Statement of Doug Stark, President and CEO
Farm Credit Services of America, Omaha, NE
On Behalf of the Farm Credit System

Mr. Chairman and members of the Committee, thank you very much for the opportunity to appear before you this afternoon to discuss the status of the Nation's ethanol industry. I am pleased to appear before you today on behalf of the institutions of the Farm Credit System.

My name is Doug Stark, and I am President and CEO of Farm Credit Services of America. Farm Credit Services of America is one of the 100 institutions that comprise the Farm Credit System. Together at the end of 2006 these institutions had more than $123 billion in loans outstanding to farmers, ranchers, rural homeowners, cooperatives, rural utilities, rural water systems as well as to certain farm-related business and marketing and processing companies.

Farm Credit Services of America serves the states of Iowa, Nebraska, South Dakota and Wyoming, areas where there is a high concentration of ethanol facilities. We have more than $10 billion in assets, and we are owned by over 65,000 farmers who borrow from us. We are a cooperative, and I am proud to say that over the last three years our institution returned over $150 million of our earnings, in cash, to those farmer-owners.

Farm Credit's historic mission has been to facilitate the flow of capital into agriculture and rural America by efficiently accessing the Nation's money markets and delivering credit to those that are eligible to borrow from us. The Farm Credit Act sets out several pretty specific goals for us – one of which is most important, however, and that is to accomplish the objective of improving the income and well-being of American farmers and ranchers. We got involved in financing the ethanol industry because of this direction – because of the industry's potential to improve the income and well-being of farmers.

The Farm Credit System through our sister institution CoBank, first got involved in the financing of ethanol plants about 15 years ago when CoBank stepped forward to work with a group of farmers who needed financing for an ethanol production plant they wanted to build in Aberdeen, South Dakota. Since that time, System institutions have been leaders in financing the growth of the ethanol industry. We play a unique role in support of the industry. Not only do we finance the construction of these plants and provide them operating credit, but we also provide farmers the opportunity to unlock some of the equity they have built up in their land so they can invest it and build equity in ethanol facilities. Because of our structure, we help create new economic activity in rural communities using funds brought in from the national money markets, and then because we are a cooperative, we share the profits generated in accomplishing this with local farmers. This keeps those profits working in the local economy as well. This is a true win/win situation.

As of the end of 2006, the Farm Credit System institutions reported loans outstanding and commitments to bio-based energy operations of just over $2.8 billion. Since that is a point-in-time number, it really understates the total financing we have provided the industry over the last 15 years, and it does not include the financing we have outstanding with farmers that have invested in these facilities. We are very proud of this record of success in helping to build this industry – but it is essential to understand that we have approached the financing of each of these businesses recognizing that the goal of all involved is to make sure they succeed as a business.

As you consider the future direction of the ethanol industry and looking ahead to a transition to cellulosic ethanol, biodiesel and other forms of bio-based energy, I'd like to share with you how we approach a potential loan when we are putting our owners capital at risk by extending financing to one of these facilities.

In general, when we look at a proposed deal we undertake a comprehensive underwriting due diligence. We consider the economics of the proposal, including what is the plant's sensitivity to fluctuations in the price of key inputs such as its primary feedstock or the power required to operate the pant. We look closely at who will be doing the engineering and design of the plant and are the contractors that will be doing the construction experienced in building this type of facility. We consider logistics, such as the adequacy of local transportation facilities to ensure that feedstocks can get to the plant and product can efficiently be moved to end users. Also critical to our financing decision is understanding the types of marketing relationships that the plant's owners have in hand or that they are negotiating – put differently, how will this plant be ensured a steady stream of feedstock and what buyers of the product have been lined up and locked in.

We will want to know everything we can about and will work with a company to put in place their capitalization plan to make sure they have sufficient equity and liquidity both to operate during normal times but also to survive the stressful ones. We want to know the backgrounds of and understand the quality of management that are going to be involved in a plant – what experience do they have and do they know what to do in good times as well as the tough times. We constantly monitor the status of government policy as it relates to the industry – is tax or import policy changing or are there unresolved environmental or regulatory issues involving the plant site and what are the risks associated with shifts in policy.

