

**Remarks by Glen R. Smith
Board Chairman and CEO
Farm Credit Administration
Farm Credit Council Annual Meeting
Washington, D.C.
February 3, 2020**

It is a pleasure to be addressing you here today as the new chairman of the board and CEO of the Farm Credit Administration. Many thanks to Todd Van Hoose, Jimmy Dodson, and Jon Marthedal for the Council's invitation. One of the perks of being on the FCA board is getting to know you directors — many, like Jimmy and John, on a first-name basis. I've enjoyed that. A little over a year ago, I was planting corn on our Iowa farm operation. I called Jimmy on a Farm Credit issue and he was planting cotton on his Texas farm. I thought that was a good representation of our relationship. Farmer talking to farmer, planter to planter, over common objectives.

Looking back over the past two years, I estimate I have been in about 20 states on behalf of FCA, meeting you directors, association staff, and —most importantly — stakeholders in the Farm Credit System. Since assuming my new role, I've had to cut back on travel. But I still hope to get out some and will be attending a YBS conference in North Carolina next month and heading to Texas by the end of the month. We'll see who has the best BBQ, and I know Texas has a great auction at their annual meeting, which my wife and I are looking forward to attending.

2019 was quite a year at FCA, starting out business as usual, then the sudden passing of longtime board member and prior chairman, Dallas Tonsager. Dallas was a respected friend to all of us at FCA but also to many of you in the System. It was a shock to all of us, but following the funeral and memorial service, it was time to get back to work. Dallas would have wanted that. Next time you are visiting FCA, I invite you to view a plaque in our central atrium that honors Dallas' contribution to FCA and agriculture. The atrium was renamed in his memory.

Before I get started, how was the Super Bowl party last evening? I wasn't able to watch the game. I had to write and practice these remarks — the ultimate sacrifice for a football fan. I do admit being a Chiefs fan. Iowa is a little blighted for professional sports teams... we have NONE, and my hometown of Atlantic is only about three hours from Kansas City. Any Chiefs fans here?

A little bit of football trivia; the Chiefs played in the first Super Bowl in 1967 and were beaten by the Green Bay Packers. Tickets averaged \$12 each. They returned in 1970 (50 years ago) and defeated the Minnesota Vikings. Playing in his rookie season was a kickoff return specialist — a big, strong, rawboned farm kid who grew up four miles from our farm, named Ed Podolak. Ed went on to a long, illustrious career as running back at Kansas City and achieved Hall of Fame honors. You can imagine what a thrill it was for us watching our hometown hero, who grew up playing on the same football field as us, hit the BIG TIME. It was even better when we watched it on my grandmother's new COLOR Zenith console TV — a BIG deal at that time!

FCA's leadership team

In talking about a successful team like San Francisco or Kansas City, any sports enthusiast or person who has played sports will say it starts with leadership. I would like to introduce you to our leadership team with us today. First and foremost is my co-captain, fellow board member and friend, Jeff Hall. Jeff is in his fifth year of serving on the board after being appointed in 2015. Jeff continues to serve as the chairman of the board of the Farm Credit System Insurance Corporation. We rely heavily on his experience and judgment along with his executive assistant, Kevin Kramp. We are very grateful he has continued to serve well beyond the expiration of his term. As a two-member board, we are functioning very effectively, and FCA and the System are stronger because of it.

In the past six months we have had considerable change in our senior management team. Longtime examiner Robert Coleman was selected to succeed Bill Hoffman as our chief operating officer following Bill's retirement. Also deep in exam experience, former deputy Roger Paulsen has moved into the chief examiner position. Attorney David Grahn, with many valuable years of policy work at USDA, has moved from the Office of General Counsel to be the new director of our Office of Regulatory Policy, where he is doing a tremendous job.

Lastly, we are very excited about the creation of a new Office of Data Analytics and Economics headed by director Jeremy D'Antoni. Since coming to FCA, I have been amazed at the scope of involvement and reliance on Jeremy and his talented team, and now we've formalized this with the new office. It also keeps us in compliance with congressional legislation passed a year ago mandating that federal agencies create a chief data officer to manage data in order to make evidence-based decisions, facts which are derived from data.

