S. HRG. 111–74

# HEARING ON FARM CREDIT

## CONGRESSIONAL OVERSIGHT PANEL

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

HEARING HELD IN GREELEY, CO, JUNE 7, 2009

Printed for the use of the Congressional Oversight Panel

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GREELEY, CO: HEARING ON FARM CREDIT

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CONGRESSIONAL OVERSIGHT PANEL

PANEL MEMBERS

ELIZABETH WARREN, *Chair*

SENATOR JOHN SUNUNU

REPRESENTATIVE JEB HENSARLING

RICHARD H. NEIMAN

DAMON SILVERS

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# HEARING ON FARM CREDIT

**TUESDAY, JULY 7, 2009**

U.S. CONGRESS,
CONGRESSIONAL OVERSIGHT PANEL,
*Greeley, Colorado.*

The Panel met, pursuant to notice, at 10:03 a.m. in the County Commissioners Hearing Room, Weld County Centennial Center, 915 10th Avenue, Hon. Elizabeth Warren, Chair of the panel, presiding.

Present: Professor Elizabeth Warren, Mr. Damon Silvers, and Mr. Richard Neiman.

Ms. WARREN. The hearing of the Congressional Oversight Panel is called to order.

Before we begin, I would like to note we have audio devices available in the corner to my left for those who need them.

Welcome to today's hearing before the Congressional Oversight Panel. I would like to thank the Weld County Commissioners for the use of their hearing room today. We appreciate it.

Before we begin today, the regional representative from Senator Mark Udall's office, Pamela Shaddock, is here and she would like to make a few remarks on the Senator's behalf. Ms. Shaddock, if you could please.

### STATEMENT OF PAMELA SHADDOCK, REGIONAL REPRESENTATIVE FOR SENATOR UDALL

Ms. SHADDOCK. Thank you, Chairwoman Warren.

My name is Pamela Shaddock, and I am a regional representative for Senator Mark Udall. Senator Udall could not be here today. There are a number of important votes going on in Washington, D.C., but he did want me to read a statement on his behalf.

Chairwoman Warren, as Colorado's senior Senator, I welcome you and the Congressional Oversight Panel to Greeley. I am pleased that you will hear today from Colorado's agricultural and banking communities regarding farm credit, an issue of critical importance in northeastern Colorado.

I look forward to reviewing the Panel's report that will result from this hearing and hope that it can offer recommendations that will help make Colorado's agricultural industry emerge from our current economic challenges.

Since being sworn in as a Senator six months ago, I have taken many actions to try to help the people of northeastern Colorado who have been hit hard by the agricultural and credit crisis. These actions are outlined in the written testimony I am submitting with the Panel today.

And Chairwoman Warren, if I may approach, I would hand to Mr. Neiman a set of copies of his testimony for your records.

[The prepared statement of Senator Udall follows:]

Statement of Senator Mark Udall

United States Senate

Congressional Oversight Panel

Hearing on Farm Credit and TARP Recipients

Greeley, Colorado

July 7, 2009

Good Morning. Chairwoman Warren, I welcome you and the Congressional Oversight Panel to Colorado and appreciate the time you have taken to listen to the concerns of Coloradans and others about access to farm credit. I think we can all agree that this is an issue of critical importance here in this community, and I look forward to reviewing the report from this meeting.

In May of this year, Congress overwhelmingly supported bipartisan legislation directing the Congressional Oversight Panel to analyze, examine and recommend different methods of farm loan restructuring that could be used as part of a foreclosure mitigation program for farm loans by Temporary Asset Relief Program recipients.

Farm credit is an important aspect of agricultural life here in Northeast Colorado. Colorado's farmers, who work more than 31 million acres of farmland, have been directly affected by the challenges brought on by our struggling economy. Low commodity prices, poor market conditions, and tightening credit markets have taken their toll; and they have had significant impact here in Weld County, which ranks eighth in agriculture production nationally.

According to the U.S. Department of Agriculture's (USDA) Economic Research Service (ERS), national net farm income—a key indicator of U.S. farm well-being—was forecast to be $71.2 billion in 2009, down 20% from the previous year's record of $89.3 billion. For the dairy industry, a sudden drop-off in demand has driven down U.S. farm prices for milk while operating costs remain constant or increase. The all-milk price received by farmers during January-March 2009 was down 36% from the record quarterly average set a year earlier, and the USDA forecasts the 2009 average annual farm price to be down 18% from the 10-year average. As a result of these challenges and others, it is anticipated that USDA's farm support programs will face increased demand. In January, the Farm Service Agency, traditionally a lender of last resort for farmers who cannot find loans in the commercial credit market, experienced an increase in demand of about 200 percent for the agency's direct farm operating loans as compared to the same time last year. Earlier this year, Agriculture Secretary Vilsack authorized payments through the Milk Income Loss Contract and implemented the Dairy Export Incentive Program which will provide some targeted assistance to the dairy industry.

These indicators demonstrate the growing challenges farmers face, but here in Northeast Colorado, these challenges have been exacerbated by the closure of New Frontier Bank of Greeley, which ranked 11th nationally in agricultural lending. This closure has had strong implications on access to credit locally and has had a rippling effect throughout this community.

Throughout Northeastern Colorado, farmers, ranchers and dairymen have been working hard to make ends meet. I heard many of their stories and concerns when I joined them here just a few months ago with Agriculture Secretary Vilsack, Senator Bennet and Congresswoman Markey, and again when we hosted a listening session with officials from the Federal Deposit Insurance Corporation and local banking industry a week later. Farmers are not only trying to keep their operations healthy, but they are also trying to pay healthcare costs for their families, keep their kids in school, and make sure they can meet the demands of daily life. It is critical that we find a way to help farmers through the credit crunch, and even more important, that we work to bolster the farm credit system so that our state's agriculture community can emerge more robust.

I have continued to work with the USDA and my Congressional colleagues to help strengthen the federal government's response. We have succeeded in fortifying the Farm Service Agency's loan programs with additional funding so that it can meet the increased demand. I have also worked to support the expansion of markets available to the U.S. dairy industry, which has been particularly hard-hit by the economy; and I have appealed to other agencies, such as the Small Business Administration, to help mitigate the reverberating affects of a tough economy for small businesses that depend on a robust agricultural industry to succeed. I continue to look at opportunities that might benefit Colorado's agricultural industry, and I hope that what you learn here today can help strengthen farm credit.

I hope this event proves productive and that the Panel learns more about the role of agricultural lending in Colorado. Again, I look forward to receiving the Panel's final report to Congress.

Ms. WARREN. Yes, of course.

Ms. SHADDOCK. Thank you.

Ms. WARREN. Thank you, Ms. Shaddock.

The Panel would also like to thank Senator Udall and Senator Bennet and Congresswoman Markey and their staffs for their help with the hearing today. I appreciate the work of our own Congressional Oversight Panel staff, but without the local people to help, this simply would not be possible. So we are grateful to them for helping us come here.

## OPENING STATEMENT OF ELIZABETH WARREN, CHAIR, CONGRESSIONAL OVERSIGHT PANEL

Last fall, Congress established this panel to oversee the expenditure of funds from the so-called Troubled Asset Relief Program, what we have come to know as TARP. It is our duty to issue monthly reports to analyze and evaluate the Treasury Department's execution of that program.

Recently our mission was expanded by Congress. We were charged with writing a special report analyzing the state of commercial farm credit markets and the use of loan restructuring as an alternative to foreclosure by recipients of financial assistance under TARP. In considering restructuring models, we are to look specifically at the restructuring programs of the Farm Service Agency at the U.S. Department of Agriculture, the Farm Credit System, and the Treasury's residential mortgage foreclosure mitigation program for banks. Not coincidentally, FSA, Farm Credit, and banks also make up the majority of the farm credit market.

Right now, agriculture appears to be doing well in many areas of the country. The farm credit markets also appear to be doing relatively well in many places. Unfortunately, there can sometimes be more to learn in the places where things are not going so well. As we all know, Greeley and Weld County are facing tough times, and that is why we are here today, to gain insight from your situation.

A local farm credit market can be stressed for any number of reasons, such as a lender leaving the market, natural disaster, or shock to the local economy. While we are not here to examine the specific causes that led to the stresses on Weld County farm credit markets, we do hope to learn from you about their impact.

Specifically, we hope to learn better how a major shock to the farm credit system affects credit availability and loan restructuring. When the system experiences significant stress, what does that mean for borrowers? What challenges do they face in obtaining the credit they need to run their farms? What does it mean for farmers who need their loans restructured?

Market shocks also have significant implications for lenders. How much flexibility do they have now to meet increased credit needs? How do they deal with increased needs for loan restructuring?

The plain truth is that, like many bad situations, there are many victims. Today's witnesses may not have caused the problems in Greeley, but they are left to deal with the aftermath. Today's discussion of how they manage in a credit crisis will provide a case study for our report.

For this hearing, we have invited key farm lenders, as well as borrowers, to testify about farm credit availability and farm loan restructuring. We invited these witnesses to get their perspectives on what is happening nationally, but especially what is happening in a locality that is facing pressure on both farm credit availability and farm loan restructuring. Their take on the local situation will help inform us about the national situation.

Our witnesses today include Michael Scuse, who is the Under Secretary for Farm and Foreign Agricultural Services, U.S. Department of Agriculture; Marc Arnusch, who is the owner of Marc Arnusch Farms; Mike Flesher, Executive Vice President of Farm Credit Services of the Mountain Plains; Les Hardesty, owner of Painted Prairie Farm and Chairman of the Dairy Farmers of America Mountain Area Council; and Lonnie Ochsner, Senior Vice President of New West Bank. I want to thank each one of you for being here.

I know that tensions are running high in the area, and we all sincerely value your willingness to step forward and to offer your perspective. I wish you were not facing these problems, but we appreciate your willingness to allow us to learn from you.

I understand that some of you may want to speak when this is finished. As has been the practice of the Congressional Oversight Panel in each of its field hearings, we will make time available after we have concluded our examination of the witnesses. So there will be a chance for people to make their own personal statements at the end of this proceeding. So we will make sure that there is at least some time for that. The statements will have to be brief, but we do want to hear from local citizens.

I will now yield my time to Damon Silvers who is the Deputy Chair of the Panel and the Associate General Counsel of the AFL–CIO. Mr. Silvers.

[The prepared statement of Ms. Warren follows:]

ELIZABETH WARREN, CHAIR
SEN. JOHN E. SUNUNU
REP. JEB HENSARLING
RICHARD H. NEIMAN
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**Congress of the United States**

CONGRESSIONAL OVERSIGHT PANEL

# Opening Statement of Elizabeth Warren

## Congressional Oversight Panel Field Hearing on Farm Credit

July 7, 2009

Good morning. My name is Elizabeth Warren, and I am the Chair of the Congressional Oversight Panel.

Last fall, Congress established this Panel to oversee the expenditure of funds from the so-called Troubled Asset Relief Program (TARP). It is our duty to issue monthly reports that analyze and evaluate the Treasury Department's administration of that program.

Recently, our mission was expanded by Congress. We were charged with writing a special report analyzing the state of the commercial farm credit markets and the use of loan restructuring as an alternative to foreclosure by recipients of financial assistance under the TARP. In considering loan restructuring models, we are to look specifically at the restructuring programs of the Farm Service Agency of the U.S. Department of Agriculture, the Farm Credit System, and Treasury's residential mortgage foreclosure mitigation program for banks. Not coincidentally, FSA, farm credit, and banks also make up the majority of the farm credit market.

Right now, agriculture appears to be doing well in many areas of the country. The farm credit markets also appear to be doing relatively well in many places. Unfortunately, there can sometimes be more to learn in the places where things aren't going so well. And as we all know, Greely and Weld County are facing tough times. That's why we're here- to gain insight from your situation.

A local farm credit market can be stressed for any number of reasons, such as a lender leaving the market, a natural disaster, a shock to the local economy, or many other factors. While we aren't here to examine the specific causes that led to the stresses on the Weld County farm credit markets, we do hope to learn from you about their impact. Specifically, we hope to understand better how a major shock to the farm credit system affects credit availability and loan restructuring. When the system experiences significant stress, what does that mean for borrowers? What challenges do they face in obtaining the credit they need to run their farms? What does it mean for farmers who need their loans restructured?

Market shocks also have significant implications for lenders. How much flexibility do they have to meet increased credit needs? How do they deal with an increased need for loan restructurings?

The plain truth is that, like many bad situations, there are many victims. Today's witnesses may not have caused the problems in Greeley, but they are all left to deal with the aftermath. Today's discussion of how they manage in a crisis will provide a case study for our report.

For this hearing we have invited key farm lenders as well as borrowers to testify about farm credit availability and farm loan restructuring. We invited these witnesses to hear their perspective on what is taking place nationally, but especially what is happening in a locality that is facing pressure on both farm credit availability and farm loan restructuring. Their take on the local situation offers important insight as we draft the farm credit report.

Our witnesses today include:

- **Michael T. Scuse**, Deputy Under Secretary, Farm and Foreign Agricultural Services, United States Department of Agriculture
- **Marc Arnusch**, Owner, Marc Arnusch Farms
- **Mike Flesher**, Executive Vice President, Farm Credit Services of the Mountain Plains
- **Les Hardesty**, Owner, Painted Prairie Farm and Chairman, Dairy Farmers of America Mountain Area Council
- **Lonnie Ochsner**, Senior Vice President, New West Bank

Thank you each for being here. I know tensions are running high in the area, and we all sincerely value your willingness to step forward to offer your perspective. I wish you weren't facing these problems, but we appreciate your willingness to allow us to learn from your circumstances.

**STATEMENT OF DAMON SILVERS, DEPUTY CHAIR, CONGRESSIONAL OVERSIGHT PANEL**

Mr. SILVERS. Thank you, Chairwoman Warren. Good morning.

I am grateful, like my fellow panel members, for the help of Weld County and their hospitality and the help of our staff and the Colorado congressional delegation in making this hearing possible.

I am also grateful—and I think we need to acknowledge the leadership of Senator Russell Feingold of Wisconsin who sponsored the farm provisions of the Helping Families Save Their Home Act of 2009, which directed our panel to examine the impact of the financial crisis on America's farm families.

We are here today to take testimony on the impact on farm families of the financial crisis and the programs under the somewhat long name of the Emergency Economic Stabilization Act of 2008, which most of us know by the term "financial bailout." We are going to do so today by learning about the experiences of farmers and farm credit providers here in Weld County where the failure of a major farm lender, the New Frontier Bank, has made the issues of farm credit particularly urgent.

Now, in particular, Congress has asked us to make recommendations to Congress, as our chair indicated, on how best to encourage the restructuring of troubled farm loans made by banks for the purpose of saving family farms.

These issues, the issues of whether banks treat farmers fairly, are some of the most enduring issues in the history of our country. From the time of George Washington to the panics of the 1890s to the Great Depression and the farm crises of the 1980s, the leaders of our Nation have understood that one of the ways in which their leadership will be judged is by whether our financial system helps farmers grow the food that feeds the world or whether the financial system, in the words of one of our witnesses today, "lends farmers into foreclosure."

Today, I hope we are able to address four questions in particular.

The first, what are the features of the Farm Credit System, in general—not so much here in Weld County, but in general—that insulated that system from so many of the destructive practices prevalent elsewhere in our credit system in the run-up to the crash? In particular, I am interested in the low levels of securitization in farm credit and the prevalence of lending based on income rather than assets.

Secondly, how do the policies of the Farm Service Agency and the Farm Credit System address restructuring loans for farm families in trouble, and are there lessons to be learned from those agencies and structures both for addressing troubled farm loans in commercial bank portfolios and for the broader home mortgage crisis which is plaguing our country today?

Third, what has the effect been on farm credit of the Federal Government's aid to the banks? And in particular, what has been the effect on farm credit of the way that small banks have been treated differently from big banks?

Finally, have we seen here in Weld County the large banks, the "too-big-to-fail" banks, step in and lend in the wake of the failure of a major lender, New Frontier, that was clearly not major enough to be rescued?

We have heard a great deal about stress tests and bank recoveries. I read that the bonuses are flowing again on Wall Street. My belief, though, is that the real stress test is not the one conducted by the Treasury Department and the Federal Reserve but the one that is happening all over this country in communities like this one as business people, including farmers, seek credit. If credit is not available to small business people and to large business people, to builders and to farmers, then we have not fixed our financial system, and the resulting downward pressure on our economy will inevitably breed more banking crises and block economic recovery.

So in a very real sense, the Panel is here today not simply to learn about the state of the farm economy and the family farmer, but to learn about whether the TARP, the bailout, the program Congress asked us to oversee, is actually working for all Americans.

