Thank you for that warm greeting. As you probably know, I am filling in for my colleague FCA Chairman Lee Strom, who underwent a surgical procedure a few weeks ago. Lee very much wanted to be here; however, doctor’s orders were adamant about “no travel.” I know that Lee feels a very strong connection to the AgriBank district family, and I send along his best regards to you. Lee’s surgery went well, and he is recuperating at home with his family. He will hopefully be back to full strength in a few weeks.

In the meantime, I will certainly do my best as a replacement; but, as you know, few people make a speech like Lee Strom. Speaking of filling in for injured colleagues, I would hope my time with you brings to mind memories of Tom Brady replacing Drew Bledsoe and leading the Patriots to the Super Bowl. Unfortunately, as a long time Chicago Bears fan, I fear that, after I’m done speaking, you’ll be thinking more about Caleb Hanie replacing Jay Cutler and leading the Bears OUT of the playoffs.

Role of FCA Board
Hard as it is for me to believe, I’ve already spent almost two-and-a-half years on the FCA Board. Because I was appointed to fill part of Dallas Tonsager’s remaining term, plus a full six-year term, my term lasts until May 2016. I have enjoyed my time on the Board and look forward to the challenges of the next four years. It is also worth noting that we currently have, quite possibly, the most well-rounded board in FCA history, with Jill Long Thompson from a political background, Lee Strom from a farming background, and myself from a financial and accounting background. Having these diverse backgrounds and, at times, very different perspectives on the FCA Board has been valuable in developing Agency policy.

While FCA takes action upon the collective vote of its Board members, each FCA Board member—each President-appointed FCA Board member—acts independently. This means, among other things, that each Board member determines—within the limits of stringent Government ethics rules—how best to fulfill his or her duties. This also means that any opinions expressed here today are my own and not official Agency views.

One of the things I want to commend Chairman Strom for is how he has approached his role as an independent regulator. Lee came from the System and, upon his nomination, was chastised by banking lobbyists as being too close to the System. I was similarly singled out as well when my nomination was put forward. However, I think Lee has really embraced his role and made a diligent effort to be an even-handed, independent, arm’s-length regulator. I have tried to take a similar approach, maintaining productive communication with System representatives while always being mindful of my role as a Federal official.
This past November, the FCA Board adopted Policy Statement 81, entitled “Ethics, Independence, Arm's-Length Role, Ex Parte Communications and Open Government.” This policy reaffirms the Board’s commitment to the ethics laws and regulations, its avoidance of ex parte communications in its judicial and rulemaking roles, its commitment to open Government, and its role as an independent, arm’s-length safety and soundness regulator. This Policy Statement, which can be found on our website, is important in order to set expectations for ourselves and for the public.

We take our independent, arm’s-length role very seriously at the Agency because it is important that the System, as a Government-sponsored enterprise, have a strong independent regulator. Statements in the Congressional Record from the mid-1980s, when Congress established FCA as an arm’s-length regulator, showed Congress' strong desire for FCA to be truly independent, with members of Congress specifically emphasizing the need for FCA to be independent from the Farm Credit System.

The failure of the biggest GSEs, Fannie Mae and Freddie Mac, was also a failure of its regulatory agency and a failure of Congress to protect the independence of the regulator. We saw Fannie and Freddie use their lobbying strength to undermine the regulators’ ability to effectively regulate. So far, the System has managed to avoid the most onerous provisions of the Dodd-Frank Reform Act and to stay out of the debate on GSE reform, in part because of its regulator and its differences from the housing GSEs. I believe it is critical for the future of the System to have a strong, independent regulator so that the System may differentiate itself from its GSE cousins and maintain its GSE status for the long-term.

