

**Remarks by
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Good morning. I appreciate the opportunity to be with all of you, and I look forward to a constructive dialogue this morning.

Before we start, I would like to quickly recognize Todd Batta, my executive assistant, who's with us this morning. Prior to coming to FCA, Todd ran the U.S. Department of Agriculture's Office of Congressional Relations and served as one of Secretary Vilsack's senior policy advisors.

I will be brief with my remarks as I would rather have a back-and-forth with you this morning because it's important to me to hear what's on your minds — the good and the bad.

Over the past year, many of you have heard me talk about five key areas that I'm focused on during my chairmanship — confidence, best possible outcomes, all services to all borrowers, partnerships, and structure.

I believe that each of these areas provides an opportunity to strengthen the Farm Credit System and its mission. So this morning I want to briefly provide all of you a little more color on my thought process for focusing on these areas.

Best outcomes

I started my career as a dairyman back in Oldham, South Dakota, in the late '70s and early '80s. This was a difficult period to get into farming. Many friends, neighbors, and colleagues fell on hard times. This wasn't just the case in South Dakota; this scenario played out across the country.

There were thousands of bankruptcies and the displacement of tens of thousands of farmers, ranchers, and rural residents who had to leave rural America to find livelihoods elsewhere.

Seeing the on-the-ground impact of the farm crisis was, in part, what led me to work at the South Dakota Farmers Union. There we worked with producers and their lenders to make sure we could bridge the downturn for those producers who had a good chance of making it when the economy improved. We also had to have tough conversations when it was clear that there were no options left.

In many cases, credit became a substitute for income, which led to bad outcomes. It's my hope we can avoid the tough conversations by identifying troubled borrowers early. Do they have a good business plan? Do they have a good operation? Do they have a good chance of making it when the economy improves?

If the answer to these questions is yes, I encourage you to think about what you can do — within the bounds of safe and sound lending — to help them through their difficulties.

But if the answer to any of these questions is no, then it may be time for a tougher conversation. In the long run, credit cannot be a substitute for income. You don't want to enable a borrower to go further into debt and to deplete their equity if they aren't likely to achieve their goals.

Right now, I think the System is doing a great job in this area.

- Some associations like Farm Credit Services of America, Yankee, and MidAmerica are giving some of their borrowers the option to defer the principal portion of their 2018 payments to help with cash flows.
- Greenstone and some other associations have implemented mentoring relationships, which pair staff with 1980's type of credit experience with younger staff to ensure the best possible outcomes for distressed situations.
- American Ag Credit, Farm Credit West, and others worked aggressively to help their membership deal with the impacts of wildfires. They provided information and updates to staff while the wildfires were approaching and as they moved through the territory. The associations worked with borrowers to deal with insurance claims and get operations back online as quickly as possible.
- Puerto Rico, ACA, was able to meet borrowers' credit needs soon after the hurricane(s) hit — even before FEMA representatives reached them. The ACA authorized deferrals for 30 to 90 days and offered emergency loans during this timeframe. Many other associations provided support to other associations and people affected by Hurricane Harvey.

These are all great examples of associations working to make sure their membership has the best possible outcome. But there are also areas for improvement. For example, our examinations continue to find instances where associations do not provide required distressed loan notices even though they are constructively working with borrowers. This may seem like a little thing, but borrower rights are critically important and required by the Farm Credit Act.

We've also seen a slight uptick in the number of borrower complaints. Nothing drastic, but something to be aware of. With the hyper focus on farm conditions today, it only takes one bad story to paint a negative picture for the System. So I encourage you to continue to dot the "i's" and cross the "t's" and continue to find the best outcomes.

All services to all borrowers

It's no secret that I believe the System's congressional mission involves providing all System services to all eligible, creditworthy borrowers. It's my belief that if borrowers in some territories can obtain rural home loans or ag operating loans, then borrowers in all System territories should have that same access.

In any given area of lending, the System has institutional experts. Utilize this expertise! There are great examples throughout the System where this is happening. Northwest and Farm Credit West have a great partnership to provide rural home loans. Similar, Farm Credit Illinois and Farm Credit MidAmerica have a partnership on country home living loans.

