

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

Thank you for the kind introduction. I appreciate the invitation to speak once again at the Farm Credit annual meeting. It has been an interesting 12 months since I last spoke to this group.

I've received quite a few questions from the System about agency changes, so I'll share some updates. I'll also share my thoughts about how to navigate some of the challenges the System is facing right now.

But I'd like to start out today by talking a bit about the industry we all serve and the role we play in maintaining one of the most essential pillars of the U.S. economy.

**Importance of agriculture and our respective roles**

Agriculture touches every person every single day, and a strong farm economy is foundational to a strong national economy. The vast network of businesses and people that produce, process, transport, and deliver ag products contribute more than \$1.5 trillion to this nation's GDP.

I mention this because we should never take a strong ag economy for granted. It's not a given. To maintain the strength of our ag sector, our country must continue to drive innovation. Agriculture is too often viewed as a relic of the past, but industry advancements can rival any segments of our economy.

And since credit is the grease for the wheels of innovation, the Farm Credit System is a major contributor to the many advancements in production agriculture. In fact, you've been doing this for more than a century. You have made it possible for producers to adopt new products and practices in ag production.

As the System approaches its 110<sup>th</sup> anniversary and FCA nears its 95<sup>th</sup> year, it's good to acknowledge the important role we have played in supporting agriculture. In addition, we—both the System and its regulator—must prepare for the challenges and opportunities that lie ahead, whatever they may be.

**The System's current financial condition**

Fortunately, the System is in a good place right now. Although nonaccrual loans and allowance provisions are trending higher, overall loan quality is satisfactory. For 2025, loan growth was modest, only slightly behind the same period a year ago and earnings were in line with 2024 levels.

But while credit quality remains adequate, risk has increased in the current credit cycle. Meanwhile, stress is increasing in many parts of the ag economy. This is

especially true for the cash grain sector — the System’s largest commodity concentration. Low commodity prices and high input costs are causing producer profits to fall and liquidity to drain away.

And cash grains are not alone. Other commodities — tree nuts, fruit, and some livestock sectors are also experiencing stress. While government payments have reduced the impact for some commodities, we expect more stress in the next couple years.

But thanks to the System’s current financial condition, you are well-prepared to operate in this more challenging environment. And, as noted in the informational memo we sent out in December, we encourage you to use your strong position to work with borrowers in stressed industries. We especially encourage you to work with young, beginning, and small borrowers because they are often the most adversely impacted.

## **Capital**

But no discussion of the System’s condition is complete without addressing capital. Throughout my tenure on the board, the System’s capital structure and adequacy have been a perennial topic, and two questions keep coming up: How much capital is enough? And does the System have too much?

While FCA is always open to a discussion about the “right” amount of capital in the System, the agency’s view has not materially changed. A strong capital position became a hallmark of the System after the reckoning of the 1980s.

And as a single-industry lender in a cyclical and volatile industry, strong capital is critical. That is particularly true in the current environment. So, where do we stand today?

Although the System’s capital position remains favorable, consistent loan growth over the past several years has reduced both total and regulatory capital ratios. Over the past five years System assets grew at a compound annual rate of nearly 8%. During that same timeframe, the total capital ratio for System associations declined more than 200 basis points.

At the same time, System institutions face increasing uncertainty and rising credit risks. Net charge-offs are higher than they’ve been in more than a decade. Strong capital is essential to support the credit needs of farmers and ranchers, and yet the System is now operating with less capital.

We should also take note of investor sentiment when considering changes to the capital structure. The investment community values the System’s two-tiered capital structure. It has long been a source of strength.

At the end of the day, capital is a balancing act. Lower capital levels may increase the amount you can lend to generate earnings, but they reduce your risk-bearing capacity and may increase your cost of funds.

For all these reasons, FCA has emphasized the importance of prudent capital management and patronage policies. As the regulator, our goal must always be to ensure that the System can meet borrower needs today and in the years ahead.

### **Large, shared assets**

I'd like to take a moment to highlight a financing trend that FCA has been monitoring. This trend, while positive in some respects, presents risks that could be a real problem if they materialize during a downturn in the ag economy.

I'm referring to the significant increase in the System's portfolio of large, shared assets. We define a large, shared asset as an asset of more than \$100 million in which two or more institutions participate.

