Testimony of

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President and Chief Executive Officer

Federal Agricultural Mortgage Corporation (Farmer Mac)

Washington, D.C.

before the

Subcommittee on Livestock, Rural Development, and Credit
House Committee on Agriculture

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Introduction

Chairman Crawford, Ranking Member Costa, and distinguished Members of the Subcommittee, thank you for your invitation to appear today to testify on behalf of the Federal Agricultural Mortgage Corporation, which is commonly known as Farmer Mac. My name is Tim Buzby, and I am the President and Chief Executive Officer of Farmer Mac. I appreciate the opportunity to appear before your Subcommittee today to provide you with some insight into what we at Farmer Mac see taking place in the rural credit financing markets.

Farmer Mac is a stockholder-owned, federally chartered corporation that combines private capital and public sponsorship to serve a public purpose. The company was established under federal legislation first enacted in 1988 and amended most recently in 2008. Congress has charged Farmer Mac with the mission of providing a secondary market for a variety of loans made to borrowers in Rural America, including mortgage loans secured by agricultural real estate, rural utility loans, and certain loans guaranteed by the U.S. Department of Agriculture (USDA). This secondary market increases the availability of long-term credit at stable interest rates to America's rural communities, including farmers, ranchers, other rural residents and businesses, and rural utility cooperatives, and provides those borrowers with the benefits of capital markets pricing and product innovation. In Farmer Mac's role as the secondary market for Rural America, we work closely with all types and sizes of rural lenders, including commercial and community banks, Farm Credit System institutions, insurance companies, credit unions, and lenders to rural electric cooperatives. We also deal directly with other financial counterparties as we serve as a bridge between the national capital markets and the rural credit markets by attracting new capital for financing rural borrowers. Farmer Mac's position at the intersection of Main Street, where the lending industry and borrower community come together in Rural America, and Wall Street allows us to provide a unique perspective about the environment for rural credit.

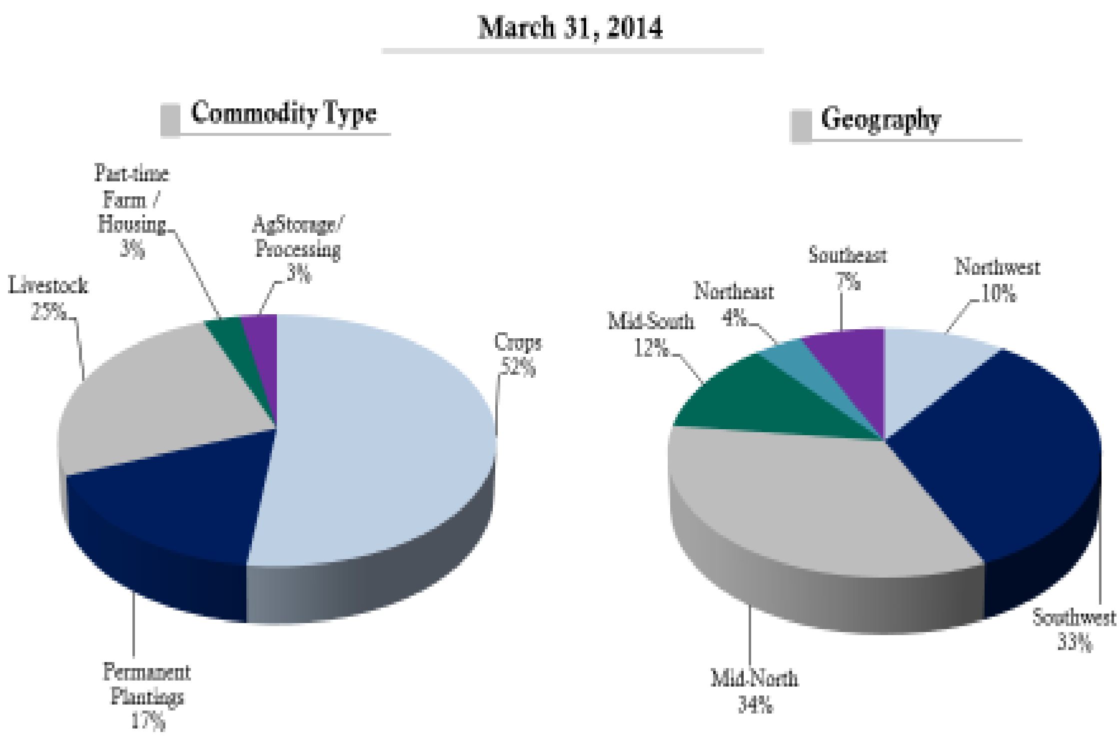
Farmer Mac exists to deliver capital and liquidity to Rural America and offers a variety of effective financing options and products tailored to the needs of its rural lender customers that increase the ability of those lenders to offer low-cost funding to their rural borrower customers. Although we work directly with rural lenders, ultimately the greatest benefit we are able to provide is to your constituents – America's farmers, ranchers, rural utility cooperatives, and business owners in rural communities. Farmer Mac's current book of business includes loans originated by approximately 900 different financial institutions across the nation. By working with such a vast network of rural lenders, we introduce more competition into the marketplace and ensure that your rural constituents are receiving the lowest interest rates and most favorable terms possible for their financing needs. In fact, the interest rates available to borrowers through the products offered by Farmer Mac are some of the most competitive in the market today. However, whether or not a rural borrower ultimately chooses a Farmer Mac loan product, Farmer Mac's participation in the rural lending arena provides that borrower with the opportunity to obtain a low interest rate on terms that work for that individual. That is good for rural borrowers, their families, their communities, and Rural America in general. Since its creation in 1988, Farmer Mac has helped to fund loans to over 60,000 borrowers in all 50 states, resulting in nearly $35 billion of investment in Rural America.

