

**Remarks by  
The Honorable Michael M. Reyna  
before the  
19th Annual Farm Credit Council Meeting  
Orlando, Florida  
January 22, 2002**

Good Morning. This is my third opportunity to address your distinguished group and I would like to thank the Farm Credit Council for extending the invitation to join you again.

Regulators frequently speak about financial capital and its importance ... but, human capital, which is often over-looked, is important too.

I believe the Farm Credit Council has some very valuable human capital ... and I'd like to recognize some very important council staff members, like Ken Auer, Mike Frey, Jeff Shipp, Todd VanHoose, John Hays and the many other fine staff there as well.

I can't help but notice that many of you have brought your spouse with you to this meeting. You know what ... so did I. Please say hello to my wife, Karen. Thank you.

I asked my wife for advice regarding my remarks today. She told me to try not to come across as charming or to sound intellectual or sophisticated ... you know ... just be yourself. I guess ... sometimes our biggest critics ... can be our best friends ... in a strange way.

And ... you know ... no matter what position any of us may hold ... and no matter what any of us may think ... none of us can do our job alone ... not me ... and not you. Things work best ... when we work together with those around us.

... In part, that's why I wanted to take just a moment to recognize my wife. It also is why I would like to take just another minute to recognize a few other very special people who are with me today as well.

With me today from the agency is ... Cheryl Macias, our Chief Operating Officer; ... Roland Smith, our Chief Examiner; ... Mike Dunn, the Director of our Office of Policy and Analysis; ... Hal DeCell, the Director of our Office of Congressional and Public Affairs; ... and Phil Shebest, our Acting General Counsel. Also here are, Claire Rusk, my executive assistant and Joy Burr, my special assistant.

The agency staff members with us today are just a few of the very bright and talented people who conduct financial examinations of your institution, answer your questions over the phone, work on your corporate restructuring proposals and any number of other issues that collectively ... you and I care so deeply about.

Please take just a moment to thank them for what they do with you and for you every single day. Thank you.

Agency staff, however, is only one part of our success ... the other part is the agency's Board of Directors. Many of you know we currently have a vacancy on our Board. And ... each of us knows, that any Board of Directors works best with a full compliment of members.

While the FCA Board currently has only two members, it was designed by Congress to operate with three members. I personally remain hopeful that our vacancy will be filled sooner rather than later. You and I both know there is any number of talented people who would be a wonderful addition to and real asset on our Board ... at least one or two of whom, I believe, is sitting right here in this room.

We do, however, have another very valuable asset currently on our Board ... Ann Jorgensen. I would like to extend a special public thanks to my colleague at this time for her ongoing assistance at the agency and for her personal leadership on a number of key issues.

Ann, as you know, serves as the Chairperson of the Farm Credit System Insurance Corporation, but what you may not be completely aware of is that she has been quite active and involved while on the FCA Board too.

Agriculture is an increasingly global business; and as such, Ann has traveled the globe to places like Uzbekistan and Vietnam to share her knowledge of agriculture and her expertise regarding cooperative lending systems.

Right here at home, she has led the agency's efforts on issues important to the System's future like, e-commerce. And ... thanks to Ann's efforts, FCA has recently issued additional guidance to all System institutions on the topic of board governance.

I respect and appreciate all the Ann has done on behalf of the agency and the cooperative agricultural lending movement in this country. Please join me in applauding her ... for her efforts. Also ... please join me in acknowledging Ann's assistant, Barbara Schlein ... who is with her today.

I will address two important areas in my remarks today. First, I will give you a brief report on FCA activities and accomplishments, along with System performance; and, secondly, I will share with you what I see as both one of the biggest challenges, but also one of the biggest opportunities, before the Farm Credit System today and in the coming years.

#### FCA Activities and Accomplishments

2001 was another busy year for the System, and hence, for us too. As you know ... we engage you in a number of related activities, including our examination program, our corporate approval process and through the promulgation of new regulations.

I plan to touch on these areas briefly now, but I would mention that in the coming days the agency will be sending copies of our Annual Performance and Accountability Report to you for your review.

#### Examination Activity

The Farm Credit Act requires our agency to examine your institutions at least once during each 18-month period. Using a risk-based approach, however, we are in your institutions more frequently if needed.

