Remarks by
The Honorable Jill Long Thompson
Board Chair and CEO, Farm Credit Administration
AgFirst Farm Credit Bank Annual Meeting
Washington, D.C.
July 14, 2014

Good morning. Thank you for your kind introduction, Chairman Spiers. And thank you for your invitation to speak this morning at the 2014 annual meeting of the AgFirst Farm Credit Bank. I also thank FCA staff for their help in arranging for me to be here today.

Since I spoke with you a year ago, there have been a number of positive developments in agriculture. After long, contentious negotiations, Congress finally passed a Farm Bill, alleviating some of the uncertainties that farmers and farm lenders have to manage.

Another positive development is the continued improvement in the performance and condition of the Farm Credit System. And the AgFirst District is no exception.

While total loan volume increased slightly in 2013, the District's criticized loan volume declined considerably. Nearly 93 percent of the combined association district retail portfolio was classified as acceptable at year-end 2013, up from 90 percent a year ago and up substantially from several years ago when the financial crisis was in full swing.

I believe it would be accurate to attribute this higher credit quality, at least in part, to your loan portfolio management. According to our examiners, you have continued to improve such management over the past several years, especially in the area of collateral risk. It sounds like the Collateral Risk Focus Group, which you established in late 2012, has served you well. And, as we've seen with the recent softening of land values, collateral risk was a legitimate concern.

Your District has also benefitted from the relief that protein producers received when grain prices declined at the end of last year. But, of course, stresses have increased in other sectors. Citrus greening is a threat to many of your borrowers in Florida, and the PED virus is a threat to pork producers everywhere. However, by continuing to monitor your portfolios carefully, you can manage the effects that these diseases may have on the safety and soundness of your institutions.

I am also pleased to recognize your District, in particular, for the emphasis you place on serving young, beginning, small, (YBS) and minority farmers. This emphasis is paying off. As you know, the ratio of young and beginning farmer loans to all other farm loans in the AgFirst District increased from 2012 to 2013. That's important progress.

I was also impressed to learn your bank's Ag Biz Planner curriculum continues to expand. Since AgFirst Farm Credit Bank established the program five years ago, more than 500 young, beginning, small, and minority farmers have enrolled in it, and I understand that this number may grow substantially as more and more System institutions begin using it. This is a wonderful way for you to serve YBS and minority farmers. By providing training and development for these producers, you can help increase their chances for business success.

Not only has the Bank increased its focus on YBS and minority farmers, so too have several associations in the AgFirst District. According to our examiners, several AgFirst associations have improved their ability to measure and serve underrepresented markets in their territories. For example, through its Farm Fresh Financing program, MidAtlantic Farm Credit offers special underwriting standards for very small and new farmers. And by the end of 2013, the association had $81 million in the program.

Your district has also provided important outreach to the local and regional foods industry. Earlier this year, at the spring conference of the National Good Food Network, I was pleased to recognize MidAtlantic for its efforts in this regard. In a partnership with Temple University, the association conducted a study of local foods systems, and it is sharing what it has learned with other institutions in the Farm Credit System. Already, it has made more than 300 loans to food hubs and other businesses in the local foods system.

Another area in which the AgFirst District has made important strides is in the area of governance. In the wake of the recent financial crisis, corporate conduct has become the subject of much public debate. As the independent, arm's-length regulator of the Farm Credit System, we responded by increasing our emphasis on standards of conduct and ethics. Thank you for your responsiveness to this guidance.

According to FCA examiners, institutions in the AgFirst District have stepped up governance training for boards of directors, and standards of conduct officials throughout the district have been meeting regularly to discuss issues of common interest. These are important steps. They will lead to better-informed and more effective boards of directors.

Since its founding in 1916, the System has helped four generations of American farmers. As members of the Farm Credit System, you can be very proud of your role in the growth and success of American agriculture.

And even though our nation has fewer farmers today than it did when the System was founded, it has exponentially more mouths to feed, making agriculture and agricultural credit every bit as relevant today as it was back then. In fact, as long as people continue to eat, we will continue to need farmers and lenders who understand the particular needs and challenges of farmer-borrowers.

A couple of weeks ago I testified before the House Agriculture Subcommittee on Livestock, Rural Development and Credit, and I received several questions regarding System loans that some considered to be outside the realm of the System's mission. In my testimony, I pointed out the legality of these loans.

However, I will also note that sometimes it's not enough to just *be* right—you must ensure that your actions also *appear* to be right. We sometimes refer to this as managing reputation risk.

