Remarks by
The Honorable Jill Long Thompson
Board Chair and CEO, Farm Credit Administration
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Good morning. Thank you for that kind introduction, Chairman Dobrinski, and thank you for inviting me here today.

As I said at the Farm Credit Council meeting earlier this year, the Farm Credit System has much to be proud of. Despite the lingering effects of the recent recession and financial crisis, and the persistent drought, the System remains fundamentally safe and sound. And CoBank is a big part of the System's overall success.

Over the past year, the financial condition of both CoBank and its affiliated associations improved, and risk-bearing capacity increased. Net income as of Dec. 31, 2012, was $854 million, and less than 0.24 percent of all loans were in nonaccrual.

In addition, the composite FIRS ratings of CoBank associations have improved. From 2011 to 2012, the number of institutions with a rating of 1 went up from 16 to 19. No institution has a rating lower than 2, and no institution is under enforcement action or special supervision. I commend you for your achievements and encourage you to keep up your good work.

Since becoming Chair, I have spent a great deal of time meeting with and listening to senior staff at FCA. And for many years, as a farmer, a Member of the House Agriculture Committee, and an Under Secretary at USDA, I have also spent time reading the literature on the agricultural economy, both nationally and globally.

Based upon these discussions and readings, I have identified strategic priorities I believe must be addressed by FCA over the next year. Recognizing we exist in an ever-changing environment, I also realize we must be flexible and we will likely need to re-prioritize from time to time. It is important, however, for us to have our strategic priorities in place so we are most prepared to expect and effectively address the unexpected.

As Board Chair and CEO, I have identified five priority areas. The first area involves **capital requirements**. The System as a whole, including CoBank, has done an admirable job of building capital. Keeping capital levels strong is an important part of maintaining safety and soundness.

And as your regulator, we will do our best to make sure our regulations reflect capital requirements that are appropriately consistent with U.S. standards and the Basel Accords, recognizing the unique aspects of the Farm Credit System. I have directed FCA staff to finish its work of revising the capital rules in Part 615 of FCA's regulations. Of course, our pace of *adopting* revised rules is largely dependent on the work of other prudential regulators. Nonetheless, I want to have our proposed revisions in place as soon as possible.

Furthermore, we must finish our part of the interagency rulemaking on margin and capital requirements for non-cleared swaps, and address other changes consistent with the spirit of

Dodd-Frank. We must also finish the capital planning rule, as well as the liquidity management rule, for Farmer Mac.

As important as capital is to sound financial management, so is borrower equity and risk. And that leads me to my second priority: **evaluating and assessing risk associated with farmland values and loan-to-value ratios in the System**. In order to accomplish that task, we will continue to focus on, and provide support for, data collection and analysis.

There's an oft-quoted maxim in the banking industry, and I'm sure you've heard it: "Bad loans are made in good times." I think it's important to be particularly vigilant in monitoring farmland values now … when we are in a period of good times, with strong commodity prices and low interest rates. As experience has taught us, interest rates do eventually rise, farm incomes may dip, and farmland prices may adjust. That's why it's important to resist competitive pressure and to maintain strong underwriting standards even during times like these.

Talk of farmland values leads me directly to my third priority: the **Young, Beginning, and Small Farmer program**. As we all know, higher real estate prices make it harder for young and beginning farmers to buy land and build their farms.

But that's not the only challenge they face. In the wake of the recession and the recent crisis in the financial markets, lenders have understandably tightened their underwriting standards. This makes it all the more difficult for young, beginning, and small farmers to find the credit they need to build their operations.

Yet, as Congress has long recognized, with an aging farmer population, these men and women are key to feeding the world's ever-expanding population. It is our congressional mandate—both FCA's and the System's—to ensure that creditworthy and eligible men and women who are young, beginning, or small producers have access to the credit they need to be successful.

I am happy to see the focus that associations in the CoBank district have placed on service to YBS farmers. According to results of the 2012 YBS questionnaire, 24 of your associations were lending to first-generation farmers, and 14 associations had YBS advisory committees. I hope that you will continue to increase your service to the young, beginning, and small farmers in your territories.

Since my days in Congress, I have been a supporter of the YBS program, and believe it must always be on the list of priorities for the Farm Credit Administration.

Although young, beginning, and small farmers face many challenges, they also face some new opportunities. And that leads me to my fourth priority—**the local foods sector**.

In the past, unless you inherited a farm or married someone with a farm, it was difficult to start farming—because, to be successful, you generally had to have a large operation. If you didn't already own the land and equipment, farming was probably not a career option for you.

However, in recent years, more and more American consumers are choosing locally grown and organic foods, many of which are grown on small farms. This new trend in consumer demand has made it possible for individuals to choose to become farmers, even if their parents were not. That's because the capital demands to start a small farming operation are not as daunting, and this, of course, creates opportunities for young, beginning, and small farmers.

