

Oral Statement by the Honorable Dallas P. Tonsager
Board Chairman and Chief Executive Officer
Farm Credit Administration
Before the House Appropriations Subcommittee on Agriculture, Rural
Development, Food and Drug Administration, and Related Agencies
April 2, 2019

Chairman Bishop, Ranking Member Fortenberry, and Members of the Subcommittee, I am Dallas Tonsager, board chairman and CEO of the Farm Credit Administration. On behalf of my colleagues on the FCA board, Jeffery Hall of Kentucky and Glen Smith of Iowa, and all the dedicated men and women of the agency, I am pleased to provide this testimony.

I would like to thank the subcommittee members and staff for their assistance during the most recent budget process. The resources provided will be critical for recruiting and training highly qualified staff to maintain the safety and soundness of the Farm Credit System and the Federal Agricultural Mortgage Corporation.

Role of FCA and the FCS

FCA is an independent federal agency that regulates and examines the banks, associations, and related entities of the Farm Credit System and Farmer Mac.

Our responsibility is to ensure that the System and Farmer Mac meet their congressional missions — for the System to provide a dependable source of competitive credit for agriculture and rural America and for Farmer Mac to provide a secondary market for ag real estate loans, rural housing loans, and rural cooperative credit.

For more than 100 years, the System has helped our nation's agricultural producers provide the most abundant, affordable, and safest food supply in the world. The System includes 4 banks and 69 associations. The banks provide loan funds to the associations, which in turn lend to farmers and ranchers, farm-related businesses, and other eligible borrowers. Of the four banks, only CoBank has retail lending authority with express authority to lend to agricultural cooperatives and to support rural infrastructure like water, power, and communications.

The System obtains loan funds by selling securities on the national and international money markets. These securities are not guaranteed by the federal government. Investor demand for all System debt products remains positive, allowing the System to continue to issue debt on a wide maturity spectrum at competitive rates.

Condition of the farm economy and Farm Credit System

U.S. farmers are facing challenging economic conditions. After several years of robust times, many farmers and ranchers are facing declining financial conditions amid large commodity supplies and weak prices for crops and livestock products. Higher operating costs for labor, farm inputs, and other expenses are putting stress on farm cash flows and

liquidity levels. At current price levels, many farmers will be under financial pressure in 2019, despite USDA's projected increase in U.S. net cash farm income.

For example, profitability for corn and soybean enterprises remains well below levels reported earlier in the decade. Adjusting production costs to meet expected commodity prices will challenge many producers.

Despite these headwinds in the overall farm economy, I am pleased to report that the System's banks and associations, as well as Farmer Mac, are fundamentally safe and sound. And they maintain a strong position to carry out their mission.

While overall portfolio credit quality has declined compared to a year ago, credit quality in the System's loan portfolio remains strong. Nonperforming assets totaled \$2.3 billion at the end of 2018. While elevated from \$2 billion at the end of 2017, the System's loan portfolio continues to perform well.

Other factors supporting the overall strength of the System are stable earnings, a strong capital base, and reliable access to debt markets. For calendar year 2018, the System reported \$5.3 billion in combined net income, and the System's total capital equaled \$58.4 billion, up from \$55.4 billion a year before.

Finally, the System's loan portfolio continued to grow in 2018. The System currently supplies around 41 percent of our nation's farm credit. At year-end 2018, gross loans totaled \$271.9 billion, up 5.1 percent from 2017.

I would also note that Farmer Mac's business volume grew by \$717 million to \$19.7 billion during 2018, and overall credit quality remained stable, with substandard assets and 90-day delinquencies remaining below historical averages.

I ask that my written statement be submitted for the record.

Thank you. I look forward to your questions.