Remarks by
The Honorable Kenneth A. Spearman
Board Member, Farm Credit Administration
Farm Credit of Central Florida Annual Stockholders Meeting
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Good afternoon and thank you for the kind introduction.

I want to thank Chair David Stanford, President and CEO Reggie Holt and Ron O'Connor and the Board for inviting me to address you today. It is a pleasure to be with you all.

I am particularly pleased to be back in Florida even if for only a few days. We are finally starting to see signs of spring in the Washington, D.C. area. It's been cold! Since being appointed to serve on the Farm Credit Administration Board in 2009, I've experienced the Snowmageddon (or Snowpocalypse) of 2010 and this past winter's record setting cold temperatures. It is something no Floridian should have to endure.

I've been asked to provide you with an update on some of the issues and concerns that are before the Agency, which I am happy to do. First, however, I want to note that while FCA takes action upon the collective vote of its three Board members, each FCA Board member, appointed by the President, acts independently. In other words, any opinions I express here today are my own and may not necessarily reflect official Agency views.

Speaking of the FCA Board, we are anticipating some changes over the next several months. Board Member Lee Strom's term expired in October 2012. He has remained on the Board because the Farm Credit Act allows Board members to continue to serve until their replacements have been appointed. And Board Chair Jill Long Thompson's term expires next month. So, we expect the White House to announce nominees in the near future. I know the President will appoint qualified and committed candidates to continue the Agency's very important work.

Background

I know several of the people in this room today, from my years on the AgFirst bank board. But, for those of you who do not know me, let me share with you a little about myself.

These past five years since the President selected me to serve on the FCA Board have been a great experience for me, and I take my responsibilities very seriously. I think my background in the financial arena, specifically in accounting and auditing, translates well into my role as a financial institution regulator.

My experience includes 28 years of working for large cooperatives in the citrus industry here in Florida. Unlike many of my colleagues at the cooperative, I did not grow up in the farming industry. But I came to appreciate the friendly and down-to-earth cooperative culture and the satisfaction of being part of a cooperative family and doing something bigger than "just" a job.

After retiring I was elected to the board of AgFirst Farm Credit Bank in Columbia, South Carolina, where I served as a director for four years until I was appointed to the FCA Board.

One of the things I enjoyed during my time as a bank director was visiting my fellow board members' farms and seeing and learning about different kinds of agricultural production. The visits highlighted the wide diversity of agricultural producers that the System serves across the country—and the need for local expertise to serve all of those farmers and ranchers.

I have made, and hope to continue to make, those kinds of visits because I think it's important for those of us at FCA—particularly those who aren't from farming backgrounds—to have a more intimate understanding of how farms work and to interact with the people served by the Farm Credit System.

System Mission Focus

Since joining the FCA Board, one of my goals has been to explore ways for FCA to help the System better meet its statutory mission of serving the credit needs of *all* eligible, creditworthy borrowers. I'm particularly interested in how the System can support the development of local food systems. By doing so, System institutions can have a positive impact on urban and other areas not typically reached by the System.

While FCA's primary purpose is to ensure that System institutions operate in a safe and sound manner, Congress gave FCA broad authority over all matters related to the System and the Farm Credit Act. Therefore, part of FCA's job is to ensure that the System, which was founded by Congress as a Government sponsored enterprise is fulfilling its public mission.

The first section of the Farm Credit Act states that the System has a specific mission to "meet the credit needs of all types of agricultural producers having a basis for credit." And to ensure there will be future generations of farmers and ranchers, Congress also included a specific mandate for the System to serve young, beginning, and small farmers and ranchers.

Therefore, I think it's important for the System, and for FCA, to take a broader view of System lending and to look at how the System is serving *all* types of agricultural producers in all segments of the agricultural marketplace. This marketplace includes minorities, women, and truly new agricultural producers, as well as producers seeking to capitalize on consumer demand for organic and local foods.

