Remarks by
The Honorable Jill Long Thompson
Board Chair and CEO, Farm Credit Administration
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Good morning. Thank you for that kind introduction. And thank you, Chairman Mike Garnett and the Farm Credit Council Board, for inviting me to speak with you this morning at the 30th annual meeting of the Farm Credit Council.

Also, it is a privilege to recognize my two colleagues on the FCA Board, Ken Spearman, who chairs the Insurance Corporation Board, and Lee Strom, who served as FCA Chairman and CEO from 2008 to 2012. I appreciate the leadership they have provided over the years, and their commitment to America's farmers and ranchers.

It is also a pleasure to recognize representatives of FCA and FCSIC senior management who are here today. I am very appreciative of the support they've provided since I joined the Board in 2010.

System Update

Congratulations to you on another successful year. Despite all of the challenges—the lingering effects of the recent recession and financial crisis, and the impact of the drought—the System remains fundamentally safe and sound. Total capital increased during fiscal year 2012 by more than $2.5 billion, and the ratio of total capital to total assets increased. Gross loans grew by almost 8 percent, and nonperforming loans decreased.

What's more, composite FIRS ratings have improved. The number of institutions with a rating of 1 went up from 30 in 2011 to 35 in 2012, and institutions with a 3 or 4 rating declined during the same period. You are both strong and heading in the right direction.

The question is—how do you keep going in the right direction?

Finding the answers to this question is the strategic challenge you face in moving your institutions forward. And it is the same challenge we face at the Farm Credit Administration to ensure we are doing what we need to do as the independent, arm's length regulator charged by Congress with ensuring the safety and soundness of the System, while the System fulfills its mission to provide credit to all eligible and creditworthy borrowers.

What you do … and what we do … are critical to keeping farms and rural communities strong in an ever-changing agricultural and global economy. Providing 43 percent of the financing to U.S, farmers is huge. That is what you do. And you do it with intense commitment and energy.

Ensuring the safety and soundness of that 43 percent, and doing it in a way that is consistent with congressional intent, is also huge. That is what we do. And I like to think we do it with intense commitment and energy.

Future of Agriculture and Food Security

This morning I will share with you what I believe the future of agriculture holds, and the priorities I have identified that will be significant to ensuring the Farm Credit Administration is prepared for the challenges agriculture and the System will face in the future.

As you very well know, the industry has changed dramatically in the past 200 years and will continue to do so. What will agriculture look like 50 years from now? We don't have a crystal ball, but we can say one thing with certainty: It will change, evolve, and grow.

To keep up with the population, which is expected to grow from 7 billion today to 9 billion by 2050, global food production will need to increase by 70 to 100 percent, according to the United Nations.

Not only has the world population grown, our population here at home has also grown and become more diverse. As a GSE [Government-sponsored enterprise], the System has an obligation to make sure it recognizes this diversity in making credit available to all eligible and creditworthy borrowers. And at the Farm Credit Administration we have an obligation to ensure our staff is reflective of the diversity found in America today.

The demand for food resources is not merely a result of population growth. It's also a result of rising incomes. As we've already seen in countries like China, as incomes increase, a greater proportion of calories are consumed in the form of meat and other sources of animal protein. And because it takes many calories of feed to produce a single calorie of animal protein, the increase in the demand for meat, eggs, and dairy products will greatly increase the demand for grain.

One of the greatest challenges we face with a growing world population is how to produce and distribute food in a way that is sustainable. And this is not a simple matter with simple solutions. Not only must agriculture produce more food to meet human needs, it must do so in the face of global climate change. Weather has always been the most powerful and the most uncertain variable in agriculture, and climate change exacerbates the effects weather can have on agriculture.

Last year was the hottest year on record, and according to USDA's Drought Monitor, 57 percent of the country was in at least moderate drought as of January 29, and 100 percent of Kansas, Colorado, Nebraska, and Oklahoma were in severe drought or worse. And the drought's impact on agriculture extends beyond the effects on crops in the field; the drought can even affect the ability of farmers to get their products to market.

A few weeks ago, the Mississippi River had reached an alarmingly low level. If it had dropped much further, barges would have been unable to navigate the river. Although recent snow and rain have alleviated that concern somewhat, the level of the river is still well below normal.

