

**Remarks  
By  
The Honorable Nancy C. Pellett  
FCA Board Member  
At the  
Farm Credit System  
National Directors' Conference  
Lexington, Kentucky  
September 14, 2003**

Opening Comments

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. It is an honor to spend time with people like you who care deeply about agriculture and rural America.

The speakers today have provided you with some very valuable insight. I have certainly enjoyed hearing them, and what they had to say as it adds to my learning process.

I have learned a lot over the last 10 months, and I owe much of it to many of you sitting in the audience. The generosity and graciousness of the board and management people I have met with at AgriBank, AgFirst, CoBank, AgStar, FCS of Amercia, Northwest FCS, and Southwest FCS has played an important role in my education and I wish to thank all of them for sharing their knowledge with me.

I have worked very hard, and will continue to work hard, at improving my knowledge on all the issues so that I can best deal with the matters coming before the Farm Credit Administration Board.

My knowledge of agriculture is deep, and my understanding of rural America is deep, as I have worked it, and lived it, my whole life. I trust my experience and I trust my instincts, but more importantly, I trust my heart, and I can assure you that my heart is solidly with agriculture and rural America.

This afternoon I would like to briefly share with you some thoughts in four areas that either impact agriculture, rural America, or the System. Many of you may have heard some of these comments before, but I am glad to have a much broader base of system representatives to share my thoughts with.

My intention is to provide you with a perspective that may be helpful to better understand where I am coming from and what my approach may be, as issues come before the Farm Credit Administration Board.

**The first area I will cover relates to internal controls and governance which you have heard a bit about already today....and from the schedule, looks like you will hear more about tomorrow. That is good, as I believe it is an area of critical importance.**

With all the financial scandals we've seen emerge over the past few years, I believe it is important to reemphasize the need for a strong set of internal controls at the institutions we regulate.

As institutions continue to grow and become more complex, internal control deficiencies place institutions at risk of mismanagement, waste, fraud, and abuse.

Also, I think the demand for evidence of good stewardship certainly increases with System growth, or expansion, as you become more visible and competitive in the marketplace.

Because of this, our examiners will check to ensure that the level and quality of internal controls at your institutions have kept pace with the growth and complexity of your operations.

Now, I know that both Chairman Reyna and Board Member Flory have spoken to many of you about the issue of board governance.

I certainly agree with them, that given the increased size and complexity of operations within institutions ... each board of directors should consider adding additional outside directors with certain qualifications to enhance the depth and breadth of specialized experience on their board.

I also think a separate, standing audit committee is important, and I believe continuing education for directors is critical.

**The second area I will cover involves the structural realities evident in agriculture and rural areas**

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

Nationwide, over 90 percent of all farms are small and the majority of these producers are part-time farmers who do not consider farming their primary source of income. Instead, they rely on additional business opportunities to improve their economic welfare.

These structural realities will be a major factor in FCA policy actions over the next several months.

We seem to be at an important juncture of deciding whether or not we provide the System sufficient regulatory room to accomplish the job they were created to do.

I must tell you that I am extremely honored to be a board member as these issues come to the table, and to be a part of bringing the perspective of rural America to the discussions and decisions.

We are looking closely at several regulations to see if they need to be updated, or whether they are actually needed. And I would urge all of you to provide us your formal comments on these issues.

A more important question is whether the Act provides the System with all the authorities it needs to serve a changed agriculture, marketplace, and rural America. My guess is that most of

you would say no. But changing the Act is a long and difficult process....and I also believe that process needs to be initiated by the System.

**The third area I will comment on, and will probably comment on wherever I speak, is the importance of cooperation**

I believe a key concept for the System to keep in mind as they plan their future is that cooperation is important....maybe even critical.

The System is the oldest of the government-sponsored enterprises. And, as a government sponsored enterprise, you serve an important public purpose....providing American agriculture and the rural areas with a dependable source of credit.

Our basic mission, as your regulator, is to ensure that you remain capable of fulfilling that purpose.

You should be very proud of what you have accomplished, and we in turn are proud of the role we play in supporting your efforts.

However, we regulate a system that operates and competes differently in different parts or regions of the country....and actually that is a good thing.

