Remarks by
The Honorable Nancy C. Pellett
Farm Credit Administration Chairman and Chief Executive Officer
at the
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Thank you so much for the kind introduction and the opportunity to be here with you. It is such a pleasure to be in Florida in January but also to have the chance to interact with so many of you as you look toward the future and how to better serve agriculture and rural America.

Before I begin my remarks, I want to acknowledge my colleagues on the Board—two outstanding gentlemen who are a pleasure to work with.

Dallas Tonsager has been at FCA now for a little over a year and has been such a tremendous addition to this Board. I know that many of you have had a chance to meet him over the course of this past year and you know that he has a real desire to serve agriculture.

And of course you all know Doug Flory, who means so much to me and has been such a great friend and colleague since I arrived at FCA. And you also know that Doug is a great friend to agriculture and continues to be such a tremendous asset to have on FCA's Board. Doug also provides leadership to the Farm Credit System Insurance Corporation's Board as its Chairman. Both of you please stand so that this body may recognize you.

I am so pleased that the FCA Board is composed of three producers whose primary goal is serve agriculture and rural America. It is indeed a privilege to work side by side and serve as Chairman with these two outstanding men.

This morning I want to discuss three topics. First, I want to briefly summarize some of the regulatory and policy issues FCA dealt with in 2005 and update you on changes we are making at FCA to ensure that we continue to be an effective and efficient regulator as the System moves into the 21st century. Second, I want to talk about our regulatory plans for 2006, and review our regulatory philosophy. Third, since your Horizons project is the primary topic of discussion for you this week, I will say a few words about how the Agency views this important initiative by the System.

Review of 2005

First, I would like to look back at what the Agency accomplished in 2005. I want to report that 2005 was a busy year for us in the regulatory area. We approved several final rules that included revised requirements for capital, preferred stock, and receivership repudiation. We approved a rule to increase the banks' minimum liquidity reserve requirement to 90 days, but also increased the banks' eligible investment limit from 30 percent to the new limit of 35 percent of total outstanding loans. Regarding borrower rights, we are now allowing borrowers to waive their borrower rights when receiving a loan from a "qualified lender" as part of a loan syndication transaction with a non-System lender that is not required to provide borrower rights. In addition, the Board approved a proposed rule on termination to clarify and improve the procedures to be followed if an institution decided to terminate its status as a System institution. We also authorized a one-time increase in System bank director compensation. With changes in governance and director liability and risks, and increases in non-System bank director compensation, an adjustment was needed to ensure fair compensation to attract and retain the quality and level of expertise needed to ensure safe and sound operation of System banks.

Finally, on January 6th, the FCA Board approved a final rule on Governance. I know that this rule is of great importance to you, as was evident by the several hundred comment letters we received on the proposed rule. We listened carefully to your comments and concerns. Our staff worked hard to refine and improve the final rule and make adjustments where we felt improvement was needed.

As a result, the final regulation represents an efficient and cost-effective regulatory approach tailored to the System's unique cooperative structure. We believe the rule is necessary to ensure accountability that is key to safety and soundness. Although the rule is preventative medicine for the Farm Credit System, which has had no governance crisis, it is appropriate in light of problems that have arisen in publicly traded companies and even other GSEs. Many of you have already voluntarily implemented governance practices, but we believe there should be governance standards to which all institutions must adhere. We believe these minimum standards are for the ultimate good of the System, its success, financial strength, and perhaps even its long-term survival as a cooperatively structured GSE.

In addition to these regulatory changes, as Chairman I continue to emphasize several initiatives including better communication, Investments in Rural America, and a continuing focus on YBS. On the communication front, we believe we are making steady improvements. Progress made in this area ranges from getting news out more quickly to you via email to a new web site that will allow us to communicate better. We continue to make staff available to you for System institutions' meetings addressing various issues. Most importantly, FCA staff will continue to work expeditiously to reach good policy decisions, and we will be as responsive as we can be within the letter and spirit of the law.

Most of all, FCA and you in the System are listening to the needs of agriculture and rural America. This is borne out in the Investments in Rural America pilot programs that you are creating. It has been a year since the Agency issued guidance and you began to focus more carefully on mission-related investments. We have and will continue to evaluate your proposals and will continue to apply appropriate conditions to ensure your safety and soundness and to ensure that the proposals help you fulfill your mission. I'm encouraged to see the System's progress thus far on these pilot programs. Some have even gone so far as to strengthen service to young, beginning and small farmers. Through this program, for example, this year the FCA Board was pleased to authorize an institution to make investments under a program that complements its YBS program by serving the unmet needs of starter farmers for investment capital. These types of programs truly are mission accomplishment, and the YBS statistics on the System as a whole bear out your ongoing commitment to this group. During 2004, nearly 60 percent of the number of farm loans made by the Farm Credit System was to borrowers classified as small farmers. Loans made to young farmers represented 16 percent of all loans while loans made to beginning borrowers represented 20 percent of all loans. For all three categories, the number of loans has been increasing over the last few years. I want to commend all of you for your commitment to YBS programs and to strengthening diversity within the Farm Credit System. An industry that fails to bring in the young, new, or diverse will soon lose its vigor and competitive edge. And I would draw your attention to the last word – diverse – which is particularly appropriate to note on this day commemorating Martin Luther King's contributions to our country. Evaluating YBS programs will continue to be a high priority at the Agency as the challenges of moving new entrants into the mainstream of agriculture becomes more complex and more challenging.

