Remarks by
The Honorable Kenneth A. Spearman
Member of the Board, Farm Credit Administration
Northwest Farm Credit Services Board Strategic Planning Session
Newberg, Oregon
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Note: Introductory comments omitted

First off, I want to note that, while the Farm Credit Administration takes action upon the collective vote of its three Board members, each FCA Board member, appointed by the President, acts independently. This means, among other things, that any opinions expressed here today are my own and not official Agency views. Also, while we have an effective and collegial working relationship, my opinions may or may not be shared by my FCA Board colleagues, Chairman Lee Strom and Board Member Jill Long Thompson.

FCA is what they call an "arm's length" regulator. Therefore, as a Board member, I always need to be mindful of my role as a Government official and to keep the proper "arm's length" distance necessary to avoid any appearance of favoritism or impropriety.

However, I do believe it's important and appropriate for me to interact with Farm Credit System management, directors, and customers to better understand what's going on in the System. That's why I very much appreciate the opportunity to visit with you today and listen to your concerns and views. Effective communication with regulated parties is a key element for any effective regulator.

After a career in the private sector, it has been an adjustment for me to adapt to Government service. And I do view it as "service." I essentially came out of retirement when I started with FCA about two and a half years ago for what I continue to feel is an important role in ensuring the continued health and mission of the Farm Credit System.

I'm particularly pleased to be here today since one of the focus areas of this meeting is on mission and outreach programs. As some of you may know, one of my prime areas of interest since I've joined the FCA Board has been on exploring ways that FCA can help the Farm Credit System better meet its statutory mission of serving the credit needs of *all* potential customers. I'm particularly interested in how the System can aid the development of local food systems, and in how doing so could positively impact urban and other areas not usually reached by the System.

Traveling with me here from FCA is Mark Johansen, the FCA Board's Special Advisor for YBS (young, beginning, and small farmers) and local food systems. Appointing Mark has been one of the tangible steps FCA has taken in further understanding and exploring potential options in this area. Mark brings a wealth of experience and knowledge to this position, and therefore I'd like to reserve a few minutes at the end of my remarks for Mark to fill you in on some of the specific things he and the Agency are doing in this area.

While FCA's primary purpose is to ensure that Farm Credit System institutions operate in a safe and sound manner, Congress gave FCA broad authority over all matters related to the System and the Farm Credit Act. Therefore, part of FCA's job is to ensure that the System—founded by Congress as a Government-sponsored enterprise—is fulfilling its public mission.

The first section of the Farm Credit Act states that the System has a specific mission to "meet the credit needs of *all* types of agricultural producers having a basis for credit…." Congress also included a specific mandate for the System to serve young, beginning, and small farmers in order to help make sure there will be a next generation of American farmers.

Therefore I think it's important for the System, and for FCA, to take a broader view of System lending and to look at how the System is serving "all types of agricultural producers" in *all* segments of the agricultural marketplace. This marketplace includes minorities, women, and truly new farmers without family ties to farming, as well as producers seeking to capitalize on consumer demand for organic and local foods.

In large part, this is the background for the recent business planning rule adopted by the FCA Board this past April. I know you've already spent time talking about this rule, so you are familiar with the new requirements. It is important to remember that the intent of the rule is not to dictate particular outcomes; instead, the rule is intended to ensure that each System institution board thinks about concepts of diversity and inclusion in both its human capital and its marketing plans.

In this regard, I do want to thank the people of Northwest Farm Credit Services for the efforts they've already made in this area. As you know, FCA annually reviews YBS lending performance by System associations. Partly because of the way the data are collected, there are some significant challenges in truly gauging the System's performance in this area. The young, beginning, and small categories overlap and, notably, don't effectively identify who is a truly new entrant to agriculture. The data also do not distinguish between small working farmers and small hobby farmers. However, under Mark's leadership, we've been trying to use available resources to better evaluate System performance.

One thing FCA did this year is to try to use qualitative factors to measure YBS performance. Based on a variety of factors—many of which relate to market outreach efforts—we concluded that Northwest Farm Credit Services has one of the best YBS programs in the country.
Many of the commenters on our business planning rule were concerned that we were looking for quotas or some other easily quantifiable result. Instead, it is this *qualitative* outreach effort that the rule is really focused on. Association boards and management cannot control or guarantee results; however, as the board and management of Northwest have proven, they can control the quality of outreach and other efforts made by their associations.

