

Opening Remarks of the Honorable Nancy C. Pellett
Chairman and Chief Executive Officer
Farm Credit Administration
Before the Committee on Agriculture
United States House of Representatives
June 2, 2004

Mr. Chairman, members of the committee, I am Nancy Pellett, Chairman and Chief Executive Officer of the Farm Credit Administration. On behalf of my Board colleagues, Doug Flory and Michael Reyna, I am pleased to be here this morning to discuss FCA's oversight of the Federal Agricultural Mortgage Corporation, generally known as Farmer Mac.

More extensive remarks on this subject have been submitted and I would ask that they be made part of the record.

The mission of the Farm Credit Administration is to ensure a safe, sound and dependable source of credit for farmers, ranchers, aquatic producers, farmer-owned cooperatives, and rural home owners. To achieve our mission we oversee the operations of two government-sponsored-enterprises devoted to agriculture and rural America: the banks and direct lending associations of the Farm Credit System and Farmer Mac.

Farmer Mac is a privately-owned and publicly-traded Government Sponsored Enterprise that we regulate through our Office of Secondary Market Oversight, which we refer to as OSMO. As a publicly traded corporation, Farmer Mac must also comply with New York Stock Exchange listing standards and requirements, and unlike other GSEs, Farmer Mac, by statute, must comply with federal securities laws.

In response to the farm credit crisis of the mid-1980's, Congress, in 1987, established Farmer Mac to develop a liquidity source similar to that provided for residential mortgages by the housing GSEs, Fannie Mae and Freddie Mac. The 1996 amendments to Farmer Mac's authorizing legislation have allowed it to grow its business and achieve economic viability, which was by no means assured during the first few years of its existence.

In our regulatory oversight role, we issue regulations and conduct an annual examination to ensure the safe and sound operation of Farmer Mac. The examination combines onsite and

offsite activities that result in a report of examination to the Farmer Mac Board. We have regulatory enforcement powers that are similar to those of other federal financial regulators, though somewhat broader in the area of receivership authorities.

FCA oversight activities of Farmer Mac have increased significantly during the past couple of years due to Farmer Mac's rapid growth and a changing risk profile.

For safety and soundness reasons, and to be consistent with our past practices, FCA does not comment on any institution-specific examination findings and recommendations. Therefore, I hope you will appreciate that I may not be able to respond to certain questions in open session that relate to our examination of Farmer Mac.

We agree with the recommendations in the recent GAO Report on Farmer Mac and have taken action in several areas.

In April, the FCA Board approved a proposed rule on non-program investments and liquidity that addresses issues about Farmer Mac liquidity planning and mission focus. The rule, when finalized, would set limits on the amount and type of non-program, liquidity investments that Farmer Mac would be permitted to hold.

Additionally, FCA is developing a proposed rule to revise numerous aspects of the Risk-based Capital Stress Test and analyzing additional regulatory requirements that Farmer Mac should consider in its overall capital adequacy planning.

Further, we have made several revisions to Farmer Mac reporting requirements that will enhance our offsite monitoring efforts of Farmer Mac.

FCA is also analyzing the approaches taken by other regulators to require their regulated entities to obtain credit ratings. This analysis will help the FCA Board decide whether a formal rule is needed in this area.

Lastly, in response to the GAO report, we are developing a plan that will consider different approaches for assessing Farmer Mac's impact on the agricultural real estate market.

In addition to the actions we have taken, FCA supports the suggestions GAO made to Congress. In particular, we support greater flexibility for the regulator to set capital standards as Farmer Mac grows and its risk characteristics continue to change.

In conclusion, Mr. Chairman, FCA is committed to Farmer Mac's success and the achievement of its statutory mission to serve agriculture and rural America. We continue to enhance our regulatory oversight of Farmer Mac and I believe we are well positioned to ensure Farmer Mac has the capability to succeed in the future.

Thank you for the opportunity to appear before you today and I, or Tom McKenzie, our Director of OSMO, who has accompanied me today, stand ready to answer any questions you or members of the Committee might have.