

**Summary of Comments by
The Honorable Kenneth A. Spearman
Northwest, ACA, Board of Directors
Spokane, Washington
April 22, 2010**

Background: Professional background, auditing experience, experience with Florida agriculture, service on AgFirst Board, etc.

FCA Board: Jill Long Thompson joined FCA Board at beginning of April. Her recess appointment is effective through December 2011. Her nomination is still pending before the Senate and Senator McCain still has a hold on all nominations coming out of the Agriculture Committee because of his dispute with USDA.

General thoughts on FCA

- I believe FCA should focus on its primary purpose as a financial institution safety and soundness regulator; we need to effectively monitor System operations and act swiftly when we find problems or troublesome risks in the System.
- We need to ensure that FCA is hiring, training, and retaining high-quality staff.
- We need to ensure that FCA is viewed by Congress, investors, and the public as a credible and independent regulator.
- Transparency of FCA's operations is important so that the public can clearly see and understand what we are doing.
- It is important to keep good lines of communication open with the System—but also with Congress and other interested groups as well.
- We need to respect Congress's role in changing the law; it is okay to look for creative solutions to issues, but FCA must apply the law as written when the law is clear.
- Economic outlook: According to some indications, conditions are improving in the agricultural economy, but other indications suggest that conditions will continue to be challenging for System lenders for the next year. There are significantly more institutions in the System with a 3 or 4 FIRS rating than a year ago; five associations remain under supervisory agreements and a number of others remain on watch lists. FCA will remain vigilant to emerging risks and will act to contain risk.
- Upcoming FCA action will be focused on safety and soundness issues: We are looking at issuing guidance, including possible rulemaking, in areas such as loan pricing, investment management, liquidity and funding, and lending and leasing limits.
- Mission focus rule—FDIC rule: At the April Board meeting, the FCA Board adopted a proposed rule authorizing System direct lenders to purchase loans from the FDIC; its intent is to help the FDIC resolve failed commercial banks and to have the System provide liquidity and stability for agricultural producers in areas affected by failed banks. The rule will be published in the Federal Register shortly, and we invite written comments from Northwest.

- Director Election Rule: The final rule was adopted at the March FCA Board meeting and will become effective in 30 days or so. The rule is a follow-up to FCA's 2006 governance rule and intended to clarify and codify guidance related to director elections.
- Importance of association boards: Many troubled institutions had weak or ineffective oversight by board; active participation of board is crucial to good governance.
- Capital adequacy: FCA is planning to issue an advance notice of proposed rulemaking in May or June seeking input on moving towards a two-tier capital system consistent with the Basel Accord and other U.S. financial regulatory agencies. The idea is to create greater transparency and comparability for System investors and others. Because of the meltdown of the commercial banking sector in 2008–09, bank capital rules have come into question; FCA will proceed cautiously. Also, any new rule needs to account for differences between commercial banks and cooperative System institutions.