

**Remarks by
The Honorable Kenneth A. Spearman
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Good morning. Thank you so much for the opportunity to speak to you today. I am privileged to recognize my two Board colleagues, Dallas Tonsager and Jeff Hall, as well as FCA senior staff who are here.

It is always a pleasure for me to meet with representatives of the Farm Credit System. And I must say it's a particular honor to address the Farm Credit Council in 2016 — the year you celebrate the centennial of the Farm Credit System.

The idea of the System sprang from a noble objective: to ensure the success of American farmers and ranchers for generations. As the Farm Credit Act states, Congress recognized that “a prosperous, productive agriculture is essential to a free nation.” Based on the findings of commissions that had studied the agricultural success stories of other nations, Congress concluded that our nation needed a cooperative system to deliver affordable, dependable financing for farmers and ranchers.

History does not always smile on the decisions of our leaders, but I am happy to say that in this case it does. Today, thanks in no small part to the system of agricultural credit that Congress established in 1916, the United States is one of the biggest agricultural producers in the world. The productivity of our agricultural industry provides food security for our own country and helps meet the food needs of many other countries, as well.

Our agricultural industry also strengthens our general economy. The United States is one of the world's top exporters of agricultural products. Since 1960, we have exported more farm products than we have imported, and these exports help offset deficits in nonagricultural trade.

Today, the System provides approximately 45 percent of all farm credit. And although we occasionally hear critics claim that the Farm Credit System is no longer relevant, I was heartened to find that Congress continues to recognize our need for the System and its mission. At the hearing at which I testified late last year, several members of Congress expressed their appreciation for the important role that the System continues to play.

So here we are: 100 years after the Federal Farm Loan Act was signed. How strong is the System today? Let's look at just a few indicators.

As of Sept. 30, 2015, the System had \$227 billion in gross loans and \$292 billion in total assets. Its total capital was nearly \$49 billion, its net income was \$3.5 billion, and it had 183 days of liquidity. Nonperforming assets accounted for less than 1 percent of all loans.

These are impressive numbers. They show that the System is strong — that it's well prepared to withstand challenges. And, as we are all aware, there definitely are some challenges on the horizon.

Prices for grain and oilseed have declined significantly from the highs of 2010 to 2012, and these lower prices may last several years. Some producers may be unable to cover their production costs.

And there are other economic factors that will likely compound the challenge of lower commodity prices. Late last year, the Federal Reserve raised interest rates for the first time in several years, and the Fed is expected to continue to raise interest rates gradually over the long term.

Then there's the challenge of currency value. In comparison with the currencies of our trading partners, the dollar is strong, and economists expect it to remain strong for a while. This will make it more difficult for American farmers to sell their products abroad. For producers who rely heavily on export markets, this will present a particular challenge.

Other economic forces will create challenges for U.S. farm exports. During the recent period of high grain and soybean prices, global production of these commodities increased significantly. Also, for the past three years, American farmers have had large harvests. Increased world production and strong yields at home have pushed crop prices down. The decline in world economic growth will add to the problem by decreasing demand for U.S. exports.

Noneconomic forces also come into play. Because of concerns about avian flu outbreaks in the United States last year, several nations have banned U.S. poultry imports. And the politically motivated import ban that Russia imposed on the United States has further depressed livestock exports.

Although exports have greatly increased the market opportunities for U.S. farmers, our reliance on them has added one more factor to the list of things farmers — and farm lenders — must consider when evaluating risk.

And let's not forget the risks that extreme weather events and changing weather patterns can pose for the farm economy. For the past four years, we have seen the serious effects of drought and water shortage on producers in California.

All of these factors — lower commodity prices, higher interest rates, a strong dollar, reduced exports, and bad weather — will place downward pressure on farm income. According to a report from last November, USDA estimates that net farm income declined by 38.2 percent in 2015. Not only will this likely affect the ability of some borrowers to repay their loans, it will also continue the downward pressure on collateral values. When farm income declines, farmland value is usually not far behind.

In fact, we're already seeing a correction in farmland values in the Midwest. With weaker farm incomes and rising interest rates, farmland prices there could decline 25 to 30 percent over the next several years.

Our economists also project that the broader rural economy will struggle over the next few years — both because of lower farm incomes and the continued migration of rural residents to urban areas. This will put pressure on the tax base of rural government and the customer base of rural utilities. It may also increase stress on farmers who rely on nonfarm income to pay off their loans.

This is a daunting list of challenges — even for folks like farmers and farm lenders, who are long accustomed to volatility. It will require great vigilance. Today it is more important than ever to identify and mitigate risk in your loan portfolio, especially in vulnerable sectors of the farm economy. Because of the declines in farmland value and chattels, you will also have to watch

carefully for collateral risk. We, too, will be vigilant. We will closely follow developments in the farm economy, and we will watch for problems at both the institution level and Systemwide.

