Opening Remarks of the
Honorable Michael M. Reyna, Chairman and CEO
Farm Credit Administration
At the Public Meeting on
Scope and Eligibility of Financing
McLean, Virginia
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Good morning. I would like to take this opportunity to welcome all speakers, special guests and other members of the public who are here today to attend the Farm Credit Administration (FCA) hearing. Today's public hearing will focus on those FCA regulations that govern the scope and eligibility of financing by Farm Credit System institutions; as well as our definition of "moderately priced" rural housing.

My name is Michael M. Reyna; I serve as Chairman and CEO of the Farm Credit Administration. Joining me at today's hearing are my colleagues and FCA Board Members Nancy Pellett and Doug Flory.

The Farm Credit Administration is an independent federal executive branch regulatory agency. We are congressionally mandated to ensure the financial safety and soundness of the Farm Credit System (System), a nationwide network of borrower-owned financial institutions and organizations that provide credit and related services to farmers, ranchers and their cooperatives in all 50 states and Puerto Rico.

As an independent financial regulator, we accomplish our mission in two important ways. First, we conduct on-site financial safety and soundness examinations of each System institution. These examinations also focus on whether System institutions are meeting their public mandate to serve all eligible borrowers having a basis for credit.

Secondly, we approve corporate charter changes and research, develop and adopt regulations, rules, and other guidelines that govern how System institutions conduct their business and interact with their customers.

We take our role and responsibility seriously. And, if in the conduct of its business, a System institution violates a law or regulation, or does not otherwise meet safety and soundness standards, Congress has authorized us to take enforcement actions to correct the problem promptly.

Congress established the Farm Credit System some 87 years ago as the nation's first Government-sponsored enterprise (GSE). Its purpose is to provide for a dependable source of credit and related services to farmers, ranchers and their cooperatives. And, from its humble beginnings, the System demonstrated that it was an innovator, "pioneering" the agency market for securities in the early 1920's. Today this Government-sponsored enterprise continues to be a dependable financial intermediary; effectively and efficiently moving money safely from Wall Street to Main Street, and back.

This nationwide network of borrower-owned financial institutions currently accounts for slightly over 30 percent of all farm debt outstanding. A steady earnings trend, however, has allowed the System to strengthen its capital position during the last decade and enabled it to rapidly expand its operations in recent years and capture market-share from other lenders. This growth was the subject of a recent study completed by our agency which indicates that out of 103 System institutions, 63 grew over 10 percent; 34 grew over 15 percent; and 9 grew over 20 percent.

While no single factor can be singled out as a reason, a myriad of factors, including low interest rates, corporate restructuring and increased marketing efforts, and use of new loan participation authorities, have combined to fuel this growth environment. With regard to loan participation authority, it is worthy to note that over 56 percent of System institutions reported purchasing participations from non-FCS institutions in 2002, up 10 percent from the prior year.

Indeed, the System is not alone when it comes to financing agriculture. Beyond commercial and community banks, other lenders serving agriculture include life insurance companies, USDA's Farm Service Agency, and other non-traditional lenders - often farm input dealers - who are offering low rate loans to encourage sales.

And while some studies show that rural banking markets are less competitive than their urban counterparts, it is not as clear as it once was that agriculture and rural America face a credit crunch on a widespread basis. Rather, where credit availability gaps do exist and occur, they tend to be in more specific and localized market areas.

Government-sponsored enterprises, like the Farm Credit System, are established to serve a specific public purpose, rather than a general public purpose. For example, Fannie Mae and Freddie Mac were established to facilitate the flow of funds to housing; whereas, the System was established to do the same for agriculture. Commercial and community banks, in contrast, are chartered to serve a more general public purpose.

It is important to note, that while the rationale for establishing these GSEs is the same, the manner in which they accomplish their objective is very different. Specifically, the housing GSEs are secondary lenders, meaning they purchase housing loans from other lenders and then securitize these loans for sale to investors, while the System -- excluding Farmer Mac -- directly competes with other lenders as a retail lender to agriculture.

GSEs produce a variety of indirect and direct public benefits and costs in the marketplace. For example, people -- whether they are potential homeowners, or agricultural producers -- have the opportunity to benefit from improved access and affordability when it comes to their credit needs. Public costs, for example, result from a GSE's reduced or limited tax liability, or when more serious situations arise at GSEs that threaten to undercut the trust and confidence of investors.