For example, we routinely examine System banks and large direct lender associations at least once each 12 months because of their relative importance to the overall financial soundness of the System.

During this last year, we completed a total of 106 examinations of System institutions. I'm pleased to report that all System institutions are rated in

one of the top two categories ... the very best categories ... we use to rank the financial safety and soundness of your operations.

Also good news is the fact that for the last three years running ... there has been a steady decline in the number of required corrective actions we have identified during our examination process.

Even better yet ... there are no System institutions currently operating under an enforcement action.

Congratulations ... I think you deserve to give yourself a round of applause.

### Corporate Activity

System corporate mergers and restructuring proposals exceeded the blistering pace established during the prior year, again accounting for much of the workload at the agency. During the 2001 fiscal year we processed and approved a total of 69 corporate restructuring proposals from System institutions. This was 10 more than reviewed and approved during the 2000 fiscal year.

Like you ... we believe that this evolution in corporate structure is essential for you and we have worked closely with you to ensure your proposals were analyzed, evaluated and approved in a fair and timely manner.

... And you can count on us to continue to work closely with you in the future too. That's because we believe these corporate changes are not only important to your business operations ... but because the corporate changes enable your institutions to better serve the needs of your borrowers as well.

### Regulatory Activity

We were very busy this past year on the regulatory front as well. Our agency regulatory agenda was dominated by the debate and discussion surrounding whether territorial boundaries should be eliminated ... the so-called National Charter proposal. This proposal generated more comment than any proposed rule before the agency in the past decade. In fact ... we received more than 1,500 comments on this rule to be exact.

People say that if you want a friend in Washington ... you should get a dog. Well ... I came to Washington with a dog ... though ... I must admit ... after the National Charter debate, I have seriously considered getting second dog.

While at times the public debate was strained and the discussion was even painful, I personally believe it was an essential ... and even healthy part of the decision-making process. However, from the comments on the proposed rule ... it seemed that the only consensus among those who commented on the proposed rule ... was that there was no consensus. And ... in the end ... the FCA Board chose to withdraw the proposal.

While the territorial boundary issue is gone from our regulatory agenda ... I do not believe it is gone from the System's agenda. The system has never needed the Farm Credit Administration to address the issue of territorial boundaries. In fact ... the System has had ... and continues to have ... the ability and the authority to address territorial issues itself.

What do I mean? Just ask the associations located in the Wichita District. The associations in that district agreed amongst themselves to routinely grant territorial concurrence to either other. Their action did not take a change in law; nor did it take a change of regulation.

My friends ... all it took, was a little bit of leadership ... and something all of you are familiar with ... cooperation. I commend the Boards of Directors of the bank and the associations as well as the management of the Wichita District for your leadership!

Whether you follow Wichita's lead ... or the suggestion of my good friend, Ray Young, and partner with another farm credit association and offer to split a loan or even a group of loans ... one thing is for sure ... there is no lack of good strategies to effectively deal with territorial concurrence issues.

Attempting to bring down territorial boundaries was a big issue ... but certainly not the only regulatory issue that our agency wrestled with during this past year. We also tackled other important regulatory proposals that would:

- Allow service corporations to sell stock to non-system investors;

- Remove regulatory barriers to e-commerce so as to facilitate the safe and sound use of new technologies by System institutions and your customers;
- Enable System institutions to terminate their FCS charter and become a financial institution under another federal or state chartering authority; and
- Establish risk-based capital regulations for Farmer Mac.

Though it does not have universal appeal or support ... and though it is not yet effective, significant agency time and effort also was spent on the finalizing the proposal allowing the purchase and sale of 100 percent loan participations.

These are just a few of the proposals we worked on this past year. The current year will be no less busy as we will begin to address the System's capital requirements in light of the new Basel Accord. I look forward to constructive dialogue and input from the System on this very important and critical issue ... and other critical issues as well.

### Agency Performance

As you can tell ... like you ... we have been pretty busy. Our activities and accomplishments is just one way we use to measure our performance ... another way we measure ourselves is our budget and operational performance.

I'm proud to report that we continue to engage in these activities and achieve our accomplishments, including making FCA one of the best places to work in the entire federal government, in an efficient and effective manner.

