Remarks by
The Honorable Jill Long Thompson
Board Chair and CEO, Farm Credit Administration
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Good morning. It's a pleasure to join you again this year for the Farm Credit Council Annual Meeting. Thank you so much for this opportunity.

I am privileged today to recognize my two Board colleagues, Ken Spearman and Lee Strom, as well as FCA senior staff who are here. And it is always a pleasure to acknowledge a long-time friend, Ken Auer.

You will recall when I spoke at your annual meeting in San Diego last year I shared with you my strategic priorities for the year. I am pleased to report that we have made good progress in meeting those objectives.

And I would like to update you on one of them in particular this morning—the capital rule. This rule has been a priority of mine since I became Chair. To serve the System's mission, it is critical that each of your institutions maintains an adequate level of capital—not only when times are good, as they are now—but also when agricultural conditions aren't good for the farmers and ranchers in the territories you serve.

Therefore, this rule is key to maintaining the safety and soundness of System institutions and their capacity to serve the System's mission. In addition, we want our rule to be consistent with Basel III criteria and the capital rules of the Federal banking agencies. However, as we work through the many issues related to the rule, we also recognize that we must consider that the System, as stated in the Farm Credit Act, is a "farmer-owned cooperative."

Although there is still much work ahead, I am confident we will have the proposed rule ready for FCA Board consideration this spring. In our rulemaking, it is important that we not only "get it right," but that we do it expeditiously. We have an obligation to do all we can to keep uncertainty to a minimum.

Having spent more than a few years on a farm, I know of only one constant in production agriculture. And that is change, which creates uncertainty. Growing up on our family farm in northern Indiana, at an early age, I was helping with the milking, livestock feeding, and other farm chores. Just like our neighbors, we had a little bit of everything back then—grain, cows, hogs, and chickens.

Compared to our farm today, our operation was small. I remember when we got a four-bottom plow and we thought we had made it big. Today, we don't even have a plow.

Agriculture has changed so much since then. One of the biggest changes over the past half-century has been the increase in yields. As you know, thanks to bigger, more sophisticated farm machinery, pesticides, commercial fertilizers, advances in genetics, and—most recently—precision agriculture, yields have risen tremendously.

In 1960, when I was very young, the U.S. average yield for corn was about 55 bushels per acre; in 2009, it was almost three times that amount. For soybeans, the average yield was about 24 bushels per acre in 1960; by 2009, it was around 42.

The increase in agricultural productivity has greatly increased the number of people we can feed. In the 1960s, one farmer could feed about 26 people; today, one farmer can feed 144.

As a result, the cost of food to the consumer has declined greatly. We spent about 17 percent of our disposable personal incomes on food in 1960; now we spend less than 10 percent.

As yields have gone up, commodity prices have become more volatile, and for many farmers that has meant expanding their operations and their marketing expertise or getting out of the business. And you know as well as I that credit has been a critical component of expanding farm operations.

Farmers borrowed from the Farm Credit System, and they borrowed from commercial banks and other sources. They used this credit to buy bigger equipment and more sophisticated fertilizers and seed.

Agriculture is a risky enterprise. I am not telling you anything you don't already know—we are all aware of the fact that many farmers have sold out to larger, more profitable farms.

Farms have become bigger and fewer. Today we have 1.1 million fewer farms than we had 50 years ago.

By the 1990s, it was widely believed that the future of agriculture lay exclusively with large farms, and many were lamenting the demise of the small family farm.

But something happened during the 1990s that again changed the course of American agriculture. Gradually more and more consumers began to demand local foods and organic products.

What was the source of this demand? It varied. Many sought local products simply because they were longing for the vine-ripened taste they had enjoyed when they were kids. Others had concerns about health and environmental issues.

Whatever the reason for the demand, it has strengthened over time. And because the producers of local and organic products are often small, this demand has produced a noticeable uptick in the number of small farms in this country.

Now does this mean large farms have anything to fear? Of course not. To supply food for our planet's growing population, large farms are and will always be critical. But small farms will also be an important part of the equation.

Maximizing food production is becoming one of the most critical issues facing the planet. By 2050, the world is expected to have 9 billion people. According to one source, that means we will need to produce more food in the first half of this century than we did in the past 10,000 years.

And compounding the challenge of rising population is climate change. The warming of the planet is triggering extreme weather events, including drought and flooding, that can devastate farms. Farmers have always been at the mercy of weather, but they may be even more vulnerable now.

So how can agriculture meet these challenges? The same way it did in the past—through innovation.

New technologies have ushered in the era of precision farming. Self-steering tractors and combines navigate fields perfectly, reducing row overlaps that waste time and fuel. Sensors on farm equipment measure the precise amount of moisture, fertilizer, and pesticide that plants need to thrive. The beauty of precision agriculture is that, in addition to increasing productivity, it can reduce many of the environmental concerns associated with agricultural activities.

