Remarks by Vincent G. Logan
Board Chairman and CEO
Farm Credit Administration
Farm Credit Annual Meeting
Washington, D.C.
January 30, 2024

Thank you, Jon, for your kind introduction, and thank you, Todd, for the invitation to speak once again at the Farm Credit Council's annual meeting. This is my second year to have the privilege of addressing this group, and it's nice to see you all again.

Before I go further, I give my respect to the peoples who traditionally inhabited the lands we are upon. I acknowledge that we are on the ancestral homelands of the Nacotchtank, Anacostan, and Piscataway peoples.

In my speech last year in San Diego, I shared with you my intention to visit your districts, meet with you in person, and learn about some key topics.

I was fortunate to be able to do that, and I can't thank you enough for the hospitality you extended toward me and my staff during those visits. You took the time to help me get to know you, your institutions, and your lending territories. I also met some of your borrowers, and I especially appreciate your arranging those opportunities for me.

Now as I head into year two and better understand the challenges *you* face as lenders and *we* face as a regulator, the vision for the future is taking shape. In my previous roles before coming to FCA, particularly as an investor, planning was always long term, a set time horizon — how do we structure our portfolio for 5, 10, or even 20 years?

Since FCA will be celebrating its centennial in 2033, I've been asking around the agency: What's the FCA going to look like in 2033? What will the System look like? How will the System change? How will the delivery of financial services evolve? What skills, tools, and resources will the agency need? While my term ends well before 2033, we want to make sure that the System can continue to deliver on its important mission for many years to come. To help us do that, the FCA board has agreed on four priorities.

Key priorities

Our *first* priority — and it's safe to say we all know this, but it bears repeating — is *ensuring the safety and soundness of the Farm Credit System*. This must always be FCA's top priority because that's our public mission, and since safety and soundness is impossible without good governance, we're going to emphasize tools like internal controls and standards of conduct.

As I said, we are thinking about the future state of the System and FCA, and, specifically, how examination of institutions may evolve with new technologies. And that's where our second priority comes in: *preparing for financial innovation*.

As an agency, we must ensure that we have the skills and technologies to fulfill our role as regulator and to serve as a thought leader in the regulatory community. Financial technologies like artificial intelligence and cloud computing are reshaping the world. We know that many System institutions are looking at how they can use innovation to better serve their customers. As a federal agency, we too are looking at how we can use innovative solutions to make us a more effective regulator.

One of the anticipated benefits of innovation is that it can bring financial products to more consumers. I'm excited about this potential benefit because it can help us achieve our third priority: to *ensure that the System serves* ALL *creditworthy borrowers*.

Congress created the System in 1916 to meet the credit needs of farmers, ranchers, and the rural communities in which they live. Supporting the principles of diversity, equity, inclusion, and accessibility (or DEIA) can help you achieve that important mission by helping you reach individuals in underserved communities.

Our *fourth* priority is to *ensure that FCA remains one of the best places to work* in the federal government. It sounds like a standalone, but it is not. To truly make progress on our other priorities, we must continue to attract high-performing professionals to join our team. Further, in the feedback we've received, you have indicated that you *want* our examiners to have the skills and experience necessary to do their jobs well. Maintaining the agency's status as a best place to work is critical to our efforts to keep this agency flourishing for years to come.

Accomplishments of 2023

Regulatory activities

Having outlined these priorities and how they work together to allow us to meet the challenges of the future, I'd like to share some of the ways we've advanced them over the past year.

I'll start with our regulatory activities.

In November, we strengthened safety and soundness by adopting the final rule on conservatorship and receivership.

In October, we advanced innovation, as well as safety and soundness, when we adopted a final rule on cyber-risk management. This rule, which takes effect on Jan. 1, 2025, is not prescriptive but principles-based; it gives you more flexibility to determine how best to detect, monitor, and manage risks.

Also in October, we advanced our priority to ensure the System's service to all creditworthy borrowers when we issued the final rule concerning young, beginning, and small (or YBS) farmers and ranchers. This rule was published on Dec. 27 and will become effective later this year.

Guidance documents

We also advanced our priorities through the guidance documents we issued.

For example, to help institutions comply with YBS regulations and to convey the change in the definition of small farmers, we updated our YBS bookletter. We also issued an informational memo on our stress testing expectations.

All of these documents advanced the priority of safety and soundness, but we also issued guidance to support diversity and inclusion. This past year marked the 10-year anniversary of the implementation of the business planning rule. To commemorate this anniversary, we issued an informational memo in July to convey our expectation for institutions to reach out to underserved groups, both for lending and hiring purposes.

In addition, I issued two memos in November to encourage your institutions to strengthen service to Native Americans and to military veterans. My goal in both cases is to make sure that the System does all it can to deliver services to eligible, creditworthy members of these groups.

