

**Remarks by  
The Honorable Nancy C. Pellett  
Farm Credit Administration Chairman and Chief Executive Officer  
at the  
Governor's Agricultural Conference  
Kearney, Nebraska  
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Thank you for that generous introduction and good morning to all of you.

I am very pleased that you invited me to join you today. It is an honor to spend time with people who care about agriculture and rural America...and it is an added bonus for me to get back to the Midwest and spend some time with good neighbors and good friends.

This morning I want to share with you actions we are taking to strengthen the Farm Credit Administration as a financial regulator; our Agency's emphasis on ensuring that young, beginning, and small farmers are adequately funded and serviced; and lastly, investment opportunities I see available for our regulated institutions to better fulfill their public policy role of supporting agriculture and rural America.

Let me first give you a little more perspective on our Agency.

The Farm Credit Administration is an independent federal regulatory agency that oversees the operations of about 100 lending institutions that comprise the Farm Credit System.

The Agency is led by a full-time, three-person board comprised of myself and fellow board members Doug Flory, from Virginia and Dallas Tonsager, from South Dakota. Each board member is appointed by the President with the advice and consent of the U.S. Senate.

I am deeply honored and humbled to be a member of the Farm Credit Administration Board. I wake up every morning, and go to bed every night, with a hope and a prayer that I can, in my role, make a positive difference for agriculture and the rural areas that support agriculture.

Created by Congress in 1916, the Farm Credit System is the oldest of the government-sponsored enterprises. As a government instrumentality it serves the specific public policy purpose of ensuring a dependable source of credit for agriculture and rural America.

Our mission at FCA is to ensure that Farm Credit System institutions remain financially capable and operationally equipped to effectively achieve the public purpose for which they were created.

We accomplish our mission in two ways. First, we periodically conduct a basic financial safety and soundness examination of each Farm Credit System institution. If we see problems in how an institution conducts its business, we do have authorities available to us to ensure problems are corrected promptly.

The second way we accomplish our mission is to develop regulations that govern how Farm Credit System institutions conduct their business.

The main touch-point with the Farm Credit System in Nebraska would be through Farm Credit Services of America, which is headquartered in Omaha. FCS of America provides over \$8 billion in loans to borrowers in Iowa, South Dakota, and Wyoming as well as Nebraska. It is funded by AgriBank, headquartered in St. Paul, MN, which is one of the 5 Farm Credit Banks nationwide.

FCS of America was prominently in the news last year when it announced its intention to terminate its GSE status and then partner up with RaboBank as a privately held commercial concern. Though rare, termination is permissible under the Farm Credit Act and we have regulations that allow for the orderly exit of an institution from the Farm Credit System.

The potential loss of an established Farm Credit presence in a four state territory was certainly a matter of serious concern for us, as it would have required considerable effort, cost, and time for the System to re-establish its presence in the four state area. But, I assure you we would have acted swiftly to ensure that a System presence existed in the territory should it have been vacated by FCS of America.

As you are all aware, the termination did not happen and we at the Agency are closely studying the issues that have arisen from that situation and the factors that may have precipitated the action of that board in the first place. Nevertheless, FCS of America is alive and well and actively serving the needs of farmers and ranchers in their territory.

I also want to emphasize a few things we do not do. FCA does not run the System...we are an arms length regulator. We do not engage in the day-to-day management decisions of the institutions we regulate. And we do not speak for, or represent, the System any more than the OCC or FDIC does for commercial banks.

Although commercial bankers have undergone a period of modernization through Gramm-Leach-Bliley, the System's basic statute has not changed significantly since the mid-1980s and has not been fundamentally updated since 1971. As a result, the Farm Credit Act does not accommodate many of the marketplace conditions and economic forces that exist today.

Consequently, through our regulations and policies, we must fill in the gaps of knowledge, but we do so only to the extent permitted by law. And, at times, this presents some challenges to us.

My basic policy is that we maintain a flexible and responsive regulatory environment. I am committed to following President Bush's agenda of reducing the regulatory burden on those whom we regulate and that will always be a basic principle in my mind as we work through our regulatory agenda.

Let me make a few comments about what we are doing to strengthen ourselves as a regulator.

