

**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.