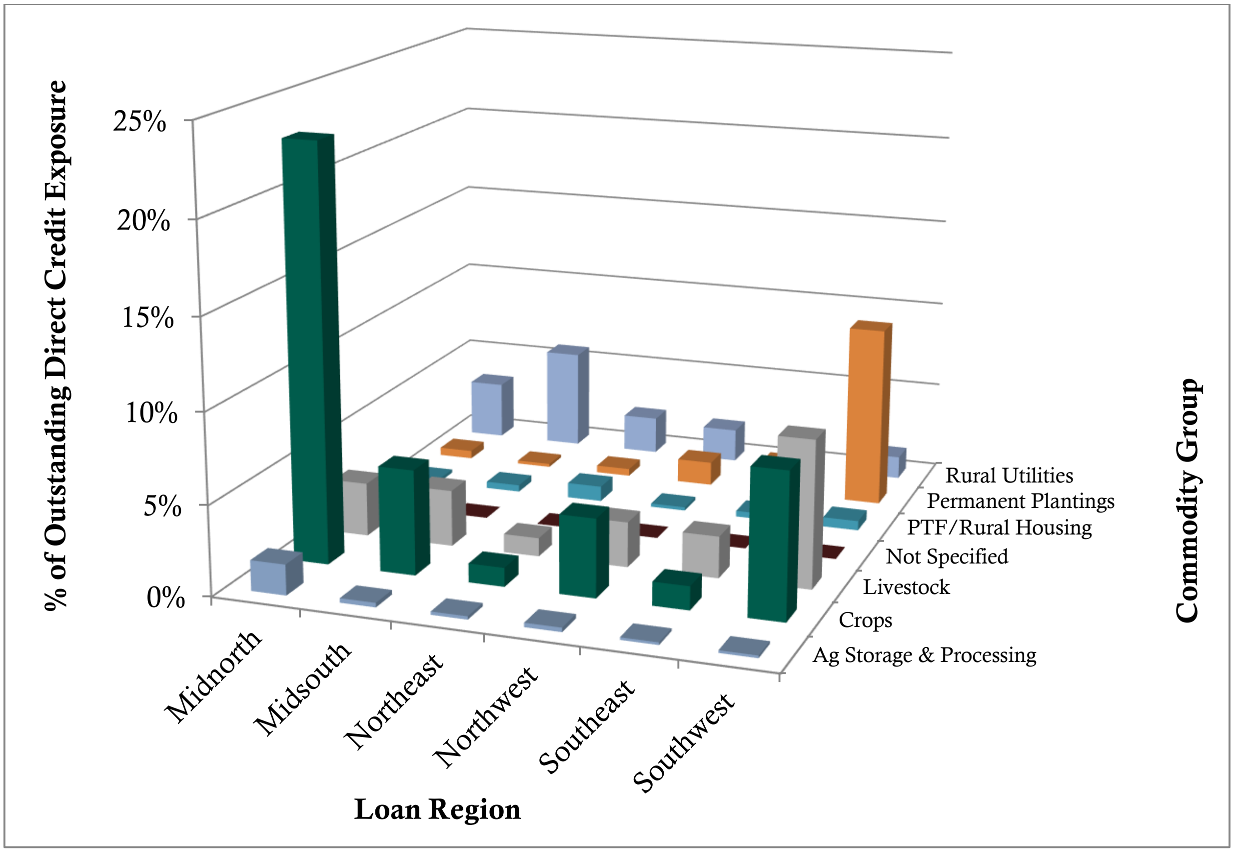
Current Conditions

The agricultural economy has been robust for several years, driven by increased demand for food both in the United States and around the world as well as efficiencies in farming production, among other factors. This has not gone unnoticed in the capital markets, as investors have looked to Farmer Mac as a vehicle to invest in Rural America. These investors are attracted to the fact that today's agricultural producers are more efficient and productive than ever, more sophisticated in their financing arrangements, and are providing the marketplace with quality commodities at competitive prices. One indication of this interest in investing in Rural America is the regular demand for Farmer Mac's debt and equity securities. As an example, Farmer Mac has seen great demand in its auction of over $250 million of term debt over the past three months. These debt offerings have attracted competitive bids from multiple financial institutions, driving Farmer Mac's cost of funds down by an average of 10 basis points per offering. Lower cost funding for Farmer Mac directly benefits farmers, ranchers, and rural utility cooperatives in the form of lower interest rates on products financed by Farmer Mac.

The credit quality of Farmer Mac's portfolio remains a great story. We are extremely proud of our credit quality, and it will continue to be the cornerstone of our success in the future. As of March 31, 2014, Farmer Mac's overall 90-day delinquency rate on the loans in its $14.1 billion portfolio was near historical lows at only 0.21%. Through the end of first quarter 2014, Farmer Mac has never experienced any credit losses in its Rural Utilities, USDA Guarantees, and Institutional Credit lines of business and has experienced cumulative losses of only $31 million in its Farm & Ranch line of business during Farmer Mac's entire 26-year history on $19.2 billion of cumulative originations (0.16%). Although Farmer Mac's talented underwriting staff can take much of the credit for the credit quality in Farmer Mac's portfolio, growing