

**Wisconsin Farm Credit Services
Legislative Committee Conference
Madison, Wisconsin
January 14, 2004**

Thank you for the generous introduction and good morning to all of you.

I am honored that you invited me to participate in your conference. I had a wonderful time last night and enjoyed meeting and talking with so many of you. It is a pleasure to spend time with people like you who care deeply about agriculture and rural America.

Believe me, your willingness to freely share your ideas and opinions is invaluable to me, and I thank all of you for your openness and your graciousness.

This morning I would like to share with you a bit more about my background, what I consider important in my role as an FCA Board member, and key projects FCA is working on in the near term. My intention is to provide you with information that may be helpful to you in better understanding my approach to issues that come before the FCA Board.

First, a little bit about myself

(Ms. Pellett described her family farming operation, involvement in community organizations, the State of Iowa University system, and beef trade association groups.)

My involvement in these organizations has instilled in me a passion to be involved and to make a difference for agriculture and rural America.

I believe my knowledge of agriculture is deep, and that my understanding of rural America is deep, as I have worked it, and lived it, my whole life. I trust my experience and I trust my instincts, but more importantly, I trust my heart, and I can assure you that my heart is solidly with agriculture and rural America.

I must tell you that I am extremely honored to be a board member and proud to bring the perspective of production agriculture and rural America to the discussions, and ultimately the decisions, that will affect how the System will operate.

My goals as a board member are fundamental.

Uppermost, in my mind, is that the System remains financially healthy so that it can fulfill the mission it was created to accomplish.

During my tenure I will do everything in my power to ensure that the Agency maintains the right number of staff and skills to ensure that the System operates in a safe and sound manner. That is my number one priority.

Secondly, I believe FCA must quickly respond to requests from any interested party to clarify or explain our position on the law and regulations under which we expect the System to operate. And where appropriate, I believe we must eliminate or revise regulations that unnecessarily reduce the ability of the System to accomplish the mission for which they were created. I will talk later about some of the issues we are presently dealing with in this area.

Third, I believe we have a duty to educate the public about who we are, what we do, and how we contribute to the public good. The FCA story, as is the System's story, is a very positive one and I think more people need to know it.

Lastly, I believe we must conduct our business openly by soliciting the input of all parties impacted by our proposed regulatory actions. And this cannot be accomplished by spending all my time in McLean. That is why I consider invitations to conferences such as this, as well as to banks and associations, critical to keeping in touch with what is happening.

I also believe this openness should be a two-way street and I encourage any of you at any time to contact me about your concerns and, if you are in the Washington DC area, I encourage you to come visit us in McLean. I assure you that my door will always be open to any of you.

Well that is a little bit about me and what I feel is important to me in my role as an FCA board member. Now let me take a few moments to highlight some of the regulatory projects in progress at FCA.

Twice a year, FCA, as well as all Federal agencies, is required to publish information in the Federal Register describing the regulatory projects we intend to work on over the next twelve-month period. At FCA, we call this document our Unified Agenda. We will update this during April in response to any emerging issues that might have arisen from major changes in the marketplace or activities within the System.

Key issues we are dealing with in the near term that will impact your operations include scope and eligibility, the young, beginning, and small farmer program, and investments in rural America. The first two are in the regulation development stage and I would encourage you to comment on our proposals if you haven't already.

The last item, investment in rural America is in the early stages of development and I would urge you to provide input as we analyze how we might better encourage the System to provide greater service to rural areas.

Let me say a few words on these 3 projects.

First, Scope and Eligibility

The System has asked us to revise or eliminate certain regulatory provisions that they believe create an impediment to System institutions in providing for the full credit needs of eligible borrowers.

I believe it is quite evident that the farm sector is increasingly reliant on off-farm income and government payments. In addition, many rural counties in traditional farming communities are losing population and their rural infrastructure is declining.

Nationwide, over 90 percent of all farms are small and the majority of these producers are part-time farmers who do not consider farming their primary source of income. Instead, they rely on additional business opportunities to improve their economic welfare. These structural realities will be a major factor to consider in FCA regulatory actions over the next several months.

I personally believe that as long as a lending activity benefits agriculture and rural areas, then I am in favor of giving it serious consideration for approval. My goal is to ensure we explore how this regulation, as well as all our regulations, can become more responsive to the needs of all eligible and creditworthy farmers and rural residents within the boundaries of the Act.

We must ensure that the lending activity clearly benefits agriculture and rural America, and that the lending activity is undertaken with due consideration to the principles of safety and soundness.

We held a public hearing on this issue in July and the comment period closed in October with over 900 comment letters received. Staff is currently sorting through the comments in anticipation of developing a proposed rule for Board consideration sometime this summer.

The second project I will comment on relates to the young, beginning, and small farmer program.

This program has been an FCA focus area for several years, as we believe it is critical that this group of borrowers be fully supported by the System.

I know that the Farm Credit System has several excellent programs directed at this important segment of agriculture, as I have had the opportunity to personally meet with and talk with those involved in these programs at several associations. Again, I commend the System for your efforts in this area.

To add further support to this program, President Bush's goal is that we have a strong agriculture and a vital rural America with special attention given to young farmers. To support the President's vision, I believe it is critical that each of us do whatever we can to ensure that the next generation of farmers is able to have farming and ranching as a career option.

