Testimony of

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Washington, D.C.

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 appear today to testify on behalf of the Federal Agricultural Mortgage Corporation known as Farmer Mac. My name is Michael Gerber and I am the President and Chief Executive Officer of Farmer Mac, headquartered here in Washington D.C.

Farmer Mac provides a secondary market for agricultural real estate and rural utilities loans and certain loans guaranteed by the U.S. Department of Agriculture. This secondary market increases the availability of long-term credit at stable interest rates to America's rural communities, including farmers, ranchers and other rural residents, and rural utilities, and provides those borrowers with the benefits of capital markets pricing and product innovation. Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States and part of the Farm Credit System.

Farmer Mac was created by Congress in the aftermath of the agricultural credit crisis of the 1980s, when land values fell as interest rates rose sharply, credit policies tightened and there was a wave of farm foreclosures. Farmer Mac interacts with all categories of rural lenders (including banks, Farm Credit System institutions, insurance companies, and cooperative rural utilities lenders) throughout the country helping to ensure liquidity and lending capacity for lenders to Rural America, every day. We serve as a bridge between institutional investment pools of capital and main street Rural America.

Farmer Mac Programs

Farmer Mac accomplishes its congressional mission of providing liquidity and lending capacity to rural lenders by:

- purchasing eligible loans directly from lenders;
- providing advances against eligible loans;
- guaranteeing securities representing interests in, or obligations secured by, pools of eligible loans; and
- providing credit enhancements that enable lenders to meet their customers' growing credit needs, transfer risk and improve their capital position.

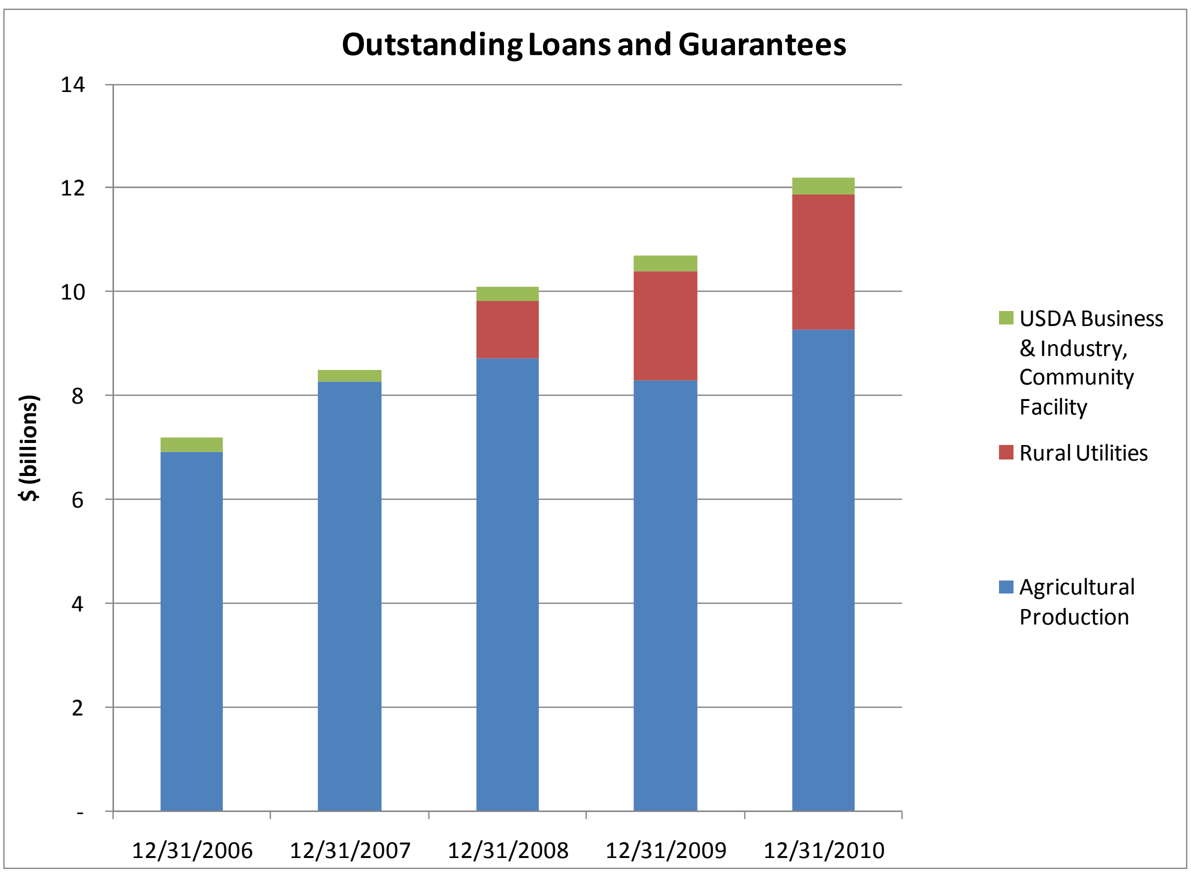
Farmer Mac conducts these activities through three programs—Farmer Mac I, Farmer Mac II and Rural Utilities, offering loan products designed to increase the liquidity of agricultural real estate mortgage and other eligible loans and the lending capacity of financial institutions that originate them. As of December 31, 2010, the total outstanding volume in all of Farmer Mac's programs was $12.2 billion.

