

**Oral Statement by the Honorable Leland A. Strom
Chairman and Chief Executive Officer
Farm Credit Administration
Before the U.S. House Committee on Agriculture
November 17, 2009**

Chairman Peterson, Ranking Member Lucas, and Members of the Committee, I am Leland A. Strom, Chairman and CEO of the Farm Credit Administration. I serve on the FCA Board with my colleagues Nancy Pellett and Kenneth Spearman.

FCA is an independent arm's length agency responsible for examining and regulating the institutions of the Farm Credit System, including the Federal Agricultural Mortgage Corporation.

The FCS is a network of borrower-owned financial institutions that provide credit to farmers, ranchers, rural residents, agricultural and rural utility cooperatives, and other eligible borrowers.

Mr. Chairman, this is a very timely and important hearing today regarding the Financial Stability Improvement Act Discussion Draft (FSIA). FCA supports congressional efforts to strengthen regulation and supervision of financial markets, as every American has been affected by the crisis in our global financial system.

I want to emphasize that System institutions remain safe and sound and did not contribute to the recent financial crisis. This was because of the Agriculture Committees' oversight and the significant reforms made to the Farm Credit Administration and the System as a result of the agricultural credit crisis of the 1980s. This included restructuring FCA as an independent arm's length regulator with formal enforcement powers, providing borrower rights to System borrowers, and establishing the Farm Credit System Insurance Corporation to protect System investors and resolve failed System institutions.

The draft legislation is a comprehensive proposal designed to strengthen regulation and supervision of financial markets and some of the largest, most complex financial institutions. As proposed, the legislation does not directly amend the Farm Credit Act. However, a close reading reveals potential conflict with the Farm Credit Act as it relates to the credit risk retention requirements for securitizations. In addition, the Discussion Draft could create uncertainty in the definition of a financial company and other parts that potentially include FCS institutions in the regulatory structure or activities authorized.

Over the past weekend, my staff had productive discussions with key policy officials at the Treasury. They informed FCA that it was not their intention to include FCS institutions. Further, they committed to work quickly to develop clarifying language to ensure this intent is carried out in the proposal and does not create a jurisdictional conflict. In our discussions, we expressed concerns in three areas which they agreed to remedy.

First, the Financial Services Oversight Council, composed of all Federal financial institutions regulatory agencies except the FCA and FCSIC, is established to monitor and address systemic risk to the financial stability of the United States. The far-reaching authority and regulatory activities of this Council extend broadly to any "financial company," as defined. Institutions of the System would appear to meet that definition. However, Treasury has drafted a proposed amendment to the "financial company" definition to clarify that the authorities of the FSOC do not extend to FCS institutions, including Farmer Mac, or impact the authorities of the FCA.

Second, subtitle F of the draft legislation would require creditors and those that securitize loans to retain 10 percent of the credit risk on any loan that is transferred, sold, conveyed, or securitized. This new requirement would directly apply to the securitization activities of Farmer Mac and perhaps to other activities of System institutions. It is important to note that in 1996, Congress repealed a similar 10-percent retention requirement for loans sold to Farmer Mac. Clarifying language is necessary to ensure enforcement of the credit risk retention requirements would not fall to another agency and that FCA retains jurisdiction authority in these matters.

Third, subtitle G of the draft legislation would provide the FDIC enhanced resolution authority for financial companies that pose systemic risks to the financial stability of the United States. Although the draft seems to imply that this authority does not cover System institutions, this should be clarified. A related issue is confusion over the authority of the FDIC to assess System banks and associations that already pay premiums to FCSIC in order to cover the costs of resolving large interconnected financial companies that fail. Treasury has drafted a proposed amendment to exclude all FCS institutions from the definition of “financial company” used for enhanced resolution and assessment authorities.

Mr. Chairman, thank you for the opportunity to participate in today’s hearing. I look forward to commenting further on the draft legislation, including any revised proposals, and working with the Committee and Treasury on this matter. As new standards evolve for other financial institutions, you may require changes in the regulatory oversight of FCS and Farmer Mac. As appropriate, FCA is prepared to discuss with the Committee suggestions for enhancing FCA and FCSIC statutory authorities. This concludes my statement, and I would be happy to answer your questions.