Farm Credit Administration

. . . we ensure a dependable source of credit for agriculture and rural America









2003 Annual Report

Contents

Photo credits:
Bachrach, FCA Board Portrait and page 3.
Olive Rosen, page 27.

Farm Credit Administration Board

The Farm Credit Administration Board
Clockwise from center: Michael M. Reyna, Chairman and CEO; Douglas L. "Doug" Flory; and Nancy C. Pellet.

Statement of the Chairman and CEO

January 2004

My Fellow Citizens,

On behalf of my colleagues on the Farm Credit Administration Board of Directors and the men and women of this agency, I invite you to review our 2003 Annual Report.

Our agency is congressionally mandated to ensure a dependable source of credit for agriculture and rural America. We accomplish this mission in two important ways. First, we conduct on-site financial safety and soundness examinations of each Farm Credit System (FCS or System) institution. These examinations also focus on whether System institutions are meeting their public mandate to serve all eligible borrowers having a basis for credit.

Secondly, we approve corporate charter changes and research, develop, and adopt rules, regulations, and other guidelines that govern how System institutions conduct their business and interact with their customers. If, in the conduct of its business, a System institution violates a law or regulation, or does not meet safety and soundness standards, we can use our enforcement authorities to ensure the problem is corrected promptly.

The System is a nationwide network of borrower-owned financial institutions and related service organizations that provide credit to farmers, ranchers, and their cooperatives in all 50 states and Puerto Rico. As the nation's oldest government sponsored enterprise, the System serves a broad public purpose by preserving liquidity and competition in rural credit markets during both good and bad economic times.

During 2003, the System has had a solid record of performance. Capital levels have continued to increase through retained earnings and stock purchases, and asset quality has remained high. Our examinations have concluded that the System and each of its institutions are fundamentally sound in all material respects. The System has knowledgeable and experienced managers at all levels and year-over-year earnings are up.

We will remain ever vigilant in our efforts to ensure that the System remains financially strong and mission focused on agriculture and rural America for generations to come. We welcome your comments on ways we can continue to improve our operations and, hence, better fulfill our role and responsibility. If you have questions, comments, and or concerns, please call me personally at (703) 883-4005.

All the best, always!

Michael M. Reyna
Chairman and CEO
Farm Credit Administration

Farm Credit Administration Organization and Mission

The Farm Credit Administration (FCA or agency) is an independent agency within the executive branch of the U.S. government responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System, including the Federal Agricultural Mortgage Corporation (Farmer Mac). The FCS is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, and producers or harvesters of aquatic products, farm-related service businesses, rural homeowners, agricultural and aquatic cooperatives, and rural utilities.

Originally created by a 1933 executive order of President Franklin D. Roosevelt, today's FCA derives its powers and authorities from the Farm Credit Act of 1971, as amended (Farm Credit Act or Act). The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee the FCA and the FCS.

FCA's mission is to promote a safe and sound, competitive Farm Credit System to finance agriculture and rural America as authorized by Congress. We do this in two specific ways. First, we conduct examinations of Farm Credit System institutions to monitor and oversee the safety and soundness of their ongoing activities. These examinations also focus on whether System institutions are meeting their public mandate to serve all eligible borrowers. Second, we approve corporate charter changes and research, develop, and adopt rules, regulations, and other guidelines that govern how System institutions conduct their business and interact with their customers.

If a System institution violates a law or regulation, or its operations are unsafe or unsound, FCA may use its enforcement authority to ensure that the problem is corrected. FCA also protects the rights of borrowers, issues and changes the charters of FCS institutions, reports to Congress on the financial condition and performance of the FCS, and approves the issuance of System debt obligations.

The agency maintains its headquarters and a field office in McLean, Virginia. There are also field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

The FCA Board

FCA policy and its regulatory agenda are established by a full-time, three-person Board, whose members are appointed by the President of the United States with the advice and consent of the Senate. They serve six-year terms and may not be reappointed after serving full terms or more than three years of previous members' terms. The President designates one member as Chairman of the Board, who serves until the end of his own term. The Chairman also serves as FCA's Chief Executive Officer (CEO).

Michael M. Reyna

Chairman and CEO

Michael M. Reyna is Chairman and CEO of the Farm Credit Administration, the independent federal agency responsible for regulating and examining both the Farm Credit System and the Federal Agricultural Mortgage Corporation. As the primary regulator of these two government-sponsored enterprises, Mr. Reyna was appointed to a six-year term on the three-member FCA Board of Directors by then-President William J. Clinton on October 22, 1998; his term expires May 21, 2004.

Mr. Reyna also serves as a Member of the Board of Directors of the Farm Credit System Insurance Corporation. The Insurance Corporation, which is an independent U.S. Government corporation, is responsible for ensuring the timely payment of principal and interest on insured notes, bonds, debentures, and other obligations issued on behalf of Farm Credit System banks. The Insurance Corporation was established on January 6, 1988, with enactment of the Agricultural Credit Act of 1987.

Before his appointment to the Board, Mr. Reyna served as the President's Director of the U.S. Department of Agriculture's (USDA) Rural Development (formerly known as Farmers Home Administration) in California from November 1993 to October 1998. In this capacity, Mr. Reyna was responsible for growing and managing a diversified portfolio of housing, business, and infrastructure loans totaling more than $2.6 billion. He implemented a number of significant initiatives in California, including the Northwest Economic Adjustment Initiative, the Rural Empowerment Zone-Enterprise Community program, the AmeriCorps program, and several Reinventing Government initiatives.

Prior to his federal service, Mr. Reyna served at the state level for 11 years as a principal advisor to the California State Legislature, working on financial service industry regulation and a wide range of issues, including housing, economic development, local government finance, and political reform. He was an appointed member of several local commissions, including the Sacramento City Planning Commission, which he served as Chairman in 1993. In addition, he was a founding board member of Meadowview Community Action, a local nonprofit agency. While attending graduate school in Texas, Mr. Reyna served as a private consultant to Governor Bill Clements' long-range strategic planning effort known as the Texas 2000 Project. In this capacity, he developed and implemented a computer-based simulation model that estimated employment and population trends in Texas through the year 2000.

Mr. Reyna is the recipient of the LBJ School Alumni Association's Distinguished Public Service Award for 2003. In 1998 and 1999, he received awards from the California Rural Builders' Council, the Rural California Housing Corporation, the California Coalition for Rural Housing, and the Valley Small Business Corporation, in recognition of his leadership and commitment to rural America. In 1996, Mr. Reyna received Vice President Al Gore's Hammer Award for helping reinvent the USDA Rural Development Business and Industry Loan Guarantee Program. The California State Senate and Assembly also acknowledged him for his many contributions while on staff.

Mr. Reyna, a native of Texas, holds a bachelor's degree in business administration from the University of Texas at Austin and a master's degree in public policy from the LBJ School of Public Affairs at the University of Texas. He and Karen, his wife of 23 years, have two sons.

Douglas L. “Doug” Flory

Board Member

Douglas L. “Doug” Flory was appointed to the three-member FCA Board by President George W. Bush on August 1, 2002, for a term that expires October 13, 2006. He also serves as Chairman of the Board of Directors of the Farm Credit System Insurance Corporation. He was elected to this position in December 2002.

Mr. Flory brings extensive experience in production agriculture, agribusiness, and both commercial bank and Farm Credit lending to his position on the FCA Board. His farming operation includes Bunker Hill Farm where he annually produces 120,000 tom turkeys. He is also 50-percent owner of S & F, L.L.C., a general livestock, grain, and hay farm covering 1,300 owned and leased acres in Virginia’s Augusta County.

Before his appointment to the FCA Board, Mr. Flory was a member of the board of directors of AgFirst Farm Credit Bank in Columbia, South Carolina, and a director of Farm Credit of the Virginias, ACA, in Staunton, Virginia. He also served as a member of the Farmer Mac Appraisal Standards Committee.

He was executive vice president of Dominion Bank from 1971 to 1988, and also president, CEO, and director of Dominion Farm Loan Corporation. During his banking career, he chaired the Virginia Bankers Association Committee on Agriculture and was a member of the Executive Committee of the American Bankers Association’s agricultural division. From 1989 to 1992, he was executive vice president, chief operating officer, and a member of the board of WLR Foods, Inc., a publicly traded poultry food company (now part of Pilgrim’s Pride).

Mr. Flory has served on several governing boards for the Commonwealth of Virginia. He was appointed to the Virginia Agricultural Council, a state advisory board, and the Virginia Agriculture Credit Committee, which he chaired. He also served on the Virginia Agricultural Development Authority, which uses “aggie bonds” to finance Virginia farmers.

Mr. Flory has been an active participant in agriculture industry associations. He has served as President of the Virginia Turkey Association and as president and director of the Rockingham County Fair Association. He also served as a director of the Virginia Poultry Federation, the Virginia Agribusiness Council, the Virginia Beef Cattle Association, and the Virginia Sheep Association.

Mr. Flory, a native of Augusta County, Virginia, attended Bridgewater College in Bridgewater, Virginia, and earned a bachelor’s degree from Virginia Polytechnic Institute and State University in Blacksburg. He did graduate work at James Madison University and is a graduate of the Maryland–Virginia School of Bank Management at the University of Virginia. He and his wife Avery are the parents of two daughters and a son.

Nancy C. Pellett

Board Member

Nancy C. Pellett was appointed to the three-member Farm Credit Administration Board by President George W. Bush on November 14, 2002, for a term that expires May 21, 2008. She also serves as a member of the Board of Directors of the Farm Credit System Insurance Corporation.

Ms. Pellett brings to her position on the FCA Board extensive experience in production agriculture and agribusiness. In partnership with her husband, she managed a family-owned cattle farm from 1966 until her appointment to the FCA Board. She served as vice president and secretary of Prairie Hills, Ltd., a feedlot, cow-calf, and row crop operation in Atlantic, Iowa, from 1979 until 2002. Ms. Pellett was president and treasurer of Fredrechsen Farms, Ltd., a family-owned swine and row crop operation in Walnut, Iowa, for more than 20 years.

A long-time beef industry leader, Ms. Pellett has held state and national leadership positions in cattlemen's industry organizations. As a member of the National Cattlemen's Beef Association she has served as the Chairman of the Check-Off Division, Chairman of the Consumer Marketing Group, and most recently as a member of the Cattlemen's Beef Board. She also has been President of the Iowa Beef Industry Council.

She is a partner in Premium Quality Foods, Inc., based in Red Oak, Iowa, which markets branded fresh beef and pre-cooked beef entrees. Previously she served as president and consumer marketing director for the company.

Ms. Pellett served a six-year term as a member of the Board of Regents for the State of Iowa, which oversees the three state universities, as well as the University of Iowa Hospital and its affiliated clinics. She was also selected as a member of the Governor's Student Aid Commission. She is currently on the Iowa State University (ISU) Foundation Board of Governors and has been a member of the advisory committees for the College of Agriculture and the College of Family and Consumer Sciences. She is past president of the ISU Alumni Association and was awarded the Alumni Medal in 1987. The Pellett family was honored as the "Family of the Year" by ISU in 1997.

Dedicated to the future of agriculture, she has worked with 4-H and FFA at the local and state levels, and has served on the Iowa 4-H Foundation Board. She is a founding member of the 4-H/FFA "Sale of Champions" Committee for the Iowa State Fair.

A native of Walnut, Iowa, she holds a B.S. from Iowa State University at Ames. She and her husband have four children. The Pellett family received the "Friends of Youth Award" in 2000 from the Knights of AkSarBen, a foundation that supports education, youth programs, and rural development in Nebraska and western Iowa. Together with a son and daughter-in-law, Ms. Pellet and her husband operate a fifth-generation family farm in Atlantic, Iowa.

FCA — The Agency

The 284 full- and part-time employees[1] of the Farm Credit Administration work together to ensure that the Farm Credit System remains a dependable source of credit for agriculture and rural America. In summertime, they are supported in FCA's offices by interns who gain valuable government and business experience.

The following paragraphs explain the role of each of the agency's offices.

The FCA Board approves the policies, regulations, charters, and enforcement activities that ensure a strong Farm Credit System. The Board also provides for the examination and supervision of the FCS, including Farmer Mac, and oversees the FCS Building Association's (FCSBA) activities.

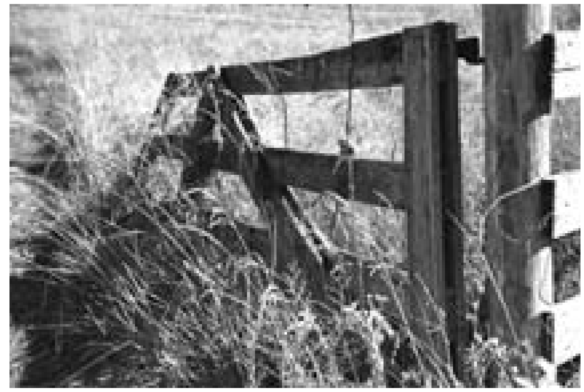
The Secretary to the Board ensures that the FCA Board complies with all public disclosure laws, coordinates a smooth flow of information to the Board members. The office also ensures that rulemaking documents comply with *Federal Register* publication requirements; maintains and issues the FCA Handbook, containing the agency's regulations, policy statements, Bookletters, and applicable statutes; and is responsible for the direct data entry of FCA's portion of the Unified Agenda of Federal Regulatory and Deregulatory Actions.

