Statement by
Mr. Doug Stark, President and CEO
Farm Credit Services of America
Before the
Subcommittee on Department Operations, Oversight, and Credit
House Committee on Agriculture
April 14, 2011

Mr. Chairman and members of the subcommittee, thank you for the opportunity to testify today on behalf of the Farm Credit System. My name is Doug Stark, and I am President and CEO of Farm Credit Services of America. Farm Credit Services of America is a part of the nationwide Farm Credit System. My remarks today will provide some background on the Farm Credit System, comments on current credit conditions, discuss our response to increasing land values, and summarize what Farm Credit is doing to meet the credit needs of agriculture in the geographic area served by my institution.

Background on the Farm Credit System

Established in 1916, the Farm Credit System is a unique set of 89 private institutions, including five funding banks (four Farm Credit Banks and one Agricultural Credit Bank) and direct-lending associations, all of which are cooperatively owned by the farmers, ranchers, agricultural cooperatives, rural utilities and others in rural America that borrow from them. Farm Credit institutions are chartered by the Federal government to provide credit and other related financial services to our owners and others consistent with the eligibility criteria set out in the Farm Credit Act.

Farm Credit Services of America is one of these 89 Farm Credit cooperatives. We are owned by more than 85,000 farmers that borrow from us in the states of Iowa, Nebraska, South Dakota, and Wyoming. As President and CEO, I report to a 16 member Board of Directors that consists of thirteen farmers elected by the members of the cooperative and three appointed directors. Two appointed directors are selected for their financial experience and the board has selected a third to ensure we had a young farmer represented on the board. In Farm Credit, employees are not allowed to serve as directors of our lending institutions.

There are 84 independently operated Farm Credit associations like Farm Credit Services of America serving agriculture throughout the United States and Puerto Rico. Every Farm Credit association is organized as a cooperative that is owned and governed by its farmer-members. The Board of Directors of each institution is responsible for establishing the institution's capitalization plan consistent with Federal regulations and for ensuring that management makes available loan products and financially related services appropriate to the unique needs of agriculture in the area that the institution serves.

Each Farm Credit association obtains funds for their lending programs from one of the five wholesale Farm Credit banks. At Farm Credit Services of America, we get our funding from AgriBank Farm Credit Bank (headquartered in St. Paul, MN), which is cooperatively owned by 17 local associations. The five System banks own the Federal Farm Credit Banks Funding Corporation (located in Jersey City, NJ), which, as agent for the banks, markets to the investing public the Systemwide debt securities that are used to fund the operations of all Farm Credit System institutions. Unlike commercial banks, Farm Credit institutions do not have access to insured deposits that are guaranteed by the FDIC and backed by the U.S. Treasury as a source of funding for our operations.

Regulatory Oversight by the Farm Credit Administration

All Farm Credit institutions are regulated by the Farm Credit Administration (FCA), which was created by Congress and is subject to oversight by both House and Senate Agriculture Committees. The Farm Credit Administration is an arm's-length, independent safety and soundness regulator. FCA's three board members are nominated by the President and confirmed by the Senate. The FCA has all of the oversight and enforcement powers that every other Federal financial regulatory institution has to ensure that Farm Credit institutions operate in a safe and sound manner.

The Farm Credit System's mission, ownership structure and authorizing legislation is unique among financial institutions. For farmers, ranchers and the cooperatives that they rely on, it is critically important that Farm Credit's safety and soundness regulator understands our unique mission and what it takes to be successful in accomplishing that mission. Changing our regulatory oversight would threaten our ability to accomplish the mission set out for us by this Committee in the Farm Credit Act.

Fulfilling Farm Credit's Mission of Serving Agriculture and Rural America

All Farm Credit System institutions are focused on accomplishing the mission established for us by Congress: to serve agriculture and rural America. We take our Congressional charge seriously, and continuously review our performance to ensure that we are doing so efficiently and effectively. Our cooperative structure and governance is designed specifically to ensure that our lending and financially related service activities are driven by the needs of our farmer-members and to ensure that there is a reliable and competitive credit source available to agriculture that farmers own and control. Our practice is to engage our customers in a consultative lending relationship, using our accumulated expertise and knowledge of agriculture and finance to craft long term lending relationships that are often delivered across the farmer's kitchen table.