Finally, we structure the loan so that it will best meet the needs of the ethanol production facility and its owners, and so that it will best reduce the risk to our farmer-owners and those investors that buy Farm Credit System bonds. Most often this means that we put together a lending syndicate to provide the financing. This can take many forms including multiple Farm Credit System institutions or, as is often the case, a syndicate that involves a Farm Credit institution as the lead lender, combined with other System institutions and commercial banks. A lending syndicate reduces the risk associated with this type of large credit by spreading the risk associated with any individual facility or company around to may different financial institutions. Again, our goal is to be involved with successful projects, because those that fail do not do anyone any good.

Favorable government policies have been absolutely essential for the success of this developing industry. Renewable Fuels Standards both at the Federal and state level have served to ensure a market for the product. Minnesota, for example, has a mandate for E85 fuel, as does California and several Northeastern states, while many of the Sunbelt States have no similar ethanol requirement. If we are serious about achieving the 25 X 25 goal which Farm Credit endorses, it is critical that government policy encourages an adequate marketplace for the end product. Federal support for increased ethanol use not only promotes the long-term development of ethanol, but it will also help to absorb the increased production that will be coming online in the near term.

Aside from mandates for ethanol use, we also believe that the current level of tax support at the pump is important to the continued vitality of the industry. Also, while our industry continues in its development stage, tariff support continues to be important so that our industry is not disrupted by imports. Predictability is an issue as we look at projects and shifts in these policies or the threat of shifts are problematic.

Improved infrastructure is another area of focus. As plants are constructed in rural areas stress is placed on transportation and roads. These needs should not be ignored. We also are now seeing increased demand for financing of storage facilities as increased production comes on-line. Locating tank farms near transportation hubs may increase the efficiency of ethanol distribution.

We strongly support efforts to develop a cellulosic ethanol industry along side of the existing corn-based industry today, but we caution that policies not be adopted that might result in the government picking winners and losers in the development of various types of ethanol. Again, if the goal is to succeed in achieving less reliance on foreign oil, we believe that government policy must continue to provide support for all segments of the bio-fuels industry.

While we caution against tipping the scales to one form of ethanol over another, the practical reality is that the cellulosic ethanol industry needs support in order for it to take hold. New technologies involve heightened risk and this has been recongnized in the loan guarantee programs that have been put in place already and that are being proposed. We strongly support these efforts but offer two suggestions for your consideration. First, our view is that USDA has a proven track record of success in running guaranteed loan programs in rural America for business development. We urge that USDA be the lead agency for loan guarantees for cellulosic production facitilities.

Second, the form of guarantees should also be reconsidered to make available "last-dollar" guarantees instead of "a percentage of loss sharing" guarantees. Under a loss-sharing form of guarantee, the lender is unable to determine, up-front, the maximum loss that it would incur in the event of default. In other words, the lender is unable to assess the true risk of the loan. Accordingly, we do not view loss-sharing guarantees as the best inducement to lend. "Last dollar" guarantees, which allow a lender to determine, up-front, the maximum loss that might be incurred, would be more effective for attracting financing. An effective loan-guarantee program is important as Farm Credit puts stockholder equity at risk to continue to support the growth of ethanol. We believe this form of guarantee provides us the best opportunity to responsibly manage our risk.

While appropriately structured loan guarantees help address the inherent risk with cellulosic production, it is vital that the government take the lead in supporting research and development programs to support this industry. There is much we do not yet know about what crops offer the most efficient source of cellulose and how the development of the market for cellulose will impact cropping patterns across the country. As a lead lender to all types of agricultural producers, we are very sensitive as to how the success of this industry is rippling through and impacting other segments. More work needs to be done in terms of economic risk analysis and to determine the implications both good and bad for the livestock industry. We urge the committee to make sure this is given the support it needs so that we not dislocate one vital agricultural segment while building another.