The Office of the Chief Executive Officer enforces the rules, regulations, and orders of the FCA Board and is responsible for planning, organizing, directing, coordinating, and controlling agency operations.

The Office of the Chief Operating Officer plans, organizes, and directs a wide range of agency functions. It manages the day-to-day operations of the agency and serves as liaison to the FCA Board for development of regulations and Board policies. The office also supervises the development and implementation of operating and performance plans and budgets to ensure streamlined and efficient operations.

The Office of the Ombudsman serves as a neutral and confidential resource for institutions of the Farm Credit System and other parties relative to inquiries or complaints they may have with respect to actions of the agency; acts to facilitate the resolution of problems or complaints in a fair, impartial, and timely manner; and provides recommendations to the Chairman and Chief Executive Officer to improve agency policies, procedures, and practices based on investigation or analysis of inquiries and complaints.

1. As of September 30, 2003.



The Office of Congressional and Legislative Affairs directs all agency congressional relations activities, informs and advises the FCA Board and senior management of developments and issues affecting the agency and/or System, drafts testimony, and coordinates all agency communication with Congress. The office conducts briefings and provides information and educational materials to Members of Congress and their staffs and monitors and analyzes information obtained from multiple sources.

The Office of Communications and Public Affairs manages the production of all agency information disseminated to the agency's various audiences, including FCS institutions and borrowers, Congress, the media, other federal agencies, employees, and the public. It provides information to external audiences through news releases, information brochures and fact sheets, the annual FCA Performance and Accountability Report, and other publications. The office manages media relations regarding agency activities and content of FCA's Web site and provides graphic design and duplicating services to the agency. OCPA also coordinates special meetings, briefings for international visitors, field hearings, and other special events.

The Office of Examination provides regulation and oversight of FCS institutions through examination, supervisory programs, and regulatory standards that promote safe and sound operations. It also ensures that FCS institutions comply with applicable laws and regulations, directs a program of examination policy formulation, and manages the agency's enforcement activities.

The Office of the General Counsel provides the FCA Board and staff with legal counsel, as well as guidance on general corporate, personnel, ethics, and administrative matters. The office supports the agency's development and promulgation of regulations, civil litigation, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. The office also handles Freedom of Information Act requests and matters pertaining to the Privacy Act.

The Office of the Inspector General provides independent and objective oversight of agency programs and operations through audits, inspections, investigations, and the review of proposed legislation and regulations.

The Office of Policy and Analysis manages all regulation and policy development activities that ensure the safety and soundness of the FCS and supports the FCS's mission as a dependable source of credit and related services for agriculture and rural America. The office monitors economic trends and emerging risk factors that affect the System and its customers and collects and analyzes data from FCS institutions. The office also manages the chartering and other corporate approvals for System institutions, as well as other statutory and regulatory approval activities on behalf of the FCA Board.

The Office of the Chief Administrative Officer oversees and administers the agency's Human Resources Management Program. It also provides administrative services that include payroll, training, contracting and procurement, and mail, supply, and property management.

The Office of the Chief Information Officer oversees all activities related to planning, managing, and administering FCA's information technology. It provides office automation software, database administration, systems development, customer assistance, and network, Web, and e-business services. The office also provides records management and library services.

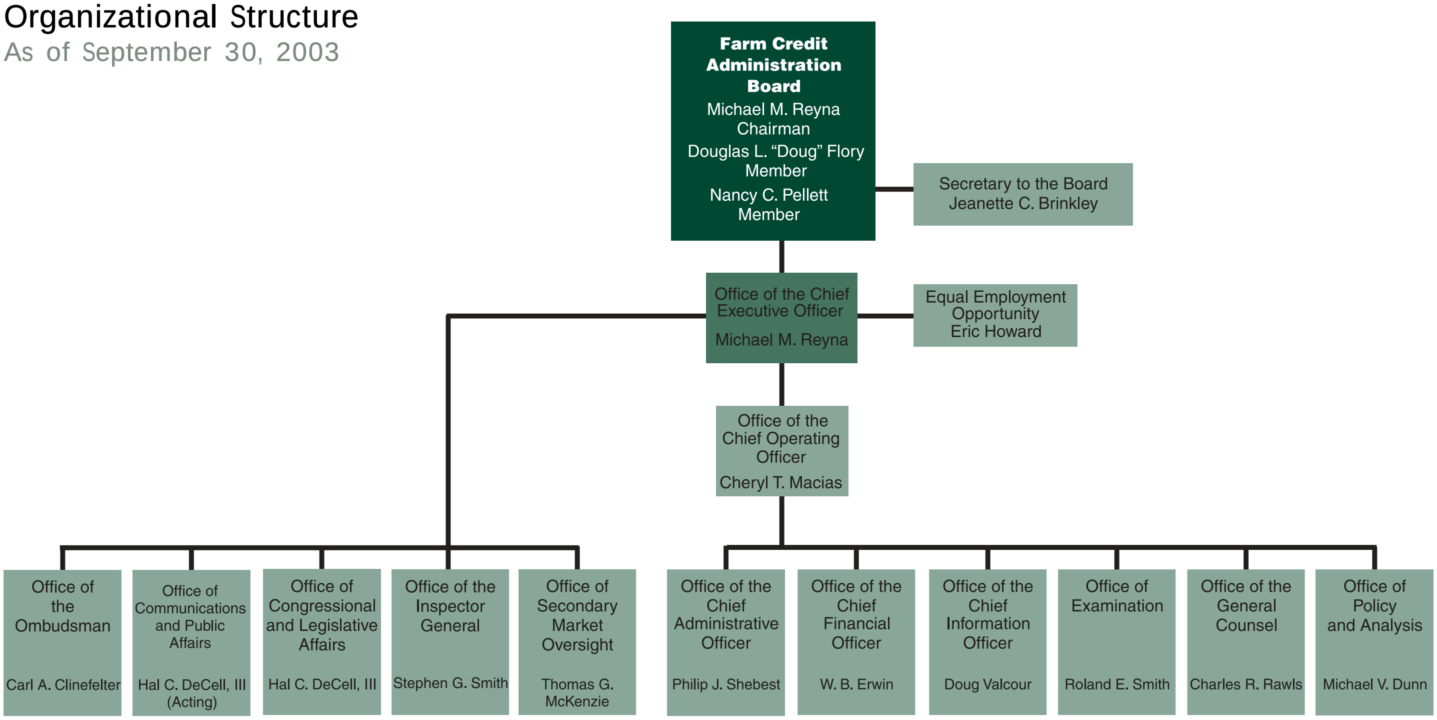
The Office of the Chief Financial Officer provides financial services to the agency, including preparation of the budget, financial reporting, and financial systems operations.

The Office of Secondary Market Oversight provides for the examination and general supervision of Farmer Mac's activities to ensure the corporation's safety and soundness and promotes accomplishment of its public policy purpose as authorized by Congress.

The Equal Employment Opportunity (EEO) Program directs the agency's efforts to achieve and manage a diverse workforce and encourages awareness of and respect for diversity in the workplace. The office works to prevent employment discrimination, handles employee discrimination complaints, and sponsors training and seminars on EEO issues.

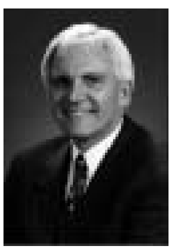
Figure 1 shows FCA's organizational structure as of September 30, 2003.

Figure 1
Farm Credit Administration Organizational Structure
As of September 30, 2003

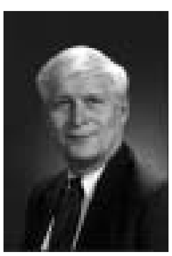


Agency Officials

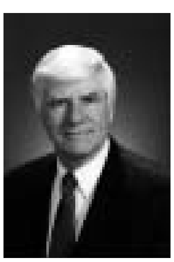
Jeanette C. Brinkley is Secretary to the FCA Board. She joined FCA in November 1982 as secretary in the Office of Administration. During her tenure with FCA, Ms. Brinkley has worked in the Office of Examination and Supervision, the Office of Congressional and Public Affairs, and the Office of the Chief Operating Officer. In 1995, she began working for the Office of the Board as the administrative specialist to the Secretary to the FCA Board.



Carl A. Clinefelter is Director of the Office of the Ombudsman.[2] Before assuming this position in March 2003, he was director of the Office of Secondary Market Oversight. Since joining FCA in October 1980, Mr. Clinefelter has served as a regional supervisory officer in the Office of Supervision, as an associate regional director in the Office of Examination and Supervision, as acting director of the Office of Special Supervision and Corporate Affairs, and as assistant director of the Office of Policy and Analysis. Concurrent with the latter position, he served as Executive Assistant for FCA Board Member Doyle L. Cook. Before joining FCA, he was employed by the Federal Intermediate Credit Bank of New Orleans as assistant vice president.



Hal C. DeCell III is Director of Congressional and Legislative Affairs and Acting Director of Communications and Public Affairs. Before joining FCA in August 2000, he had served as the Assistant Secretary for Congressional and Intergovernmental Relations for the Department of Housing and Urban Development since 1995. Mr. DeCell came to Washington in 1976 and served on the staff of the House Committee on Veterans Affairs. The following year, he joined the staff of Mississippi Congressman Jamie L. Whitten, Chairman of the House Appropriations Committee and the Agriculture Subcommittee, and served as press secretary, legislative director, chief of staff, and administrative assistant. He also served as associate staff to the House Appropriations Committee.



Michael V. Dunn became Director of the Office of Policy and Analysis in January 2001 after briefly serving as a member of the FCA Board. Prior to joining FCA, he was the Under Secretary of Agriculture for Marketing and Regulatory Programs at the U.S. Department of Agriculture. Mr. Dunn also served as the Acting Under Secretary for Rural Economic and Community Development and as Administrator of the Farmers Home Administration at USDA. He has been a loan officer and vice president of the Farm Credit Banks of Omaha, Nebraska, and has served as a member of the professional staff of the Senate Agriculture Committee, specializing in agricultural credit.

2. Carl A. Clinefelter served as Director of the Office of Secondary Market Oversight until he was named Ombudsman on March 3, 2003.

W. B. Erwin is the Chief Financial Officer. Before joining FCA in June 2000, he served as assistant chief financial officer for Systems for the Department of Housing and Urban Development. From 1989 to 1997, he was director of the Office of Finance for the U.S. Patent and Trademarks Office. He has also worked for the Navy, the Air Force, the Treasury Department, the U.S. Government Printing Office, and the Social Security Administration. His private industry experience comes from his tenure at Caterpillar and Cummins. Mr. Erwin is a certified public accountant, certified management accountant, and a certified government financial manager.

Eric Howard is the Equal Employment Opportunity Manager. He joined FCA in 1986 as an examiner in FCA's Oklahoma City Field Office. In 1991, he became a policy analyst for the Policy and Risk Analysis Division in the Office of Examination in McLean, Virginia. Mr. Howard became a senior policy analyst for the Regulation and Policy Division of the Office of Policy and Analysis in 1997.

Cheryl Tates Macias was named Chief Operating Officer in July 2000. Prior to joining FCA, she served as Special Assistant to the President and Associate Director of the White House Office of Presidential Personnel. From 1995 to 1999, Ms. Macias worked for the U.S. Department of Agriculture, where she served as Director of the Office of Intergovernmental Relations, Deputy Assistant Secretary for Congressional Relations, and Acting Assistant Secretary of Congressional Relations. She was director of FCA's Office of Congressional and Public Affairs from 1993 to 1995. Ms. Macias spent 17 years on Capitol Hill, during which she served as the senior member of the domestic issues staff for the House Select Committee on Hunger.

Thomas G. McKenzie is Director of the Office of Secondary Market Oversight.[3] He is responsible for the examination, supervision, and regulation of the Federal Agricultural Mortgage Corporation. Farmer Mac provides a secondary market for agricultural real estate and rural housing mortgage loans and helps provide greater liquidity to agricultural lenders. Mr. McKenzie joined the agency in 1979, and has served as the Director of FCA's Office of Policy and Analysis and held Regional and Division Director positions in the Office of Examination and the former Office of Supervision. He also headed the agency's regional offices of examination in Denver and Atlanta, where he oversaw the agency's field offices in Albany, New York, Atlanta, Dallas, Denver, and Sacramento, California. He began his federal government FCA as a management specialist and advisor for the Agricultural Bank of Saudi Arabia in Riyadh. Before joining FCA he was a Regional Manager for a Federal Land Bank; a Manager and CEO of a Federal Land Bank Association; and a financial analyst for a Bank for Cooperatives, where he began his career in agricultural credit in 1971.

3. Thomas G. McKenzie served as Director of the Regulation and Policy Division, Office of Policy and Analysis, until he was named Director of the Office of Secondary Market Oversight on March 3, 2003.

