

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000



October 31, 2008

To: Board of Directors
Each Farm Credit System Institution

From: Leland Strom
Chairman and Chief Executive Officer

A handwritten signature in black ink that reads 'Leland Strom'.

Subject: Current and Future Challenges

As we move forward through these challenging and turbulent times, I would like to share my thoughts with you about the important function the Farm Credit System serves and the challenges it faces.

Over the years, the System has provided critical and consistent support to America's farmers and ranchers, who have made the United States the most productive agricultural nation in history. Americans enjoy the safest, most affordable, and abundant food supply in the world. Without question, America's farmers and ranchers and their cooperatives have always had and will continue to have an important role in the U.S. economy and in providing food, fiber, and energy to the world.

For the role the System has played in the achievements of U.S. agriculture, we can all be very proud. The System's credit and financial services provide a vital underpinning for American agriculture's productivity and profitability.

Of course, the challenges ahead are many. Currently, we see significant volatility in commodity and input prices, uncertain land values, failing financial institutions, massive credit disruptions worldwide, and the threat of a serious recession. The trouble that began in the domestic housing finance sector has spread from the housing GSEs to investment banks, commercial banks, and now, apparently, into the insurance industry. There are global shocks in the financial and equity markets, and the U.S. and other governments have stepped up to provide unprecedented assistance. These issues have greatly increased the level of marketplace uncertainty, making it much more difficult to predict what will happen next, when the eventual turnaround will come, or what consequences the recent government actions may bring.

Even with this uncertainty, there is the good news that the institutions of the Farm Credit System remain strong. The System is safe and sound, with good credit quality, adequate capital, strong earnings, and sufficient liquidity. As a System leader, you have worked hard to ensure that the cooperative Farm Credit System, built by and for farmers and ranchers, can fulfill its mission and meet the challenges of serving the Nation's farmers, ranchers, and their cooperatives during good times and bad.

And strong leadership is now more important than ever. I urge you to guard against and proactively manage emerging risks that threaten your institution. Your continued leadership is important to ensure that creditworthy farmers and ranchers, their cooperatives, and others eligible under the Farm Credit Act, continue to be served.

The crisis of the 1980s tested the mettle of the System. But over the past two decades, Farm Credit System leaders restored the System to financial health and built capital levels and investor confidence. As a System association board member during the 1980s, I saw those rough times but knew then, as I do now, that the System will manage through whatever may occur. Your proactive leadership during the current environment will provide U.S. agriculture continued access to credit, which is so critical to its ongoing economic success.

As the System's safety and soundness regulator, FCA will do its part to ensure that you have the guidance you need to keep your institution safe and strong. FCA staff has stepped up its efforts to monitor and respond to events that may arise in the current environment. We will continue to communicate with you for the continued success of your institution and the System as a whole. We will also maintain close contact with the Federal Farm Credit Banks Funding Corporation and the Farm Credit banks to support market access at competitive rates. And we will work with other financial regulators to raise their awareness of the impact of their actions on FCS institutions in an effort to support a level playing field with other regulated financial institutions.

In closing, these turbulent times will provide both challenges and opportunities. The System has positioned itself to weather this storm and provide credit to creditworthy farmers and ranchers, their cooperatives, and others eligible under the Farm Credit Act. FCA will continue to support the System in fulfilling that mission.

Copy to: Chief Executive Officer
Each Farm Credit System Institution