In large part, this is the background for the business planning rule adopted by FCA in April 2012. I know there has been considerable discussion in the System about the rule's new requirements. It is important to remember that the intent of the rule isn't to dictate particular outcomes; instead, the rule is intended to ensure that each System institution board includes the concepts of diversity and inclusion in both its human capital and its marketing plan. I am pleased with the efforts that have been made so far by System directors and management.

System Update

First and foremost, I am happy to report that the Farm Credit System remains fundamentally safe and sound. It is well capitalized and is well positioned to withstand the continuing challenges affecting the general economy and agriculture.

Now for a few statistics. At the end of 2013, the System’s total assets were $261 billion, gross loans outstanding were $201 billion, and System earnings for 2013 were $4.64 billion.

Loan quality continues to improve. For 2013, 95.5 percent of all System loans were classified as acceptable, and nonaccrual loans continue to decline. Nonaccruals made up 1.01 percent of total loans at the end of 2013 compared with 1.36 percent at the same time in 2012.

So the good news is that the Farm Credit System’s financial performance remains strong. Its credit quality is good, and indicators continue to improve.

However, the risk profile for agriculture is changing. The forecast for 2014 is for farm income to decline. Margins are tightening for commodities, and farmland markets are cooling. Water continues to be a big concern in the western states. The severe drought in California shows no sign of easing. And geopolitical tensions continue to threaten the global economy. It remains to be seen how these current events will play out and what impact they will have on trade and the agriculture sector specifically.

As you are well aware, the AgFirst District has faced challenges in recent years. Overall, its portfolio has improved. But there are still risks in the district, so improvement is still needed.

Regulatory Update

At the Farm Credit Administration, more staff hours are dedicated to examination than any other function. Almost two-thirds of the Agency’s staff is directly involved in the examination process. During my time on the Board, I have been very impressed with the dedication and professionalism of the entire FCA staff, but particularly those in examination. Keeping the System safe and sound is a shared responsibility with the System, and I am very proud of our record so far.

The Agency’s other major and equally important area of responsibility is writing the rules and regulations that govern System institutions.

We have a very important rulemaking that the Board will consider in the coming weeks. It is a proposed rule to modernize the capital requirements for each System institution. It is a major rule, and the Agency staff has spent hundreds of hours working on the details.

In brief, the rule seeks to make the System's regulatory capital requirements comparable to the requirements of the Basel III capital framework and the U.S. banking agencies' rules. At the same time, the rule must take into account the System's unique organization and its cooperative structure.

As much as possible, the proposed rule attempts to simplify the computations, transitions, and risk-weightings, taking into consideration the business activities of System institutions. And finally, as requested by the System, the rule attempts to make System regulatory capital requirements more transparent to investors and others in the capital markets.

I know that some of you may be thinking that more regulations are the last thing you need, and if these regulations were not so important, I would agree with you. Unnecessarily burdensome regulations benefit no one in the long run. At FCA, however, we work very hard to ensure that the regulations we issue address real needs, that they reinforce the safety and soundness of the System and its ability to serve its public mission effectively.

The proposed capital rule that we will issue in the coming weeks will do much to strengthen the safety and soundness of the System, and safety and soundness are essential for any financial institution to be successful. And we don't have to look too far in the past to see what a lack of regulatory oversight—not to mention a lot of corporate hubris and greed—can do to the global financial system.

Again, my colleagues and I will be considering and voting on the proposed rule in the next few weeks. I know this rule is of great interest to the System, and I look forward to hearing your comments as the regulatory process proceeds.

Another important proposal that will have a direct impact on you as directors is currently in the comment period—it is amendments to our rules for Standards of Conduct. The agency has not made significant changes to these regulations since 1994, and we have determined that it is appropriate to strengthen and modernize the rules. The proposed amendments would add new provisions, clarify and augment some of the current provisions and provide additional flexibility for others. The proposed rule adds a new section on conflicts of interest, a new section requiring each institution to have a Code of Ethics, a new section on allowing exceptions to certain rules if no conflict of interest exists, and new requirements addressing standards of conduct for agents. It also adds new responsibilities for the Standards of Conduct Official. We welcome comments on these proposed amendments through May 21.

