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.

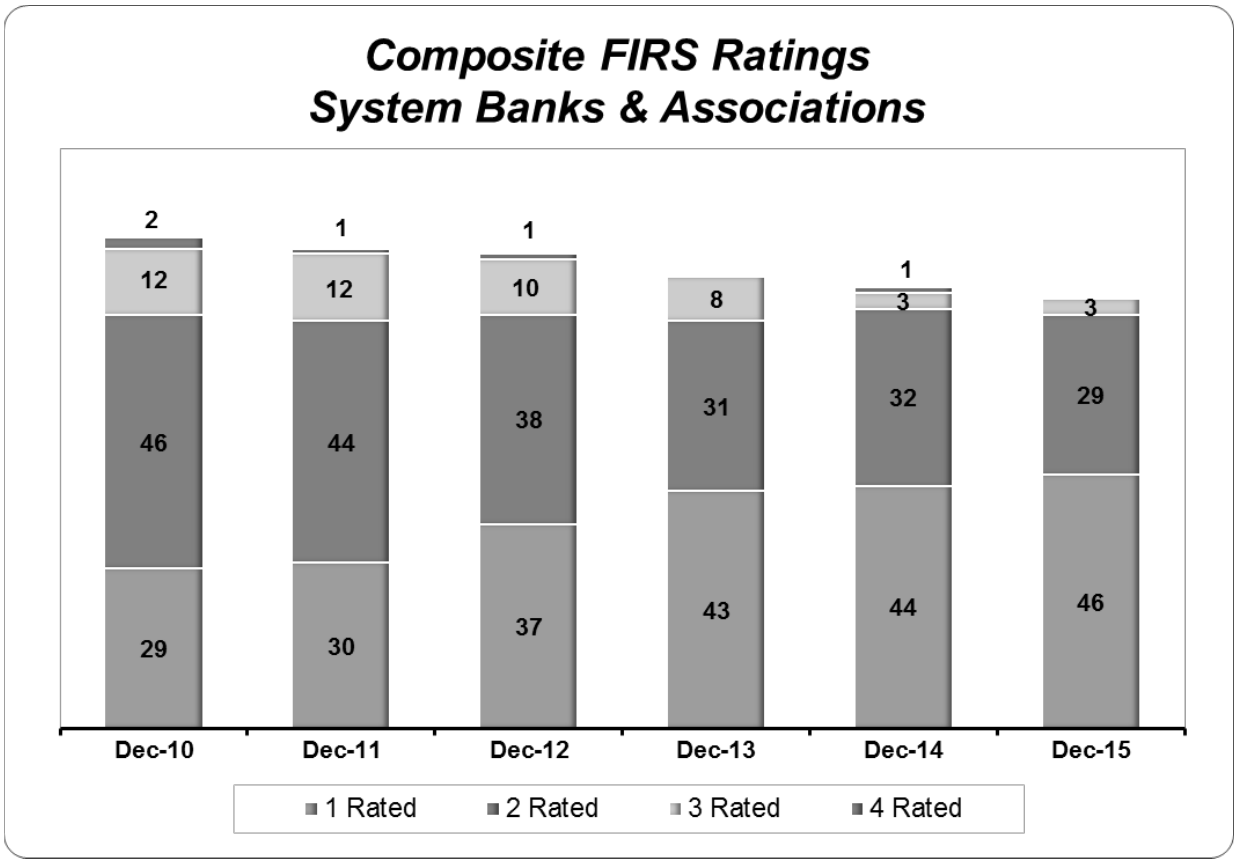
Through our oversight, we require System institutions to have the programs, policies, procedures, and controls to effectively identify and manage risks. Our oversight program also requires compliance with laws and regulations. When institutions fail to address unsafe and unsound practices or to comply 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 bookletter) 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 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 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 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.

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.