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Highlights

Highlights of GAO-04-116, a report to congressional requesters

Why GAO Did This Study

In the late 1990s, GAO found that the Federal Agricultural Mortgage Corporation (Farmer Mac), a federal government-sponsored enterprise, had significant assets in nonmission investments and analyzed its long-term viability. Recently, Congress asked GAO to report on Farmer Mac's (1) financial condition, (2) mission, (3) corporate governance, and (4) oversight provided by the Farm Credit Administration (FCA).

What GAO Recommends

GAO recommends that Farmer Mac improve its risk management and corporate governance practices, including improve its loan loss estimation model, and develop a contingency funding liquidity plan.

GAO also recommends that FCA improve the model that analyzes Farmer Mac's credit risk and assess Farmer Mac's impact on the agricultural real estate market.

GAO suggests that Congress consider legislative changes that would establish clearer, measurable mission goals for Farmer Mac; amend Farmer Mac's board structure; and allow FCA to adjust capital standards for Farmer Mac.

Farmer Mac agreed with some GAO findings and recommendations and did not address others. FCA agreed with GAO's findings and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-116

To view the full product, including the scope and methodology, click on the link above. For more information, contact Ms. Davi M. D'Agostino or Ms. Jeanette Franzel at (202) 512-8678.

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FARMER MAC

Some Progress Made, but Greater Attention to Risk Management, Mission, and Corporate Governance Is Needed

What GAO Found

Farmer Mac's income has increased since 1999, and its capital continues to exceed required levels. At the same time, we identified trends that indicated a more complex risk profile. For example, its off-balance sheet standby agreements have grown 350 percent in 3 years and comprise nearly 50 percent of Farmer Mac's total loans. To date, the underlying loans have been performing better than the on-balance sheet loans. However, if rapid growth in standby agreements continues, and Farmer Mac were to undergo stressful economic conditions, it could face substantial funding liquidity risk. Farmer Mac has risk management systems in place, but certain aspects of its risk management capacity have not kept pace with its increasingly complex portfolio. For example, the loans used in the loss estimation model have characteristics that differ from Farmer Mac's portfolio both with respect to geographic distribution and interest rate terms. In addition, although Farmer Mac has maintained sufficient liquidity to support its loan purchase and guarantee activity, it has lacked a formal contingency plan to address potential liquidity needs under stressful agricultural economic conditions.

Since our 1999 report, Farmer Mac has significantly reduced the ratio of nonmission investments and correspondingly increased its mission activities—providing long-term credit to farmers and ranchers at stable interest rates. These activities include loan purchases, guarantees, and commitments related to agricultural mortgages. However, there is geographic and lender concentration in the loan and guarantee portfolio, and the overall impact of the activities on the agricultural real estate market is unclear. Farmer Mac's enabling legislation lacks specific or measurable mission-related criteria that would allow for a meaningful assessment of its mission achievement. In addition, the depth and liquidity of the current market for agricultural mortgage backed securities (AMBS) is unknown because Farmer Mac's strategy of holding AMBS has been a contributing factor in limiting the development of a liquid, secondary market for these securities.

The Sarbanes-Oxley Act of 2002 and the proposed New York Stock Exchange (NYSE) listing standards are both applicable to Farmer Mac because its securities are publicly traded and listed on the NYSE. However, Farmer Mac's efforts to meet the new standards regarding an independent board could be limited by its statutory board structure. Under its statute, two-thirds of the board's directors are elected by institutions that have a business relationship with Farmer Mac and own the only two classes of voting stock. Since 2002, FCA enhanced oversight of Farmer Mac by performing a more thorough annual safety and soundness examination, and by proposing liquidity standards and regulatory limits for nonmission investments. However, FCA still faces challenges, including limitations in its tools to analyze capital and credit risk, as well as the lack of criteria and procedures to assess and report on Farmer Mac's mission achievement.