Agricultural Productivity

In light of the planet's growing population, rising incomes, and the challenges of climate change, how can agriculture possibly meet world food demands? Well, we can look to our past for some insight. A study from the Center for Agricultural and Rural Development at Iowa State reports that per capita calorie consumption around the world increased by 23 percent from 1966 to the present. This is astounding when you consider that the world's population doubled over the same period.

And we managed to achieve this feat largely by increasing agricultural productivity. According to USDA, between 1950 and 2000, the average amount of milk produced per cow increased from more than 5,000 pounds to more than 18,000 pounds per year, "the average yield of corn rose from 39 bushels to 153 bushels per acre, and each farmer in 2000 produced on average 12 times as much farm output per hour worked as a farmer did in 1950."

What was a primary factor driving these improvements? New technologies: drought-tolerant seed, genetics, fertilizer. And there is satellite technology, like global positioning systems, which allow precision farming, saving money and reducing the impact on the environment … sustainability.

Even something as simple as a cell phone has had a positive effect on agricultural productivity because it allows farmers to communicate with their colleagues and customers throughout the day, wherever they are on the farm. The ways farmers have used communication technologies to improve efficiency and productivity are practically endless.

But, technology can be capital-intensive, and that makes another tool critical for agriculture: affordable, dependable credit. That is where you and we come in.

FCA Priorities

Since becoming Chair, I have spent a great deal of time meeting with and listening to senior staff at FCA. And for many years, as a farmer, a Member of the House Agriculture Committee, and an Under Secretary at USDA, I have also spent a great deal of time reading the literature on the agricultural economy, both nationally and globally.

Based upon these discussions and readings, I have identified strategic priorities I believe must be addressed by FCA over the next year. Recognizing we exist in an environment characterized by fluidity, I also realize we must be flexible and we will likely need to re-prioritize from time to time. It is important, however, for us to have our strategic priorities in place so we are most prepared to expect and effectively address the unexpected.

As Board Chair and CEO, I have identified the following priority areas:

- Capital requirements
- Risk assessment and analysis
- The Young, Beginning, and Small Farmer Program
- Local food systems and urban agriculture
- Investments in rural America

Capital

First, I commend the System on the progress you have made in the area of capital. An important part of maintaining safety and soundness is keeping capital levels strong, and that's exactly what you have done.

And as your regulator, we will do our best to make sure our regulations reflect capital requirements that are appropriately consistent with U.S. standards and the Basel Accords, recognizing the unique aspects of the Farm Credit System. I have directed FCA staff to finish its work of revising the capital rules in Part 615 of FCA's regulations. Of course, our pace of *adopting* revised rules is largely dependent on the work of other prudential regulators. Nonetheless, I want to have our proposed revisions in place as soon as possible.

Furthermore, we must finish our part of the interagency rulemaking on margin and capital requirements for noncleared swaps, and address other changes consistent with the spirit of Dodd-Frank. We must also finish the capital planning rule, as well as the liquidity management rule, for Farmer Mac.

Risk Assessment and Analysis

As important as capital is to sound financial management, so is borrower equity and risk. And that leads me to my second priority: evaluating and assessing risk associated with farmland values and loan-to-value ratios in the System. In order to accomplish that task, we will continue to focus and provide support to data collection and analysis.

There's an oft-quoted maxim in the banking industry, and I'm sure you've heard it: "Bad loans are made in good times." I think it's important to be particularly vigilant in monitoring farmland values now … when we are in a period of good times, with strong commodity prices and low interest rates. As experience has taught us, interest rates do eventually rise, farm incomes may dip, and farmland prices may adjust. That's why it's important to resist competitive pressure and to maintain strong underwriting standards even during times like these.

As the regulator, we will continue to collect and analyze data regarding farmland values, and we will continue to work with other federal regulators in monitoring the risk posed by high loan-to-value ratios.

Young, Beginning, and Small Farmers

Talk of farmland values leads me directly to my third priority: the Young, Beginning, and Small Farmer Program. As we all know, higher real estate prices make it harder for young and beginning farmers to buy land and build their farms.