Over the past 10 years, volume of these assets has tripled. They now represent 35% of the System's portfolio. The nature of the System's portfolio has fundamentally changed in a relatively short period of time.

Loans to individual producers within a single institution's territory still constitute the largest share of the System's overall portfolio. But many participating institutions are venturing into these large, complex loans where they have less control of the lending relationship.

This creates significant risks as we have seen play out over the past couple years — in some cases with little warning. These losses resulted in significant provision expenses and earnings volatility. With the current challenges in the ag economy, we anticipate this may continue in 2026.

Because of the potential for significant loss upon default, strong due diligence is critical. Everyone needs to understand the risks when they lend in these larger and more complex credits.

Having pointed out the risks associated with large, shared assets, I want to note that loan participations absolutely have their place, provided you exercise due diligence. They help you diversify risk, reduce concentration, generate earnings, and manage capital.

They allow some institutions to serve borrowers they could not serve alone. They have also helped keep the System resilient, allowing it to meet the challenge of serving a single industry. These are all good things.

### **Collaboration**

What's more, loan participations are a great example of collaboration within the System, and — frankly — we need to see a lot more of that.

It's no secret that the System is stronger when it works together. That's what Congress intended when it created the cooperative Farm Credit System in 1916, and collaboration is as important today as it was then. Unfortunately, in some areas, the goal of collaboration has been mostly elusive.

There is a lot of talk about the importance of controlling technology costs, improving information flow, and reducing risk. But talking about it is not enough. The farmers and ranchers of America — the people this is all about — bear the cost when you don't work together.

I understand collaboration is difficult. It takes work, a willingness to compromise, and understanding that no one will get everything they want. But everyone has to do better. That can mean a lot of things — including respecting territorial boundaries. To put it bluntly, pursuing customers in the territories of fellow institutions is not a good look for a government-sponsored enterprise.

Here are some questions to consider:

- As leader of a Farm Credit System institution, am I doing everything I can to work with my neighbors to make the System stronger for the benefit of all shareholders?
- Can I put myself in other directors' shoes and understand the challenges they're trying to address?
- Is there a way we can both benefit?

These are the kinds of questions you need to ask to keep the System's public mission on track. Don't sacrifice the long-term value of collaboration for short-term financial gains at your individual institution.

A wise director once told me the only thing that can stop the System is the System itself. I couldn't agree more.

The Farm Credit System has so many strengths — a strong financial position, tremendous funding advantages, and people who understand agriculture and believe in the mission. It continues to gain market share and find innovative ways to reach new customers. In short, the System is one of our nation's greatest success stories.

That's why we cannot let competing objectives get in the way of the fundamental mission of the System — to serve our nation's farmers, ranchers, and rural communities in good times and bad. It can be easy to lose sight of that mission in our day-to-day work by focusing on short-term goals rather than the long game.

We often talk about GSE status as being the crown jewel of the Farm Credit System. I would suggest that equally important is the cooperative business model. But it's nearly impossible to regulate cooperation, so it's pretty much up to you — the leaders of this great and successful cooperative — to keep that foundation solid.

### **Consolidation and System structure**

And while we're on the topic of the System's mission and obstacles to achieving it, I'd like to touch briefly on consolidation. Board Member Smith and I provided our thoughts a few months ago regarding consolidation at the bank level.

I also understand that consolidation in agriculture and the System will continue. These longer-term trends are inevitable. Over the years, we've seen consolidation

among the banks. Not that long ago, there were 12 banks, and here we are today with just 4.

Mergers and joint management agreements at the bank level must be considered through a very different lens than at associations. We understand the drive for efficiency, but we must carefully weigh the implications of further concentrating funding for the entire System.

For us as regulator, our mission is to ensure the safety and soundness of the Farm Credit System. And all our energy and focus must remain on that task.

Consolidation does not just risk safety and soundness and the ability to obtain funding in the capital markets. It also — and perhaps more importantly — undermines mission achievement because it weakens cooperative principles, including local control. Directors who understand the commodities and challenges in their territory are critical to meeting the unique needs of their shareholders. That should never be compromised.

And, FCA is not the only one who is concerned about the effects of increased consolidation. We meet regularly with rating agencies, and they've shown an increasing interest in the System's structure. They understand that the System's GSE status and the joint and several liability feature help keep the System's funding costs low.

