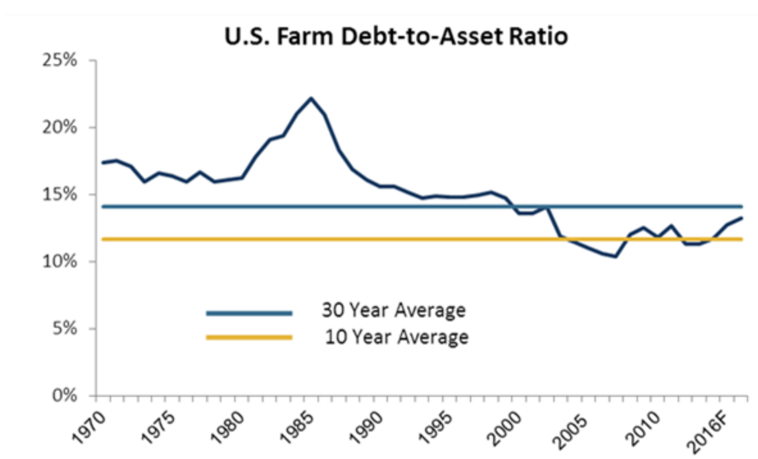
Testimony of
Doug Stark, President and CEO
Farm Credit Services of America/Frontier Farm Credit
on behalf of the
Farm Credit System
before the
Senate Committee on Agriculture, Nutrition & Forestry
May 19, 2016

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.

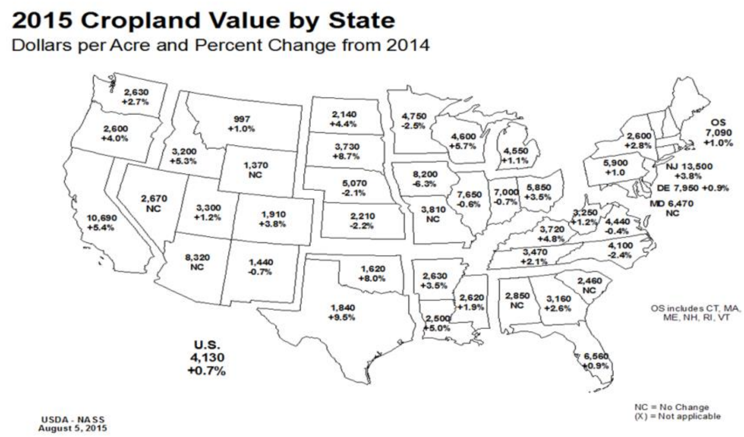
Mr. Chairman and Senator Stabenow, thank you very much for being original cosponsors of the congressional resolution congratulating Farm Credit on its 100th anniversary of supporting rural communities and agriculture. We are very proud that so many of your colleagues on this committee are also resolution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



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.

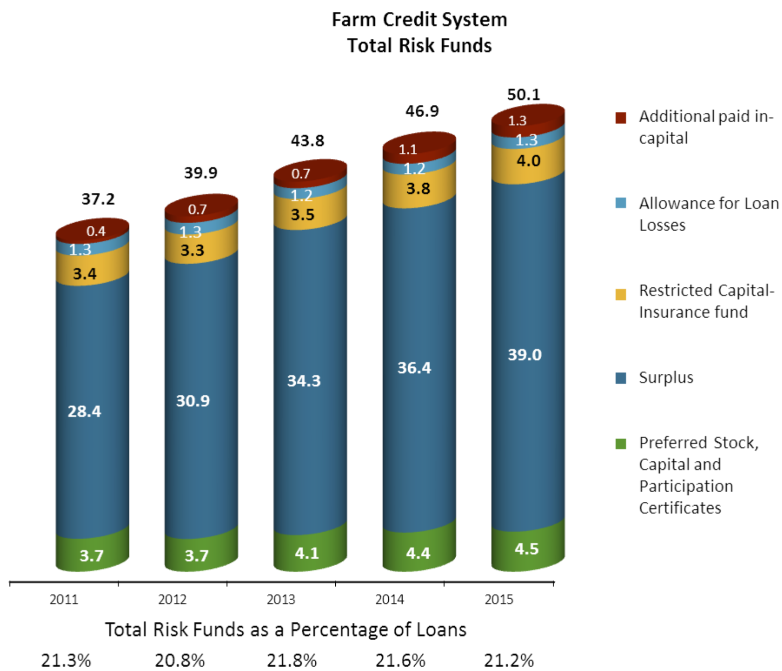
We have been working for some time to help customer-owners plan for the current environment. Our Farm Credit institutions proactively work with members to help them understand their financing options. We are restructuring debt to spread out payments and are providing other loan structuring options when 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.