conditions, commodity prices, and agriculture exports from across the nation have been very good over the past ten years and have contributed to growth in U.S. agriculture production and, consequently, borrower repayment capacity. Nonetheless, Farmer Mac understands that agriculture is cyclical, with many diverse industries that respond in different ways to changes in economic conditions. Those individual industries often are affected differently, sometimes positively and sometimes negatively, by prevailing domestic and global economic factors and regional weather conditions. This results in cycles where one or more industries may be under stress at the same time that others are not.

Our policy at Farmer Mac is to diversify our Farm & Ranch portfolio both geographically and by agricultural commodity. We direct our marketing efforts toward agricultural lenders throughout the nation to achieve commodity and geographic diversification in our exposure to credit risk. Farmer Mac's Farm & Ranch portfolio remains diverse both geographically and by agricultural commodity, as illustrated in the two charts below that are current as of March 31, 2014. We take pride in the diversified nature of our loan portfolio that ranges from almond groves in California to wheat, corn, and soybean crops in the Midwest and from cattle ranches in the Southwest to electrical distribution cooperatives in the Southeast. We have found over the years that this diversification serves us well as the inevitable cycles of weather and commodity prices impact profits in agricultural industries or geographies because as certain portfolio segments are stressed, others can benefit. Farmer Mac's overall portfolio also benefits from the diversification added by its lines of business other than Farm & Ranch, including USDA Guarantees, Rural Utilities, and Institutional Credit. We continue to closely monitor sector profitability, economic conditions, and agricultural land value and geographic trends to tailor underwriting practices to changing conditions as part of our robust underwriting process.