Charles R. Rawls is the FCA General Counsel. Prior to joining FCA in March 2003, he was General Counsel and Vice President for legal, tax, and accounting at the National Council of Farmer Cooperatives. During the consideration of the 2002 farm bill, he served as the General Counsel of the Senate Committee on Agriculture, Nutrition, and Forestry. From 1998 until 2001, he was General Counsel for the United States Department of Agriculture. Before that he was Chief of Staff to the Deputy Secretary of Agriculture from 1993 to 1998. From 1988 to 1993 he was legislative director and then administrative assistant to Congressman Martin Lancaster. From 1985 to 1988 he was Associate General Counsel of the House Committee on Agriculture. He was Counsel to the House Agriculture Subcommittee on Forests, Family Farms, and Energy from 1983 until 1985.

Philip J. Shebest is the Chief Administrative Officer.[4] He joined FCA in 1990 as a senior attorney in the Office of General Counsel. Mr. Shebest became the Director of the Human and Administrative Resources Division in 1996 and in 2000 was selected as Chief Administrative Officer. Prior to joining FCA, Mr. Shebest was a senior attorney-advisor in the Chief Counsel's Office of the Drug Enforcement Administration from 1985 until 1990. From 1981 through 1984, he held the rank of Lieutenant in the Judge Advocate General Corps of the U.S. Navy and was stationed in Washington, D.C., as an appellate litigation attorney.

Roland E. Smith is Chief Examiner and Director of the Office of Examination. He joined FCA in 1979 as an examiner in the St. Louis Field Office. In 1984, he was promoted to associate regional director. He also managed FCA's Oklahoma City Field Office and later the Denver Field Office before he became FCA's Chief Examiner in October 1996. Mr. Smith began his professional career with the Farm Credit System in 1974 as a loan officer for the Production Credit Association in Greenville, North Carolina. He later served as a loan officer and credit reviewer for the Farm Credit Banks of Columbia, South Carolina.

4. Philip J. Shebest also served concurrently as General Counsel until March 3, 2003

Stephen G. Smith became the Inspector General in January 2001. He joined FCA in 1981 as a technical specialist. He became an examiner in 1984 and later served as staff assistant for the Chief Examiner. In 1989, he was named associate regional director for the agency's Albany, New York, Field Office. He later served as Senior Staff Director for the Chief Examiner, and was then named Director of the Technical and Operations Division. In 1993, he assumed new responsibilities as Director of the Information Resources Division. He was named Chief Information Officer in 1996, directing all technology and information operations for FCA. Before joining the agency, he worked at the North Central Jersey Farm Credit Associations.

Doug Valcour is the Chief Information Officer. He joined FCA in 1988 as a computer specialist in the Office of Resources Management. In 1990, he became chief of the Systems Development Branch, and he was named associate director of the Information Resources Division and team leader of the Technology Team in 1997. Before joining FCA, Mr. Valcour was a computer specialist for the U.S. Department of Energy from 1986 until 1988. From 1983 to 1986, he was a computer programmer and analyst for the Veterans Administration.

Farm Credit System — An Overview of Events and Conditions

FCS Function and Structure

The Farm Credit System is a network of borrower-owned cooperative financial institutions and related service organizations. It is the largest single agricultural lender in the country and serves all 50 states and the Commonwealth of Puerto Rico. Created by Congress in 1916 to provide American agriculture with a dependable source of credit, it is the oldest of the five government-sponsored enterprises (GSEs).

FCS institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. They also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives and rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling securities in the national and international money markets, subject to approval by the Farm Credit Administration. These securities are not guaranteed by the U.S. government. The funds are channeled as loans to rural America through the FCS lending institutions.

As of September 30, 2003, the System was composed of 105 banks and associations. Six Farm Credit banks provide loan funds to 84 Agricultural Credit Association (ACA) parent organizations,[5] two ACAs without subsidiaries, and 13 Federal Land Credit Associations (FLCAs). ACAs make short-, intermediate-, and long-term loans; FLCAs make only long-term loans.

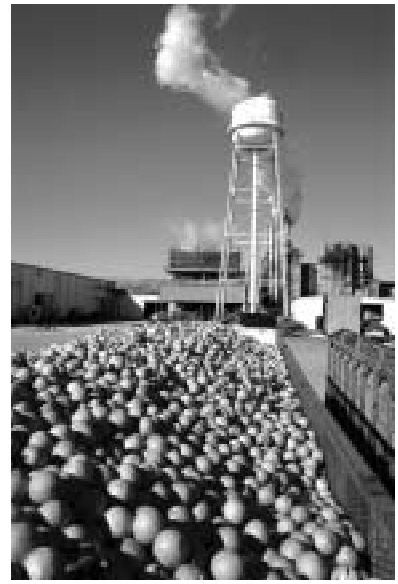
One of the six banks is an Agricultural Credit Bank (ACB), which has a nationwide charter to make loans to agricultural and aquatic cooperatives and rural utilities, as well as to other persons or organizations having transactions with or owned by such cooperatives. The ACB finances U.S. agricultural exports and imports and provides international banking services for farmer-owned cooperatives. In addition to making loans to cooperatives, the ACB provides loan funds to five ACA parent organizations, which serve New York, New Jersey, Connecticut, Rhode Island, Maine, Massachusetts, New Hampshire, Vermont, Alaska, Oregon, Washington, Montana, and Idaho.

In addition to the banks and associations described above, FCA examines and regulates the following three entities:

The Federal Farm Credit Banks Funding Corporation (Funding Corporation), which markets debt securities that the banks sell to raise loan funds. The Funding Corporation is owned by the System banks.

The Farm Credit System Financial Assistance Corporation,[6] chartered in 1988, which provided needed capital to the System through the sale of $1.3 billion in 15-year bonds to the capital markets and the purchase of preferred stock. This stock was issued by certain System institutions that received financial assistance as authorized by the Farm Credit System Assistance Board.[7]

5. The ACA is the parent company with two wholly owned subsidiaries, a Production Credit Association (PCA) and a Federal Land Credit Association. Although legally separated, the ACA, PCA, and FLCA operate an integrated lending business with loans made through the subsidiaries appropriate to the authority of each subsidiary. The ACA, PCA, and FLCA are jointly and severally liable on the full amount of the indebtedness to the bank under the bank's General Financing Agreement. In addition, the three associations agree to guarantee each other's debts and obligations, pledge their respective assets as security for the guarantee, and share each other's capital. The three institutions have a common board and management and a common set of shareholders. Under the Farm Credit Act, the FLCA is exempt from federal income taxes.
6. The Farm Credit System Financial Assistance Corporation (FAC) will continue in existence until no later than two years following the maturity and full payment of its outstanding debt securities, which mature, at the latest, in June 2005. The board of directors of the FAC consists of the board of directors of the Funding Corporation.
7. The Farm Credit System Assistance Board was created by the Agricultural Credit Act of 1987 to provide assistance to financially troubled FCS banks, protect the stock of System borrowers, restore FCS banks to economic viability, and preserve their ability to provide credit at reasonable and competitive rates. Farm Credit System Assistance Board terminated on December 31, 1992.



The Federal Agricultural Mortgage Corporation,[8] which provides a secondary market arrangement for agricultural real estate and rural housing mortgage loans and provides greater liquidity and lending capacity to agricultural lenders. Under the Farmer Mac I program, Farmer Mac guarantees prompt payment of principal and interest on securities representing interests in, or obligations backed by, mortgage loans secured by first liens on agricultural real estate or rural housing; it also purchases or commits to purchase qualified loans or securities backed by qualified loans directly from lenders. Under the Farmer Mac II program, it guarantees securities backed by the "guaranteed portions" of farm ownership and operating loans, rural business and community development loans, and certain other loans guaranteed by the U.S. Department of Agriculture.

FCA also examines and regulates the following five service corporations organized under Section 4.25 of the Farm Credit Act:[9]

AgVantis, Inc., which provides technology-related and other support services to the associations affiliated with U.S. AgBank, FCB, a successor to the Farm Credit Bank of Wichita. AgVantis, which was chartered by FCA on August 3, 2001, is owned by the bank and its affiliated associations.

The Farm Credit Finance Corporation of Puerto Rico, which uses tax incentives offered to investors to provide low-interest funding (other than that from the Funding Corporation) to the Puerto Rico Farm Credit, ACA.

The Farm Credit Leasing Services Corporation (Leasing Corporation), which provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities. The Leasing Corporation is owned by two System banks—CoBank, ACB, and AgFirst Farm Credit Bank.

Farm Credit Financial Partners, Inc., which provides support services to four of the five associations affiliated with CoBank, ACB, and six of the 13 associations affiliated with the Western Farm Credit Bank.

The FCS Building Association, which acquires, manages, and maintains facilities to house FCA's headquarters and field office staff. The FCSBA was formed in 1981 and is owned by the FCS banks. The FCA Board oversees the FCSBA's activities on behalf of its owners.

8. Farmer Mac is established in law as a part of the Farm Credit System. However, Farmer Mac has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac debt. Farmer Mac is organized as an investor-owned corporation, not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and FCS institutions. Non-voting stock may be owned by any investor. Farmer Mac is regulated by the Farm Credit Administration through the Director of the Office of Secondary Market Oversight, who reports to the FCA Board on matters of policy.
9. Section 4.25 of the Farm Credit Act provides that one or more FCS banks and/or associations may organize a service corporation to perform functions and services on their behalf. These federally chartered service corporations are prohibited from extending credit or providing insurance services.

When Congress established the Farm Credit System as a government-sponsored enterprise, its purpose was to provide a permanent, reliable source of credit and related services to agriculture and aquatic producers, their cooperatives, and related businesses in rural America. Congress intended the farmer-owned cooperative FCS to improve the income and well-being of American farmers and ranchers. It further encouraged farmer- and rancher-borrower participation in the management, control, and ownership of these cooperative institutions to help them remain focused on serving their members' needs.

The System meets a broad public need by preserving liquidity and competition in rural credit markets in both good and bad economic times. The accomplishment of this public goal benefits all eligible borrowers, including young, beginning, small, family, minority, female, and socially disadvantaged farmers, as well as rural home purchasers.

FCA's regulations, policy statements, examinations, chartering activities, and other regulatory activities discussed in later chapters of this report support and facilitate the accomplishment of the System's mission by ensuring that FCS institutions operate in a safe and sound manner without undue risk to taxpayers, investors in System securities, or its borrower-stockholders.

The sections in this chapter first assess the System's financial strength and then its service to rural America. Our discussion relies on commonly used measures, including trends in volume by a variety of loan types, volume of funding for non-System rural lenders and participations with other lenders, and the System's share in the marketplace. Discussion in the next chapter also covers lending activity and programs that benefit young, beginning, and small farmers and ranchers and the use of government guarantee programs in supporting loans to farmers unable to meet normal underwriting requirements.

Financial Condition of the FCS[10]

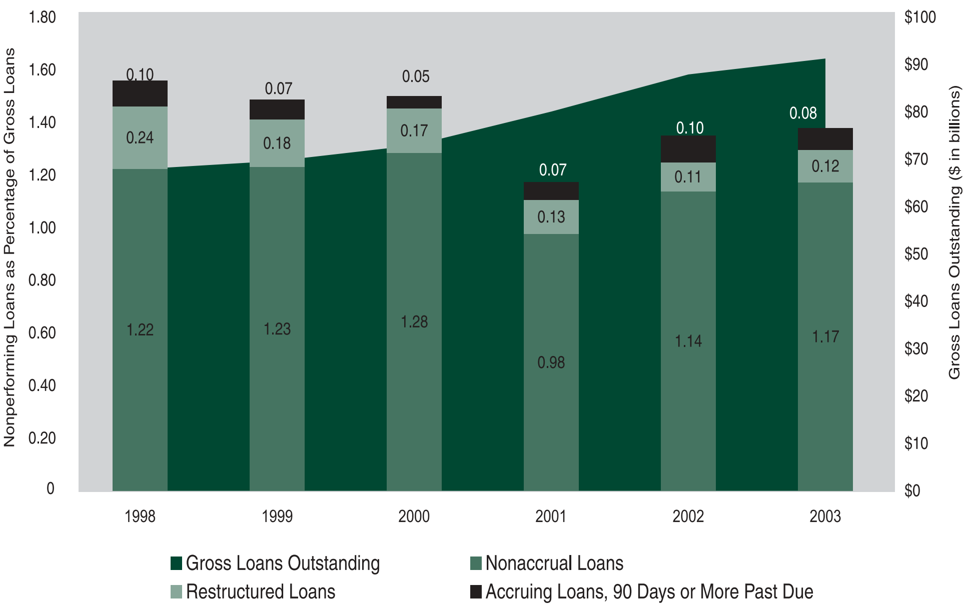
Farm Credit System loan volume increased at a moderate pace after two years of rapid growth (see "Borrowers Served" on page 20). Nonaccrual loans increased slightly over the 12-month period ended September 30, 2003, but asset quality remained high. Interest rates remained near 45-year lows throughout the last year, ensuring low interest expense but also reducing profitability. Continued high levels of government payments to the agricultural sector supplemented borrower incomes (see page 45 for discussion of risks to the rural economy).