We understand that farming isn't a short-term investment for our member-borrowers. Our cooperative structure allows us to work with our farmer-owners with an approach that is not focused on achieving quarterly returns to impress investing stockholders. We know that when we work with our customer-owners to help them achieve success in their business, our business will succeed as well. Farm Credit's lending relationship with our member-borrowers is based on constructive credit over the long haul—we make loans, retain loans, and service loans. We do not enter and exit agricultural lending as farm profitability waxes and wanes. Our lending philosophy is to be conservative in good times so that we can be courageous in tough times.

Distributing Profits to Farmers through Patronage

Our commitment to our farmer-members' business success is demonstrated further by the fact that we share our profits directly through patronage dividends with the farmers that borrow from us. Each year, the Farm Credit Services of America board of directors makes a determination based on our profitability and financial strength as to what portion of our net earnings will be returned directly to the farmer-members that own our institution.

Since 2004, Farm Credit Services of America has distributed over $425 million dollars in earnings as patronage dividends to the member-borrowers of our cooperative. This "rural stimulus" has allowed our customer-owners to re-invest in their own operations and to support their rural communities through local spending. We are proud to be able to directly and indirectly support all of these communities, regardless of size. In the past five years, the Farm Credit System in total has returned some $3.3 billion in cash and allocated an additional $1.2 billion in equities to our customer-owners. That is money that stays in agriculture and rural America and helps Farm Credit's customers be successful.

Farm Credit's Financial Strength

The Farm Credit System remains very strong financially. The System's combined net income was $3.5 billion for 2010, 23% higher than 2009. Nationwide, Farm Credit ended 2010 with a loan portfolio of about $175 billion which was 6.4% larger than where we had ended 2009. Farm Credit's financial performance has allowed growth in combined capital to $33.3 billion as of year-end 2010. This represents the reserves available in the event of losses.

The Farm Credit System's debt securities are insured by the Farm Credit System Insurance Corporation (FCSIC). Farm Credit institutions pay annual premiums of up to 20 basis points to assure that the FCSIC Insurance Fund is maintained at the secure base amount of 2% of outstanding System debt. The Insurance Fund held $3.031 billion as of year-end 2010. There is no Federal backstop for the Insurance Fund.

Current Conditions in Agriculture

As you are well aware, starting in 2008 financial and credit markets were disrupted severely due to failures in the home mortgage sector. Despite this disruption, the Farm Credit System successfully continued to meet the credit demands of our customers. At Farm Credit Services of America, we continued to see increased demand for credit and I am pleased how we have been able to respond. With the strength of current commodity prices it is very important that we continue our prudent approach to making credit available. Our experience tells us that the extraordinary period of farm profitability we now enjoy will inevitably be replaced by a period of thinner margins.

Let me give you some highlights regarding what we are seeing in Farm Credit Services of America's territory when it comes to the local farm economy, credit conditions, and how Farm Credit Services of America is responding to these unique circumstances.

The cash grain industry represents 46 percent of our portfolio. While the industry is experiencing record commodity prices and strong profitability, we are seeing the risk increasing in this segment. Volatility is at record levels – commodity prices alone are double what they were one year ago. Not everyone benefits from these increases, particularly livestock producers.

Farm input costs have continued to increase. Landlords are demanding more for cash rent, while seed, fertilizer and, of course, fuel also have increased notably. This has driven a considerable increase in the need for capital to operate these farms. In many situations, grain producers are finding that they need to capitalize and fund portions of three years of production: they must finance their investment in the carryover of last year's crop while it is being marketed; they have the ongoing investment in the present crop being planted and grown; and even before this year's crop has matured or been harvested, they are expected to make commitments and prepay such things as seed, fertilizer, and chemicals for the coming year. To effectively market their crops, many farmers also set up marketing loans to fund margin calls to cover their marketing program positions. We have estimated that the capital requirements for a typical Midwest corn producer to be nearly four times what it was in 2005.

To be successful in these volatile times farmers need profitability so that they can increase their equity stake in their own operations. But as the credit needs of these farmers has continued to increase, lenders have had to continue to build capital so that they can keep up with increased loan demand while maintaining appropriate capital levels. At Farm Credit Services of America, our 2010 loan volume increased by 13 percent, or approximately $2 billion. This increase required us to build nearly $300 million in retained earnings to capitalize our institution so that we could safely meet the increased borrowing needs of farmers and ranchers. We have seen that some local financial institutions had neither the financial capacity nor the experienced personnel to deal with this rapidly changing and volatile environment. This becomes apparent when we see an increase in loan requests from producers whose need for credit has outgrown their local lender's financial capacity, or who are in need of an immediate loan because volatile prices lead to calls for immediate increased margins in their hedge accounts.

