

**Remarks by
The Honorable Nancy C. Pellett
National Directors Conference
Charleston, South Carolina
September 14, 2004**

Thank you for the generous introduction and good afternoon to all of you.

I am very pleased that you invited me to participate in your conference again this year. I had a wonderful time last year in Kentucky and it is always an honor to spend time with people like you who share a passion for agriculture and rural America.

Before I begin I first want to thank all of you for how graciously you have treated me since I became Chairman in May, and also for sharing your thoughts on so many important issues. It has been a tremendous help to me. I want to keep my remarks short in order to respond to the issues and questions you have but I do want to talk about 3 things.

First, I would like to share with you a few of my key goals as Chairman and what we have done or plan to do to meet those goals.

Secondly I would like to talk about what I believe is one of the more important projects we will be working on during my term...and that is our investments in rural America project.

And lastly, I would like to make a few comments on what is probably the number one issue that is on everybody's mind...the stated intention of FCS of America to terminate its status as a System institution.

Let me talk a bit about my goals.

First, I am committed to improving communication internally as well as externally with all interested parties but in particular with the System.

I believe we must respond timely to requests from any interested party to clarify or explain our position on the law and regulations under which we expect the System to operate. And where appropriate, I believe we must eliminate or revise those regulations that unnecessarily impair the ability of the System to accomplish the mission for which it was created.

When a regulatory solution is not possible I strongly urge you to go to Congress to clarify the authorities you need to better serve a rapidly changing agriculture, marketplace, and rural America, as other presenters discussed with you yesterday.

And I will go with you, because I believe your case is strong, but more importantly, because I believe your cause is necessary. A large portion of the rural economy lies beyond your lending authority.

At all times, we need to ensure that we have an open and respectful dialogue on all issues that exist between us. I can assure you that the System has the respect of the Agency and I will work hard to ensure that the Agency has your respect.

Staying with the communication topic, I also believe we have a duty to educate the public about who FCA is, what we do, and how we contribute to the public good.

Our story, as is the System's story, is a very positive one and I think more people need to know it.

Lastly in the communication area, I believe we must conduct our business openly by soliciting the input of all parties impacted by our proposed regulatory actions.

And this cannot be accomplished by spending all my time in McLean or my staff spending all their time in McLean. We need to be out talking with you and observing your operations and the challenges you face at the point that they occur. I believe close, personal contact and communication are critical to effective regulatory oversight. That is why I consider attending conferences such as this, as well as visiting banks and associations, critical for me and my staff to remain in touch with what is happening.

A second key goal I have is that I am committed to ensuring that the agency is run in an effective and efficient manner. Recently, I made several personnel changes at the agency that resulted, in my opinion, placing high quality people in key positions that are needed to move forward at improving agency operations. We are getting our bus filled with the right people in the right seats.

I have also initiated several internal projects that are designed to improve the efficiency of FCA operations, make us more responsive to external parties, and eventually reduce the cost of our operation to the System. I really do intend to take a close look at our expenses and hence, our efficiency.

Later this year we will update our strategic plan, conduct an agency-wide staffing plan, take a close look at our examination process, and review our regulation and policy development process. This will be done concurrently with your strategic planning and I am looking forward to the next session when you will address this process. The intention is to refocus our efforts in light of changed conditions and to concurrently develop processes that better respond to the new world we operate within and to the customers we serve.

Overall, I believe it is important for us to recognize and respect what happened yesterday, but as Chairman, I will ensure that we focus on today, so that we can build upon our strengths and reach a better tomorrow.

As I stated, I know you are also taking the time to look into the future to see what it will look like and to then plan for what actions you need to initiate--to make a better future for agriculture and rural areas and the customers you serve. I commend you for that effort and I think it is important that we share our thoughts and visions with each other as we each develop our plans and again, I look forward to your presentation this afternoon.

Let me turn to my second area...Investments in Rural America.

Ladies and gentlemen, throughout my term I intend to be a strong advocate not only for agriculture but also for our rural communities.

Supporting rural communities has long been viewed as vital to the success of agriculture...and rightly so in my opinion. I find it interesting that there are only about 2.5 million farmers and ranchers nationwide but there are about 65 million people living in rural America. That is obviously a larger market to serve.

Rural communities provide the needed infrastructure and supply systems that allow agricultural producers to thrive. Agriculture and rural communities are so interdependent that Congress expressly provided that the mission of the Farm Credit System was to provide sound and constructive credit to agriculture as well as to rural areas.