10. The information presented in this section includes that pertaining to all Farm Credit Banks and the Agricultural Credit Bank and their affiliated associations. The FCS institutions provided the data used in the overall FCS analysis to the FCA or to the Federal Farm Credit Banks Funding Corporation. The analysis in this report is based on publicly available information and, except where noted, is based on the 12-month period ended September 30, 2003. See Tables 2 and 3 for System measures of financial condition.

Asset Quality

Loan volume grew moderately, and loan quality remained high for the year ended September 30, 2003. Gross loans increased by 3.9 percent to $91.3 billion. Nonperforming loans[11] were essentially unchanged at approximately 1.4 percent of gross loans. Nonaccruing loans were 1.17 percent of gross loans compared with 1.14 percent last September (see Figure 2). The allowance for loan losses as a percentage of gross loans stayed at 2.3 percent. At September 30, 2003, the allowance for loan losses represented 171 percent of nonperforming loans compared with 172 percent a year earlier. Delinquencies (accrual loans 90 or more days past due) remained minimal.

Figure 2
Farm Credit System Nonperforming Loans Remain Low
As of September 30



Source: Federal Farm Credit Banks Funding Corporation, Quarterly Information Statements, Third Quarter.

11. Nonperforming loans consist of nonaccrual loans, accruing restructured loans, and accrual loans 90 or more days past due.

Earnings

Though it remains near last year's all-time high, the System's $1.3 billion in net income for the nine months ended September 30, 2003, was $31 million lower than that for the same period the previous year (see Figure 3). The Systemwide net interest margin declined to 2.62 percent as of September 30, 2003, from 2.76 percent a year earlier. Noninterest expense for the first nine months of 2003 increased by $65 million (7.7 percent) to $905 million. Noninterest income for the first nine months of 2003 was $291 million compared with $270 million for the same period last year. Provisions for income taxes for the first nine months of 2003 were $94 million, up $26 million from the same period in 2002.

Capital[12]

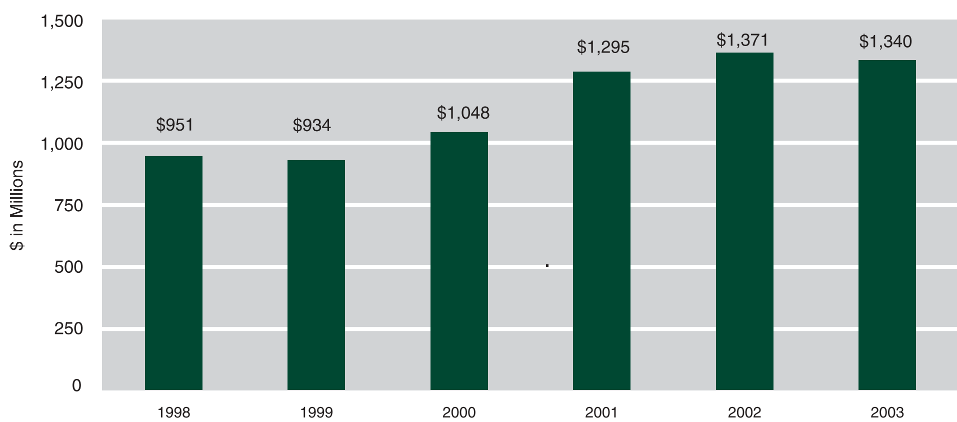
The System continues to build capital through increased loan volume and earnings. Total capital ($18.2 billion) increased proportionally to asset growth and, as a percentage of total assets ($115.2 billion), remained at nearly 15.8 percent on September 30, 2003 (see Figure 4). Accumulated surplus alone now represents more than 12.7 percent of System assets and 80 percent of total capital.

Permanent capital ratios (PCR) at System associations ranged from a low of 10.0 percent to a high of 28.8 percent—all well above the 7 percent minimum regulatory requirement. For System banks, PCRs ranged from 13.5 percent to 22.9 percent. All institutions also exceeded their minimum regulatory requirement core surplus ratio (3.5 percent) at September 30, 2003.

Figure 3

Farm Credit System Net Income Near All-Time High

Nine months ended September 30



Source: Federal Farm Credit Banks Funding Corporation, Quarterly Information Statements, Third Quarter.

12. In addition to accumulated surplus and borrower stock, total capital includes perpetual preferred stock, restricted capital, and accumulated other comprehensive income. It does not include mandatorily redeemable term preferred stock or protected capital. Restricted capital ($2.0 billion at September 30, 2003) represents the total assets under the control of the Farm Credit System Insurance Corporation, including assets that have been identified for estimated insurance obligations and the Farm Credit Insurance Fund balance. Accumulated Other Comprehensive Income (negative $243 million at September 30, 2003) for the System consisted mostly of unrealized holding losses on available-for-sale securities. One System bank had outstanding $225 million of Mandatorily Redeemable Term Preferred Stock. Such stock is not included in "total capital" though it qualifies for certain regulatory capital purposes. Protected capital ($30 million at September 30, 2003) consists of borrower stock, participation certificates, and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated before October 8, 1988. Protection of certain borrower capital is provided under the Farm Credit Act, which requires FCS institutions, when retiring protected borrower capital, to retire such capital at par or stated value regardless of its book value.

Funding

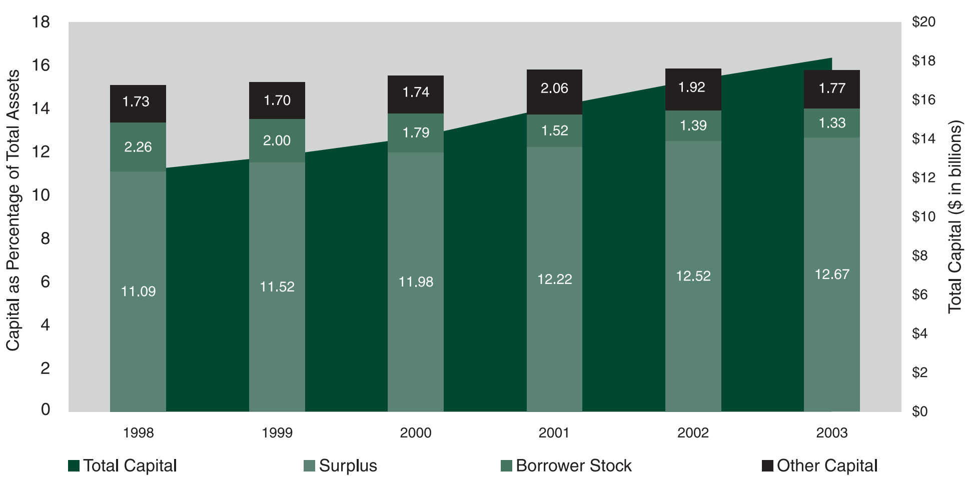
The System funds its loans with a combination of consolidated Systemwide debt and capital. The par value of outstanding Systemwide debt increased by $6.5 billion (7.6 percent) while gross loans outstanding increased by $3.4 billion (3.9 percent). The incremental debt of $3.1 billion and the increase in capital of $1.1 billion were used to fund added investments for liquidity.[13]

Because of lower interest rates over the last few years, the System was able to retire and reissue substantial portions of its callable debt, resulting in high levels of debt securities issuance during 2001 and early 2002. Since then, the System has gradually extended the maturity date of its debt. The longer debt maturities, reduced volume of callable debt, and moderating loan demand have combined to reduce the amount of debt issued. For the 12 months ended September 30, 2003, the System issued $307 billion in insured debt securities[14] compared with $448 billion for the prior 12 months. The System's average remaining maturity for all outstanding insured debt increased to 2.3 years at September 30, 2003, compared with 1.8 years at September 30, 2002. The weighted average yield for the insured debt continued to decline, falling from 3.35 percent at September 30, 2002, to 2.70 percent at September 30, 2003.

Figure 4

Farm Credit System Capital Grows, Stable as Percentage of Assets

As of September 30



Source: Federal Farm Credit Banks Funding Corporation, Quarterly Information Statements, Third Quarter.

13. System banks, as part of an ongoing effort to assure their collective ability to meet their obligations under their mutual agreements concerning joint and several liability on Systemwide debt, have adopted a Common Liquidity Standard (Standard) This Standard requires each bank to maintain a minimum of 90 days of liquidity assuming no access to the capital markets.
14. Payment of principal and interest on Systemwide debt securities is insured by the Farm Credit System Insurance Corporation's Farm Credit Insurance Fund to the extent provided in the Farm Credit Act. A small amount of outstanding FCS debt, $528 million at September 30, 2003, was issued by individual banks of the FCS. These individual banks are solely liable for this uninsured debt.

Borrowers Served

The System fulfills its overall mission by utilizing its authority to lend to agriculture and rural America. Through changes in law since the System's original authorization in 1916, System lending authorities have evolved to include providing:

- long-term agricultural real estate loans, including rural home loans,
- short- and intermediate-term agricultural loans,
- loans to producers and harvesters of aquatic products,
- loans to certain farmer-owned agricultural processing facilities and farm-related businesses,
- loans to farmer-owned agricultural cooperatives,
- loans that finance agricultural exports and imports, and
- loans for rural utilities.

Nationwide, the System had $91.3 billion in gross loans outstanding as of September 30, 2003 (see Table 1). Agricultural producers represented by far the largest borrower group with $72.8 billion, or nearly 80 percent of the total dollar amount of loans outstanding.[15] As required by law, all borrowers are also stockholder-owners of System institutions. The System has more than 695,000 loans and approximately 453,000 stockholders. Approximately 83 percent of the stockholders are farmers with voting stock. Based on USDA farmer numbers, about 18 percent of all U.S. farmers are stockholders of System institutions.

Table 1

Farm Credit System Gross Loans Outstanding, 1998–2003

As of September 30

Dollars in Millions

Loan Category	1998	1999	2000	2001	2002	2003	Percentage Change from 1998
Long-Term Real Estate[1]	$32,009	$34,218	$35,549	$39,722	$44,782	$48,852	52.6
Short- and Intermediate-Term[2]	18,162	18,616	18,917	21,397	23,328	23,990	32.1
Domestic Cooperatives[3]	13,768	14,549	15,908	16,298	16,774	15,595	13.3
International	2,171	2,274	2,583	2,679	3,033	2,865	32.0
Total	**$66,110**	**$69,657**	**$72,957**	**$80,096**	**$87,917**	**$91,302**	**38.1**

1. Includes rural home loans and various loans classified as "other."
2. Includes a portion of loans classified as "lease receivable" and various loans classified as "other."
3. Includes loans to rural utilities, rural water and waste facilities, and a portion of loans classified as "lease receivable."

Source: Federal Farm Credit Banks Funding Corporation, Quarterly Information Statement, Third Quarter.

15. Some of this total consists of loans to rural homeowners and leases.

More than one-half of the System's total loan volume outstanding (53.5 percent) was in long-term real estate loans, 26.3 percent in short- and intermediate-term loans to agricultural producers, and 17.1 percent to cooperatives. International loans (export financing) represented 3.1 percent of the System's loan portfolio. As of December 31, 2002, rural home loans made up about 2.6 percent of total loans (these are part of long-term real estate loans in Table 1).[16] Loans to finance rural utilities (included in cooperative loans) were about 8 percent of overall loan volume; this segment had increased roughly 80 percent over the prior five years. Lease receivables (included in both the domestic cooperatives and the short- and intermediate-term categories) have dipped and accounted for less than 2 percent of the overall System portfolio.

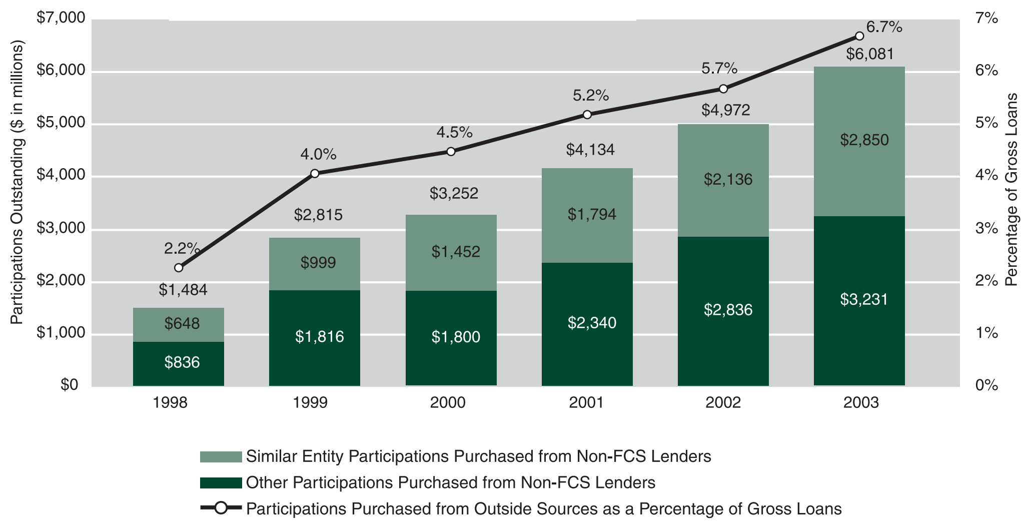
The aggregate amount of total loans outstanding at FCS banks and associations (net of intra-System lending) grew by $3.4 billion, or 3.9 percent, during the year ended September 30, 2003, and by $25.2 billion, or 38.1 percent, over the past five years. Volumes in all loan categories were above the levels of five years ago, but during the past year there were volume declines for domestic cooperatives and international loans. The total number of members served by FCS associations increased by 3.1 percent, and gross loan volume increased by 8.1 percent during year ended September 30, 2003. Of the 99 FCS associations, 37 experienced double-digit loan volume growth, and 11 experienced drops in loan volume for the past year. One association registered a double-digit decline as a result of securitizing mortgage loans that totaled $733 million with the Federal Agricultural Mortgage Corporation. Without this third-quarter shift in assets from loans to securities, the association would have experienced a double-digit loan growth, and Systemwide association volume would have increased by 9.2 percent. The number of loans increased in 38 states, indicating that the System continued to show a strong commitment to its mission of service to agriculture and rural communities even during a time when many farmers were plagued by adverse weather and faced variable market conditions.