With that in mind, the Agency, during mid-2003, issued a proposed regulation for the young, beginning, and small farmer program. At our November 2003 Board meeting we approved reopening the comment period on the proposed regulation to allow additional time for the System, and others, to provide comments. I would encourage you to respond if you have not already done so.

The last project area I will comment on is investing in rural America.

This area is very important to me, and I am sure it is important to most of you in the audience.

FCA and the System have spent a lot of time trying to clarify what the limits of lending authorities are, or should be, under our scope and eligibility regulations. That type of dialogue is good, and as I mentioned earlier, we have an active regulatory project underway to address the issues involved. I would encourage the System to put a similar level of enthusiasm into looking at the authorities granted under our investment regulations.

Cooperation with a number of entities, such as commercial banks, USDA rural development, and commodity groups, is vital to strengthening rural areas.

Also, our investment in rural America project might involve a significant update to our July 1999 regulation in this area. We would certainly be interested in your ideas on what mission-related investment activities you believe would be beneficial to rural America, and encourage you to communicate those to us.

Our goal is to ensure that the System can continue to adjust to market demands and remain a major provider of financial services to agriculture and rural areas. I am here to tell you that FCA supports initiatives that will allow institutions to fulfill their public mission to finance the needs of agriculture and rural America.

Gordy Foss (CEO, Badgerland ACA) asked that I comment on the status of RBICs — Rural Business Investment Corporations that were authorized in the last Farm Bill. Before coming here, I checked with USDA and they said they had just signed an agreement with SBA at the end of the year to implement the program. They are now looking for a contractor to write the regulations. More than likely, they are 18 months away from having a proposed regulation out for comment.

Before closing I would like to share a few thoughts on cooperation.

As a government-sponsored enterprise, the System serves a critically important public purpose — providing American agriculture and rural areas with a dependable source of credit. Currently, about 100 billion dollars is provided to over four hundred thousand borrowers who benefit from your dedicated efforts. You should be very proud of what you have accomplished.

However, to build on those accomplishments and remain successful, in my opinion, requires a more united front within the System than appears to exist today. Basically, the System lacks a single governing body that would allow it to speak firmly and effectively with a single voice on some important issues. Though I have seen some recent progress in this area, I believe there is substantial room for further improvement.

I also think there is significant room for increased cooperation with other organizations involved in agriculture. I believe we should encourage the establishment of alliances with other organizations that benefit agriculture and rural areas. My dream and vision is for all of us — the System, FCA,

commercial banks, USDA-rural development, commodity groups, even credit unions — to coordinate and cooperate more in order to further strengthen agriculture and rural America.

Remember, it is not just the System, it is the System in partner with others that will make a difference in strengthening agriculture and rural America of the future. Demonstrating that you are a team player might be beneficial to the System when it attempts to clarify its authorities with Congress.

Which brings up the often talked about issue of whether the 1971 Act provides the System with all the authorities it needs to serve a changed agriculture, marketplace, and rural America. The answer I have heard from most parties over the past year is that the Act is clearly outdated. But what I have also heard is that nobody wants to initiate the process to make needed changes; generally this is phrased as this is not a good time. I must say that I find this a bit perplexing. I am wondering when is a good time and how much do you lose by waiting until that, quote unquote “good time” magically appears.

Increased scrutiny of government-sponsored enterprises has basically become a way of life, so I believe there might never be a “good time.” If you are getting beaten over the head for actions taken at the margin of existing law, maybe you should give the originators of your authorities the opportunity to weigh in on what they think. I think your case is strong. But more importantly, your cause is honorable.

If the course you are on, or want to take, in order to better serve agriculture and rural America needs to be reset, then maybe you need to do the right thing and recommend changes. To do otherwise would seem to be a disservice to your fundamental principles.

Furthermore, I believe it is a problem when the regulator is asked to increasingly expand its interpretation of, or reinterpretation of, the law because of changed circumstances in the marketplace. I feel that when this occurs, as much as it has been lately, then it is time to communicate that issue, and your concerns, to Congress and seek their clarifying guidance.

FCA looks at the regulations and statutes closely, and, if what you want to happen is possible, we will allow it. If it is not possible, we will not allow it. Please be assured, we do not make law; Congress makes law, and I believe Congress is where your efforts need to be directed in the longer run.

Closing Remarks

Let me wrap up by saying that I truly believe agriculture is one of the most honorable endeavors an individual could undertake. As Thomas Jefferson said “Cultivators of the earth are our most valuable citizens as they are tied to their country and wedded to its interest by the most lasting bonds.”

I agree, and I want those ties, to not only continue, but also flourish, so that anyone who wishes to, can have the opportunity to share in the richness of the experiences everyone here has had. For this to happen requires a strong

agricultural sector and vital rural communities. To me, that is the principal reason why the Farm Credit System exists.

Quite frankly, I stand in awe of the contributions the System makes every day, not only locally, but nationally as well. And I must say that we at FCA are proud of our past accomplishments in helping you along the way and we are confident about our future contributions as you face the challenges of a dynamic world.

I believe it is wise for both of us, the System and FCA, to be well prepared for being put under the looking glass. The more prepared we are and the more coordinated our efforts are; the better off we will be when you move forward with bold initiatives. We look forward to working with you.

Thank you very much for having me here the past two days, and if there are any questions I will do my best to address them.