Our management team is rounded out by experience from Charlie Rawls as our general counsel; Steve Smith as CFO; Jerry Golley, director of the Office of Information Technology; Mike Stokke, director of the Office of Congressional and Public Affairs; Laurie Rea, director of the Office of Secondary Market Oversight; Equal Employment Opportunity and Inclusion director Thais Burlew; Wendy Laguarda as our inspector general; and, new to the position for 15 months, Vonda Bell as director of the Office of Agency Services (our human resources department). Also with us today is Rick Pfitzinger, director of FCSIC, the Farm Credit System Insurance Corporation. And finally, my own personal team, Jim Morris, executive assistant and counsel, with agency experience dating back to 1987, and Awilda Roque-Brehm, my administrative assistant with over 20 years of experience working for federal government agencies.

As you can see, we have a nice blend of experience and new energy complementing our management team and at this time I'd ask all FCA and FCSIC staff to stand. Please join me in thanking them for all their hard work. On a personal note, its reassuring to have this team in place, particularly as I travel frequently, visiting System institutions as well as trips home to Iowa. I know that in my absence business proceeds as usual.

Working with our management team are 300+ employees of the agency with about 60% of those in the examination field. In today's competitive job market, it is a formidable task to constantly recruit and retain quality employees. Successful recruitment and retention require a positive work environment. Vonda in the Office of Agency Services and Thais in

the Office of Equal Employment Opportunity and Inclusion contribute significantly to building that good working environment, which is why I've invited them here this morning to be recognized. We've all worked hard on that, and I'm proud to announce that, in 2019, the Partnership for Public Service ranked FCA second among small agencies for Best Places to Work in the Federal Government. Even more significant, as part of that ranking, we were ranked number one for our support of diversity. In achieving a positive, diverse work environment, we hope FCA continues to serve as an example for other federal agencies, as well as System institutions.

Efficient responses to System issues

In my opening remarks to the agency upon assuming the chairmanship last July, I cited as one of my goals for the agency to improve the efficiency of response back to the System. I believe my statement was that, while System institutions may not agree with our decisions, they should expect timely answers, depending, of course, on the degree of complexity of the issue. Well, I can tell you, once we got our new management team in place, we have been BUSY!

Since last fall, we moved seven regulations to the Federal Register. Most of these actions are designed to streamline, simplify, and clarify existing regulations. We processed over 10 requests from the System and took several major actions, including providing guidance on hemp and on the availability of waivers for least-cost analysis requirements for associations impacted by major adverse weather events like hurricanes, floods, and wildfires.

Streamlining regulations and real-time responses to real-time issues — that's what we've been working on.

FIRS capital benchmarks

And, of course, there is the major issue concerning the FIRS capital benchmarks. In November 2016, the Office of Examination updated its FIRS capital benchmarks following the FCA board's approval of the tier 1/tier 2 regulatory capital framework. At that time, the Office of Examination committed to study the impact of the new benchmarks to determine if any adjustments or further calibrations were needed.

Since then, several System institutions have offered recommendations for adjusting the capital benchmarks. We recently completed an internal assessment and have determined some modest reductions to the benchmarks are appropriate. The chief examiner will be informing System institutions of these adjustments in the next few weeks, and Robert has assured me you will have an answer by Feb. 18.

Service to young, beginning, and small farmers

Now, I'd like to spend a few minutes reviewing an initiative that's near and dear to me, but, more importantly, is critical to the future viability of our nation's young agriculturalists: our young, beginning, and small (YBS) farmer programs. In the '80, I was very interested in young and beginning farmers because I was one of them, and the topic of the day was SURVIVAL. Three of our adult children today are directly involved in production agriculture. And in our family farm management, appraisal, and brokerage business, we work with young farmers on an almost daily basis. So I'd describe it as not just an interest but a passion of mine.

When I first came to FCA two years ago, I naturally started asking questions about YBS. While each association was required to have a YBS program, I was surprised to learn that FCA's role in that mission had historically been limited to collecting the data on YBS and reporting that to Congress. Soon after, and slightly disturbing to the board, was the news that the data quality needed improvement and that our collection techniques needed updating. All of us on the board — Dallas, Jeff, and myself — agreed that we needed to update our reporting techniques and re-evaluate FCA's role in promoting YBS as part of our mission. This isn't to diminish the role that Gary Matteson, the Council, and your associations have played in promoting your YBS farmers. Rather, we hope to build upon the System's past successes.