That's why I encourage all System institutions to continue emphasizing your mission to serve agriculture and rural America and to tirelessly seek ways to fulfill this mission more completely and effectively. We must strive for a nation in which every creditworthy farmer and rancher who seeks credit can receive it—whether the farmer has 10 acres or 10,000, whether the farmer is male or female, black or white.

Sticking to your mission is one important way that you can manage reputation risk. Another important way is to tell your story—not just to potential borrowers but to the broader public. You must help the public understand the critical role the System plays in agriculture.

I even encourage you to remind the public of the importance of agriculture. You might think this point goes without saying. After all, everyone eats. But human beings have a talent for taking things for granted. That's why it's important to remind people that agriculture is the source of every meal they eat.

And agriculture is also critical to sustaining our national economy. Agricultural products, particularly wheat and soybeans, contribute significantly to our nation's exports. The U.S. agricultural industry is an important reason that we are the strongest economy in the world.

And who meets almost half of the nation's agricultural credit needs? You do.

It's a little-known fact that the Farm Credit System is an important reason the United States is among the world's top agricultural producers. Without access to affordable credit, farmers could not have purchased the land, machinery, pesticides, and fertilizers they needed to expand their operations. The Farm Credit System helped make this possible.

This is the story of the Farm Credit System. It's a powerful story, a compelling story. And the more you tell this story, the better our democratic nation can understand what the Farm Credit System is and why we continue to need the System.

One of the reasons the System has remained relevant over the past 100 years is that it has continuously evolved. It had to. The industry it serves is constantly changing. Over the years, farm equipment and technology have become more sophisticated, leading to dramatically higher yields. And the size of farms has increased as the number of farms has decreased.

As I mentioned in my remarks to you last year, one of the major changes in agriculture in recent years has been the rise in consumer demand for local foods and organic products. Because of this demand, many smart, hard-working people are seeking to become farmers. And unlike most System customers, many of these people have no previous ties to farming. To begin farming, they must start from scratch. But thanks to this new demand for local and organic foods, they have a real chance of being successful.

I commend those of you who are reaching out to these producers and developing loan products and programs to meet their needs. You must, of course, ensure that these would-be borrowers are creditworthy, but, to give them a fair chance, you may need to adopt new ways to measure their creditworthiness.

In expanding your service to underrepresented markets, you are helping serve your public mission, and you are broadening the System's relevance in the marketplace. This is good progress, and I encourage you to continue on this path.

While you meet the needs of these producers, however, you must continue to serve the farmer-borrowers with whom your institutions have long had relationships. Because of factors like weather, pests, and crop and livestock disease, meeting the credit needs of farmers and ranchers has never been easy, and the effects of climate change may make it more difficult still.

As the regulator of the Farm Credit System, we will do all we can to support your mission and to protect your safety and soundness. In May, for example, we issued a proposed rule to more closely align our capital requirements with those of other Federal banking agencies and the Basel Accord. This will benefit the System by strengthening its capital reserves and making System investments more attractive to investors.

And last year, we issued a revised liquidity regulation requiring each bank to maintain higher-quality liquidity, as well as a supplemental liquidity buffer. The rule helps ensure that System banks keep liquidity to continue operating if their access to the capital markets is temporarily interrupted.

These are just a few of the ways we are working to provide the System with a constructive regulatory framework—one that doesn't unnecessarily restrict the System but provides the parameters it needs to serve its mission safely.

Through our examinations of System institutions, we help managers and directors see potential risks they might have missed, and we help ensure that their institutions comply with all laws and regulations. We also monitor conditions in the agricultural and banking sectors, always watching the skies for trouble.

We, the Agency, and you, the System, share the same goal of ensuring a safe, sound, and constructive source of credit for America's farmers and ranchers, but we cannot operate as partners, per se. Why not? Because the Farm Credit Administration is required by law to be an independent, arm's-length regulator.

In fact, I would argue that the System actually *needs* us to be an independent arm's length regulator. If your borrowers, if Congress, and if the general public perceive us to be a "pocket regulator," their confidence in the checks and balances on the Farm Credit System weakens.

Public perception is a powerful thing. Seeing that the System has an independent, arm's-length regulator gives investors in System debt more confidence in the safety and soundness of their investments; it gives borrowers more confidence that they will receive fair treatment; and it gives Congress more confidence that the System will fulfill the mission for which it was created. It all comes back to reputation.

AgFirst can be very proud of its achievements over the past year, and I hope you will build on these achievements in the coming year. Keep your management standards high; watch out for reputation risks; and continue to seek ways to reach out to YBS producers and underrepresented groups.

Thank you.