

**Remarks by
The Honorable Kenneth Spearman
to the
Farm Credit East Board Planning Meeting
August 24, 2011**

I've been asked to make some comments on the FCA Board's regulatory and policy priorities. Hopefully you will find this helpful as part of your business planning process.

Before I start, I first want to note that FCA takes significant actions upon the vote of our three-member board. It is also worth noting that we now have the most well-rounded board in FCA history, with Jill Long Thompson from a political background, Lee Strom from a farming background, and Ken Spearman from a financial/accounting background. While FCA takes action upon the collective vote its Board members, each FCA board member, appointed by the President, acts independently. This means, among other things, that each board member determines — within the limits of stringent government ethics rules — how best to fulfill his or her duties as an arm's length regulator. This also means that any opinions expressed here today are my own and not official agency views.

For myself, I believe that interaction with System management, directors and customers to understand the full landscape is vital in doing my job. That's why I very much appreciate the opportunity to visit with you today and listen to your concerns and views.

FCA Board Priorities

With regard to agency priorities, in May 2011, the FCA Board adopted a strategic plan for the years 2011–2016. This document reflects input from a broad audience of stakeholders and experts and sets forth FCA's strategic goals and objectives for carrying out its core mission of ensuring a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America. This plan describes the goals, along with specific strategies and actions FCA will take to fulfill its mission. This plan is posted on FCA's website and I encourage anyone who is interested to review it. The FCA measures and reports on its performance goals established in the strategic plan in its annual Performance and Accountability Report, which is also publicly available.

Similarly, the agency's Regulatory Performance Plan, which sets forth the specific regulatory projects FCA is working on and the estimated time frame for completion, is also posted on our website. This plan is revised twice a year and the Fall 2011 plan should be adopted next month.

Strategic Plan

The FCA strategic plan has two basic hallmark goals: first, to ensure that the System and Farmer Mac fulfill their public mission for agriculture and rural areas, and second, to evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac. These goals reflect the FCA Board's commitment to ensuring that the System continues to provide dependable and affordable credit to all of America's farmers and ranchers as well as our commitment to maintaining a robust examination function.

Many of the strategies and actions for accomplishing those goals haven't changed over time. However, our new strategic plan does have an increased emphasis on better use of technology and data so that FCA may more effectively monitor and regulate the System.

In the mission area, this includes enhancing YBS data analysis to better assess System progress in serving this important group of borrowers, as well as identifying further opportunities for continued System performance in this area.

With regard to oversight, improved data collection has been a long-term goal of the agency, and we are stepping up our efforts in working with the System in achieving this goal. We intend to enhance the Agency's use of institution and System-wide loan level data in examination and policymaking, with emphasis on improving the capacity to measure and monitor System-wide collateral risk arising from volatile commodity and land prices. We also intend to leverage improved data through investments in technology, modernized examination tools, and enhanced staff skills to advance the Agency's examination and policy-making roles.

While the Farm Credit System remains fundamentally sound and adequately capitalized, seven associations remain under enforcement actions and a number of institutions remain under special supervision and/or on our watch lists. However, unlike commercial banks, no Farm Credit System institution has failed or been placed under receivership during the financial crisis. I think that fact reflects positively on both FCA and System management and keeping that record intact remains a priority for the agency.

Recent FCA Board Regulatory Actions

I wanted to talk generally about some of FCA's recent rulemaking efforts. Please note that because of the restrictions of the Administrative Procedure Act, I can't really engage in substantive dialogue about any proposed rules.

Recent FCA regulatory action has included a renewed focus on safety and soundness issues: At the May 2011 FCA Board meeting we adopted a final rule lowering general lending and leasing

limit from 25 percent to 15 percent. This is in accord with existing prudent limits used by most institutions already.

At the July FCA Board meeting we adopted a proposed rule on investment management, which follows up on booklet guidance issued last year. The proposed rule is intended to update and strengthen our regulations based on what we learned during the recent financial crisis.

Staff is also working on a related proposed rule on liquidity and funding to ensure continuity of operations in the event of market disruptions. I note that System banks have already voluntarily adopted stronger liquidity standards, maintaining 195 days of liquidity as of June 30, 2011.

We are also working on implementation of Dodd-Frank financial reform legislation. While the System was largely exempted from most Dodd-Frank requirements, FCA is continuing to work with other regulators led by CFTC on rulemaking implementing derivative trading rules. Additionally, FCA – like all other financial regulators – is required to remove all references to credit ratings in its rules. We are currently in the process of trying to identify how to do that in connection with our investment and capital rules and have requested comments from the public on those issues.

Additionally, in April of this year, the FCA board adopted a proposed rule on Operating and Strategic business planning, partly aimed at ensuring that each association incorporates concepts of diversity and inclusion in their business plans, both for internal hiring and for customer outreach. Again, because rules related to rulemaking under the Administrative Procedure Act, I can't go into detail about the content of the rule.

