Remarks by
The Honorable Jill Long Thompson
Board Chair and CEO, Farm Credit Administration
Annual Meeting of the Farm Credit Bank of Texas
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Good morning. Thank you for that kind introduction. And thank you, Chairman Dodson, for inviting me to speak with you this morning at the 2013 annual meeting of the Farm Credit Bank of Texas.

As I said at the Farm Credit Council meeting in February, the Farm Credit System has much to be proud of. Despite the lingering effects of the recent recession and financial crisis, and the persistent drought, the System remains fundamentally safe and sound.

And the Farm Credit Bank of Texas and its associations can be especially proud of their success over the past year. From December 31, 2011, to December 31, 2012, net income for the Texas district increased by almost 11 percent, total capital increased by almost 6 percent, and the volume of nonperforming loans declined by almost 24 percent. What's more, the composite FIRS ratings of five Texas associations improved from 2011 to 2012.

The Texas district has done a particularly admirable job in the past year of reducing the volume of its criticized and high-risk assets.

These improvements are commendable under any circumstances, but you managed to achieve them when a significant portion of your lending territory was in severe drought. The efforts you have taken to strengthen your credit review process and to tighten loan underwriting standards are clearly paying off. I congratulate you, and I encourage you to keep up the good work.

For almost 100 years, Farm Credit institutions have served American farmers and ranchers. The System began by offering long-term mortgage lending and later evolved to meet farmers' other credit needs—from one-time purchases of farm equipment to annual purchases of seed and fertilizer. Without this reliable source of credit, American agriculture would not be the industry that it is today.

Not only do American farmers feed Americans, they feed people all over the globe. Plus, because of exports, American agriculture remains a consistently bright spot in the national economy—one of the few American industries to provide a trade surplus year after year.

As Board Chair and CEO of the Farm Credit Administration, I am proud to be a part of it all, and I know you are too. The Farm Credit System has provided credit to American farmers for almost a century, and I am proud to work with you to help ensure that, 100 years from now, the Farm Credit System will still be serving the credit needs of America's farmers and ranchers.

But preserving the Farm Credit System to serve future generations of farmers is no small ambition. The System faces many challenges.

Serving agriculture is like hitting a moving target. It's not easy. Lenders must adapt to changes in the industry.

Another challenge is demand. According to the United Nations, the world population will increase from about 6.8 billion people today to 9.2 billion by 2050. For farmers to rise to the challenge of feeding this many people, lenders like you must rise to the challenge of meeting the credit needs of these farmers.

Another challenge—a particularly daunting one—is the weather. Now it's true that farmers have always been at the mercy of weather, but as you know all too well, some of the weather we've seen in recent years has been devastating, and climatologists predict that extreme weather events will grow evermore frequent as the planet warms.

How can a System institution overcome these challenges? It won't be easy, but you don't have to face them alone. As the arm's length regulator of the Farm Credit System, we are committed to ensuring the safety and soundness of System institutions.

Since becoming Chair, I have spent a great deal of time meeting with and listening to senior staff at FCA. And for many years, as a farmer, a Member of the House Agriculture Committee, and an Under Secretary at USDA, I have also spent time reading the literature on the agricultural economy, both nationally and globally.

Based upon these discussions and readings, I have identified strategic priorities I believe must be addressed by FCA over the next year. Recognizing we exist in an ever-changing environment, I also realize we must be flexible, and we will likely need to re-prioritize from time to time. It is important, however, for us to have our strategic priorities in place so we are most prepared to expect, and effectively address, the unexpected.

As Board Chair and CEO, I have identified five priority areas. The first area involves **capital requirements**. The System as a whole, including the Texas district, has done an admirable job of building capital. Keeping capital levels strong is an important part of maintaining safety and soundness.

And as your regulator, we will do our best to make sure our regulations reflect capital requirements that are appropriately consistent with U.S. standards and the Basel Accords, recognizing the unique aspects of the Farm Credit System. I have directed FCA staff to finish its work of revising the capital rules in Part 615 of FCA's regulations. Of course, our pace of *adopting* revised rules is largely dependent on the work of other prudential regulators. Nonetheless, I want to have our proposed revisions in place as soon as possible.

Furthermore, we must finish our part of the interagency rulemaking on margin and capital requirements for non-cleared swaps, and address other changes consistent with the spirit of Dodd-Frank. We must also finish the capital planning rule, as well as the liquidity management rule, for Farmer Mac.

As important as capital is to sound financial management, so is borrower equity and risk. And that leads me to my second priority: **evaluating and assessing risk associated with farmland values and loan-to-value ratios in the System**. In order to accomplish that task, we will continue to focus on, and provide support for, data collection and analysis.

There's an oft-quoted maxim in the banking industry, and I'm sure you've heard it: "Bad loans are made in good times." I think it's important to be particularly vigilant in monitoring farmland values now … when we are in a period of good times, with strong commodity prices and low interest rates. As experience has taught us, interest rates do eventually rise, farm incomes may dip, and farmland prices may adjust. That's why it's important to resist competitive pressure and to maintain strong underwriting standards even during times like these.

