

**Remarks by
The Honorable Leland A. Strom
Chairman and CEO, Farm Credit Administration
AgFirst Farm Credit Bank Annual Meeting
Orlando, Florida
June 25, 2012**

Good morning and thank you for that kind introduction.

I would like to thank Chairman Wayne Lambertson and the AgFirst Board for the invitation to be with you this morning at your 2012 annual meeting.

I want to first recognize a gentleman who is no stranger to this district, my board colleague Ken Spearman, who is in attendance here today. As you know, Ken chairs the Insurance Corporation Board and provides great leadership in that role along with his thoughtful commitment as an FCA Board member. I would ask Ken to please stand and be recognized.

I would also like to recognize the FCA and Insurance Corporation staff back at the office and in the field, who continually dedicate their efforts to the successful operation of the Agency. Late last year, it was an honor for me to receive on behalf of the Agency, its first-ever recognition as a "Best Places to Work in the Federal Government," awarded by the Partnership for Public Service. This was a significant award for the Agency.

I want to also say at this point, early in my comments, that over the history of my involvement in the Farm Credit System, which began with my first loan in 1978, and first election to a board of directors in 1981, I have had the honor of working alongside so many fine individuals. But I need to say a special word about AgFirst's retiring CEO, Andy Lowry, who has been one of the foremost leaders, not only in this district, but across the System during his long career. A true gentleman with professionalism unmatched, he has earned the greatest respect and will long be remembered for his contributions to the agriculture industry. Andy, I wish you and your family the very best as you enter this next chapter of your life.

As is typical of my previous opportunities to be with you as FCA Chairman at your annual meeting, I plan on sharing a brief update of the condition of the System and of current issues on the Agency's regulatory schedule.

Because the end of my six-year term arrives later this year and this may be my last address as FCA Chairman to this meeting, I plan on spending the last few minutes sharing some personal observations of the future for the System.

First, an update on the System:

The Farm Credit System remains fundamentally safe and sound and is well positioned to withstand the continuing challenges affecting the general economy and agriculture.

As of the end of the first quarter, System assets totaled just over \$230 billion with loans outstanding of \$179 billion. Almost 93 percent of System loans outstanding were rated “acceptable,” compared with just over 90 percent a year ago. Nonperforming loans are down 16 percent from a year ago and equal just 1.7 percent of total loans outstanding, both positive signs.

While the outlook for agriculture remains favorable in 2012, volatile commodity prices and weaknesses in the general economy have increased the risk for certain agricultural sectors such as the livestock and ethanol industries. Conditions for housing-related industries continue to be very challenging. As a result, some deterioration in System asset quality is possible, with certain System institutions more adversely affected than others.

Although agriculture, nationwide, has been very profitable the last couple years, the good fortune has not been shared uniformly. The housing bust associated with the Great Recession hit some parts of the country much harder than others. The AgFirst District was affected more than other parts of the System because of its exposure to housing-related industries, such as timber, nurseries, and sawmills, and these effects will likely persist until we see a much improved housing sector. Poultry has been another troubled industry over the past few years and has challenged System lenders across the country.

Although profit margins in the broiler sector have improved recently, uncertain economic conditions globally, combined with volatile feed costs, make for a risky operating environment for poultry producers going forward.

The AgFirst District has also had significant weather challenges. Despite the big rains that fell recently in the Southeast, there are still conditions that range from abnormally dry to extreme drought in large parts of Alabama, Florida, Georgia, and South Carolina.

While overall the Farm Credit System remains financially sound, the risk profile for some individual System institutions is elevated, requiring a greater level of supervision. Factors contributing to increased FCA supervision include broad external influences, such as adverse general economic conditions, ongoing weakness in specific agricultural sectors, and rapid changes in the risk environment for agriculture.

Also contributing are institution-specific issues, including weaknesses in loan underwriting, inadequate risk identification, internal control and reporting deficiencies, inadequate board oversight and governance, ineffective management, and violation of laws or regulations.

As of June 1, there were 15 institutions subject to heightened supervision, with eight institutions under enforcement or pending enforcement actions and seven institutions under special supervision or pending special supervision. Of these 15 institutions, eight are in the AgFirst District. In total, the 15 institutions represent less than 4 percent of total System assets.