Of great interest at local coffee shops, increasingly from the media, and from financial regulators are the recent price increases in agricultural real estate. The most notable increases have been in the upper Midwest—the major grain producing areas of the country. While there are many reasons for increased farmland values including low interest rates and higher commodity prices, the volatility in agricultural commodity prices and in land values has heightened the caution with which Farm Credit System institutions approach the marketplace. The System continues to finance land transactions in these volatile times by remaining focused on sound underwriting and making credit decisions based on the repayment capacity of the individual borrower. Because we hold virtually all of our loans on our own balance sheet, we have a strong interest in seeing that our customers are successful and prudent in their own risk-taking, including the purchase and financing of farm real estate.

Given the volatility and risk in the present agricultural real estate values, most Farm Credit System institutions have implemented adjustments to their underwriting processes to reduce the risk on new real estate loans. Some of these actions have included setting lower loan to value limits, establishing maximum loan per acre limits, strengthening loan analysis by stress testing a borrower's repayment capacity, shortening loan terms, or cross-collateralizing loans with property that has limited debt encumbrance. Appraisals are also completed by certified and licensed appraisers who are totally independent of the credit decision process. These adjustments result in terms that are significantly more conservative than allowed by law and regulation, designed to maintain safety and soundness.

Another way Farm Credit Services of America was able to extend to our customers our institutional sense of prudent risk-taking was through our Loan Conversion program. Most people don't expect their lender to contact them about reducing the rate of interest on their loan. This past year, more than 15,000 of our farm and ranch customers have benefitted from the lowering of their long term fixed interest rate. These actions resulted in savings to customers of $44 million in the first year alone. The conversion of longer term, fixed rate loans to lower cost, fixed rates resulted not just in immediate savings to the borrower, but continued interest savings for the life of the converted loans. We know that our long-standing focus on what's best for our customers has improved the financial strength of both the borrowers and our Farm Credit cooperative.

The balance of our portfolio is to various segments in the livestock industry, most notably cattle, followed by swine, and then dairy. These industries have, for the most part, been adversely impacted by an increase in feed prices since 2008. For a good share of 2008 and 2009, we saw losses to producers in these segments, especially swine and dairy. Because of our focus on agriculture, we have in place a skilled lending staff that is backed by our strong capital position. This dual strength allowed us to restructure loan terms and repayment plans for a significant portion of the producers in these agricultural operations that feed grains.

A Commitment to Serving Young, Beginning and Small Farmers

Every Farm Credit association has programs in place targeted specifically at meeting the needs of three special categories of borrowers—those that are young, those that are just beginning in farming, and those that are small farmers. Our mission to serve the needs of young, beginning, and small farmers leads us to identify, understand, and finance the farm operations that these new agriculturalists engage in, including such operations as organic, sustainable, local food-related, direct-to-retail, or other emerging business models in addition to traditional agricultural operations. We recognize that we must reach out to those who are innovators in farm enterprises in order to follow today's niche operation as it becomes tomorrow's mainstream business.

Farm Credit Services of America has an exceptional commitment to our Young, Beginning, and Small farmer program that starts in our board room. Several years ago, our board took the unusual step of creating an appointed board member position to be filled by an outstanding young farmer so that we would include the voice of the next generation in all of the board's deliberations.

Farm Credit Services of America's Young, Beginning, and Small farmer program has many facets to serve the unique needs of borrowers in our area. Our program offers lower interest rates, while maintaining our credit standards. In fact, as of year-end, 2010, nearly 17% of our loan portfolio consists of loans to young and beginning borrowers in our territory. In addition, we are dedicated to training and education programs for young, beginning, and small farmers in our territory through our own classes, seminars, and institutes as well as supporting such programs provided by others. This is part of our commitment to training future farmers the good credit habits and skills that will help make them successful business people in the future.