Under the Farmer Mac I program, Farmer Mac purchases or commits to purchase eligible agricultural mortgage loans or securities backed by eligible loans. Loans must meet credit underwriting, collateral valuation, documentation and other standards specified by Farmer Mac. Small farms account for 61% of Farmer Mac guarantees and commitments and the average outstanding loan balance for Farmer Mac I loans is $305,000.

Under the Farmer Mac II program, Farmer Mac's wholly-owned subsidiary purchases the portions of loans guaranteed by the U.S. Department of Agriculture under the Consolidated Farm and Rural Development Act of 1972, as amended. Eligible USDA-guaranteed loans include Farm Service Agency Guaranteed Farm Ownership and Term Operating Loans and Rural Development Business and Industry and Community Facility Guaranteed Loans.

In the Farm Bill of 2008, Congress expanded Farmer Mac's charter to authorize the Corporation to purchase, and to guarantee securities backed by, loans made by cooperative lenders to borrowers who have received or are eligible to receive loans under the Rural Electrification Act of 1936. These loans are for the financing of electrification and telecommunications systems in rural areas. This expansion has been very successful, with Farmer Mac working with eligible rural utilities lenders to provide significant funding to date, with nearly $2.6 billion outstanding as of December 31, 2010. Farmer Mac has worked diligently to develop this line of business and the consumer owners of the nation's rural electric cooperatives have benefited from it.

Figure 1



After buying eligible loans, Farmer Mac can either retain them for investment or pool the loans together, securitize them, and guarantee the timely payment of interest and principal on the resultant securities. Securities that Farmer Mac guarantees are sold to investors in the capital markets, exchanged for the loans and retained by the lender or held by Farmer Mac.

Farmer Mac funds its purchases of Farmer Mac Guaranteed Securities and eligible loans primarily by issuing debt obligations of various maturities in the capital markets. Farmer Mac's regular debt issuance and non-program investment assets support its access to the capital markets. As lenders seek Farmer Mac's products and services, favorable loan terms ultimately depend on Farmer Mac's access to the capital markets. Ultimately, this access to the capital market at favorable rates means that rural borrowers can borrow at better rates which reduces their costs and improves the chances of their success.

Strong Statute and Oversight

When Congress created Farmer Mac in response to the needs arising from problems in the agricultural credit delivery system in the 1980s, the legislators added requirements for a strong and independent regulator. Unlike the other existing secondary market GSEs at the time, under the initial 1987 legislation (Title VIII of the Farm Credit Act of 1971 as amended), Farmer Mac was to be regulated by an independent regulator, the Farm Credit Administration, for safety and soundness. In 1991, Congress required Farmer Mac to be regulated by a separate office (Office of Secondary Market Oversight) within the Farm Credit Administration. The statute creating Farmer Mac expressly required that qualified loans meet minimum credit and appraisal standards that are representative of sound loans to profitable farm businesses. Farmer Mac's statutory charter requires offerings of Farmer Mac Guaranteed Securities to be registered under the Securities Act of 1933 unless an exemption for an offering is available. This provision leads to the requirement that Farmer Mac comply with the periodic reporting requirements of the Securities Exchange Act of 1934, including quarterly reports on the financial status of the Corporation and more frequent reports when there are significant developments. These registration and reporting requirements also put Farmer Mac under the regulatory authority of the Securities and Exchange Commission.

