

**Remarks by
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Thank you and good morning! My sincere thanks to you, Ed, for the fine introduction this morning. My thanks also to the Farm Credit Council, and indeed each of you for the invitation to visit with you today.

Welcome to my home state: California. I'm pleased and proud that California was picked for this year's meeting.

You know, flying into San Diego this weekend brought back lots of great memories of the twenty years I worked and lived out here. I've flown into San Diego so many times that I have memorized the landing pattern. On the way in, I actually offered to land the jet myself, but Don Rice, who was on the flight with his wife, encouraged me not to try. Oh well ... maybe next time.

I must admit though, coming here also brought a few nagging questions. The key question came from my wife, Karen, who is here with me today. Her question was: tell me again why we left California and moved to Washington? I tried to tell her that it was because I really wanted to testify before the House Banking Committee on the National Charter issue. Quite frankly, though, I don't think she's buying my answer.

Before I begin my brief remarks I would like to acknowledge a few folks who are with me today.

From the agency, please welcome:

- Claire Rusk, my executive assistant for policy;
- Cheryl Macias, FCA's new Chief Operating Officer (previously OCPA Director);
- Roland Smith, FCA's Chief Examiner;
- Hal DeCell, FCA's new Director of Congressional and Public Affairs;
- Kelly Mikel Williams, Secretary of the Board for FCA.

Thank you. We are truly blessed with great staff at FCA in many regards ... and the ones I have here today are just a few of the best. As I have said before, a few faces may change around FCA, but our commitment to working constructively with the System and, indeed, each of you, will not change.

I am very pleased to be joined by my colleague on the FCA Board, Ann Jorgensen, and her Executive Assistant, Kathy Beery. As you well know, questions and concerns regarding your FCSIC insurance premiums can be directed to Ann ... after all ... she is the Chairperson.

To digress for just a moment, I want to remind each of you that FCA will be holding its

Annual Information Exchange session tomorrow afternoon here at the hotel from 2 p.m. to 5 p.m. The theme of this year's session is "Safety and Soundness in a Competitive Environment."

Ann and staff from FCSIC will share the results of a recent study that updates a 1994 Risk Profile of the Farm Credit System, the Insurance Fund and the environment in which the Insurance Corporation operates.

In addition, Roland Smith, FCA's Chief Examiner, has assembled a great panel (including Mary Fritz, Bob Tetrault and Bill Mainer) to discuss the critical role and responsibility of System institution Board Members in the current lending environment.

Based on the calls I received leading up to this meeting, I know there is great interest among this group here today about FCA's newest Board Member, Mike Dunn.

Mr. Dunn is not with us today. You may have heard ... and if you haven't ... let me tell you ... that Mr. Dunn resigned his FCA Board position last Friday to pursue a new position and a new opportunity ... one — that based upon the depth and breath of his experience — I believe he is very well qualified for.

I offered and Mr. Dunn accepted to become FCA's Director of Policy and Analysis. In accordance with all personnel rules and regulations governing this situation and with the concurrence of the White House, this position was converted into a non-career trust and confidence slot at the agency.

While not all agency positions lend themselves to this type of change (that is, from career to non-career) ... for example, the Chief Examiner's position ... this change, brings FCA in line with many other federal agencies that have trust and confidence employees who fill key "policy" positions.

In lay language, that means Mr. Dunn will serve as my appointee to this position ... he will not be a permanent career civil servant ... and his term of office generally will coincide with mine.

For those of you who know and who have worked with Tom McKenzie at FCA (our prior Director of Policy and Analysis) ... you will be pleased to know that he will continue to work at FCA as our Director of Regulatory Development. In this new capacity, he will be working very closely with Mr. Dunn as the agency continues to develop and implement critical regulations.

You may be wondering why Mr. Dunn would consider such a move ... that is ... from a Board Member to a non-career position with the agency ... especially when neither position offers any long-term permanent job security. It is a good question ... a question that I won't attempt to answer on his behalf, but instead encourage you to ask him yourself.

