

**Remarks by
The Honorable Kenneth A. Spearman
AgriBank, FCB, Annual Meeting
Kansas City, Missouri
March 8, 2010**

Thank you for your warm welcome. I appreciate the opportunity to come to Kansas City and visit with you today. I'm certainly pleased to be here on the home turf of our chairman, Lee Strom. As you know, I've been a member of the FCA board only for a brief time and am continuing to "flatten out the learning curve." I am excited to provide you with a closer look into my background, provide you with some insight into my views about the Farm Credit System, and to share with you some important information about FCA that I have gleaned during my brief tenure. However, please note that the views I will be expressing here are my own based on what I have been charged with as an independent FCA Board Member.

It's certainly been a whirlwind of activity for me over the past few months...settling into my new position and my wife and I moving to the Washington, D.C., area from Florida—just in time to be welcomed by Mother Nature with a 100-year snowstorm, I might add!

Background

Weather aside, I am honored to have been selected by the President to serve in this important role on the FCA Board and I take my responsibilities very seriously. I think my extensive background in the financial arena, specifically in accounting and auditing, will translate well into my role as a financial institution regulator.

My experience includes 28 years working for large cooperatives in the citrus industry in Florida, who were also System borrowers. I do recognize that the production of oranges and grapefruit may seem very alien to farmers here in the heartland, but it also serves to highlight the wide diversity of agricultural producers served by the System throughout the country – and the need for local expertise to serve all of those farmers and ranchers. One of the things I enjoyed during my time as a District Bank Director was visiting my fellow board member's farms and seeing and learning about different kinds of agricultural production. I hope to continue those kinds of visits as an FCA board member because I think it's important for those of us at FCA—particularly those who aren't from farming backgrounds—to have a more intimate understanding of how farms work and to interact with the people served by the Farm Credit System.

FCS and Agriculture

The Farm Credit System was founded in 1916 to ensure that affordable credit was available to America's farmers and ranchers. That same mission remains necessary and relevant today. While there have certainly been ups and downs in the agricultural economy, American agriculture since 1916 has really been a remarkable story. American farmers have fed the world and helped create the standard of living that we enjoy today. I'd like to think that Farm Credit played an important role in that story too.

I also expect that Farm Credit will continue to play an important role as agriculture continues to evolve. Farm Credit can clearly partner with farmers as they meet the challenges and take advantage of the economic opportunities presented by evolving consumer demands, such as for

organic and local foods. Farm Credit also has a vital, specific mission to serve young, beginning, and small farmers, to help make sure that there will be a next generation of American farmers.

FCA/Economic Situation

Now, I'm sure I don't need to tell you, these are certainly interesting times for FCA and the System. I know that some of you were at the Farm Credit Council annual meeting about a month ago and heard FCA Chairman Strom's speech and the FCA staff's presentation on the state of the System, so I won't repeat all of what was said there. Needless to say, it was a sobering message. While the Farm Credit System remains fundamentally strong and well capitalized, the number of institutions under some form of supervisory action and the number of institutions whose FIRS ratings have declined is troubling.

Most importantly, I want to make clear that I fully support Chairman Strom's efforts and leadership to ensure that the Agency keeps its focus on the continued safety and soundness of the System. I am also working closely with Board Member Nancy Pellett—for as long as she continues her post at FCA—and look forward to working with new Board Member Jill Long Thompson as soon as her nomination is confirmed by the Senate.

While the initial downturn may be over, I don't think this economic storm is completely behind us. Therefore, we have to remain vigilant about looming risks. However, this tumultuous economic crisis also presents a necessary opportunity for FCA to look at our rules, to look at our policies, and to look at how we examine and supervise institutions; basically, we have an opportunity to see what works in times of stress and what doesn't and to make changes accordingly if need be.

However, FCA can't and shouldn't try to regulate every aspect of a System institution's business. That's why it's incumbent upon the board and management of each institution to seize this necessary opportunity to take a close look at every aspect of its own operations. For example, to look at whether your institution needs to hold more capital during good times; to look at how you manage growth; and to look at the effectiveness of your business plans. People in the System like to say—with some justifiable pride—that, unlike other lenders, the Farm Credit System is there to lend to agriculture in good times and bad. Of course, in order to do that, the System needs to be there and be in a position to lend during the bad times. In other words, in order to fulfill its mission, the System needs to remain safe and sound.

To remain safe and sound during this turbulent period, I think a few key principles are important. First, the System needs to focus on its core business of lending to creditworthy farmers and ranchers. Second, System management and boards must ensure that good underwriting and lending practices are followed and that effective internal controls are in place. And third, each System institution needs to have an effective and proactive board of directors.

Corporate Governance

As I have some firsthand experience in that area, I want to expand a little more on that last point. As you know, I spent four years as an appointed director for AgFirst Farm Credit Bank, serving on board compensation and governance committees. I came away from my experience with a deep appreciation for the knowledge and dedication of my fellow board members. I also came away with an understanding of the crucial need for an effective board of directors for each System institution.

The governance of all corporations is vested in its board of directors. This role is even more vital in a cooperative—such as a System association—where, for most board members, it truly is *your* institution: you own it and you borrow from it. Boards should certainly hire and trust good management, but always remember that management works for you and that you, as board members, are ultimately responsible for the operation of the institution.