AgFirst Farm Credit Bank continues to offer rural home lending back-office services across System districts.

AgDirect and Farm Credit Express provide most associations with point-of-service financing options for ag equipment purchases.

ProPartners provides point-of-service financing options for operators purchasing farm supplies from their cooperatives and other System farm supply partners.

These partnerships are *exactly* what I mean when I say, “All services for *all* borrowers.”

I believe more can be done to facilitate the cooperative spirit and raise the level of service for all System members. I strongly encourage you to look for ways to collaboratively partner so that the people in your territories can get the services they need.

Partnerships

I had the opportunity to serve as undersecretary for rural development at the U.S. Department of Agriculture prior to coming back to FCA. The agency has an incredible mission. It works hard to improve rural vitality by investing in community facilities, housing, broadband, and infrastructure.

But investments alone are not enough. USDA needs partners. It needs the expertise of the local communities, counties, economic development organizations, and lenders to provide opportunities that allow the next generation to live and raise their families in rural America — rather than migrate to cities for opportunities.

I see an important role the System can play in strengthening rural America. Using your statutory authority to finance rural development projects — especially energy and water projects — you bring equity capital and liquidity to rural America’s countless communities.

Rural business investment companies (RBICs) are a great example of the partnerships. They require only a modest amount of capital. But they can do an enormous amount of good by injecting investment capital to reenergize the rural economy, helping small businesses grow, and strengthening local communities.

The Farm Credit Council has been a leader of the Rebuild Rural Infrastructure Coalition. This partnership of more than 200 organizations is making sure that the voice for rural America’s infrastructure needs is heard. I really commend the System for this work. The farm bill that Congress is currently deliberating also provides an opportunity for your voice to be heard.

Beyond direct investments, I’ve been impressed with operational partnerships within the System.

- System institutions continue to buy and sell participation interests in agribusiness and rural infrastructure loans — providing portfolio diversification benefits.
- Collaborative efforts are happening to attract staff with expertise in capital markets lending. For example, the Commercial Finance Group and the Capital Markets Group are enabling smaller institutions to use purchased participations as a form of credit risk diversification.

- And associations continue to work together in information technology service corporations and other back-office operations to provide a consistent level of service for their members across the System.

One partnership area I would like to see the System improve is with Farmer Mac. This might not be a popular thought with everyone in the room. But I believe Farmer Mac can provide a strong tool for the System to manage credit risk. It's a partnership I would like to see strengthened.

Structure and capital

Earlier this year I said, "The System has been in a constant state of renewal since its inception in 1916. As it continues to evolve, we must evaluate how any proposed change could impact the integrity and cooperative structure of the System. We must look at the operational, managerial, and reputational risks that might result from the change. And we must consider how the change might affect the relationship between the funding bank and its associations."

There have been some very productive discussions between the agency and groups of institutions regarding System structure — particularly regarding the level of capital and the dual capitalization issue. The third-party studies regarding capital have yielded very useful information and prompted meaningful discussion.

But I also believe there needs to be a more robust discussion within the System about where the System is going regarding further merger and consolidation. I believe System institutions need to give careful thought to the implications of all changes in structure. And by System institutions, I truly mean *all* System institutions — not just those contemplating mergers or other structural changes. Again, because the System is a network of institutions, the actions of a few impact all others.

Confidence

There are many things that the System is doing to strengthen stakeholder confidence in the System. I appreciate all the work each of you do to build confidence in the System's brand.

The System's financial position and returns continue to be excellent. I could go through the numbers, but you know them better than I do. All System institutions continue to exceed the new requirements with a healthy margin of safety. Patronage to membership continues to be strong and creates positive press. And there is a strong demand from investors for System debt.

You've all heard me say this time and time again, "It only takes one issue to shake confidence in the System." I know I sound like a broken record. But examinations continue to see standards of conduct issues. Most of these events don't get media attention, but they could potentially detract from confidence in System institutions. We will be issuing an updated standards of conduct proposed rule soon, and I'm looking forward to your comments when the rule is issued.

I've quickly covered a lot of ground this morning. As I said at the top of my remarks. I'm looking forward to hearing from you. Thanks again for the opportunity to be with you this morning.