As I mentioned before, in my first 18 months on the job, I've traveled extensively for FCA. In addition to meeting with examiners, directors, and local associations, I have visited with a multitude of Farm Credit borrowers representing a tremendous diversity of enterprises, and at my request most of these have been YBS borrowers — dozens upon dozens of young and beginning farmers getting their start by borrowing from Farm Credit. It's been one of the most exhilarating and uplifting experiences in my lifetime. We've asked a lot of questions and mostly listened to the stories. Sal Iannetta, Jeremy D'Antoni, and I attended the YBS conference sponsored by the Council and FCS Financial and Farm Credit Illinois in St. Louis last October. The conference was very well done, well attended, and quite meaningful to us three as we split up and participated in workshop sessions where best practices in YBS were shared.

Sal is head of our YBS workgroup at the agency and has worked closely with Jeremy D'Antoni and his data group in getting out the advance notice of proposed rulemaking on YBS reporting last year. They both attended the IDWG conference right before the holidays and reported good response from System representatives. They just recently sent out a new format for reporting nonlending activities of the associations — qualitative practices like scholarships, education conferences, and support of youth organizations. Only, instead of checking a box, the report asks associations to quantify those practices by reporting number of participants as well as dollars committed. We feel this could be a good future tool for your board members in deciding which practices offer the highest return for growth of YBS programs. Data will be used to improve YBS. It eventually will be used to evaluate the effectiveness of each association's program, and the program will be rated accordingly.

We acknowledge there will be some growing pains in implementing this new reporting, and we're certainly willing to work with the System in working out the glitches, but after adaptation, it should really streamline the process. But more importantly, the information we give to Congress will be improved and will provide a baseline for future evaluation. Each association has its own unique approach to YBS, and we respect that. However, we have noted some common themes and practices that are inherent to the more successful programs, and we will encourage a sharing of those best practices.

The Council has done a good job encouraging this as evidenced by their St. Louis conference. Our FCA workgroup would like to expand on this concept by sponsoring a YBS workshop here in D.C. next September. We'd like to focus on building relationships and collaborating with other agencies within government and other groups that support YBS farmers. Any suggestions or connections from the Council and your directors would be

appreciated. We're just in the beginning planning stages, so stay tuned... There's more to come.

Communicating with Congress

One of my responsibilities as chairman — and a first-time personal experience for me — was testifying in front of a House subcommittee last November. I think it went pretty well. The overriding concerns of the committee were the current financial condition of agriculture and its effect on credit quality within the System. I think almost every one of those congressmen talked about stress with their ag constituents, whether it be from the trade wars, labor, wildfires, floods, or any number of issues. You don't know how comforting it was to sit in front of that esteemed group for almost two hours and be able to look them straight in the eye and say the System has strong capital and is well positioned to handle future challenges in fulfilling its mission of safety and soundness in good times and bad. It was comforting both to say it and believe it.

I also explained what a tremendous service Farm Credit provides to agriculture in the form of low interest rates, which are always competitive and set the standard among competitors. Do you know what investors were paying for short-term Farm Credit securities last week? Four basis points above Treasuries, 0.04%. That's just remarkable. It's amazing that, with such a slim margin, investors don't just select Treasuries, but clearly they have a high degree of confidence in the System's obligations — confidence in the good reputation of the System, as well as its GSE status, which we certainly should never take for granted. Everybody in this room has a stake and should take pride in maintaining that good reputation because it puts major dollars into the hands of our farmers and ranchers.

Another major takeaway from the hearing last November was the unanimous high degree of concern for new generations of farmers and ranchers. I think the chairman, David Scott of Georgia, asked me no fewer than four times, during the hearing and privately afterwards, if FCA had enough resources to support young and beginning farmers. Again, with a high degree of confidence, I was able to describe existing YBS programs within the System and our efforts and plans at FCA to make those programs grow.

Farm Credit Insurance Fund

Before I get to my concluding remarks, the chairman of the Farm Credit System Insurance Corporation, Jeff Hall, asked me to convey some good news. The Insurance Fund ended the year with a total of \$5.2 billion dollars. Based on preliminary figures, the total amount in the Fund was \$67 million above the statutory secure base amount. After the required deduction of FCSIC's operating expenses for 2020, approximately \$63 million was transferred to the bank's allocated insurance reserve accounts. The board will likely vote to return these \$63 million dollars to the banks in March 2020.