One of my major goals is to ensure that the Agency is run in an effective and efficient manner. We are a small agency by most standards, with a budget of just over \$40 million and a nationwide staff of about 275. We do not use any appropriated money as all our expenses are paid by the institutions we regulate. However, if we can become more efficient I want to ensure that we do.

Our work in this area supports President Bush's initiatives to achieve greater efficiency and effectiveness within the government, and I have high expectations that the results of our self examination will improve our operations.

Next let me talk about the importance of supporting young, beginning, and small farmers.

Ladies and gentlemen, I believe it is critical that this group of borrowers be fully supported by the System to help ensure that the next generation of farmers is able to have farming and ranching as a viable career option. Furthermore, programs supporting young, beginning, and small farmers are required by statute and last year we issued a final regulation that provides our expectations on how these important programs should operate.

Let me point out that the Farm Credit System has a long history of support to this important sector of agriculture and the statistics speak highly of their success.

Nearly 60 percent of all loans made by the Farm Credit System are to borrowers who are classified as small farmers. Young farmers represent 17 percent of all borrowers and beginning farmers represent 22 percent of all borrowers in the Farm Credit System portfolio.

I would also note that the number of young, beginning, and small farmers served by the Farm Credit System has been on the increase in recent years.

And I know personally that the Farm Credit System has several outstanding programs in this area. I have had the opportunity to personally meet with and talk with those involved in young, beginning, and small farmer programs at several Farm Credit institutions in Arizona, North Carolina, and at FCS of America.

However, if these programs can be improved further, we at FCA want to ensure that they are. Evaluating young, beginning, and small farmer programs has been an FCA examination focus area for several years, and will continue to be, as the challenges of moving new entrants into the mainstream of agriculture becomes more challenging.

Lastly I would like to share with you some opportunities I see for System institutions to better support agriculture, but more importantly, rural America in general.

I think it is quite evident that the agricultural sector is increasingly reliant on off-farm income and government payments. In addition, many rural communities are losing population and their infrastructure is declining.

The challenge for those concerned with the prosperity of rural America is clear. There remains a continuing demand for debt capital and an unmet need for equity capital, necessary to promote and support the businesses and jobs that rural America must have to prosper.

This is especially true for the value-added products that provide greater profit opportunities for agricultural producers.

In my opinion supporting rural communities is vital to the success of agriculture and to those who engage in it. While there are only about 2 million farmers and ranchers nationwide, there are about 65 million people living in rural America.

I am convinced that vibrant rural communities are the most critical factor in keeping farmers on the land and getting new entrants into farming, both that young farmer and their spouse.

At FCA, I believe we need to take a close look at System lending and investment authorities. My goal is to ensure that our regulatory guidance in these areas is fully responsive to the needs of all eligible and creditworthy farmers, ranchers, and rural residents within the boundaries of the Farm Credit Act.

Some Farm Credit institutions and commercial banks are already teaming up to bring more financial resources and expertise to agricultural producers and their rural communities. However, I believe there are more opportunities for this to happen and I look forward to increased cooperation being the trend of the future.

We have also initiated a project in this area called Investments in Rural America and I have asked staff to explore all available partnerships that could increase the availability of funds to agriculture and rural areas.

There are so many issues and challenges facing agriculture today, I believe you need to be an industry working together...not separately.

Please remember, it is not just commercial banks, it is not just USDA or other government agencies, it is not just the Farm Credit System...it is everyone, in partnership with each other, that will make a difference in strengthening agriculture and the rural America of the future.

I never cease to be impressed by our first president George Washington who said...“I know of no pursuit in which more real and important services can be rendered to a country than by improving its agriculture.”

Agriculture is a good life, and I truly believe it is the most honorable endeavor an individual could undertake. I want it to not only survive...but to flourish, so that anyone who wishes to can have the opportunity to share in the richness of the experiences that I, and many of you, have had.

For this to happen demands a strong agricultural sector and vital rural communities. That is the principal reason why the Farm Credit System exists, and it is the role of us at the Farm Credit Administration to ensure that they remain financially capable and operationally equipped to achieve that critical public policy mission.

Thank you very much for having me on your program and enjoy the rest of your conference.