Talk of farmland values leads me directly to my third priority: **the Young, Beginning, and Small Farmer program**. As we all know, higher real estate prices make it harder for young and beginning farmers to buy land and build their farms.

But that's not the only challenge they face. In the wake of the recession and the recent crisis in the financial markets, lenders have understandably tightened their underwriting standards. This makes it all the more difficult for young, beginning, and small farmers to find the credit they need to build their operations.

Yet, as Congress has long recognized, with an aging farmer population, these men and women are key to feeding the world's ever-expanding population. It is our congressional mandate—both FCA's and the System's—to ensure that creditworthy and eligible men and women who are young, beginning, or small producers have access to the credit they need to be successful.

I commend the Texas district on its service to YBS farmers. From 2011 to 2012, loan volume increased to YBS farmers in your district. That's good news—not just for the farmers you serve but for everyone. If agriculture is to meet the food demands of the future, it must encourage and support YBS producers.

In addition, the Texas district provided thousands of dollars last year in sponsorships and scholarships to the FFA, 4-H, and other organizations that benefit young, beginning, and small producers. I applaud your efforts. Since my days in Congress, I have been a supporter of the YBS program, and believe it must always be on the list of priorities for the Farm Credit Administration.

Although young, beginning, and small farmers face many challenges, they also face some new opportunities. And that leads me to my fourth priority—**the local foods sector**.

In the past, unless you inherited a farm or married someone with a farm, it was difficult to start farming—because, to be successful, you generally had to have a large operation. If you didn't already own the land and equipment, farming was probably not a career option for you.

However, in recent years, more and more American consumers are choosing locally grown and organic foods, many of which are grown on small farms. This new trend in consumer demand has made it possible for individuals to choose to become farmers, even if their parents were not. That's because the capital demands to start a small farming operation are not as daunting, and this, of course, creates opportunities for young, beginning, and small farmers.

Service to these borrowers supports not only the YBS demographics, but it also supports a promising trend in agriculture. I am pleased to hear that the Texas district has begun to serve producers of local and organic foods. I am particularly pleased to commend Texas Land Bank, Capital Farm Credit, and Southern Ag Credit for reaching out to these producers, and I encourage the district, as a whole, in its efforts to serve this increasingly important market segment.

The final strategic priority involves the **Investments in Rural America program**. Living in a rural community and having served as Under Secretary of Rural Development at the U.S. Department of Agriculture, I have a strong commitment to rural America. That said, as a former Member of Congress, I also want to be sure that the Agency and the System operate within the authorities that Congress has provided.

Several System institutions are participating in the Investments in Rural America pilot program, which has been in place since 2005. It is now time for the FCA Board to take a hard look at the key legal and policy questions, and make a decision on the future direction of this pilot program and the related Rural Community Investments rulemaking project.

These are the regulatory and examination priorities I have identified as important for us to address in the next year. There are, of course, other issues of importance, as well. Diversity, for example, remains an important issue for me, as it is for my fellow Board members Ken Spearman and Lee Strom.

In fact, I am pleased to personally thank the Texas district—both the bank and the associations—for supporting FCA's diversity initiatives. I am particularly pleased to recognize Bank Director Betty Flores and Vice President of Human Resources Ivory Tate for the solid leadership they have provided to the System's diversity workgroup. By reaching out to embrace diversity both in your workplace and in your customer base, you're not only doing the right thing, you are practicing good business. *And* you are helping fulfill the mission for which Congress created the System—to serve the credit needs of *all* eligible and creditworthy farmers and ranchers.

Often, when we talk about the System, we stress the importance of cooperative principles—and rightly so. They are the cornerstone of the System and the business model that Congress chose when it set up the System 100 years ago, and I am pleased to see that the Farm Credit Bank of Texas prominently displays the seven cooperative principles on its website.

Just as cooperation is an important value for a System institution to embrace, so too is independence, and I know that, as representatives of the Texas district, you are strong believers in the value of independence. After all, the State of Texas is famous for its independent spirit.

At FCA, we believe that each System institution—each bank and association—is unique, with a unique lending territory. We believe that nobody can serve your territories better than you can serve them, and we want to encourage you to preserve the independence of your district.

As I mentioned in my remarks at the Farm Credit Council, the System, as a network of lenders, and FCA, as the arm's length regulator, play very different roles, but our ultimate goal is the same—to ensure that farmers and ranchers have the credit they need to be successful.

You help meet this goal by extending credit to agricultural borrowers, and *we* help meet this goal by adopting regulations and conducting examinations to protect the safety and soundness of the System and to ensure that the System fulfills its public mission.

As an arm's length regulator, we always strive to adopt rules that are reasonable and necessary—rules that ultimately help the System succeed in its public mission. I appreciate the cooperation you've demonstrated over the years and the recognition you've shown of the value of the work we do. We will continue to work hard to fulfill our role effectively and with integrity and goodwill.

Today, despite the many challenges before us, the future looks bright—for the Texas district, for the System as a whole, and for agriculture. I encourage you to continue your good work—to embrace diversity in your workforce and your lending practices, to be wary of collateral risk, and to look for ways to fulfill your public mission more effectively than ever … as you meet the challenges of tomorrow. Thank you.