As required by its statutory charter, Farmer Mac has established underwriting, appraisal, and repayment standards for eligible loans taking into account the nature, risk profile, and other differences between different categories of qualified loans. These standards for agricultural real estate mortgage loans under the Farmer Mac I program at a minimum are intended to:

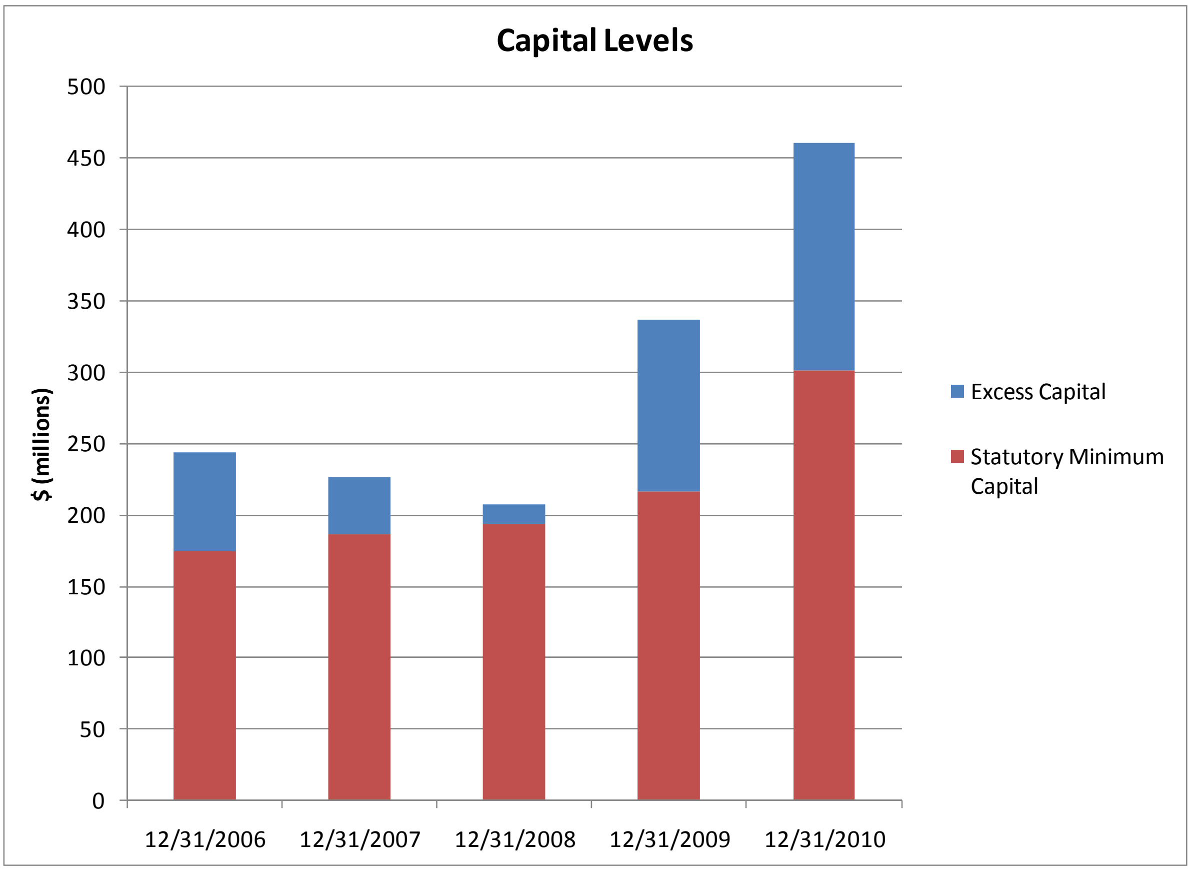
- provide that no loan with a loan-to-value ratio ("LTV") in excess of 80 percent be eligible (as of December 31, 2010 the weighted average original LTV for Farmer Mac I loans was 55%);
- require each borrower to demonstrate sufficient cash-flow to provide adequate debt service on the loan; and
- protect the integrity of the appraisal process with respect to any loan.

Farmer Mac is required to set aside in a segregated account a portion of the fees it receives from its guarantee activities. This segregated account must be exhausted before Farmer Mac may issue debt obligations to the U.S. Treasury against the $1.5 billion that it is statutorily authorized to borrow in order to fulfill its guarantee obligations. That borrowing authority is not intended to be a routine funding source and has never been used.

Maintenance of Regulatory Capital Levels

The Farm Credit Act established capital requirements for Farmer Mac. Farmer Mac must comply with the higher of the minimum capital and the risk-based capital requirement. Over the past two years, Farmer Mac substantially improved its capital position to support the additional business demands in the agricultural production and rural utilities sectors. The chart below illustrates the growth in the level of excess capital, from $13.5 million at year end 2008 to $159.6 million at year end 2010.