But I have every confidence that the Farm Credit System will overcome every single challenge. Why? Because you have 100 years of experience to back you up. And that includes the 1980s, which was a baptism by fire for producers and lenders alike. From this experience, you learned many lessons, including the importance of prudent lending practices and active portfolio management strategies.

But of course farmers, ranchers, and the Farm Credit System need to do more than just overcome challenges. You have to find ways to thrive, to take advantage of opportunities to grow. Here too, both farmers and the Farm Credit System, have excellent track records.

In the past, when it seemed agriculture's only path forward was large production farms and ranches, you were there to provide financing to purchase the additional acres, the bigger equipment, and the more sophisticated inputs they needed to grow.

Now, because of consumer demand for organic and locally produced foods, additional paths have opened up, bringing more opportunities to young, beginning, and small farmers. And I'm pleased to see that many of you, in addition to continuing to serve your larger borrowers, are working hard to find ways to serve the needs of these other producers, including those in urban areas. I commend you for this.

Last summer, I visited a small, organic, urban operation in Austin, Texas. It started out as a garden in a family's backyard. With the hard work of the farmer and funding from the Farm Credit System, this backyard garden has grown into a community-supported agriculture operation that provides organic vegetables to hundreds of Austin families. This operation supplies produce to Whole Foods grocery stores and local restaurants, and it has expanded to other Texas cities like Dallas and San Antonio. By providing credit to operations like these, the Farm Credit System is demonstrating its adaptability. Just as agriculture is adapting to meet the demands of consumers, the System is adapting to meet the demands of agriculture.

Young, beginning and small producers often have difficulty finding the financing they need. As we all know, it's not always easy to make YBS loans because these loans often carry higher risk than loans to larger, more established operations. But that's why the Farm Credit System's service to these producers is so critical. By extending service to borrowers like these, you are helping the agriculture industry to evolve to meet the food demands of this country and the world. You are giving young, beginning, and small farmers the chance to participate in an industry that is notoriously difficult to enter unless you are born into it.

In looking through the Farm Credit 100 website, I came across a video that's part of a series called Farm Credit First Person. The video is short — just a little over two minutes long, but its message is powerful. It features interviews with a loan officer named Tim Knesek and a borrower named Greg Hengst, a young man from Texas who started farming in the mid-2000s. They describe how Greg came to Tim one day and asked for a loan to help him get started farming. Tim made him a loan, and Greg farmed for a couple years, but then in 2008 he hit a bad year. His crop was short, and he couldn't make his payments. Even though this would probably mean he had to give up farming, Greg offered to sell off his land to make the payment. But Tim told him no. He worked with Greg and with the Farm Service Agency to get him through that rough year. Today Greg is in good standing, and his operation is going strong.

This is what the Farm Credit System is all about — being there in good times and bad. Not only did the System give a newcomer to farming a chance he might not otherwise have had, it also worked with the borrower during his time of need, recognizing that bad years come and go in farming, recognizing the value of helping young people succeed in agriculture.

And I'm happy to hear that some System institutions are conducting market research to identify YBS producers in their lending territories. One institution recently performed a study on the borrowing and purchasing habits of millennials. From this study, the association concluded that young producers constituted one of their top five areas for potential growth. The association was planning further market research, focusing on women and minority groups — especially Hispanic producers — in its chartered territory.

After performing market research, another association concluded that it needed to form a special loan program for young, beginning, small, minority, and veteran farmers who sell their products directly to consumers or through local or regional food systems.

I'm also happy to hear that many of you are partnering with other organizations, like USDA's Farm Service Agency and local governments, to serve YBS borrowers. This not only increases the number of YBS loans you can make, it also reduces the risk to which these loans may expose you. And to increase the likelihood that these borrowers will be successful, many of you also provide training through programs like AgBiz. These programs help educate producers in financial and operational matters, including the use of crop insurance and changes in government policy.

So today I would like to thank you for your service to the YBS producers in your territories, and I would like to challenge you to continue to reach out to these producers, including members of groups that are underrepresented in farming and in the customer base of the Farm Credit System. Although there is still much work to be done, you can be very proud of what you have achieved.

As your regulator, we share your commitment to agriculture and rural America. We are working hard to ensure that you have the regulatory framework you need to achieve your mission. I'd like to share with you some of the key regulatory actions we plan to take over the next 12 months.

- Issuing a final capital rule is at the top of the list. The System will have a modern capital rule that is comparable to the rules of other U.S. banking regulators and reflects the Basel III accord where appropriate.
- We are also considering regulatory action on similar-entity lending. We recently had a productive conversation with System representatives on this topic, and we are encouraged by the voluntary steps you are taking. We will soon issue guidance on this topic, and we will continue to evaluate whether further action is needed.
- Other issues on which we are considering regulatory projects are internal controls, territorial concurrence, stress testing, and cybersecurity.
- We are also considering the possibility of reproposing the standards-of-conduct rule to offer a more principle-based, less prescriptive, rule to govern standards of conduct at System institutions.
- We also plan to issue a final rule on investment eligibility regulations for banks and associations.