It is a particular pleasure and honor to see all of you here, to see this room full. It reminds us, I think, of this panel's solemn obligation to oversee the financial bailout in the interests of the American people.

I look forward to the testimony and I am grateful for the people of Greeley and Weld County for welcoming the Panel here today.

[The prepared statement of Mr. Silvers follows:]

ELIZABETH WARREN, CHAIR
SEN. JOHN E. SUNUNU
REP. JEB HENSARLING
RICHARD H. NEIMAN
DAMON SILVERS

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**Congress of the United States**

CONGRESSIONAL OVERSIGHT PANEL

# Opening Statement of Damon Silvers

## Congressional Oversight Panel Field Hearing on Farm Credit

July 7, 2009

Good morning. I am grateful, like my fellow panel members, for the work of our staff and the help of the Colorado Congressional delegation in planning this hearing. I am also grateful for the leadership of Senator Feingold of Wisconsin, who sponsored the farm provisions of the Helping Families Save Their Homes Act of 2009, for directing our Panel's attention to the impact of the financial crisis on America's farm families.

We are here today to take testimony on the impact on farm families of the financial crisis and the programs under the Emergency Economic Stabilization Act of 2008, known to most Americans as the financial bailout. We are going to do so by learning about the experiences of farmers and farm credit providers here in Weld County, where the failure of a major farm lender, New Frontier Bank, has made the issues of farm credit particularly urgent.

Whether banks treat farmers fairly is one of the most enduring issues in American history. From the time of George Washington, to the panics of the 1890's, the Great Depression and the farm crisis of the 1980's, the leaders of our nation have understood that one of the ways their leadership will be judged is by whether the financial system helps farmers grow the food that feeds the world, or whether the financial system in the words of one of our witnesses, lends farmers into foreclosure.

Today I hope we are able to address four questions in particular:

1) What are the features of the farm credit system that insulated that system from so many of the destructive practices prevalent elsewhere in our credit system in the run up to the crash? In this regard I am particularly interested in the consequences of the low levels of securitization in farm credit, and the prevalence of lending based on income rather than asset valuation.

2) How do the policies of the Farm Service Agency and the Farm Credit System address restructuring loans for farm families in trouble? Are there lessons to be learned both for addressing troubled farm loans in bank portfolios and for the broader home mortgage crisis?

3) What has the effect been on farm credit of the federal government's aid to the banks—and in particular the way small banks have been treated differently than big banks.

4) And finally, have we seen the large banks, the "too big to fail banks," step in and lend here in Colorado in the wake of the failure of a major lender, New Frontier, that was clearly not major enough to be rescued?

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We have heard a great deal about stress tests and bank recoveries. The bonuses are flowing again on Wall Street. My belief though is that the real stress test is not the one conducted by the Treasury Department and the Federal Reserve, but the one that is happening all over this country as business people seek credit. If credit is not available—to small business people and large business people, to builders and to farmers, then we have not fixed our financial system, and the resulting downward pressure on our economy will inevitably breed more banking crises.

So in a very real sense we are here not simply to learn about the state of the farm economy and the family farmer, but to learn about whether the TARP, the program Congress asked us to oversee, is actually working for all Americans.

I look forward to the testimony, and I am grateful to the people of Greeley and Weld County for welcoming the Panel here today.

Ms. WARREN. Thank you, Mr. Silvers.

The chair now recognizes panelist Richard Neiman. Mr. Neiman is the Superintendent of State Banks for the State of New York and has deep experience in the State bank lending area. And I now recognize Superintendent Neiman.

**STATEMENT OF RICHARD NEIMAN, MEMBER, CONGRESSIONAL OVERSIGHT PANEL**

Mr. NEIMAN. Thank you, Chair Warren.

Good morning and thank you all for appearing before us in this hearing, an important hearing, particularly for those many residents who are also here in attendance.

You know, we often speak of the financial crisis as if it were one event when, in fact, it is a cascade of multiple market dislocations that impact every corner of the American economy. The current meltdown did not originate in the agricultural sector, but as the recession continues, its reach is being felt in the farming community.

I am particularly concerned about deteriorating trends in the dairy industry. This is one of the farming activities hardest hit by current market conditions. That is critically important to you here in Greeley, an area with a proud tradition of family farming, but it is also vital to me as a member of Governor David Patterson's cabinet in New York. New York is actually the third largest dairy-producing State in the Nation. So what is happening here in Greeley is happening back home as well. And your testimony can provide the insights needed to stabilize the industry and agriculture nationwide.

As part of our mandate, the Panel has been asked to consider whether a loan restructuring program for farm credit should be developed in the context of the TARP program. This panel and Congress are looking for your hands-on experience of trends in agricultural lending which makes all the difference in designing effective policy decisions.

Learning to prepare for and adapt to economic volatility is nothing new to you in the agricultural sector. Farming is highly cyclical by nature, and there are existing programs through the Farm Service Agency and the Farm Credit System that offer examples of what stabilization initiatives can work and why.

There are three main areas that I would like to look forward to exploring today during our dialogue.

One, the effectiveness of the current foreclosure programs through the FSA and FCS, in particular, the success of features such as principal write-downs with shared appreciation, pre-foreclosure notices, and the use of credit review committees.

Two, the extent to which there is or is not a gap in the Federal response structure to farm credit defaults, whether there is a need for additional Federal support to complement existing foreclosure prevention programs and the forms such support should take.

And three, the overlap between residential and agricultural real estate issues especially for the many farms in which the family home is also pledged as collateral.

In designing an effective foreclosure prevention program, there is a tension between the need for a streamlined approach that can be implemented quickly on a large scale and the more time-consuming but personalized approach that may have greater long-term success in avoiding default. I have experienced this dilemma in leading New York's residential mortgage prevention task force.

And I look forward to hearing your testimony and the dialogue today. Thank you very much.

[The prepared statement of Mr. Neiman follows:]

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**Congress of the United States**

CONGRESSIONAL OVERSIGHT PANEL

# Opening Statement of Richard H. Neiman

## Congressional Oversight Panel Field Hearing on Farm Credit

July 7, 2009

Good morning, and thank you for appearing at this hearing of the Congressional Oversight Panel on farm credit issues.

We often speak of the financial crisis as if it was one event, when it fact it is a cascade of multiple market dislocations that impact every corner of the American economy. The current meltdown did not originate in the agricultural sector, but as the recession continues its reach is being felt in the farming community.

I am particularly concerned about deteriorating trends in the dairy industry. This is one of the farming activities hardest-hit by current market conditions. That is critically important to you here in Greeley, an area with a proud tradition of dairy farming, but it is also vital to me as a member of Governor David Paterson's Cabinet in New York. New York is actually the third largest dairy-producing state in the nation. So what is happening here in Greeley is happening back home as well, and your testimony can provide the insights needed to stabilize this industry and agriculture nationwide.

As part of our mandate, the Panel has been asked to consider whether a loan restructuring program for farm credit should be developed in the context of the Troubled Asset Relief Program (TARP). This Panel and Congress are looking for your hands-on experience of trends in agricultural lending, which makes all the difference in designing effective policy responses. Learning to prepare for and adapt to economic volatility is nothing new to you in the agricultural sector- farming is highly cyclical by nature, and there are existing programs through the Farm Service Agency (FSA) and the Farm Credit System (FCS) that offer examples of what stabilization initiatives can work and why.

There are three main areas that I look forward to exploring during our dialogue today-

1. Existing foreclosure prevention programs. The effectiveness of current foreclosure programs through the FSA and FCS, in particular the success of features such as principal write-downs with shared appreciation agreements, pre-foreclosure notice requirements, and the use of credit review committees;

2. Whether there is a need for additional federal support. The extent to which there is or is not a gap in the federal response structure to farm credit defaults, whether there is a need for additional federal support to complement existing foreclosure prevention programs and the form such support could take; and,

3. Family farm issues. The overlap between residential and agricultural real estate issues, especially for the many farms in which the family home is also pledged as collateral.

**Congressional Oversight Panel**

In designing an effective foreclosure prevention program, there is a tension between the need for a streamlined approach that can be implemented quickly on a large scale, and the more time-consuming but personalized approach that may have greater long-term success in avoiding re-default. I have experienced this dilemma in leading New York's residential foreclosure prevention task force.

There are no easy solutions to resolving this tension, but we can strive to find the best fit along this continuum of options. For homeowners, time of was of the essence and many loan products were standard, leaning more toward expedited modifications and the Obama Administration's *Making Home Affordable* template.

Farm credit may have more in common with commercial real estate lending, however, which is another sector in distress that could benefit from the ideas generated here today. Commercial real estate loans tend to be customized, with more complex underwriting factors, and this adds to the challenge of designing the right universal program.

And of course no foreclosure prevention initiatives will stabilize markets in the end if they discourage banks from participating in TARP, when they would otherwise benefit from that capital support. Good policy intentions also need to make good business sense- we're not looking to add a burden to lenders, but to realize best practices.

I thank you in advance for your contribution to developing those best practices and protecting America's agriculture industry.

Ms. WARREN. Thank you, Superintendent Neiman.

Now, we will start with our witnesses. I am going to ask you, if you will, to keep your oral remarks to five minutes. Your statements will become part of the record, so we will have the whole thing even if it is longer than five minutes. And just to help us stay on time so that we have plenty of time for questions and then for comments afterwards, Mr. McGreevy down at the far end has got time cards.

Ms. WARREN. Well, we have got to run a tight ship here. We want to be sure that we can hear from everyone.

Thank you very much for joining us. Mr. Scuse, could I ask you to start?

## STATEMENT OF MICHAEL SCUSE, DEPUTY UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. SCUSE. Thank you, Madam Chair. Madam Chairperson and members of the panel, thank you for the opportunity to appear before you today to discuss credit conditions in America, focusing on the current status and operations of the farm loan programs at the Farm Service Agency.

Reports from the Federal Reserve and other sources indicate that there is a tightening of credit for farmers and ranchers around this country. A combination of limited or negative returns in much of the livestock industry, reduced profit margins in crop production, and increased sensitivity to credit risk has caused many farm lenders to raise the credit standards, reduce the amount they are willing to lend in agriculture, or both. Many lenders report that increased scrutiny from regulators has caused them to raise credit standards significantly.

Activity in FSA's farm loan programs certainly indicates that less commercial credit is available to farmers at the present time. Farm loan programs demand is usually counter-cyclical to the general farm economy. When the farm economy is strong, farm loan activity is flat. During times of financial stress in the farm economy, the demand for farm program loans greatly increases. This makes sense since a basic requirement to qualify for the program is to be unable to meet the criteria for commercial credit.

This year, the loan programs in Colorado and across the Nation are experiencing demand at substantially higher levels than in FY '08. FSA has two basic loan programs: direct loans funded directly from the United States Department of Agriculture and guaranteed loans funded by local lenders with USDA acting as a guarantor. Guaranteed loans are used for financing of annual crop inputs, to refinance debt, or to purchase capital items like machinery. Farm ownership loans are used to purchase real estate and/or improvements to real estate.

In Colorado as of May 30th, 2009, demand for direct operating loans was up 27 percent, and demand for guaranteed operating loans was increased by 47 percent. An usually high number of direct operating loan applications nationally are from new customers this year. As of May 26th, 45 percent—45 percent—of the direct operating loans approved in FY '09 were for customers who did not have existing FSA operating loans. They are new, 45 percent. Normally, the number is only about 20 percent.

The quality of our portfolio has continued to improve due, in large part, to our modernization efforts, better customer service, and dedication of FSA employees. At the same time, we realize that given the increased financial stress in the agricultural economy and the increased workload resulting from a larger caseload, portfolio performance is likely to somewhat deteriorate in the future. We are committed to using all the authorities available to assist borrowers and will strive to minimize any deterioration in the performance portfolio.

In FY '08, losses in the direct loan program fell to their lowest level since 1986, just 1.7 percent. FY '08 data is reflective of the last completed fiscal year as current rates are not available.

Losses in FY '08 in the guaranteed loan program were .3 percent, the lowest rate since we began monitoring the trend in 1985. Again, FY '08 data is reflective of the last completed fiscal year.

As with losses, the direct loan delinquency rates were at historic lows at 6.5 percent for FY '08. FY '08 data is reflective, again, of the last completed fiscal year.

This is the result of steady and dramatic decreases from a 23.8 percent delinquency rate in FY 1995. The decrease was facilitated by expanded authority since 1996 to offset Federal payments, salaries, and income tax refunds to delinquent borrowers, in addition to our statutory and programmatic changes which have enhanced collection efforts.

In the guaranteed program, the '08 delinquency rate was 1.18 percent, again, the lowest since 1995.

In conclusion, our farm program performance over the last few years has been outstanding with delinquencies and losses at all-time lows. However, under the challenging economic and financial environments agriculture faces today, it is almost inevitable that program delinquencies and losses will increase. Certainly there is the increased stress in the dairy, poultry, and hog industries. However, we are committed to use all available options to minimize any increases in program delinquencies and losses.

We are fortunate to have many tools at hand to service our accounts and assist borrowers through difficult times. We have a wide array of loan servicing options available to assist borrowers in restructuring their financial situations when they are unable to make payments as scheduled. An orderly method of debt restructuring is a critical part of a lender's ability to deal with adversity in their portfolio, and FSA can offer borrowers the following specific options.

Primary loan servicing. Any FSA borrower in financial distress may apply for loan servicing and borrowers who become 90 days past due will be notified and reminded of all servicing options.

Subordination. FSA is often able to subordinate its lien to a commercial lender to facilitate a borrower's access to operating credit from other sources.

Conservation contract. FSA borrowers with environmentally sensitive property may also apply to reduce their FSA debt through the conservation contract program by placing qualifying land under a conservation contract.

Disaster set-aside program. Under DSA, eligible borrowers can skip one annual payment and move that payment to the back.

FSA's loan portfolio has shown tremendous improvement over the last 20 years and loan failures and losses have declined.

However, more challenges lie ahead. Government resources are increasingly limited and the agricultural production landscape is definitely changing. We are experiencing unique conditions in the credit and banking sectors and, to a large extent, agriculture in general. These changes pose significant barriers and challenges to the groups that FSA farm loan programs are intended to assist. These issues create major challenges for the agency as well since the success of the program depends on those whom the programs are intended to serve. Because of our rural delivery system and experienced loan officers, the FSA farm loan programs staff is well positioned to continue the high quality delivery of existing programs and new initiatives to assist small, beginning, and minority and family farms.

Thank you for allowing me the time to share the Department of Agriculture perspective as you address this extremely important issue that affects all of us in agriculture. Thank you.

[The prepared statement of Mr. Scuse follows:]

**Farm and Foreign Agricultural Services**
**United States Department of Agriculture**
**Before the Congressional Oversight Panel**

Madame Chairperson and members of the panel, thank you for the opportunity to appear before you to discuss credit conditions in America, focusing on the current status and operations of the farm loan programs at the Farm Service Agency (FSA).

**Credit Conditions**

Reports from the Federal Reserve and other sources indicate there is a tightening of credit for farmers and ranchers around the country. A combination of limited or negative returns in much of the livestock industry, reduced profit margins in crop production, and increased sensitivity to credit risk has caused many farm lenders to raise their credit standards, reduce the amount they are willing to lend in agriculture, or both. Many lenders report that increased scrutiny from regulators has caused them to raise credit standards significantly.

Activity in FSA's farm loan programs certainly indicates that less commercial credit is available to farmers at the present time. Farm Loan programs demand is usually counter-cyclical to the general farm economy; when the farm economy is strong, farm loan activity is flat. During times of financial stress in the farm economy, demand for farm loan program loans increases. This makes sense, since a basic requirement to qualify for the programs is to be unable to meet the criteria for commercial credit.

**FY 2009 Loan Activity**

This year, the loan programs in Colorado and across the nation are experiencing demand at substantially higher levels than in FY 2008. FSA has two basic loan programs: direct loans funded directly from the United States Department of Agriculture (USDA) and guaranteed loans funded by local lenders with USDA acting as guarantor. Operating loans (OL) are used for financing of annual crop inputs, to refinance debt, or to purchase capital items like machinery/chattel. Farm Ownership loans (FO) are used for purchase of real estate and/or improvements to real estate. In Colorado as of May 30, 2009, demand for direct operating loans was up by 27 percent, and demand for guaranteed operating loans has increased by 47 percent. An unusually high number of direct operating loan applications nationally are from new customers this year. As of May 26, 45 percent of the direct operating loans approved in FY 2009 were for customers who did not have existing FSA operating loans. Normally, that number is about 20 percent.