Although farm incomes are projected to decrease in 2014 compared to 2013 primarily because of lower cash grain prices, farm incomes are still very high from a historical perspective and above the 10-year average. In Farmer Mac's experience, farmers and ranchers generally have stronger balance sheets compared to several years ago, with high working capital and low leverage. There is great competition in the agricultural lending space, particularly for the most successful producers who have become more sophisticated in their borrowing and take advantage of lender competition to obtain low rates and favorable terms. More and more, these borrowers are choosing mortgage loan products with long-term fixed rates to lock in low and known interest costs. Another trend that Farmer Mac has observed is that the primary use of funds for many new loans is to refinance existing debt rather than to purchase new real estate.

Agricultural land values have increased over the past several years, but recent market activity suggests that land values may have moderated, most notably in those areas that have experienced the greatest increase, such as the Midwestern region. While the increase in land values has varied by geographic region, it appears to have been spurred by a combination of factors, including strong demand for agricultural products and resulting high commodity prices, particularly for corn, soybeans, and wheat, as well as good yields, low interest rates, and landowners choosing to reinvest their profits in the acquisition of more land. Lower commodity prices and increases in interest rates could put downward pressure on the values of farmland, although Farmer Mac does not expect a repeat of the 1980s when agricultural land values collapsed. Some of the reasons for this belief are that debt loads are lighter today, the interest rate environment is much more transparent than in the 1970s and 1980s, world markets are more transparent and interconnected today, and the current run-up in land values is lower and more gradual than the increase in land values in the 1970s. We see what others in the rural lending industry have observed – that farmers and ranchers simply are not taking on as much debt as they have in the past. The general increase in land values has resulted in less acreage encumbered as collateral, as much of the financing being done today is with cash or a mix of cash, free and clear collateral, and debt. It appears that farmers and ranchers have learned from the mistakes of the past and are not buying land at inflated prices with debt, and lenders are also more disciplined than in the 1980s.

Farmer Mac has been diligent in monitoring land values and has instituted measures to ensure that its Farm & Ranch portfolio remains sound. For example, last year we adopted stricter loan-to-value ratio (LTV) requirements for loans located in the Corn Belt in the Midwestern states where land prices have seen the highest escalation in recent years. Even before this change, the LTVs of loans in Farmer Mac's Farm & Ranch portfolio have historically been very low. The weighted average original LTV (based on original appraised value that has not been indexed to provide a current market value or reflect amortization of loans) for the loans in Farmer Mac's Farm & Ranch portfolio was approximately 48% as of March 31, 2014. The weighted average current LTV (based on original appraised value but which reflects loan amortization since purchase) for Farmer Mac's Farm & Ranch loans was approximately 41% as of March 31, 2014. The average LTV of Farmer Mac's Farm & Ranch loans decreases even more if the values in the original appraisals are indexed to current land values.

Like others with a strong interest in agriculture, Farmer Mac continuously monitors significant weather events throughout the country and has been paying close attention to the current drought conditions in the western part of the United States, including California. The water level in many California reservoirs is only half of their average year-to-date water storage levels, and the snowpack in the higher elevations whose runoff would typically replenish low reservoir levels is at a third or less than normal levels. Though many farm irrigation districts will receive little or no water from the governing water authorities, the impact on individual farmers will vary due to alternative water sources the farmer may have in place. Farmer Mac has not observed any material effect on its portfolio due to these drought conditions as of March 31, 2014, but any continuation of extreme or exceptional drought conditions beyond the 2014 water year could have adverse future effects. This is particularly true in the permanent plantings sector, where the value of the related collateral is closely tied to the production value and capability of the permanent plantings, and in the dairy sector, which may experience increased feed costs as water is diverted away from hay acreage commonly relied upon by dairy producers and toward land supporting other agricultural commodities.

In addition to Farmer Mac's secondary market activities in its Farm & Ranch line of business that involves mortgage loans secured by first liens on agricultural real estate, Farmer

Mac has also been an active participant in the secondary market for loans guaranteed by the USDA under the Consolidated Farm and Rural Development Act (the Con Act) since 1991 after Congress granted that authority to Farmer Mac. In that time, Farmer Mac has provided lenders and their customers with liquidity and competitive rates, including longer-term fixed rates, on loans guaranteed by the USDA under the Con Act that are eligible for Farmer Mac to purchase.

