

**Oral Statement by the Honorable Dallas P. Tonsager
Board Chairman and Chief Executive Officer
Farm Credit Administration
Before the Subcommittee on Agriculture,
Rural Development, Food and Drug Administration, and Related Agencies
U.S. House of Representatives Committee on Appropriations
February 28, 2017**

Chairman Aderholt, Ranking Member Bishop, and Members of the Committee, it is a privilege to appear before you today to report on the budget of the Farm Credit Administration. 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 two distinguished colleagues, Jeff Hall, who is here today, and Ken Spearman.

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.

FCA was created by an executive order of President Franklin Roosevelt in 1933. During the agricultural credit crisis of the 1980s, Congress gave FCA regulatory and enforcement powers similar to those of other federal financial regulators.

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 provide operating loans and long-term real estate loans to farmers, ranchers, and other eligible borrowers. One of the System banks also has the authority to lend to agricultural cooperatives and rural utilities.

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. For the first nine months of 2016, the System reported modest loan growth, solid earnings, and higher capital levels.

But as regulator of the System, we do have some concerns. Debt-to-asset levels are rising while net farm income is declining. Interest rates, while still low, have begun to increase. And crop prices are expected to remain weak through FY 2017.

These factors are putting downward pressure on the value of Midwestern farmland. Meanwhile, high production levels are further weighing down prices and profits in the protein and dairy sectors.

The nonaccrual rate on System mortgages was 0.76 percent as of September 30, 2016, up slightly from a year earlier. The nonaccrual rate on its *production* loans was 1.04 percent, up almost a quarter of a percentage point from the previous year.

To help the System weather this downturn in the farm economy, we are monitoring conditions closely, and we're examining institutions to make sure they are guarding against both concentration risk and collateral risk.

Our budget needs

Overseeing the safety and soundness of a nationwide network of lending institutions requires more resources during times of economic stress. For FY 2017, our budget request was for \$70.4 million. Under the continuing resolution, the agency has been operating under the cap established by Congress in FY 2016 — \$65.6 million.

As a result of the cap, we have had to delay hiring, reduce travel and relocations, and postpone IT projects. We would like to respectfully request that the cap be increased to \$68 million. This will allow us to move forward with targeted IT investments and to meet pressing human capital needs.

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