Figure 2



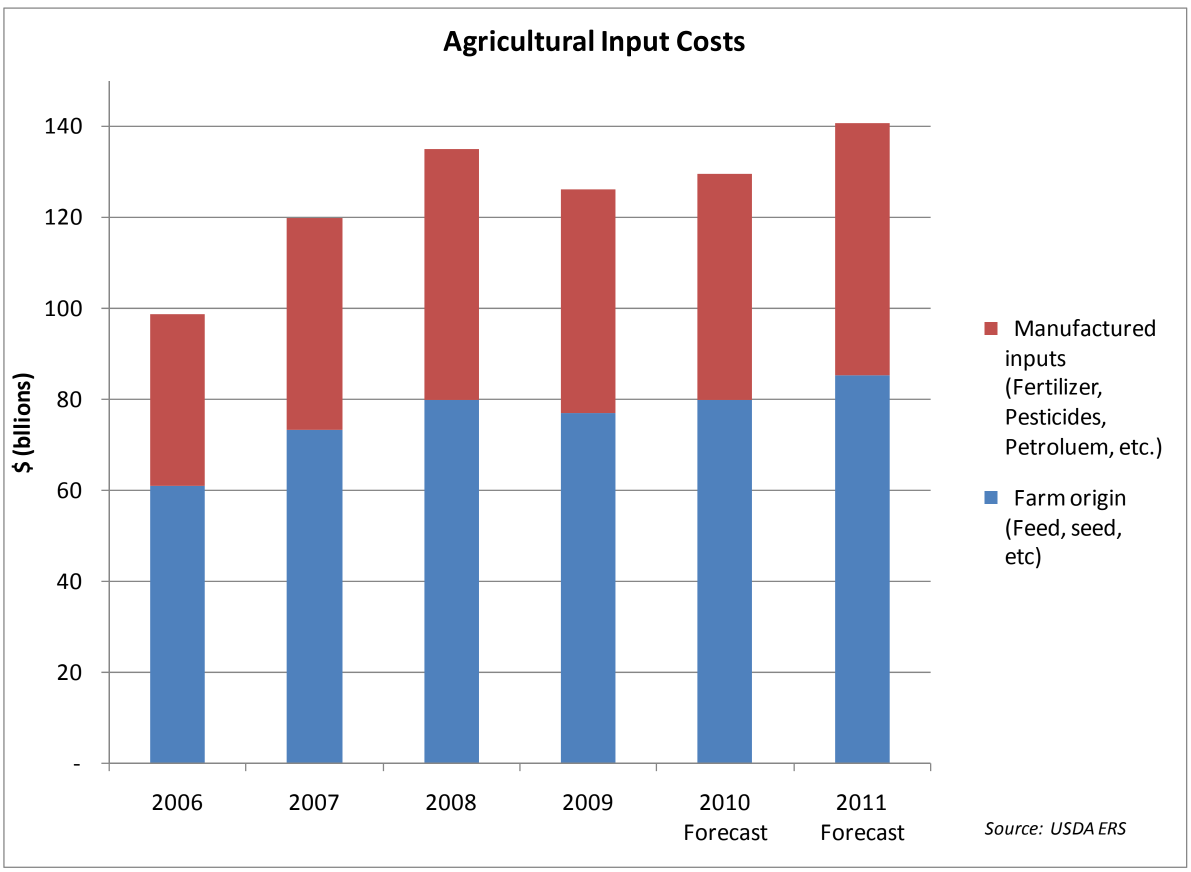
The Farm Credit Act directs the Farm Credit Administration to classify Farmer Mac within one of four enforcement levels for purposes of determining compliance with capital standards. Farmer Mac is currently classified as within level I—the highest compliance level.

Current Credit Conditions

The current economic environment is a generally stable one for the agricultural sector as a whole. The grains sector, for example, has seen commodity prices approach all-time highs, which has resulted in strong cash flows for these producers. Commodities such as timber and nursery/greenhouses have experienced some challenges tied to the general economy and most notably the dairy and meat complex have seen volatile prices for their commodities and cash flow challenges as a result of higher feed costs.