With regard to Farmer Mac's Rural Utilities line of business, the demands of that industry for capital and financing have historically tended to be linked to the state of the general economy and applicable environmental regulations. Continued weakness in the general economy in the United States has reduced the demand for rural electric power and, consequently, the need for rural utilities cooperatives to expand in recent years. This lower demand within the industry has increased competition for Farmer Mac's customer base from other lenders. Domestic economic indicators continue to show modest growth, and Farmer Mac and industry sources expect that demand for rural utilities loans will increase as the economy eventually strengthens. Farmer Mac believes that the rural utilities industry will have significant needs for financing over the course of the next decade, as capital will be needed for growth and modernization, including generation and transmission (G&T) and distribution system improvements and demand-side management. In addition, the industry will also require capital to comply with any future public policy initiatives such as environmental regulations and clean energy initiatives. Farmer Mac stands ready to work with the lenders to help meet the needs of their rural electric cooperative borrowers. Since the inception of the Rural Utilities line of business in 2008, Farmer Mac's secondary market activities have helped nearly 170 rural electric cooperatives throughout the United States obtain financing to serve approximately 4.6 million customers in rural areas.

Conclusion

Farmer Mac continues to provide a stable source of liquidity, capital, and risk management tools to help rural lenders meet the financing needs of their customers. With a diverse array of lending products and capital sources, Farmer Mac is well positioned to provide Rural America with the sophisticated and low cost lending products demanded by today's rural borrowers. Last year marked Farmer Mac's 25th anniversary of serving Rural America, and we at Farmer Mac are more energized than ever to continue to deliver the benefits envisioned by Congress at Farmer Mac's creation – greater access to affordable credit and a wide variety of loan products for rural communities. As I reflect on my nearly 14-year tenure at Farmer Mac, I am proud to say that the addition of Farmer Mac to the rural financing arena has fulfilled Congress's vision. Farmer Mac is a valuable and much relied upon asset for Rural America, as lenders seek to offer their customers long-term interest rates at low levels, fund larger real estate loans, and manage borrower exposure levels. We are proud to partner with America's agricultural bankers, Farm Credit System institutions, and rural electric cooperatives to serve rural communities, and we remain steadfast in our commitment to meet their needs. Farmer Mac is committed to fulfilling its mission of delivering capital and increasing lender competition for the benefit of rural communities throughout the nation. Rest assured that we are prepared to build on our recent positive results and will continue to innovate, collaborate, and provide unparalleled service with a renewed focus on the stewardship of our public mission as we help build a strong and vital Rural America.

Thank you for the opportunity you have generously provided Farmer Mac to give testimony on current credit conditions in Rural America. We look forward to working with Members of Congress and our business partners to do even more to fulfill our mission. I would be happy to answer any questions you may have.

Background Information About Farmer Mac

Farmer Mac currently employs just over 70 people who are located primarily at offices in Washington, D.C. and in Johnston, Iowa. 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 by purchasing obligations secured by those loans;
- securitizing assets and guaranteeing the payment of principal and interest on the resulting securities that represent interests in, or obligations secured by, pools of eligible loans; and
- issuing long-term standby purchase commitments ("standby commitments") for eligible loans.

Farmer Mac's activities are intended to provide lenders with an efficient and competitive secondary market that enhances these lenders' ability to offer competitively-priced financing to rural borrowers. This secondary market is designed to increase the availability of long-term credit at stable interest rates to America's rural communities and to provide rural borrowers with the benefits of capital markets pricing and product innovation. Farmer Mac's activities are subject to oversight by Congress as well as a dedicated safety and soundness federal regulator (the Office of Secondary Market Oversight within the Farm Credit Administration) and the U.S. Securities and Exchange Commission.

Farmer Mac's purchases of both eligible loans and obligations secured by eligible loans, as well as Farmer Mac's guaranteed securities sold to third party investors, increase lenders' liquidity and lending capacity and provide a continuous source of funding for lenders that extend credit to borrowers in Rural America. Farmer Mac's standby commitments for eligible loans held by lenders, as well as Farmer Mac's guaranteed securities retained by lenders in exchange for the related securitized loans, result in lower regulatory capital requirements for the lenders and reduced borrower or commodity concentration exposure for some lenders, thereby expanding their lending capacity. By increasing the efficiency and competitiveness of rural finance, the secondary market provided by Farmer Mac has the potential to lower the interest rates paid on loans by rural borrowers.