I will say, however, that I'm very pleased he accepted my offer. Both Republican and Democratic Senate Agriculture Committee members responsible for reviewing the background and credentials of FCA Board Member nominees speak highly about his agricultural policy and regulatory experience. Having worked with him directly, I know him as a person with solid leadership ability ... I hope and believe he will be a big asset to the agency as we conduct our work.

As you might expect, Mr. Dunn's resignation gives our incoming President the opportunity to nominate a candidate of his choosing to the FCA Board. I believe President-elect Bush made a great selection when he nominated Ann Veneman to be the next Secretary of Agriculture ... and I trust he will put forward a great nomination to fill the now current FCA Board vacancy as well. In fact, I have no doubt that you will encourage him to do so.

In the time I have left, I'd like to focus on two items. First, FCA's activities and operations; and second, on a brief "big picture" discussion of what I see are some of the System's strengths, opportunities, weaknesses and threats at this time.

Briefly ... because I know that every dollar spent to regulate the System ... is a cost "TO" the System and ultimately "TO" the farmers and ranchers of America ... I want to share some information about FCA's operations.

As you might be aware, FCA is coming off of one of its busiest years in recent history. The agency has worked diligently to review and process many restructuring proposals from System institutions.

These restructurings are a critical step in the System's overall effort to lower operating expenses, use capital more efficiently, and provide a broader array of financial services on a one-stop shop basis.

I think the agency has done a great job in processing those proposed restructurings on a timely basis. I also believe we have made some progress on the issue of National Charters. I have argued the case for National Charters on Capitol Hill before the House Banking Committee earlier this year ... and just last week, the FCA Board approved a proposed regulation that addresses the regulatory process and standards FCA will use to issue expanded charters. As you may know, 95 percent of all System institutions eligible to request National Charters have, in fact, done so.

I continue to believe that System institutions operating with fewer artificial barriers ... barriers like narrow territorial boundaries ... will actually enhance the overall safety and soundness of the System while at the same time enable System institutions to provide better customer service through a more seamless credit delivery structure.

We have undertaken these activities ... and other activities as well ... while keeping our overall agency staffing and costs under control. You may be interested to know that actual agency expenditures remain below those of 1995 ... the high watermark year of the last five years.

This year's budget increase will be about 1 percent and I hope you will be pleased to know that the amount FCA assesses the System to cover our costs will actually go down by about \$100,000 year over year. That's right ... your assessment will actually go down.

So how have we managed to keep our costs under control? The plain and simple answer has been we have continued to cut staffing levels and strived to find greater efficiencies in our operations. In fact, I would argue that by cutting costs and maintaining our output we have actually boosted our productivity ... a pretty good achievement for a government agency.

Just five years ago, the agency staffing level was near 400 people ... today it stands at around 275 people.

I am personally committed to further efficiency gains ... I know, however ... like you know ... generally the largest expense in a budget is your salary expense ... and FCA is no different.

To attract and retain talented staff you need to pay competitive salaries. This means that even if FCA does not hire one additional staff person ... our costs are still likely to rise just to remain competitive.

And just in case you think FCA has been overly generous with salary increases for staff ... let me tell you that the salary increases we have granted in recent years have been below the average salary increases granted by other bank regulatory agencies.

In fact, FCA's increases have been at or below the average Farm Credit System Bank increases as well. This year's increase for FCA employees will be only 2 percent.

Suffice it to say that under my leadership FCA will continue to watch our costs and manage our resources well. I would ask, however ... that if ... and when ... we need an increase to our budget ... that we have your support.

At this time, I'd like to shift my focus from FCA to the System and to what ... from my view ... are SOME of the System's strengths, opportunities, weaknesses and threats.

As for strengths ... I believe the System is very well positioned in the marketplace ... with a network of branch offices that cover every square inch of this country. Furthermore, the quality of loans, the risk-bearing capacity, stability of earnings and capital levels all reflect a healthy System that has rebuilt its financial strength and improved its management systems. Not bad given reduced export demand, adverse weather conditions and continued low commodity prices.

Other strengths include a well-capitalized Insurance Fund and status as a GSE, which enables the System to borrow and, in turn, loan at competitive rates. I also believe the System enjoys solid support from both the House and Senate Agriculture Committees.

