

2. Do you believe the current level of FCA oversight is overly burdensome, adequate, or should be changed in any way?

I don't believe so. We recently were examined by the FCA and while we don't always agree with some of their findings, we acknowledge that they have been a constructive arms-length regulator.

Senator Robert Casey

1. Can you describe the services and tools that Farm Credit institutions offer to dairy producers?

Farm Credit offers many tools for dairy producers whether in the normal course of business as well as for those experiencing financial challenges. Most importantly, Farm Credit has deep dairy industry knowledge and experience and understands the ongoing economic cycles facing dairy operations.

In the normal course of business:

- *We structure their loan terms to fit their particular cash flow, whether that be biweekly payments, monthly, quarterly or annual.*
- *We also offer long term fixed rate loans to reduce potential interest rate risk in an anticipated increasing interest rate environment*

- *Many associations have financial benchmarks for dairy producers to help them learn where their operation might perform relative to others in their industry and provide producers with other valuable industry insight and analysis*

For those with potential financial challenges:

- *We have worked with them to identify solutions and options for a successful future*
- *In appropriate cases we have reamortized loans to stretch out payment terms or reduce payments to levels that help with their cash flow.*
- *We offer options to extend payments or even defer payments to future dates where applicable*
- *In some cases, we have recapitalized working capital by making long term real estate loans to give them flexibility to navigate a lower part of the industry cycles.*

2. What is the percentage of the agricultural marketplace that Farm Credit serves in Pennsylvania?

We estimate that Farm Credit's marketshare for farm loans in Pennsylvania is approximately 40 percent.

3. Where do you see performance of the Farm Credit System in the next year and in a few years?

Farm Credit built financial strength in anticipation of an economic cycle. 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.

Farm Credit is very well positioned to serve rural communities and agriculture for the foreseeable future with a capital position over 2 times the regulatory minimums and solid and sustainable earnings with the ability to absorb fluctuations in customer loan quality. Farm Credit's experienced staff has deep expertise in the variety of agricultural enterprises that it serves.

In a May 17, 2016 report, FitchRatings summed up the outlook for loans in the agriculture sector by concluding, "key lenders in the sector, the Farm Credit System (FCS) and commercial banks, are expected to largely withstand this slowdown". FitchRatings went on to say it "expects FCS's loan portfolio to grow in the near to medium term as farmers seek additional working capital to cover operational shortfalls and commercial banks pull back from the space, as they usually do when the ag sector shows signs of softness."

4. How concerned are you about increased numbers of problem loans?

Farm Credit has taken a conservative approach in financing agriculture over the past 5 strong years in agriculture. This is particularly evident in its relatively conservative lending in to the rapidly increasing real estate markets in some parts of the country. As noted previously, Farm Credit remains financially strong, is prepared to continue fulfilling its mission, and is well positioned to assist producers in more challenging times.

5. How have interests rates on young, beginning, and small farmers changed in the past few years with the downturn in the agricultural economy? Is it understood that these farmers will be more leveraged than normal in the short-run and still receive favorable interest rates to get their farms off the ground, or have the interest rates increased?

Interest rates have remained relatively constant for all producers in recent times, despite the challenges in some commodity segments. The market for agricultural lending competitive and Farm Credit entities normally leave rates in tact while working with producers, especially young, beginning, and small producers. Many have special programs, especially for young and beginning producers, and recognize the increased leverage that starting young producers require.

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Questions for the Record
Honorable Dallas P. Tonsager

Questions from Senator John Thune

1. Mr. Tonsager (Dallas) you are the Chairman of the Farm Credit System Insurance Corporation. What is the status of the fund today and how did it come about that the Insurance Corporation entered into an agreement with the Treasury Department for a \$10 billion line of credit?

As of March 31, 2016, the Farm Credit System had \$245 billion of insured debt outstanding. These debt obligations provide the primary source of funding for the operations of the System.

The Insurance Corporation's primary mission is to protect investors and taxpayers through the sound management of the Farm Credit Insurance Fund. To do this, we assess and collect premiums from System banks. In 2015, we collected \$261 million in premiums and earned \$31 million on our investments. Our costs are paid out of the Insurance Fund, and no taxpayer funds are involved in our operation. We had total program costs of \$3.4 million in 2015.