Good corporate governance starts with recruiting good candidates for the board. Good governance also requires that board members stay informed about important matters affecting their institution and to receive the training and support necessary to effectively do their job. Additionally, I think good governance includes having a manageable board size that allows the institution to be effectively governed. I think that establishing strong committee structures, allowing a smaller group of board members to fully delve into particular issues, is also important. Getting good people on the board may mean looking beyond the usual suspects and making greater efforts to get new people involved. There is significant value in having diverse backgrounds and experiences on boards. Notably, the appointed director position provides an important opportunity to add expertise and a truly independent viewpoint that might otherwise be overlooked.

GSE Status of FCS/Role of FCA

I spoke a few minutes ago about the System's vital public mission. As you know, the Farm Credit System was the first Government-sponsored enterprise, or GSE, *and the way things are going*, it may be the last. Unlike the biggest GSEs, Fannie Mae and Freddie Mac, the System is unique in that it consists of numerous privately owned institutions. While the joint and several liability of the Farm Credit Banks certainly bind them together, there are varying viewpoints and interests among System institutions. There are even many areas of the country where association territories overlap, resulting in direct competition for customers. This "separateness" of System institutions is something policymakers in Washington and the public at large do not necessarily understand. Because of this, the System is often viewed by outsiders as a single entity.

I think this means a couple of things. First, this means that we all need to recognize that the failure of one System institution, or even just the questionable behavior by one institution, reflects negatively on the entire System, and impacts the System's ability to fulfill its mission. Second, I think this also speaks to the importance of achieving consensus within the System on important issues and presenting a united front to policymakers on important issues.

In addition to Lee's speech at the recent Farm Credit Council meeting, a number of you also may have heard the interesting panel discussion on the future of GSEs. I thought the comments by Thomas Stanton, an author and noted critic of GSEs, in regards to identifying for the System where Fannie and Freddie went so wrong, were quite interesting. Among the lessons he suggested the System could learn from the Fannie and Freddie meltdown were to avoid trouble, to stay out of the newspaper, and to be capable and cautious about taking on risk.

Another lesson mentioned by Mr. Stanton that I found particularly notable was his suggestion that the System should want a competent independent voice as its Federal regulator—and then to champion this regulator as evidence of the strength and safety of the System.

In considering his comments, I've thought a bit about what it means to be a competent independent regulator.

First and foremost, I think FCA needs to be credible in the eyes of Congress, investors in System debt, and the public; interested parties need to believe that FCA is truly independent and capable of handling the job of regulating the System. I think an important part of being credible is maintaining transparency of FCA's operations so that the public can clearly see and understand what we are doing. Secondly, I think FCA needs to keep good lines of communication open with the System—but also with Congress and other interested groups as well.

Thirdly, I think FCA needs to consider creative ways of furthering policy goals—but to apply the law as written when the law is clear. Part of that is respecting Congress' role in changing the law. Having worked on the Horizons project while with the District Bank, I certainly recognize the difficulty in achieving legislative change. However, while parts of the Farm Credit Act may be outdated or no longer meaningful, FCA is just not authorized to ignore or change Congressional policy—as expressed in the Farm Credit Act—even if it disagrees with it.

Fourthly, FCA needs to keep its primary focus on the safety and soundness of the System. This means effectively monitoring System operations and acting swiftly when we find problems or troublesome risks in the System. A big part of fulfilling this key task is hiring, training, and retaining high quality staff at FCA. During my brief time with the Agency I've been impressed with the dedication and professionalism of the staff, and I think it's important going forward to ensure that FCA staff has the necessary resources to effectively regulate the System.

FCSIC

In addition to my role as FCA board member, I am the Chairman of the Farm Credit System Insurance Corporation board. As you probably know, the Insurance Corporation is essentially a separate Government agency, with its own management and staff but with the same board members as FCA. I would also note that within a week of starting as a board member I became Chairman of the Insurance Corporation—making that the fastest promotion I've ever received! As you may know, the Insurance Corporation board of directors voted in January to reduce the insurance premium assessment rate for the Farm Credit banks on their adjusted insured debt from 20 basis points in 2009 to 10 basis points in 2010. The board decided to do this because the Insurance Fund finished 2009 above the 2 percent secure base amount. This was partly due to the effect of the Insurance Corporation's use of enhanced authorities provided in the 2008 farm bill, as well as lower than anticipated growth in insured debt outstanding.

The 2010 assessment is based on likely growth in insured debt outstanding of 3 to 5 percent during 2010. The Insurance Corporation believes that the 10-basis-point assessment should be sufficient to maintain the Insurance Fund at the 2 percent secure base amount *if growth in insured debt does not exceed 5 percent during 2010*. I'm pleased that we were in a position to lower the rates but we will look at it again in June to make sure the Insurance Fund remains adequately funded.

Additionally, because the Insurance Fund finished above the secure base amount, we were also in a position to distribute approximately 40 million dollars held in the Allocated Insurance Reserves Accounts to the Farm Credit banks and to the remaining Financial Assistance Corporation stockholders—which are the banks and the AgFirst associations. These payments have now been made. I am pleased that one of my first acts as the Insurance Corporation's chairman was to authorize the return of \$40 million to the System. The Insurance Corporation board may also consider in the near future whether it is appropriate to authorize an additional, larger, distribution based on the condition of the fund.

Closing

In closing, I'd like to say that I'm looking forward to addressing the many challenges that will come my way as an FCA Board Member. I appreciate the support shown and the kind words of encouragement given to me by folks in the Farm Credit System for my nomination to the FCA board and I intend to fulfill my duties to the best of my abilities. So thank you again for inviting me and I look forward to working with you over the coming years during my term on the FCA Board. THANK YOU!