

**Remarks by  
The Honorable Jill Long Thompson  
Board Chair and CEO, Farm Credit Administration  
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Good afternoon. Thank you for your kind introduction, Dr. Testa. And thank you for your invitation to speak at the 2014 Annual Agriculture Conference of the Federal Reserve Bank of Chicago.

I'm going to start today by stating the obvious—agriculture is critical to our rural economy. This has been true for more than two centuries, and will likely be true for centuries to come. But now, I'm going to share an observation that may seem less obvious. Today agriculture is even *more* critical to the economy of rural America than it was 20, 30, or even 50 years ago. Why do I believe this?

First let's consider one of the biggest threats to rural communities: population decline. According to the USDA's 2013 edition of its Rural America at a Glance, "population loss typically reduces the demand for jobs, diminishes the quality of the workforce, and raises per capita costs of providing services."

In my home state of Indiana, the talk of school consolidation has re-emerged as a serious policy topic. Many smaller schools are facing the challenges of population loss, which causes the education cost per student to increase. And if a school closes, the problem of declining population becomes even more pronounced.

Statistics show that population is declining in many rural American communities. According to a study cited in a recent article by the FDIC, more than half of all U.S. rural counties lost population between 1980 and 2010. Of those counties, the average population loss was almost 15 percent per county.

And the issue isn't just how *many* people are leaving rural America, the issue is also *who* is leaving rural America. The article by the FDIC referred to counties with "pinched waists," where the populations aged 20 to 45 are smaller than the populations younger or older than this group. In 2010, some 13.2 percent of the residents in counties with rapidly declining populations were aged 70 or older, compared with only 8.6 percent in metro counties.

For women, an hour-glass figure is a thing to be desired. But, it's not a good thing for a community. When communities lose people between the ages of 20 and 45, they lose vitality. This is generally the most productive period of people's lives. When they leave, they take with them their ingenuity and their productivity, leaving the communities to languish.

We know this is true. We can see it in survey results and Census reports. And we can see it even more clearly and poignantly when we drive through such communities and see the run-down houses, the older-model cars, and the boarded-up stores.

What's the cause of population decline in rural America? One of the causes, of course, is advanced methods of production agriculture. With powerful tractors and combines, commercial fertilizers and pesticides, and GPS-based precision technology, one farmer can now perform the same amount of work that it took many farmers and farm workers to perform in the past.

But jobs on the farm have been disappearing since the tractor replaced the horse. So why have so many people left rural communities in recent years? One significant reason is the loss of rural manufacturing jobs. According to an article published in 2012 in the *Main Street Economist*, the Federal Reserve Bank of Kansas City points out that "rural communities have struggled with the hollowing out of their manufacturing base" over the past decade. And the steepest declines in manufacturing earnings occurred in low-skilled sectors, such as textile and apparels.

Foreign competition and a strong dollar have prompted these manufacturers to relocate to low-wage countries. And of course, when factories close, schools close. Grocery stores close. Restaurants and hair salons close. Communities wither.

So why then would I say that agriculture is now *more* critical to the health of rural America than it used to be? Well, the obvious answer is that it's the only game in town for many communities.

In fact, according to the USDA, the rural communities that were more farming-dependent fared better during the recession and recovery than those communities that were less farming-dependent. Driven by strong global demand for food, commodity prices remained high, and agriculture remained strong where other industries, like manufacturing, faltered.

But I have another reason for believing that agriculture's influence over the rural economy is growing. According to the 2012 article in the *Main Street Economist*, employment at rural food processing plants has grown 11.0 percent annually since the end of the recession in 2009. Why all this growth in food manufacturing in rural areas?

One reason, of course, is the world's growing population. Not only are there more mouths to feed, but rising standards of living in many developing nations allow them to purchase more than ever before. That's a win-win for everyone, including the rural communities in which commodities are produced and processed.

Rural manufacturing employment increased by almost 4 percent in 2011, and that was double the national average. And rural manufacturers closely tied to commodity production enjoyed the largest gains.

So this, ladies and gentlemen, is a main reason why I believe that agriculture's influence in rural America is growing. It creates job opportunities indirectly—by producing plentiful harvests that manufacturers can use to produce goods for people all over the world.

As a nation, we have so many incentives to work hard to keep our agricultural economy strong. First and foremost, we all must eat. A nation that cannot feed itself is vulnerable. So national security is perhaps the most critical reason for keeping it strong. Another key reason is that a healthy ag economy strengthens our overall economy. Since 1960, U.S. ag exports have been larger than our ag imports, helping counter the persistent deficit in nonagricultural trade. The role that agriculture can play both directly and indirectly in revitalizing rural communities is just one more reason to keep it strong.

So how do we do that? How can we protect this valuable industry, nurture it and develop it, so that it can continue to sustain rural communities at home, to strengthen our national economy, and to meet the world's growing demand for food? One way is to ensure that farmers and ranchers can get the financing they need to be successful. And that's where the banking industry plays a critical role.

The Farm Credit System, which my agency regulates, today supplies 49.2 percent of the nation's farm real estate credit and 33.9 percent of its non-real estate farm credit. It was created by Congress almost 100 years ago to serve the credit needs of our nation's farmers and ranchers, and the service it provides is an important reason that we have one of the strongest, most productive agricultural sectors in the world.