Washington, D.C., and Farm Bill Update

After nearly three years of debate and a one-year extension of the 2008 Farm Bill, we finally have a new Farm Bill. On February 7, the President signed the Agriculture Act of 2014 into law. For the most part, farmers, ranchers, and everyone else involved in agriculture breathed a collective sigh of relief. However, the law made some substantial changes in the safety net for farm commodities.

The biggest change is the elimination of direct payments and the counter-cyclical support programs for covered commodities. In their place, the new Farm Bill provides producers with enhanced insurance tools and a new set of farm commodity programs that will operate for five years through the 2018 crop year. Critics of the new law note that insurance indemnity payments are based on current commodity prices. Insurance may not provide sufficient revenue protection for producers when prices are too low to cover the cost of production.

For specialty crops, the new law provides for a large increase in funding. For example, it dedicates approximately $4 billion (over 10 years) in funding for specialty crops and related programs. The 2014 Farm Bill makes important investments in infrastructure and expands market opportunities to build a strong specialty crop industry.

The new law also provides critical funding of $25 million annually for five years to help combat citrus greening.

USDA is in the process of writing the rules and regulations to implement the law's new provisions. We will have to wait to see what impact the 2014 Farm Bill's new approach for supporting commodity prices and farm income will have on the farm economy.

FCSIC Update

In addition to my role as an FCA Board member, I also serve as Chairman of the Farm Credit System Insurance Corporation (known as FCSIC), which has the same three members as the FCA Board.

Since I became Chair of FCSIC, we have paid $427 million in excess funds to the holders of allocated insurance reserves accounts or AIRAs. Each bank has an AIRA account, and since 2010 AgFirst has received $54.3 million in AIRA payments.

You may recall that stockholders in the Financial Assistance Corporation get the first 10 percent of each AIRA allocation. So far, FCSIC has retired $43 million or 77 percent of the original $56 million owed to the FAC stockholders. While I know that Central Florida doesn't hold any FAC shares, 13 associations in the AgFirst district do. Just over $13 million in FAC shares remain outstanding, with $3.9 million held by AgFirst associations.

Another very important accomplishment I take great pride in as FCSIC Chair is that this past September FCSIC signed an agreement with the Federal Financing Bank to establish a $10 billion standby line of credit. The Federal Financing Bank is a Government corporation within the U.S. Treasury that provides funding to eligible Federal agencies at rates based on Treasury's cost of funds. This credit line would provide FCSIC with additional funds during a market disruption that could threaten the System's ability to pay maturing debts. There is no cost to

FCSIC for establishing this line of credit. All funds that FCSIC borrows from the Federal Financing Bank and then advances to System banks will be fully collateralized and repaid with interest by the bank or banks needing assistance. Therefore, if the credit line is used, it should operate without risk or cost to the U.S. taxpayer. Of course, we hope it will never be needed.

100th Anniversary

So as I wrap up today, the System and FCA have a great story to tell.

As the Farm Credit System nears its 100th Anniversary, I'd like to point out that the Farm Credit System has many reasons to be proud.

Here are a few interesting facts about the Farm Credit System.

Did you know the Farm Credit System represents 40 percent of our nation's agricultural lending?

Did you know that if the Farm Credit System was a single institution its combined assets would make it the 8th largest financial institution in America compared to banks and thrifts?

Finally, did you know that of the 50 largest agricultural lenders, 36 are Farm Credit System institutions?

That should be a point of pride for the Farm Credit System and its stockholders. In a little less than 100 years, the nation's first GSE has become a great success and continues to play a critical role in serving the credit needs of those involved in agriculture. Most of the credit for this success belongs to you, the borrowers and owners of the Farm Credit System.

I'd like to thank you for having me here today.