We recognize the significant economic challenges that some associations have experienced and the impact on loan portfolios. We also recognize the efforts that boards and management have made to address the problems and restore the financial strength and performance of their institutions. We look forward to working through the remaining challenges and moving to a successful track into the future.

I'll conclude with saying that, even though the overall picture for agriculture remains strong, especially in the Corn Belt states as evidenced by the continued acceleration of land prices to record levels, everyone involved needs to "exercise extreme caution" because, in this volatile global environment, fundamentals can change quickly.

Now let me give you a brief regulatory summary:

In April, the FCA Board adopted requirements for System institutions' business plans to incorporate marketing and human capital plans that address diversity and inclusion within the institution's marketplace and workforce. We will continue to promote the principles of diversity and inclusion, not only because it's the right thing to do, but also because of the significant opportunities it provides the Farm Credit System in fulfilling its mission of supporting the future of agriculture in America.

In December 2011, the FCA Board approved a Proposed Rule on Senior Officer Compensation Disclosure and Related Topics. As was reflected by the significant number of comments received, particularly on the provision for a nonbinding advisory vote, we are aware of the System's interest in this area. Our plan is to consider a final rule in September.

Later this summer, the FCA Board plans to consider final investment management regulations. Coming up this fall, we plan to consider final liquidity and funding regulations and several proposed investment-related regulations.

Staff is working with other regulators to develop a final joint regulation on margin and capital requirements for uncleared swaps. Depending on the outcome of an international policymaking effort intended to harmonize international policy, work on a final rule may be completed by the end of the year.

We are also reviewing the proposed Basel 3 capital rules issued recently by U.S. bank regulators. FCA intends to propose similar rules by early next year.

During the past year, FCA gave final approval to several corporate actions, including the CoBank-U.S. AgBank merger, which included the most comprehensive review ever conducted by the Agency. FCA continues to closely monitor the progress of the merger.

Other Items

We continue to work with the System to improve the quality and consistency of the FCS Loan Database, as well as to address issues with shared-asset data. In our Fall 2011 Unified Agenda, we included a rulemaking project to consider minimum regulatory FCA data needs for evaluating risk in System loan portfolios. This is a very important ongoing project for both the Agency and the System. If a time came that the markets demanded quick answers to risk-related questions that the System could not provide, an outcome could be significantly higher cost to the System in selling its debt obligations.

Agency Operations

As a forward-looking, risk-aware agency, we are always looking to the future and preparing for change. For example:

- We continue to hire new talent to replace our retirement-eligible workforce.
- We are adopting new technologies that will help us be more effective in risk identification and build further efficiencies.

Young, Beginning, Small/Local Foods Sector

As you know, service to all creditworthy farmers and ranchers has been a theme in my speeches for the past couple of years and is an important subject to me. Service to the all of agriculture is integral to serving the next generation of agricultural producers—those who produce a commodity product and market to the elevator and those who market their products directly to the consumer, known as the local foods system.

In many instances, loans made to the next generation of agricultural producers are made through your YBS lending programs. It is for this reason, as well as compliance with law and regulations, that the Agency takes a particular interest in the development and implementation of your YBS programs.

The Agency annually receives YBS information from you through our YBS questionnaire. I would like to make a couple of observations from AgFirst associations' responses to this year's questionnaire. In it we asked what tools associations use to assist YBS farmers and ranchers in meeting creditworthy standards to make safe and sound loans as required by our YBS regulation. These tools may include underwriting standards tailored to the characteristics of YBS farmers as well as tailored loan terms and fees. Loan guarantees are another such tool. The questionnaire responses told us that the number of AgFirst associations using these tools, with the exception of FSA guarantees, is low. But AgFirst associations did report that they made

loans to first-generation farmers and to farmers engaged in marketing their agricultural products directly to the consumer this past year.

I have recently had the pleasure to meet with farmers who operate within the direct-to-consumer or local food system. These farmers have demonstrated to me that many are operating viable farming operations that are creditworthy. Many of these farmers could benefit from the use of YBS-specific loan-making tools. The result could be better mission service to this important and growing market segment.