We have worked hard to hold down the assessment for our operations ... and I believe we have achieved that objective. It should be clear to all who review our budget, that we have been very good stewards of the resources entrusted to us to accomplish our mission.

But ... you don't need to take just my word for it though.

In an August 2001 report issued to Senator Richard Lugar, the Government Accounting Office stated that FCA's administrative expenses "stayed within the congressionally imposed spending limits for each year during 1997 through 2000."

The report went on to point out that "Overall the agency experienced a decline in administrative spending of around \$2 million, or 5.8 percent. As a point of reference, during this same period, the price index for federal government expenditures increased 8.6 percent."

... And my guess is that ... not only does our rate of expenditure growth compare favorably against other federal agencies but ... it probably compares very favorably against your bank or association's rate of increase in expenditures as well.

As farmers and businessmen, you know that when you hold your costs down and you are able to maintain or boost your production, then you are more profitable. For government agencies it means we are more productive, and that those of you who fund our efforts get a better return on your dollar.

We will continue to be good stewards with our budget and ... I can assure you, I will not come to you ... the System ... for an increase in our funding level unless we really need it to fulfill our statutory responsibilities or to cover mandated costs beyond our control.

### Overall System Performance

On the topic of overall System performance, sailing has been good even with a few clouds on the horizon. ... And in regulator language, that's pretty good. In fact, I'm pleased to report the System's overall performance was solid and steady this past year.

Capital levels have continued to increase mostly through retained earnings and ... asset quality has remained high ... even during moderate loan growth. By in large, the System has knowledgeable and experienced managers at all levels and ... year over year earnings are up, yet once again.

A special note of thanks goes to the Funding Corporation, whose preparation and diligent efforts ... under extraordinary circumstances ... ensured that

there was no disruption in the System's liquidity following the September 11th attacks.

Jim Brickley ... you and your staff performed remarkably. I salute you ... and I believe everyone in this room owes you and your staff a round of applause. Thank you.

My friends ... you are the captains of your ships. ... And you know ... if the captain of a ship is good ... he always has an eye on the weather and the horizon so that he can steer his ship towards the safety of calmer waters.

I urge you my friends ... be vigilant ... be good captains ... keep your eyes on the emerging risks and set a prudent course for your institutions.

Now I would like to shift gears and address what I believe may be the biggest challenge and opportunity for the System now and in the coming years.

### Mission

The terrorist attack on September 11<sup>th</sup> was a true tragedy by any measure. I believe you will agree ... America's response has been remarkable.

The positive fallout from the attack has been an America that is more focused ... more determined ... more united ... and I believe ... ultimately safer and stronger.

Though there has been no loss of life ... the parallel here is that the System has been under a relentless attack from "its" critics.

Think about it ... the System has been increasingly financially successful in recent years, earning in excess of \$1 billion in each year since and including 1993.

While on one hand, it can be said that the System has contributed to the well being of American farmers, ranchers and their cooperatives.

On the other hand, the System's critics believe that the System's success has come at their expense and they like to paint a very different picture of the System and its activities.

I have little doubt that you have heard what the System's critics have said about your activities. They would like members of Congress and the public to believe:

- That the System has, “a reckless past and a doubtful future.”
- That the System has forgotten its roots and chooses to finance corporate farms, in lieu of family farms.
- That the System has unfair tax advantages and has simply outlived its public purpose.

My guess is you don't agree with what the critics say about the System? I also suspect you don't want Congress and the public to believe what the critics say about the System either?

That is a pretty big challenge before you. I believe, however, you also have a pretty big opportunity as well. An opportunity to paint ... through your actions ... a different picture ... and to bring the perception of what you do a little closer to the reality of what you do.

As difficult as it might be ... the first thing to do is to take a candid look at the picture that has been painted. In large part ... you have been attacked ... because you have been ... and you are ... financially successful. But ... let's take a closer look at what is really being said, though.

While the System's critics may be wrong about lots of things, they are certainly correct about one thing: the System is a creation of government ... it is a Government Sponsored Enterprise, or a GSE.

A private going concern can choose to pursue ... or not pursue ... any and all lines of business with profit as the motivating factor. In contrast ... a GSE's scope of activities is limited ... or at least targeted ... and profits, if any, are tied to a “public” purpose.

