Remarks by the Honorable Jeffery S. Hall
Board Chairman and CEO
Farm Credit Administration
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Introduction

Thank you, Stan, for the kind introduction.

And, Todd, I'd like to thank you for your many years of service to the Farm Credit System — and especially for your leadership of the Farm Credit Council. I've known you for more than 35 years, and I worked with your dad when I came to Capitol Hill in 1988. Congratulations on your retirement and best wishes on this new chapter of your life.

And congratulations to you, Christy, for being selected as the CEO of an organization with such an important mission. I think Christy is only the third CEO in almost four decades. We met a couple of weeks ago for the first time, but I can tell you she has a great reputation. I look forward to working with you, Christy. Our organizations have very different roles, but ultimately our mission is the same: to ensure a safe, sound, and reliable source of credit for American agriculture and rural communities.

I'd also like to acknowledge two other System people: Dan Flanagan and the late Curtis Hancock. When I first joined the FCA board, they helped me get up to speed on System issues and concerns. My conversations with them were a big help.

And now I'd like to ask my two FCA board colleagues, Vincent Logan and Glen Smith, to stand.

This may be the first time that two former chairs have served on the board at the same time. Given their experience, this will be a huge benefit to both the agency and to me, and I will rely heavily on their experience.

I'm going to start today by telling you a bit more about my background. I'll spend some time talking about safety and soundness and what our examiners will be looking focusing on this year. I'll share some thoughts on System structure, the condition of the System, and the challenges we may be facing over the next 12 months. And I'll spend a minute or two on funding conditions and wrap up with a couple thoughts on regulation.

Who I am

Because of my years of service on the FCA board, many of you already know me, but for those of you who may not, I'll share a few things. As Stan mentioned in his introduction, I grew up on a farm in south central Indiana, which my mom, sister and I still own and rent out.

It's only about 50 miles from my home in Louisville, Kentucky, and my mom still lives there, so I get up there a lot. As my kids were growing up, I made a point of taking them with me to visit their grandmother and do farm chores.

I'm incredibly grateful to have had the opportunity to grow up in rural America and to engage in farming as a child and a young man. That experience helped shape my understanding and equip me for a career in agriculture policy. It made me appreciate rural communities and the challenges, frustrations, and rewards of farming.

So, I'm here today, ready to do everything I can to help ensure that our farmers, ranchers, and rural communities can prosper for generations to come.

Safety and soundness, and mission achievement

In agriculture, of course, one of the key requirements for long-term prosperity is good credit.

Safe … sound … affordable … reliable credit.

The ag industry cannot thrive without it. Neither can our rural communities. That's what makes your mission as lenders and our mission as the regulator so important. And that's why safety and soundness must always be FCA's top priority.

But it can't be our only priority. We also must make sure that the System fulfills its public mission.

FCA is very fortunate to have an excellent chief examiner in Mike Duffy, and the examiners in his shop are highly trained and committed professionals. Every fall, our Office of Examination puts out an informational memorandum that describes our national oversight plan for the coming fiscal year.

I'd like to briefly review the six focus areas for fiscal year 2025.

The first has to do with managing capital over the long term. While the System is well-capitalized right now, many of you face the longer-term challenge of capitalizing your asset growth. So, throughout the year, our examiners will be focusing on your long-term capitalization practices.

Our goal is to make sure that you're evaluating your asset growth and the needs of your customer base.

We want to see how you're assessing the impact of profitability, leverage, and capital distributions on your ability to capitalize growth.

And we want to ensure that you're reviewing your capital plans on a regular basis and recalibrating when you need to.

The second focus area is innovation. We'll be surveying your institutions to better understand which automation techniques you're using, how you're using AI, and — more importantly — how you're managing and governing AI-related risks.

In his tenure as FCA chairman, Vincent Logan emphasized innovation both at the agency and in the System. I aim to continue this emphasis in my chairmanship.

Advanced technologies can give you the chance to provide better, more efficient service to your customers, and that's a great thing. But we cannot let the pursuit of efficiency come at the expense of safety and soundness or the quality of service to System owner-borrowers. Responsible innovation is key.