Finally, we are seeing the beginnings of a challenge in finding sufficient interest from other lenders to fill out the projects that Farm Credit is leading. Existing ethanol projects are looking to build additional storage to increase their feedstock inventory, and this is driving an increase in requests for additional funding for these existing plants. As this demand is occurring, several "early entrant" lenders to the industry have reached or are close to reaching their lending capacity for ethanol. Put differently, regulators do not like to see risk exposures in institutions that are too heavily concentrated in any one industry. Although ethanol has generated tremendous interest from Wall Street and other non-rural investors, that interest can evaporate quickly when the economics of the industry change.

The increase in corn prices and the decrease in oil prices from the highs experienced in the summer of 2006 have slowed the level of interest in projects from non-farm investors. The substantial returns early investors were realizing are moderating and now folks are trying to weigh alternative options for their money given the relative risk. Some groups that were contemplating building an ethanol plant and who got on the list for construction priority are now withdrawing their project for several reasons, including rising capital costs, equity shortfall, debt shortfall, and potential for lower return on investments due to rising corn costs. I mention this because it is an important factor as you seek to attract greater private capital to grow the industry even further.

Mr. Chairman, American farmers are the most efficient and productive in the world and energy is a critical backbone of our economy. The Farm Credit System stands ready to work with the Committee as you consider policy options to continue the growth of renewable fuels in meeting these demands. We are working in all areas from supporting ethanol, bio-diesel and wind turbines to the conversion of manure to methane for electricity production. Our farmers and rural residents are saavy entrepreneurs, and we are proud to work along side them to improve the energy independence of our Nation. I would be happy to answer any questions you might have.

DOUG STARK
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PROFESSIONAL EXPERIENCE

Farm Credit Services of America **1985 – Present**
Omaha, Nebraska
An $11 billion financial services provider to agriculture and rural America

President and CEO **2005 – Present**
Responsible for overall leadership, vision, and direction of Association activities.

Senior Vice President – Chief Credit Officer **1998 – 2005**
Responsible for Association-wide Senior Leadership and the functional effectiveness and quality of the loan portfolio.

Area Manager, Casper, Wyoming **1992 – 1998**
Provided leadership and coaching to retail offices in three states. Developed a positive, highly motivated team, successfully led marketing activities, growth, and improved portfolio profitability.

Interim Division President – Credit and Chief Credit Officer **(Jan-May 1997)**
Omaha, Nebraska
Served in dual role with Area Manager responsibilities to lead activities in Association Credit Department.

Vice President Credit and Credit Manager, Casper, Wyo. **1987 – 1992**
Directed regional credit and marketing activities including lending philosophy, new loan origination, prior approvals, and training.

Regional Vice President **1986 – 1987**
Provided leadership to and supervised up to 8 branch offices.

Assistant Vice President Quality Control **1985-1986**
Monitored and supervised credit quality and loan administration programs.

FARM CREDIT ADMINISTRATION
Spokane, WA

Examiner/Supervisor **1983-1985**
Evaluated credit quality, credit administration, and supervision activities in Sacramento, Omaha, St. Paul, and Jackson Districts.

FEDERAL LAND BANK ASSOCIATION OF WYOMING
Casper, WY

Assistant Vice President – Credit, 1981-1983
Conducted internal reviews, lead prior approval function, developed investor loan applications, and trained lending staff.

Assistant Loan Officer, Gillette, WY 1980-1981
Provided customer service through originating, analyzing, and recommending credit requests and servicing actions.

PADLOCK RANCH COMPANY, Sheridan, WY 1980

EDUCATION
B.S. in Agricultural Business, University of Wyoming
May, 1980. Honors Graduate

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

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

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

1. **Please list any federal grants or contracts (including subgrants and subcontracts) <u>you</u> have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do <u>NOT</u> require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: none **Amount:** ______________

Source: ______________ **Amount:** ______________

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) <u>the organization</u> has received since October 1, 2004, as well as the source and the amount of each grant or contract:**

Source: none **Amount:** ______________

Source: ______________ **Amount:** ______________

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

Signature: Douglas R. Stark

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

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.