FCA staff, led by the recently appointed Special Advisor for YBS and Local Food Systems, analyzes the System's YBS lending performance and recently reported those results to the FCA Board. We noticed in the report that AgFirst associations make a significant amount of loans to small farmers. We also noted that the share of lending to young and beginning farmers declined last year, not dissimilar to the declines Systemwide. As the System continues to advance the congressional mission to serve the credit needs of YBS farmers, we continue to monitor the lending activities within the System.

Farm Bill Update

This past Thursday, June 21, the Senate passed the 2012 Farm Bill by a vote of 64 to 35. Notable changes in the commodity title are the elimination of direct payments, counter-cyclical target price payments, and the ACRE revenue program. The Senate bill replaces them with the Agriculture Risk Coverage (ARC) program for covered crops, except cotton, which has its own program. The bill retains the Marketing Loan Program, but it contains major changes to dairy policy.

Many of the 35 votes against the Farm Bill were cast by southern senators who object to the bill's new commodity provisions. The provisions rely more heavily on crop insurance to provide a safety net for farmers, and these senators believe these provisions will not provide sufficient protection to farmers who produce southern crops, particularly rice and peanuts.

Meanwhile, House Agriculture Committee Chairman Frank Lucas announced that his committee will begin to mark up its version of the Farm Bill on July 11. Chairman Lucas has expressed concern that the Senate's commodity title lacks balance and has indicated the House Farm Bill will include provisions that better suit southern commodities. Needless to say, a lot happened last week, but the outcome is far from certain.

Personal Observations

As many of you probably are aware, the Farm Credit Act allows for one six-year term for a person to serve on the FCA Board. As I mentioned in the beginning of my comments, the end of my term is approaching later this fall. It is hard for me to realize how quickly those six years have gone by. Having spent virtually all of my working life connected to the System in some form, beginning as a borrower 35 years ago, to being the Chairman of FCA these past four

years, time and roles have afforded me an interesting perspective as I look to the System's past and future.

During the past 35 years, I have seen and been part of the best of times and the worst of times in the agriculture industry. The boom times of the late 1970s were met head-on with the crisis of the 1980s, which was brought on by a number of factors.

Having been elected to a PCA board in 1981, I took part in the important and many times difficult decisions boards of directors had to make. As directors, we set about the long and arduous task of rebuilding and restructuring.

This story is filled with grit and determination by so many in the System and the agriculture industry. As I stand here today, I can see the faces of leaders—both board and management, past and present—who played such significant roles in shaping the System's road to success.

Since the low point for the System and the agricultural economy in the mid-1980s, the focus of System leadership was on building stronger institutions. Earnings were used to build capital, in addition to building the Insurance Fund and repaying the financial assistance, including interest.

Today, the agriculture industry and the Farm Credit System have arrived at their most healthy and profitable place in their history. In 2011, the System reported record net earnings of nearly \$4 billion dollars.

The System is well capitalized and has a fully funded Insurance Fund, a major achievement of the past 25 years. Now that they are in a much better financial situation, I applaud some of the recent actions by institutions to become better corporate citizens. But there is still much that can be done to help build a secure future—not only for those already involved in agriculture, but those yet to come.

So I leave you today with these thoughts and observations, which I believe will be the basis for the success of the System into the future.

First, given the events of the global financial crisis of the past four years, and the responses to dealing with them, the System will continue to be challenged as a GSE, with its own independent arm's length regulator, to differentiate itself from others and their recent practices.

Second, with the System today being financially stronger than at any time in its history, System leadership will need to constantly consider its stewardship of the benefits of GSE status.

And finally, with the continued consolidation of commodity and livestock production agriculture, and the continuing emergence and growth in new areas of agriculture production, like direct-to-consumer, how will the System continue to meet its mission of serving all of agriculture in the years to come?

I look forward to continuing to work with my colleagues on the important matters before FCA this year. I wish the System well now and in the future. When I depart the Agency, I will leave with a confidence that all of our efforts have secured a bright future for agriculture and rural America.

Thank you.