Our examiners and policy people will be looking to ensure that your decisions in this space are rooted in three things:

1. Sticking to your cooperative principles
2. Meeting your mission to serve all creditworthy borrowers
3. And practicing sound risk management

Another focus area of the national oversight plan is mission-focused lending. In FY 2025, our examiners will increase their focus on evaluating your institution's eligibility and scope of lending guidance.

They'll look closely at your programs for young, beginning, and small farmers and ranchers. We made a lot of progress in this area thanks to the emphasis Glen Smith placed on YBS during his tenure on the board. We encourage you to use both lending and nonlending programs to ensure you're serving YBS producers in your institution's territory.

As part of our emphasis on mission-focused lending, our examiners will also be looking for detailed assessments for loans involving farmland around metropolitan areas. With urban development pressures in these transitional areas, it's important to stay consistent with your public mission.

The fourth area of focus is sound governance. Like many other organizations, the System is experiencing or anticipating greater turnover among its board members and senior managers. And turnover can present a real challenge. Our examiners will be looking for evidence of strong governance and a sound control environment to help your institution withstand this challenge.

The fifth focus area is credit and collateral risk exposure. Many of you continue to experience growth in your capital markets activity. While this kind of lending helps you diversify your loan portfolios, the risk profile of this segment has increased since 2023. So we will continue to focus on your capital markets portfolios and internal controls throughout 2025.

Our final area of focus is cyber risk management. Under the leadership of then-Chairman Vincent Logan, we adopted a cyber risk management rule, and that rule took effect last month. It requires you to implement a comprehensive, written cyber risk management program consistent with your size, risk profile, and complexity of operations.

Later this year, our examiners will complete a horizontal examination activity to evaluate compliance at a sample of your institutions, and I look forward to hearing about your progress in implementing the rule.

System structure

So those are the areas our examiners will focus on this year. Now I'd like to share a couple thoughts on System structure, which is a topic I think about a lot.

To say the structure has changed over the years is a vast understatement. In 1983, the System had 932 institutions. By 1999, that number had dropped to 197. In 2015, it was 78, and we're now down to 59.

How much more will it drop? What is the right number of institutions? I don't know the right number, but there is a wrong number and once it is crossed, you can't go back.

Mergers can certainly provide advantages, especially in cost savings and efficiency. But as I noted earlier, we can't allow the pursuit of efficiency to jeopardize mission. So, if you're contemplating a merger, I encourage you to carefully consider how it could affect your ability to serve your members. After all, you're a co-op. You are owned by your members, and your first duty is to serve their interests at the institution.

It's also important to remember that your institution is part of a century-old system that is more than the sum of its parts. So before proposing a merger, you need to think about how it will affect the rest of the System and your GSE status.

I have seen some non-System co-ops out there that have lost sight of who they are. We cannot let that happen to the Farm Credit System. Its mission is too important.

After all, you provide around 46% of our nation's farm credit. That means you're not just critical to the farm economy, you're critical to the entire economy. You also contribute greatly to the food security of our country. So staying faithful to your congressional mission, as well as safety and soundness, is vital.

Strength of the Farm Credit System and challenges ahead

Fortunately, the financial condition of the System is strong.

For the first nine months of 2024, loan growth continued at a moderate pace — ahead of 2023 levels. Portfolio credit quality was favorable. Earnings were up 7.3% over the same period in 2023. And total capital was up 9.4%.

These are impressive numbers, but we can never be complacent. As we all know, the only constant in agriculture is volatility.

Throughout 2024, crop producers saw grain prices fall even as many input costs remained high. And now, almost all producers are facing higher labor and debt costs.

There are some collateral concerns. In 2024, farmland values remained flat, but we're now starting to see some softening. Prices for low-quality farmland have begun to fall, and the pace of sales has slowed. Meanwhile, prices for metro-adjacent farmland have risen, making loans on this land vulnerable to declines in the general economy.

For all these reasons, you as farm lenders and we as the regulator must continue to be vigilant.

But we can be comforted by knowing that the System has overcome much greater challenges. The 1980s was a trial by fire, but you emerged resilient. And one of the reasons you were able to do so was your ability to market your securities, so let me just spend a moment on funding conditions.