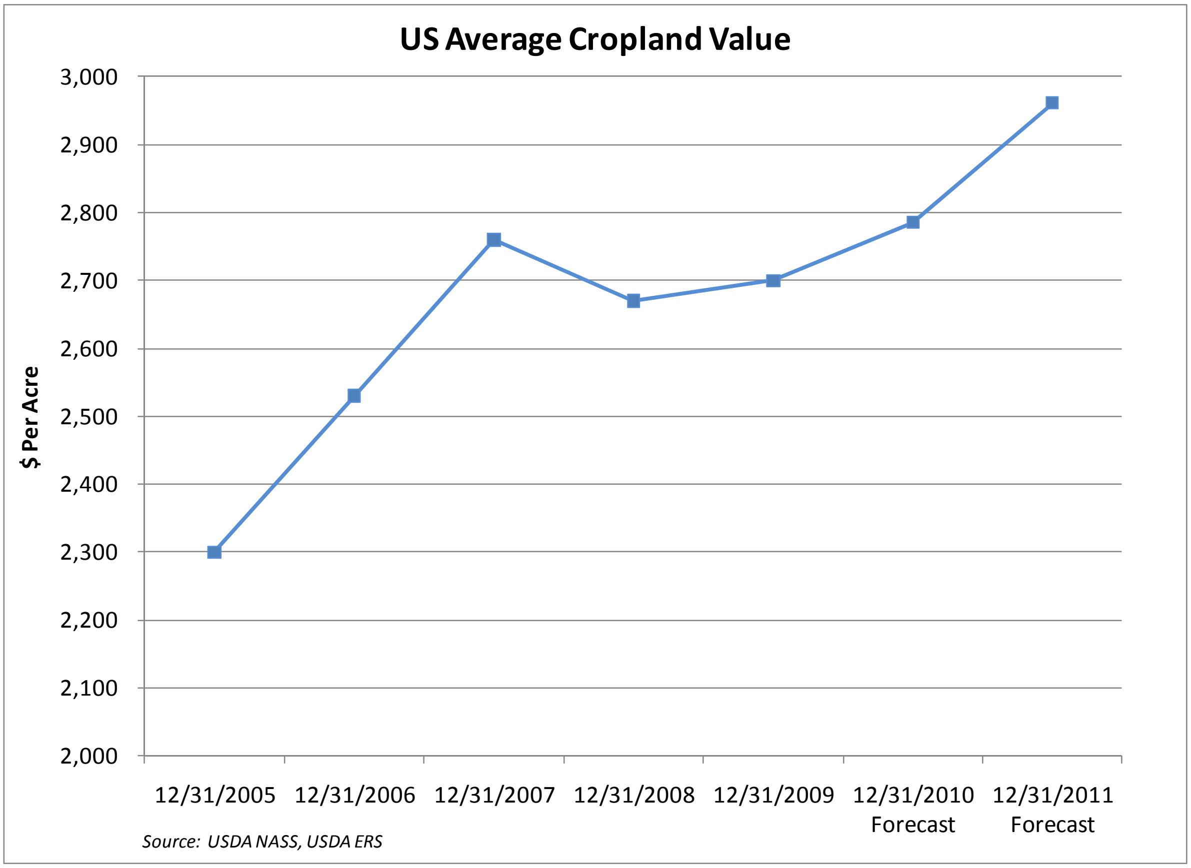
All agricultural producers are facing substantial increases in the prices for farm inputs, as illustrated in the chart below. These increases will add risk to the cash flow for operations and may result in additional credit needs for operating lines. Manufactured inputs costs (such as petroleum and fertilizer) are forecast to increase by almost 11% in 2011, while farm origin input costs (such as feed) are forecast by about 6%. These cost increases for agricultural producers are significantly higher than overall inflation in the economy, as consensus forecasts for CPI inflation during 2011 are currently around 2.7%.