**Performance and Portfolio Condition**

The quality of our portfolio has continued to improve, due in large part to our modernization efforts, better customer service and the dedication of FSA employees. At the same time, we realize that given the increased financial stress in the agriculture economy and the increased workload resulting from a larger case load, portfolio performance is likely to somewhat deteriorate in the future. We are committed to using all the authorities available to assist borrowers and will strive to minimize any deterioration in portfolio performance.

*Loss Rates.* In FY 2008, losses in the direct loan program fell to their lowest level since 1986 – just 1.7 percent. FY 2008 data is reflective of the last completed fiscal year as current rates are not available.

Losses for FY 2008 in the guaranteed loan program were 0.3 percent, the lowest rate since we began monitoring this trend in 1985. FY 2008 data is reflective of the last completed fiscal year as current rates are not available.

*Delinquency Rates.* As with losses, the direct loan delinquency rates were at historic lows at 6.5 percent for FY 2008. FY 2008 data is reflective of the last completed fiscal year as current rates are not available.
This is the result of steady and dramatic decreases from a 23.8 percent delinquency rate in FY 1995. The decrease was facilitated by expanded authority, since 1996, to offset federal payments, salaries and income tax refunds to delinquent borrowers. In addition other statutory and programmatic changes have enhanced collection efforts.

In the guaranteed program, the FY 2008 delinquency rate was 1.18 percent, the lowest since 1995.

**Ongoing Challenges**

Farm loan programs performance over the past few years has been outstanding, with delinquencies and losses near all-time lows. However under the challenging economic and financial environments agriculture faces, it is almost inevitable that program delinquency and loss rates will increase. Currently there is increased stress in the dairy, poultry, and hog industries. However, we are committed to use all available options to minimize any increases in program delinquencies and losses.

We are fortunate to have many tools at hand to service accounts and assist borrowers through difficult times. We have a wide array of loan servicing options available to assist borrowers in restructuring their financial situations when they are unable to make payments as scheduled. An orderly method of debt restructuring is a crucial part of a lender's ability to deal with adversity in their portfolio. FSA can offer our borrowers the following servicing options:

- Primary Loan Servicing (PLS) – Any FSA borrowers in financial distress may apply for loan servicing, and borrowers who become 90 days past due will be notified and reminded of all servicing options. In PLS, the borrowers may receive a lower interest rate, have their loans rescheduled, get up to a 5 year deferral of payments, or in extreme cases get some of their debt reduced.
- Subordination - FSA often is able to subordinate its lien to a commercial lender, to facilitate a borrower's access to operating credit from other sources.
- Conservation Contract - FSA borrowers with environmentally sensitive property may also apply to reduce their FSA debt through the Conservation Contract program, by placing qualifying land under a conservation contract.
- Disaster Set-Aside (DSA) program - Under the DSA, eligible borrowers can skip one annual payment and move that payment to the back of the loan.

**Conclusions**

FSA's loan portfolio has shown tremendous improvement over the last 20 years and loan failures and losses have declined.

However, more challenges lie ahead. Government resources are increasingly limited and the agriculture production landscape is changing. We are experiencing unique conditions in the credit and banking sectors, and to a large extent, in agriculture. These changes pose significant barriers and challenges to the groups that FSA farm loan programs are intended to assist. These issues create major challenges for the agency as well, since the success of the program depends on those whom the programs are intended to serve. Because of our rural delivery system and experienced loan officers, the FSA farm loan programs staff is well positioned to continue the high quality delivery of existing programs and new initiatives to assist small, beginning, and minority family farmers.

Thank you for allowing me to share our Department of Agriculture perspective as you address this important issue. I am available to answer your questions now or at any time in the future.

Ms. WARREN. Thank you, Mr. Scuse.

Mr. Arnusch, owner of Marc Arnusch Farms.

**STATEMENT OF MARC ARNUSCH, OWNER, MARC ARNUSCH FARMS**

MR. ARNUSCH. Thank you. Good morning.

My name is Marc Arnusch, and I am a third-generation farmer and agribusinessman located in the small town of Prospect Valley. I own and operate a large diversified operation consisting of approximately 1,400 acres of irrigated farmland. Primary crops include sugar beets, grain corn, wheat, sunflowers, alfalfa, and onions. In addition to these crops, I operate four other ag-related businesses in my community. Our operation is large, complex, and very familiar with our banker and his ability to service our lines of credit.

The evolution of my farming operation has not come without adversity. Early on in the beginning of my farming career, an act of mother nature began to shape the way I operate as a businessman. The date was July 13th, 1996 and Prospect Valley experienced the worst hailstorm I had ever seen. The storm destroyed nearly every field in Prospect Valley, but what it really exposed was the inability of producers in my community to withstand risk and it put to the test our ability to access credit needed to maintain our operations.

It was apparent our small town bank would not be able to withstand the losses most growers were going to face, which prompted officials to seek out the assistance of the FSA Office and the guaranteed loan program.

I too began the process of applying for the guaranteed loan program only to stop midway through it. It occurred to me that I could do all that was required, only to suffer a similar fate again. Nothing had changed. It was business as usual, but this time it came with a higher debt level.

How did cheaper interest and high debt provide me an opportunity to sustain my production future? I chose a different path, one that limited risk, diversified my operation, and focused my efforts on marketing and cost management.

I was asked in today's oversight panel to talk about business plans and mine consists of five major objectives. Know the cost of production. Identify areas of risk and work to limit them. Take advantage of market opportunities. Diversify. But the most important was being realistic with financials.

After identifying true costs of production and necessary credit needs, I examined what crops were working and which were not. Next, all crops were insured against loss of yield. This also enabled my operation to take a more aggressive market approach via cash forward sales and lessened the effect of losses through partial cost recovery.

My operation began to diversify in order to withstand market turmoil and reduce the dependency on just row crop production. However, the most significant move was keeping realistic financials, ones predicated on being conservative, able to withstand the tests such as loss of crop revenue, devaluation of land, machinery, and other assets, or economic failure.

Fortunately, my story has a good beginning. However, my community has not fared as well. Since the time of that hailstorm, 21 growers from Prospect Valley have either been forced from production agriculture, retired, or have outright quit. This also includes my father. In most cases, the loan-to-value ratio was too large to overcome which ultimately forced the liquidation of some very fine producers.

Looking forward, the biggest challenge I face as an operator is having access to reliable credit at the size necessary to run the complexity of my operation. Operations are growing and with it are their lines of credit. Many operations in Weld County require operating loans in the millions, and this number is only going to increase.

In order to meet this challenge, commercial banks need to have a level playing field when it comes to lending. Too often a community bank may be scrutinized or limited on a particular lending practice by bank regulators when a similar form is available through the Farm Credit System. The Farm Credit System is a valuable tool to borrowers and is important to the future of agriculture in the United States and certainly here in Colorado. However, community banks still play a significant role in this arena.

In closing, there are a series of thoughts I would like to leave with you. Successful producers of tomorrow will be the ones who conserve, resist spending, and can control costs almost on demand. They will know their cost of production and understand their financial debt structure and will be intelligent when restructuring. Farms require financial management just like other business sectors of our economy, and when difficult market circumstances arise, those who have their house in order will most likely be the ones to succeed.

Any loan program offered via the Government or commercial lending needs to emphasize the importance of business management. Without this vital component, the availability of credit may not make a difference. In fact, it may become the weight that sinks middle American agriculture just as it did in my hometown.

Thank you for the opportunity to address the Panel with my thoughts and ideas, and I look forward to your questions.

[The prepared statement of Mr. Arnusch follows:]

# Emergency Economic Stabilization Act of 2008
# Congressional Oversight Panel Testimony

**given by**

## Marc Arnusch
## Marc Arnusch Farms, LLC

## July 7, 2009

My name is Marc Arnusch and I am a third generation farmer and agri-businessman located in the small town of Prospect Valley.

I own and operate a diversified operation consisting of approximately 1,400 acres of irrigated land. Primary crops include sugar beets, grain corn, wheat, sunflowers, alfalfa and onions. In addition to these crops, I operate four other businesses related to my farming enterprise offering an assortment of services including seed and agronomy services, dairy feed ingredient procurement, consulting and management of urban and rural interface issues in addition to operating an onion shed responsible for packing and shipping our onion crop to nineteen different States throughout the US. Our operation is large, complex and very familiar with our Banker and his ability to service our lines of operating credit.

The evolution of my operation has not come without adversity. Early on in the beginning of my farming career, an act of Mother Nature began to shape the way I operate as a businessman. Fresh out of College I planned on staying the course; an approach that my family had followed successfully for decades, until I paid the highest tuition cost ever; hail.

July 13, 1996, Prospect Valley experienced the worse hail storm I have ever seen. It came late in the evening and what it left behind devastated my community for a decade. Ten foot tall corn was beaten back to mere stubs. Wheat, near maturity, was literally pounded back into the ground and the dry beans were reduced to nothing at all. The whole community was left to harvest nothing but a few acres of sugar beets and a handful of alfalfa fields that recovered from the hail.

This storm destroyed nearly every field in Prospect Valley, but it also exposed the inability of producers in my community to withstand risk. It exposed the staying power of most farms and it put to the test our ability to access additional lines of credit needed to maintain our operations.

It was apparent that our small town bank would not be able to withstand the losses most growers were going to have and this prompted bank officials to seek the assistance of the FSA Office and the guaranteed loan program. Meetings were held and a computer program was distributed to area growers who needed assistance in re-financing their operations. The aim of this software was to aid in applying for reduced interest loans from the Federal Government and to begin to identify the amount of capital needed to operate on a case-by-case scenario. I too, received the software package and began the process of applying for a guaranteed loan only to stop midway through the process.

The software system was extensive and somewhat confusing. It was a healthy dose of paperwork and asked questions that seemed insignificant. The staff at the bank, including my loan officer, was in the dark as much I was. However what the loan application did bring to the forefront was the need for better recordkeeping and a more comprehensive examination of the operation as a whole.

It occurred to me that I could do all that was required of me, via the loan process, only to suffer another similar event. Nothing had changed. It was business as usual, but this time it came at a higher debt level.

Would a guaranteed loan make me successful? Was cheaper interest and higher debt providing me with an opportunity to sustain my production future or was it only providing me with more weight that I could handle? What else needed to change in order to survive?

I chose a different path, one that limited risk, diversified my operation and focused my attention on marketing and cost management, including finding creative ways to finance inputs. Diversifying into other areas also helped create stability and consistency. I believe this strategy puts my operation in a better position to survive the next storm or economic downturn.

The foundation of my business plan consists of five major objectives. 1) Know the cost of production and identify the profitability centers of the operation, 2) Recognize areas of risk and work to limit them, 3) Take advantage of market opportunities when available, 4) Diversify, and 5) Be realistic with financials.

After identifying true costs of production and the necessary credit needs, my banker and I examined what crops were working and which were not. One crop, brew barley, was removed from the rotation altogether because it was not consistently profitable. My family had produced the crop for over 50 years and I would be the first not to grow it any longer. Next, all crops were insured against loss of yield. This enabled my operation to take a more aggressive marketing approach via cash forward sales and lessened the affect of future storms by allowing for partial cost recovery.

My operation began to diversify in order to withstand market turmoil and to reduce dependency on just row crop production. This move created additional opportunity for my farm and helped manage the cash needs of the operation. However the most significant move made was keeping realistic financials; ones predicated on being conservative and able to withstand tests such as lost crop revenue, devaluation of land and machinery, or economic failure.

The glue holding this plan together is the relationship built with my lender and those who have a vested interest in the success of the operation. This included landlords, input suppliers, and equipment dealers. Each was able to provide valuable services and that enabled my operation to rise from the significant losses brought about by this storm. In many cases, input suppliers were able to provide finance options that allowed more flexible cash management. In two short years my operation was operating in the black, due in part to a different approach and belief in this plan by my lender.

Fortunately my story has a good beginning; however my community has not fared as well. Since the time of the hailstorm, 21 growers in Prospect Valley have either been forced from production agriculture, retired or have quit; including my Father. In most cases, the loan to value ratio was too large to overcome which ultimately forced the liquidation of very good producers. Four new growers have begun their operations in this same time period, but the affects within my community still exist. The John Deere dealership is no longer open and the dry bean elevator closed its doors. With future concentration of this industry, I expect other businesses to follow.

Looking forward, the biggest challenge I face as an operator is having access to reliable sources of credit at the size necessary to run a complex farming operation such as mine. Ten years ago, most operating lines in my community ranged from $100,000 to $250,000 in size. Today, that same operator may need an operating line of credit double or triple that amount. Many operations in Weld County require operating loans in the millions and this number is only going to increase. Having capital available to lend to agricultural operations with viable business plans is imperative to future success of U.S. agriculture.

In order to meet this challenge, commercial banks need to have a level playing field when it comes to lending. Too often a community bank may be scrutinized or limited on a particular lending practice by bank regulators when a similar form is offered through the Farm Credit system. The Farm Credit system is a valuable tool to borrowers and is important to the future of agriculture; however community banks still play a significant role in this arena. Producers need this flexibility and opportunity with the lender of their choice.

In closing, there is a series of thoughts I would like to leave with you. Successful agricultural producers of tomorrow will be the ones who conserve, resist spending and control costs on demand. They will know their cost of production and understand their financial debt structure and will be intelligent when restructuring debt. Farms require critical financial management, just like other business sectors of our economy, and when difficult market circumstances arise, they will be the ones most likely to succeed.

Any loan program offered via the Government or commercial lending needs to emphasize the importance of business management. Without this vital component, availability of credit will not make a difference. In fact, it may become weight that sinks Middle American Agriculture just as it did in my hometown.

Ms. WARREN. Thank you, Mr. Arnusch.

Mr. Flesher, Executive Vice President of Farm Credit Services of the Mountain Plains.

**STATEMENT OF MIKE FLESHER, EXECUTIVE VICE PRESIDENT, FARM CREDIT SERVICES OF THE MOUNTAIN PLAINS**

Mr. FLESHER. Madam Chairman, Mr. Neiman, Mr. Silvers, welcome to our community and let me just personally say thank you for your service to our country during a very unprecedented time of our history.

My name is Mike Flesher. I'm Senior Vice President of Mountain Plains Farm Credit Services. We are a part of the nationwide Farm Credit System, which is a unique set of 95 cooperatives chartered by the Federal Government to provide credit and other related financial services to owners and to others consistent with the eligibility set out in the Farm Credit Act.

Mountain Plains is owned by more than 1,300 farmers and ranchers here in Colorado. We have about $1.2 billion in total loans outstanding. Our cooperative structure keeps us focused on serving our farmer members while permitting us to share our profits with them. Over the past 5 years, we have returned over $42 million to our farmer borrowers in this area and the entire Farm Credit System has returned some $2.6 billion during that time. That money stays in agriculture and it contributes to the success of our members.

The Farm Credit System continues to use its access to the national money markets to make credit available to agriculture in rural areas. The system provided almost $1 billion of new credit to agriculture in the first quarter of this year. Mountain Plains—we account for about $30 million of that amount during the first quarter.

The following is what we are seeing regarding the local farm economy in our Mountain Plains territory.

Cow/calf operations make up the largest segment of our portfolio, 23 percent. We anticipate these operators will experience average to slightly below average profitability this year.

Hay crops, the second largest part of our portfolio, at 14 percent. The demand is strong. The price is good. The supply of dairy quality hay, though, is down due to some unusual rains that we have had in our area this year.

Third in size of the portfolio segment is the dairy industry. This industry is experiencing historic losses due to low milk prices and high input costs. And we have contacted all of our dairy borrowers individually to discuss options for sustaining their business. We believe that communication is key to working with our customers.

We also serve borrowers that produce stocker and feedlot cattle, corn, wheat, fruit and vegetables, as well as those involved in nursery and greenhouse operations, and all of those segments of the industry make up the remainder of our portfolio.

We make use of the USDA's Farm Service Agency loan guarantees to support our lending. These guarantees are an important tool that allow us to serve higher risk credits that might not otherwise meet our underwriting standards. This program is very important in helping us stay with borrowers in stressful times.

As economic stress increases in agriculture—and as you have heard here today it is increasing in agriculture, especially in certain segments—we stand ready to work with our customers as they deal with their individual challenges. For the past 20 years, since the mid-1980s, the Farm Credit System has operated with statutory borrower rights requirements. Troubled borrowers get notification on their standing and what they can they do to avoid foreclosure.

For example, a borrower that is current on loan payments is protected against foreclosure. The lender cannot impose previously unscheduled principal reductions.

If a borrower is demonstrating adverse financial and repayment trends, we notify the borrower of the right to apply for restructuring, and we provide them with the necessary materials to make that application.

