Oral Statement by the Honorable Leland A. Strom
Chairman and Chief Executive Officer
Farm Credit Administration
Before the Subcommittee on Operations, Oversight and Credit
U.S. House Committee on Agriculture
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Mr. Chairman, Members of the Subcommittee, I am Leland A. Strom, Chairman and Chief Executive Officer of the Farm Credit Administration (FCA or Agency). On behalf of my colleagues on the FCA Board, Kenneth Spearman and Jill Long Thompson, and the dedicated men and women at FCA, I am pleased to participate in this important hearing today.

FCA is an independent arm's length agency responsible for examining and regulating the banks, associations, and related entities in the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).

I am pleased to report that the overall condition and performance of the System remains safe and sound and continues to meet its congressionally directed mission. The System continues to have acceptable credit quality and is well capitalized.

We have increased supervisory oversight and dedicated additional resources at a number of institutions that are experiencing stress. These institutions represent less than 4 percent of System assets, and while they may not pose a Systemic risk, they are important to the farmers and ranchers they serve and the fabric of the System.

Farmer Mac has made strides in rebuilding its capital position since 2008 when it experienced difficulties with non-program investment losses. It continues to provide an important outlet for financial institutions to better manage their risk and increase liquidity and funding to rural America through several business solutions.

During the economic downturn the Farm Credit System maintained its presence in the agricultural marketplace by providing competitively priced loan products to creditworthy farmers, ranchers, and agricultural cooperatives. In fact, the System did much during the past year to help producers and rural America. For example, in the 7 days following USDA's March 31 crop report, a System institution loaned almost $2 billion to farmers and grain elevators to meet their financing needs, primarily to cover margin calls due to the crop reports bullish impact on corn prices.

Farm income is expected to be very strong in 2011. Grains, soybeans and cotton largely account for the increase. High grain prices, however, will present challenges for the livestock sector and potentially the ethanol industry. Although grain producers are doing well at this time, their input costs are rising rapidly. Consequently, crop farmers could face declining profit margins if grain prices retreat from current levels. Therefore, we must remain vigilant and respond quickly to changes in the risk environment.

High grain prices combined with extremely low interest rates are also propelling farmland values to record highs in parts of the Midwest. The associations of the Farm Credit System are the largest source of farm mortgages in the U.S. with a market share estimated by USDA at about 43 percent. The average Farm Credit association has over 55 percent of its loan portfolio in farmland mortgages.

We have been taking a proactive approach to address the rising farmland value issue. Recently, we hosted a Regulator Roundtable that was attended by FDIC, the Comptroller of the Currency, the Federal Reserve Board, and Federal Reserve Banks. We plan to continue to work together to identify risks we see for the future, and what further actions may be needed regarding our regulated entities. At FCA, we have emphasized appropriate and sound agricultural real estate underwriting standards in our policy guidance and examination activity in these volatile times.

The System focuses on lending to young, beginning, and small (YBS) farmers and ranchers by offering them specially designed programs and services. In 2010, the System's loans to YBS producers continued to show solid gains, indicating FCS institutions are staying focused on this special mission responsibility.

The Farm Credit Act established specific consumer protections for System borrowers. For example, the Act requires FCS institutions to review and consider restructuring a distressed agricultural loan before initiating foreclosure. These "Borrower Rights" requirements have served the System and its borrower-owners well over the last 25 years.

In closing, as agriculture and rural America contend with the challenges of these uncertain times, we are mindful that the System was designed to be a dependable lender to agriculture and rural communities in both good times and bad. FCA remains committed to ensuring that the System can fulfill its mandate to both current and future generations of farmers and ranchers and the rural areas in which they live.

Mr. Chairman, this concludes my statement, and I would be happy to answer any questions you might have.