The System's increased loan volume over the past 12 months stems from long-term real estate loans (up $4.1 billion or 9.1 percent) and short- and intermediate-term loans (up $0.7 billion or 2.8 percent). Farm-related business and marketing and processing loans continue to be among the fastest growing subcomponents of these lending categories. Loan participations and syndications with non-System lenders also continued to grow (up by more than 22 percent over the 12 months ended September 30, 2003; see Figure 5). However, lease receivables contracted again this past fiscal year (down 5.5 percent for the Leasing Corporation over the past 12 months).

Several factors have facilitated the System's strong loan growth. The funding environment has allowed the System to offer favorable interest rates. Mergers among System institutions have also allowed them to provide a wider array of services and products. System institutions have mounted effective campaigns marketing these opportunities. And with strong capital positions, a number of System institutions have used participations and syndications, both within and outside the System, as a way of utilizing their capital

16. More detailed loan category breakouts are reported at calendar year-end for agricultural and cooperative lending; this includes rural home lending, domestic cooperatives, rural utilities, lease receivables, farm related businesses, other financing institutions, and other.

Figure 5
Greater Collaboration with Non-FCS Lenders Through Participations[1]
As of September 30



1. Includes gross amount (principal only) of loan participations and loan syndications purchased from non-Farm Credit System institutions.

Source: Call Reports received from the Farm Credit System and Federal Farm Credit Banks Funding Corporation, Quarterly Information Statements, Third Quarter.

base while achieving portfolio diversification and risk reduction. At the same time, slower growth in agricultural lending by commercial banks suggests that many have either decided to reduce their exposure to the risk of agricultural lending or they have found more attractive financing opportunities in other types of commercial lending.

Funding for Other Lenders

Other Financing Institutions

Under the Farm Credit Act, System banks may further serve the credit needs of rural America by providing funding and discounting services to non-System lending institutions known as "other financing institutions" (OFIs). OFIs include commercial banks, thrifts, credit unions, trust companies, agricultural credit corporations, and other specified agricultural lenders. System banks can fund and discount short- and intermediate-term loans for OFIs that are significantly involved in lending to agricultural and aquatic producers and demonstrate a need for additional funding to meet the credit needs of eligible borrowers. As of September 30, 2003, the number of OFIs served by the System stood at 25, a drop of five institutions from a year earlier. However, both the number and volume of FCS loans outstanding to OFIs increased in 2003 by 25 percent and 2 percent, respectively. Loan volume to OFIs now represents 1.28 percent of the System's short- and intermediate-term loans, down from 1.44 percent in 2001.

Participations and Syndications with Outside Sources Continue to Rise

Under conditions prescribed by the Farm Credit Act, System banks and associations have authority to participate with commercial banks or other financing institutions in making loans to agriculture and rural America. Financial institutions primarily use loan participations and syndications to reduce interest rate risk and credit risk, but they also use them to enhance capital, earnings, and liquidity. Agricultural credit providers with high commodity concentrations frequently use participations and syndications to diversify their portfolios or to fund large loans when they have insufficient capital.

System participations and syndications with non-FCS lenders grew by more than $1.1 billion, or 22 percent, to $6.1 billion during the year ended September 30, 2003, and by $4.6 billion, or 310 percent, over the past five years (see Figure 5).[17] Participations and syndications from non-System institutions continue to expand rapidly as a share of the System's loan portfolio, rising from just 2.2 percent of gross loans in 1998 to 6.7 percent in 2003. Changes in participation rules in recent years, as well as favorable market conditions, likely contributed to the increasing collaboration between System and non-System lenders, thereby expanding the availability of credit to rural America.

FCS Market Share of Farm Debt

Following a second year of strong growth, the Farm Credit System's December 31, 2002, share of total farm business debt jumped to 29.8 percent from 26.1 percent at year-end 2000 (see Figure 6).[18] The System's market share of total farm debt reached a low of 23.9 percent in 1994, following a cyclical high of 33.6 percent at year-end 1982. During the later half of the 1990s, both the System and commercial banks generally experienced small gains in market share. Market share for "individuals and others" as well as USDA's Farm Service Agency (FSA) direct lending has declined. Meanwhile the market share for life insurance companies has remained relatively stable. Although commercial banks continued to have the largest market share during 2002, their share has declined over the past two years, dropping by 2.0 percentage points to 40.0 percent.

As of year-end 2002, the System held 36.6 percent of the market in real-estate-secured farm debt, up by 2.4 percentage points during the year. In the nonreal-estate market, the System held 21.9 percent, which was up by one-half of a percentage point from the previous year.

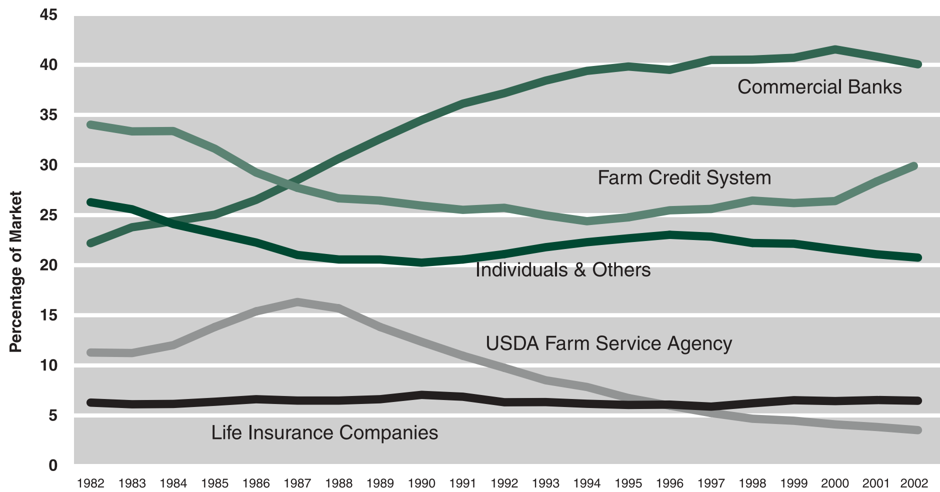
Year-end 2003 loan volume and market share estimates were not available for this report. However, FCS loan data through the third quarter showed a slowing in the System's year-over-year farm real-estate loan growth (9.1 percent) and continuing slow (2.8 percent) growth in its nonreal-estate loan volume. (The figures include some loan volume not counted by USDA

17. Currently, System institutions combine data on participations and syndications in the Call Reports they submit to the agency.
18. Market share percentages are for farm business debt and are based on U.S. Department of Agriculture annual year-end estimates; the historical series by lender was revised in October 2003. USDA also periodically surveys debt sources used by farm cooperatives. According to the most recent survey (1997), the System provided about 54 percent of the funds borrowed by those cooperatives surveyed. Market share information is not routinely available on the non-farmer segments of the System's lending activity—namely, its financing of rural homeowners, marketing and processing firms, rural utilities, and international farm commodity sales.

Figure 6

Total Farm Business Debt, Market Shares, 1982–2002

As of December 31



Note: "Individuals & Others" includes trade credit, seller financing of real estate, Commodity Credit Corporation storage and drying facility loans, and loans sold to Farmer Mac. Loan volume guaranteed by Farmer Mac, as well as by the USDA Farm Service Agency, is treated as being with the originating lender or purchaser of the loan, not the guarantor agency.

Source: USDA, Economic Research Service. Market shares based on revised farm balance sheet debt estimates by lender on USDA Web site as of October 20, 2003.

as farm business debt.) Yearly loan growth patterns reported for commercial banks' agricultural lending through the second quarter (7.3 percent for real-estate loans and –3.9 percent for nonreal-estate loans) suggest some decline in nonreal-estate market share in 2003 for commercial banks.[19]

Farmer Mac Providing a Secondary Market

Farmer Mac was created to provide a secondary market arrangement for agricultural real estate and rural housing mortgage loans and greater liquidity and lending capacity to agricultural lenders. In USDA's estimates of farm sector debt by lender, Farmer Mac's purchases of farm real estate loans (about $2.5 billion as of June 30, 2003) from various lenders are included as a subcategory of the roughly $40 billion provided by Individuals and Others. Farmer Mac also plays an increasing role in the farm debt market through its Long-Term Standby Commitment to Purchase (LTSPC or Standby) product, introducted in 1999. Using the LTSPC, a financial institution acquires a Farmer Mac guarantee for an annual fee on a loan pool that the institution retains. While Farmer Mac's LTSPC product is available to agricultural lenders generally, System institutions accounted for all the ($2.8 billion) Standby products volume as of June 30, 2003.[20]

Since not all farm mortgages are eligible for Farmer Mac funding, Farmer Mac calculates market share achievement by estimating the portion of the total farm real estate debt market that would qualify as "eligible" mortgages under Farmer Mac's underwriting criteria. Viewing activity in this manner, Farmer Mac estimates outstanding program volume ($5.6 billion) to be about 12 percent of the eligible farm real estate debt market.

19. Agricultural Finance Databook, Board of Governors of the Federal Reserve System, Statistical Release E.15 (125), Third Quarter 2003.
20. The guaranteed amounts by Farmer Mac are reported in USDA's farm business debt estimates as being provided by the originating lender. This is also how some $8 billion in FSA-guaranteed loans are treated; i.e., the share reported for USDA/FSA is just for its direct lending activity.

Table 2

Farm Credit System Major Financial Indicators

Year to Date as of September 30

Dollars in Thousands

Farm Credit System Banks[1]	1999	2000	2001	2002	2003
Gross Loan Volume	$63,920,055	$65,967,226	$72,046,891	$78,644,139	$81,819,994
Accruing Restructured Loans[2]	$202,910	$179,596	$356,916	$433,659	$14,475
Accrual Loans 90 or More Days Past Due	$15,321	$11,539	$18,529	$41,731	$31,698
Nonaccrual Loans	$438,057	$493,983	$236,356	$411,164	$419,528
Nonperforming Loans/Gross Loans[3]	1.03%	1.04%	0.85%	1.13%	0.57%
Cash and Marketable Investments	$13,389,314	$14,361,173	$15,266,188	$15,833,066	$19,894,923
Capital/Assets[4]	7.80%	7.55%	7.51%	7.04%	6.62%
Unallocated Retained Earnings/Assets	3.99%	4.01%	3.89%	3.95%	3.60%
Net Income	$379,919	$438,813	$487,314	$575,863	$449,593
Return on Assets[5]	0.66%	0.73%	0.74%	0.82%	0.59%
Return on Equity[5]	8.32%	9.55%	9.48%	11.06%	8.93%
Net Interest Margin	1.35%	1.21%	1.20%	1.18%	1.00%
Operating Expense Rate[6]	0.48%	0.41%	0.38%	0.35%	0.33%
Associations Excluding Federal Land Bank Associations[7]					
Gross Loan Volume	$42,759,760	$50,030,496	$57,482,274	$65,232,842	$70,492,872
Accruing Restructured Loans[2]	$74,164	$81,519	$86,714	$80,255	$95,326
Accrual Loans 90 or More Days Past Due	$38,502	$22,707	$36,535	$48,071	$44,940
Nonaccrual Loans	$418,474	$443,610	$545,193	$587,629	$651,100
Nonperforming Loans/Gross Loans[3]	1.24%	1.10%	1.16%	1.10%	1.12%
Capital/Assets[8]	16.40%	16.86%	16.38%	15.94%	16.00%
Unallocated Retained Earnings/Assets	13.14%	14.03%	13.98%	13.69%	13.95%
Net Income	$485,716	$639,383	$866,295	$780,488	$929,011
Return on Assets[5]	1.44%	1.64%	1.94%	1.57%	1.70%
Return on Equity[5]	8.78%	9.73%	11.98%	9.70%	10.63%
Net Interest Margin	3.05%	2.98%	2.86%	2.72%	2.72%
Operating Expense Rate[6]	1.65%	1.57%	1.47%	1.41%	1.49%
Total Farm Credit System[9]					
Gross Loan Volume	$69,657,000	$72,957,000	$80,096,000	$87,917,000	$91,302,000
Accruing Restructured Loans[2]	$127,000	$123,000	$105,000	$98,000	$113,000
Accrual Loans 90 or More Days Past Due	$52,000	$34,000	$55,000	$90,000	$75,000
Nonaccrual Loans	$857,000	$937,000	$781,000	$1,000,000	$1,070,000
Nonperforming Loans/Gross Loans[3]	1.49%	1.50%	1.17%	1.35%	1.38%
Bonds and Notes	$70,902,000	$74,369,000	$80,974,000	$87,913,000	$94,002,000
Capital/Assets[10]	15.23%	15.52%	15.80%	15.83%	15.76%
Surplus/Assets	11.52%	11.98%	12.22%	12.52%	12.67%
Net Income	$934,000	$1,048,000	$1,295,000	$1,371,000	$1,340,000
Return on Assets[5]	1.47%	1.57%	1.78%	1.75%	1.58%
Return on Equity[5]	9.72%	10.18%	11.41%	11.01%	10.08%
Net Interest Margin	2.75%	2.74%	2.79%	2.76%	2.59%