The borrower is provided an opportunity to fully review the status of their loan, to develop a plan and seek loan restructuring. This may include a combination of debt forgiveness, release of collateral, reamortization, refinancing, and/or deferral of payments. In the restructuring of a distressed loan, the least-cost analysis of restructuring versus liquidation must be implemented.

If restructuring is denied, we must provide the customer with the rationale in writing and let them know that they can request a review of the decision by a credit review committee. Now, that committee must include at least one former board member and it may not include the loan officer that is involved in making the initial decision.

And finally, should there be a foreclosure sale, the customer retains the right of first refusal to purchase or to lease their property.

Now, our experience of more than 20 years of operating this type of very specific loan restructuring requirements has taught us a few things. First, it is very important that the basics of loan making be followed. Second, communication is critical. The better you know a customer and their farming operation, the better position you are as a lender to anticipate a problem. And finally, working with customers rather than being in conflict with customers makes for better business.

Farm Credit serves agriculture in good times and in bad. The borrower rights have helped us keep focused on serving our marketplace when the environment is more bad than it is good.

I will give you a recent of this. We had a long-term relationship with a three-generation farm family that has been successfully involved in raising row crops and feeding cattle. To diversify their operation, the family started a dairy heifer replacement program which was profitable for several years. And although this business was well managed, escalating input costs and the downturn of the dairy industry brought them financial stress, and those stresses have continued and grown.

Instead of giving up on them, we reworked the credit. We advanced them new money to meet their operational needs to raise livestock and crops. Our goal is to help them return to profitability.

What we have done for the borrower and what the borrower has done for themselves has given them an opportunity to stay in business during that extremely challenging down cycle. This farm family has a strong management team. They have implemented efficiencies that are serving them well now and will serve them even better when things do improve. It is only when our customer-owners thrive that we can be successful.

At Farm Credit, we know that the economy, the markets, and the commodity prices are cyclical. This comes with 93 years of experience.

Thank you for the opportunity to testify. I would be pleased to answer your questions.

[The prepared statement of Mr. Flesher follows:]

Statement by
Mr. Mike Flesher,
Farm Credit Services of the Mountain Plains, ACA
Greeley, Colorado
Before the
Congressional Oversight Panel (COP)
July 7, 2009

Madame Chairman and members of the committee, thank you for the opportunity to testify today on behalf of Farm Credit Services of the Mountain Plains, ACA (Mountain Plains or Mountain Plains Farm Credit). My name is Mike Flesher and I am Senior Vice President and Corporate Secretary of Mountain Plains Farm Credit. Mountain Plains Farm Credit is a part of the nationwide Farm Credit System.

My remarks today will provide some background on the Farm Credit System and our role in providing credit to agriculture; describe the various types of financing offered by Mountain Plains Farm Credit and the types of customers we serve; comment on current credit conditions, and finally discuss how we are working to meet the credit needs of agriculture in the geographic area served by Mountain Plains Farm Credit.

## Background on the Farm Credit System

Established in 1916, the Farm Credit System is a unique set of 95 private institutions, including funding banks and direct-lending associations, all of which are cooperatively-owned by farmers, ranchers, agricultural cooperatives, rural utilities and others in rural America. We 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 of 1971, as amended.

Mountain Plains Farm Credit is one of these 95 Farm Credit cooperatives. We are owned by more than 1,319 farmers that borrow from us in Colorado. My President and CEO, reports to a 10 member Board of Directors. Seven of these directors are farmers elected by the members of the cooperative. While we are required to have at least one appointed outside director that has financial experience, we have chosen to have three. Employees are not permitted to serve as directors.

There are 90 independently operated Farm Credit associations like Mountain Plains Farm Credit 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. Our Board of Directors is responsible for establishing our 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 geographic territory that we serve.

Each Farm Credit association obtains funds for our lending programs from one of five wholesale Farm Credit banks. At Mountain Plains Farm Credit, we get our funding from U.S. AgBank, (headquartered in Wichita, KS), which is cooperatively owned by twenty-seven local associations. The five Farm Credit banks own the Federal Farm Credit Banks Funding Corporation (located in Jersey City, NJ), which issues and 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 guaranteed by the Federal 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 is subject to oversight by the Agriculture Committees of Congress. The Farm Credit Administration is an arm's length, independent Federal safety and soundness regulator. FCA's three member board is nominated by the President and confirmed by the U.S. 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. In some instances, FCA has more authority than other comparable federal regulators.

The Farm Credit System's mission, ownership structure and authorizing legislation are unique among financial institutions. For farmers, ranchers and the cooperatives that they rely on, it is critically important that our safety and soundness regulator understands our unique mission and what it takes to be successful in accomplishing it.

**Fulfilling Farm Credit's Mission of Serving Agriculture**

Mountain Plains Farm Credit, like all Farm Credit System institutions, focuses on accomplishing the mission established for us by Congress: to serve agriculture and rural America. We do not take our Congressional charge lightly. 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 is not 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. Our lending relationship with our member-borrowers is based on constructive credit over the long haul — we do not enter and exit agricultural lending as farm profitability waxes and wanes.

**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 Mountain Plains Farm Credit 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.

In just the past five years, Mountain Plains Farm Credit sent back over $42 million dollars in earnings as patronage dividends to the member-borrowers of our cooperative. During the same period, the Farm Credit System in total has returned over $2.6 billion to the farmers and co-operatives that own the System. That is money that stays in agriculture and helps our members be successful.

**Farm Credit Continues to Make Credit Available**

The Farm Credit System provided almost $1 billion in new credit to agriculture during the first three months of this year. Reflective of the overall economy and growing stress in certain segments of the farm economy, we are seeing demand for credit decline as farmers become wary of expanding operations, purchasing new equipment, or taking on additional risk at this time of economic weakness.

**Current Conditions in Agriculture**

Mountain Plains Farm Credit has not changed its lending standards in response to the current financial and economic disruption. Let me give you some highlights regarding what we are seeing in Mountain Plains' territory when it comes to the local farm economy and credit conditions.

- Cow/calf operations make up 23% of our portfolio. Lower feed and fuel costs will help lower breakeven calf prices, and we anticipate this segment of agriculture will experience average to slightly below average profitability in 2009.

- Hay crops represent 14% of our portfolio. Demand is strong for this commodity and the price is good. The supply of dairy quality hay is down due to rains during harvest. As such, a large supply of lower quality hay will put downward pressure on the price.

- Dairy is 13% of our portfolio. Low milk prices and high input costs throughout 2008 have resulted in historic losses for local dairies. We have contacted all of our dairy borrowers individually explaining the options for sustaining their business. Milk prices will be determined by cow numbers, total milk production and dairy exports. Slaughter for the year is 12% above last year and we hope that the positive signs in milk futures will mean higher prices in the next six months.

- In addition to the key sectors mentioned above, we also serve borrowers that produce stocker and feedlot cattle, corn, wheat, fruit, vegetables, as well as those involved in nursery and greenhouse operations.

**A Commitment to Serving Young, Beginning and Small Farmers**

The Farm Credit System's commitment to agriculture not only extends to these typical farming operations, but also to those young, beginning, small farmers who may need some assistance as they start out in agriculture. 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. At Mountain Plains Farm Credit, we call ours the "AgVantage" Young, Beginning, Small Farmer Program.

The AgVantage Program offers competitive interest rates and loan fee reductions, while maintaining our credit standards. In 2009 we wrote over $77 million of new loans to Young, Beginning and Small borrowers in our territory. In addition, we partner with the Colorado FFA, Colorado Young Farmers Educational Association, Colorado State Cooperative Extension and the College of Agricultural Sciences at Colorado State University in providing educational opportunities targeted at young, beginning and small farmers.

When it comes to serving the needs of small farmers, the Farm Credit System stands out. Looking at the new credit extended in 2008, the System clearly continues to demonstrate its commitment to the next generation of farmers. Farm Credit institutions provided new loans and commitments totaling almost $12 billion to beginning farmers last year (those with 10 or fewer years experience). USDA's FSA beginning farmer loan programs totaled $1.24 billion in fiscal year 2008. There is no comparable data available from commercial banks since they are not required to collect this same data.

**USDA Programs Help Farm Credit Serve Agriculture**

At Mountain Plains Farm Credit we make use of USDA's Farm Service Agency (FSA) loan guarantees to support our lending. We are pleased that our experience and excellent credit management practices have allowed us to be recognized as an FSA preferred lender. At the end of May, we had over $5 million in our portfolio that had FSA guarantees. We believe about 60% of all System associations are FSA preferred lenders.

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. The FSA guarantees permit us to reach some individuals that we might not otherwise be able to serve. This program is also a very important tool in ensuring that we can stay with borrowers in stressful times – especially those who are just getting started and likely have inadequate equity, as well as those that have experienced losses due to adverse weather or economic conditions.

**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. Over the last year the nation's financial markets have changed dramatically and this has impacted not only our cost of funds but the term of the funds that are available.

The dynamic of the financial markets changed quickly late last summer in some very unusual ways. While the Federal conservatorship of Fannie Mae and Freddie Mac had disastrous impacts on their equity holders, it positioned them in the debt markets as having greater links to the Federal government, and ironically created the perception in the eyes of investors that they are a less risky credit. This was underscored further when the Treasury made available a direct line of credit for Freddie Mac and Fannie Mae as well as their sister housing GSE the Federal Home Loan Bank System.

While we continue to access the funding we need to serve our marketplace, the changes and disruptions in the national financial markets have markedly changed the landscape for us. We have decreased access to longer-term debt and pricing volatility has presented a challenge. While the environment has settled since the beginning of 2009, it would be a mistake to conclude that we are back to normal.

Farmers seeking to reduce the volatility of their interest expense by locking in longer-term, fixed rate loans at low rates do not have options that are available to the average homeowner. Low cost home mortgage rates are available to homeowners because of direct government intervention targeted at helping them. The Federal Reserve action to purchase mortgage backed securities has improved pricing in the home mortgage market, but similar action is not being taken to address the needs of agriculture.

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.

**Loan Restructuring Available for Farm Credit's Farmer-Owners**

As economic stress increases in agriculture we stand ready to work with our customers as they deal with their individual challenges. Since the 1980s, the Farm Credit System (FCS) has operated with statutory strong "borrower rights." These provisions ensure that troubled borrowers have full notification of their particular circumstances and what they can do to avoid foreclosure. In the case of a distressed loan situation, these rights include a requirement that the Farm Credit lender fully consider appropriate loan restructuring options. The borrower rights provisions contained in the Farm Credit Act are closely monitored by our regulator, the Farm Credit Administration.

The Borrower Rights provisions afford the following protection to FCS borrowers:

- A borrower that is current on loan payments is protected against foreclosure and the lender cannot impose previously unscheduled principal reductions.
- Once FCS becomes aware that a borrower is demonstrating adverse financial and repayment trends, FCS notifies the borrower of the right to apply for restructuring and include the necessary materials to make the application.
- A notice of at least 45 days prior to commencing any foreclosure proceeding must be provided. In addition, the borrower must be advised in writing that the loan may be suitable for restructuring and given the relevant forms to make application.
- The borrower is provided an opportunity to fully review the status of the loan, develop a plan and seek loan restructuring. This may include a combination of debt forgiveness, release of collateral, reamortization, refinancing and/or deferral of payments. In the restructuring of a distressed loan, the least cost analysis of restructuring versus liquidation must be implemented.
- If restructuring is denied, the Farm Credit institution must provide the rationale in writing.
- If restructuring is denied, a Farm Credit customer can request a review by a credit review committee, which must include at least one farmer board member and may not include loan officer(s) involved in making the initial decision.
- In a foreclosure sale, the customer retains the right of first refusal to purchase or to lease.

You have probably heard us say that Farm Credit serves agriculture in good times and in bad. Borrower rights are one of the ways that we serve our marketplace when the environment is more bad than good.

I'll give you a recent example of this: Mountain Plains has had long term lending relationship with a three generation farm family whose previous business success involved raising row crops and feeding cattle. In an attempt to diversify their operation, the family started a dairy heifer replacement program which was profitable for several years. This business was well managed, but it began to experience the financial stresses that came with escalating input costs and the downturn in the dairy industry. As you might imagine, those stresses have continued and grown.

In response, Mountain Plains has worked with this borrower by employing a variety of tools from our borrower rights guidelines: we completely reworked the credit, advancing more new money for operational needs to raise livestock and crops. Our goal in taking these actions has been to help this account return to profitability.

What we've done for the borrower – and what the borrower has done for themselves – has given them an opportunity to stay in business during an extremely challenging down cycle. This farm family has a strong management team, they have implemented efficiencies that are serving them well now and will serve them even better when things do improve.

At Farm Credit, we know that the economy, markets and commodity prices are cyclical. That comes with 93 years of experience. When we say we're there in good times and in bad times, we mean it.

**Conclusion**

Mountain Plains Farm Credit and the Farm Credit System are serving our 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 is no taxpayer support of the Farm Credit System. 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 of our owners holding our feet to the fire to keep service quality high. We understand that Farm Credit's success depends on our customers' success.

We hope this information is useful as you continue towards completing your report on farm loan restructuring.

Thank you again for the opportunity to testify today on behalf of Mountain Plains Farm Credit. I would be pleased to respond to your questions.

Ms. WARREN. Thank you very much, Mr. Flesher.

Mr. Hardesty, the owner of Painted Prairie Farm.

**STATEMENT OF LES HARDESTY, OWNER, PAINTED PRAIRIE FARM, AND CHAIRMAN, DAIRY FARMERS OF AMERICA MOUNTAIN AREA COUNCIL**

Mr. HARDESTY. Well, good morning and thank you. My wife Sherrill and I farm just north of town here, just outside of town. We farm about 300 acres of forage crops, and we milk about 650 cows.

I think an overview of the dairy situation, the situation we find ourselves in today, really would start with the decreased worldwide demand, credit issues—that is what we are here about today—and high input costs. All of this is detailed in my report. I will not go into a lot of detail here.

This has put our dairy farm families in a dire situation. The complicating factor has been the strong demand for U.S. dairy worldwide in the recent past, and consequently strong prices due to that demand. This has sent a false sense of security and increased debt levels into our industry.

I would like to provide you with just a brief overview of the dairy industry to help put in perspective the magnitude of this situation. In 2008, 57,127 commercially licensed dairy farms produced about 190 billion pounds of milk from 9.33 million cows, generated a revenue of about $38 billion from milk. In addition, our farm families have another $110 billion invested in their facilities, their operations, their cattle, and their equipment.

Wholesale dairy product prices are down by more than 40 percent, now under the cost of production for most, if not all, of our U.S. dairy farmers. Input costs are up, especially feed, as they are influenced by corn costs. The cost-price squeeze is like none that has ever been experienced for over a generation. Demand must come back soon for many of our dairy farmers to be able to have a chance at recovery.

The credit crisis is serious as banks and lending institutions tighten the requirements and start to lose the willingness to participate in agricultural lending. The volatility of ag prices and profits is becoming more than most lenders care to bear.

Reliable sources of ag credit are drying up. Ag loans have historically been asset-based with careful consideration given to positive and continued cash flow. Most dairies structure their loan portfolio into three types: longer-term money used typically for real estate; midterm used for facilities, cows, and equipment; and short-term or operating funds renewed annually and used to purchase feed. Currently all of our own personal notes are with a local bank.

The planning process and consequent business plans of dairy operations really vary according to the stage of the business. You might have a growth-oriented business. You might have a stable business that is content with status quo, or you might have a business that is beginning to or preparing to exit. All three will formulate a different business plan, but in 2009, even the best laid business plan did not predict the severe downturn and length of pain that our farmers are experiencing.

In the future, risk management tactics and forward pricing contracting will be required by lenders. This may add even more stress as dairies will now have to include margin call accounts to their loan portfolio.

What can TARP do for dairy farmers? Require that institutions that have received funds to develop programs and commit resources to farm loans. We should develop new products specifically for rural America and assist rural lenders so that they can continue to lend.

Secondly, dairy farmers are all about helping others. With so many people searching for new jobs today, food aid assistance programs are being utilized at alarming rates. If TARP funding was used temporarily to increase the CCC purchase price for cheese and nonfat dry milk, all of those products could go back immediately into food assistance programs.

In conclusion, I do realize the daunting task that is at hand for this committee. I would ask that you keep the following statement in mind as you prepare your report. Agriculture is the backbone of America. It has helped us stand tall over the years. Without a vibrant rural economy, main streets across America will close indefinitely. Our country was built on agriculture. Farmers are the original recyclers and stewards of the land. We provide open spaces for our city cousins and safe, wholesome dairy products for our consumers. Without a strong U.S. dairy industry, our food needs will have to be more reliant on imports from countries that have food safety regulations that pale in comparison to ours. This committee needs to do all it can to keep America's food producers viable during this cycle.