Figure 3



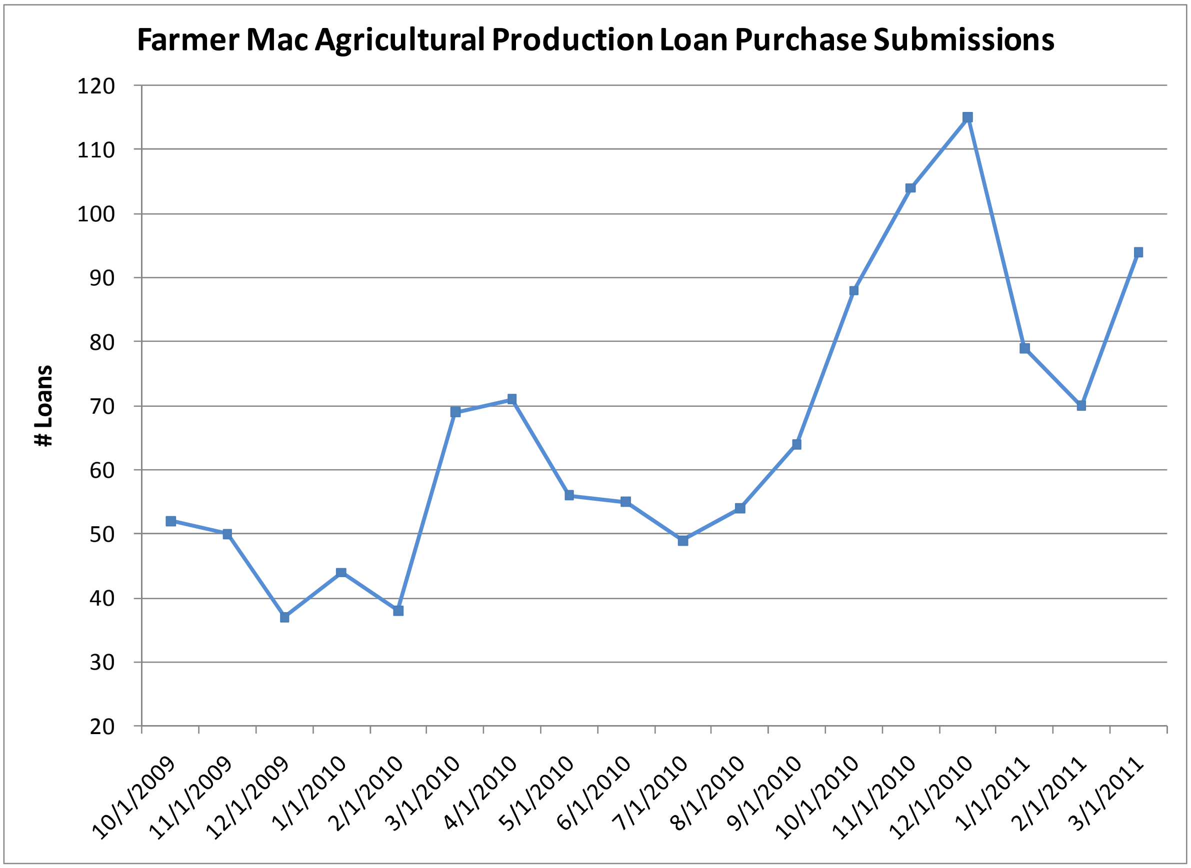
Farmland has also experienced substantial increases in price over recent years. The chart below shows the average value per acre for U.S. cropland, which has been remarkably resilient despite the impacts of the recent recession. This is largely due to generally favorable fundamental economic factors such as increasing demand for agricultural products, strong prices for agricultural commodities, low leverage in the agricultural sector, and low interest rates.

Figure 4



The combination of the above mentioned factors combined with many financial institutions desiring to improve their balance sheets has resulted in an increase in demand for Farmer Mac products. Lenders continue to seek to offer their customers long-term interest rates at historically low levels, fund larger real estate loans, and manage borrower exposure levels. Farmer Mac has seen its outstanding loans and guarantees expand, and the numbers of new financial institutions, most of which are small rural lenders, applying to become approved Farmer Mac participants grew by 217 from 2008 to 2010. This has resulted in significant growth in our cash window products as new loan submissions have increased substantially over the past two years. Net volume of loans, guarantees and commitments grew in excess of 14% in 2010. The chart below shows producer-level loan submissions to Farmer Mac, and does not include portfolios securing Farmer Mac advances to lenders or portfolios credit enhancements to lenders.

Figure 5



Mirroring the agricultural economy as a whole, Farmer Mac's portfolio of loans and guarantees has generally performed well in recent years. As of December 31, 2010, Farmer Mac's 90 day delinquencies stood at $70.2 million, all of which were in the Farmer Mac I program. These delinquencies represent 1.63% of outstanding Farmer Mac I loans, or 0.57% of Farmer Mac's total amount of outstanding loans and guarantees. Farmer Mac believes that delinquency rates will remain at manageable levels over the foreseeable future.

Commodity/Geographic Diversity

It is Farmer Mac's policy to diversify its portfolio of loans held and loans underlying Farmer Mac I products, both geographically and by agricultural commodity/product. Farmer Mac directs its marketing efforts toward agricultural lenders throughout the nation to achieve commodity/product and geographic diversification in its exposure to credit risk. Farmer Mac evaluates its credit exposure in particular geographic regions and commodities/products, adjusted for the credit quality of the loans in those particular geographic regions or commodity/product groups relative to the total principal amount of all outstanding loans held and loans underlying Farmer Mac I products.