1. Includes Farm Credit Banks, the former Bank for Cooperatives, and the Agricultural Credit Bank.
2. Excludes loans 90 days or more past due .
3. Nonperforming Loans are defined as Nonaccural Loans, Accruing Restructured Loans, and Accrual Loans 90 or More Days Past Due.
4. Capital excludes madatorily redeemable preferred stock.
5. Income ratios are annualized.
6. Operating expenses divided by average gross loans.
7. As of October 1, 2000, the FCS was composed of only direct-lender associations. All FLBAs became FLCAs or consolidated with PCAs to form ACAs by October 1, 2000.
8. Capital excludes protected borrower capital.
9. Cannot be derived through summation of above categories because of intradistrict and intra-System eliminations used in the Reports to Investors.
10. Capital includes restricted capital (amount in Farm Credit Insurance Fund), excludes mandatorily redeemable preferred stock and protected borrower capital.

Source: Call Reports received from the Farm Credit System and the Federal Farm Credit Banks Reports to Investors of the Farm Credit System.

Table 3

Farm Credit System Major Financial Indicators, By District[1]

As of September 30, 2003

Dollars in Thousands

	Total Assets	Gross Loan Volume	Nonaccrual Loans	Allowance for Loan Losses	Cash and Marketable Investments	Capital Stock[2]	Surplus[3]	Total Capital[4]
Farm Credit System Banks								
Wichita	$6,408,794	$5,050,457	$5,222	$31,292	$1,266,852	$139,975	$322,668	$442,673
Texas	7,303,011	6,091,143	10,187	9,835	1,173,986	113,790	276,649	393,162
Western	9,172,114	7,958,002	0	5,200	1,159,039	281,131	230,355	479,933
AgFirst	16,100,666	12,279,074	32,558	33,951	3,650,419	249,083	653,479	883,537
AgriBank	33,938,618	26,978,732	77,971	70,687	6,718,927	826,731	1,177,249	1,984,546
CoBank	29,484,002	23,462,586	293,590	434,933	5,925,700	1,531,831	1,041,647	2,591,868
Total	$102,407,205	$81,819,994	$419,528	$585,898	$19,894,923	$3,142,541	$3,702,047	$6,775,719
Associations								
Wichita	$5,640,158	$5,486,128	$71,021	$159,012	$24,609	$38,766	$1,103,132	$1,144,005
Texas	6,832,808	6,705,499	42,884	167,120	13,035	112,099	1,019,902	1,132,001
Western	9,475,818	8,405,734	111,894	140,540	720,204	143,806	1,230,421	1,359,241
AgriBank	31,396,970	30,018,939	252,558	626,171	31,683	180,752	4,846,728	5,041,909
AgFirst	12,896,980	12,620,506	87,587	282,544	14,818	173,515	1,804,824	1,900,708
CoBank	7,628,887	7,256,066	85,156	175,349	17,416	49,616	1,193,269	1,239,624
Total	$73,871,621	$70,492,872	$651,100	$1,550,736	$821,765	$698,554	$11,198,276	$11,817,488
Total Farm Credit System	$115,239,000	$91,302,000	$1,070,000	$2,145,000	$21,118,000	$1,528,000	$14,598,000	$18,166,000

1. Aggregations of district data may not equal totals due to eliminations.
2. Includes capital stock and participation certificates, excludes madatorily redeemable preferred stock and protected borrower capital.
3. Includes allocated and unallocated surplus.
4. Includes capital stock, participation certificates, perpetual preferred stock, surplus, accumulated other comprehensive income, and restricted capital (amount in the Farm Credit Insurance Fund, for Farm Credit System total only). Excludes mandatorily redeemable preferred stock and protected borrower capital.

Source: Call Reports received from the Farm Credit System and the Federal Farm Credit Banks Reports to Investors of the Farm Credit System.

FCA Board . . . Listening to the Public

In June 2003, the Farm Credit Administration Board held a public meeting at the agency's headquarters in McLean, Virginia, on whether to revise current FCA regulations governing eligibility and scope of financing for farmers, ranchers, and aquatic producers and harvesters who borrow from Farm Credit System (FCS) institutions. The Board also heard comments on whether the agency's definition of "moderately priced" rural housing should be revised.

At the meeting, FCA Chairman Michael M. Reyna and Board Members Nancy C. Pellett and Douglas L. "Doug" Flory heard testimony from a diverse group of speakers from across the country. Those testifying included farmers, agricultural lenders, FCS borrowers, government officials, and the public.

The recommendations ranged from no modifications of current regulations to suggestions that would require changes to the Farm Credit Act. The testimony presented at the meeting is posted on FCA's Web site at www.fca.gov.

Maintaining a Dependable Source of Credit for Farmers and Ranchers

As federally chartered agricultural lending cooperatives, the institutions of the Farm Credit System are single-purpose lenders exposed to risk in making loans to benefit their borrower-stockholders and meet their public mission. While the FCS benefits from preferred access to the capital markets as a government-sponsored enterprise, the federal government does not subsidize it directly.

For FCS institutions to maintain their presence in the marketplace as a dependable source of credit and financially related services for rural America, they must operate profitably as well as manage and control risk. Accordingly, FCA continues to deploy examination and supervisory resources based on the risk in each institution. This "risk-based" examination and supervisory program requires examiners to determine how certain existing or emerging issues facing an institution or the agriculture industry affect the nature and extent of risks in that institution. Based on that risk evaluation, examiners then establish examination plans and actions.

To evaluate whether an institution is meeting its public mission, examiners determine whether the institution is operating in compliance with the laws and regulations and whether the institution is responsive to the credit needs of all types of agricultural producers having a basis for credit. As a part of that mission, direct-lender associations are obligated to establish programs that respond to the credit and related services needs of young, beginning, and small farmers and ranchers (YBS).

Serving Young, Beginning, and Small Farmers and Ranchers

Providing financially sound and constructive credit and related services to borrowers identified as young, beginning, and small farmers and ranchers is a legislated mandate and a high priority for the System. Loans to YBS borrowers help ensure a smooth transition of agribusiness to the next generation and a continued strong and diversified customer base for the FCS.

The percentage of retirement age farm operators has risen during the last two decades, suggesting an increased importance for the Farm Credit System's role in helping young and beginning farmers finance the purchase of land sold by those who are exiting the business. USDA estimates that more than one-fourth of U.S. farmers and one-half of farm landlords are at least 65 years old, much higher percentages than for the overall U.S. labor force.

Transitions out of and into the capital-intensive farming business involve credit decisions that are compounded by the volatile nature of agricultural production and markets. System lenders prudently weigh the risks and rewards of extending credit to new customers by assessing their long-term earnings potential and risk management ability.

Congress, through its statutory provisions, and FCA see the Farm Credit System as being in a unique position to develop YBS programs that coordinate with other governmental programs, spread risks, and

take a longer-term perspective in lending to YBS borrowers. Many borrowers are assisted by the various state and federal programs that provide interest rate reductions and/or guarantees to help commercial lenders and FCS institutions reduce credit risks for borrowers. Without such concessions and guarantees, credit to some YBS borrowers would not be extended due to repayment risks.

Section 4.19 of the Farm Credit Act and FCA Regulation 614.4165(a) require each System bank and association board to have a program in place for furnishing sound and constructive credit and financially related services to YBS borrowers. YBS programs are to be made available in coordination with other System institutions and other government and private sources of credit. In addition, each institution is required to report yearly on operations and achievements under its YBS program.

In establishing its YBS program, each institution may use a variety of tools to carry out its commitment to YBS lending. For example, associations may offer less stringent underwriting standards or reduced interest rates that make it easier for potential YBS borrowers to qualify for loans. Some institutions establish special risk pools in which capital is set aside to support YBS lending. Other programs provide for coordination with federal or state sources to obtain guarantees on loans to qualifying YBS borrowers. Many YBS programs provide for financial or leadership training or related services for YBS borrowers. In addition, associations donate to or sponsor special events for local, regional, and national young or beginning farmer groups.

Each institution conducts a demographic analysis to help establish appropriate YBS lending goals and to provide a benchmark for measuring changes in penetration of the potential YBS market within its territory. The institution's marketing plan for YBS borrowers often involves the targeting of potential YBS borrowers through Web site advertising, as well as other media.

FCA Activities for YBS Oversight

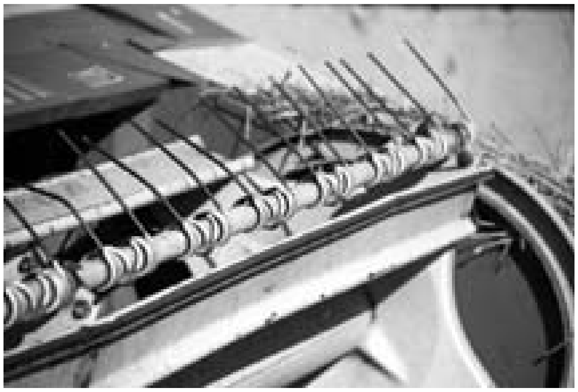
Over the past five years, the agency has taken the following actions designed to provide additional emphasis and guidance to System institutions as they lend to YBS borrowers.

The FCA Board, in December 1998, adopted a policy statement (FCA-PS-75) on YBS farmers and ranchers. The policy statement emphasizes the need for each System institution to renew its commitment to be a reliable, consistent, and constructive lender for YBS borrowers.

To implement the policy statement and improve our ability to analyze and report on the System's service to all YBS borrowers, we issued a Bookletter (BL-040) to the System in December 1998 that provided new YBS reporting definitions and reporting procedures that were fully phased in by January 1, 2001.

On March 8, 2002, the General Accounting Office (GAO) issued a report on the FCA's oversight of the System's special mission to serve YBS farmers and ranchers.[21] The GAO recommended that the agency strengthen its oversight role of the System's YBS lending, promote YBS compliance, and highlight the System's efforts to provide service to YBS farmers and ranchers by:

21. Farm Credit Administration: Oversight of Special Mission to Serve Young, Beginning, and Small Farmers Needs to Be Improved, GAO-02-304, March 8, 2002.



1. Promulgating a regulation that outlines specific activities and standards that constitute an acceptable program to implement the YBS statutory requirement,
2. Ensuring that examiners follow the guidance and complete the appropriate examination procedures related to YBS and adequately document the work performed and conclusions drawn during examinations, and
3. Publicly disclosing the results of examinations for YBS compliance for individual System institutions.

The FCA is committed to addressing the recommendations contained in the GAO report and has taken the following actions.

During fiscal year 2003, FCA continued to follow a comprehensive YBS examination program and issued guidance for System institutions in the form of a YBS-related self-audit program. The guidance encourages System institutions to adopt clearly stated policies for serving YBS borrowers and to develop and use a variety of management controls over program operations to help ensure the effectiveness of their YBS programs. A subsequent GAO report of this area found FCA's lead sheet for YBS examinations to be a "useful tool for FCA in examining institutions for compliance with the special mission requirement of serving YBS farmers and ranchers."

FCA encourages System institutions to evaluate their performance in YBS lending by analyzing their lending markets and assessing their own market penetration. If this assessment suggests that an association needs to penetrate the YBS market further, we encourage the association's board of directors to develop new programs, strengthen existing programs, or provide added incentives to contribute to the success of their marketing programs to these farmers. Thus, FCA's oversight increases awareness of the mission in this area and prompts associations to provide added resources to serve this market segment. FCA also has recently developed a mission-related performance measure for YBS programs that is based on an evaluation of the effectiveness of every direct-lender association's YBS program. This measure allows us to evaluate our success in ensuring that associations maintain adequate YBS lending programs.