To risk the current funding advantages in the name of efficiency and near-term profits would be short-sighted. After all, the System was founded on the cooperative business model. Cooperative principles have made the System unique and successful for the past 100 years and will be key to its success for the next 100.

### **Challenges facing FCA**

So far, I've focused on the System and the challenges it faces, but FCA has some challenges of its own, especially with regard to staffing. Like all other federal agencies, we were impacted by the deferred resignation program and the federal hiring freeze. Our employee numbers dropped from around 340 to 300. Fortunately, we have received approval to do some incremental hiring.

To fill some of the gaps that were created by the staffing limitations, we've been stepping up our use of technology. We have long used a risk-based approach for examinations, and now we are expanding our use of technology to further refine the scope of our exams. We want to be sure that our examiners focus on the areas that matter most in terms of safety, soundness, and mission fulfillment.

One item of note is the project to modernize the collection of CRS data. We've moved to a platform that allows institutions to automate and submit bulk files. We're looking to harmonize the collection of System data within this platform to simplify the user experience and create greater consistency. We're grateful for the feedback you have provided and would appreciate continued interaction as we develop this enhanced platform.

We also continue to invest in new data assets. New data allows us to enhance our operations and support our examination activities.

For example, we've developed analytics to help our examiners look at loans for land in transition (meaning agricultural land that is likely to be sold for residential, commercial, or industrial development).

These kinds of loans require robust assessment of scope and eligibility; they also involve potentially elevated credit and collateral risk. We paired multiple datasets to provide new and enhanced information to help our examiners quickly identify loans that are more likely to finance land in transition. This has helped us prioritize loans that need a more comprehensive review.

We're also working with the System to enhance our financial data related to large, shared assets. As I mentioned earlier, these credits represent an increasing share of the FCS portfolio. We've also been seeing increasing risk in the agribusiness sector. We're looking at what additional steps we can take to more closely monitor this segment of the portfolio.

Progress like this is possible because of the investments in human and technical capabilities the agency has made in recent years. These investments have allowed us to get the information we need faster and at the lowest cost to the System.

System data represents some of the most accurate, up-to-date, and useful financial information anywhere. The Loans database in particular is an extremely valuable asset, which we want to utilize more fully, but always with the priority of keeping it secure.

We've also explored new ways of meeting our mission going forward. Artificial Intelligence is, of course, a significant part of that discussion. At the core of our testing is how to optimize our resources. We want to use technology to perform those tasks that can be done more quickly by machine; this will free up our people to focus on other mission critical assignments.

### **The future of OE**

That brings me to a project we're pursuing in our Office of Examination. We call it the Future of OE. We created the initiative to address the growing complexity of operations at System institutions.

Things like automated lending programs; artificial intelligence; innovative capital management strategies; and large, shared credits all require greater expertise. This project will help us build skills and processes to keep pace with these changes so that we can thoroughly and accurately examine each institution in the years ahead.

We've developed several goals as part of this project, such as performing a baseline workforce and job analysis, developing a centralized information platform, incorporating AI in our exams, and reviewing our examination process. This project will help us make the most of our staff and technology resources.

## **The FCA board**

Another challenge we're facing pertains to our board. Recently, the White House signaled its intent to nominate three new members to the FCA board. That is welcome news. Of course, it often takes months to work through the process between the presidential nomination and Senate confirmation, so it may still be a while before a completely new board is in place. In the meantime, Board Member Smith is waiting to begin his new role as undersecretary for rural development at USDA.

That means that, for a brief period, FCA, as well as the Farm Credit System Insurance Corporation, may have to function with a single member. Our Office of General Counsel has been reviewing statutory requirements and exploring what this could mean for the agency and our mission.

The good news is that a single-member board has the authority to carry out many critical functions, such as approving System charter changes, mergers, and new debt issuances; approving examination and enforcement activities; and approving any actions connected with receivership or conservatorship of a System institution.

## **FCSIC**

Speaking of FCSIC, I also serve as a member of that board and greatly appreciate the vital role it plays. By insuring repayment of the debt issued by the Farm Credit System banks to finance operations, the insurance corporation provides confidence to investors and helps the System borrow at low rates with favorable terms.