Congress directed that we maintain a target amount in our Insurance Fund. The statutory target is equivalent to 2 percent of adjusted insured obligations of System banks. This amount is adjusted downward to reflect the reduced risk of federal and state guaranteed loans and investments. At March 31, 2016, we had \$4.1 billion in the Farm Credit Insurance Fund (which is 1.9 percent of adjusted insured debt).

Like other insurers, we independently review risk in setting our premium rates. Currently, we do not foresee any risk of loss to the Insurance Fund. Also, we periodically undertake an actuarial review of Insurance Fund solvency and have, to date, always determined the statutory 2 percent secure base amount to be appropriate. However, under the Farm Credit Act, the Insurance Corporation could find a different percentage to be actuarially sound based on estimated insurance risks and then maintain the assets in the Farm Credit Insurance Fund at that target.

If a System bank cannot pay its share of insured debt, the Insurance Corporation is required to pay debtholders. The Insurance Corporation will make these mandatory payments until the Insurance Fund is exhausted. After the Insurance Fund is exhausted, FCA will call on the remaining banks to pay debtholders under their joint and several obligations.

In addition to this mandatory use of the Insurance Fund, the Insurance Corporation also has discretionary authority to use the Insurance Fund to provide assistance to a System institution. The Insurance Corporation's Board of Directors can provide assistance, in the form of a loan or other method, to a System bank or association to prevent a receivership, to restore normal operations, or to reduce risk caused by "severe financial conditions." By law, any assistance we provide must be the least costly alternative for the Insurance Fund.

In 2013, we entered into a \$10 billion credit line agreement with the Federal Financing Bank that would increase the amount in the Insurance Fund available for us to provide as assistance to System banks. This line of credit is only available in limited circumstances where external market conditions prevent the System from obtaining necessary funding; the credit line funds may not be used to assist a System institution that has internal credit or solvency problems. The Federal Financing Bank is an entity within the Treasury Department that lends money to or on behalf of eligible federal entities, including the Federal Deposit Insurance Corporation and the National Credit Union Administration. The Federal Financing Bank entered into this agreement with the Insurance Corporation after it independently determined that the Insurance

Corporation was eligible to borrow under the Federal Financing Bank's statutory authorities and that providing the line of credit comported with the policy objectives of the Treasury Department.

Unlike other financial institutions, the System does not have guaranteed access to the Federal Reserve, the U.S. Treasury, or any other lender of last resort, leaving it vulnerable to a market crisis similar to what occurred in 2008. Although the Insurance Corporation's statutory assistance authority may be used to mitigate a liquidity crisis when external market conditions jeopardize the System's ability to fund itself, the Insurance Fund alone may not be sufficient to meet urgent funding needs during an extended market shutdown. We therefore obtained the credit line to help support our mission to protect investors and taxpayers from losses and to help maintain the flow of credit to agricultural borrowers.

We are required to use the Insurance Fund first; any funds we borrow from the Federal Financing Bank to use as assistance will be loaned to System banks with interest. Also, no credit line funds may be lent to a System bank until the bank posts collateral at least equal in value to the amount of the funds received. In this way, there should be no risk of loss to taxpayer funds.

2. As has been discussed here today, the state of the farm economy is grim. As a regulator, how is the Farm Credit Administration working to ensure the safety and soundness of individual institutions and the system as a whole for the foreseeable future?

We examine and supervise all FCS institutions to ensure they operate safely and soundly and comply with applicable laws and regulations. Our examination and oversight programs provide strategic, proactive risk supervision of individual institutions and, therefore, the System as a whole.

In conducting our institution-specific, risk-based oversight and examination activities, we assign highest priority to institutions that present the greatest risk. 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 require appropriate corrective action. We also perform nationally focused examinations that target specific issues and operational areas to monitor the condition and operations of the System as a whole. In addition, we actively monitor and evaluate risks that may affect groups of System institutions or the entire System, including risks from the agricultural, financial, and economic environment.