Figure 6

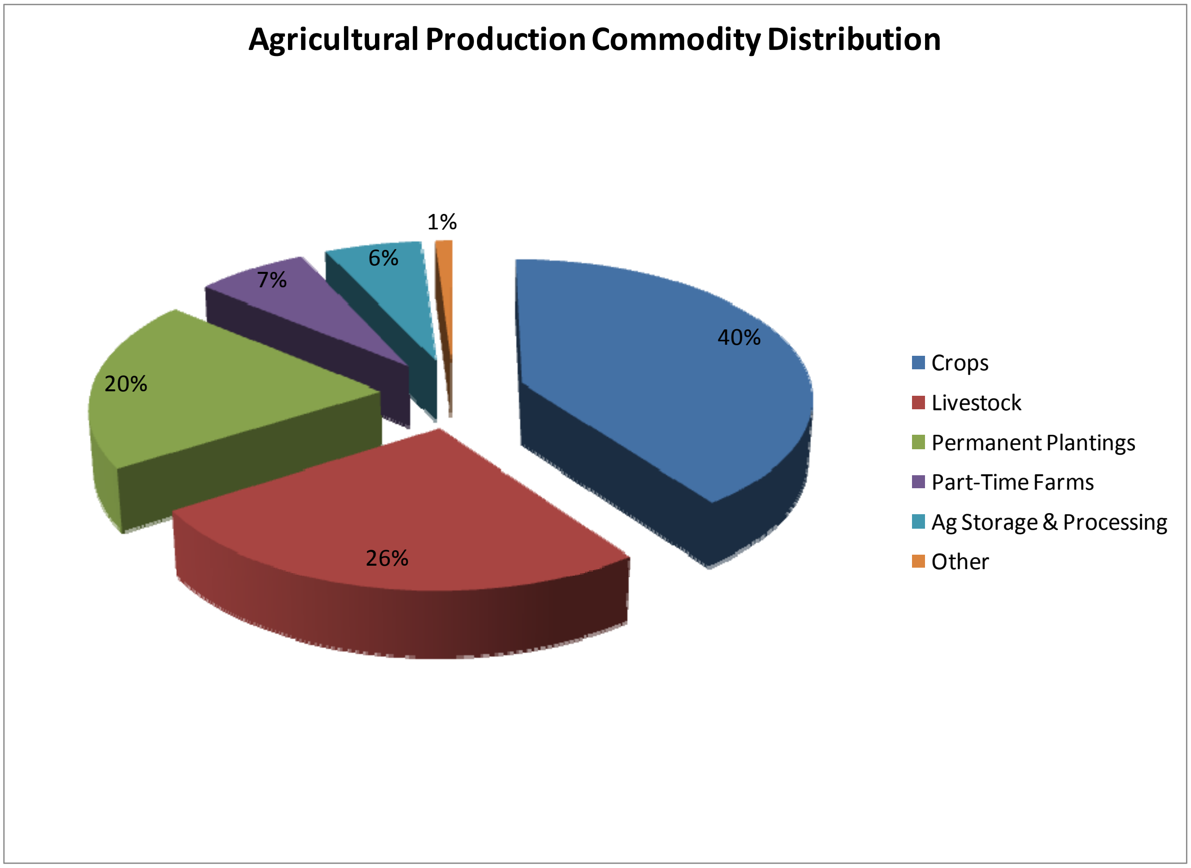
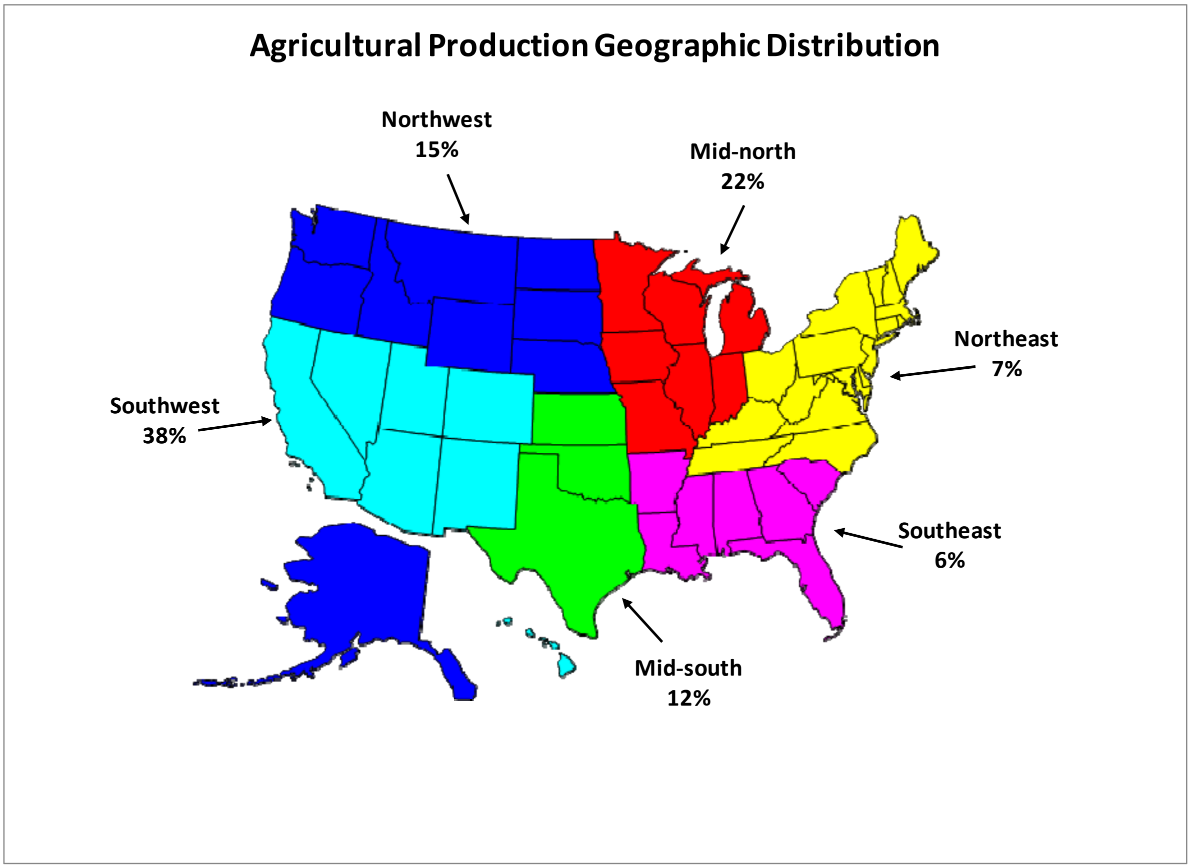


