

Oral Statement by the Honorable Dallas P. Tonsager
Board Chairman and Chief Executive Officer
Farm Credit Administration
Before the House Committee on Agriculture
March 29, 2017

Chairman Conaway, Ranking Member Peterson, and Members of the Committee, it is a privilege to appear before you today to report on the Farm Credit System. I have a written statement to submit for the record.

President Obama appointed me to the FCA board in March of 2015. Last fall, the President designated me FCA board chairman and CEO. I have the pleasure of serving on the board with Jeff Hall, who is here today. I would also like to mention my former colleague, Ken Spearman, who passed away on Monday. Since 2009, Ken has served on the boards of FCA and the Farm Credit System Insurance Corporation. He also served terms as chairman for both organizations. Ken was well loved at the agency, and our hearts and prayers are with the Spearman family as we all grieve his loss.

About the Farm Credit Administration

FCA is an independent federal agency that regulates and examines the banks, associations, and related entities of the Farm Credit System, including the Federal Agricultural Mortgage Corporation, or Farmer Mac. Our responsibility is to ensure that the System meets its congressional mission to provide a dependable source of competitive credit for agriculture and rural America in good times and in bad.

FCA is not an appropriated agency. We are funded primarily through assessments paid by System institutions. Congress oversees our administrative expenses and sets an annual cap on them.

About the Farm Credit System

The Farm Credit System, which was established in 1916, is the nation's oldest government-sponsored enterprise. It is a nationwide network of borrower-owned cooperative financial institutions and affiliated service organizations.

Currently, the System includes 4 banks and 73 direct-lending associations. The banks provide loan funds to the associations, which in turn make loans to farmers, ranchers, and

other eligible borrowers. Under the Farm Credit Act, the System has the authority, subject to certain conditions, to make the following types of loans:

- Ag real estate
- Ag production and equipment
- Aquatic production loans
- Loans to ag processing facilities and farm-related businesses
- Ag cooperative loans
- Rural home mortgages
- Ag export and import loans
- Rural utility loans
- And loans to farmers and ranchers for other credit needs

Also, under its similar-entity authority, the System may participate with other lenders to make loans to those who are not eligible to borrow directly from the System but whose activities are functionally similar to those of eligible borrowers. Through these participations, the System diversifies its portfolio, reducing the risks associated with serving a single industry.

Farm Credit banks and associations cannot take deposits. The System obtains loan funds by selling securities on the national and international money markets. The securities are not guaranteed by the federal government.

For more than 100 years, the System has helped our nation's agricultural producers provide abundant, affordable food and fiber to people at home and around the world. Currently, the System supplies 41 percent of our nation's farm credit.

Condition of the Farm Credit System and the farm economy

I am pleased to report that the System's banks and associations are fundamentally safe and sound. In 2016, the System reported modest loan growth, solid earnings, and higher capital levels. But as regulator of the System, we do have some concerns.

In the farm economy, debt-to-asset levels are rising while net farm income is declining. Interest rates, while still low, have begun to rise. And crop prices are expected to remain weak through FY 2017. These factors are causing the value of Midwestern farmland to slip. Prices in the protein and dairy sectors are also weak. As a result, the credit quality of the System's loan portfolio has declined slightly.

Response of FCA and System to downturn in farm economy

To help the System and its borrowers weather this downturn in the farm economy, we are monitoring conditions closely and examining institutions for concentration and collateral risk.

We are also encouraging the System to do everything within the bounds of safety and soundness to help borrowers in difficulty — particularly young, beginning, and small producers for whom this downturn is especially difficult. We want the System to help ensure the best possible outcome for every borrower. This involves being proactive: identifying borrowers who are just beginning to struggle and helping them develop strategies to increase their income and preserve their capital.

As regulator of the Farm Credit System, we will work hard to ensure that the System continues to meet the credit needs of our farmers and ranchers even in challenging times like these.

Thank you, and I'm happy to answer your questions.