Remarks by
The Honorable Jill Long Thompson
Board Chair and CEO, Farm Credit Administration
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Good morning. Thank you for that kind introduction and also for your help in arranging for me to be here today. And thank you, Chairman Davidson, for inviting me to speak with you this morning at AgriBank's 2013 annual meeting.

Also, it is a privilege for me to recognize Lee Strom, my colleague on the FCA Board who served as FCA Chairman and CEO from 2008 to 2012. He and my other Board colleague, Ken Spearman, have long demonstrated their commitment to America's farmers and ranchers, and I appreciate the leadership they have provided over the years.

It is also a pleasure to recognize representatives of FCA senior management who are here today. I am very appreciative of the support they've provided since I joined the Board in 2010.

As I said at the Farm Credit Council meeting earlier this year, 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 AgriBank can be especially proud of its success over the past year. During fiscal year 2012, AgriBank's gross loans increased by 10 percent, total capital increased by 11 percent, and nonaccrual loans decreased by a whopping 42 percent.

What's more, the composite FIRS ratings of AgriBank associations improved from 2011 to 2012. Of the 17 associations in AgriBank's district, the number of institutions with a rating of 1 went up from 10 to 12. No institution has a rating lower than 2, and no institution is under enforcement action or special supervision. These ratings reflect strong management and governance practices. I commend you for your achievements, and I'd like to encourage you to keep up your good work.

To say the future of U.S. agriculture depends in large part on the work *you* do is no overstatement. The Farm Credit System provides 43 percent of the nation's agricultural credit, and, as of September 30, 2012, AgriBank held around 40 percent of all of the System's gross loan volume. The role that AgriBank plays in American agriculture is huge.

And, as you know, the foods your borrowers produce feed people all over the world—not just here in the United States. In fiscal year 2012, U.S. agricultural exports reached $135.8 billion, the second-highest level on record. And agriculture bolsters the U.S. economy with a trade surplus year after year; in FY 2012, the surplus was $32.4 billion.

Because so many people across the globe rely on U.S. agricultural products, the role you play in supplying credit to American farmers helps people far beyond our nation's borders. American farmers—and by extension its credit providers—play a critical role in addressing one of the most pressing issues of the future—global food security.

Three major factors present risks to the world's food supply: population growth, rising incomes, and climate change. The world's population is expected to grow from 7 billion today to 9 billion by 2050. According to the United Nations, global food production will need to increase by 70 to 100 percent to feed everyone.

And although the worldwide trend in rising incomes is something to celebrate, it does present an added challenge to agriculture. As we've already seen in countries like China, as incomes increase, more calories are consumed in the form of animal protein. And because it takes many calories of grain to produce a single calorie of animal protein, the increase in the demand for meat, eggs, and dairy products will greatly increase the demand for grain.

The third factor, climate change, may make producing the additional food necessary to meet rising demand more difficult than ever before. Weather has always been the most powerful and the most uncertain variable in agriculture, and climate change exacerbates the effects weather can have on agriculture.

As we saw in last year's corn crop, high temperatures can reduce yields by impeding plant fertilization. Insects and weeds also proliferate in higher temperatures. Climate change can cause a shift in seasons and an increase in the number and intensity of extreme weather events, like floods and droughts.

Four years ago, the International Food Policy Research Institute conducted an interesting study. It used computer models to project per capita calorie consumption and child malnutrition in the year 2050. It projected these levels under various scenarios. One scenario involved no climate change, and the other scenarios involved climate change as predicted by two climate models.

In the scenario involving no climate change, the levels of per capita calories were much higher and the levels of child malnutrition were much lower than in the scenarios involving climate change. These results indicate the detrimental effect of climate change on food security.

The good news is that farmers can adapt to climate change. An article published a few weeks ago by USDA says that "adaptive behaviors such as adjusting crop choices and production practices may help mitigate the negative effects of climate change and enable some producers to capitalize on new opportunities."

But even if we can overcome the effects of climate change, we still face the daunting challenge of producing enough food to meet future demands. How can we do this?