Most importantly, thank you for listening and I look forward to your questions.

[The prepared statement of Mr. Hardesty follows:]

Dairy Farmers of America

Testimony of Les Hardesty
Dairy Producer, Greeley, CO
Before The
Congressional Oversight Panel
July 7, 2009, at 10:00 am
Weld County Centennial Center, Greeley, CO

Thank you for inviting me to present comments to you today. My name is Les Hardesty. My wife and I milk 650 cows and farm 300 acres of forage crops in Greeley, CO. Besides my duties on the farm, I also serve on the Executive Committee of the Dairy Farmers of America, Inc. (DFA) Board of Directors, as well as several other DFA committees. I am also a member of the board of the National Milk Producers Federation (NMPF) and a member of the Future Farmers of America (FFA) Agriculture Advisory Council. In addition, I am a past member of the U.S. Meat Export Federation and a past board member of National Cattlemen's Beef Association (NCBA).

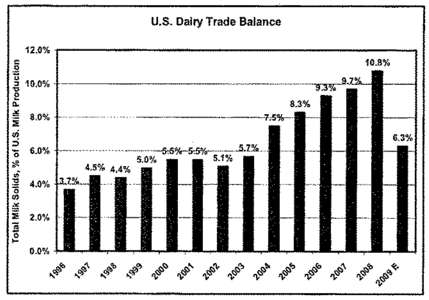
While much attention has been paid to the serious problems with home loans and foreclosures, there has been less talk of the strain on farm families and the loans they depend on, where an inability to keep up with payments is a double threat. Farms are both homes and businesses for many families, since the homes are often included as security against the farm loans.

Many Americans and businesses are feeling the impact of the current economic troubles, with farmers receiving lower prices across the board. The dairy industry, vitally important to Colorado's economy, has been especially hard hit -- the prices of wholesale dairy products and milk recently plummeted by more than 40%, and are now well under the cost of production for most, if not all, dairy farmers. Farms nationwide are already having difficulty meeting their loan payments. If these low prices continue, many segments of agriculture will realize personal and professional financial disaster.

Nationwide, the dairy industry is in crisis. Decreased worldwide demand, increased production overseas and the financial collapse have led to lower prices and painful times on many farms, a situation not unlike that of the automobile and other industries.

Figure 1

**Decreased Worldwide Demand:** In 2008 nearly 11 percent of all U.S. milk solids production was exported. As a result of the global recession this is expected to decline to approximately 8 percent in 2009, according to the U.S. Dairy Export Council (Figure 1).




**Increased Production Costs:** Feed costs, largely influenced by corn, increased to record levels in 2008 as a result of corn being diverted to other uses. Despite higher than normal milk prices on the farm, margins were squeezed and a number of dairymen chose to exit the industry (Figure 2). Negative margins will be even larger in 2009 as feed costs, while lower, have not declined as much as milk – therefore dairy producers will likely experience the worst return on their milk production in over a generation.

Figure 2

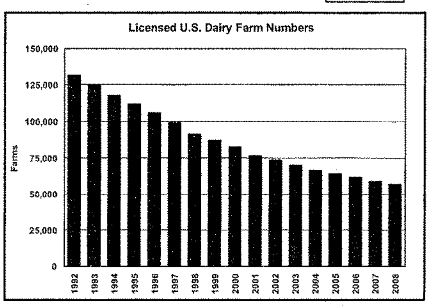
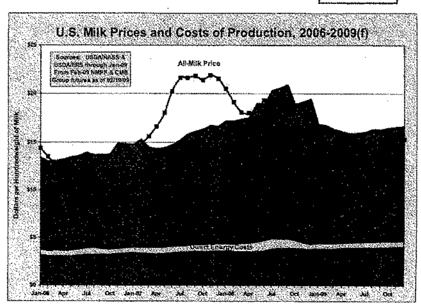



Figure 3




**The Financial Collapse:** Since late last year, world economies have been in shock following the news that many trusted financial institutions have mismanaged their affairs. The ripple effect on many U.S. citizens has been devastating. Personal savings, retirement accounts and many jobs have been lost. Recently, Forbes Magazine reported that over 500,000 jobs from the country's top 500 companies have been lost since November 2008.

Helping farmers to avoid foreclosure on their homes and farms is critically important to ensuring that the negative impacts of the economic downturn do not continue to spread through rural America or impact our domestically-produced food supply for consumers.

**My Story**: My wife and I have owned and operated our dairy farm since 1982. We started with 15 cows and have grown over the years to our present 650. Our conservative nature has certainly helped us through this severe collapse of dairy prices but it has not made it any easier. Twice in the last six months we have had to go back to our lending institution to obtain additional capital to just continue to operate. Without this "help" we would not have been able to stay in business. Our cows must be fed and cared for everyday of the week. Fall is a time of additional needs for capital. As we store feed at harvest in the fall for the coming year, we need a significant portion of our capital during this time frame. Will it be available? Without operating money, we would not have been able to continue with our family business as the milk check does not come any place close to covering expenses. It is our hope that one day our dairy can be left to our daughter to operate.

The collapse of dairy prices has had a severe impact on the banking institutions willingness to remain in agricultural lending. Why would they want to have the risk of volatile prices in agricultural production when the outlook for the near term is so dismal? Additional paper work and financial security is a must to obtain any financing in today's environment. Additional requirements to obtain financing in the future will include risk management practices that a portion of the producers do not understand. This only increases the risk at the farm when you are required to participate in programs that are foreign to you. It is more difficult than ever to obtain financing because of the current cost / price squeeze and the enhanced requirements on the banking industry. With milk sale receipts so low and input costs so high the margins are non existent and in most cases negative. This is not because our family farmers are poor business operators, in fact we have some of the most efficient dairy farms in the world.

I certainly understand that most Americans have suffered through this economic downturn. Agriculture is the back bone of America. Without a strong vibrant agricultural economy the road to recovery is not just bumpy but filled with potholes that will be difficult at best to navigate around.

Every day I talk to neighbors and friends in the industry that wonder how much longer this cycle will last, how long they can hang on, how much time will their bank give them. Dairymen and women who never have before, are having difficulty now. Many are not able to secure that needed additional capital and are selling what they need to in order to make it to the next month in the hopes of a turnaround on milk prices. Many producers will exit the industry, never to return. Others will come back in a few years, because dairying is a way of life for them, and it is how they want to live and raise their families.

This committee needs to ensure it does all it can to keep America's food producers viable during this cycle. Restructuring loans, providing additional payback time, offering new services should all be options to be considered and implemented. Without a strong U.S. agricultural sector, consumer food needs can only be met by increasing imports from country's whose food safety regimes pale in comparison to that of the U.S. That is not a gamble this committee should be willing to take.

Thank you again for the opportunity to share with you my thoughts on this issue.

Ms. WARREN. Thank you very much, Mr. Hardesty.

Mr. Ochsner from New West Bank.

## STATEMENT OF LONNIE OCHSNER, SENIOR VICE PRESIDENT, NEW WEST BANK

Mr. OCHSNER. I would like to thank the Panel for allowing me to share my thoughts as a locally owned and independent bank.

The management team at New West Bank has a long history of agriculture lending experience. I was born and raised in this Weld County area on a farm, and I personally have 26 years of ag lending experience. Our CEO and bank President have 36 and 30 years, respectively. We all started our careers as ag lenders, and we have a total of six ag lenders in our operations.

New West Bank currently has approximately 20 percent of our loan portfolio in ag loans, and we are actively seeking qualified agriculture borrowers that meet the industry lending standards.

The bank has a diverse mixture of ag loans which includes operating lines of credit, intermediate-term financing for equipment, and ag real estate loans.

To make a general statement about the state of the ag economy is a bit difficult since within the ag economy there are opposing economies at work. This has been true throughout history and will continue to be a dilemma that agriculture faces. As an example, when grain prices are high, the grain farmer benefits while the livestock producer is strapped with higher feed costs. When grain prices are low, the opposite impact occurs. Unfortunately, supply and demand, exports, and the weather, to name a few, are factors that play a big role in the volatility of these market swings.

However, one of the most important factors of success is the economics of each individual ag operation, which are directly impacted by the debt level of that operation. Those operations with acceptable levels of debt and proper structure are much more capable of weathering these economic cycles.

In general, crop products have been very profitable over the past several years. With good prices and good weather, these producers have experienced record earnings and profitability.

The dairy industry has suffered a decline in milk prices over the past 12 months but saw record high prices for two years prior to that decline. This industry is able to expand more rapidly than many other ag sectors. Record high prices prompted rapid expansion, and consequently, milk production levels increased rapidly. Again, this is nothing new, and those operations with prudent debt levels are able to survive the lows and flourish during the highs.

There have been dairy buy-out programs in the past that have taken excess cows out of production, and once again, there are too many cows in production at present. Cows that are coming out of production early will ultimately correct the problem, but this creates another opposing economic dilemma. More dairy cows going to slaughter have a negative impact on the beef cattle market.

New West Bank's dairy operations are definitely feeling the impact of low prices at present, but have been cautious with their debt levels and have expanded slowly and carefully, which has allowed them to survive this down cycle.

Current cattle prices are weakening, a result of the dairy cattle over-supply and liquidation. But in general, the rancher has been profitable over the past years.

Today, the risk and volatility of the markets have unfortunately made cattle feeding a very volatile industry, and the family farmer is involved on a rather limited basis. Commercial feedlots and investor feeders are more the norm than are family-owned feedlots. New West Bank has only three remaining farmer feeders. These operators have been very cautious over the past few years by using price protection methods and sitting out of the market when the economics were not suitable.

In summary, the ag operators in the northern front range and eastern plains of Colorado have experienced good profitability over the past 5 years. This is evidenced by very few liquidation sales and the high quality of agriculture loan portfolios of most of the ag banks in northern Colorado.

At the present time, New West Bank does not have a crop farmer or dairy farmer or cattle producer whose loans are adversely classified under the FDIC's risk classification. Based on this, our ag portfolio is as strong as it has been in years.

As discussed, agriculture can be cyclical in nature, and as always, things can change rapidly. At present, New West Bank has not experienced a decline in credit quality or increased delinquencies in its ag loan portfolio.

Annually each year, we discuss with our ag borrowers their financial progress, their overall risk in relation to the industry averages, and their ability to withstand potential adversity. It is not the bank's practice to lend people into insolvency or bankruptcy. Unfortunately, the bank must say no on occasion, and not all operations remain viable for whatever reason, be it bad weather, low prices, low yields, or poor management.

Clearly, the bank's success is directly related to our borrowers' success, so it is important for us to give good, solid counsel to our borrowers and for us to keep them in business as our customers. This, on occasion, requires the restructure of debt and possible assistance from the Farm Service Agency.

However, the free market system must be allowed to work whether it is in the ag sector or any other sector of the economy. Strong operations survive and unfortunately some weak operations fail. Sometimes very honest, hard-working people fail, which is very disheartening. The biggest injustice is for a bank to lend people into insolvency when good counsel may have helped them exit while they still had equity they could have salvaged. When these producers with weak financial positions cannot demonstrate the ability to survive and are falsely kept in business by either aggressive lending standards or tax dollars, it creates a false economy within the entire industry. Weak and highly leveraged operations simply cannot borrow their way out of a problem.

It has been recently suggested that one or two local banks would be able to better assist the distressed farm operators previously banking at New Frontier Bank if they were awarded TARP money. In my opinion, additional TARP money would have little or no impact in helping those distressed ag borrowers for the following reasons.

It is a consensus among the banking community that after several months of attempting to assist New Frontier borrowers, that 90 percent of the ag borrowers from New Frontier Bank do not meet normal and prudent lending standards. Only 10 percent are considered bankable and many are insolvent. Many of these borrowers are good, honest, hard-working people who have been loaned into positions they now cannot get out of. Specifically, they have more debt than they can repay and their debt far exceeds the value of their assets. All the TARP money in the world will not change the credit quality of these loans and the worst sin of all would be to give TARP money to a bank that is already short of capital and ask them to lend to these very high risk borrowers.

Secondly, the performance of the ag industry in general has been strong. I submit that most true agriculture banks are not in need of additional capital. The majority of these ag operations have been profitable, and those banks needing capital most likely were heavily involved in commercial real estate, spec construction, and land development.

Thirdly, there continues to be an abundance of agriculture lenders locally and across the Nation that are willing and able to lend to qualifying ag credits.

And lastly, the banking crisis we are facing as a Nation at present is not the result of a bad ag economy or bad ag loans. New Frontier borrowers are not representative of the industry at large.

In conclusion, there is not a shortage of available ag credit for those operations with reasonable debt levels and who meet normal industry standards for creditworthiness in underwriting. TARP money will have little impact.

TARP certainly may be warranted and justified for certain banks that are experiencing weak capital positions. I would suggest to this panel that you use the same sound judgment that good banks must use with their customers and selectively help those banks that can survive. A Government handout to weak and failing banks only creates a false economy within the banking industry and that comes at the taxpayers' expense.

Finally, I offer my condolences to those people impacted by the gross mismanagement of New Frontier Bank. Perhaps another congressional hearing should be conducted to determine how New Frontier Bank management and the regulators failed to protect the borrowers, the shareholders, taxpayers, and the community at large.

Thank you for allowing me to comment.

[The prepared statement of Mr. Ochsner follows:]

**Congressional Oversight Panel Field Hearing**

**Testimony of Lonnie Ochsner**

**Services offered by New West Bank**

The management team at New West Bank has a long history of agriculture lending experience. The CEO and Bank President, as well as the Senior Vice President and Eaton Branch President all started their careers as Agriculture lenders, and have 36, 30, 26, and 24 years of agriculture-lending experience respectively. The bank has a total of 6 ag-lenders. Several of the Board of Directors, as well as a large percentage of the shareholder base are from the agriculture industry.

New West Bank currently has approximately 20% of our loan portfolio in agriculture loans, and is actively seeking qualified agriculture borrowers, that meet the industry lending standards.
The bank has a diverse mixture of ag-loans which includes grain producers, vegetable growers, hay and silage producers, dairy operations, ranchers, and cattle finishing operations. Additionally, the bank has several Agri-business customers as well.

The bank offers operating lines of credit, intermediate term financing for equipment, and ag-real estate loans, in addition to a wide variety of deposit and cash management services.

**State of the local Agriculture economy**.

To make a general statement regarding the ag–economy is difficult since within the ag economy there are opposing economies at work. This has been true throughout history and will continue to be a dilemma agriculture faces. As an example, when grain prices are high, the grain farmer benefits while the livestock producer is strapped with higher feed costs. When grain prices are low the opposite impact occurs. Unfortunately, supply and demand, exports, and the weather, to name a few, are factors that play a big role in the volatility of these market swings. Additionally, the economics of each individual ag-operation are impacted by the debt level of that operation. Those operations with acceptable levels of debt, and proper structure, are much more capable of weathering these economic cycles.

**Crop Producers**

With this in mind, the majority of ag-operations have been very profitable over the past several years. Virtually all crop farmers have experienced very good weather and above average prices, which has resulted in record earnings and profitability. This is evidenced in the fact the New West Bank does not have a single crop producer whose loan is adversely classified under the FDIC's risk classification.

**Dairy Operations**

The dairy industry has suffered a severe decline in milk prices over the past 12 months, but saw record high prices for two years prior to the decline. This industry is able to expand more rapidly than many other ag–sectors. It is much easier to build more corrals and retain heifers, than it is to go out and buy more farm land. Consequently milk production levels can change rapidly. Again, this is nothing new, and those operations with prudent debt levels are able to survive the lows and flourish during the highs. There have been dairy "buy-out "programs in the past that have taken excessive cows out of production, and once again, there are too many cows in production at present. Cows that are coming out of production early will ultimately correct the problem, but this creates another opposing economic dilemma. More dairy cows going to slaughter has a negative impact on the beef cattle market.

New West Bank's dairy operations are definitely feeling the impact of low milk prices at present, but have been cautious with their debt levels and have expanded slowly and carefully which has allowed them to survive this down cycle. At the present time New West Bank has no dairy operators whose loans are adversely classified under the FDIC's risk classification.

**Cattle Operations**

Within the cattle industry there is another opposing economy, between the rancher and the feeder. Often times the success of one comes at a cost to the other. As mentioned, current prices are weakening, the result of dairy cattle oversupply and liquidation, but in general, the rancher has been profitable over the past few years.