Farmer Mac conducts its secondary market activities through four lines of business – Farm & Ranch, USDA Guarantees, Rural Utilities, and Institutional Credit. The loans eligible for the secondary market provided by Farmer Mac include:

- mortgage loans secured by first liens on agricultural real estate, including part-time farms and rural housing (encompassing the Farm & Ranch line of business);
- agricultural and rural development loans guaranteed by the United States Department of Agriculture (USDA) (encompassing the USDA Guarantees line of business); and
- loans made by cooperative lenders to finance electrification and telecommunications systems in rural areas (encompassing the Rural Utilities line of business).

Farmer Mac also purchases and guarantees general obligations of rural lenders that are secured by pools of the types of eligible loans described above (encompassing the Institutional Credit line of business). As of March 31, 2014, the total outstanding amount of the eligible loans included in all of Farmer Mac's lines of business was $14.1 billion.

Under the Farm & Ranch line of business, Farmer Mac purchases or commits to purchase eligible mortgage loans secured by first liens on agricultural real estate and rural housing. Farmer Mac also guarantees securities representing interests in pools of mortgage loans eligible for the Farm & Ranch line of business. Loans must meet credit underwriting, collateral valuation, documentation and other standards specified by Farmer Mac. As of March 31, 2014, the average unpaid loan balance for loans outstanding in the Farm & Ranch line of business was $449,000, and the majority of loans were to small farms (less than $350,000 in gross farm income) and family farmers (majority owned and operated by a family). At the end of 2013, Farmer Mac had 669 approved lenders eligible to participate in Farmer Mac's Farm & Ranch line of business. In addition to participating directly in the Farm & Ranch line of business, some of the approved lenders facilitate indirect participation by other lenders by managing correspondent networks of lenders from which the approved lenders purchase loans to sell to Farmer Mac.

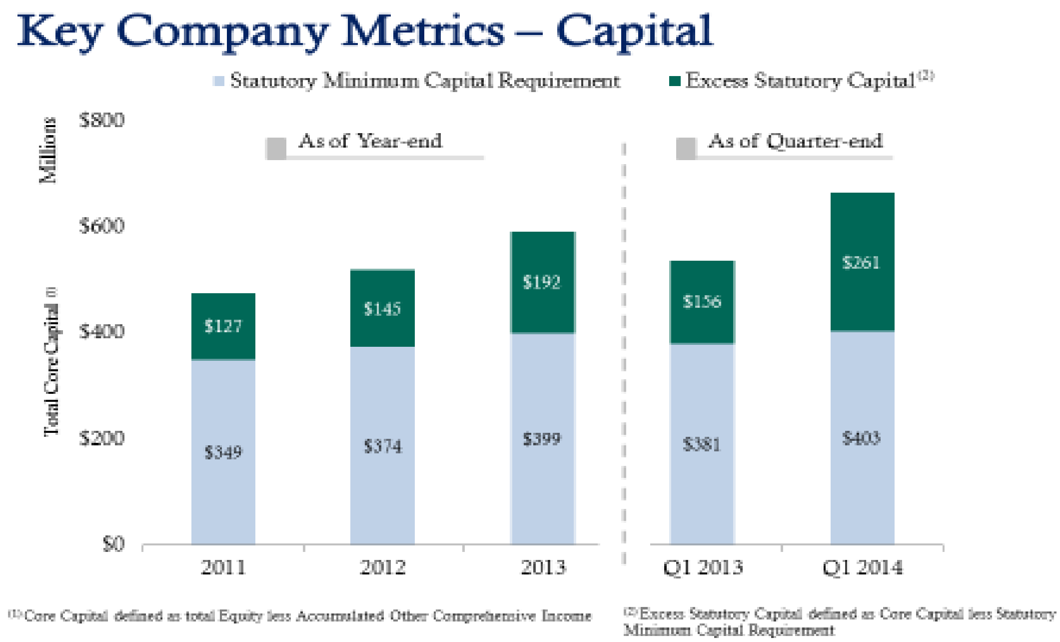
Under the USDA Guarantees line of business, Farmer Mac's wholly-owned subsidiary purchases the portions of certain agricultural, rural development, business and industry, and community facilities loans guaranteed by the USDA under the Consolidated Farm and Rural Development Act (Con Act). Any lender authorized by the USDA to obtain a USDA guarantee on a loan under the Con Act may participate in Farmer Mac's USDA Guarantees line of business. During 2013, 195 lenders, consisting mostly of community and regional banks, sold USDA-guaranteed portions of loans to Farmer Mac. As of March 31, 2014, the aggregate outstanding principal balance of assets in the USDA Guarantees line of business was $1.7 billion.