In addition, we develop policies and regulations that govern how System institutions conduct their business and interact with customers. Our policies and regulations protect System 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.

For example, we recently approved a final rule to enhance our risk-based capital adequacy framework to more closely align it with that of other federal banking agencies and the Basel Accord. We amended our regulations to replace the current core and total surplus capital standards with a tier 1/tier 2 capital framework appropriate for the System's cooperative structure. The new framework provides more stringent rules for the quality and stability of capital and more sensitivity to risk—with buffers that restrict redemptions and payouts as levels approach regulatory minimums.

Questions from Senator Robert Casey

1. **Given the \$10 billion line of credit, do you believe the FCS may need to be collecting more FCS premiums to expand the insurance fund?**

In the Farm Credit Act, Congress directed that we maintain a target amount in our Insurance Fund. The statutory target is equivalent to 2 percent of adjusted insured obligations of System banks or such other amount we determine to be actuarially sound. We periodically undertake an actuarial review of Insurance Fund solvency and have, to date, always determined the statutory 2 percent secure base amount to be appropriate. However, under the Farm Credit

Act, the Insurance Corporation could find a different percentage to be actuarially sound based on estimated insurance risks and then maintain the assets in the Farm Credit Insurance Fund at that target.

The \$10 billion line of credit may only be used when external market circumstances jeopardize the System's ability to repay maturing debt obligations. While we believe it is prudent for us to maintain the credit line as protection against an extraordinary external market event, we do not think the Insurance Fund should be expanded to regularly cover such an extreme situation.

Like commercial banks and credit unions, the System plays an important role in providing credit – in the System's case, to agricultural borrowers, cooperatives, and rural homeowners. Self-insuring against any possible liquidity event could be very expensive, and it would constrain available credit for System borrowers. We note that the two other federal insurance programs (the FDIC and NCUA) also have access to government funds in an extreme situation, and that access was expanded during the 2008 crisis. The FDIC's \$30 billion Treasury line of credit was expanded to \$100 billion and the National Credit Union Share Insurance Fund's Treasury line of credit was increased from \$100 million to \$6 billion. The fact that other federal insurers have access to a liquidity backstop demonstrates that Congress recognizes that the cost of complete self-insurance is too high to be in the public interest.

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Thursday, May 19, 2016
Questions for the Record
Mr. Jed Welder

Chairman Pat Roberts

1. Mr. Welder, thank you for taking time off during planting season to join us today, and thank you again for your service to our country. From a producer's perspective, particularly as a young and beginning farmer, do you feel factors, such as lower interest rates and relatively high land values, will allow you to weather current economic conditions, especially if such conditions continue for a few more years?

If current economic conditions continue for the next several years it will be very difficult for YBS farmers to weather this storm. High land values discourage small farmers from purchasing land, which allows them to build equity and survive competition from larger farms.

Senator John Thune

1. Mr. Welder, we all appreciate your taking time from your planting to testify before this committee today.
What do you believe is the greatest challenge your family farming operation faces today?

The greatest challenge my farm faces today is competition from very large multi-state corporate farms with seemingly unlimited funds. Competition for land, either for sale or rent is very difficult for a family farm of a few thousand acres, when competing with a multi-state farm of 30,000+ acres, backed by large investment firms. Personal relationships with landowners, ties to the community and reputation are all we have to put up against a higher offer of money for farm land.

2. In your testimony you tell us you are planting corn and soybeans this year at breakeven prices for the second year in a row – how long can you continue to do this?

It is very difficult to go more than one or two seasons at these prices. An older farmer commented to me this season that we may be going back to the way things were years ago, that Farmers broke even on the crops and lived on either the government payments (ARC or PLC) or on the income from their second jobs.

3. When talking to other local farmers, has competition in ag lending driven down interest rates for borrowers? From your perspective, to what extent do private banks, the FCS, and FSA play a role in ensuring credit exists for borrowers?

Local banks have not played a part in driving down or ensuring credit, from my perspective. FCS and equipment manufacturers such as John Deere have played a role in this, as well as working with us as we expand.