One of the special challenges the System faces is its mandated focus on serving a single sector of the economy. Other lenders can manage risk by diversifying their customer bases. The System's singular focus limits its ability to manage risk in this way. However, because agriculture fared far better than other sectors in the recent recession, in this instance the System actually benefited from its exclusive focus.

This was true not only for the System. According to the FDIC report, "community banks operating in depopulating rural counties relied substantially more on agricultural lending and had lower holdings of [commercial real estate loans], and this mix translated directly into lower loan losses during the recession." So the strength of the Farm Credit System and other agricultural lenders can be attributed in part to agriculture's relative strength in comparison with other sectors of the national economy.

And just how strong is the ag economy? One statistic is particularly revealing. The Congressional Research Service reports that average farm household incomes have surged ahead of average U.S. household incomes. In 2013, the average farm household income of \$108,844 was about 53 percent higher than the average U.S. household income of \$71,274.

With a rapidly expanding world population, I expect the agriculture industry to remain vibrant for the long term, and I'm happy to report that the condition of the Farm Credit System is strong.

For the first six months of 2014, it reported solid earnings and higher capital levels. Loan portfolio quality continues to be strong, and credit indicators are favorable.

But the Farm Credit System and we, the regulator, would be foolish to count on smooth sailing. Historically, agriculture has been a volatile enterprise, subject to weather extremes, international trade agreements, consumer demand, and shifting domestic farm policies.

Even now, the anticipation of record corn and soybean production has driven grain prices down sharply. While the protein, dairy and ethanol sectors are benefiting from these prices, corn and soybean producers are seeing their profits shrink. The lower crop prices are also cooling the farmland market.

And although drought in the Plains states has diminished somewhat in recent months, conditions continue to worsen for California, with much of the state experiencing severe to exceptional drought.

So, to borrow the lingo of my husband's profession as an airline pilot, we may be experiencing some turbulence up ahead, and farm lenders should keep their seatbelts securely fastened.

As the regulator of the Farm Credit System, my agency is responsible for helping the System manage this turbulence. Our analysts study the agricultural industry, always on the look-out for challenges that might shake the safety and soundness of the System and its ability to meet its mission. Our examiners regularly visit the institutions to review their loan portfolios, evaluate the effectiveness of their loan underwriting standards, and evaluate their governance policies to ensure that they remain true to the cooperative business model that Congress established for them.

We also issue regulations and other guidance to ensure that the System can continue to meet the credit needs of agriculture and rural America. Earlier this year, we issued a major proposed rule to improve and update our capital regulations. Over the next few months, we plan to finalize this rule, taking into account the input we receive from the public.

As we enter this period of increased volatility, our examiners are focusing on sound portfolio management and the importance of setting appropriate allowances for loan losses during volatile periods. They are also providing guidance for managing large, complex, shared assets.

I'm proud of the opportunity I've had to serve as Board Chair and CEO of the regulator of the Farm Credit System. I'm proud of the role we play in keeping the System strong so that it can meet the credit needs of agriculture and rural America. And I'm grateful that Congress had the foresight 100 years ago to create a financial credit system that farmers can rely upon. Amid all the forces of volatility, farmers at least have the security of knowing they have a system dedicated to helping them meet their credit needs.

And for those who would argue that the System has outlasted its reason to exist, I'd like to remind them of the link between the food supply and national security. In difficult times, commercial banks may choose to avoid ag lending. But if farmers can't access financing to purchase their expensive inputs, they can't plant their crops. If they can't plant their crops, they can't produce the food.

What's more, we don't have to go back 80 years for an example of a time when commercial banks were unable to meet a critical ag financing need. We only have to go back to 2008. When grain prices shot up, many grain co-ops suddenly couldn't meet their margin calls. When other banks couldn't help them, the System institutions did, allowing these co-ops to stay in business. In doing so, the System fulfilled the mission for which Congress created it.

While having a mandate to serve a single industry can limit the ability of System institutions to manage risk, this mandate provides one distinct advantage. System institutions have a thorough understanding of the industry and the way it is evolving. One exciting development in the industry in recent years has been the emergence of the local foods movement—the consumer-driven demand for locally produced foods, and many institutions are now developing strategies and products to serve those who produce primarily for local consumers.

I'd like to leave you today with the message that agricultural lenders play a critical role in rural America because *agriculture* plays a critical role in rural America. Having served as Under Secretary for Rural Development at USDA, I understand the dynamic relationship between agriculture and rural communities. Agriculture supports rural communities; rural communities in turn support farmers, farm workers, and many others with farm-related jobs.

To a certain extent, I believe we have too quickly dismissed agriculture's ability to generate jobs in rural America, and we have taken for granted the eventual demise of rural communities. Just as the farm-to-fork movement has brought new opportunities for young, beginning, and small farmers, commodity-based manufacturing is bringing new opportunities to rural America.

And I'm not talking about low-wage, low-skilled jobs here. The *Main Street Economist* reports that professional and technical jobs accounted for *all* of the net job gains at rural factories since 2009. With opportunities like this, not to mention the growing reach of broadband, more and more young, talented individuals may choose to make their homes in rural communities.

Will rural America ever look like it did when I was a little girl growing up on my family's farm? No. Will some rural communities die out? Sadly, yes. But will many rural communities survive and thrive? Absolutely. And why? Because the global economy provides unprecedented opportunities for agriculture and for the communities in which agricultural enterprises are carried out.

Thank you.