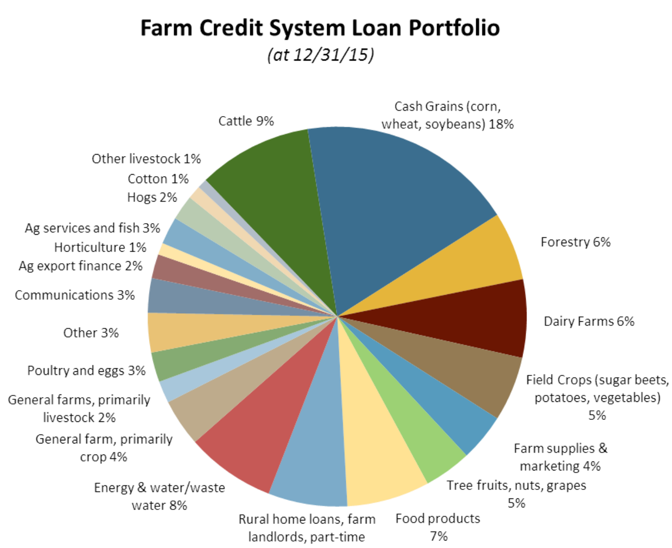
Financial Strength to Fulfill Our Mission



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.



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 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	21,188	9	135	<1
Over $250,000	20,423	8	49	<1
TOTAL	235,890	100	527,462	100

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.

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.

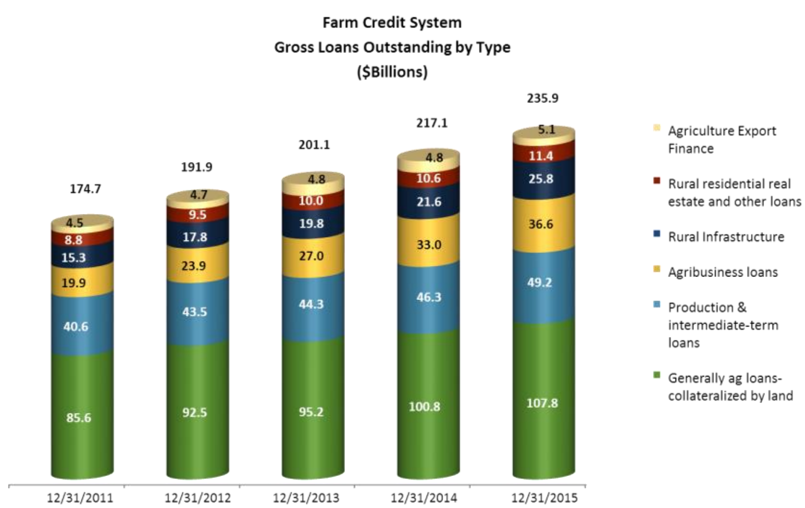
Farm Credit is well known for its 100-year-old mission providing financing to all types of U.S. farmers and ranchers. In addition, Farm Credit's agricultural mission includes financing aquatic producers, many agribusinesses, and U.S. agricultural exports. A constant supply of credit to all of these areas 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.