**FCA Board Priorities**

I want to talk a little bit about the Agency’s priorities, which are set forth in the Agency’s Strategic Plan, adopted in May 2011. The FCA strategic plan has two basic goals: first, to ensure that the System and Farmer Mac fulfill their public mission for agriculture and rural areas and, second, to evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac. These goals reflect the FCA Board’s commitment to ensuring that the System continues to provide dependable and affordable credit to all of America’s farmers and ranchers as well as our commitment to maintaining a robust examination function.

Many of the strategies and actions for accomplishing those goals haven’t changed over time. However, our current strategic plan does have an increased emphasis on better use of technology and data so that FCA may more effectively monitor and regulate the System. This includes enhancing YBS data analysis to better assess System progress in serving this important group of borrowers, as well as identifying further opportunities for improved System performance in this area.

With regard to oversight, improved data collection has been a long-term goal of the Agency, and we are stepping up our efforts in working with the System in achieving this goal. We intend to enhance the Agency’s use of institution and Systemwide loan-level data in examination and
policymaking, with emphasis on improving the capacity to measure and monitor Systemwide risk. We also intend to leverage improved data through investments in technology, modernized examination tools, and enhanced staff skills to advance the Agency’s examination and policymaking roles.

I know that this goal of improved data collection to improve Systemwide risk assessment is also an important priority of Tracy McCabe, the new head of the Funding Corporation—just as it was for Jamie Stewart, the outgoing CEO. We look forward to continuing our work with the System and the Funding Corporation to achieve these common goals.

While the Farm Credit System remains fundamentally sound and adequately capitalized, seven associations remain under enforcement agreements, and a number of institutions remain under special supervision or on our watch lists. However, unlike commercial banks, no Farm Credit System institution has failed or been placed under receivership during the financial crisis. I think that fact reflects positively on both FCA and the System, and keeping that record intact remains a priority for the Agency.

**Mission Priorities**

While FCA’s primary purpose is to ensure that Farm Credit 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—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. . . .” Congress also included a specific mandate to serve young, beginning, and small farmers in order to help make sure there will be a next generation of American farmers.

Therefore, I think it’s important for the System, and for FCA, to take a broader view and 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 farmers without family ties to farming, as well as producers seeking to capitalize on consumer demand for organic and local foods.

As you may know, the Agency has a pending proposed rule that would require System lenders to have marketing plans that address service to all types of agricultural producers having a basis for credit. A final rule, which is responsive to the comments we received, is scheduled for FCA Board consideration at FCA’s April Board meeting.

I have a particular interest in the development of local food systems and how that movement may effectively supplement standard food delivery systems. These are producers who engage in what has been called “retail agriculture,” marketing their products directly to consumers, local restaurants, schools, hospitals, and other nearby entities. Local food systems frequently include
farmers operating in or near to, or directly supplying, urban and suburban areas. These are areas in which Farm Credit historically doesn't have much of a presence.

I often see a high level of apprehension among long-time farmers about organic, local, and other unconventional producers. I absolutely agree that the general public needs a better understanding about where food comes from and what it takes to feed billions of people. I also agree that organic and local farmers will not be able to feed the world—just as I agree that ethanol will not be able to fuel all of America's automobiles. But just as ethanol is part of the energy answer, organic and local food producers are a piece of the food supply answer. I think that the “unconventional” agricultural producers can supplement—but certainly not replace—conventional producers.

There is significant consumer demand for organic and locally produced foods, meaning that there are viable business opportunities—and viable customers—for the System. In addition to the business opportunities they present, these people are farmers, and I think the System has an obligation to support all types of agricultural producers, wherever they operate. Under FCA rules, a System lender may provide credit to any bona fide farmer, who is basically anyone engaged in the production of agricultural products, for agricultural needs.

Additionally, I would note that there are opportunities to finance local food systems as farm-related businesses that provide services to eligible farmers and ranchers that are directly related to the farmers’ and ranchers’ agricultural production. In certain parts of the country, there are local food “aggregators” who provide marketing and transportation services to local farmers. Some of these aggregators also provide a forum for local businesses to order fresh agricultural products from local producers. Because the farmers retain ownership of their products until delivery of the products to the local business, these should be considered eligible farm-related service businesses.

