

**Remarks by  
The Honorable Leland A. Strom  
AgriBank FCB Annual Meeting  
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Thank you for that very nice introduction, and good morning to all of you. I appreciate the opportunity to be here with you today, and I especially want to thank Tom Klahn and Bill York for the invitation.

It's a pleasure for me to return to the AgriBank District where I've spent so much of my life as a farmer, a System borrower, an association director, and a Bank director. Now, I feel humbled and honored to serve in my new role as the Chairman of the System's regulator. I am also honored to serve on the FCA Board with two very distinguished colleagues – Nancy Pellett and Dallas Tonsager. Both Nancy and Dallas are so dedicated to agriculture and have been of tremendous service to the Board and FCA.

Since I became FCA Chairman nine months ago, so many things have happened so quickly. Some of the world's largest financial institutions have failed. Fannie Mae and Freddie Mac have been taken over by the Government. And the Government has provided, and is poised to provide, unprecedented financial assistance to help end the crisis. As we have just seen in the past couple of weeks, the Government has provided even more assistance to CitiBank and AIG. Who could have imagined the extent and pace of all of these changes?

As President Obama said in his inaugural address a few short weeks ago, these are difficult times. He referenced the "winter of our hardship," and said that we need to "pick ourselves up and dust ourselves off." Today, the United States and many other countries are in the worst financial crisis in 75 years.

Until recently, this crisis was limited to the housing sector and the financial markets tied to it, predominantly that of Fannie Mae and Freddie Mac. This and the failure of many other financial institutions have undermined the confidence of Wall Street and produced a credit crisis that few could have predicted.

In response to this crisis, Congress and Federal officials have taken unprecedented steps to rescue financial institutions and restore order to credit markets.

They created the \$700 billion Troubled Asset Recovery Program, commonly referred to as TARP. So far, this program has been used to inject money into struggling institutions in an effort to stabilize markets.

The Federal Government has also provided more than \$8 trillion in "pledges of support."

And while this assistance is intended to help end the crisis, the assistance has in itself presented a challenge: It has produced greater uncertainty, making it much more difficult to predict what will happen next, when the eventual turnaround will come, or what consequences the recent and future Government actions may bring.

At the Farm Credit Council Annual Meeting in January, I noted the agricultural industry has been largely spared the effects of the current financial crisis. The financial condition of agriculture continues to look quite positive. Farm income is strong and debt ratios are low. For this we can be grateful.

But as I said in January, the overall numbers don't reflect the pressure of increasing input costs, which have plagued livestock (especially dairy and poultry) and ethanol producers. And increasing input costs may soon trouble other producers as well if commodity prices continue to soften. Grain prices, which reached historic highs in the summer of 2008, have dropped substantially. If prices stay at these levels, this may hurt the profitability of grain farmers this year.

We have seen a severe downturn in our overall economy, including tremendous losses of net worth by individuals due to the falling values of residential real estate, stocks and other assets. In light of the distress in our overall economy, can we expect the agricultural economy to continue to be spared the effects of the financial crisis?

The possibility of a decline in farmland values is very real. In fact, we have already seen declines in real estate values that were inflated by high commodity prices, urbanization, and other non-farm influences.

Also, the current recession is expected to cause unemployment rates to rise significantly over the next several quarters. These conditions will likely lead to lower off-farm income, an important source of loan repayment for many System borrowers. This recession is also global and likely to affect worldwide demand for agricultural products.

Fortunately, the Farm Credit System remains safe and sound. The System is financially strong and well positioned. It has good credit quality, adequate capital, strong earnings, and sufficient liquidity.

Yet with so many threats to agriculture and the general economy, the System does face risk. It faces risks to its credit, capital, liquidity, funding, and overall operations.

The System may also face new challenges and opportunities. For example, how do the policies of the new administration, such as the emphasis on a greener economy, affect agriculture and your institutions? There are likely new opportunities as well as risks involved in pursuing these policies, just as we've seen more recently with the ethanol industry.

As the leaders in the AgriBank District, you have the daunting task of navigating your institutions through this tumultuous period. I urge you to be prepared and to be proactive.