But, the System lacks a single governing body to resolve internal disputes, and, more importantly, the ability to speak effectively with a single voice on some important issues.

Also, the System invites scrutiny and controversy by moving forward with activities that some may view as exceeding its congressional charter or with which it has limited historic experience or expertise.

This environment creates some regulatory oversight issues that are challenging for the Agency to address. A key concept for us to adhere to is to remain flexible in our approach to issues. However, this is not always an easy thing to do as everyone is looking for an answer that they personally like.

I believe we must encourage, and if helpful facilitate, maximum cooperation among system institutions to better accomplish the mission they were created for.

I also believe we should encourage the establishment of alliances with other organizations that benefit agriculture and rural areas. My dream and vision is for all of us...the System, FCA, commercial banks, USDA-rural development, commodity groups...to coordinate and cooperate more in order to further strengthen agriculture and rural America.

Ladies and gentlemen the voice of agriculture is getting smaller every day. Without unified support amongst all those that serve agriculture, I have concerns that the future of building a stronger Agriculture and a more vital rural America could be difficult.

Increased scrutiny of Government Sponsored Enterprises has basically become a way of life. The System and other GSEs, in general, are consistently being challenged from a variety of sources and on a variety of fronts.

I believe it is wise for all of us, the System and FCA, to be well prepared for being put under the looking glass. The more prepared we are the better off we will be if we are challenged.

### **The last area I will comment on is investing in rural America**

This area is very important to me personally, and I assume it is important to most of you in the audience.

The System and we have spent a lot of time trying to clarify what the limits of lending authorities are, or should be, under our scope and eligibility regulations. This dialogue is good, and as you are aware, we have an active regulatory project underway to address the issues involved.

I would like to suggest that the System also put a similar level of enthusiasm into looking at the authorities granted under our investment regulations. At our board meeting this month, we approved an update to our Unified agenda which is the document that lays out the regulatory projects we intend to work on over the next year.

One project we plan to initiate involves “investments in rural America” which could be a significant update to our July 1999 regulation in this area. We would certainly be interested in your ideas on what mission-related investment activities you believe would be beneficial to rural America, and encourage you to communicate those to us.

In the interim, and based on specific requests that you make, we will consider, on a case-by-case basis, the appropriateness of investments not otherwise authorized by current regulations.

Our goal is to ensure that the System can continue to adjust to market demands and remain a major provider of financial services to agriculture and rural America. I am here to tell you that the FCA Board supports initiatives that will allow institutions to fulfill their mission to finance agriculture and rural America.

Since 1999 System institutions have requested the authority to make some mission-related investments through our current prior approval process.

Staff has evaluated a variety of mission-related investment proposals, including a waste management facility, pasta processing plant, rural telecommunication enterprise, Farmer’s Investment Note program, rural utility bonds, and a joint venture to provide e-commerce to agricultural areas.

You can probably think of more examples of where investments are needed in your own areas.... And again I encourage you to share those ideas with us.

### **Summary remarks**

Well those were the four areas I wanted to cover. Let me conclude by saying that we at FCA are *proud of our past* accomplishments and we are *confident about our future* contributions.

I believe we at FCA 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 regulations that unnecessarily impair the ability of the System to accomplish the mission for which they were created.

Key issues we are dealing with in the near term that will impact your operations include scope and eligibility, syndications, and the young, beginning, and small farmer program. These issues are in the regulation development stage and I would encourage you to comment on our proposals if you haven't already.

### **Closing Remarks**

Some of you have heard me quote George Washington before, and I need to do it again, as I view so many of his thoughts as timeless wisdom.

Our first president said...“I know of no pursuit in which more real and important services can be rendered to a country than by improving its agriculture.” I am sure all of you would agree with that assessment.

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

For this to happen requires 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 you remain financially capable and operationally equipped to achieve your mission.

I truly believe we are all working towards the same goal, though at times it looks like we are at odds with each other. That perception needs to stop. As I noted earlier, without unified support amongst all of us that serve agriculture, I fear the future of building a stronger Agriculture and a more vital rural America could be in doubt.

Again, we at FCA are *proud of our past* accomplishments and we are *confident about our future* contributions. We look forward to working with you.

Thank you, and if there are any questions I will do my best to address them.