

**Oral Statement by the Honorable Jeffery S. Hall**  
**Board Member**  
**Farm Credit Administration**  
**Before the House Committee on Agriculture**  
**March 29, 2017**

Good morning, Mr. Chairman, Ranking Member Peterson, and members of the committee. We appreciate the opportunity to be here today.

The Farm Credit Administration continuously monitors the financial condition of the agriculture economy and the impact on the Farm Credit System. The financial strength of the borrowing base is what matters most to the financial strength of the System. The Farm Credit Administration's role as a safety and soundness regulator gives us the responsibility to ensure the System meets its congressional mission to provide a dependable source of credit for agriculture and rural America.

We fully understand that farm financial conditions are not static and credit risks are intensifying. These risks are magnified when you look at certain geographic areas, certain farm enterprises, and individual farm operations. Looking forward, factors like interest rates, land values, and the persistence of the lower prices during this cycle are very critical to credit markets and even more critical to the farmer-borrower.

While the System is well positioned to provide credit in an extended agriculture downturn, there will be borrowers who will need extra assistance. A unique feature of the Farm Credit Act is the requirement to extend borrower rights to all farmer-borrowers. The act provides System borrowers the right to restructure distressed loans. Borrowers also have the right for a secondary review if they receive an adverse decision.

In addition to protecting borrowers from the extremes in the agriculture economy, in 1987 Congress sought to protect taxpayers from exposure to future credit crises. Congress created the Farm Credit System Insurance Corporation to ensure the timely payment of principal and interest on insured Farm Credit System debt obligations held by investors. There has not been a default on System debt in the 30-year history of the Insurance Fund.

FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America. We do this in two ways:

- By creating regulations and guidance for System institutions to follow and
- By examining System institutions for compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices

By statute, our Office of Examination reviews associations and banks at least every 18 months. Each institution is scored based on key financial and management factors.

If a System institution is found to be in violation of a law or regulation, or if its operations are deemed to be unsafe or unsound, FCA will issue and enforce corrective action. FCA also reports to Congress on the financial condition and performance of the System.

Additionally, FCA will evaluate compliance with mission-related regulations and guidance by evaluating the administration of programs to provide competitive credit to meet the needs of young, beginning, and small farmers. FCA also encourages and supports System involvement in local food initiatives, urban agriculture, farmer-veteran programs, and other activities that support the goals of diversity and inclusion.

As an arm's-length regulator, FCA stresses the importance of effective internal controls for every institution. Every year, the Office of Examination issues an operating plan that guides the examination staff and notifies the System where there will be added emphasis. There is added special emphasis on board governance.

Management is probably the most important element in an institution's operations. Management must have a thorough understanding of how their decisions will affect the financial soundness of the institution, the entire Farm Credit System, and also consider any risk to the System's overall reputation. Since the System operates as a cooperative, with institution governance directed by member-elected boards, there are added responsibilities and expectations placed on the institution's leadership.

So, in conclusion, here are some key factors for FCA as we move forward.

- Ensure safety and soundness of the Farm Credit System.
- Monitor stress at the producer level, making sure that borrower rights are always fully exercised. Watch for added stress in groups that are particularly vulnerable.
- Review our current regulations for effectiveness and the need for any new regulations.

I thank you for the opportunity to be here this morning and would be glad to answer any questions.