Why investors favor System debt

As of Dec. 31, 2024, the System had $448.3 billion in debt outstanding, a 7.9% increase from year-end 2023. Since Jan. 1, 2020, System debt outstanding has increased 52.7%, and the System's share of the nearly $2 trillion debt market for GSEs increased to 22% as of Nov. 30, 2024.

GSE status and the System's mission

Clearly, investors appreciate System securities. And part of the reason you've been able to sell your debt so easily is your status as a GSE.

Three years ago, when then-Chairman Glen Smith addressed this group, he quoted Todd Van Hoose. At the Risk 360 Conference a few months before, Todd had said this: "The FCS should not take its GSE status for granted."

I'll echo Todd's comment today because I agree with it completely. The System's GSE status implies U.S. government backing, making it highly attractive to the investors that supply the funds you lend to farmers. That's why protecting the System's status is so important, and the best way to do that, of course, is to stay ever true to the mission for which you were created.

FCSIC

Of course, another reason the System can easily attract investors is the Farm Credit Insurance Fund. Having served as chairman of the FCSIC board of directors for the past eight years, I'm very familiar with its value to the System. Its existence reassures investors because it guarantees repayment of the securities they purchase. Under the leadership of its newly elected Chairman Glen Smith, I know it will continue to fulfill this important role in keeping the System strong and its debt attractive.

FCA

Your regulator also plays an important role in reassuring System investors. Because we provide careful oversight of the System, your investors rest easier, knowing that we regularly monitor and examine your loans, investments, and other activities.

They know that if we find weaknesses, we'll use our enforcement authorities to require institutions to resolve them.

Of course, no institution ever wants to receive an enforcement action, but it can head off bigger problems down the road. On several occasions, institution boards have thanked our examiners for helping them address their weaknesses and return to a safe and sound position.

We also confer another benefit on the System: We help protect its reputation. Knowing that the System has a strong, independent regulator assures Congress, System borrowers, and other stakeholders that it will serve its mission and remain safe and sound. And that's critical to maintaining your GSE status.

I'll also add this: As System assets have grown over the years and institutions have become more complex, the cost of FCA operations has trended down. As you know, of course, our net cost to System borrowers is based on the relationship between the amounts we assess your institutions and the assets you hold. For the past 10 years, our costs have not been higher than 2.0 basis points and often as low as 1.7.

This is a source of pride for us. We are committed to keeping our costs low so the System can efficiently fulfill its mission to serve eligible, creditworthy borrowers.

Role of FCA: Regulation

In addition to examining your institutions and monitoring the farm economy for signs of trouble, we also fulfill our mission through regulations, so I'd like to share a couple of thoughts.

I am a believer in the value of principles-based regulations. The principles-based approach is ideal for a system of institutions that vary so greatly in size and structure. Instead of a one-size-fits-all prescriptive approach, you have more flexibility to tailor your policies and procedures to address the principles that a regulation seeks to address.

I understand that the principles-based approach may be more challenging in some respects, but ultimately, I believe it will be better for your institution and will more faithfully achieve the purpose of the rule.

I recognize that not every rule we propose is welcome, but we work diligently to make sure our regulations accomplish their intended purpose of furthering the System's mission and promoting safety and soundness. My approach is to never make rules for the sake of making them. Our goal is to create smarter rules, not more of them.

Conclusion

I will conclude today with this. The world of agriculture is constantly evolving. It's very different today from how it was when I was a kid 60 years ago, and it's likely to be even more different 60 years from now. So we (both the System and the regulator) need to be sure that we're evolving with it.

We clearly have a good track record of doing that. The fact that the System's market share of farm credit has steadily risen over the years proves that point.

But I think we always need to be prepared for new opportunities to better serve agriculture and rural America. If you have ideas, please reach out to us. As chairman of FCA, I want you to know we support innovation when it strengthens service to your member-owners.

We spend a lot of time talking about change in agriculture because the industry has seen so much of it. But some things, of course, do not change. Producers will continue to need safe, sound, affordable, and reliable credit.

That means your mission as farm lenders is just as important in 2025 as it was in 1916. As chairman of FCA and on behalf of the dedicated employees of this agency, I can tell you that it's an honor to support your mission by serving as regulator of the Farm Credit System. Thank you.