Nationwide, the Farm Credit System's dedication to our mission is demonstrated by the aggregate amount of new loans made in the year 2010 to Young, Beginning, and Small farmers by all Farm Credit associations. New loans in 2010 to young farmers totaled $7.3 billion, in the same period new loans to beginning farmers added up to $10.3 billion, and to small farmers was $13.1 billion. It is important to note that farmers may be included in multiple categories since they are included in each category for which they meet the defined characteristic; Young—35 or younger; Beginning—10 years or fewer of farming experience; Small—less than $250,000 in annual gross farm sales.

When it comes to serving the needs of small farmers, the Farm Credit System stands out. Recently, the American Bankers Association released its report on "farm bank" performance in 2010. They indicated that the 1,552 banks that met their definition of a "farm bank" had some $33.9 billion in credit outstanding in small farm loans (those with an original loan size of less than or equal to $500,000). In comparison, the 84 associations of the Farm Credit System had slightly more than $143.7 billion of similar sized loans outstanding at the end of 2010.

USDA Programs Help Farm Credit Serve Agriculture

Additionally, at Farm Credit Services of America we often make use of USDA's Farm Service Agency (FSA) loan guarantees to support our lending, particularly to young and beginning farmers and ranchers. We are pleased that our experience and excellent credit management practices have allowed us to be recognized as an FSA preferred lender**.**

The guarantees available through FSA are an important tool that allows us to serve higher risk credits that might not otherwise meet our underwriting standards. The Farm Credit Act requires that we focus our resources on meeting the needs of credit worthy borrowers. These FSA guarantees, along with our Board's acute focus on serving young and beginning farmers and ranchers has allowed to create a special program we call

AgStart, which assists young producers who cannot meet normal underwriting standards. In this special program we are now serving 1,340 young producers that fit into this category.

Another very important USDA program which benefits our farmer-members is the Risk Management Agency's (RMA) crop insurance program. Producers need protection against weather related disasters and price volatility and today's crop insurance represents a terrific risk mitigation tool for them. As a lender we believe strongly that crop insurance is essential for producers but also is essential for lenders to help protect our investments in loans. At Farm Credit Services of America we are an active participant in the crop insurance program. Last year, we paid out over $124 million in claims. I can't emphasize enough how important crop insurance is as the primary risk management tool that allows our member-borrowers to make the huge investments required to plant and grow annual crops.

Serving the Vital Needs of Rural Communities and Global Markets

Lending to companies that serve the needs of rural communities in the energy, communications, and water industries is a growing part of Farm Credit's overall business. Customers in these industries include rural electric generation and transmission cooperatives, electric distribution cooperatives, independent power producers, rural local exchange carriers, wireless provides, cable television system, and water and waste water companies. Farm Credit loans to these customers increased to $15 billion at the end of 2010 from $14.6 billion at the end of 2009.

Much of the loan growth to these customers came as the broader debt capital markets contracted as part of the overall financial market crisis. The Farm Credit System, primarily through CoBank (the one Farm Credit bank that operates as an Agricultural Credit Bank) has increased its lending to these customers ensuring that a continued flow of competitively priced credit is available to them. The System's ability to expand financing to these customers has been critical as many of them, electric co-ops especially, have been forced to modernize facilities and expand operations as demand for electricity has boomed across rural areas.

Similarly, as global credit markets contracted, demand for credit around the world to purchase U.S. agricultural export products increased. Loans made by CoBank to facilitate the export of U.S. farm products increased from $2.1 billion at the end of 2007 to $4 billion at year end 2010.

Impact of Financial Market Disruptions

Because the Farm Credit System relies on our access to the financial markets for the funds we need to make credit available to our borrowers, a disruption in the efficient operation of those markets can adversely impact agriculture. We witnessed firsthand how disruptions in the nation's financial markets can directly impact not only our cost of funds but also the term of the funds that are available.

During the recent crisis, commercial banks were extended a direct Federal guarantee on their debt issuance and access to Federal capital support. The housing GSEs gained enhanced support from the Treasury to facilitate their access to the debt markets. In the case of Farm Credit, we have no such guarantee, we were provided no access to capital support, we have no explicit borrowing line with Treasury, and no Federal backstop for the Farm Credit System Insurance Fund.

Despite the fact that we have had no assistance from the government throughout these times of extreme stress in the financial markets, we are very proud to report to you that we have not had to deny a single farmer, cooperative or other eligible borrower access to credit because we could not access the Nation's money markets. This is testament to the financial strength that the System has carefully built up during good times through cautious lending and the accumulation of appropriate capital reserves.