On September 23, 2002, the agency initiated a rulemaking process on the subject of YBS by publishing an Advance Notice of Proposed Rulemaking (ANPRM) that sought public comment. Specifically, we sought input on ways to improve the development of guidelines for YBS programs, measure the System's YBS performance to ensure that the System is fulfilling its mission, and provide adequate reporting and disclosure to the public on the System's compliance with its YBS mission. We received 65 comment letters by the close of the comment period on December 23, 2002.

During FY 2003, three additional events occurred:

- In addition to issuing an ANPRM, we held a public meeting in Kansas City on November 13, 2002. The purpose of the hearing was to provide a further opportunity for the public to comment on whether additional YBS regulatory guidance was necessary to accomplish the System's mission. We heard testimony from 24 interested parties at the Public Hearing.

- The agency published a proposed rule on September 15, 2003. The proposed rule would amend existing regulations to provide clear, meaningful, and results-oriented guidelines for the YBS policies and programs of the System's institutions. It would also provide for enhanced reporting and disclosure to the public on the System's performance and compliance with its statutory YBS mission. While the proposed rule provides for additional guidance, it also allows System direct-lender associations the flexibility to design YBS programs unique to the needs of their territories and within their risk-bearing capacities. The proposed YBS regulation was open for public comment until November 14, 2003, and then reopened for a further 60-day comment period on November 20, 2003.

- In 2003, the Chairman's Commendation awards were presented to those System institutions with the most effective programs for serving the needs of YBS borrowers. At the 20th Annual Farm Credit Council Meeting on January 20, 2003, the awards were presented to three associations, Farm Credit Services of North Dakota, ACA, First Ag Credit, FCS, and Southwest Georgia Farm Credit, ACA. Recognition was based on a number of criteria, including the extent to which the institution offers an education component; provides for extensive outreach; makes effective use of financial incentives, such as differential loan underwriting standards and lower fees or interest rates; year-over-year increase in program activity; overall YBS program effectiveness, and participation with government-guaranteed lending programs, including those sponsored by USDA's Farm Service Agency. AgFirst Farm Credit Bank also was recognized for its recently completed video profiling YBS lending in the bank's district.

Table 4

Loans Outstanding at December 31, 2002, Benefiting Young, Beginning, and Small Farmers and Ranchers[1]

Loan Type	Number of Loans	Percentage of Total Number	Volume of Loans ($ millions[2])	Percentage of Total Volume	Average Loan Size
Young Farmers and Ranchers	114,458	17.1	$10,577	12.7	$92,411
Beginning Farmers and Ranchers	141,868	21.2	$14,989	18.0	$105,655
Small Farmers and Ranchers, by Loan Size					
$50,000 or less	229,471	63.7	$ 4,506	64.5	$ 19,637
$50,001–$100,000	81,921	59.9	5,786	60.4	70,624
$100,001–$250,000	55,039	49.4	8,122	47.8	147,562
More than $250,000	14,407	24.0	6,709	13.5	465,649
Total Loans to Small Farmers and Ranchers	380,838	57.0	$ 25,122	30.1	$ 65,965

1. A young farmer is defined as 35 years old or younger when the loan is made; a beginning farmer has 10 years or fewer farming or ranch experience; a small farmer is one who typically generates less than $250,000 in annual sales of agricultural or aquatic products. Since the totals are not mutually exclusive, one cannot add across young, beginning, and small categories to count total YBS lending.
2. Volume figures are rounded to the nearest thousandth.

Source: Annual Young, Beginning, and Small Farmer Reports submitted by each Farm Credit System lender through the Farm Credit banks.

YBS Loans and Commitments Outstanding

YBS loans and loan commitments outstanding provide a view of loans on the books of System institutions at the end of the year. As of year-end 2002,[22] 17.1 percent of the number of the System's loans outstanding to farmers and ranchers were to young borrowers, defined as those 35 years old or younger (see Table 4). Beginning borrowers (those with 10 or fewer years of farming experience) accounted for 21.2 percent of loans. Loans to small farmers (those with annual sales under $250,000) accounted for 57.0 percent of loans.[23] The corresponding percentage figures for the total dollar volume of loans outstanding were 12.7, 18.0, and 30.1 percent. The System's 2002 percentages in each of these categories were slightly higher than in 2001. Average loan sizes for YBS loans outstanding varied from $65,965 for small farmers to $105,655 for beginning farmers.

YBS Loans and Commitments Made

Loans and commitments made provide a view of lending activity during the year, providing a measure of the System's current performance in serving YBS borrowers. FCS institutions made 130,245 loans to small farmers in 2002, 57.2 percent of the number of all new loans made to farmers that year. A total of $9.5 billion in loans was made to small farmers in 2002, 28.9 percent of the dollar volume of loans made during the year. The average loan size of small farmer loans made during 2002 was $72,818. Due to the much greater credit needs of larger farmers, the average size for all System farm loans made was about twice the average for small farmer loans. (See Table 5 for corresponding percentages and averages for young and beginning farmers.)

22. System data on service to YBS farmers and ranchers cover the calendar year and are reported at year- end. The 2003 data will be available in April 2004.
23. YBS data are reported for individual Y, B, or S categories. It is not meaningful to add two or three YBS categories together since the categories are not mutually exclusive. Depending on borrower characteristics, a borrower may be counted in two or even all three categories (e.g., many borrowers are likely to fall into all three categories (young, beginning, and small). The data on loan numbers are not the same as counting the number of farmers since it is not unusual for individual member-borrowers to have multiple loans.

Table 5

Loans Made During 2002 Benefiting Young, Beginning, and Small Farmers and Ranchers[1]

Loan Type	Number of Loans	Percentage of Total Number	Volume of Loans ($ millions[2])	Percentage of Total Volume	Average Loan Size
Young Farmers and Ranchers	35,765	15.7	$3,820	11.6	$105,816
Beginning Farmers and Ranchers	44,075	19.4	$5,460	16.6	$123,885
Small Farmers and Ranchers, by Loan Size					
$50,000 or less	76,236	67.8	$1,541	65.0	$ 20,216
$50,001–$100,000	27,713	57.8	1,972	60.4	71,148
$100,001–$250,000	20,095	49.0	3,038	48.6	151,158
More than $250,000	6,201	23.6	2,934	14.0	473,114
Total Loans to Small Farmers and Ranchers	130,245	57.2	$9,484	28.9	$ 72,818

1. A young farmer is defined as 35 years old or younger when the loan is made; a beginning farmer has 10 years or fewer farming or ranch experience; a small farmer is one who typically generates less than $250,000 in annual sales of agricultural or aquatic products. Since the totals are not mutually exclusive, one cannot add across young, beginning, and small categories to count total YBS lending.
2. Volume figures are rounded to the nearest thousandth.

Source: Annual Young, Beginning, and Small Farmer Reports submitted by each Farm Credit System lender through the Farm Credit banks.

Assessment of YBS Results for Individual Associations and the System

Individual associations vary significantly in their YBS lending results. No single association has the highest System percentage in all three or even two of the YBS categories. Table 6 shows the wide dispersion in results for individual associations using percent-of-loan numbers for each YBS category for loans made and for outstanding loans. A similar dispersion in results occurs in the loan volume data.

The range in association results for the number of loans to small farmers is much greater than for young or beginning farmers (from a low of 10.2 percent of loans made to a high of 91.7 percent). For young farmers, the range is considerably smaller, from 5.6 percent to 31.7 percent, while for beginning farmers the range is from 8.1 percent to 72.0 percent. In general, we would expect loan portfolios to have the highest percentage in the "small" category. USDA classifies about 91 percent of all farms as small based on the same definition for a small farm as used for YBS reporting. Additional detail is available for individual associations, districts, and for the System on FCA's Web site at www.fca.gov.

Significant differences in results between institutions are to be expected given the significant differences in typical-size farming operations and in farmer demographics across the United States. These differences make comparisons between individual associations difficult to assess. For example, in 2002, California farms had average annual sales of $311,000, compared with $22,000 in Tennessee, only 7 percent of the California average. It is no surprise that results for small farmer portfolio concentrations in these states tend to reflect these differences. In addition, Census of Agriculture data show that the average age of farmers varies considerably from state to state.

Table 6

Wide Range in YBS Program Results by Association, 2002[1]

Percentage of Total Loan Numbers[2]

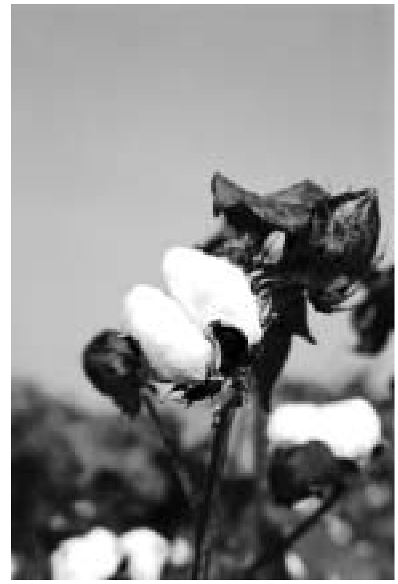
Program	Loans	Range by Association Low	High	Overall Average
Young	Outstanding	2.8	27.9	17.1
	Made	5.6	31.7	15.7
Beginning	Outstanding	4.0	54.9	21.2
	Made	8.1	72.0	19.4
Small	Outstanding	4.6	92.5	57.0
	Made	10.2	91.7	57.2

1. A young farmer is defined as 35 years old or younger when the loan is made; a beginning farmer has 10 years or fewer farming or ranch experience; a small farmer is one who typically generates less than $250,000 in annual sales of agricultural or aquatic products.
2. The percentages shown are of total loan numbers outstanding as of December 31, 2002, and of total number of loans made in 2002.

Source: Annual Young, Beginning, and Small Farmer Reports submitted by each Farm Credit System lender through the Farm Credit banks.

Other factors such as the competitiveness of the local lending market and the availability of the USDA Farm Service Agency guarantees also probably play a role in individual association results. However, institutions with young, beginning, or small farmer or rancher portfolio percentages at the low end of the range are carefully reviewed during the examination process to assess the role of local demographic or economic factors versus the role of management in determining YBS outcomes. The trend in YBS results within an institution will become an especially important factor in assessing the success of YBS programs. Examination follow-up focus will be on those cases where improvements by management can play a key role.

For the first time, we are able to make year-to-year comparisons in System YBS lending activities, comparing the results for 2002 with those for 2001, the first year that the new reporting requirements were mandatory. All YBS performance factors increased on a Systemwide basis in 2002 compared with 2001. However, while this overall result was favorable, many individual institutions experienced declines in their percentages for the various YBS measures. For example, out of 104 associations, 57 showed declines in their percentage of loans made to young farmers; 41 showed declines for beginning farmers, and 40 showed declines for loans to small farms. It is important to note, however, that comparisons over only two years do not establish a firm trend. In addition, results are affected by on-going YBS examinations that have, in many cases, resulted in examiners requiring that associations correct deficiencies in their YBS reporting and, in some cases, restate their 2001 and 2002 results.



YBS comparisons between FCS institutions and other lenders cannot be made because other federal regulators do not require reporting on young and beginning farmer loans. While large banks are required to report on small farm loans, small farm lending is defined in terms of loan size (a loan less than $500,000) rather than in terms of the borrower's annual sales. In addition, because of differences in data definitions and in data collection methods, annual YBS data are not comparable to Census of Agriculture data, which are collected only once every 5 years.

YBS Programs

Annually, each FCS association responds to the agency's questionnaire on the content of its YBS program. The questionnaire covers areas such as program goals, board reporting, YBS credit provisions, use of government-guarantee programs, and use of training or other related services. By year-end 2002, the number of institutions with specific YBS goals had increased significantly to nearly three-quarters of all associations. This percentage is increasing, in part due to the agency's strong encouragement that all institutions should have quantitative YBS goals as a part of their YBS policies. Goals were usually focused on specific percentages of outstanding loans in each young, beginning, or small farmer or rancher category.

Another question asks about board oversight through periodic reporting. The agency is encouraging a quarterly reporting cycle to highlight the importance of YBS activities at the board level and to give boards the opportunity to take timely corrective action if the association's YBS goals are not being realized. Nearly all associations said that they reported to their boards on YBS performance at least annually, and more than 60 percent were reporting quarterly or more often in 2002.

YBS programs at many System associations make loan qualification easier by applying differential underwriting standards or by allowing exceptions to normal underwriting standards. The differential underwriting standards often include higher loan-to-market value ratios or lower debt requirements for YBS borrowers.

During 2002, 65 percent of the associations offered differential underwriting standards, or exceptions, for YBS borrowers (up from 60 percent in 2001). Also, some associations reduce the farmer's cost through lower interest rates or fees. More than one-half had programs that offered lower interest rates, and one-third offered lower loan fees for YBS borrowers.

Both categories showed double-digit percentage increases from 2001. One institution waives its requirement that the farmer's income be at least 125 percent of debt repayment requirements, and also permits borrowers with limited equity (as low as 20 percent of total assets) to qualify. Another institution offers a "New Generation Loan Program," which provides reduced interest-rate spreads for the first five years and differential underwriting standards to accommodate the financial needs of YBS loan applicants.