Jeff is also happy to announce that last week the FCSIC board voted to reduce the insurance premium accrual rate to 8 basis points for 2020, a decrease from the 9 basis points that was charged for the past two years. I'd like to give a shout-out to our FCSIC crew. Accompanying Rick today is Lynn Powalski, general counsel, and Howard Rubin, chief risk officer. This group is small but mighty, and for the amount of money they manage, the System gets a great "bang for the buck" for their efficiency, which helps keep assessments

down. I serve on this board along with Chairman Jeff Hall. Although FCA and FCSIC have a common board, they are independent entities with separate fiduciary responsibilities. However, the two groups collaborate well together, and whenever we have issues affecting either safety and soundness or reputation, I look forward to hearing and respect FCSIC's independent views.

Cooperative principles

I'd like to finish with a few thoughts on cooperative principles. I don't believe you can work in agriculture without believing in the core values of cooperation, neighbors helping neighbors. Like many of you directors, I grew up working cattle, making hay, shelling corn, and sharing labor and equipment with family, friends, and neighbors. Along this theme, I'd like to relate to you a personal story.

On July 6, 1966, I witnessed my father getting thrown off and run over by a tractor. He survived, but barely, and spent months in the hospital recovering. I was the oldest son, big for my age, and spent a lot of time outdoors with Dad, so it was natural that I assumed responsibility for chores, primarily feeding cattle. I left the chickens for my three younger sisters. I was ten years old, but old enough to notice that the hay in the barn haymows was getting low. We hadn't put up our first cutting of hay and I didn't know how to hook up the sickle mower, yet alone run a baler.

About a week later, four neighbors showed up with mowers and put down about 80 acres of hay. Two days later, on an early Saturday morning, tractors began streaming into our driveway. At one point I counted over twenty tractors pulling rakes, lowboys, and balers. It was quite a sight! A large group of neighborhood ladies pulled in and began preparing a noon feast. By sunset, both barns were full to the roof. You don't experience something like this without developing a strong sense of community and a strong sense of responsibility to that community.

I like to think of the Farm Credit System as a community, a very diverse community run on cooperative principles with you directors as caretakers. That is a tremendous responsibility that has been entrusted to you by your friends, neighbors, and fellow agriculturalists. While it is an honor, I'm sure at times its quite sobering, especially during times of duress.

At FCA, we feel that same responsibility. In fact, it is a goal of mine to make sure every FCA employee understands the important role he or she plays in supporting our nation's food system. The difference at FCA is that we make our decisions on what we feel is right for the entire System, the total community, and not just individual components. At times it's not easy — in fact it can be damned tough.

We are an arms-length regulator, but we all have friends and acquaintances. Personally, I feel a special affinity toward you directors. We can talk about our crops, the weather, cuss the markets, share our goals, and aspirations for our children. That's my comfort level. Periodically, I'm corrected by staff for saying "we" instead of "they" when referring to the System. Make no mistake: I understand my role and FCA's role as an arms-length regulator. I take that *very seriously*. But I do think we all want the same thing and work toward the same goal of ensuring prosperity and success of the System's stakeholders.

Jeffersonian principles

Enjoy your time in D.C. If you have the opportunity, try to visit Monticello, Thomas Jefferson's beloved home and large agricultural estate, located southwest of here and close to Charlottesville. For me and my wife, Fauzan, it's our favorite place to take visitors from home. It is a day trip, about three hours down, a short day of tours and back, but it is well worth the time. Along with Mt. Vernon, I think it is one of our nation's most precious historic treasures, especially for anybody connected to agriculture.

Like George Washington and many of our founding fathers, Jefferson was firmly rooted to the land, and he will be forever remembered for negotiating the best land deal in history, the Louisiana Purchase. Not even our President Trump could equal that "art of the deal," and I'm sure he would be the first to admit it. Jefferson often equated the caring and nurturing of the land to public service. Like Washington, he felt a calling to serve his young, struggling country, but he hated being away from his family, his farms, and his beautiful home.

With our common agricultural bond, we can all strongly identify with those Jeffersonian principles of trusting in the commonsense decisions of the yeoman farmer and landowner. The Farm Credit System epitomizes those Jeffersonian principles of equally respecting the voice and equally offering opportunities to all stakeholders in this cooperative community — small and large; young and old; beginning and experienced; struggling and established; north, south, east, and west. Farm Credit — you are doing this. If Jefferson were here today, in this audience, I believe he would stand up and shout "Bravo!" to the System and "Bravo!" to you directors for your service in making sure all these voices in this huge, complex system of yours are heard.

Thank you for the honor of speaking to you, and have a great conference.