With regards to the feedlot sector, each year more and more small operators are replaced buy fewer and fewer very large operators. Twenty years ago almost every family farm had livestock as part of their operation. Today, the risk and volatility of the markets have unfortunately made cattle feeding a very volatile industry, and the "family farmer" is involved on a rather limited basis. Commercial feedlots and investor feeders are more the "norm" than are family owned feedlots. New West Bank has only 3 remaining farmer feeders. They have been very cautious over the past few years, by using price protection, and "sitting out" of the market when the economics are unprofitable. This is a more specialized type of lending and once again, following industry lending standards is critical to survival in this industry. At present, New West Bank has no cattle feeding operators whose loans are adversely classified under the FDIC's risk classification.

**Economic summary**

In summary, the agriculture operators in the Northern front range and eastern plains of Colorado have experienced profitability over the past 5 years. This is evidenced by very few liquidation sales, and the high quality of the agriculture loan portfolios of most of the ag-banks in the Northern Colorado.

**Recent Trends and Defaults**

As discussed, agriculture can be cyclical in nature, and as always, there is concern that factors outside of the farmer's control may impact profitability. At present New West Bank has not experienced a decline in credit quality or increased delinquencies in its ag-loan portfolio.

**Loan Restructure during times of economic stress**

New West Bank discusses annually with each ag –borrower, their financial progress, there overall risk in relation to the industry averages, and their ability to withstand potential adversity. It is not New West Bank's goal to lend people into insolvency or bankruptcy. Unfortunately the bank must say "no" on occasion, and not all operations remain viable, for whatever reason, be it bad weather, low prices, low yields, or poor management.

The bank's success is directly related to our borrower's success, so it is very important for us to give good, solid counsel to our borrowers and for us to keep them in business as our customers. This, on occasion requires the restructure of debt and possibly the assistance of Farm Service Agency loan programs.

However, the free market system must be allowed to work whether it is in the ag- sector or any other sector of the economy. Strong operations survive and unfortunately, some weak operations fail. Sometimes very honest, hard working people fail, which is very disheartening. The biggest injustice is for a bank to lend people into insolvency, when good counsel may have helped them exit while they still had equity that could be salvaged. When these producers with weak financial positions cannot demonstrate the ability to survive and are falsely kept in business by either aggressive lending standards, and/or tax dollars, it creates a false economy and the entire industry is damaged. Weak and highly leveraged operations can not borrow their way out of a problem.

**Troubled Asset Relief Program / New Frontier Bank Closure**

It has recently been suggested that one or two local banks would be able to better assist the distressed farm operators previously banking at New Frontier Bank, if they were awarded TARP money. In my opinion, additional TARP money would have little or no impact in helping those distressed ag-borrowers for the following reasons:

1. It is a consensus among the banking community, that after several months of attempting to assist New Frontier borrowers, that 90% of the ag – borrowers from New Frontier Bank do not meet normal and prudent lending standards. Only 10% are considered bankable and many are insolvent. Many of these borrowers are good, honest, hard working people, who have been loaned into positions they now can not get out of. Specifically, they have more debt than they can repay and their debt far exceeds the value of their assets. All the TARP money in the world will not change the credit quality of these loans and the worse sin of all would be to give TARP money to a bank that is already short of capital, and ask them to lend to these very high risk borrowers.

2. Given the performance of the ag–industry in general over the past few years, I submit that most true agriculture banks are not in need of additional capital. Those that are, most likely were heavily concentrated in commercial real estate, speculative construction and land development lending.

3. There has been, and continues to be, an abundance of true agriculture lenders locally and across the nation that are able, and willing to lend to any and all ag operations that meet the industry standards and credit qualify.

4. The banking crisis we are all facing nation wide at present is **NOT** the result of a bad agriculture economy or bad agriculture loans.

**Conclusion**

TARP money may certainly be warranted and justified for certain banks that are experiencing weak capital positions. I would suggest to this panel that you use the same sound judgment, that good bank's must use with their customers, and selectively help those banks that can survive. A government handout to weak and failing banks only creates a false economy within the banking industry, at the taxpayer's expense.

Finally, I offer my condolences to those people impacted by the gross mismanagement of New Frontier Bank. Perhaps another Congressional Hearing should be conducted to determine how New Frontier Bank management and the regulators failed to protect the borrowers, shareholders, tax payers and the community at large.

Ms. WARREN. Thank you very much, Mr. Ochsner.

If you do not mind, we are going to have some questions just so we can learn a bit more while you are here.

Can I start with you, Superintendent Neiman?

Mr. NEIMAN. Thank you.

I thought I would start by focusing on—a number of you have mentioned the restructuring/modification process, particularly Mr. Scuse and Mr. Flesher. I would like you both to expand on it. My understanding is that under the Farm Service Agency's program, there are a number of protocols, including shared appreciation, that kick in only upon delinquencies. My understanding under the Farm Credit System—and I was quite impressed by the set of protocols that you outlined—even include pre-foreclosure notices.

So I would like you both to comment, if you can, on the programs, as well as on the success rates of those modifications. Have I correctly interpreted those two programs, one, that they are dependent—under the FSA program, that it is dependent on the borrower being delinquent and under the farm credit system, the borrower who may be current but facing problems?

Mr. SCUSE. As in my statement, if a borrower does fall into financial distress, they can receive lower interest rates. They can have their loans rescheduled and get up to a 5-year deferral of payments or, in extreme cases, get some of their debt reduced. Now, out of approximately 70,000 direct operating loans that FSA has in the United States, only about 170 per year actually go into foreclosure, and that number has been fairly steady over the last 3 years.

Now, because of the financial distress in the agriculture community, there is a very good likelihood that that may increase, but we do work with the borrowers to try to limit those numbers.

Mr. NEIMAN. So of the 70,000 operating loans, how many have availed themselves of this modification process?

Mr. SCUSE. I do not have that number for you, but I will be more than glad to get it for you.

Mr. NEIMAN. And do you track also re-default rates? That has been a major issue on the residential mortgage side. After modifications, there is still a high frequency of re-defaults.

Mr. WALL. There are not a lot of re-defaults——

Ms. WARREN. If you could identify yourself just so we will have a record. It is fine. You are welcome to be——

Mr. WALL. I am Gary Wall, acting State Executive Director for Colorado for Farm Service Agency.

Ms. WARREN. Thank you, Mr. Wall. If you could help us with the question.

Mr. WALL. I can state for Colorado on the restructures, after the loan is restructured, there are not a lot of accounts that go delinquent again because it is based on cash flow and history. We look at the history of that operation to determine what the history has been over the past and their yields and their income and their expenses. So after you work through those numbers and get it down to what they can actually cash flow to write off debt, defer, or whatever, they seem to continue on after you do it.

Ms. WARREN. Can I just ask because I just want to make sure I am following?

Mr. NEIMAN. Go ahead and follow up. Yes, please.

Ms. WARREN. So you are using a combination. You are not only writing down the interest rates, you also sometimes are writing down principal. Is that right?

Mr. WALL. We can write down principal. Correct.

Ms. WARREN. So you have the option to do both of those until you get something——

Mr. WALL. The value of the security—for example, I have got a $100,000 loan and their security for depreciation is worth about $80,000. We can write off that $20,000.

Ms. WARREN. I see. So you, I take it, do not have many loans that post-restructuring are under water in terms of negative equity, even though they might be cash flow manageable.

Mr. WALL. Not in the last 5 years. In the past, there have been some that the equity went down because of different circumstances, yes.

Mr. NEIMAN. And the interesting thing about that program, if I understand it, is that when you do write down the principal, there is a shared appreciation agreement so that the Government shares in the upside.

Mr. WALL. If it is secured by real estate. If it is the security on chattels, which is the machinery and equipment, the equipment is worth what it is today. So if you write it down, that debt goes away.

Ms. WARREN. There is no shared appreciation in most farm equipment. Right?

Mr. SCUSE. Exactly. If there is an appreciation in real estate, then that value is shared.

Mr. NEIMAN. So let me switch over to the Farm Credit System to understand the distinctions and the process. At the State level, we are familiar with a pre-foreclosure notice, and that could go out to borrowers early in the process. What is the success rate with that program?

Mr. FLESHER. You are correct. Our approach can be two-pronged. Obviously, a delinquency may trigger our borrower rights program and notification that we consider the loan to be in distress, and then we begin the process of letting the folks know that they have the opportunity to apply for restructuring, and we provide them all the material for that.

But delinquency is not required in order to begin that process. It may be, to use an example, we have a major hailstorm in a particular area of our territory, and we know that the crop loss is significant, possibly total. Well, obviously, that becomes a distressed loan, and then we begin the process early on of sitting down and trying to anticipate how that individual will be able to continue to service that particular loan. So we at times are reactive, but we at times are very proactive in the process as well.

Our success rate has been quite good. In the Mountain Plains territory, in the past 18 months, we have only initiated one foreclosure action and we have restructured 17 loans, and that is over an 18-month period of time. I am pleased to tell you that all 17 of those restructures are performing today.

Mr. NEIMAN. From the residential side, we have seen nationwide the difficulty in borrowers responding to these pre-foreclosure notices. How would you characterize the response rate from agricultural loans in terms of either being proactive in reaching out to the bank or reactive in responding to your notices?

Mr. FLESHER. Generally we find the borrowers to be proactive in sitting down with us. The process of applying for a restructure, Mr. Neiman, is not a one-sided dialogue. It is a negotiation. Our intent is to return the operation to profitability. We can do it on a least-cost basis. We want to see that loan restructured to return that operation to profitability. So even if a borrower does not respond back to us, the regulations give us the opportunity to initiate a recommendation with regard to restructuring a loan. Now, the customer may or may not accept that recommendation and may not be interested, and then, of course, we are left with the ultimate road to foreclosure. But even if we do not hear back from a customer, we have the ability to be able to sit down and to recommend a possible restructuring plan to help them with their situation.

Ms. WARREN. Well, I was just going to ask do you want to ask Mr. Ochsner?

Mr. NEIMAN. Yes. As a matter of fact, that was the lead-in to my next question. Are these protocols and restructuring processes unique to a cooperative association, or do you think that they can be adopted by commercial banks outside of the Farm Credit System? And maybe that is more directed to Mr. Ochsner.

Mr. OCHSNER. Sure. I think there is somewhat of a misconception within the independent banking world that a good bank stays with that borrower until they no longer can survive, and that is a misconception. A good bank is giving counsel along the way. I think there are instances when you have a disastrous hailstorm where a good credit quality loan can deteriorate quickly. In general, there are warning signs, and I believe most of the smaller independent banks are involved in counseling those borrowers as the credit deteriorates and looks at different alternatives.

The system in place currently with Farm Service Agency has been a big help for independent banks to utilize the existing loan programs that are there for both borrowers that are distressed and that have had deterioration in their ability to survive.

Ms. WARREN. Could I ask a follow-up question with that?

Mr. NEIMAN. Yes.

Ms. WARREN. Because I would just like to stay with this for just a moment, Mr. Ochsner.

That is, when you do a farm loan restructuring, about how long does it take? And I do not mean that in terms of months or weeks, but I mean it in terms of how many person-hours at each opportunity. I am really asking the question about the investment of resources required to do a restructuring. It may be appropriate for Mr. Flesher as well. But if you could just help us understand that a little bit.

Mr. OCHSNER. Sure. In a smaller independent bank, the restructuring process is dynamic over the course of a week or two possibly as you meet with that customer, but it is not a lengthy process by any means. I would suggest that you look at the alternatives that are available and you approach those. Oftentimes, there are limited alternatives. If you choose the path to use Farm Service as an instrument to help you, then that can take, obviously, a little bit longer until you prepare the paperwork necessary for that process.

Ms. WARREN. Mr. Flesher, can you help a little bit there?

Mr. FLESHER. You know, the best answer I can give you is that it depends on the individual that you are working with. We have had some situations where the borrower was very proactive, was very quick to provide us all of the appropriate financial information that we needed in order to make a decision. Obviously, the time that we spent—the administrative costs—I mean, beyond legal fees and then, of course, if in fact we are going to restructure, we also look at costs of liquidation because that is a possible alternative as well. So in this least-cost analysis, the time that we spend is kind of factored in with part of that number. But it is important to understand that a lot of it is predicated upon the willingness of the borrower to want to sit down to negotiate a restructuring package that we are comfortable with and that they are comfortable with.

Ms. WARREN. Right.

Did you want to add?

Mr. NEIMAN. I'll just frame it just a little bit. There is a real question in home mortgage foreclosures and small business foreclosures. We are not facing a handful. We are talking huge numbers right now. And the question is whether or not servicers in many cases are adequately prepared to spend the time that is necessary for restructuring. I recognize something is different about restructuring loans, particularly when you are restructuring a loan for a farming operation, but perhaps more akin to small business restructuring. But I was really just trying to get a sense, when I am hearing from people, as I am at this table, who engage in successful restructuring—some sense of the time involved because it tells us something about what may be needed elsewhere in the economy where, at least right now, we may not be quite so successful in negotiating restructurings that are not ending up in re-defaults quickly.

So if any of you actually have comments on that from having experienced on either side. Mr. Arnusch.

Mr. ARNUSCH. Well, I think Mr. Flesher hit the nail squarely on the head. I think it all, in my mind, boils down to that communication between the individual applying for that loan or needing of that restructure and the bank's willingness and ability to help them identify that in advance of these pre-delinquent notifications. From my perspective, by the time you receive a pre-delinquent notification, the problem is significant. In situations where a Farm Credit Service or an independent bank could help the individual identify those needs of restructuring to ease the cash flow issues, I think it all boils down to that communication and the ability for the lender and the lendee to be on that same page and understand the operation thoroughly. That in my mind is really the success that I talked about in my opening statement as far as being able to identify the ways and means to smartly restructure debt.

Ms. WARREN. That is helpful.

Mr. Silvers.

Mr. SILVERS. I want to turn from the process of restructuring loans to the basic economics of the question I think that a number of you have addressed. I am going to start with Mr. Flesher, but I would welcome other people's comments after he answers.

It is a major issue throughout the financial crisis that banks are holding assets which, if liquidated, are deeply insufficient to cover the loans they have made, and the process of liquidation does profound social damage. By social damage, I mean destruction of communities and neighborhoods. I do not think there is anything that makes the agricultural circumstances particularly different.

In fact, as I listened to the testimony today, it occurs to me that the kinds of businesses Mr. Arnusch and Mr. Hardesty run are put of an auction block tomorrow morning in the context of, for example, the crisis of the dairy industry, and might fetch considerably smaller prices than they were thought to be worth as collateral, say, 2 or 3 years ago. And the implications of this are very profound if that is true because it changes the nature of the options facing a banker such as Mr. Ochsner.

So, Mr. Flesher, I wonder if you could begin by talking about your sense of this question. From the perspective of the bank, the lender, is foreclosure of a troubled farm or agricultural business—I am not sure what Mr. Arnusch described as farm quite captures this—is that really the smart play in most instances?

Mr. FLESHER. As I mentioned in my testimony, part of our process is sitting down and taking a look at a least-cost analysis in that process.

Mr. SILVERS. And what do you find in that? Is there a rule of thumb here? In residential mortgages, there is kind of a rule of thumb, that foreclosures pull about 30 to 40 percent of the loan. That is what you realize. Is there any rule of thumb in agricultural lending?

Mr. FLESHER. There is not because every agricultural operation is very different based on, obviously, their diversity, the size, the types of commodities that they are involved in.

You know, when we sit down and take a look at an operation that is distressed, obviously, foreclosure is not the first thing on our mind. It is the last thing on our mind. We have a strong desire under our borrower rights program to be able to, as I said, return those operations to profitability.

I think what is key in agricultural lending versus other types of lending that you have referred to—within agricultural lending, we build relationships up front. When we make loans initially with a customer, it must be, as I said in my testimony, a sound loan, just as if we restructure an existing loan that has become distressed. It still must be a sound loan. Wanting to extend credit beyond the means of an operator is not prudent for the customer nor for the lender.

So when you talk about lending in agriculture, the relationship, the understanding of the inordinate risks involved in agriculture, which are very peculiar to agriculture, as compared to other types of lending, the ones you have referred to, all of those things are factored into our credit standards, into the decisions that we make, into the way that we structure our loans, as Mr. Hardesty referred to with regard to short, intermediate, and long-term credit and so forth.

So there really is no simple answer, Mr. Silvers, to your question other than, again, if we go into the process in a proactive way, wanting as our goal to be able to return the operation to profitability, then as I shared with you, in the past 18 months, there has only been one loan that we had to call to foreclosure. The other 17 we were able to restructure.