We do recognize, for example, that agriculture in Oregon is different from agriculture in New York or Iowa. That's why the new rule rejects a one-size-fits-all philosophy. Each association faces different sorts of challenges, and each association needs to take different steps in order to best serve its particular market.

While it will be up to each association to figure out what works for them, I generally think System associations could do a much better job of working together to ensure the best service for all System customers. For example, I think it would be great if Northwest could effectively share information on marketing strategies and best practices with others across the System. I also encourage Northwest and other associations to continue to look for innovative approaches to expand lending opportunities for potentially underserved customers.

It is a shared responsibility of everyone in the System to ensure that the System meets its mission of serving the credit needs of all potential customers. This is why I sought, as part of FCA's approval of the merger of CoBank and U.S. AgBank, a condition that required CoBank to assist its associations in meeting their mission of serving all potential borrowers. While the associations are responsible for retail lending to farmers and ranchers, CoBank, with its vast resources and national presence, is uniquely situated to coordinate, support, and assist in local efforts. Therefore, I am very pleased to see CoBank step up and take a leadership role with its Growing Rural America initiative. I also look forward to other System banks taking a role in supporting their associations' efforts to meet the System's mission.

I think that FCA's new rule—putting concepts of diversity and inclusion into our regulations—is a very good first step. I also recognize, however, that it is only a first step. In order to be effective, this cannot become a check-the-box sort of regulatory compliance issue. FCA cannot effectively dictate to the System in this area. Instead, this has to be something that the System embraces and effectively incorporates into its own culture. While Northwest Farm Credit Services and some other System institutions may be more forward-thinking, this culture change will likely not come easily in many parts of the country. Hopefully, leaders in the System will view this as an important issue for the System as a whole. This will be a continuing, evolving journey, one that I hope features FCA and the System working collaboratively together to reach common goals.

FCA's eligibility rules for financing agricultural producers—any kind of agricultural producers—are broad. Under existing FCA rules, a System lender may provide credit to any bona fide farmer—who is basically anyone engaged in the production of agricultural products—for agricultural needs. However, we are continuing to review FCA rules and guidance to see if there are any impediments we need to remove or additional guidance we need to provide that will enhance the ability of the System to finance emerging farmers or local food producers.

In addition to financing producers directly, FCA rules provide opportunities to finance some key elements of local food systems as farm-related businesses. These include businesses that provide services to eligible farmers and ranchers that are directly related to a farmer's agricultural production. These may include local food "aggregators," who provide marketing and transportation services to local farmers. Some of these aggregators also provide a forum for local businesses to order fresh agricultural products from local producers. Because the farmers retain ownership of their products until delivery of the products to the local business, these should be considered eligible farm-related service businesses.

Another important question in this area is how we look at the issue of creditworthiness. The risk profile for an unconventional borrower is going to be very different from that of a commodity producer with crop insurance and Government support programs. However, that doesn't necessarily mean that the unconventional borrower is not creditworthy and won't be able to repay debts. In fact, some local food producers are able to generate significant cash flow and are able to follow through on sophisticated business plans.

I'm not suggesting that System lenders lend money to people who won't be able to pay it back. I recognize that many small producers are not creditworthy under any reasonable standard and are not able to service any significant level of debt. The System is *not* the lender of last resort. However, I am suggesting that we make the effort to look differently at these types of farmers in making creditworthiness decisions. I am also suggesting that lending to these borrowers is the type of risk, effectively managed, that a System institution should be prepared to take in order to fulfill its mission.

In addition to the *obligation* to serve all types of agricultural producers, the significant consumer demand for organic and locally produced foods indicates that there are also viable *business opportunities*—and viable customers—out there for the System to cultivate. To maintain its long-term relevance, I think the System needs to continue to focus closely on agriculture and ensure that the next generation of farmers—whoever they are and however they operate—is served by Farm Credit.

It may be just as important for the System's long-term relevance for Congress and the public to understand the important role that Farm Credit plays in ensuring credit for *all* agricultural producers—in other words, that Farm Credit is needed and continues to support an important public purpose.

Note that local food systems frequently include farmers operating in or near, or directly supplying, urban and suburban areas. These are areas in which Farm Credit historically doesn't have much of a presence. Therefore, being active in this market is an opportunity to create more people who understand and care about Farm Credit—something that will clearly pay long-term dividends for the System.

At this point, I'd like to ask Mark to provide some more specific comments about the Agency's YBS and mission efforts. I thank you for this opportunity to visit and look forward to working with you during the next four years of my term on the FCA Board.