Homemakers and businessman alike understand that our economy is drifting right now. In the last two years alone, we have lost over two million jobs. Our trade deficit is expanding and perhaps most significantly our federal budget is once again registering large deficits. As if to underscore the seriousness of our current economic situation, just yesterday the Federal Reserve cut a key short- term interest rate to a new 45-year low.

Agriculture and rural America are key components of our national economy; and if they are healthy, then our economy is the better for it. And though agriculture and rural America are different, each support and strengthen the other. When agriculture has a good year, so do our rural economies. And, conversely, how many families have been able to get into, or remain in, agriculture because they have off-farm income?

Agriculture continues to change and, as a result, so do our rural communities. For example, technology has revolutionized farming over the past 75 years, first mechanically, then chemically, and now more recently through advanced genetics. These changes have altered the structure of agriculture and continue to do so. While agricultural productivity has improved, the total number of farms has declined and our rural communities have experienced significant out-migration over time.

Agriculture is full of risks, including uncertain commodity prices, fuel costs, floods, droughts, pests and disease to mention but a few. It is for these -- and other reasons -- that lending to agriculture is full of risks too. According to data from the USDA, repayment problems exist across the board, averaging about 20 percent of all farmers. And, to the extent commodity prices remain at current levels while government payments (including emergency assistance) decline and or interest rates rise, the proportion of farmers who have repayment problems could increase in the future.

Marketplace realities have an impact on the lives of people, for better or worse. And so too the laws enacted by Congress, and subsequently interpreted and implemented by federal agencies, can and do have an impact on our lives for better or worse. This is certainly true when it comes to agriculture and the Farm Credit System.

As the primary regulator of the System, rest assured that we are very aware that our interpretation and implementation of federal statutes directly affects the lives and livelihood of those people involved in agriculture and who live and or work in rural America. Like those of you who appear before us today, we do not take our task here lightly.

In part, today's public hearing is being held in response to requests our agency has received to revise existing FCA regulations that govern who (eligibility) and what (scope) can be financed by the Farm Credit System; and our definition of "moderately priced" rural housing. While it is unclear whether it is a case of system institutions "asking for forgiveness, rather than asking for permission," today's hearing is also being held because of questions and concerns among our examiners who are increasingly finding violations of these same regulations.

For example, our examiners are finding some System institutions financing non-agricultural commercial enterprises that exceed the borrower's agricultural operations in terms of assets or income. Similarly, some institutions have been found financing the acquisition of agricultural real estate by developers; and, still others have been found to be financing the construction of houses for persons who own agricultural land but have minimal or no farming income.

Are these instances examples of a GSE attempting to fulfill its mission and congressionally mandated charter? Or are they instances of "mission creep" and attempts by some to use a GSE -- a public tool -- chartered by Congress to serve agriculture, for very different purposes; purposes that legitimately could and should be served by private sector lenders?

Some people argue that the plain reading of the Farm Credit Act does not support existing regulations regarding scope and eligibility of financing; and, as such, that our regulations are overly restrictive and burdensome. To determine whether our regulations are hindering the System's attempt to serve agriculture, however, we must look at both the letter of the law – and as expressed in congressional intent language -- the spirit of the law.

The answer to this fundamental question has as much to do about agriculture and the interpretation of law and congressional intent, as it does about the appropriate role of a government sponsored enterprise in a free market system.

While we will be unable to answer this over-arching question today, I do hope those of you who are with us today will be able to identify what, if anything, in our rules precludes the System from providing credit to farmers and ranchers for agricultural purposes; and, second, to what extent should the System provide for the other credit needs of farmers and ranchers?

To this end, we are specifically asking for your response to four questions:

- Should we retain or change the current regulation defining a bona fide farmer, rancher, or aquatic producer;
- What limits, if any, should we place on lending for farmers' other credit needs;
- How should we regulate access to the other credit needs of eligible farmers who derive most of their income from off-farm sources; specifically, should FCA retain the current regulatory distinction between full-time and part-time farmers, and if not, then are there suggestions for a better approach; and finally,
- Should we change the definition of "moderately priced" rural housing?

After today's hearing, the public comment period will remain open until July 31, 2003. The information you share with us today will serve as the foundation for any decision the FCA Board may make regarding changes to the regulations that govern the System's scope and eligibility of financing.

Before we begin with our first speaker, I would like to ask my colleagues if they wish to make an opening statement for the record.

Author's Note: In preparing my remarks for today's hearing, I have drawn heavily from research done by the staff of the Farm Credit Administration and a number of published and unpublished works and briefing materials, including "The Farm Credit System: A History of Financial Self-Help" by W. Gifford Hoag. As such, I wish to thank and acknowledge all those who have made my job easier.