Senator Robert Casey

1. How prepared do you think are mid-size farmers like yourself to weather a suppressed agriculture economy next year?

Midsized farms are not well placed to weather a suppressed agricultural economy. While balance sheets for older farmers are still strong, YBS farmers that are expanding and learning do not have the cushion to weather 3\$ corn or 8\$ soybeans for an extended period.

2. What regulatory change, if any, would you like to see?

Simplify the Farm programs. Stop by a local Farm Services Agency branch (they are in most every county). The folks that work in my office in Stanton Michigan are great people that care about Farmers and their community and deserve much more credit than they get. But the mountains of paperwork that they have to deal with to certify each Farmer, each year is stunning. In addition the farm programs get more arcane and complex every year. "Base acres" only apply to farmers who have been in business for many years. As a new farmer I have 1/3 the "base acres" that older farmers have, even though I farm more acres - makes no sense.

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Thursday, May 19, 2016
Questions for the Record
Mr. Leonard Wolfe

Chairman Pat Roberts

1. Mr. Wolfe, thank you again for appearing before our Committee and for making the trip out to D.C. from Marysville. One of the issues I am hearing about from our bankers back home is the need to raise the lending limits for USDA guaranteed loans. Is this something you support, and roughly how many of your bank loans do you believe are guaranteed by USDA?

Yes, I do, and ABA does as well, support raising the lending limits for USDA guaranteed loans. Banks work closely with the USDA's Farm Service Agency to make additional credit available by utilizing the Guaranteed Farm Loan Programs. I believe that Congress needs to consider reforms to the programs, specifically to raise the cap on these loans due to the rising cost of agriculture along with modernizing the programs. According to the Farm Service Agency, demand for guaranteed operating loans is up 22% over last year and guaranteed real estate loans are up 27%. Bankers are using the guaranteed loan programs to allow farmers to continue to access credit as they grow, ensuring credit access for farmers across the country. As a general practice, my bank uses the USDA Farm Loan Programs to provide credit to beginning and moderately stressed farmers, providing credit to farmers who might not otherwise qualify for credit due to tight cash flow or equity margins. Our bank currently has approximately 5% of our agricultural loan portfolio in various USDA guaranteed or other farm programs, totaling \$17 million in total loan volume, including FSA's portion.

2. Can you provide any examples of loans your business has partnered on, whether that be with a bank or Farm Credit System member, that would fall under the "similar entity" provision of the Farm Credit System Agricultural Export and Risk Management Act of 1994? Also, please explain how some of these loans have benefited the rural communities you serve.

Our bank does not participate in any loans with a Farm Credit System member, and does not currently participate with other commercial banks on any loans that would be considered "similar entity". Our bank has provided many loans (and other financial services) to multiple rural telephone companies and rural electric providers. Our bank purchases bonds issued by local

public entities to fund water, electric, sewer, hospitals, schools and other essential services. Our bank currently owns more than \$20 million of these types of local investments.

I'm not clear what falls under the "similar entity" provision, as it appears the loans funded by Farm Credit under this designation appear to be large commercial credits that would not qualify for a loan from Farm Credit unless they were labelled as such.

Senator John Thune

1. Do you believe your bank and other ABA banks coordinate more closely with the USDA Farm Service Agency (FSA) than does FCS to obtain guaranteed loans for eligible borrowers?

I really can't speak to how closely Farm Credit coordinates with the USDA Farm Service Agency, nor even how closely other ABA banks work with FSA, but the FSA farm programs are vital to our bank and our customers. Without these programs many beginning or moderately stressed farming operations would not be able to access credit from any source. One specific program we use extensively is referred to as the 50/50 program available to farmers who qualify as beginning farmers. The bank provides 50% of the real estate loan in a long term fixed rate financing package, secured by a first-mortgage position with the balance provided directly to the borrower by the USDA FSA. This program presents very little credit risk to the bank so we are able to offer very favorable terms to the borrower.

2. Can you provide specific examples of how FCS "neglects the young, beginning and small U.S. farmers and ranchers" in your area?

