Remarks by
The Honorable Jill Long Thompson
Board Chair and CEO, Farm Credit Administration
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Good morning. Chairman Spiers, thank you for that kind introduction and for inviting me to speak this morning at the 2013 annual meeting of the AgFirst Farm Credit Bank. I also thank the staff at headquarters for your help in arranging for me to be here today.

As many of you have heard me say this year, the Farm Credit System is fundamentally safe and sound. The System as a whole has much to be proud of, and the AgFirst district is no exception. AgFirst and its associations can be especially proud of their financial success over the past year. Net income for the AgFirst district increased by more than 30 percent from 2011 to 2012. Total capital increased by more than 8 percent, and the volume of nonperforming loans declined by more than 14 percent. And you have managed to make these improvements despite some major challenges, including drought and the lingering effects of the financial crisis.

Fortunately, for most of AgFirst’s territory, the drought that began in 2012 has ended—at least for now. But we are in the midst of the growing season, and anything can happen.

Weather, of course, has always been a challenge for farmers, but nowadays extreme weather conditions have become the new normal. These conditions have even inspired meteorologists to coin new terms to talk about weather, such as “weather whiplash” and “flash droughts.”

Weather whiplash describes the cycle of floods and record-setting droughts that we’ve seen in the past few years—a frustrating alternation between two extremes. “Whiplash” is a particularly apt term for the effect this weather pattern has on farmers: They don’t have time to recover from the consequences of one extreme before they have to deal with the consequences of the other.

And then there’s the term “flash drought,” which was widely used to describe the 2012 drought. The result of high heat and little or no precipitation, a flash drought hits hard. And just like a flash flood, it comes upon you before you know it.

Some meteorologists attribute these extremes to a change in jet stream patterns. The patterns have slowed down in recent years, exposing us to longer periods of extreme weather. As a result of these changes, the weather may be an increasing source of difficulty for farmers and, by extension, farm lenders.

Of course, weather is only part of the story. For the past five years the economy has been reeling from the effects of the housing crisis that hit in 2008. And because many agricultural borrowers in
the AgFirst district, such as nurseries and timber producers, rely on the housing market and the general economy, the effects of the meltdown hit particularly hard here.

Compared with many other financial institutions in the region, however, AgFirst institutions have fared relatively well. And now, at long last, the housing market appears to have bottomed out and is slowly beginning to recover. That’s good news for borrowers who generate products for the housing industry, and it’s good news for their lenders.

At the same time, I do encourage you to be cautious. Eventually interest rates will begin to rise, and that may dampen prospects and increase risks.

Since becoming Chair last November, I have spent a great deal of time meeting with and listening to senior staff at FCA, including our Chief Examiner Robert Coleman, who is also here with me today. 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 AgFirst 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, but I am optimistic that the rule will be issued during the first half of next year.

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.

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. The factors affecting
land values are becoming more and more complex. And this is especially true in the AgFirst district where you have had a rapidly growing demand for land for development, causing land values to rise. This was followed by an even more significant decrease in values brought on by the housing crisis. It was a difficult experience, but experience is an excellent teacher. I commend you for taking the necessary steps to manage the risk associated with these types of loans.

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 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 and the capital-intensive nature of agriculture make it harder for many 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 financial crisis, 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 AgFirst district on its service to YBS farmers. Lending to all three borrower categories grew last year, both in terms of loan numbers and dollar volume. Total loan volume outstanding to young farmers grew by 7.8 percent in the AgFirst district, and new loan volume in this category grew by an impressive 15.8 percent. These achievements are particularly noteworthy during a period of slow loan growth across the district.

I strongly believe that we can do more to serve the needs of YBS borrowers without sacrificing safety and soundness. I encourage you to develop YBS-specific underwriting standards that take into account the financial position and agricultural experiences of YBS farmers, particularly new farmers entering agriculture who produce and market all types of agricultural products.

