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.