As the regulator of the System, FCA is committed to helping ensure the safety, soundness, and strength of your institutions. We have demonstrated this commitment by our recent actions.

For example, we are working with other financial regulators to raise their awareness of the impact of their actions on FCS institutions. Late last year, Jamie Stewart of the Funding Corporation and I met with Donald Kohn, Vice Chairman of the Federal Reserve Board. I also met with Sheila Bair, Chairman of the Federal Deposit Insurance Corporation. Since then, FCA staff has had follow-up contacts with staff at the Fed and FDIC, as well as regular contacts with Treasury, to further enhance our communication and to improve their understanding of the System and FCA.

And last November we adopted a Market Emergency Standby Resolution. This resolution will go into effect only in the event of a serious market disruption. It would temporarily allow Farm Credit banks to fund their assets with short-term liabilities even if doing so would cause the liquidity reserve of one or more System banks to drop below the 90-day minimum requirement.

We also increased the System's discount note ceiling to \$60 billion from \$40 billion to give it more flexibility to raise funds if financial markets are not open to term debt.

To support market access at competitive rates, we have maintained close contact with the Funding Corporation and the Farm Credit banks.

Throughout 2008, we provided guidance to System institutions. We issued Informational Memorandums addressing such issues as collateral evaluation requirements and asset growth, market volatility, and best practices for fast-growing institutions.

Just last week, we issued an Informational Memorandum regarding changes we have made to the Agency's Financial Institution Rating System (FIRS). In our desire to maintain a strong examination and supervisory program, we have revised the factors and related examination guidance used in the FIRS to better reflect the conditions and environment in which System institutions currently operate.

For example, the FIRS guidelines have been revised to place a greater emphasis on risk management and other factors that affect the safety and soundness of System institutions.

These are a few of the specific actions we've already taken. I'd now like to discuss the three objectives I see as key to meeting the challenges of this crisis. As we move forward, these three objectives will be the focus of FCA.

First, the Agency's overriding objective must be to maintain the safety and soundness of the Farm Credit System. We are required by Congress to ensure that the System can adequately serve its public purpose and mission-related responsibilities. To do this, we must maintain strong examination and supervisory programs.

To ensure that we can provide the proper supervision and oversight of the System and Farmer Mac, we are increasing our examination staffing levels and staff resources. As a result of our increased focus on examination activities, you can expect to see our examiners more often – they will be spending considerably more time on-site in your institutions. They will be performing more loan reviews to test your credit risk controls and your internal credit review.

Last November, FCA Chief Examiner Tom McKenzie sent the System information outlining our "National Oversight and Examination Program for FY 2009." One of the areas dealt with stress testing, which I think is a key issue in dealing with this riskier environment. For example, have you stressed your portfolios to determine who is going to be hit first and the hardest from this drop in farm income?

In short, it is critical for the Agency to continue its tradition of being a strong and independent safety and soundness regulator. The bottom line is we must ensure the System remains safe and sound and meets its mission, especially in the current environment.

The Agency's second objective is to focus on establishing the right level of regulatory capital for Farm Credit System institutions. Along with liquidity and earnings, capital is a fundamental underpinning upon which the System's safety and soundness is built. Appropriate capital levels provide the foundation for maintaining strong liquidity and earnings positions.

In 2008 we conducted a series of detailed informational meetings as part of the Advance Notice of Proposed Rulemaking on possible regulatory changes to the System's capital rules. Our goal is to enhance the System's capital framework and more closely align minimum capital requirements to risks taken by System institutions. The Agency extended the comment period on this rulemaking action to December 31, 2008, and we will continue to pursue it in 2009.

And, finally, our third objective is to ensure that the System continues to meet its public policy purpose and mission-related responsibilities. For example, we will continue to encourage the System to serve young, beginning, and small farmers. We will carefully consider the Rural Community Investments rulemaking effort. And we will encourage System institutions to develop partnerships with other financial services institutions.

By focusing on these three objectives, I am confident that FCA can provide the System the guidance and support it needs to meet the challenges of this financial crisis and the needs of rural America.