One way to help meet these demands is to increase agricultural productivity. Over the years, American farmers have demonstrated that they are very good at finding ways to improve agricultural productivity. According to USDA, U.S. farm output grew 170 percent from 1948 to 2009, and this increase was driven largely by an increase in agricultural productivity.

And with some powerful new tools at their disposal, farmers can continue this trend. Global positioning systems enable farmers to practice precision farming, which allows them to save money and reduce the impact on the environment by using fewer inputs like fertilizer and pesticide. And plant and livestock genetics allow farmers to select varieties and breeds best suited to growing conditions on their farms.

Information technology and social media tools are also helping farmers increase their productivity. Today more and more farmers are using websites and Facebook pages to showcase their products and communicate with consumers.

And there are several tools that have been developed specifically for the ag industry. One example is the electronic identification ear tag, which can store information about an animal's vaccination history, pedigree, and country of origin. These are the tools that will help our farmers meet the food demands of the future.

But many of the tools they need to operate are capital-intensive. To purchase them and other necessary inputs, farmers need a reliable, affordable source of credit. That's where we come in.

Just as farmers must adopt new tools and farming practices to meet global food demands, agricultural lenders can do their part by reaching out to and serving the credit needs of *all* eligible, creditworthy farmers. That's what the FCA diversity rule is all about—making sure that every potential borrower who is eligible and creditworthy is aware of the services the System can offer and has access to these services. In reaching out to all eligible, creditworthy producers in your territories, not only are you adhering to the basic principle of fairness, you also play a critical role in ensuring that the food demands of the future can be met.

Like my colleagues on the Board, Ken Spearman and Lee Strom, I believe that part of fulfilling the public mission is ensuring that System institutions serve all eligible, creditworthy borrowers—not just young, beginning, and small producers, but also women and racial and ethnic minorities. And to reach all of these groups effectively, I believe that each System institution must also have a workforce that reflects the diversity of its territory.

What is true for System institutions is also true for its regulator. We too must strive for diversity and inclusion in our workforce. I firmly believe that bringing together people with many diverse points of view will lead us to the most effective outcomes.

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 the following priority areas:

- Capital requirements
- Risk assessment and analysis
- The Young, Beginning, and Small Farmer Program
- Local food systems and urban agriculture
- Investments in rural America

Capital

The System as a whole, and the AgriBank district in particular, have 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 noncleared 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.

Risk Assessment and Analysis

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 and provide support to 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.

Young, Beginning, and Small Farmers

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 am happy to see the focus that associations in the AgriBank district have placed on service to YBS farmers. According to results of the 2011 YBS questionnaire, 15 of your 17 associations were lending to first-generation farmers, and 11 associations had YBS advisory committees. I hope that you will continue to increase your service to the young, beginning, and small farmers in your territories. 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.
And, from what I've been reading, you will have an ever-greater opportunity to serve young farmers. According to a recent article in the "World-Herald" in Omaha, more young people are coming back to the farm. And that is good news for us all.

Local Food Systems and Urban Agriculture

Although young, beginning, and small farmers face many challenges, they also face some new opportunities.

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.

As agricultural lenders, you are poised to help farmers take advantage of these opportunities. In fact, I am pleased to recognize two AgriBank associations for their leadership in this area. In the

2011 YBS questionnaire, Greenstone and Mid-America reported the highest percentage of the System's YBS loans to farmers who are marketing their products directly to consumers. Service to these borrowers supports not only the young, beginning, and small demographics, but it also supports a promising trend in agriculture.

Investments in Rural America

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 to tackle, and these priorities may change as conditions in the farm economy change.

I also think it is important to mention Farmer Mac this morning. Although perspectives on Farmer Mac vary across the System, I know that the AgriBank district has long supported Farmer Mac and used its programs.

As you know, Congress created Farmer Mac in 1988 to provide a secondary market for agricultural real estate and other qualified loans. As Farmer Mac noted in a release announcing its 25th anniversary, since its creation, Farmer Mac has increased the lending capacity of farm lenders by $7 billion. This not only benefits agricultural lenders but ultimately—and more importantly—the farmer- and rancher-borrowers they serve.

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 that protect the safety and soundness of the System and ensure that System institutions are fulfilling their public mission as Congress intended.

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 AgriBank, 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.