**Remarks**
**The Honorable Jill Long Thompson**
**Board Chair and CEO, Farm Credit Administration**
**Farm Credit Council Annual Meeting**
**San Francisco, California**
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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 very 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 my long-time friend, Ken Auer.

So here we are—January 2015. It's hard to believe that it's been seven years since the financial crisis and the onset of the Great Recession. Fortunately, the worst effects of the economic downturn are behind us, and the future is looking brighter for the System and the general economy.

The past seven years have not been easy, but the safety and soundness of the System as a whole remained strong throughout this difficult period. As of September 30 of last year, the System had only 1 institution with a rating of 4, 4 institutions with a rating of 3, 33 with a rating of 2, and an encouraging 43 institutions with a rating of 1. This is a considerable improvement over the past several years, and I congratulate you on this progress.

When I spoke at the Farm Credit Council annual meeting for the first time two years ago, shortly after accepting the position of FCA Board Chair and CEO, I shared with you my list of priorities. The first item on my list was updating our capital rules. After many months of careful consideration and hard work, we issued a proposed rule last May to modernize our capital requirements.

The rule seeks to ensure that System institutions continue to hold enough regulatory capital to fulfill their mission as Government-sponsored enterprises. While taking into account the cooperative structure and organization of the System, it also aligns the System's capital requirements with the Basel III framework and the standardized approach that the Federal banking regulatory agencies have adopted. The comment period for the proposed rule ends soon, and we expect to issue a final rule later this year. When the updated capital regulations take effect, they will help System institutions better prepare for future crises and economic downturns.

But capital wasn't the only safety and soundness issue on my list of priorities two years ago. The very next item on my list was monitoring farmland values. Haunted by the memory of the plummeting land values and skyrocketing interest rates of the 1980s, my colleagues and I at

FCA watched warily as farmland values in the Midwest rose quickly, buoyed by record grain prices.

Looking back now, I am even more convinced the extra vigilance was justified. The recent drop in grain prices has indeed resulted in a stabilization, and in some cases a drop, in farmland values. However, so far the adjustment has been very manageable, and System institutions have maintained sound loan-to-value ratios. Additional adjustments to farmland prices may be in the offing, and I remain concerned about the impact that higher interest rates may have on farmland prices going forward.

The third item on my priority list was the System's service to young, beginning, and small farmers. And frankly I don't believe this item should ever drop off FCA's or the System's priority list. Congress believed so strongly in the System's service to YBS borrowers that it wrote the annual YBS reporting requirement into the law. As a Government-sponsored enterprise, the System will always do well to emphasize service to YBS farmers and ranchers.

And I must say that I am pleased with the emphasis that many System institutions place on their YBS programs. According to 2013 YBS reports, 54 percent of institutions offered interest rate concessions to young and beginning farmers—up from 48 percent in 2012. And about 60 percent of institutions offered exceptions to underwriting standards. While you must ensure that the measures you take don't threaten your institution's safety and soundness, I strongly encourage you to strengthen your outreach and service to YBS producers wherever you can. And you can be particularly proud of your service to young farmers. With the average age of the American farmer creeping closer and closer to 60, we need to encourage more young people to heed the call of farming.

The fourth priority I identified was to find ways for the System to serve urban farmers and those producing food for local food systems. Several institutions have made concerted efforts to serve these producers, and I encourage you to continue on this path. The farm-to-fork movement has been around now for a few years, and it appears to be going strong. Those small and medium-sized farmers who produce foods for local markets play an important, albeit still very small, part in American agriculture. It is clear that we have a more balanced food supply and a stronger farm sector when there is support for farms of all sizes.

My fifth priority was to make a decision on the future direction of the Investments in Rural America pilot program. In the end, the FCA Board voted to conclude each pilot program and to withdraw the community investments proposed rule, which was published in 2008. I believe the action we took was prudent and will protect the safety and soundness of the System and its ability to fulfill its mission. At the same time, I support System institutions' investments in sound projects that will both strengthen and diversify their asset base and grow the rural economy. FCA continues to have the authority to approve System investments on a case-by-case basis.

Those were the five specific priorities with which I began my tenure as Board Chair, but we have taken action on many other important issues. Last year at this time we held a symposium to consider the impact mergers between System institutions may have on safety and soundness and the System's ability to fulfill its mission. The conversations that took place at the symposium helped us identify and examine the myriad impacts—both positive and negative—that mergers can have. It helped us identify the factors we should consider when evaluating merger requests. And we used the insights gleaned from this symposium in developing revised guidance.

Some of the priorities we have emphasized in recent years were much broader in scope. I'm thinking here in particular of diversity and inclusion. Although its relevance to the System's mission fulfillment may not be obvious on first glance, I believe this issue is profoundly connected to the System's mission. As a Government-sponsored enterprise, the System was created to serve the needs of all eligible, creditworthy individuals—regardless of gender, race, or any other factor that does not affect their eligibility and creditworthiness. In April 2012, my fellow Board members and I approved a final rule to promote diversity and inclusion in business planning at System institutions. In doing so, we sought to emphasize the importance of the System's public mission. Increasing diversity and inclusion is a win-win solution—both for underserved groups and for the System itself. By strengthening diversity and inclusion in your customer base and workforce, you can broaden your customer base and simultaneously provide opportunities to underserved groups.

