

**Opening Statement
of
The Honorable Nancy C. Pellett
Chairman and Chief Executive Officer
Farm Credit Administration**

**Before the
House Agriculture Subcommittee on
Conservation, Credit, Rural Development, and Research
United States House of Representatives**

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Mr. Chairman, members of the Sub-committee, I am Nancy Pellett, Chairman and Chief Executive Officer of the Farm Credit Administration. On behalf of my Board colleagues, Doug Flory and Michael Reyna, I am pleased to be here this afternoon to comment on the future of the Farm Credit System.

I have submitted more extensive remarks on this subject and I would ask that they be made part of the record.

The mission of the Farm Credit Administration is to ensure a safe, sound and dependable source of credit for farmers, ranchers, aquatic producers, farmer-owned cooperatives, and rural home owners.

To achieve our mission we oversee the operations of the Farm Credit System, a government-sponsored-enterprise that Congress established to serve agriculture and rural America. The System is comprised of five banks and 97 retail-level lending institutions associated with those banks. We also oversee the operations of Farmer Mac which provides a secondary market operation for agricultural mortgage loans.

As a government sponsored enterprise, the System serves a critically important public purpose....providing American agriculture and rural America with a dependable source of credit in good times and bad. Currently, the System provides about one hundred billion dollars to nearly five hundred thousand borrowers throughout the nation.

Without this well conceived, financially sound, and time tested GSE, I believe the strength of our Nation's agriculture, and the quality of life in rural America, would be diminished.

On August 3rd, one of the System's retail-level lending institutions, the Farm Credit Services of America, notified us of its intent to terminate its status as a member of the System. Though rare, such an action is permissible under the statute and we have regulations that allow for the orderly exit of an institution from the System.

Since my Board colleagues and I must make objective decisions on any termination request submitted to us, it would be inappropriate for me to comment on the merits of an application. Therefore, I hope you will appreciate that I may not be able to respond to certain questions here today.

My written testimony provides information on the key decisions we must make when assessing a termination plan. I would also note that we have briefed staff from the full committee on our termination process, and Mr. Chairman, we would be pleased to update interested parties as we move through this process.

The end result of an approved termination would be that a \$7 billion institution serving 50,000 borrowers in a four state territory would no longer be an instrumentality of the United States Government. It would become a privately owned commercial venture.

The loss of an established Farm Credit System presence is a matter of serious concern for all of us and it would require considerable effort, cost, and time for the System to re-establish its presence in the four state area. However, I assure you that should the Farm Credit Services of America termination process proceed, we will act swiftly to maintain a System presence in the vacated territory.

Since I was appointed to the FCA Board, almost two years ago, I have heard frequent comments about whether changes are needed to the Farm Credit Act to make the System more effective. I believe Congress's decision decades ago to create the Farm Credit System remains valid today, but I also believe the time has come when Congress may want to consider modifications to the Act that could enhance the System's ability to better serve agricultural and rural economies of the future.

In the early 1990s the Government Accountability Office reported to Congress that the System did not need new statutory authorities in the near term, but that ongoing changes in agriculture and rural America could justify such changes in the longer term. GAO noted, that over time, as agriculture and rural America change, the System's authorities might need to be updated to ensure the System is not hampered by outdated restrictions in serving its customers.

Mr. Chairman, the changes in agriculture and rural America GAO alluded to have been well documented by several government and academic sources, and I mention some of them in my written testimony. Overall, these changes clearly point to a need to modernize an Act whose basic structure has not changed in almost 35 years.

Although the commercial banking system was modernized in the late 1990s, the System's statute has not received a general update to reflect changes in the marketplace or rural America since 1971. As a result, the Farm Credit Act does not accommodate many of the market conditions and economic forces, nor reflect the rural America, that exist today.

At FCA, we recognize that major changes have taken place in agriculture and rural America.

Our intent is to maintain a flexible and responsive regulatory environment that will, where appropriate, modify regulations that needlessly impair the System's activities.

The System has the financial capability to serve customers and engage in financial transactions not previously contemplated by the Act. However, these activities sometime stretch the limit of what was initially conceived by Congress, and heighten the concern of other parties who question the System's actions. We believe Congress is in the best position to resolve some of these issues.

At FCA, we would welcome the opportunity to work with Congress to bring the Farm Credit Act into the 21st century and to provide the System with the direction it needs to better serve agriculture and rural America.

In conclusion, Mr. Chairman, my Agency is committed to ensuring that the Farm Credit System remains financially capable and operationally equipped to fulfill its statutory mission to serve agriculture and rural America under all economic conditions.

Thank you for the opportunity to appear before you today and I stand ready to answer questions you or members of the Sub-Committee might have.