So I think an important question for FCA and for the System is: Is the System meeting its mission of serving the needs of all potential creditworthy agricultural borrowers? Part of the answer may also be that it isn’t enough to only serve farmers who walk in the door and ask for credit; arguably, the System has an affirmative obligation to seek out underserved potential borrowers, which also makes good business sense in the long term by cultivating a new generation of customers loyal to Farm Credit and making the Farm Credit name more widely known.

I’ve heard a variety of interesting stories about how System associations have found unconventional borrowers, sometimes in random, unpredictable ways. Upon implementation of FCA’s new business planning rule, I look forward to System institutions unleashing their creative energies in finding new ways to market themselves to new kinds of borrowers in a more systematic way.

We do recognize, for example, that agriculture in Iowa is different from agriculture in New York. That’s why our proposed business planning rule rejects a one-size-fits-all philosophy. Each
association will be facing different sorts of challenges, and each association will need to take
different steps in order to best serve its particular market.

Some associations have great programs in place already, and I would certainly encourage
sharing of information and approaches across the System. I also recognize that in order to be
effective, this cannot become a check-the-box sort of regulatory compliance issue. This will be a
continuing, evolving journey, one that I hope features FCA and System institutions working
collaboratively together to reach common goals.

Another important question is how we look at the issue of “creditworthiness.” The risk profile for
an unconventional borrower is going to be very different from that of a commodity producer with
crop insurance and Government support programs. However, that doesn’t necessarily mean
that they aren’t creditworthy and won’t be able to repay debts. In fact, some local food
producers are able to generate significant cash flow and are able to follow through on
sophisticated business plans. I’m not suggesting System lenders make loans to people who
won’t be able to pay it back. I recognize that many small producers are not creditworthy under
any reasonable standard and are not able to service any significant level of debt. The System is
NOT the lender of last resort. However, I am suggesting that we make the effort to look
differently at these types of farmers in making “creditworthiness” decisions.

Beyond the proposed business planning rule, FCA is actively studying this issue to see what
other steps we can take to facilitate System efforts and remove barriers to service in this area.
This includes identifying any regulatory impediments to System financing of local and regional
producers and consideration of enhancements to our YBS rules. Your suggestions and
questions are always welcome.

In a few years, we will be celebrating the 100th anniversary of the Farm Credit System. I think
all of us in this room would agree that the System, which was founded by Congress and
organized by the Federal Government, is an example of a very successful Government
program. While Congress may eventually get around to figuring out what to do with the housing
GSEs, I don’t think there is a significant, imminent threat to the System’s status as a
Government-sponsored enterprise. That doesn’t mean, however, there won’t be unforeseen
challenges going forward.

In order to meet these challenges, I think we all need to ensure the long-term viability and
relevance of the Farm Credit System—ensuring that the System is able to continue to meet its
public mission well into the future. As stewards of the Farm Credit System, we need to think
beyond short-term profit to ensure there can be another 100 years of service.

To do this, I think the System needs to continue to keep its focus closely on agriculture. As long
as people eat, agriculture will remain important. I think it is imperative for the System to expand
its agricultural borrower base by cultivating the next generation of farmers and ensuring that all
kinds of agricultural producers are being served. By pursuing new opportunities in previously
underserved areas and by expanding its presence in areas not usually touched by Farm Credit,
the System also creates more people who understand—and care about—Farm Credit, something that will be vital in the face of any future political challenges.

As a Government-sponsored enterprise, the System enjoys low funding costs and stable access to credit. The continuing Federal Government commitment to the System—in the form of foregone tax revenues by virtue of System tax exemptions—amounts to millions of dollars a year.

