

Statement
Jeffery S. Hall, Board Member
Farm Credit Administration Board Meeting
March 10, 2016

I support the adoption of Bookletter 67. It provides guidance to the system on the use of Similar Entity lending authority, guidance that the House Committee on Agriculture made clear was necessary during the Farm Credit Hearing on December 2, 2015. It was also brought up as a concern during my confirmation process earlier in the year.

The Similar Entity authority, which was authorized by Congress more than twenty years ago is an important risk mitigation and portfolio diversification tool. It helps the System provide credit in good times and in bad as the System's mission requires. The Bookletter encourages System institutions to develop or reevaluate policies, procedures and internal controls around the use of this authority. It also promotes greater transparency by expecting periodic reports to System bank and association board members.

Similar Entity lending, by definition, is a loan where Farm Credit System institutions can not extend credit under traditional authorities. Similar Entity lending authority is important to the safety and soundness of the Farm Credit System. It becomes even more important during times when many parts of the traditional portfolio are under stress. Members of Congress have made it clear that not all legal uses of the Similar Entity authority are appropriate. Some Similar Entity lending, while legal, calls into doubt the System's focus on its statutory mission.

With this Bookletter, the FCA Board has taken an important step towards addressing the wishes of the authorizing committees. While I believe that more direction could have been included in addressing the reputation risks associated with Similar Entity lending, I will support the adoption of Bookletter 67 and use the increased examination and reporting requirements to monitor whether I believe additional guidance is necessary.