Congress has targeted the System's activities as a Government Sponsored Enterprise toward agriculture and it has earmarked the System's public purpose “profits” to improve the economic well being of farmers, ranchers and their cooperatives.

Congress, however, didn't stop there ... and quite frankly neither does the System's critics. In the Farm Credit Act, Congress has clearly declared its intent that the System serve ... not just a few borrowers ... not just some borrowers ... but ... "all eligible borrowers having a basis for credit."

And ... Congress ... also in the Act ... requires the System to place a special emphasis on programs designed to serve Young, Beginning and Small farmers.

Congressional intent and other specific requirements of the Act are part of the public "costs" that you incur in response to the public "benefits ... or profits" you enjoy as a Government Sponsored Enterprise.

So ... you may ask ... where does this discussion leave the System relative to its critics?

Mention has been made during your convention that the System needs to develop a common communication strategy. The development and implementation of such a strategy is a major step in the right direction. Congress and the public have heard from your critics ... so ... why shouldn't they hear from you about what you do and how you do it?

As you move forward to implement your strategy, however, I would like to offer one bold word of advice ... be careful not to define your public purpose ... your public mission ... too narrowly ... or gloss over it too quickly. If you do ... you may inadvertently limit your ability to tell Congress and the public about all the great things you do for agriculture and rural America.

All System institutions ... through their actions ... serve agriculture in one way or another ... and I believe many institutions are doing a particularly fine job fulfilling the public purpose that Congress has outlined for the System.

Again ... I urge you not to define your public "mission" too narrowly.

- If your institution has developed and implemented innovative, creative and effective programs designed to reach all eligible borrowers who have a basis for credit – I commend you;

- If your institution takes their “borrower rights” responsibilities seriously – I commend you;
- If your institution has formed alliances and partnerships with System and non-System institutions to purchase loan participations – I commend you;
- If your institution uses agricultural loan guarantee programs as a way to balance risk and while serving tough to serve borrowers – I commend you; and
- If your institution has effective programs to serve the needs of Young, Beginning and Small farmers – I commend you.

With regard to my last two points concerning the use of agricultural loan guarantee programs and YBS programs, I would like to have the Chairmen and Presidents of the following System institutions join me on stage at this time.

- From Farm Credit of Maine, Bob Tetrault and Ray Nowak;
- From Farm Credit Services Southwest, Carl Weiler and Gary Dyer;
- From North Alabama FLCA, Loyd Rutherford and David Howse; and
- From Greenstone Farm Credit Services, Gerald Lehman and Jim Schiller.

While they are joining me on stage, I will tell you that I asked the FCA staff to review the efforts of all System institutions and present to me those institutions that have done a particularly exemplary job with regard to their YBS program or their agricultural loan guarantee program.

For example, FCA staff evaluated YBS programs using a number of criteria, including the extent to which association programs offer an educational component, provide for extensive outreach, make effective use of financial incentives such as differential loan underwriting standards, lower fees and or

interest rates etc., and the overall effectiveness of an institution's YBS program.

With regard to agricultural loan guarantee programs, FCA staff evaluated number of guarantee loans, the dollar volume of guarantee loans and the proportion of guarantee loans in an institution's overall portfolio.

Today ... I am presenting Farm Credit of Maine and Farm Credit Services Southwest with a "Chairman's Commendation" for having exemplary YBS programs.

Similarly ... I am presenting a "Chairman's Commendation" to North Alabama FLCA and Greenstone Farm Credit Services for the exemplary use of agricultural loan guarantee programs.

Please join me in recognizing them for their outstanding efforts. Thank you.

In closing today... I want to recall my opening remarks: No matter what position any of us may hold ... and no matter what any of us may think ... none of us can do our job alone ... not me ... and not you.

I want to encourage each System institution to "excel and tell" but also to stay focused on your public mission. I want to encourage each System institution to continue to pursue alliances and partnerships ... with System and non-System lenders alike ... that better enables your institution to reach all eligible and creditworthy borrowers.

And ... I want you to live up to your new slogan: The Farm Credit System – Rural America's Customer-Owned Partner. And ... as you continue your journey ... I promise we will be partner with you too.

Until next year ... thank you ... God Bless You and God Bless America!