In exchange for these public benefits, I believe that ensuring that the System meets its public mission of serving all creditworthy producers is the shared obligation of every institution and every director in the Farm Credit System—in addition to being key to the System’s long-term relevance. I have found Farm Credit directors to be remarkably dedicated to agriculture and to the Farm Credit System. I want to thank those associations who have already taken steps to broaden their lending base, and I am hopeful that all System directors will take on the important mission of ensuring System service to all eligible farmers with the same zeal and dedication.

**System Structure**

Turning to another issue, in the wake of the CoBank-U.S. AgBank merger, which created the largest institution in the System, I’m often asked what I think the future holds in terms of System structure. The short answer is: I don’t know.

Absent extraordinary circumstances, Congress left the organization of institutions, including mergers, in the hands of System stockholders. FCA is required to review and approve a plan for each proposed consolidation or merger and to ensure that the transaction does not present any undue safety and soundness risks. However, the transactions themselves come to us from the System and must each be evaluated on their own merits.

In light of the significance of the CoBank transaction, FCA conducted an unprecedented amount of due diligence, which included getting the views of other System institutions, before allowing the merger to proceed. I am comfortable that our review allowed us to understand the knowable risks and that the conditions we put in place on the merger—related to capital, fair conduct of their participation business, mission service, and other matters—were appropriate to address the potential safety and soundness risks presented. I anticipate that any future merger carrying the same level of significance will also receive the same level of FCA scrutiny. In looking at merger and structure issues, I think FCA always needs to be mindful of its own mission, which is to ensure “a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America.”

At one time there were well over 1,000 Farm Credit associations. Today, we are down to 83 associations and four banks. However, there is only one Farm Credit System. The System was established as a way to ensure a dependable and affordable source of credit for America’s farmers and ranchers. Local associations and regional banks were established as an effective means to achieve that end. This setup was considered the most effective for the conditions present in 1916, when the System was founded.
In judging the merits of any further consolidations—or, for that matter, any other significant changes in the System—I think we need to be able to look at how the System as a whole is fulfilling its purpose of serving all creditworthy agricultural borrowers based on today’s conditions and how the proposed action will affect that service. I do note that one way of improving service to all customers—as an alternative to merger—is increased collaboration among associations. Rather than competing with each other, I believe that finding ways for institutions to work together to more effectively serve all of the System’s customers and potential customers is very much in the System’s best interest.

I also think that, as a regulator, FCA needs to be continually mindful of the impact that our actions have on America’s farmers and ranchers and how what we do impacts the System’s ability to serve its important public mission.

**FCSIC Issues**

As a final note, I would be remiss if I did not mention some of the efforts undertaken over the past year by the Farm Credit System Insurance Corporation, of which I serve as the Chairman. We have a very diligent, professional staff that constantly monitors the Insurance Fund to ensure its safety and soundness, stability, and yield. Over the past year, the Insurance Corporation has studied, reviewed, and revised its policies and procedures to ensure its readiness for resolving a seriously troubled or impaired institution and has extensively studied and provided input on important issues facing the System, particularly involving capital and liquidity.

With regard to the Insurance Fund, the Insurance Corporation board voted to reduce 2012 premiums and is currently accruing premiums of 5 basis points on adjusted insured obligations. Overall, insured obligations declined by 2.1 percent in 2011 to $183.5 billion, and the Insurance Fund finished 2011 at $226 million above the secure base amount (SBA). After subtracting $4 million for the Insurance Corporation’s budget, $222 million was transferred to the Allocated Insured Reserve Accounts.

At its April board meeting, the Insurance Corporation board will likely consider returning those excess funds to System institutions in the same manner as it did in early 2010.

**Conclusion**

In closing, I’d like to again thank you for the opportunity to pinch-hit for Chairman Strom and share with you some of my thoughts on FCA and the Farm Credit System. While there are many challenges facing FCA and the Farm Credit System, I want you to know that I appreciate the dedication, knowledge, and expertise of the people of the Farm Credit System and of the public servants who work at FCA. I look forward to working with you over the next four years of my term at FCA.

THANK YOU!