Farmer Mac initiated the Rural Utilities line of business after Congress expanded Farmer Mac's authorized secondary market activities to include rural utility loans in the Farm Bill of 2008. Farmer Mac's authorized activities under this line of business are similar to those conducted under the Farm & Ranch line of business – purchases of, and guarantees of securities backed by, eligible rural utilities loans for the financing of electrification and telecommunications systems in rural areas. To be eligible, loans must meet Farmer Mac's credit underwriting and other specified standards. As of March 31, 2014, the aggregate outstanding principal balance of rural utilities loans held by Farmer Mac was $1.0 billion.

Under the Institutional Credit line of business, Farmer Mac purchases or guarantees general obligations of rural lenders that are secured by pools of loans that would be eligible for purchase under one of Farmer Mac's other lines of business. Farmer Mac refers to these obligations as AgVantage® securities. Farmer Mac guarantees AgVantage securities as to the timely payment of principal and interest and may retain AgVantage securities in its portfolio or sell them to third parties in the capital markets. Farmer Mac's purchase and guarantee of AgVantage securities provide a continuous source of funding for lenders that extend credit to borrowers in Rural America. As of March 31, 2014, outstanding securities held or guaranteed by Farmer Mac in its Institutional Credit line of business totaled $6.1 billion.

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 resulting 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's charter establishes three capital standards for Farmer Mac – minimum capital, critical capital, and risk-based capital. Farmer Mac is required to comply with the higher of the minimum capital requirement and the risk-based capital requirement. Also, in accordance with a recently effective FCA regulation on capital planning, Farmer Mac's board of directors has adopted a policy for maintaining a sufficient level of Tier 1 capital and imposing restrictions on dividends and bonus payments in the event that Farmer Mac's Tier 1 capital falls below specified thresholds. As illustrated in the chart below that is current as of March 31, 2014, Farmer Mac has continually improved its capital position over the past several years through a combination of retained earnings and equity offerings. Farmer Mac also just completed a $75 million preferred stock offering last week to further enhance its capital position.



Additional information about Farmer Mac is available on Farmer Mac's website at www.farmermac.com.

Tim Buzby's Biography

Timothy L. Buzby has served as the President and Chief Executive Officer of the Federal Agricultural Mortgage Corporation (Farmer Mac) since October 2012. Prior to his appointment as President and Chief Executive Officer, Mr. Buzby served as Farmer Mac's Chief Financial Officer and Treasurer beginning in April 2009. Prior to April 2009, Mr. Buzby served as Farmer Mac's Controller for more than eight years.

Prior to joining Farmer Mac, Mr. Buzby served as the Chief Financial Officer for two residential mortgage lenders from July 1997 to October 2000 when he became Farmer Mac's Controller. Prior to July 1997, Mr. Buzby was a Manager on the Mortgage Consulting Staff of KPMG Peat Marwick, LLP. Mr. Buzby has been a certified public accountant since 1992 and graduated from James Madison University with a B.B.A. degree in 1991.

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, 2010.

Name: Timothy L. Buzby

Organization you represent (if any): Federal Agricultural Mortgage Corporation

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1. Please list any federal grants or contracts (including subgrants and subcontracts) <u>you</u> have received since October 1, 2010, as well as the source and the amount of each grant or contract. House Rules do <u>NOT</u> 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) <u>the organization</u> has received since October 1, 2010, 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: ____

* Rule XI, clause 2(g)(5) 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.