Figure 7



Conclusion

In summary, agriculture lending has slowed but is stable. Volatile commodity prices, high input costs and a slow general economy will continue to impact the borrowing needs of producers. As a result of that and the pressure on the lending industry to strengthen their financial position, we have seen solid growth at Farmer Mac. Since late 2008, our focus has been on assuring the strength of our business, mitigating the risk on our balance sheet and enhancing our capital position so that we may further serve Rural America. We have made significant progress. That progress has resulted in a renewed interest in products that help rural lenders meet the needs of America's farmers, ranchers and rural communities. As community banks, rural utilities lenders, Farm Credit Institutions and other rural lenders work to meet the demands of their customers, this healthy financial position and mission focus positions us to support Rural America in an even bigger way in the future.

We thank you for the opportunity to present Farmer Mac to you today. We look forward to working with Members of Congress and our partners to do even more to fulfill our mission of bringing liquidity and the benefits of the secondary market to Rural America.

Mike Gerber Biography

Michael A. Gerber has served as President and Chief Executive Officer of the Federal Agricultural Mortgage Corporation (Farmer Mac) since March 1, 2009, having served as Acting President and CEO since October 1, 2008. Mr. Gerber was a member of the Board of Directors of Farmer Mac from June 7, 2007 until June 4, 2009.

Prior to coming to Farmer Mac, Mr. Gerber was President and CEO of Farm Credit of Western New York, ACA located in Batavia, New York, a position he had served in for the past 11 years. Mr. Gerber began his agricultural lending career as a loan officer in the Farm Credit System serving in various positions through the years.

Mike is a 1980 graduate of the Ohio State University with a Bachelor’s degree in Agriculture and has completed the Smeal School of Business Administration Program for Executive Development as well as a number of other leadership training programs.

Mr. Gerber has served on a number of agriculture related boards including LEAD NY, and the Genesee County Economic Development Corporation. He also has served on numerous agriculture advisory councils and has been a guest lecturer in agricultural economics at a number of institutions.