Changes at FCA

Now, moving to the Agency, most of you have heard about some of the changes we have begun to implement. Two overriding principles that I stress to Agency staff are "effectiveness and efficiency." As CEO, I want to ensure that we are being good stewards of the funds provided to us. We are aware that over the next decade, you will respond to changes in agriculture, the lending environment and rural America as a whole. Strategically, we must be prepared to regulate a Farm Credit System that will be vastly different in ten years than what it is today. Earlier this year, in an effort to remain a strong, effective arms-length regulator that the System needs in the future, we commissioned several studies to help us more clearly identify challenges and how best to address them. Since completing these studies last summer, we have made changes in leadership within FCA to ensure we have the right people in the right places. With these changes, we believe we are raising the bar for excellence in regulation and examination.

In addition, in 2005, the FCA Board acted unanimously to update its examination philosophy statement. As a result, the Office of Examination has changed its structure to better examine and oversee risk of the System from a national perspective yet maintain a local presence to ensure improved communications and productive relationships. As the System changes, so will its risk profile, and our oversight and examination activities must be flexible enough to deal with those changes. Our programs must be more pro-active and must ensure that FCS institutions have appropriate governance, strong management systems and internal controls in place long before any risks would threaten or impact your financial statements.

Although this transition in the Office of Examination may produce some "growing pains," we are confident that greater use of technology, improved communications, and a pro-active oversight philosophy, will make our examinations more effective and efficient. As a practical matter, examination resources will now be allocated to institutions and matters of highest risk or potential risk to the System at large. We believe that this proactive approach to oversight and examination is critical to maintaining shareholder, investor, and public confidence in the financial strength of the System in the years ahead.

Regulatory Outlook

Regarding the regulatory outlook for 2006, we plan to address some important policy issues including regulatory burden, scope of lending, disclosure and reporting, and how we assess System institutions for Agency expenses. Let me reiterate that while we will not be unreasonably prescriptive, we will remain focused on our primary mission, which is to be the regulator that keeps the System safe and sound.

In 2005, the FCA Board unanimously approved a policy statement that lays out our regulatory philosophy. So in 2006, we will focus our regulatory efforts on issues that address identified risks in System institutions or enhance the ability of System institutions to better meet the needs of agriculture and rural America. We will continue to enhance our dialogue with you and the public as we develop policy so that there can be a greater exchange of information on these issues. We intend to keep the communications door open at all levels of the Agency, and we also welcome ideas and suggestions for improving the process.

We also will continue to emphasize the cooperative principles of the farmer-owned GSE by advancing regulatory proposals that encourage farmer- and rancher-borrowers to participate in the management, control, and ownership of their institutions. And finally, we will work to eliminate unnecessary regulations that impair the System's ability to accomplish its mission to serve agriculture and rural America and any regulations that are unduly burdensome or costly. The Board and Agency will continue to adhere to this regulatory philosophy as we move forward in the new year.

Horizons

Finally, let's talk about the Horizons project: This is the primary topic of discussion for you this week, and, as many of you have heard me say, I believe this is a very important endeavor and I commend the System for undertaking it. Agriculture and rural America need uninterrupted access—through good times and bad – to a stable and competitive source of credit. The Farm Credit Act itself declares that the Farm Credit System is meant to "accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations."

As a GSE dedicated to farmers, ranchers, and their cooperatives, the Farm Credit System must continually re-evaluate whether, given changed conditions, it is still fulfilling its mission to serve the credit needs of agriculture and rural areas. We see your Horizons initiative as an important step in ensuring that the System remains relevant in providing credit and financially related services that best meet the ongoing needs of farmers, ranchers, and rural America.

It appears to us that the Horizons project evaluation process has been thorough and has helped develop better relationships among FCS institutions and other entities in agriculture. As you well know, the System's cooperative structure and unity is key to your future success and your cooperation in this project will ultimately mean that you will carry out your mission even better than you are now.

Your structure allows each association to operate and perform with maximum flexibility to meet the different needs and conditions of your areas. And yet you have focused on your similarities and mutual needs in this project with the goal of solving problems and challenges and developing opportunities. You have focused on the positive and I commend you for that.

My colleagues on the FCA Board and the Agency staff look forward to reviewing the Horizons report. As the scope of your effort takes shape, one must realize that this is a major undertaking that will unfold over the next few years. As potential regulatory and legislative changes are considered, FCA and System institutions must focus on the ultimate benefits that they might offer farmers, ranchers, and rural America. I am sure that each of you will make the most of the opportunity Horizons provides to demonstrate to policymakers at the federal, state, and local levels the changing conditions agriculture is operating in today and the importance of the Farm Credit System to agriculture and rural America. As the System demonstrates the difference your recommendations will make for the farmers, ranchers and others whom you are charged with serving, I'm confident that your Horizons project will achieve lasting success.

Conclusion

In closing, I would again like to say what an honor it is to serve President Bush as Chairman of the Farm Credit Administration. Each of us is here today because we share a common interest in seeing farmers and ranchers thrive and prosper in this increasingly competitive global marketplace. And so, I am energized as I talk to each of you and I hear about the opportunities you see for the Farm Credit System to strengthen agriculture and rural America, which is so important to our nation as a whole. As your regulator, we will continue to do our part to ensure the safety and soundness of the Farm Credit System. However, it may be that the spirit of cooperation and unity that you foster here today and in 2006 may make the most difference in improving your institutions and accomplishing the mission that Congress set out for you.

Thank you for inviting me to be here as you look towards a bright future and I look forward to seeing your continuing service to agriculture and rural America in 2006.