Having outlined these regulatory priorities, I would also like to note that I do not believe in regulating for the sake of regulating. I believe that government regulators should adopt the guiding principle of the medical profession: First, do no harm. With every regulation we adopt, our goal is to add value — to protect the safety and soundness of the System and to help it achieve its

mission. Of course, you may not always agree with us on the value of a regulation, but we will always keep the communication channels open to hear your concerns.

Creating an appropriate regulatory framework is one way the Farm Credit Administration helps ensure a safe, sound, and dependable source of credit for farmers and ranchers. Another way is through examining System institutions for safety, soundness, and legal compliance. At least once every 18 months, we conduct an examination of each institution, reviewing loan portfolios, internal controls, underwriting standards, etc., looking for weaknesses or other issues that could affect the institution's ability to serve its mission.

And if we find weaknesses, we use our enforcement authorities to require the institution to resolve them. As part of an enforcement action, we may require an institution to enhance its board governance, improve its ability to identify risk, or to correct weaknesses in lending practices, financial management, or standards of conduct.

Although no institution ever wants to receive a notice of an enforcement action, the action is designed to help an institution avert bigger problems. On several occasions, institution boards have thanked our examiners for helping them address their weaknesses and return to a safe and sound position.

The Farm Credit Administration also confers another benefit on the System: We help protect its reputation. Knowing that the System has a strong, independent regulator assures Congress, System investors, System borrowers, and others that it will serve its mission and remain safe and sound.

I'd like to leave you today with a few thoughts for ensuring the System's continued success. I have had the good fortune to see the agricultural credit industry from a variety of perspectives.

My first perspective was from that of a borrower. For many years, I worked for Citrus Central and Florida's Natural Growers, federated cooperatives that borrowed from the Farm Credit System. From this position, I could see the critical role that financing played in the success of the cooperative. I also came to appreciate the symbiotic relationship of the borrower-owner and the cooperative lender. By governing the institution, the borrower-owners provide valuable direction for it; in return, the institution meets the needs of its borrower-owners effectively and efficiently.

Then in 2006, following my retirement from Florida's Natural, I was elected to the board of AgFirst Farm Credit Bank. During my four-year tenure on this board, I acquired a new perspective — that of the Farm Credit System lender. From this perspective, I could see the role that financing played not only in the success of a single enterprise but the role it played in the success of an entire industry. And I came to understand the delicate balancing act required in serving borrowers in good times and bad while at the same time maintaining the lender's own safety and soundness. Most of all, I got to know many of you, and I've seen your sincere passion for agriculture, for your communities, and for the mission of the Farm Credit System.

And finally, in 2009, I acquired yet another perspective of the agricultural credit industry — that of regulator. First as a member of the FCA board and now as its chairman and CEO, I have come to understand more fully the critical role that the System plays in the lives of farmers and ranchers across this country. I have come to appreciate the role that the System has played in the history of agriculture and the important role it must play in its future. I have come to understand the very real threats to the System — not simply the economic challenges but also the political challenges. I can see the importance of the System's reputation for its future. From the battery of questions I

received at the congressional hearing, I realized that it's not enough for the System just to fulfill its mission, it must ensure that Congress *knows* it's fulfilling its mission.

In previous speeches, I have encouraged you to tell your story, and I can see from your website that you are doing just that. You have created several videos that communicate the important role the System plays in agriculture and rural America. The Farm Credit 100 video is particularly effective. It makes two important points: that U.S. agriculture keeps our country strong and that the Farm Credit System keeps agriculture strong. Not many people understand the first point, and even fewer understand the second.

But make sure Congress sees your videos. Make sure they know what your mission is and how committed you are to fulfilling your mission. And make sure they know that it's your public mission that sets you apart from all the other lenders. Most any bank will lend to farmers in good times, but a government-sponsored enterprise has a mission to serve farmers even in bad times. That's what sets the System apart.

I would also like to encourage you to do more of what you are already doing—serving the credit needs of our nation's farmers, ranchers, farm cooperatives, rural utilities, and others who are eligible to borrow from the System. In addition to serving producers with well-established operations, make every effort to serve those without that advantage — those who are young, beginning or small, those who are members of minorities and underrepresented groups, and those who are located in urban areas. As always, you must protect the safety and soundness of your institution, but I encourage you to continue to use your ingenuity to find ways to serve borrowers who might not find service elsewhere.

At the end of the day, it's not how much business you did, it's whether you served your mission. That's what matters to Congress. That's what matters to us. And I know that's what matters to you, too.

We, the regulator, and you, the System, may not always agree on the details, but I know we share the same commitment to agriculture and to the farmers and ranchers of this country.

Best wishes to you for your next 100 years of service to this nation. Thank you.