Our regulatory and guidance activities are just some of the ways we advanced our priorities in 2023. I'm proud of the progress we made last year, and now I'd like to focus on 2024.

Condition of the System

I feel very optimistic about the year ahead. The condition of the System is solid. Through the first nine months of 2023, your loan portfolio performed well. Nonperforming assets remained low, and year-to-date earnings were *up* slightly. Further, as a professional investor, I can tell you that System bonds remain in high demand, and the System is well funded.

With regulatory capital and liquidity levels above regulatory minimums, your institutions are in a good position to help owner-borrowers who may face financial difficulties this year. By using a responsible amount of your capital reserve to help struggling customers, you can strengthen your reputation as a steadfast friend to the farmer.

Now that we have touched on the condition of the System, I want to turn back to the board's four priorities and outline some of the activities we're undertaking in 2024.

Safety and soundness through good governance

I'll start out with our *first* priority: safety and soundness.

Examination focus areas for 2024

This past September, we issued an informational memo laying out the five examination focus areas of our national oversight plan for fiscal year 2024.

The first area is cybersecurity. As lenders, you have to be wary of many types of threats — from data leaks, to ransomware attacks, to supply chain challenges.

The second exam area of focus is capital markets loan growth and increased risks in large, shared assets and certain commodity segments. We expect you to have effective processes and the right personnel in place to identify and manage these risks.

The third exam focus area is long-term financial stewardship because robust asset growth has caused System regulatory capital levels to trend down and leverage to increase.

The fourth exam focus area is stress analysis in a period of heightened volatility and uncertainty. The impact of rapidly rising interest rates on some commercial banks in early 2023 was a reminder of the importance of robust stress testing.

Our fifth area of focus during examinations this year is standards of conduct. We are evaluating the policies and procedures you need to properly implement the revised regulations.

You'll notice that, for all five of these exam focus areas, we're focusing on governance tools like policies, procedures, programs, and frameworks. That's because, as we all know, safety and soundness cannot exist without good governance.

Consolidation

While we're on the topic of safety and soundness, let's talk about consolidation. Usually, when we think about consolidation, we think about mergers. But what about shared-service contracts and joint-management agreements? Questions related to consolidation can also come up there. Regardless of the nature, consolidation can have safety and soundness implications. It can also affect the System's ability to serve its owner-borrowers and to operate according to cooperative principles.

From my perspective, it's the outcome that matters. As the regulator, we will continue to evaluate any proposal, regardless of its form, to identify risks it may present to safety and soundness, to cooperative principles, and to the System's ability to fulfill its congressional mission.

Innovation

Now I'd like to move on to innovation, the board's *second* priority. I'm excited about innovation because of the many ways it can strengthen the System's ability to fulfill its mission. Innovation can come in many forms, and I commend you for the various ways you've already embraced it.

Artificial intelligence tools and other cutting-edge technologies are helping financial institutions to better serve and protect their customers. For example, AI has exponentially increased the ability to monitor and fight off cyberattacks.

In the same breath, I'd be remiss not to mention that technologies like these can also *create* risk. The more sophisticated lending models, for example, can create explainability problems, making it difficult to show why a loan application might have been rejected.

Financial institutions also have to watch out for operational risks. Overreliance on technology without robust backup systems can disrupt critical banking operations and lead to financial losses. Implementing innovative technologies may also raise concerns among customers regarding the privacy and security of their financial information.

But like them or not, these technologies are not going anywhere. The question is not *whether* to adopt them but *how*.

I believe that the key to success is *responsible* innovation. Like all financial institutions, you will need to understand both the benefits and the risks of the technologies you adopt, and you will need to identify ways to mitigate those risks. As your regulator, we're here to help.

As we all know, FCA's role is to ensure that the System remains safe and sound, that credit is available, and that institutions focus on serving all creditworthy borrowers, *including* those who are underserved. We believe that innovation can help us do all these things.

To that end, I'm pleased to formally announce that we have established an innovation working group, which includes experts from across the agency. The purpose of the working group is to use the power of advanced technologies to strengthen our abilities as a regulator.

Last week, I heard that you have made plans to engage in regular communications with our working group via the Presidents Planning Committee. That's wonderful news. The collaboration of these two groups can lead to rapid progress in our understanding of the benefits and challenges that financial innovations can produce.

The first task of our own working group has been to propose an approach to guide the agency's innovation-related activities, and I'm pleased to report that these efforts have been fruitful. Today, the FCA board will be issuing a philosophy statement on innovation (PDF). Some of the goals of this philosophy are to

- establish open dialogue with the System,
- create opportunities to learn more about emerging trends in financial technology, and
- collaborate with other financial regulators.

The philosophy statement also recognizes that, just as institutions differ in size and business strategy, your approach to innovation will also differ. But regardless, you should always center your decisions on the borrower's experience, sound risk management, support for the System's mission, and consistency with cooperative principles.

