

**Remarks by
The Honorable Nancy C. Pellett
Farm Credit Council Annual Meeting
Orlando, Florida
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Thank you so much for the kind introduction and the opportunity to be with you in Orlando, Florida. It is always such a pleasure to be here and have the opportunity for discussion and interaction with so many of you. It is a time to reflect on our shared commitment to this country's farmers and ranchers, their cooperatives, and the rural areas that support them. It is also particularly significant because this year is the 75th anniversary of President Franklin Delano Roosevelt's signing of the Executive order that established the Farm Credit Administration.

Before I begin my remarks, I want to acknowledge my colleagues on the Board—two outstanding gentlemen with whom I am so pleased to work. Dallas Tonsager has been my colleague on the Board for three years and continues to be such a tremendous addition to this Board. I really enjoy and appreciate the opportunity to work alongside him. And, of course, many of you know Lee Strom. He has been at the Agency now for a year and brings much to FCA as our newest Board member. Although each of us as Board members may have different perspectives, we all share a common background in production agriculture and, as such, have a deep-rooted appreciation and motivation to provide economic opportunities for agriculture and rural America.

Dallas and Lee, will you please stand up so that you may be recognized? My purpose in addressing you this morning is to give you an update on the Farm Credit System from our perspective as the regulator.

First, as the System works to serve agriculture and rural America, the Farm Credit Administration's primary mission is to make sure the System is safe and sound—and it is. This is not only confirmed by FCA examiners but also by the recent strong rating given to the FCS by Standard and Poor's. As you know, safety and soundness is always our first consideration. Most institutions in the System have a FIRS rating of either 1 or 2, and the System is now a \$180-billion lender. We saw continued loan and asset growth last year as the total System assets grew 16 percent annualized by the quarter ending September 30, 2007. Capital also grew, but at only 10 percent, trailing growth in assets. This obviously means your capital ratios are declining. However, the System's earnings and credit quality remained strong. Adversely classified loans are at only 2 percent. All these factors, combined with the strength of the agricultural economy, allow the System to enjoy very competitive market rates and a ready access to funds for America's farmers, ranchers, and their cooperatives.

Next, let me identify in a broad context what I believe are some of the most meaningful and significant attributes of the System today.

First, I believe significant progress has been made in the quality and quantity of communication within the System and also with your regulator. The level of dialogue between FCS institutions has resulted in a more focused effort to address the future needs of agriculture. Much of this progress can be traced to the initiative of the Horizons' effort where you came together to discuss, probe, ponder, and reflect on what would be helpful and necessary to ensure that the System remains relevant to the needs of farmers, ranchers, and rural Americans in the future. Henry Ford probably described this type of teamwork best when he said, "Coming together is a start, keeping together is progress, working together is success."

Also, I believe the communication between FCA and the System has markedly improved in ways that are important and useful for an arm's length regulator and its regulated institutions. I would suggest the primary improvement has not been from the quantity of discussions but rather because both parties listen more and listen better. I would further suggest listening is strongly correlated to respect. In my opinion, the System has extremely capable and visionary leaders at both the board and management levels who are highly regarded for their judgment. Likewise, although I may be biased, I believe FCA has a very capable and professional staff that is driven by a desire to ensure the System's ongoing safety and soundness and mission achievement. You will be able to interact with three of our key staff today in one of the breakout sessions.

As we look forward, an important dialogue for you is to continue to cultivate your partnerships with other rural lenders and service providers, including Farmer Mac, USDA, and commercial banks. These partnerships are important as you meet your mission to provide a flow of funds and related services to agriculture and rural areas.

Another attribute with which you should feel particularly pleased is the System's efforts with YBS—young, beginning, and small farmers. I will be the first to acknowledge that it is difficult to identify what actions will be most meaningful in furthering the interests of YBS farmers. Nonetheless, it is important because any sector of the economy or any industry must attract youth, new ideas, and new approaches to doing business and embrace the opportunities provided by diversity if it is going to be a vibrant and contributing sector to the economy in the long run. Thus, any leader in the agriculture sector must focus attention, resources, and efforts to aid and encourage young, beginning, and small farmers. And you are walking the talk by hiring a Systemwide coordinator to focus on this endeavor.

From what I've seen, your efforts range from unique and defined programs like the First Pioneer ACA Farm Start program to annual seminars designed specifically for, and to address the needs of, these individuals. It was my privilege to participate in one of these seminars at Ag Carolina Financial just a few weeks ago. I want to recognize the priority and attention that many of your institutions give to YBS. I would submit to you that it is impossible to measure the inspiration that you have been to those young people just starting out. And I speak from the experience of my two sons and I know that many of you here this morning feel the same. What I have seen in your programs is a genuine interest in the young and beginning farmers that hopefully will serve to inspire their careers in agriculture, because they will some day be the leadership of the System that will be sitting in the chair right next to you.