Mr. SILVERS. I am a sort of simple person in certain respects. So I am going to push for a simple answer. It appears to me from what you have said that in general your approach to troubled loans is foreclosure is not the last resort because you are generous and charitable-minded folks. It is the last resort because generally there is a better outcome for the lender in some sort of restructuring if you can get the sort of communication that Mr. Arnusch and other witnesses referred to. That seems like a simple proposition. Is that proposition correct?

Mr. FLESHER. I think so.

Mr. SILVERS. You think so. I got a simple answer.

Ms. WARREN. I think you are getting some agreement from Mr. Ochsner as well and Mr. Hardesty.

Mr. HARDESTY. If I may add to that just briefly here, you talked about the asset value being diminished from two to three years ago. In the dairy industry, I would say it is diminished from six months ago. Many of our producers, if this crisis would have hit six months ago or six months from now, would not find themselves in the position that they are in today because of this extreme devaluation of assets. Our farmers do not want a bailout. They just want an opportunity to succeed, and by restructuring and doing some of those things, I think that affords them an opportunity.

Ms. WARREN. Mr. Ochsner.

Mr. OCHSNER. Mr. Silvers, to accurately answer your question, I would like to, first of all, differentiate between housing and the ag sector. I do not believe anyone saw the significant drop in housing values coming. Historically prudent lending would suggest that you margin a loan, whether it is an ag loan or a housing loan, and you loan a certain percentage. In the housing industry, we typically over history have not seen drops in the values, and so a higher percentage has been acceptable.

However, in the ag industry, it is cyclical and good, prudent ag lenders have created a larger buffer, if you will, or a margin. In other words, if a cow is worth $1,500, they would loan 70 percent of that cow, knowing full well that cycles will occur where that cow may be worth $1,800, but still leaving that margin in place and utilizing a more stabilized value over time rather than wagging the tail up to a $2,500 value and then loaning 80 or 90 percent because the industry is experiencing great times.

Mr. SILVERS. But, Mr. Ochsner, I am not sure you are addressing my question. Let me explain why.

I do not disagree with your basic analysis that imprudent lending standards did a great deal of damage and that in a cyclical business such as agriculture that you want to have a significant capital cushion. I do think that housing is nowhere near as stable as you suggest it is, at least in many of our major markets. But that is not really here nor there for this conversation. I agree with that proposition.

The question is, what do we do now in relation to loans that may have been imprudently underwritten where the choices now are choices between restructuring and liquidation, where we cannot rewind the clock.

Mr. OCHSNER. The options are limited.

Mr. SILVERS. Do you disagree with Mr. Flesher's observation ultimately that as a general proposition, you can get better value out of a restructuring than out of a liquidation?

Mr. OCHSNER. It would depend on a case-by-case basis.

Mr. SILVERS. I mean, obviously, there are circumstances that are hopeless, and there are circumstances where continuing down the road is just going to make it worse in the end. I agree with you there.

But my question is looking across the totality of the ag lending environment, when you were faced with a situation that maybe you would like to hit rewind, but you cannot, is it the case in total, that there are more circumstances where restructuring would work out better for the lender than foreclosure?

Mr. OCHSNER. I do not know that I can answer that definitively. I am a small business owner and I have to, as Mr. Flesher said, analyze the least-cost alternative. If foreclosure and liquidation is the least costly alternative, then unfortunately that may be the alternative.

Mr. SILVERS. In your experience, is foreclosure generally the least-cost alternative?

Mr. OCHSNER. Again, I cannot answer that.

Mr. SILVERS. Well, surely you have——

Mr. OCHSNER. It is case by case based on the operations. My experience with the operations that I have dealt with——

Mr. SILVERS. Right. Yes, that is what I am asking.

Mr. OCHSNER [continuing]. in which we have tried to apply prudent lending standards, we have not experienced foreclosure in very many opportunities at all. Generally, we restructure through Farm Credit or Farm Service Agency. So I guess the answer to your question is restructuring would probably be a more viable alternative.

Mr. SILVERS. Thank you.

Ms. WARREN. I want to follow up in a slightly different direction if I can on this, and this is a question about—I am not sure if the right way to frame this is a big bank/small bank question or if this is better framed as a standardization in lending models and standardization in dealing with distressed loans versus a kind of handcrafted model. But we have been having a series of field hearings. We have been to a lot of different places hearing about different kinds of problems. But I would welcome your thoughts and your comments on this.

It seems to me, although I read very formal discussion of this, there seem to be two kinds of lending models that have emerged over the past perhaps dozen years or so. One that is very standardized. Let me know your ZIP code. Let me know your income, and I know how much to lend. And I must say it is not a notion that excessive lending does not help customers. The notion is the customer knows how much the customer should borrow and our job is just to make as much that available as possible versus this kind of handcrafted lending that you talk about.

And so I have two questions. First, do you see this divergence in lending? Maybe it is three questions.

The second is how much in the ag lending market would you say falls into one category or the other? Is it really all in the handcrafted, what I was calling the smaller bank model? Is that where ag lending really is right now, or is a portion of it somewhere else?

And any speculation on the consequences of that?

I would welcome comments from anyone who seems to inclined to start. Mr. Ochsner, you seem ready to go on that.

Mr. OCHSNER. I do not believe that there is a difference. I believe that sound underwriting is very much the same at the small, independent level as it is at the Farm Credit level. I would suggest that most small, independent banks use the same exact standards.

Ms. WARREN. As, say, Wells Fargo or——

Mr. OCHSNER. Absolutely, yes.

Ms. WARREN. Okay.

Mr. Flesher.

Mr. FLESHER. Madam Chairman, I believe that generally when you take a look at community banks and most regional banks across the country, they are more, shall we say, relationship-oriented and, by virtue of that, more hands-on in their customer relationship, their lending practices, their understanding of the businesses that they are lending money to. You take a look at, I think, some of the very large banks in this country, the ones that have been dubbed as "too big to fail," I am not sure that the personal high-touch business model that Mr. Ochsner and myself are familiar with is one that has been readily embraced by those larger banks.

Ms. WARREN. Go ahead, Damon.

Mr. SILVERS. I would like to follow up on this theme of big and small banks and in a somewhat different way. I mean, I think this is a theme that we have seen in other credit markets. I think Mr. Ochsner's description of having money to lend is not unusual in the community bank sector today of people who know their customers and are close to them, as Mr. Flesher described.

But I am interested in two things. I want to begin with Mr. Scuse. You described a dramatic escalation in people coming to your agency for loans. How do you apportion the cause of that as between the deteriorating credit quality of farm borrowers and the withdrawal of credit from the agricultural market by financial institutions for whatever reason? What do you see as the balance there?

Mr. SCUSE. I think it is both. I think you are seeing right now across the entire United States from coast to coast—it does not matter what type of agriculture you are in. I think there is a great deal of concern by the lending institutions as to the future of agriculture, if you look at what has happened to the dairy industry, again, the poultry industry, the swine industry, if you look at the decline in prices just in the last couple weeks in the commodity markets. So I think there is a great deal of concern out there from the banking industry, as well as a tremendous deterioration in the equity in agriculture. So I think it is a combination of both, not just one or the other, but across the entire United States, it is pretty much both.

Mr. SILVERS. Now, in this community, northeast Colorado, obviously, there has been the collapse of a major agricultural lender, perhaps a not particularly responsible one, but nonetheless, they are gone.

We, being the United States, we have put a great deal of taxpayer money into a number of large banks of the type that Mr. Flesher was describing, some of which are—at least had been significant agricultural lenders, including Wells Fargo, which I believe is the largest agricultural lender in the United States.

I am asking this of any of you, to the extent you know or have any information about this. To what extent are we seeing those banks which have been propped up by the United States taxpayer coming into this community and replacing the vanished credit capacity that we have had here?

Ms. WARREN. Mr. Flesher? Mr. Hardesty, you were reaching for the mic.

Mr. HARDESTY. I certainly cannot speak—I do not know how some of these large banks operate. Knowing the cast of characters in the dairy industry that happened to bank at New Frontier Bank, most if not all have been unable to obtain any other additional financing, and they have—reportedly—visited 8, 10, 15 banks and asking for loans. And so I would say that from more of a hearsay point of view, as far as the dairy industry is concerned, it has not happened.

Mr. SILVERS. I would just follow up on a few things. I think there has been a suggestion by Mr. Ochsner that a lot of those folks are not going to be able to repay further loans. Is that a fair characterization of your testimony, Mr. Ochsner?

Mr. OCHSNER. Yes.

Mr. SILVERS. I would ask you, Mr. Hardesty, if you disagree with that characterization of those folks, and secondly, do you have any information more broadly? As our Nation's banking systems become more concentrated, when we have a problem, serious problem with smaller banking institutions, are we seeing the big banks stepping up to address whatever there may be, small or big, depending on one's assessment of the credit quality of the borrowers?

Mr. HARDESTY. Personally I do not differentiate small to big. As an ag borrower, I want a relationship with my bank and my banker and the person that understands my needs. Period. I do not care if they are the smallest bank in town or the largest bank in town.

As far as New Frontier and whether or not those loans are bankable, I do not know the circumstances in detail, but I really think it is almost a moot point because that water is under the bridge. FDIC is in the process of packaging those notes, and so that water has already traveled downstream.

Ms. WARREN. We have one more. I am sorry. Mr. Arnusch.

Mr. ARNUSCH. I do not know if I can accurately answer the question you are asking, but I can tell you that we are seeing a concentration in the lending sector for agriculture just as we are seeing the concentration of agriculture in general.

But I wanted to point out this too. We are also seeing a lot of our input suppliers to our industry, be it John Deere Credit, be it financing options through seed companies, and other large companies coming to the plate that have been nontraditional lenders in the past. In certain instances, we have even seen where companies like John Deere are even offering operating credits in limited amounts. And so I would suggest that maybe some of these larger firms outside of what we would consider large banks are trying to pick up the slack, but to say that large banks are not lending to agriculture, I cannot go that far.

Mr. SILVERS. But you are seeing people in the trade credit business and, as you say, the nontraditional suppliers of credit expanding what they are willing to lend on.

Mr. ARNUSCH. Absolutely. Sometimes it is somewhat of a sales enticement. Often they offer interest rates that are far below anything that farm credit or a commercial bank could offer, and so there is a hidden strategy there. However, it takes the burden off of me, cash flow operations and operations——

Mr. SILVERS. From your perspective, a deal is a deal.

Mr. ARNUSCH. A deal is a deal so long as you agree with what you are buying.

Mr. SILVERS. Thank you.

Mr. NEIMAN. Having traveled across country for this hearing, I would not want to leave here today without clearly understanding recommendations from you all for legislative or regulatory change that we can make to Congress in our subsequent reports.

In analyzing the residential mortgage issue, a number of the root causes and legislative responses at the Federal and State level were clear. We addressed breakdowns in the origination process, breakdowns in the securitization process, weak underwriting, lack of counseling for borrowers, lack of opportunities for modifications.

Help me understand what we should be recommending to Congress. Clearly, I have heard of price supports for particular products, but are there other regulatory, structural responses with respect to the lending process? Because what I highlight on the residential side—many of those issues do not appear to exist on the agricultural side. So I would be very anxious to hear from all of you specific recommendations that we can consider in making our recommendations to Congress.

Ms. WARREN. Mr. Ochsner, would you like to start?

Mr. OCHSNER. Well, I may be the Lone Ranger here, but I truly believe we have had a strong economy up to the current point in time with certain dynamics like the dairy industry that have had their cyclical nature, which occurs.

Quite frankly, I think the best thing you can do is leave the Government out of it and let the true capitalism take its course. Let the process happen, and the strong survive. Unfortunately, the weak fail. Sometimes those are very good people, but there will be another person that will come alongside the weak. They will pick them up. They will partner with them or they will buy them out, and they will have enough money to go home and retire rather than carry on this false support that ultimately cripples the industry, whether it is agriculture or banking or the Starbucks on the corner. And I really believe let us let capitalism work.

Ms. WARREN. Thank you. Mr. Hardesty.

Mr. HARDESTY. Absolutely. In my testimony, I testified as Mr. Neiman correctly stated, that a temporary increase in the support of CCC purchase price would be a very, very minimal cost. On the cheese side, maybe $25 million is our estimate. On the powder side, I do not have that number with me. We could certainly obtain that number for you. But again, the severity of the dairy crisis is unprecedented. And certainly most of our dairy farmers are free marketers, but we passed the free marketing scenario four or five months ago, as we are nine months into this scenario.

Ms. WARREN. Thank you.

Mr. Flesher.

Mr. FLESHER. Madam Chair, I think it is safe to say that communities similar to Greeley, Colorado all across this country cannot afford the huge regulatory failure that this community experienced. So that would be one recommendation.

Secondly, I believe that——

Ms. WARREN. Please, I think Mr. Silvers wants——

Mr. SILVERS. Can you be a little bit more specific as to what you think the failure was and what should be done differently?

Mr. FLESHER. I, obviously, do not have access to the reports issued by the regulators of the local community banks here, but in my discussions with other community banking leaders, I am strongly left with the impression that the standards required by one commercial bank were not upheld in another commercial bank. And that has led me, Mr. Silvers, to believe that that issue needs to be addressed. Again, I do not believe communities across this country can withstand this sort of thing on an ongoing basis.

Mr. NEIMAN. I was also struck in your testimony when you said you have not changed or tightened your lending standards, and it is quite remarkable when we are aware of banks across the country who are increasing underwriting standards to such a point where there is a concern that they have gone too far. I think it is because of where they may have started from. So you may also want to comment on that as well.

Mr. FLESHER. Thank you, Mr. Neiman, for bringing that to the hearing today because we are proud of the fact that we have not changed our credit standards. We are proud of the fact that even though we have received criticisms from time to time within our local communities that maybe our credit standards were too strict, too conservative, we feel like, based off of the degree of risk in the industry that we serve, that our credit standards are there to not just protect the institution, but are there to help the borrower as well.

And so my second recommendation is that on a go-forward basis, all lenders need to better understand the importance of making solid loans from the beginning.

And then thirdly, we are very proud of our 20-year history in the area of borrower rights, and I want this panel to know that the program is working for us and it is working for our customers because it creates a framework under which everyone understands what the rules are. The playing field is level. The customer understands their rights and responsibilities. The lender also understands the borrower's rights and responsibilities. So it creates a wonderful framework for us to help resolve situations.

Mr. NEIMAN. Do you see that being transmittable to other commercial banks——

Mr. FLESHER. Mr. Neiman, that would be a policy decision of the U.S. Congress. We are very proud of our 20-year history and it is working for us.

Ms. WARREN. Thank you very much.

Mr. Arnusch.

Mr. ARNUSCH. Well, many of my recommendations and thoughts and ideas have already been taken.

But the point I would like to drive home too is, yes, half of the equation is certainly the lender, but the other half of the equation is the borrower. And agriculture is a changing and a complex industry and, with that, must be the evolution of our management strategies. There was probably no one more important to the success of my operation than my father and my family, but I can tell you I manage the day-to-day operations of my business so much differently today than my family did. In fact, I manage my operation differently than I did just three years ago. And until we recognize that it is an industry, I believe we will have future hearings such as this. It is an evolution process. It is a management process, and quite frankly, it is an education process.

Ms. WARREN. Thank you very much, Mr. Arnusch.

And Mr. Scuse.

Mr. SCUSE. Thank you, Madam Chair.

As a farmer who just 10 or 12 years ago was very, very critical of USDA and its lending policies, I can sit here and honestly say that there has been a dramatic turnaround in FSA, its loan programs and lending policies. We went from a delinquency rate just a few years ago of almost 25 percent to a delinquency rate today of just over 1 percent.

I think we have some very good programs at USDA. We are working with those producers that our programs are designed and intended for. I think we have some great opportunities out there, and our programs in my opinion function in a way that they are intended to work.

You asked me a question earlier this morning about the number of loans that we restructured, and I did not have an answer for you but I do now. We restructure approximately 2,400 loans out of the 70,000 per year.

Mr. NEIMAN. Thank you for that follow-up, a quick follow-up.

Ms. WARREN. Thank you very much. That is a very quick follow-up.

Mr. SCUSE. Modern technology.

Ms. WARREN. There we go. I love it.

I want to thank all of the witnesses for sharing your time and your thoughts with us today. As I said, your whole statement will become part of the public record, as well as your oral statements and our dialogue here. We really appreciate your taking the time to do this.

I want to say we also invited another very large financial institution to join us, and they would not. And I appreciate your coming and doing this. It takes your time and your energy, and we are all grateful as part of this panel.

This panel is now excused.