During my tenure as Board Chair, I have also stressed the importance of ethics and the Agency's role as an arm's length regulator. I'm a strong believer in the sentiment expressed by Alexander the Great: "Upon the conduct of each depends the fate of all." I believe that no organization can be successful for the long term without a strong culture of integrity.

And to conduct business in an ethical manner is not just the right thing to do, it's the smart thing to do. It can provide a significant business advantage. If your organization conducts itself with fairness, you attract customers and you earn public trust. And maintaining public trust is critical to survival for both Government agencies and Government-sponsored enterprises.

The catchphrase to remember is reputation risk. It's critical to avoid actions that could be considered unethical. Sometimes it's not even a matter of whether something is actually right or wrong—just the *appearance* of wrongdoing can be enough to damage your reputation.

Because of our belief in the importance of ethics to the success of organizations, my fellow Board members and I adopted a proposed rule last January on standards of conduct for Farm Credit System institutions and their employees. The objectives of the proposed rule are to clarify prohibitions on lending transactions and the purchase of System-acquired property, and to require each System institution to adopt a code of ethics and to have an in-house standards-of-conduct official.

The value of this rule is that it elevates ethical considerations within the organization. It helps System employees more easily identify both real and apparent conflicts. This rule is important not only to guard against reputation risk—it's also important to safety and soundness. In a culture of integrity, individuals are less likely to take actions to benefit themselves at the expense of their organization.

We have strengthened the emphasis on ethics among our own employees, as well. In late 2011, the FCA Board issued a policy statement to clarify what it means to be an independent, arm's length regulator. Although we work cooperatively with Congress and the White House, we must come to our decisions independently, and we must not allow our decisions to be affected by partisan demands.

And as an arm's-length regulator, we must keep a certain distance from the institutions we regulate. We must make fair, impartial decisions to ensure that the System remains safe and sound, that it complies with all laws and regulations, and that it fulfills its congressional mission. This becomes difficult when the relationship between the regulator and a regulated entity becomes too close. For this reason, our employees are ethically bound to keep an arm's-length distance from the entities they must oversee and examine. And we provide annual ethics training to remind employees of ethical considerations and to help them identify potential conflicts of interest.

It's a paradox in a way. We, the Agency, and you, the System, share the same goal of ensuring a safe, sound, and constructive source of credit for America's farmers and ranchers, but we cannot operate as partners, per se.

Not only are we required to be an independent, arm's-length regulator, but I would also argue that you actually need us to be an independent, arm's-length regulator. If your borrowers, if Congress, and if the general public perceive us to be a "pocket regulator," their confidence in the checks and balances on the Farm Credit System weakens.

Public perception is a powerful thing. Seeing that the System has an independent, arm's-length regulator gives investors in System debt more confidence in the safety and soundness of their investments; it gives borrowers more confidence that they will receive fair treatment; and it gives Congress more confidence that the System will fulfill the mission for which it was created. Perhaps more than anything else, the public perception that you have a strong regulator can safeguard your reputation risk.

I'd like to leave you today with a few thoughts about the future. Apart from the risks presented by heightened volatility in the commodity markets, I believe the greatest risks facing the System today are political. Why?

The balance of power has shifted in Congress. GSE reform is already a subject of debate in the House this year. And because of recent changes in the Senate, proposed reforms may now have a better chance of becoming law. Also, because of the change in the power balance, support for tax reform may be stronger. This may give those who dislike the System's tax status an opportunity to challenge it.

Similar-entity lending can be another source of political risk for the System. While similar-entity lending is useful and certainly legal, the loans you choose to make under this authority and the way you choose to communicate your actions can present real political risks.

And finally, commercial bankers have not relented in their criticism of what they call the System's mission creep. With the change of power in Congress, these critics may now have a more receptive audience.

How then can the System protect itself from these political risks? By maintaining strong internal controls, adhering to the highest standards of conduct, avoiding even the appearance of wrongdoing, and always sticking close to its mission.

Another way you can guard against political risk is to get your story out to the wider world. It may not be enough for people in agriculture and rural America to know who you are. The broader public needs to understand the role that the Farm Credit System plays in supplying much of the food they consume every day. They need to understand the critical role the System has played over the past 100 years in making U.S. agriculture the powerful industry it is today. Since 1960, U.S. ag exports have been larger than our ag imports, helping counter the persistent deficit in nonagricultural trade. This kind of success would not have been possible if farmers had not had a dependable, affordable source of credit through good times and bad. The more people who understand this, the more support you will receive for the mission you work hard to fulfill.

Telling your story can also help you counter the badly mistaken argument that the System has outlived its mission, or that it exists only for those who cannot find credit elsewhere. In difficult times, commercial banks may choose to avoid ag lending. But if farmers can't access financing to purchase their expensive inputs, they can't plant their crops. If they can't plant their crops, they can't produce the food.

What's more, we don't have to go back 80 years for an example of a time when commercial banks were unable to meet a critical ag financing need. We only have to go back to 2008. When grain prices shot up, many grain co-ops suddenly couldn't meet their margin calls. When other banks couldn't help them, System institutions did, allowing these co-ops to stay in business. In doing so, the System fulfilled the mission for which Congress created it.

I believe 110 percent in the importance of the System's mission and the critical role it plays in keeping our nation's economy strong and helping meet global food needs. I am proud to support American agriculture, and I know you are too. And I believe the role of the Farm Credit System may be even more important in the next 100 years.

Thank you.