A third attribute I want to recognize is your efforts on Investments in Rural America. This is a pilot program that we developed three years ago that allows the System to utilize the investment authorities provided within the Farm Credit Act to assist and improve the infrastructure or amenities in rural areas. The System has a responsibility to invest its capital in good investments. Because System institutions are clearly authorized by the Act to hold investments, I believe it is logical to target a portion of your investments to appropriate infrastructure needs and amenities in rural America, the very places where your shareholders raise their families. Why not invest in your own future? Perhaps the St. James, Minnesota, Critical Access Hospital has thus far been the highest profile IRA project. This new hospital in a rural area was a priority for this community and replaced an obsolete facility; but it would not have happened without the leadership of the Rural America Capital Group, which focuses specifically on meeting the funding needs of rural areas through investments. As we continue to evaluate the merits of this investment pilot program, I would add that this is an opportunity to see how your financial institution can make a difference in your communities and help provide the infrastructure that will support, and perhaps reinvigorate, rural areas where farmers and ranchers and their children live. And what better way to supplement your YBS programs than to assist or partner in bringing some of the amenities that they want (e.g., high-speed Internet, good schools, and good medical facilities) to the rural areas.

I have mentioned internal communications, YBS, and Investments in Rural America as areas where important efforts and accomplishments have been made. Now let me take just a few minutes to provide a few observations. One area that might merit additional emphasis is your willingness to share best practices. I assure you—I understand that, as a federation of individual cooperatives, you can and should operate to maximize the benefits of your individual members. However, in my opinion, there are times when more consistency and unity would be an advantage to the System. The unity aspect affects us at FCA as we attempt to craft policy that meets the public good, but it would also be helpful as you attempt to be more efficient.

Please note—I'm not suggesting that you attempt to get to a one-size-fits-all, but there seems to be a great opportunity to gain more consistency, unity, and effectiveness by efforts as simple as more sharing of best practices. Let me give a specific example—the issue of diversity is one area where you are excelling at sharing best practices. This is exemplified by the conference you held last fall in Dallas. There is a strong business case to be made for System institutions to look for ways to effectively reach out and market to underserved groups and for your own organizations to reflect more diversity. We recognize that you continue to commit resources toward this goal. While these markets may require greater tenacity or creativity to cultivate, the ultimate rewards will far exceed the effort by furthering the System's long-term financial goals and potentially expanding your customer base. This sharing of best practices in the area of diversity was begun by the early efforts of a few associations and shared with others who quickly followed.

Let me now turn to the future. Obviously, there is a great deal of uncertainty with regard to the economy and particularly the agriculture sector. Although significant regions of the United States have been affected by drought or other weather conditions, the agriculture sector, in general, has fared reasonably well. Those of us involved in agriculture occasionally get uneasy because agriculture has always been a sector marked by

cycles. Recently land and commodity prices have increased dramatically; input costs have risen substantially—especially energy and feed costs. Despite record ag exports, some traditional foreign markets are placing restrictions on U.S. products, while some importers are more competitive in our domestic markets. Ethanol and biodiesel may face obstacles, and on and on. You know the coffee shop talk better than I. Thus, it might be easy to present a doom-and-gloom message.

But let me tell you: my parents experienced the Depression of 1929. I always heard the question growing up, “Do you know what is worse than living through the Depression?—Living with someone who lived through the Depression.” The reason for this answer was that survivors of the Depression continued to save all old bolts, screws, scrap lumber, household plastic bags, aluminum foil, containers, and everything else “in an expectation of a depression,” not to mention how often they talked about it. Sometimes I think the same might be said for those of us who experienced the agriculture problems of the 80s—which is perhaps similar to what the mortgage industry is going through now. FCA, the System, and all of the ag lending community learned some particularly tough lessons during the 80s. But intelligent people learn from mistakes.

We note the System changed the way it lends money. Your analysis now emphasizes profitability in conjunction with realistic underwriting standards. The risk management of your entire asset portfolio is much more accurate and sophisticated. Let me assure you that as your regulator we will continue to monitor your growth and your lending and risk management practices to ensure you maintain this discipline.

In my role as Chairman, I have been impressed with the level and competence of management in the System. But what gives me particular confidence is the increased role of board governance to review and be confident that the judgments of management are reflective of the conditions and needs of the customers the System serves. As you have known, I have rather strong feelings about the importance of board governance and the accountability it ensures in decision making. Specifically, I’m referring to the wise use of your strong capital base as you meet the demands of borrowers and I’m also referring to the utilization of strong risk management and internal controls systems. As we move into an economic period that may become more unsettled, the success of the System as a GSE will depend upon your governance and your management of all these issues.

In closing, 2008 promises to be another year full of opportunities and challenges for the Farm Credit System and for FCA. The Farm Credit System is well positioned to use its GSE status to help agriculture and rural America continue to grow and prosper. And now, ladies and gentlemen, on a personal note, may I say that it is truly my privilege and honor to be the Chairman and CEO of the Farm Credit Administration. Thank you very much for inviting me to address your conference.