Before we adjourn this hearing, however, we want to take time for members of the audience, if you wish to speak to us. The way we are going to do it is if you will take the podium over here and make a line just back from there behind the podium. I am going to ask that people keep their comments short. We are going to try to keep these to a minute each just so we can hear from the maximum number of people. And Mr. McGreevy will hold up a stop sign when it is appropriate.

But we do want a chance to hear from everyone, and I want to be clear, what you have to say becomes part of the public record of this hearing. So we welcome your thoughts. So if you would identify yourself please, and we are here to hear your comments.

Mr. GALLATIN. Thank you. My name is Loyal Gallatin. I am an owner of a construction company here in Greeley. So I am kind of a little bit out of the scope of your discussion here. However, this kind of highlights the situation that we are in as construction and small business people here in Greeley.

We do not have these people as resources for financial assistance to restructure our loans. I have been to 24 financial institutions and have been denied 24 times. I do not understand that.

All of my construction loans have gone since the FDIC took over New Frontier Bank. I did not default this institution. I did not. My loans were in good standing when this bank was seized by the FDIC. The FDIC is telling me you have 30 to 60 days to restructure this, your loans. The FDIC has told me themselves we know there is no money available for you to do that.

So what do I do? I mean, in my case, are me and my family as a small business forced to file bankruptcy both on my business and personal and everything I have worked for is gone? I do not think that is true.

I am kind of out of the realm here. I am not a farmer. I am not a dairyman, but I have just as much of an impact on this community as these gentlemen do. One of our representatives from Morgan County stated that she had six people that had a $40 million impact on the economy. That is six people. I am one person. I probably have a $6 million or $7 million impact on this community.

So I just want you to know that it is just not all about ag, even though it is important. There is no doubt about it. There are others that are affected here as well.

Ms. WARREN. I appreciate Mr. Gallatin. One of the points of the field hearings is to get at least some sense of the impact on communities and we recognize it goes far beyond those who are in the direct business of producing agriculture. Thank you very much.

Yes, sir.

Mr. MCALLISTER. Thank you, ma'am. Respected members and chairperson, I am Darrell McAllister. I am CEO of Bank of Choice of Greeley. Bank of Choice is a $1.2 billion bank. We are not Wells Fargo, but we are larger than the current bank here today.

I think the question in northern Colorado is that banks and northern Colorado have adequate capital. With the closure of New Frontier Bank, $160 million in capital was vaporized. That is $1.6

billion in lending capacity. New West Bank, which is a very good quality, small bank here today, had as of their call report on 3/31 $7.4 billion—or excuse me—million in capital. You basically need more than 20 banks of their size to replace the capital that left this area.

They said they have 20 percent of their loans in ag loans. As the call report showed, they have $70 million in loans. That would mean they have about $14 million in ag loans today.

Our bank has refused to look at new loans because we just basically are not well capitalized enough. We are well capitalized, but not under the new standards that have taken it up to 12 percent. And we would wrap up too much of our capital. But we have turned down the chance to look at $15 million loans at this point in time just because we would be wasting our customer's time.

Without capital, it is hard to move forward. Capital is key. Without TARP funds for banks, does not make a bad loan good. Without capital, whether it is from TARP or other, attempts to lend in this community for many of the banks are impossible.

Ms. WARREN. Thank you very much. I appreciate that. It is very important.

Mr. SILVERS. Thank you for coming.

Ms. WARREN. Yes, ma'am.

Ms. SIDDELL. My name is Cindy Siddell. I am one of those third-generation exiting farmer people who have sons actively involved and were impacted by Frontier Bank. I have some grandsons and grandson-in-laws actively involved in agriculture. In our family, each son, grandson, and sons who are in partnership have found and secured separate lines of credit, but they work together as a unified whole. My husband and I have been involved in agriculture for over 52 years and have been customers of the various ag lending entities over that period of time.

And I would like to make the remark that the situation at Frontier Bank was predicated by the fact that a bank before them, Centennial Bank, sold out and that ag lending basis evaporated, vaporized. In its place, many of the other small banks were lending very cautiously, Bank of Choice and West. In that vacuum, New Frontier stepped forward and actively courted a number of the larger agriculture entities to get their business. And then we had this scenario of perhaps one very large operator in a very volatile dairy industry toppled, and the row of dominoes went down.

So with that, I would like to conclude that most farmers and ranchers prefer to have that very intimate, knowledgeable relationship with their banker. They like to deal with the smaller independent banks. What the solution is I do not know, but we need more free credit. We need more banking organizations, perhaps the credit unions, to be freed up in the kind of loans that they can make so that those viable operators can continue to operate.

Thank you.

Ms. WARREN. Thank you, Ms. Siddell.

Yes, sir.

Mr. SPONSLER. Hi. My name is Mark Sponsler. I serve as the Executive Director for the Colorado Corn Growers Association and the Colorado Corn Administrative Committee, among other roles. But I want to be clear that I am not speaking on their behalf, but in that role, it has put me directly in the middle of many of these types of meetings and I have been following the issue very closely. So I speak personally as an incurable agriculturalist who grew up in the Midwest and has been fortunate enough to spend more time in Colorado agriculture than in my home State of Iowa.

But I want to emphasize some points that I heard today that I think really bear emphasizing, and one of those primarily was brought forward by Mr. Hardesty. And I very much appreciate the quest of Mr. Silvers to drill into the better of two options regarding foreclosure versus restructuring and specifically what he referred to as the profound social damage done by restructuring.

As Mr. Hardesty said, these are unprecedented times in terms of the livestock industry, particularly dairy, for what is understood to be cyclical but the extremes of that cyclical cycle have bounded further than ever before in history. And I would ask that special consideration be given to the fact of these unprecedented times and the fact that unprecedented measures may be appropriate given the immense impact on both food security, national security, and safety that those products provide us.

Thank you.

Ms. WARREN. Thank you very much, Mr. Sponsler. I appreciate your coming.

Yes, sir.

Mr. REIMER. My name is Dean Reimer. Basically I have been a resident of Colorado all my life. And I am kind of from an ag background, but I am an investment counselor now basically.

What bothers me is it seems like there is a lot of discrimination between large banks and small banks. I have been an investor in small banks. And I think a lot of it pertains to exactly who is servicing loans, especially in the mortgage area, and personal contact between bankers and their customers. And it seems like that there has been a failure of a lot of the government agencies, the SEC in particular, with oversight in a lot of these issues.

All I am trying to say is that it seems like, to me, that the compensation and the nationalization, I guess you might say, of the large banks by the Government—and that is pretty much what they did. They are taking over major ownership of a lot of these institutions. That discriminates a lot against community small business and community banks and that sort of thing.

And this does not have a lot to do with agriculture, but because that is more of a personal business. And the large banks, I do not think, want that business because they do not understand it. They just want large loans to large institutions.

So all I am trying to say is I think the discrimination against smaller institutions, raising capital requirements like, for instance, is something when a distressed bank is in trouble that is completely wrong because all you are doing is causing a larger problem.

Ms. WARREN. Thank you very much, Mr. Reimer. Thank you.

One more.

Ms. RODRIGUEZ. I want to go last.

Ms. WARREN. Yes. Rosemary Rodriguez. That is right. Do we have anyone else who wanted to comment? Please, ma'am.

Ms. HURSTON. Hi. I am Deb Hurston, and my husband and I had a dream for years of setting up a farm, and we came to Colorado specifically for that from Georgia.

I heard you ask for recommendations to take, and I did not hear a lot of recommendations. I heard a lot of self-proclamation, but I did not hear a lot of recommendations. And there is one recommendation that I will make. When the FDIC comes in and takes over a bank, particularly an ag bank, please do not do it as the timing was for this FDIC takeover because now I should be focused on my crop. I am crop. I am not dairy. I am crop. I should be focusing on my crop and getting my farm—making it profitable for the year. Instead, my focus is on refinancing the debt that I had with New Frontier.

They are exactly right in that ag lending is different. I have been in lending for all my adult life, but ag lending is different. You have to take the time to build that relationship with that bank, and when the FDIC comes in and says you have this amount of time, it takes time to build a relationship with a bank in order for them to take your loan. So we are feverishly working with a community bank who is trying to do that.

My other point is that if the FDIC has to sell my loan to somebody, they are not going to get 100 percent of that loan. We talked about residential, 30 to 40 percent as the rule of thumb. I do not know what it is with ag, but it is not 100 percent. So why is the FDIC putting us through filling out paperwork like this and going through all of these hoops when I am offering them 80 percent of the loan. I can fairly readily get the financing for 80 percent, and I am hitting all these roadblocks. So there needs to be something there in that regard.

So the timing for a takeover is crucial. This is not a local Federal savings and loan. This is ag. They need to take that into consideration before they step in and do something like this because it does take a lot more time to build a relationship with a bank who will come in and take over your loan.

Ms. WARREN. Thank you very much. I appreciate your coming, Ms. Hurston.

Is there anyone else before we go to Ms. Corwin. Is this Mr. Bennett? Is that right?

Mr. BENNETT. Yes.

Ms. WARREN. So we will do Ms. Corwin and then Mr. Bennett. Ms. Corwin.

Ms. RODRIGUEZ. My name is Rosemary Rodriguez. I am the State Director for Senator Michael Bennet. Meg Corwin is our regional representative.

Ms. WARREN. Oh, I am sorry.

Ms. RODRIGUEZ. She is in the room today and has worked with a number of folks in this area for quite a long time. But lately a great deal of her time is spent on dealing with the banking issues.

Senator Michael Bennet is a member of the Banking Committee and he is a member of the Agriculture Committee. So we are definitely on his field today. He greatly regrets that he cannot be here personally but asked me to say a couple of things, and first of all, state the obvious, that times are tough right now in this country and in our State and especially here in northeastern Colorado.

On his behalf, I want to thank the members of the TARP oversight panel for listening to the testimony today and to the people of this community.

I would like to acknowledge the local residents who have taken their time to address this panel. Their voices need to be heard. This is an opportunity for you to learn more about the dire situation faced by people who depend on agricultural lending as we struggle through this deep and painful recession.

The TARP does need oversight. These Coloradans can tell you firsthand what is broken now. Wall Street and the biggest banks in the world have gotten every benefit that Washington has had to offer, but rural America has not fared as well.

The April 10th closure of the New Frontier Bank created an urgent need for credit that is felt throughout this local economy. Greeley is a proud community and it says something about how difficult things are that people are here today asking for your consideration. I hope you will return to Washington and convey our collective message. TARP should also be about rural America and working families, community banks, and average taxpayers, not just about big New York banks.

Senator Bennet, Senator Udall, and Congresswoman Markey have reached out to various members and received a good response from a number of members that I have outlined in the written testimony. That is the past.

At this point, we need to focus on how we move forward. You will be doing this community and this country a great service if you take what you have heard today back to Washington. The situation in Greeley is a perfect example of the program's limitations, namely: one, it has mostly ignored the needs of community banks and credit unions; two, it has mostly ignored whole sectors of this economy that are critical to recovery, especially agriculture; and three, it has mostly ignored the direct needs of the middle class such as borrowers here today who paid on time and lost their loans through no fault of their own.

Colorado families deserve better than this from their Government. Taxpayers such as the farmers and entrepreneurs in this community deserve a better return on their investments and so do our smaller banks. The livelihoods of Coloradans are at stake and the manner in which we resolve the situation will have a ripple effect throughout all of northern Colorado.

One thing he learned during his two prior trips here in April is that the best ammunition he has as a Member of Congress is the individual stories that people here today have. Senator Bennet would encourage all of you to continue to work with Meg Corwin and share your stories so that we can take them back to Washington. If TARP cannot work for communities like this one, then what good is it?

Thank you for coming.

[The prepared statement of Mr. Bennet follows:]

**Statement of Senator Michael Bennet**

Times are tough right now--in our country, in our state, and especially here in northeastern Colorado. I want to thank the members of this TARP Oversight Panel for listening to the testimony today and to the people of this community. I'd like to acknowledge the local residents who have taken their time to address this panel – their voices need to be heard. This is an opportunity for all of you to learn more about the dire situation faced by people who depend on agricultural lending as we struggle through this deep and painful recession.

The TARP does need oversight. These Coloradans can tell you firsthand what's broken about it. Wall Street and the biggest banks in the world have gotten every benefit of the doubt that Washington had to offer. But rural America hasn't fared as well. The April 10th closure of New Frontier Bank created an urgent need for credit that is felt throughout this local economy.

Greeley is a proud community, and it says something about how difficult things are that people are here today to ask for your help. I hope you'll return to Washington and convey our collective message – the TARP should be about rural America, and working families, community banks and average taxpayers – not just about the Big New York Banks.

Senator Udall, Congresswoman Markey and I pushed the federal government to move to address the New Frontier failure months ago. On April 28th, we wrote to Secretary of Agriculture Tom Vilsack requesting a commitment of resources from the USDA's Farm Service Agency (FSA) to help farmers with seed, feed, and fertilizer costs, and we asked for additional personnel for Greeley to help process loan applications. Secretary Vilsack committed resources to spark increased Ag lending, and sent additional FSA loan personnel to Greeley. Senator Udall, Congresswoman Markey and I also sent a letter to the Secretary of Treasury Timothy Geithner. With the Treasury's new emphasis on assisting smaller banks, we asked Secretary Geithner to determine whether any banks in northern Colorado that have applied for TARP funds could now qualify. At a Banking Committee hearing , I again pressed Secretary Geithner on the severity of the situation in northern Colorado and underscored the need to extend assistance to local community banks. Senator Udall, Congresswoman Markey, and I also wrote to the Small Business Administration requesting that it work aggressively with its lenders to extend financing to small businesses struggling with the effects of the New Frontier failure.

At this point though, the past is the past and we need to focus on how we move forward. You'd be doing this community, and this country, a great service if you take what you've heard today back to Washington. The situation in Greeley is a perfect example of the program's limitations, namely 1) it has mostly ignored the needs of community banks and credit unions, 2) it has mostly ignored whole sectors of this economy that are critical to recovery, especially agriculture, and 3) it has mostly ignored the direct needs of the Middle Class, such as borrowers here today who paid on time and lost their lender through no fault of their own.

Colorado families deserve better than this from their government. Taxpayers such as the farmers and entrepreneurs in this community deserve a better return on their investment. And so do our smaller banks.

The livelihoods of Coloradans are at stake and the manner in which we resolve the situation will have a ripple effect through all of northern Colorado. One thing I learned during my two prior trips here in April, is that the best ammunition we have as members of Congress is the individual stories that so many people here have. I would encourage all local residents here to continue to share those stories with my office. Tell us what problems have been resolved and what stands unresolved. In turn, I fully intend to continue to advocate on behalf of this entire community. If the TARP cannot work for communities like this one, then what good is it?

Thank you all again for coming.

Ms. WARREN. Thank you again, Ms. Rodriguez. Thank you, Ms. Corwin, too.

Mr. Bennett, I think is our last speaker for the day.

Mr. BENNETT. Thank you very much. I am Ken Bennett. I am the District Director for Congresswoman Betsy Markey, and she too would love to be here today but she is working in Washington, D.C. right now.

She asked that I relay to you her thanks for the work the panel is doing, witnesses, and all the attendees and the citizens paying attention to this serious issue. I know she has been very focused on this. She wrote a letter to Secretary of Agriculture Vilsack on this. She has spoken directly with the chair of the FDIC, and she has been working with Treasury to move towards solutions.

We appreciate that you are taking the time to understand the seriousness of the issue, the impact that this has on our agriculture industry, the impact it has on hard-working American families, and as others have said, the ripple effect, the impact it has on the economy throughout our entire region here.

She asked me to convey to you her appreciation to the panel for your investigation, for your questioning, for seeking effective ways of using our taxpayer dollars in helping us move forward on solutions.

Thank you very much.

Ms. WARREN. Thank you, Mr. Bennett. I appreciate it.

So this hearing is about to adjourn. I just want to say how much we appreciate your coming, how much we appreciate those who came and testified. Thank you. Those who gave us public comment. Very valuable. And just those who came to be part of this process.

What happened here today will become part of our report on farm credit, which will come out near the end of this month.

In addition, what happened here today will also help inform all of our work in the Congressional Oversight Panel's analysis of Treasury's execution of the Troubled Asset Relief Program. So it becomes valuable not only for the specialized report on agriculture, but for all of our reports.

I also want to say we are in communication with the FDIC, and we intend to follow up with the FDIC on what we have learned here today. We will have additional conversations both on a formal and an informal basis to make sure that what we have heard is communicated as clearly as possible back in Washington.

So with that, again, the Congressional Oversight Panel offers its thanks for your hospitality and this meeting is adjourned.

[Whereupon, at 11:57 a.m., the hearing was adjourned.]

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