And some of the technologies that are right around the corner promise to take precision agriculture to a whole new level.

Drones, for example. Converting drones to agricultural use may be the 21st century's version of turning swords to plowshares. What was at one time used solely by the military now shows promise as a valuable farming tool. Although the FAA has not yet approved these devices for private use in the United States, as you know, ag researchers have tested them and farmers in other countries have already begun using them.

Another innovation of the near future is agricultural robotics. Although they sound like they belong in a science fiction movie, ag robots may already be in use on your farm or coming soon to a farm near you. As you know, they are already being used to milk cows.

But innovations in agriculture go beyond drones and robots. They include innovations in the delivery and distribution of food. Thanks to innovations like CSAs and food co-ops and the growing popularity of farmers markets, the distance between consumers and farmers is shrinking—literally and figuratively.

These innovations serve the needs of consumers who want their food fresh and local, and they reduce the environmental impacts of transporting food long distances. These direct-to-consumer marketing techniques also strengthen communities because they encourage consumers to establish relationships with the farmers who grow their food.

Urban farming is another innovation stemming from the local foods movement. In fact, thanks to growing consumer interest in eating fresh, sustainably produced foods, many urban farms already exist in cities like New York, Tokyo, London, and Berlin. One form of urban agriculture even involves raising plants indoors—in vacant warehouses or in greenhouses erected on rooftops.

We're still in the early stages of urban farming, but just because an enterprise is not profitable today doesn't mean it won't be profitable tomorrow. Large-scale production agriculture will always be critical to meeting future food needs, but innovations like CSAs and urban farming can help supplement the food supply.

We don't know exactly how farming will change. But we do know farming tomorrow will be different from farming today.

And where there is innovation and change in farm practices, there must eventually be innovation and change in farm lending. At the turn of the 20th century, farmers who wished to switch from horses and mules to tractors needed credit to purchase them. Likewise, producers of local foods and others in underserved markets need credit to build and grow their operations.

Over the past year, many of you have taken important measures to reach out to local-foods producers and other underserved markets. You have created outreach programs for minority and socially disadvantaged farmers; at least one institution has added a staff position for a YBS Producer Specialist; and you are also using social media to extend outreach to underserved markets.

These are excellent steps in the right direction. By reaching out to underserved markets, you are not only doing the right thing but the smart thing. Expanding the types of operations the System finances can add diversity to portfolios, which in the long run benefits all System borrowers.

Do I expect loans to local-foods farmers to become a significant segment of the System's portfolio in the next five years? Probably not. But in the next 15 or 20 years, who knows?

The point is we don't want to miss a good chance—a chance to help these producers thrive and a chance to strengthen the System's safety and soundness and its relevance to the agriculture industry.

Broadening your customer base is also a powerful marketing tool. So many people in this country don't even know that the System exists. Serving a greater diversity of customers can help you get your story out to more people than ever before.

And you have a powerful story to tell. The Farm Credit System has been serving American farmers for almost a century through good times and bad. Today, it provides nearly half of this nation's agricultural credit. And the System will continue to serve American agriculture—whether we're talking about thousands of acres of waving grain in the Heartland or a dozen acres of vegetables right outside downtown Chicago.

By getting this message out to more Americans, you can increase public understanding of, and appreciation for, the System and its role in our economy.

Of course, at the same time you are reaching out to underserved markets, you also cannot take your eye off the ball of safety and soundness. Here, too, you have taken important steps.

You have worked closely with us to ensure we have the data we need to identify credit risk. During 2013, you created a protocol to identify and report shared assets, and you have begun implementing the protocol across the System. I know this is a huge undertaking. I also commend you for your progress on the data repository project. By enhancing the quality of loan data, we—both the System and the Agency—can greatly improve our ability to identify threats to safety and soundness.

I also appreciate the measures you have taken to guard against collateral risk. As we knew they eventually would, grain prices have begun to fall, causing land prices to soften. Your efforts to strengthen your capital position and your loan underwriting standards, and your improvements in stress testing will help mitigate the effects of these market shifts.

And, finally, I commend you for your efforts to strengthen institutional governance. Over the past year, many institutions have strengthened board governance by providing training for current board members and by appointing outside directors with specialized skills. I encourage you to keep up this important work. In fact, you may want to consider each board meeting as an opportunity to provide some form of training.

Agriculture has had an exciting past, and I know it has an exciting future. Last week the House passed a new Farm Bill and the Senate is expected to vote on the bill later this morning. Although some segments of agriculture fared better than others, generally speaking, passage of the bill will be good news for farmers. Now we will know what Government farm policy is for the next five years. This knowledge allows farmers (and farm lenders) to make business decisions more confidently.

We will closely monitor the industry to see what effects these policy changes may have on certain segments of the farm economy. I look forward to continuing to work with you to ensure the safety, soundness, and mission achievement of the Farm Credit System.

Thank you.