As I indicated in my June Information Memorandum on Investments in Rural America, FCA is committed to helping ensure a dependable source of credit for agriculture and rural America so that farmers, ranchers, and their *rural communities* can flourish.

I would like to note that I recently added Keith Heffernan as my Chief of Staff. Keith comes directly to FCA from Rural Development at USDA where his knowledge and experience will greatly assist us as we look for ways to allow you to be more deeply involved in meeting the needs of rural areas and to form partnerships with other entities as we do so.

Rural America and agriculture currently face new and unique challenges that require innovative solutions. In our recently approved Fall 2004 Unified Agenda, we have committed additional resources to exploring opportunities for the System to increase the availability of funds to agriculture and rural areas through partnerships and investment opportunities.

We have long recognized that investments are important to the System because they help Farm Credit banks, associations, and service corporations manage credit, market, and liquidity risks.

However, we also recognize that current investment vehicles are no longer sufficient for the System to meet the growing and changing demands of agricultural enterprises, agribusinesses, and rural communities for stable, dependable, affordable, and flexible financing. More investment options could provide the System an opportunity to help stimulate economic growth and development in rural areas while diversifying their risk profiles.

Our Investments in Rural America initiative aims to provide the system greater flexibility and new tools that could help meet the financing needs of agriculture and rural America in the 21st century. We are currently evaluating a wide variety of investments that would support the mission of the Farm Credit System.

Additionally, we are looking at other types of investments and pilot programs that could increase the availability of funds to rural areas at reasonable rates.

In particular, there are several areas where agriculture and rural communities need a greater supply of funds at competitive rates—value added agribusiness, rural infrastructure and rural housing are examples. The financing of value added

agribusinesses is important because it creates off-farm employment opportunities that supplement family farm incomes. Value added farm products produced by farmers also enhance farm income.

Rural infrastructure projects are another area where the System could significantly help rural communities prosper and grow. Many rural areas desperately need new and improved services and amenities to help them compete in today's environment. Quality infrastructure is critical for agriculture, economic development, attracting residents and business, and the overall sustainability of rural communities.

As the GSE with a mission to serve rural America, providing funds for quality affordable housing in rural areas is another key System mission and directly supports the President's Agenda for increased home ownership in rural America. Improving rural America's housing stock helps attract business and industry to rural communities that provide a source of off-farm income that is so important, especially for young, beginning, and small farmers. Off-farm employment also helps agricultural producers diversify and stabilize their incomes.

On a final note, I would like to stress the importance of building customer relationships that can survive through both good and bad times. A strong well-diversified Farm Credit System that is integrated in and committed to our rural communities will help build and maintain those relationships and secure the System's future as the premier financier of agriculture and rural America.

The last area I will touch on is the FCS of America proposed termination action.

On August 3, the Farm Credit Services of America board provided us notification of their intent to terminate their status as a System lending institution. This was a surprise to us, and it may have been to you. However, such an action is permissible under the statute and we have regulations that allow for the orderly exit of an institution from the Farm Credit System.

Within the context of the statute and our regulations we have two very important decisions to make. First, we must approve or disapprove the termination request from a broad perspective. A key issue identified in our regulations is whether the termination will have a material adverse impact on the remaining System institutions in fulfilling its statutory responsibilities. We would welcome any input you might have for making that determination about this association leaving the System.

Second, should we approve the termination, we must ensure that the disclosure material describing the intended action that is provided to stockholders is complete and accurate. This is critical so that the stockholders can make an informed decision.

We have established a very knowledgeable and highly capable work group to oversee all aspects of the proposed termination action and have also made arrangements to obtain outside legal, tax, and financial expertise to assist in our assessment of this action. Let me assure you we will stand up to the plate, and we will make a decision.

I honestly do not know what the analyses will eventually show, nor how the decision might go, but I do know that whatever happens, we at FCA will ensure a Farm Credit System presence is maintained in the 4-state territory.

In closing I would note that you all share a common goal of serving agriculture and rural America and have done so admirably for nearly 90 years. Though at times you may differ on how it should be accomplished, you remain united in realizing in the end that it must be accomplished and will do what is necessary to do so. I encourage you to continue to work together as a cooperatively owned, government-sponsored enterprise dedicated to agriculture and rural America.