

**Remarks by
The Honorable Kenneth A. Spearman
Board Chairman and CEO, Farm Credit Administration
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Good afternoon. I appreciate the opportunity you've given me to speak to you today. It's a pleasure to be here.

The Farm Credit System, which my agency regulates, could not fulfill its congressional mission without investors. By investing in Farm Credit System debt, they provide the funds that System institutions lend to farmers, ranchers, and farm cooperatives. Agricultural producers borrow from the System to purchase land, fertilizer, seed, equipment — in short, all of the inputs they need to produce the food we eat every day.

Today I'd like to tell you a bit about the System, what makes it special and what makes it a particularly good investment. But I'd like to start out by telling you a little about my background.

I didn't grow up on a farm—I grew up in an industrial town in northwest Indiana. After serving in the Army, I received degrees in accounting and business and worked for many years as a public accountant. I started out at Arthur Andersen and later helped build a public accounting firm in Chicago.

I later went to work as a controller for Citrus Central, a \$100 million cooperative in Orlando, Florida. It was there that I learned about the many benefits of the cooperative business model. I then moved to another agricultural cooperative, Florida's Natural Growers, where I served as director of internal audit. Since Florida's Natural was a borrower of a Farm Credit System institution, I soon learned about the System and its important role in the agriculture industry.

The System consists of a nationwide network of cooperative financial institutions that lend to farmers, ranchers, and farm cooperatives. Each institution is owned and controlled by its borrowers. This is part of the beauty of the cooperative model. Since the owners and the borrowers are essentially the same individuals, the financial institution is more responsive to the needs of its borrowers and more committed to serving those needs as cost-effectively as possible.

I later accepted a position as an appointed, independent, outside director on the board of AgFirst Farm Credit Bank, one of the Farm Credit System's banks. This experience was valuable because it gave me a new perspective. As an employee of Florida's Natural, I had already acquired perspective as a System borrower. By joining the Board of a System bank, I gained more perspective of the management and governance of a System institution and its important mission to serve agriculture.

After President Obama appointed me to serve on the FCA Board, I gained yet another perspective. It is here, in this position, that I came to understand the critical role that a regulator can play in ensuring the long-term success of an enterprise. The role of a regulator is not one that is widely understood or appreciated.

Although it didn't start out that way, FCA is now entirely separate from the Farm Credit System. As the System's arm's length regulator, we make sure that the System continues to serve the mission that Congress created it to serve — and that is to provide reliable, affordable credit to our nation's farmers, ranchers, and farm cooperatives. To do this, we must also oversee the safety and soundness of the institutions and their compliance with all laws. Being separate and independent from the System allows us to do our job more effectively. Our independence gives us more objectivity.

Our economists work hard to understand the forces at play in the agriculture industry and to predict how those forces can create challenges for System institutions. For example, one of our economists recently issued a report on volatility in the Chinese economy and how this volatility could affect U.S. agriculture exports and, consequently, the farmers who produce the commodities for export and the lenders who finance these farm operations.

Using insights from reports like this, our policy analysts develop guidance that System institutions use to stay safe and sound. Likewise, these reports supply valuable insight for the agency's mission and especially to our examiners as they examine System institutions.

But changes in the agriculture industry not only provide challenges for System institutions, they also provide opportunities. To help them take advantage of these opportunities, we provide them with guidance. For example, we have been watching for the past decade or so the growth in consumer demand for local and organic agriculture. This demand is changing American agriculture.

Yes, we will always need to have farms that produce thousands of acres of grain, but local and organic products supplement and diversify the food supply available to consumers. And this demand for these products has created exciting opportunities for small and beginning farmers, which, in turn, creates new opportunities for lenders.

One of the highest priorities for my term on the FCA Board has been to promote diversity in the Farm Credit System and at FCA. And diversity means a lot of things. It means diversity among individuals — that is, gender, racial, and ethnic backgrounds, but it also means diversity in agriculture. Three years ago, my Board colleagues and I adopted a regulation requiring System institutions to develop business and marketing plans that foster diversity and inclusion in their workforce and in their customer base.

This rule is important because it helps focus institutions on fully meeting their public mission to serve every creditworthy producer who is eligible to borrow from the System — regardless of gender, race, ethnicity, the size of the farm, or the product raised.

Agriculture is no longer strictly a rural enterprise. Recently, I visited a small, organic, urban operation in Austin, Texas. It started out as a garden in a family's backyard and rapidly grew 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. And I know that urban agriculture is also thriving on some of the back lots and rooftops here in New York City.

Hearing about operations like these gives me a tremendous amount of hope for the future of agriculture and humanity. It shows our ingenuity, our ability to adapt to help feed a growing population in a sustainable way.

By meeting the credit needs of this new kind of farmer while continuing to meet the needs of large production agriculture, the Farm Credit System can help solve perhaps the most critical problem facing humanity — how to feed 9 billion people by 2050.

The System, as a government-sponsored enterprise, is the beneficiary of certain advantages in the debt market. However, regardless of its GSE status, the System is strong financially. Further strengthening the System's financial condition is the Farm Credit Insurance Fund, which currently holds \$3.9 billion to protect investors in Systemwide debt. Also, the Farm Credit System Insurance Corporation recently renewed a \$10 billion line of credit with the Federal Financing Bank, which provides additional strength to the conclusion that the System is a safe investment.

The System has enjoyed tremendous financial success. And having the guidance and oversight of a strong, arm's length regulator helps ensure the System's long-term success. Not only do FCA's economists and policy analysts carefully scan the agriculture horizon for risks and opportunities, they also study changes in the banking industry.

One of the lessons learned by the banking industry from the financial crisis that began in 2008 was the importance of capital and liquidity to the safety and soundness of institutions. As a result, regulators around the world are modernizing capital and liquidity regulations to ensure that institutions have the strength they need to withstand economic downturns.

In 2013, the FCA Board updated its regulations to strengthen the liquidity reserve held by the System's four funding banks which issue System debt. Last year, we adopted a proposed capital regulation to govern the Farm Credit System. The proposed rule incorporates many of the elements of the Basel III Accord while taking into account the cooperative business model under which the System operates. My goal is to adopt a final capital rule during my chairmanship of the FCA Board. The revised rule would make the System's capital structure more comparable to other financial institutions. This, in turn, could provide a benefit in the issuance of System debt.

I often tell people that the System is the U.S. agriculture industry's best-kept secret. Most Americans have never heard of it and yet the System's network of lenders represents one of the largest financial entities in the country. At the end of June, its assets were worth \$283 billion. But the real reason the System is the agriculture industry's best kept secret is the contribution it has made to the industry.

The System is our nation's oldest government-sponsored enterprise. Next year it celebrates its 100th anniversary. Thanks in part to the funding that the System has provided to farmers, ranchers, and farm cooperatives, our nation's farm economy has flourished, providing food for our own people and much of the world. Every year since 1960, U.S. farmers and ranchers have exported more agricultural products than our nation has imported. This surplus helps counter our nation's trade imbalance.

This level of productivity was possible in part because the System was available to provide reliable, affordable credit to agriculture producers in good times and bad. Today, the System provides approximately 45 percent of all farm credit. That kind of market share reflects the confidence that borrowers and investors have in the System.

By purchasing debt securities in the Farm Credit System, investors are making a sound investment in their financial future, but they are also making a good investment in the food security of this planet. It's an investment that they can feel good about. I hope they will not only become investors in the Farm Credit System but also believers in a sustainable future for our nation and our world.

Thank you.