

Oral Statement by the Honorable Jill Long Thompson
Board Chair and Chief Executive Officer
Farm Credit Administration
Before the Subcommittee on Livestock, Rural Development, and Credit
U.S. House Committee on Agriculture
June 25, 2014

Mr. Chairman, Members of the Subcommittee, I am Jill Long Thompson, Board Chair and Chief Executive Officer of the Farm Credit Administration. On behalf of my colleagues on the FCA Board, Kenneth Spearman and Leland Strom, and the dedicated men and women at FCA, I am pleased to participate in this hearing today.

As required by the Farm Credit Act of 1971, as amended, FCA serves as the independent arm's-length agency responsible for examining and regulating the banks, associations, and related entities of the Farm Credit System. We take our responsibilities very seriously, and we strive to interpret the Farm Credit Act faithfully.

Congress established the Farm Credit System in 1916 to provide American agriculture with a dependable source of credit. The System consists of a nationwide network of cooperatively organized banks and associations that are owned and controlled by their borrowers. It serves all 50 States and the Commonwealth of Puerto Rico. At year-end 2012, the System held more than 46 percent of the nation's farm real estate debt.

I am pleased to report that the System's overall condition and performance remain sound, and it continues to fulfill its congressional mission. The System's net income was \$4.64 billion in 2013, up 12.7 percent from 2012. Since 2010, when the financial crisis and recession were in full swing, credit quality has continued to improve. As of December 31, 2013, nonperforming loans amounted to \$2.0 billion, or 1.01 percent of gross loans, down from \$2.6 billion, or 1.36 percent, at year-end 2012.

Because the System raises the money it lends to borrowers by selling securities in the debt markets, having reliable access to debt capital is critical for the System. I am happy to report that it continues to experience reliable access, and investor demand for all System debt security products is strong.

In addition to monitoring the Farm Credit System, my Agency closely monitors the farm economy for emerging risks that would affect farmers and their lenders. Currently, U.S. agriculture as a whole remains strong.

In the Farm Credit Act, Congress requires System institutions to provide programs specifically to serve young, beginning, and small, or YBS, farmers and ranchers. In our examinations of

System institutions, we review their YBS programs to ensure they are meeting the needs of these borrowers and we also require annual reports from institutions on their YBS lending activities.

In the wake of the global financial crisis, we have undertaken two major rulemaking actions to strengthen the safety and soundness of System institutions. Last June, we issued a revised liquidity regulation requiring each bank to maintain higher-quality liquidity, as well as a supplemental liquidity buffer. The rule helps ensure that System banks keep liquidity to continue operating if their access to the capital markets is temporarily interrupted.

In addition, FCA staff worked throughout 2013 and into 2014 on extensive revisions to the Agency's capital regulations. The proposed rule, which the Board adopted last month, would modernize our capital requirements while ensuring that System institutions continue to hold regulatory capital to fulfill their mission.

Another part of our mission is to regulate and oversee the Federal Agricultural Mortgage Corporation or Farmer Mac. Congress established Farmer Mac in 1988 to provide a secondary market for agricultural mortgage and rural home loans to improve the availability of cost-effective long-term credit and liquidity to America's farmers, ranchers, and rural communities. Farmer Mac is in good financial condition and continues to grow its operations and risk-bearing capacity to advance its statutory mission.

In the past couple of years, as our nation has considered the ways corporate misconduct may have contributed to the recent financial crisis, my Agency has increased its emphasis on ethics and standards of conduct—both among our own employees and in the institutions we regulate.

American agriculture is critical to meeting the food demands of this nation and this world. And the Farm Credit System is a critical source of financing for America's farmers and ranchers. As the regulator of the System, FCA is committed to helping maintain this source for generations to come.

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