With regard to opportunities ... the System ... through mergers and consolidations and with its move to restructure has clearly positioned itself to provide improved customer service and enable itself to compete in an ever-changing financial marketplace.

There also are opportunities, however, to better manage risk and improve liquidity by more effectively utilizing Farmer Mac. And there are opportunities to create or expand lending and business relationships through partnerships and alliances with non-System lenders ... and as a result ... to find new and better ways to serve agriculture and rural America.

There are opportunities for the System to better serve young, beginning and small farmers ... and there are opportunities that the System would like to pursue through the use of expanded authorities ... like mission-related investment authority.

The System has weaknesses too, though. In fact, our National Charter initiative is designed to address one of the biggest ones ... the fact that the System is a single sector lender, with System institutions that have narrow geographic territories sometimes combined with high

portfolio commodity concentrations. Institutions in this situation are particularly vulnerable to price and weather fluctuations.

Some also argue that a key System weakness is its lack of political influence resulting from demographic shifts. And if that isn't a big enough challenge ... a serious weakness is that outside of the agricultural community ... there is a basic lack of knowledge and understanding about the System and its critical role.

Still others suggest that the System was weakened when it lost its claim as agriculture's only GSE, with the advent of the Federal Home Loan Banks' ability to fund the agricultural lending activities of small commercial banks in particular.

Finally, what about the threats the System must confront? Certainly a general threat that must be considered is the continued support of agriculture as a whole ... which, of course, could affect the repayment ability of farm operations and directly impact your bottom-line.

Clearly, you need to worry about the changing financial marketplace ... competition for business is fierce and your competitors are well organized politically. And I believe your competitors will continue to make the System's GSE status an issue on Capitol Hill.

There are other threats as well, though. I believe the System's commitment to serving Young, Beginning and Small farmers will be scrutinized and questions regarding whether the System is fulfilling its statutory mission will be raised. That is not to say that the System does not have answers to its critics ... it means that I believe the questions will be raised. I believe FCA will be able to work constructively with the System to answer these questions ... because the reality is that we will be asked to answer the very same questions ... and maybe even a few more.

Another threat could result from the continued decline in the number of System institutions following additional mergers and consolidations. While not true, fewer numbers of associations might suggest to someone that the System no longer has the critical mass to survive and thrive.

I actually believe we are in this together. And I actually believe that your success both financially and from a mission standpoint ... is our success.

In closing, since much of the System's and FCA's attention in recent months and years has been focused on removing and or altering territorial boundaries ...

I'd like to share with you excerpts from a poem that you may recognize ... or at least ... relate to because of your personal and or professional experiences. The poem is entitled "Mending Wall" and it is by Robert Frost.

It is about two neighbors that spend a great deal of time maintaining a wall that separates their respective properties ... it reads in part as follows:

I let my neighbor know beyond the hill;
And on a day we meet to walk the line
And set the wall between us once again.
We keep the wall between us as we go.
To each the boulders that have fallen to each.

It goes on to read:

Oh just another out-door game,
 One on a side. It comes to a little more:
 There where it is we do not need a wall:
 He is all pine and I am apple orchard.
 My apple trees will never get across
 And eat the cones under his pines, I tell him.
 He only says, "Good fences make good neighbors."

And further, it reads:

If I could put a notion in his head:
 "Why do they [fences] make good neighbors?"

Before I built a wall I'd ask to know
 What I was walling in or walling out
 And to whom I was like to give offense.
 I see him there
 Bringing a stone grasped firmly by the top
 In each hand, like an old-stone savage armed.
 He moves in darkness as it seems to me
 Not of woods only and the shade trees.
 He will not go behind his father's saying,
 And he likes having thought of it so well
 He says again, "Good fences make good neighbors."

Think about it my friends ... do fences really make good neighbors or is there another way ... a different way ... a better way? I think that is one question we should all ponder and try to answer both individually and collectively.

Thank you. God bless you ... God bless the System ... and God bless America.

Have a great conference!