However, I can tell you that we've already received approximately 400 comment letters, the majority of which came from supporters of sustainable agriculture producers. All of the comment letters are posted on our website for public review. Staff is in the process of reviewing the comments, and we anticipate that a draft final rule, that is responsive to the comments, will be considered by the FCA Board sometime later this fall or winter.

Mission Priorities

While FCA's primary purpose is to ensure that the Farm Credit System operates in safe and sound manner, part of FCA's job, unlike commercial bank regulators, 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 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 and 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 non-traditional farmers seeking to capitalize on consumer demand for organic and local foods.

I have a particular interest in the development of urban agriculture and how that movement may effectively supplement traditional food delivery systems. There often appears to be a certain level of apprehension between traditional producers and non-traditional, local and organic producers. However, I think the System has an obligation to support all types of agricultural producers, wherever and however they operate.

So the real question is, is the System meeting its mission of serving the needs of *all* potential creditworthy agricultural borrowers? Part of the answer may also be that it isn’t enough to only “serve” farmers who walk in the door and ask for credit; arguably the System has an affirmative obligation to seek out underserved potential borrowers, which also makes good business sense in the long-term by cultivating a new generation of customers loyal to Farm Credit.

I recognize that with this group, I am essentially preaching to the choir, because Farm Credit East is a recognized leader in this area. I think your innovative Farm Start program should be a model for other associations, and I similarly commend your efforts in supporting local and regional agricultural producers. I also note that one of your former associates, Gary Matteson, is working hard for the Farm Credit Council and is deeply committed to this issue. However, I also recognize that agriculture in the Northeast is different than agriculture in other parts of the country, so each association will be facing different sorts of challenges in this area.

Beyond the proposed business planning rule, which should be considered for final adoption before the end of this year, I am encouraging FCA to continue to study this issue to see what other steps we can take to facilitate System efforts in this area. This may include trying to identify and remove any regulatory impediments to System financing of local and regional producers and enhancements to our YBS rules. Your comments and suggestions are always welcome.

I believe that ensuring the System meets its public mission of serving all creditworthy producers is the shared obligation of every institution and every director in the Farm Credit System. That's why I was very pleased that the FCA Board, as a requirement of the approval of the CoBank-AgBank merger, obligated the new CoBank to support and assist its affiliated associations in their efforts in providing mission service to all eligible creditworthy borrowers.

This will not take any autonomy away from any association in making lending or program decisions. However, I do believe that CoBank, acting in concert with its associations, is uniquely situated to use some of its vast resources to provide its associations with effective support and assistance in fulfilling the mission of the System. I would also hope that CoBank would use Farm Credit East as an example to, and possibly even a resource for, other associations in the expanded CoBank district.

Generally, I think greater System collaboration in this area could be helpful and I continue to urge other Farm Credit banks to also support their associations' YBS and customer outreach efforts.

FCA Mission

I want to talk briefly about FCA's mission, System structure, and how I look at issues that arise. The mission of the Farm Credit Administration is to ensure "a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America."

At one time there were well over 1,000 Farm Credit associations. Today, we are down to 84 associations. However, there is only one Farm Credit System. The System was founded as a way to ensure a dependable and affordable source of credit for America's farmers and ranchers. Local associations were established as an effective means to achieve that end, not as an end in itself.

Therefore, in judging the merits of any further consolidations — or for that matter any other significant changes in the System — I think we need to be able to look at how the System as a whole is fulfilling its purpose of serving all creditworthy agricultural borrowers. I don't think intra-System competition is good for the System as a whole in achieving its mission; however, I do think increased collaboration among associations — finding ways to more effectively serve all of the System's customers and potential customers — is very much in the System's best interest.

I also think that as a regulator, FCA needs to be continually mindful of the impact that our actions have on America's farmers and ranchers and how what we do impacts the System's ability to serve its important public mission.

Conclusion

In closing, I'd like to again thank you for the opportunity to visit with you today and share some of my thoughts on FCA and the Farm Credit System. While there are many challenges facing FCA and the Farm Credit System, I want you to know that I appreciate the dedication, knowledge and expertise of the people of the Farm Credit System and the FCA. I also particularly appreciate the initiative taken by your association to cultivate new and non-traditional customers.

I believe that the Farm Credit System is an important part of the American financial system and plays a key role in supporting rural communities by providing a dependable source of credit to farmers and ranchers. As an FCA Board Member, I will work to ensure that the System remains safe and sound so that it can continue to meet its important mission.

Thank you again for inviting me and I look forward to working with you over the coming years during my term on the FCA Board. THANK YOU and have a good afternoon!