But the System faces one challenge I haven't mentioned yet – regulatory and financial marketplace reform. The financial landscape has changed, perhaps forever. The Farm Credit System may be in a period of extraordinary strategic risk that could threaten its long-term GSE value, its mission, its structure, and its oversight as a separate GSE.

As a result of the financial crisis and the loss of confidence in financial institutions, there will be greater scrutiny of GSEs and their financial regulators.

This greater scrutiny and reform could even affect entities that have been doing things right – such as the Farm Credit System. Therefore, it is important that you be prepared to strategically respond to this challenge.

Of course, keeping the System safe and sound will go a long way toward maintaining investor and borrower confidence. This confidence may in turn help Congress recognize the value of the System continuing to fulfill its mission as a separate GSE.

And the System's survival and eventual triumph over the crisis of the 1980s is in itself a powerful argument to preserve the System and its status as a GSE.

The '80s were certainly hard times for the System. Like many of you, I was on an institution board during that crisis and witnessed firsthand just how rapidly conditions can deteriorate. I was amazed at how quickly we went from the best of times for agriculture in the early 1980s to the worst of times by the late '80s.

Then, over the ensuing two decades, System leaders restored it to financial health and built capital levels and investor confidence. I should add that FCA played an important role in this recovery, too. With its new authority as an arm's length regulator, FCA was able to ensure that System institutions adhered to safety and soundness standards. And the establishment of the Farm Credit Insurance Fund also greatly helped restore investor confidence.

Both the System and FCA learned much during the crisis of the 1980s, and those lessons helped build a much stronger Farm Credit System, as well as a more effective regulator.

Our experience in overcoming that crisis will guide us and keep us strong through the current crisis.

Before I close today, I'd like to briefly touch on one other issue. As you may have seen a couple of weeks ago, I sent a memorandum to all FCS Institution Boards communicating some of my thoughts on Executive Compensation and Benefits Programs. In light of the recent Government and public outcry over excessive executive compensation packages, I felt it was appropriate for me to comment about this issue. Further, the Farm Credit Act of 1971, as amended, requires FCA's examinations of banks to include an analysis of CEO compensation and employee salary scales.

I fully support executive compensation programs that reward success and retain outstanding talent, but I think it is important to also be mindful of the current business environment as well as the potential perception by the public and Congress. I urged boards to carefully consider all of the issues, such as performance and retention, appropriate long-term and current incentive compensation, benefits packages, and concerns of your cooperative membership. I further suggested fully quantifying and understanding both the near-term and long-term expenses and financial consequences associated with the entirety of the executive compensation program and benefits. And, as always, the importance of paying particular attention to any potential reputation risks as a GSE.

### **Conclusion**

I'll conclude today with this: It is in times such as these that the System, as a GSE devoted to agriculture and rural America, must continue to stand tall in the marketplace and be there for America's farmers, ranchers, agricultural cooperatives, and rural communities.

In fact, the System has already done much to help producers and rural America. During the extreme commodity volatility of early 2008, System institutions stepped forward to meet the critical financing needs of the grain elevator industry. The System also helped borrowers impacted by floods, worked with livestock producers as they made difficult choices, and made critical infrastructure projects possible through innovative bond financing.

In all likelihood, the financial markets will continue to be in turmoil for some time. I am confident, however, that the Farm Credit System will successfully navigate through these difficult and uncertain times and, in the end, will be all the better for it.

My one piece of advice is to prepare yourselves for the challenges ahead. Don't be reactive, be proactive.

Remember what we learned from the 1980s. Agriculture can change rapidly—from feast to famine and eventually back to good times again. Let the knowledge and wisdom you gained from the hardship of the '80s crisis help you chart a course through these very difficult times.

And know that, as your regulator, FCA stands ready to work with you to help you meet these challenges.

I have seen and witnessed much over the years as a farmer, as a System borrower, and as a System director. Today, as the Chairman of the System's regulator, I will strive to work with you

in maintaining the safety and soundness of the System while it continues to meet its mission as a GSE to better serve agriculture and rural America in the decades to come.

Again, I appreciate the opportunity to be here with you.