As agricultural lenders, you are poised to help farmers take advantage of these opportunities, and I am pleased to hear that several CoBank associations are, in fact, helping support local agriculture. According to responses to the 2012 YBS questionnaire, an encouraging number of YBS borrowers from five CoBank associations (Yankee, Maine, Northwest, Hawaii, and Farm Credit East) are marketing their products directly to consumers.

Service to these borrowers supports not only the young, beginning, and small demographics, but it also supports a promising trend in agriculture. I commend you for providing this service and encourage you to strengthen it still further.

And the final strategic priority involves the **Investments in Rural America program**. Living in a rural community and having served as Under Secretary of Rural Development at the U.S. Department of Agriculture, I have a strong commitment to rural America. That said, as a former Member of Congress, I also want to be sure that the Agency and the System operate within the authorities that Congress has provided.

Several System institutions are participating in the Investments in Rural America pilot program, which has been in place since 2005. It is now time for the FCA Board to take a hard look at the key legal and policy questions, and make a decision on the future direction of this pilot program and the related Rural Community Investments rulemaking project.

These are the regulatory and examination priorities I have identified as important for us to address in the next year. There are, of course, other issues of importance, as well. Diversity, for example, remains an important issue for me, as it is for my fellow Board members Ken Spearman and Lee Strom.

In fact, it is a pleasure to commend CoBank on this score. By hiring a corporate diversity and talent management officer, you have taken an important step in supporting diversity. I know you will continue to look for ways to develop a more inclusive and diverse workplace and customer base.

On another topic, I congratulate members of the bank board on the progress you've made in integrating the two banks following the merger that occurred in 2011. Integrating the operations of two major banks is no small feat, but the boards of the two banks came together and worked cooperatively to establish an appropriate governance structure. I know there is still much to be done, but I applaud your progress.

I believe an important secret to the success of your merger has been the cooperative spirit with which the boards of the two banks worked together. I would like to see this same spirit of cooperation at work between all institutions of the Farm Credit System—even between entities that are, on some level, competitors.

At FCA, we believe that every institution of the Farm Credit System has an important role to play in the overall System. Every institution—whether bank, association, service corporation, or Farmer Mac—helps the System achieve its mission of serving the credit needs of our country's farmers and ranchers.

And although the role of each institution is distinct, there is some overlap between institutions. I don't see this as a weakness in the System but an opportunity. It creates a certain degree of competition. As an American, I believe in the value of the free enterprise system and the benefits of healthy, honorable competition.

It is important for the long-term viability of the System that all embrace the notion of an honorable competition and, at the same time, to cooperate with other System entities to fulfill the mission for which the System was created.

For CoBank and for every other System institution, the member-borrower must always be the first priority. Unlike a commercial bank, which exists for the profit of its owners, a System institution has a higher calling. First, it is a cooperative, and must adhere to the principles that guide cooperatives, and second it is a Government-sponsored enterprise, established by Congress to provide farmers and ranchers with an affordable, reliable source of credit.

Additionally, it is part of a System that shares joint and several liability. When Congress established the joint and several liability requirement, it directed the System institutions to not only step up to the plate during a time of failure, but to also create a System in which each bank would understand that you are all in this together. And that means bank leadership will use judgment and discernment and will be deliberative in conducting business and competing with others in the System. It means all shall have a commitment to the safety and soundness of all System institutions, even when there are competitive pressures.

Today, the System faces many challenges. As a result of climate change, extreme weather events like droughts and floods are becoming more frequent and severe, making commodity prices more volatile than ever. These weather-related risks affect the entire System, borrowers and lenders alike. Unfortunately, even as we enter the 2013 growing season, drought continues to grip much of the country.

In addition to the challenge of managing weather-related risks, CoBank has some specific challenges. Prior to the merger that took effect 15 months ago, CoBank served cooperatives nationwide and funded 4 associations; today, CoBank continues to serve cooperatives nationwide but now funds *29* associations. A bank of this size has lots of moving parts. I strongly urge the members of the CoBank board to make sure your internal controls keep pace with the size and complexity of your operations.

As I mentioned in my remarks at the Farm Credit Council, the Farm Credit System and FCA play very different roles, but we share the same ultimate goal—to ensure that farmers and ranchers have the credit they need to be successful.

You help meet this goal by extending credit to agricultural borrowers, and *we* help meet this goal by adopting regulations and conducting examinations that protect the safety and soundness of the System and ensure that System institutions fulfill their public mission as Congress intended.

As an arm's length regulator, FCA always strives to adopt rules that are reasonable and necessary—rules that ultimately help the System succeed in its public mission. We will continue to work hard to fulfill our role effectively and with integrity and goodwill.

Again, I congratulate you on your successes, I thank you for your responsiveness to our guidance, and I encourage you to find ways to fulfill your mission more effectively than ever ... to keep agriculture and rural America strong for many generations to come. Thank you.