Trust has been built with our investors, who know that the Farm Credit System has never failed to meet its obligations. They are secure in the knowledge that System management and directors are intent on preserving this fine organization to ensure that farmers will continue to own and govern their credit source through their cooperative in the future. However, Farm Credit's operational prudence notwithstanding, the financial market turmoil demonstrated to us that our ability to access the necessary funding to meet our mission to agriculture and rural America may be at risk if circumstances beyond our control disrupt our market access.

Conclusion

The Farm Credit System is financially stable, economically vital, and serving its mission for agriculture and rural America well. We continue to make credit available to all segments of agriculture including commercial producers as well as young, beginning and small farmers. There are no federal dollars invested in the Farm Credit System. We even pay for the expense of being regulated by the federal government through an assessment on all Farm Credit System institutions.

As a network of agricultural and rural lending cooperatives owned by the farmers, cooperatives, and rural utilities that borrow from us, we have the built in oversight mechanism that our farmer-owners hold our feet to the fire to keep service quality high. We understand that Farm Credit's success depends on our customers' success. To continue serving our mission, we must have continued, effective access across all terms to the national debt markets and an independent, arm's-length regulator that comprehends the unique requirements of agriculture.

I am testifying to you as a leader of a nationwide lending institution in a climate of high farm profitability and increasing farm land values. But it should not surprise you that I am reporting on our prudence in lending practices, credit management, and service to our mission. The Agriculture Committee understands why the Farm Credit System exists, and our continued success is due in part to the fact that this Committee had the foresight to change our structure more than 20 years ago while strengthening our regulatory oversight to ensure our safety and soundness.

We are proud of our commitment to rural America. We have maintained our focus and continually work to meet our mission. We are aware that all of agriculture will inevitably face challenging economic times that may test the resolve of many. We urge that you assure adequate guaranteed loan programs through USDA FSA and Rural Development, along with the funding resources and flexibility for a strong crop insurance program.

Mr. Chairman, thank you again for the opportunity to testify today on behalf of Farm Credit Services of America Farm Credit and the Farm Credit System. I will be pleased to respond to your questions.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2008.

Name: Doug Stark

Organization you represent (if any): Farm Credit Services of America

1. **Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2008, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: None **Amount:**

Source: **Amount:**

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2008, as well as the source and the amount of each grant or contract:**

Source: None **Amount:**

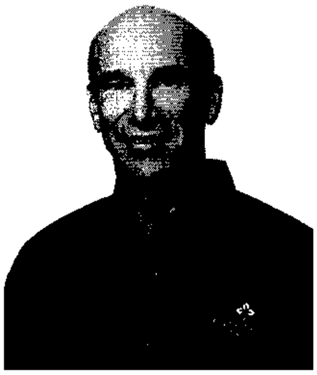
Source: **Amount:**

Please check here if this form is NOT applicable to you:

Signature: Doug Stark

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.



Doug Stark
President and Chief Executive Officer
Farm Credit Services of America

Doug Stark is the President and CEO of Farm Credit Services of America in Omaha Nebraska. He has been with the Farm Credit System for 30 years serving as the President and CEO since March 2005 with previous executive leadership experience as Chief Credit Officer.

Doug received his degree in Agricultural Business from the University of Wyoming. During his career he served in several capacities in Wyoming beginning as a loan officer, assistant Vice President of Credit, Credit Manager, and Area Manager. Doug also worked for the Farm Credit Administration in Spokane, Washington for two years as an Examiner/Supervisor.

Farm Credit Services of America is one of the leading providers of credit and insurance services to farmers, ranchers, agribusiness and rural residents in Iowa, Nebraska, South Dakota and Wyoming. It is a financial cooperative with more than 85,000 customers and $17 billion of owned and managed assets. During Doug's tenure as CEO, this has grown from approximately $8.5 billion in assets while at the same time increasing net income from $144 million to over $400 million.

Doug currently serves Chairman of the Farm Credit System's Presidents Planning Committee and has also been a member of its Regulatory, Legislative, and Public Relations Committee. Doug led the development of an advanced Director Development program serving as the Chairman of this group and has also served in leadership roles in State and Civic organizations.