In my market area FCS focuses exclusively on large borrowers. We rarely see, in fact I cannot recall any loans totaling less than \$1 million that FCS has shown any interest in financing. I believe that every customer we have with total loans above \$1 million have been solicited by FCS representatives – multiple times.

Senator Patrick Leahy

1. Can you further explain your association's current policy position pertaining to the on-going status of the Farm Credit System (FCS)?

There is a real misconception that banks want to eliminate the Farm Credit System. This is not correct. ABA, representing banks of all sizes, believes Congress should reconsider the Farm Credit System's significant funding and tax advantages—especially in light of the Farm Credit System's loss of mission focus and policymakers' desire to make the tax code more equitable. The banking industry encourages Congress to reexamine and reevaluate the special tax treatment enjoyed by the Farm Credit System and create any equitable environment for the banking industry and Farm Credit System to compete. Rather than tax the Farm Credit System, Congress could examine the possibility of eliminating taxes on all agricultural real estate loans, whether the loans are originated by banks, by individuals, by insurance companies, or even the Farm Credit System.

2. I understand that in April 2015, the previous CEO of the American Bankers Association (ABA), Frank Keating, had called for the elimination of the FCS while the trade association's formal position seemed to distance itself from those remarks calling for various "reforms" instead. Along those same lines, in your testimony before this Committee, on behalf of the ABA, you called for similar types of reforms to the FCS while also stating "We urge Congress to perform an autopsy on the System...", which would seem to imply a death, of sorts. Therefore, could you please clarify for the Committee what the ABA's position is related to the FCS?

I, personally cannot speak to what Frank Keating meant by his comments, and do not know the context in which it was spoken. ABA supports reform of the FCS, and believes they are no longer eligible to receive the favored tax status (granted 100 years ago) they continue to enjoy because of the "scope creep" they have engaged in.

By using the word 'autopsy' we simply meant "a critical examination, evaluation, or assessment of someone or something past" (Merriam-Webster). We would encourage Congress to take an extensive examination of the activities of the Farm Credit System, and to evaluate whether the System's actions still resemble the mission of the original charter—serving young, beginning and small farmers and ranchers. The mere fact that Chairman Roberts stated at the outset of the hearing that the Committee had not held a hearing on the Farm Credit System in over ten years is a firm indication that this "critical examination" had not taken place. I would add that this examination should not be spread out over a decade, but should take place annually.

Reform can take many different forms and Congress should consider all avenues when examining the Farm Credit System. With the Farm Credit System enjoying their Government Sponsored

Enterprise status for 100 years, no time is better than now to consider possible reforms. Additionally, Congress will find that in reality, 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. For example, the System is financing a horse race track with a casino in Saratoga, New York. If the System continues to venture so far from its chartered mission, the negative impact will be felt by all—the System, the banking industry, and America’s rural communities around the country.

Senator Robert Casey

1. Can you describe the services and tools that banks offer to dairy producers?

Given the volatility of milk prices in the past ten years, and likely to continue going forward, any bank with a significant dairy loan portfolio must be committed to helping dairy borrowers through the valleys of milk prices. This may mean deficit cash flow funding, restructuring loans to longer terms, cashing out equity, etc. to help dairy farmers through the periods that expenses will be greater than income. Any bank with a significant dairy loan portfolio will provide some or all of following products and services:

- A full array of loan products:
 - Long term R/E mortgages for land and facility acquisitions, facility renovations and upgrades, business growth, etc.
 - Term loans for livestock and equipment purchases
 - Seasonal loans for annual crop expenses, feed purchases and other operating needs
 - Revolving lines of credit for various purposes throughout the year
 - Letters of credit to support various business activities
 - Loans for personal purposes (home mortgages, vehicle loans, credit cards, etc.)
- A full array of deposit products and services:
 - Checking and savings accounts for both business and personal use
 - Various cash management services (sweep accounts, ACH & wire services, automatic loan advances and payments, etc.)
 - Internet and mobile banking access to both loan and deposit accounts
- Industry dedicated relationship managers:

- Loan officers who provide up-to-date, accurate dairy industry information and outlook to borrowers
- Loan officers who can provide business specific analysis to assist borrowers with budgeting, planning, etc.
- Access to benchmarking and various industry tools to assist in specific business evaluation against peers and standards
- Ability to produce past and current trend analyses for individual farm businesses to assist in budgeting, stress testing, etc.
- A full array of financial products and services to support business & personal goals
 - Wealth management and investment products and services
 - Management succession and retirement planning
 - Insurance products

2. What is the percentage of the agricultural marketplace that banks serve in Pennsylvania?

Over half of the banks headquartered in Pennsylvania (63%) had a loan to a farmer or rancher outstanding on its balance sheet at the end of the year 2015. The median asset size of Pennsylvania banks lending to farmers and ranches in 2015 was \$479 million with 103 employees and a median total loan portfolio to farmers and ranchers of \$4.1 million (ranging from a portfolio of \$14,000 to \$733 million). Unfortunately, I am not aware that the Farm Credit System reports data in such a manner that would allow us to determine the System's penetration into the Pennsylvania market. Four Farm Credit System institutions do service the state of Pennsylvania – Ag Choice Farm Credit, Mid Atlantic Farm Credit, Farm Credit of the Virginias, and AG Credit.

3. Where do you see performance of agriculture portfolios at banks in the next year and in a few years?

After several years of strong growing demand for loans by farmers and ranchers, the industry is observing weaker credit conditions in some areas. However, bankers who lend to farmers and ranchers have long-established relationships with borrowers and are finding ways to maintain the relationships, despite the changing agricultural economy, including restructuring existing farm debt.

Bankers have been cautious about potential risks that arise in farming and are well-prepared for any possible downturn in the agricultural economy. Equity capital at farm banks (defined by ABA as banks with an agriculture lending concentration greater than that of the industry – 15.5%

in 2015) has risen nearly 5% over the last year to \$47.7 billion. In addition, farm banks have also increased reserve for loan losses, further strengthening the banks position and ability to respond to any crisis.

I was asked to compare the current agricultural economy to the 1980's, and I see very few similarities. The agricultural sector has significantly higher equity positions, and many more management tools (including Federal Crop Insurance) to use to control their exposure. The financial industry, both agricultural banks and the Farm Credit System have much higher capital positions going into what could be a prolonged adverse cycle. The one major concern I have is that even though commercial agricultural banks have 5-6 times more reserve for loan losses as a percentage of loans (compared to the 1980's), the Farm Credit System has only about one-third as much. The FCS has a similar amount as a percentage of loans they had going into that fateful era.

4. How concerned are you about increased numbers of problem loans?

Our bank has experienced a very small percentage increase in what we consider "problem loans". I consider this a "heightened awareness" vs. concern. We, along with the rest of the banking industry, have monitored this very closely and will dedicate the capital and resources necessary to be able to continue serving our customer base.

Data provided by the Federal Deposit Insurance Corporation indicated that the 30-89 days past due rate for loans to farmers and ranchers rose slightly to 0.42% in 2015. This is further backed by regional Federal Reserve Bank studies which have found that repayment rates have weakened. However, put into perspective, delinquency rates for other loan categories, including total real estate loans, are higher. Further, the nonaccrual rate of farm loans (loans 90 days or more past due) continued to fall through 2015. There has been little relationship between late repayments and seriously delinquent loans.

5. How have interests rates on young, beginning, and small farmers changed in the past few years with the downturn in the agricultural economy? Is it understood that these farmers will be more leveraged than normal in the short-run and still receive favorable interest rates to get their farms off the ground, or have the interest rates increased?

This issue illustrates the need for continued support of the USDA's Farm Service Programs. The banking industry uses these tools to offer terms that will allow the farmers in these sectors to continue farming, and grow when possible and feasible. The low interest rates experienced during

the past few years have been extremely beneficial to these farmers, and that would not have been possible if not for the USDA FSA programs.

Interest rates have been held at extremely low levels for the past several years. The interest rates on loans to young, beginning and small farmers are reflective of the low rate environment. Borrowing costs will remain extraordinarily low and continue to provide opportunities for new growth in the agricultural sector. In addition, many banks, such as mine have programs which provide these young, beginning and small farmers access to credit they need to enter the sector.