ICBA

INDEPENDENT COMMUNITY BANKERS of AMERICA

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

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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

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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.

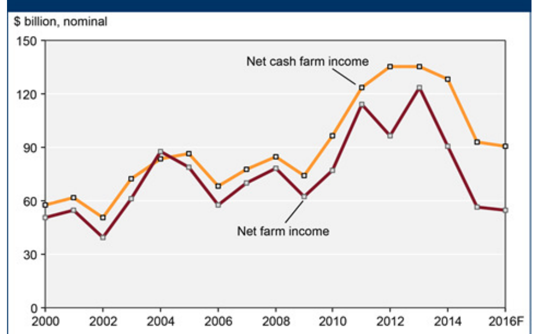
Focus of Testimony

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.

Net farm income and net cash farm income, 2000-2016F



Note: F = forecast. Data for 2015 and 2016 are forecasts.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of February 9, 2016.

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.

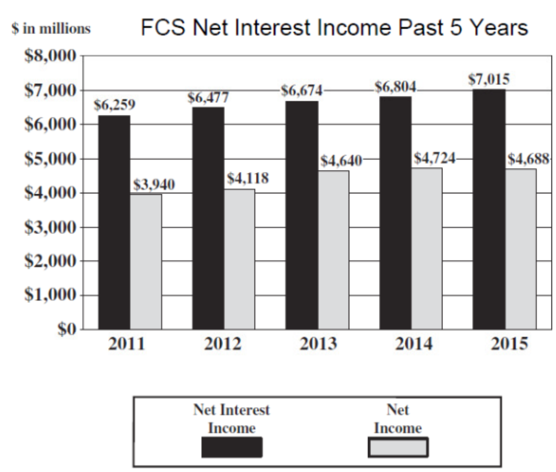
These are the farmers that would be most at risk of having to exit production agriculture. However, if low farm prices continue over the next couple of years we are likely to witness a larger exodus of farmers from agriculture, including larger farmers and ranchers.

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.



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

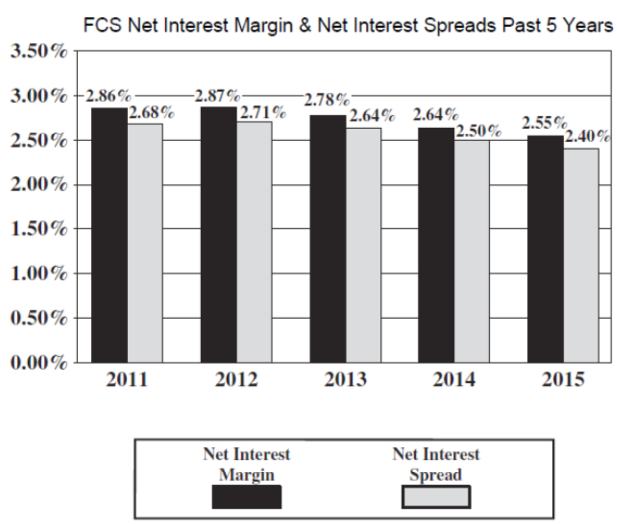
FCS income before taxes was slightly less than $5 billion with an effective tax rate of approximately 4 percent. By comparison, my bank is taxed as a C Corporation with a tax rate of 34 percent at the federal level and 5 percent at the state level – nearly 40 percent tax burden in total. In addition, 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.



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

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

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[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 <u>below market rates</u> 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 is 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."

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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.

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[3] *Ibid*, page 28

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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

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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 Vodaphone's interest in a joint venture. Verizon and Vodaphone 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 distributer, 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 report[5] 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.

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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

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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.

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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.