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Highlights

Highlights of GAO-04-827T, a testimony to the Committee on Agriculture, House of Representatives

June 2, 2004

FARMER MAC

Greater Attention to Risk Management, Mission, Public Purpose, and Corporate Governance Is Needed

Why GAO Did This Study

This testimony is based on GAO's October 2003 report, *Farmer Mac: Some Progress Made, but Greater Attention to Risk Management, Mission, and Corporate Governance Is Needed* (GAO-04-116). GAO's testimony presents a brief overview of Farmer Mac and discusses issues raised in its 2003 report, including Farmer Mac's risk management practices and line of credit with Treasury, mission-related activities, board structure, and oversight, which is provided by the Farm Credit Administration (FCA).

What GAO Recommends

GAO's 2003 report found that Farmer Mac, FCA, and Congress could all take actions to help improve Farmer Mac's safety and soundness and ability to carry out its public policy mission. GAO recommended that Farmer Mac strengthen its risk management and corporate governance and reevaluate some operational strategies. GAO also recommended that FCA enhance its oversight tools for Farmer Mac and that Congress consider establishing measurable goals to help FCA assess how well Farmer Mac is meeting its mission.

www.gao.gov/cgi-bin/getrpt?GAO-04-827T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Davi M. D'Agostino at (202) 512-8678 or dagostinod@gao.gov.

What GAO Found

Farmer Mac, a government-sponsored enterprise (GSE), was established to provide a secondary market for agricultural real estate and rural housing loans and to increase agricultural mortgage credit. In 2003, GAO reported that several aspects of Farmer Mac's financial risk management practices had not kept pace with its increasing risk profile. First, Farmer Mac had $3.1 billion in off-balance-sheet commitments and other agreements that could obligate it to buy the underlying loans or cover related losses under certain conditions. Farmer Mac and the Farm Credit System institutions that participate in the agreements are required to hold far less capital than is otherwise required. Because Farmer Mac's loan activities are concentrated in a small number of financial institutions and in the West, the risk is not reduced while less capital is required to be held. Under stressful agricultural economic conditions, Farmer Mac could be required to purchase large amounts of impaired or defaulted loans if large amounts of the commitments were exercised. Second, the coverage of Farmer Mac's $1.5 billion line of credit with the U.S. Treasury was controversial, as the entities disagreed on whether the securities it has issued and kept in its portfolio would be eligible. Third, GAO reported that while Farmer Mac had increased its mission-related activities since its 1999 report, their impact on the agricultural real estate market was unclear. The effects were difficult to measure partly because Farmer Mac's statute lacks specific mission goals. For this and other reasons, GAO concluded that the public benefits derived from Farmer Mac's activities are not clear. Finally, for profitability reasons, Farmer Mac had a strategy of holding securities it issued in its portfolio instead of selling them to investors in the capital markets. As a result, the depth and liquidity of the market for Farmer Mac's securities is unknown.

Farmer Mac's board structure, set in federal law, may make it difficult to ensure that the board fully represents the interests of all shareholders and meets independence and other requirements. The board structure contains elements of both a cooperative and an investor-owned publicly traded company. For example, two-thirds of the board members do business with Farmer Mac and hold the only voting stock, while the common stock holders have no vote. GAO also identified challenges FCA faced in its oversight of Farmer Mac, including a lack of specific criteria for measuring how well it was achieving its mission. Although FCA had taken steps to improve its safety and soundness oversight, more needs to be done to improve its off-site monitoring and assessment of risk-based capital.

Farmer Mac and FCA have efforts underway to address many of GAO's recommendations and it was too early to assess them.