FCSIC has always focused on operating as efficiently as possible. Over the past few years, the corporation has fully implemented a new investment strategy that has produced strong returns. This is important because every dollar that FCSIC earns on its investments is a dollar the System won't have to pay in premiums. Lower premiums mean more earnings which institutions can offer in patronage.

For 2025, FCSIC's investment earnings allowed it to charge about 7 basis points less in premiums to System banks. In fact, FCSIC earned enough on its investments in the first week of this year to pay for its entire annual budget.

## **Rulemaking**

Earlier, I mentioned some of the critical functions that a single board member has the authority to carry out. But one of the key things that a single-member board does not have the authority to do is to approve new rules and regulations. For the period we may be in this situation it should not present a problem for several reasons.

First, the administration has issued guidance reflecting its deregulatory posture, and we — FCA — intend to follow that guidance. Second, commercial bank regulators have recently relaxed their rulemaking to be consistent with White House guidance. So, in this environment, it would not make sense for us to propose new rules that could impact competitiveness.

I would like to point out, however, that even with a fully staffed board, FCA does not typically issue as many regulations as commercial bank regulators. It's difficult to make a straight-line comparison between commercial banking and the Farm Credit System, but our philosophy has long favored a principles-based approach, which is less prescriptive and gives institutions more flexibility than the approach taken by other financial regulators.

But there is always room to improve. In 2022, we published in the Federal Register an invitation to comment on the burden of the regulations imposed on the System. It was not until January of 2025 that the FCA board approved the responses to the comments received. This was an irregular schedule, and the process simply took too long.

So, in February of 2025, I asked staff to engage with the System in a sincere and candid conversation about deregulatory opportunities. This served two purposes. First, to engage with the regulated community in a more constructive way, and second, to meet the stated priorities of this administration.

The discussions between FCA and the System's Regulatory Burden Workgroup to date have provided a solid framework and common understanding for addressing regulatory burden. These conversations are yielding beneficial results and steady progress is being made.

We will be sharing with Robbie Boone and the Regulatory Burden Workgroup those issues we would like to discuss. However, we will not jeopardize safety and soundness.

At our January FCA board meeting, we did approve one new proposed rule. This rule would amend the agency's permanent capital regulations and update other capital-related regulations.

It was considered a deregulatory action because it would reduce the burden of calculating permanent capital and clarify its use in evaluating the safety and soundness of FCS institutions.

## **Conclusion**

I started out today by talking about the importance of agriculture and the System's role in keeping the nation's ag economy strong. I shared my views on the System's challenges, including the need for more collaboration and the dangers of consolidating too much and drifting from cooperative principles. And I shared with you some of the challenges that we as the regulator are facing.

Before I close, let me make a few final observations on mission. You believe in your mission. I know you do. Many of you are farmers yourselves. You understand that modern agriculture cannot function without affordable credit.

FCA also believes in your mission, and we believe in our own as well. By doing our level best to identify threats to the System's safety and soundness and to craft commonsense regulations and guidance, we're helping to keep that vital capital flowing to agriculture.

Our diligence not only supports the System directly but indirectly as well because a strong regulator gives investors the confidence they need to invest in the securities that finance loans for agriculture and rural infrastructure.

The Farm Credit System Insurance Corporation plays a similar role. By insuring repayment of the debt issued by the System banks, the corporation provides investors with further assurance that System securities are a sound investment.

Why am I telling you all this? To remind you that we're in this together. Although our roles are very different, we have a shared mission that we can all be proud to serve.

It is highly likely that this will be my last annual meeting. It has been an honor to serve as a board member of FCA and FCSIC. It has also been a great privilege to get to know and work with so many people in this room today.

I have always viewed this role as a joint effort to maintain the safety, soundness, and reputation of the Farm Credit System, and I personally thank you for that relationship.

I'll leave you with this. I look around at all the crazy things going on in the world today, and I can't help but wonder what the future holds. We must constantly remind ourselves that our country was not built on loud arguments on social media, political soundbites, or easy shortcuts in life. It was built on hard work and strong character.

Don't just see the problems. Acknowledge the struggles and work together to build the path forward for the next generation. What you do is more important than ever. The hard work is worth it. Please keep it up.

Thank you.