Our innovation working group has also been exploring new ways for FCA to adopt innovative technologies and practices to enhance our own work. To this end, we're launching "FCALabs," a dedicated hub where experts across the agency can learn from each other, collaborate, and explore new tools, technologies, and approaches in service to our mission. FCALabs will help us respond to the fast-changing and complex demands the System faces.

Serving the needs of ALL eligible, creditworthy borrowers

Now to the *third* priority, which relates to your public mission.

The System can be perfectly safe and sound but fail in its mission if it does not meet the credit needs of *all* eligible, creditworthy borrowers, including those from underserved communities. When you prioritize diversity in your leadership, workforce, and business models, you help increase the diversity across your customer base. The one attracts the other.

Here is an example that directly impacts the System:

A couple years ago, the Funding Corporation decided to make a concerted effort to increase the diversity of its pool of bond dealers. The result was interesting. Not only did these efforts increase the diversity of dealers but also the diversity of buyers, and the timing was perfect because, just as some of the Funding Corporation's buyers were reducing their purchases of System securities, the new buyers were there to offset that reduction. In short, taking steps to diversify their dealer base was *good for business*.

I raise this point to highlight the business case for DEIA. These principles not only support communities that have traditionally been underserved; they also bring business advantages to the organizations that implement them.

I commend the Funding Corporation for taking steps to strengthen the diversity of its bond dealers, and I know there are many examples throughout the System where you are stepping up to help underserved groups.

Recently, Compeer sent a thoughtful response to my memo on serving tribal communities. Compeer is looking to expand its involvement in Indian Country business development in a very intentional way, and we look forward to discussing the possibilities with them. I greatly appreciate this and all such efforts, and I firmly believe that they will yield good business results.

As an organization, we too are stressing DEIA principles. In my memo to encourage the System to serve the credit needs of Native Americans, I emphasized the importance of having a designated tribal liaison to engage with Indian Country. We have led by example in this area by hiring Tyler Fish, who has been working for several years to bring economic development opportunities to Native American communities. He will be spearheading a robust tribal engagement schedule for FCA this year. Tyler is a member of the Cherokee and the Muskogee Creek Nations. He is also, by the way, a former Marine although I'm told there's no such thing.

In addition to making sure we have staff resources to support diversity, we are also considering new ways the System can better serve different populations. To start, I am excited to share that we have full FCA board commitment to review, and consider for approval, mission-related investment requests in Indian Country.

In recent years, the board has primarily approved rural health care facilities as mission-related investments. In addition to these types of requests, the board will now consider a broader array of investment projects when they are tied to a tribal community; the projects might include electrification, broadband, water, or housing. The infrastructure needs of Indian Country are great, and these types of investments could help these communities thrive economically. We encourage you to identify possible projects there for us to consider for approval as mission-related investments.

I am very encouraged by the efforts you've already made to reach underserved communities, and I look forward to hearing your ideas about ways to strengthen this work.

Keeping FCA one of the best places to work in the federal government

I'll conclude by briefly noting the *fourth* priority: ensuring that FCA remains one of the best places to work in the federal government. We all benefit when the agency is able to recruit and retain the best and the brightest. Topnotch employees are not that easy to find, so when you find them, you want to keep them.

Take Karen Blue, for example. Karen has served the agency for 35 years, providing critical support to our examination team for Farmer Mac and our Office of EEO and Inclusion. In April of last year, Karen fell and broke her leg. As you can imagine, you cannot easily replace more than three decades of institutional knowledge and skills. So what did we do?

We gave her the tools she needed to work remotely while she recovered. We also equipped her office and nearby common areas with accommodations so they would be ready when she returned. And this past week, she did just that. Investing in our workforce and in DEIA helped us retain a highly valuable member of our team.

Plus, our commitment to recruiting and retaining employees like Karen can give *you* greater assurance that the FCA staff who monitor, oversee, and examine your institutions have the skills and the dedication to do the job right. It also gives your investors more confidence in the safety and soundness of their investments, and it gives Congress and the American people faith that the System is fulfilling its public mission.

Together, these four priorities constitute a powerful strategy for success. As we approach 2033, the progress we make toward achieving these priorities will position the agency to better tackle the challenges of the next 100 years.

Conclusion

As I close today, I want to acknowledge and thank my fellow board members – Jeff Hall and Glen Smith. Their partnership and commitment to the mission of the agency has made the work of the last year possible.

I also want to thank all of you again for your hospitality during my visits. It has been an honor and a privilege for me to lead FCA this past year, and my visits with you were certainly among the highlights.

And finally, thank you for your work with us during examinations. Your willingness to address concerns our examiners identify speaks volumes about your integrity and commitment to the System's mission.

We look forward to continuing to work with you in 2024 to ensure that the farmers, ranchers, and rural communities of our nation have the credit they need to survive and thrive. Thank you.