Remarks by
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Farm Credit Administration
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Good morning. Tom, thank you for the kind introduction and invitation to speak with the MidAtlantic board and management team.

This morning it was nice to wake up at home and drive a short distance to be with you. Usually when I get invited to speak, I have to spend a couple days on the road. So I'd greatly appreciate it if you could convince the rest of the System to host their meetings here at Lansdowne!

All kidding aside, I would like to quickly recognize Todd Batta, my executive assistant. Before coming to FCA, Todd was the assistant secretary for congressional relations at USDA and served as a senior policy advisor to Secretary Vilsack. He also spent more than a decade on Capitol Hill working for the Senate Agriculture Committee and Senators Harkin and Kohl.

I would also like to recognize Michelle McCann from our Office of Examination. She's been with FCA for eight years and has been the examiner-in-charge of MidAtlantic since October of last year. Michelle, I appreciate all the good work you and your team do.

If you've heard me speak over the past year, you've heard me talk about five themes:

- Best possible outcomes
- All services to all borrowers
- Partnerships
- Structure
- Confidence

This morning, I want to share with you a little bit about my background. I think this will help you see why I think these themes are critically important to the System's mission and success.

Best outcomes

I started my career as a dairyman back in Oldham, South Dakota, in the late '70s and early '80s. This was a difficult period to get into farming. Many friends, neighbors, and colleagues fell on hard times. In many cases, credit became a substitute for income, which led to bad outcomes for borrowers *and* lenders.

Throughout the country, there were thousands of bankruptcies and the displacement of tens of thousands of farmers, ranchers, and rural residents who had to leave rural America to find livelihoods elsewhere.

Seeing this first-hand was, in part, what led me to work at the South Dakota Farmers Union. There we worked with producers and their lenders to bridge the downturn in the farm economy. For those producers who had a good chance of making it when the economy improved, we helped them find ways to better manage their operations. And for those who did not have a good chance, we had to have some difficult conversations, with the goal of helping them preserve as much of their equity as possible.

Although the farm economy today is very different from what it was in the ’80s, many farmers and ranchers throughout the country are experiencing financial stress. I encourage you to identify borrowers at risk and start to work with them as early as possible.

Remember what we learned in the ’80s: Credit cannot be a substitute for income. If a borrower is not likely to achieve their goals, they should not be encouraged to borrow more and to further deplete their equity. By applying the lessons learned from the ’80s farm crisis, it’s my hope you can help position borrowers for the best possible outcome today.

All services to all borrowers

I firmly believe the System’s congressional mission involves providing *all services* to all eligible, creditworthy borrowers. If your association chooses not to maintain in-house expertise for a given service, that’s okay, but you need to work with a sister association that does provide this service so that the borrowers in your territory have access to it. All borrowers should have access to the full suite of authorized services.

Partnerships

I had the opportunity to serve as undersecretary for rural development at the USDA before I was reappointed to the FCA board. Rural development has a number of programs and more than a $250 billion loan portfolio geared toward improving rural vitality.

As undersecretary, I quickly learned that these programs by themselves are not enough to make real improvement. Rural communities also need the expertise of the local communities, counties, economic development organizations, and lenders to expand opportunities. Rural communities need partners. I believe the System can and should be one of those partners.

By using your authorities, you can play a role in strengthening rural vitality. For example, association investments in rural business investment companies (RBICs) can do an enormous amount of good by injecting investment capital to reenergize the rural economy and help small businesses grow. And these investments require only a modest amount of capital.

I would also like to see associations continue to partner with one another through loan participation interests in agribusiness and rural infrastructure loans. These partnerships bring equity capital and liquidity to countless rural communities and provide portfolio diversification benefits to associations.

Speaking of partnerships, I would like to see the System improve its relationship with Farmer Mac. This might not be a popular thought with everyone in the room or throughout the System. But I believe partnerships with Farmer Mac can help System associations better manage credit risk. I'd like to see System associations take advantage of the value that Farmer Mac brings to the table.

Structure and capital

Some folks think I kicked a hornet's nest last year by suggesting we have a year of dialogue around the topic of System structure. This is not a new issue, but I believe it is an important one.

The System has been evolving ever since it was created in 1916. As it continues to evolve, we must carefully evaluate how any proposed change could impact the integrity and cooperative structure of the System. Further, we must consider the operational, managerial, and reputational risks that might result from the change.

Ever since I raised the issue in my speech at the Farm Credit Council meeting in San Diego almost two years ago, there has been a lot of discussion about structure. And this has led to discussions about capital.

I think there have been some very productive discussions between the agency and groups of institutions regarding System capitalization — particularly dual capitalization and FIRS benchmarks. We've also seen some third-party studies regarding capital that have yielded very useful information and prompted meaningful discussion.

I look forward to continuing this dialog with the System, and I want you to know that I'm committed to working with the System to find areas of common interest.

Confidence

For you to achieve your mission, you need the confidence of your borrowers, bondholders, regulator, and Congress. I appreciate all the work each of you does to build confidence in the System's brand.

The System's financial position and returns continue to be excellent. I could go through the numbers, but you know them better than I do. All System institutions continue to exceed the new requirements with a healthy margin of safety. Patronage to members continues to be strong and creates positive press. And there is a strong demand from investors for System debt.

However, it only takes one issue to shake confidence in the System. Examinations continue to see standards of conduct and internal control issues. Most of these events don't get media attention, but they could potentially detract from confidence in System institutions. So continue to do everything you can to build and keep confidence in the System.

In closing, I know I've covered a lot of ground. But I want to make sure there is plenty of time to hear from you. Thanks again for the opportunity to be with you this morning. I'm happy to answer any questions you may have.