But that's not the only challenge they face. In the wake of the recession and the recent crisis in the financial markets, lenders have understandably tightened their underwriting standards. This makes it all the more difficult for young, beginning, and small farmers to find the credit they need to build their operations.

Yet, as Congress has long recognized, with an aging farmer population, these men and women are key to feeding the world's ever-expanding population. It is our congressional mandate—both FCA's and the System's—to ensure that creditworthy and eligible men and women who are young, beginning, or small producers have access to the credit they need to be successful. Since my days in Congress, I have been a supporter of the YBS program, and believe it must always be on the list of priorities for the Farm Credit Administration.

Local Food Systems and Urban Agriculture

Fortunately, in addition to the many challenges they face, young, beginning, and small farmers also face some new opportunities.

In the past, unless you inherited a farm or married someone with a farm, it was difficult to start farming—because, to be successful, you generally had to have a large operation. If you didn't already own the land and equipment, farming was probably not a career option for you—simply because it cost too much to set up an operation.

However, in recent years, more and more American consumers are choosing locally grown and organic foods, many of which are grown on small farms. This new trend in consumer demand has made it possible for individuals to choose to become farmers, even if their parents were not. That's because the capital demands to start a small farming operation are not as daunting, and this, of course, creates opportunities for young, beginning, and small farmers.

My colleagues Ken Spearman and Lee Strom have shown a great deal of commitment and support to the YBS and urban farming and local foods initiatives, and I am pleased to join them in making this a priority for the Farm Credit Administration. And we also look forward to hearing from the System on new ways you can provide financing to eligible and creditworthy borrowers who are young, beginning, or small farmers.

Investments in Rural America

Living in a rural community and having served as Under Secretary of Rural Development at the U.S. Department of Agriculture, I have a strong commitment to rural America. That said, as a former Member of Congress, I also want to be sure that the Agency and the System operate within the authorities that Congress has provided.

Several System institutions are participating in the Investments in Rural America pilot program, which has been in place since 2005. It is now time for the FCA Board to take a hard look at the key legal and policy questions, and make a decision on the future direction of this pilot program and the related Rural Community Investments rulemaking project.

These are the regulatory and examination priorities I have identified as important for us to address in the next year. There are, of course, other issues to tackle, and these priorities may change as conditions in the farm economy change.

Different Roles of Farm Credit System and FCA

Now, I am stating the obvious when I say: The Farm Credit System and the Farm Credit Administration are separate entities with separate roles. The Farm Credit System's mission is to (and I'm quoting the Farm Credit Act here) improve "the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services." On the other hand, FCA is the independent, arm's length regulator that ensures the System fulfills its mission and that it remains safe and sound.

While these roles share the mission of providing credit to eligible and creditworthy borrowers, they are quite distinct. Toward the goal of ensuring independence and arm's length, in 2011 the Board adopted a new policy to strengthen our operations in this area. Additionally, I am continuing to work with our Ethics Officer and our Office of General Counsel to make sure we sufficiently institutionalize our practices to ensure they will endure long into the future.

While this is a priority for me, so is the priority of making sure every decision I make is an informed one. And that is why it will always be important to me that I know your concerns and thoughts.

Cooperative Model

While we've been charged by Congress with looking at the Farm Credit world through different lenses, I want you to know that I will always be cooperative in my independence. Because I know we are all aiming for the same goal—meeting the credit needs of a diverse population engaged in agriculture—in a genuinely cooperative way. I know that everyone of us here today believes in and is committed to the cooperative principles of the Farm Credit System.

America's Farm Credit System, you have a great deal to be proud of. You are part of an organization that has served the credit needs of farmers and ranchers for almost 100 years.

You and the institutions you represent have weathered difficult times. And today, as our economy slowly recovers, the System is safe and sound, with a strong capital position and—thanks to a healthy farm economy—a bright future.

I would also like to leave you with a challenge. The Farm Credit System has enjoyed several record-breaking years with earnings and other performance measures. The low interest rates and strong commodity prices will eventually change—and I challenge you to keep working as hard as you have been to ensure you are prepared for that change.

I look forward to working with you this year. Together, we can ensure that the farmers and ranchers who supply the food for much of this world can access the credit they need. Thank you.