Finding ways to meet the credit needs of YBS farmers and ranchers is a congressional mandate for the Farm Credit System, and it’s critical to the future of American agriculture. 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.
Young, beginning, and small farmers are important to AgFirst, as well. I know that one of the courses offered through AgFirst’s Farm Credit University was specifically developed for young, beginning, small, and minority farmers and ranchers. The course, called AgBiz Planner, is designed to help these producers improve their financial and business management skills.

I was so pleased to hear that your CEO Tim Amerson has been named to the Board of Trustees of the National 4-H Council. Over the past century, 4-H clubs have encouraged young people to be active in agriculture. And while I don’t have any statistics on the subject, I feel confident that many of the young people who decide to make careers of farming do so because of the skills they learned and the experiences they enjoyed as young 4-H’ers. I strongly commend you, Tim, for taking on this role.

Fortunately, 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. 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 almost every association in the AgFirst district serves at least some borrowers who are involved in the local foods industry, and I encourage you to step up your outreach to 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 for 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.

I thank you, the bank and associations of the AgFirst district, for the measures you have taken to increase diversity both in your workforce and in your customer base. In addition, I challenge you to do more. Reaching out to others from different cultures and experiences—whether for lending or hiring purposes—is more than the right thing to do—it’s the smart thing to do.

In a brilliant essay in *Fortune Magazine*, Warren Buffett recently made a compelling case. He wrote: “The closer that America comes to fully employing the talents of all its citizens, the greater its output of goods and services will be. We’ve seen what can be accomplished when we use 50 percent of our human capacity. If you visualize what 100 percent can do, you’ll join me as an unbridled optimist about America’s future.”

I love that quote! And we can apply the same hypothesis to agriculture. Just think what this nation’s agricultural economy could do if it opened its doors wide to everyone—to women, to minorities, to the underrepresented. With the ideas and hard work of these individuals, I think we could make amazing progress in addressing the food security needs of this planet.

Of course, I fully understand that not every individual who is eligible to borrow from the System is creditworthy—just as not every job candidate is right for the job. What we must do, however, is ensure that we reach out to those who are underrepresented so that those who are qualified may receive the consideration they deserve.

I know this is not easy. At FCA, too, we have a long way to go before we can say that we are a truly diverse organization, but we are making some important strides. I want to continue to find ways to increase diversity at FCA, and I encourage you to continue to seek ways to do the same in your organizations and in your customer base.

Before I wrap up today, I am pleased to take a moment to commend you on one other point. You, the bank and associations of the AgFirst district, have taken several measures in recent months to address governance issues, some of which our examiners have identified. The bank, for example, has made several major leadership and staff changes and is nearing the completion of a multi-year board restructuring process. The board and management are working hard to review and revise the bank’s entire set of policy and procedures statements. I appreciate the initiative you are taking.

AgFirst Farm Credit Bank and some of its associations have a valuable element built in to their bylaws, which many other System institutions do not have—term limits for board members. A director of the AgFirst Bank, for example, may serve no more than three consecutive four-year terms. This provision, which has been in place since AgFirst was formed, helps ensure the flow of fresh perspectives and new ideas from association stockholders into the board room. I believe the bank and your district will benefit from this infusion of new ideas and perspectives.
I’ll conclude with these few thoughts. We often associate farmers with a kind of gritty toughness and resilience, but, you know, farm lenders have to have this same quality. Lenders are on the same wild ride that farmers are on.

Fortunately, farmers have some shock absorbers at their disposal—crop insurance, for example—to smooth out their ride. Lenders, too, can absorb some of the shocks of their ride through sound underwriting practices, stress testing, and healthy capital levels.

I know that AgFirst has had a bumpy ride since 2008, but conditions are improving, and your ability to manage conditions is improving, as well. I encourage you to keep up the good fight—to keep your management standards high; to reach out to all eligible, creditworthy farmers in your district; and to protect safety and soundness through sound portfolio management, including extensive stress testing and collateral risk management.

As the arm’s length regulator of the System, we will always strive to help you succeed in your 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. Thank you.