As subsequently noted, the Farm Service Agency is the primary agency offering government-guaranteed loans for farmers, although a small portion of guaranteed loans is made through the Small Business Administration (SBA) and various state programs. System lending institutions use the FSA's guaranteed lending program, especially for YBS lending. About 60 percent of System FSA guarantees are for YBS loans. During 2002, FSA guarantees were utilized on nearly 24 percent of the number of YBS loans made, equaling almost 30 percent of new YBS guaranteed loan volume.

Associations offer a wide range of training programs or other services that benefit YBS farmers and ranchers. The most common training program focused on leadership; 56 percent offered this training. Approximately 53 percent offered training in business and financial management skills. Most associations also offer other financial services programs, including estate planning, recordkeeping, tax planning and preparation, and farm business consulting. Sometimes associations discount or waive the cost of these programs for YBS farmers and ranchers.

Other outreach activities are offered in conjunction with organizations such as state or national young farmer groups, colleges of agriculture, state or national cooperative association leadership programs, and 4-H or local chapters of the FFA. Many associations also provide financial support for scholarships, FFA, 4-H, and other agricultural organizations.

Helping Farmers Through Federal and State Loan Guarantees

Use of USDA's guaranteed farm loan programs, administered by the Farm Service Agency, has been increasing among System institutions.[24] The programs give lenders an opportunity to reduce their credit risk while making loans to borrowers who would not otherwise meet the underwriting standards. The programs also make it easier for lenders to continue financing existing borrowers who may be relatively new to farming or may be facing financial hardship. A number of states also offer various programs to assist such farmers, including linked deposit accounts, Aggie Bonds, and other low-interest programs, as well as guarantees, direct loans, and loan participation programs.[25] While FSA guarantees account for the vast majority of government-guaranteed farm loans, the following discussion includes results from state agency farm loan guarantee programs.

The FCA encourages Farm Credit System lenders to use government guarantee farm lending programs to help expand YBS lending and to meet the needs of other eligible borrowers in the agricultural community. Guaranteed loans reduce lending risk and are given preferential treatment in the application of risk rating systems and in determining their regulatory capital ratios. Normally, loans guaranteed by USDA or other U.S. Government agencies that are performing as expected are classified as Acceptable/Performing loans. Also, even though repayment problems or other credit weaknesses may exist, examiners do not take exception if the institution maintains the loan in an accrual accounting status. Further, institutions are not required to maintain as much capital for guaranteed loans (20 percent risk weight versus 100 percent for non-guaranteed loans) when determining their regulatory capital ratios.

24. FSA typically guarantees 90 percent of the loan principal. Borrowers qualifying for the program must be unable to obtain sufficient credit elsewhere at reasonable rates and terms and must meet minimum cash flow requirements. Lenders must pay a 1 percent guarantee fee that can be passed on to the borrower.
25. See the Web site: www.stateagfinance.org for more information and states offering programs.

Although System institutions take advantage of the FSA and state guarantee programs to help a wide range of borrower types, the largest group of borrowers assisted is the System's young, beginning, and small farmers and ranchers. Slightly more than half the System's YBS loans carry FSA or state guarantees.

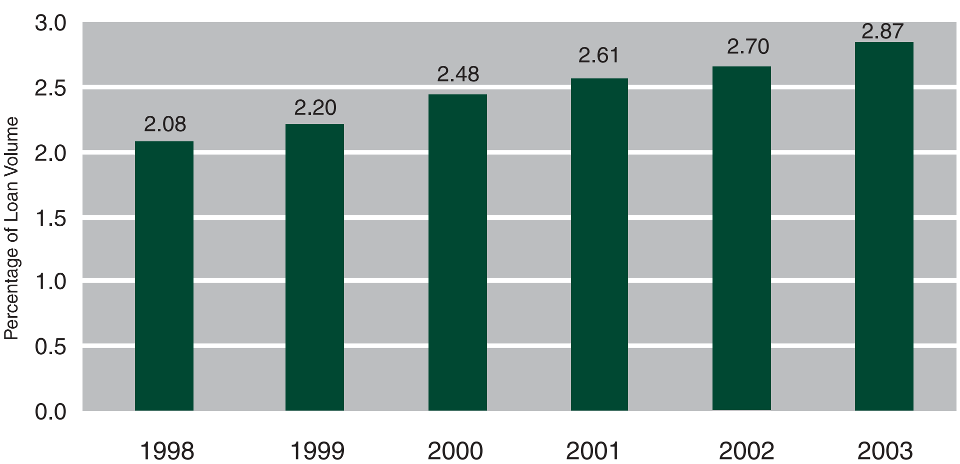
Over the five-year period ended September 30, 2003, total loans outstanding to farmers with FSA or state guarantees increased by $1.05 billion to $2.08 billion, or 102 percent. As illustrated in Figure 7, the System's volume under guaranteed loan programs is increasing relative to its overall loan volume. As of September 30, 2003, 13,953 of the System's loans to farmers (2.87 percent of its volume) were reported as having FSA or state guarantees, compared with 9,454 loans (2.08 percent of its volume) five years earlier.[26] The System has also been steadily increasing its share of all FSA-guaranteed loans, from 15.2 percent five years ago to 23.0 percent as of September 30, 2003. However, the System's share of FSA guarantees is below its overall market share of farm debt.

Most (95) System associations participate in the FSA or state guarantee programs, with 77 institutions having 20 or more loans in such programs. Use at individual associations continues to vary widely; 27 associations had FSA- or state-guaranteed volumes of more than 6 percent of their total lending volume as of September 30, 2003. However, almost as many (26) had guaranteed lending volumes of 1 percent

Figure 7

FCS Increases Use of Guaranteed Farm Loans, 1998–2003

As of September 30



Gross loan volume with an FSA or state guarantee as a percentage of gross loan volume for all FCS associations.

Source: FCA Loan Account Reporting System.

26. Loans to farmers include rural housing loans (some of which are to non-farmers), marketing and processing loans, farm-related business loans, and miscellaneous loans. A small additional volume of federal guaranteed lending is under other programs. The System also had $2.8 billion guaranteed by Farmer Mac under its Long-Term Standby Commitment to Purchase program as of June 30, 2003.

or less of their outstanding loan volume. Tables 7, 8, and 9 show the top 10 associations that participate in the FSA or state guarantee programs ranked in three ways: (1) number of guaranteed loans as a percentage of total number; (2) dollar value of guaranteed loans as a percentage of total loan volume; and (3) guaranteed loan dollar volume. Altogether 22 associations are each ranked in at least one of the tables. The top 10 associations in terms of dollar volume guaranteed account for 43 percent of the System's FSA- or state-guaranteed loans. Almost all these associations are FSA Preferred Lenders.[27]

Institutions that are heavy users of the FSA or state guarantee loan programs note that guarantees reduce portfolio credit risks and are especially helpful in promoting lending to YBS borrowers. These institutions have made the extra effort to learn about the FSA and state guarantee loan programs and to develop procedures to participate in them. They also typically have good relationships with FSA and state agency personnel in their areas. Competition for FSA's funding for the guaranteed loan programs has increased significantly in recent years, but not all available funds were exhausted this past fiscal year. Roughly one-half of all FCS associations increased their FSA- or state-guaranteed lending volume by 10 percent or more. Even so, roughly one-third of all associations had either no change or a decrease in their guaranteed volume. On average, this group had less than 2 percent of their loan volume under FSA- or state-guaranteed programs, suggesting that the System has significant potential for expanded use of such programs.

Table 7

Top 10 FCS Associations Ranked by Percentage of Number of Loans with a USDA Farm Service Agency or State Guarantee

As of September 30, 2003

District	Association	Number of Guaranteed Loans	Total Number of Loans	Percentage of Total Number of Loans
AgriBank	Delta ACA	23	175	13.1
Texas	North Alabama FLCA	218	2,242	9.7
AgFirst	Southwest Georgia ACA	202	2,190	9.2
Western	Hawaii ACA	36	406	8.9
CoBank	Maine ACA	85	959	8.9
Western	Idaho ACA	59	673	8.8
Western	Colusa-Glenn ACA	125	1,519	8.2
AgFirst	AG CREDIT ACA	744	10,248	7.3
CoBank	Yankee ACA	129	1,847	7.0
CoBank	First Pioneer ACA	783	12,207	6.4

Source: FCA Loan Account Reporting System.

27. The FSA Preferred Lender Program allows better performing lenders to make efficient use of the FSA guarantee program through reduced paperwork requirements.

Table 8

Top 10 FCS Associations Ranked by Percentage of Dollar Volume with a USDA Farm Service Agency or State Guarantee

As of September 30, 2003

Dollars in Thousands

District	Association	Guaranteed Loan Volume	Total Loan Volume	Percentage of Total Loan Volume
AgriBank	Delta ACA	$4,247	$20,295	20.9
Texas	North Alabama FLCA	$52,050	$290,651	17.9
AgFirst	AG CREDIT ACA	$77,535	$601,913	12.9
AgFirst	Southwest Georgia ACA	$38,289	$343,846	11.1
AgriBank	North Dakota ACA	$39,054	$365,549	10.7
CoBank	Maine ACA	$17,009	$161,370	10.5
Western	Idaho ACA	$12,816	$128,017	10.0
AgFirst	Valley ACA	$14,351	$149,453	9.6
AgFirst	Central Kentucky ACA	$13,662	$150,894	9.1
AgriBank	Western Arkansas ACA	$49,278	$544,637	9.0

Source: Guaranteed loan volume from FCA Loan Account Reporting System; total loan volume from Call Reports received from the Farm Credit System.

Table 9

Top 10 FCS Associations Ranked by Dollar Volume of Loans with a USDA Farm Service Agency or State Guarantee

As of September 30, 2003

Dollars in Thousands

District	Association	Guaranteed Loan Volume	Total Loan Volume	Percentage of Total Loan Volume
AgriBank	GreenStone FCS, ACA	$210,760	$2,748,621	7.7
CoBank	First Pioneer ACA	$110,248	$1,737,867	6.3
AgriBank	Missouri ACA	$88,173	$1,256,059	7.0
AgFirst	Carolina ACA	$80,245	$1,044,123	7.7
AgFirst	AG CREDIT ACA	$77,535	$601,913	12.9
CoBank	Northwest FCS, ACA	$68,532	$4,440,147	1.5
AgriBank	AgCountry ACA	$64,854	$1,080,615	6.0
AgriBank	AgStar ACA	$63,210	$2,424,683	2.6
AgFirst	AgChoice ACA	$60,375	$972,995	6.2
AgFirst	MidAtlantic ACA	$54,088	$1,451,004	3.7

Source: Guaranteed loan volume from FCA Loan Account Reporting System; total loan volume from Call Reports received from the Farm Credit System.

Risk-Based Examination and Supervisory Program

Examinations of FCS institutions must be consistent with agency authorities and statutory requirements. Within those parameters, the amount of examination review and testing that an institution receives depends on the level of institutional risk reflected by the institution's CAMELS-based rating [assigned under FCA's Financial Institution Rating System (FIRS)].

The FIRS rating is the primary risk designation FCA uses internally to indicate the safety and soundness threats in an institution. FCA discloses the composite and component ratings to the institution's board to provide a better sense of where the institution stands relative to the seriousness of examination issues. In addition, each report of examination provides the institution board a detailed assessment of management's performance, the quality of assets, and the financial condition and performance of the institution.

The FCA generally devotes fewer resources to institutions found to be in compliance with statutory and regulatory requirements and operating in a safe and sound manner. The scope and depth of examinations are based on statutory and regulatory compliance, as well as the risk identified, or reasonably anticipated, in the institution. The factors that determine the scope and depth of an examination include: the effectiveness of the institution's internal controls, the examiners' judgment in consideration of the results of previous examinations, the composite and component FIRS ratings, changes that have taken place in the institution since the preceding examination, and guidance provided by field and senior management on areas of risk that should be given special emphasis.

Finally, examiners review the work performed by others, such as internal and external auditors or reviewers. The degree of reliance on this work is based upon the examiners' judgment of the competence and independence of the auditors or reviewers, as well as the scope of the audit or review.

Meeting Statutory Examination Requirements

The Farm Credit Act requires FCA to examine each FCS institution at least once every 18 months. However, we maintain the flexibility to complete examination activities at any time, as needed. FCA examines System banks and direct-lender associations with greater than $1 billion in total assets at least once every 12 months because of these institutions' relative importance to the overall financial soundness of the System. FCA conducted 84 examinations in FY 2003, including examinations of 74 FCS direct-lender associations, three farm credit banks, three service corporations, one Agricultural Credit Bank, the FCS Financial Assistance Corporation, Farmer Mac, and the National Consumer Cooperative Bank, which is not an FCS institution.[28]

The Small Business Administration and the U.S. Department of Agriculture continued to use the FCA's examination expertise in 2003. SBA contracted with FCA to conduct examinations of financial companies licensed by SBA to make guaranteed loans to small businesses. USDA contracted with FCA to conduct examinations of financial companies authorized by USDA to make guaranteed loans under USDA's Business and Industry (B&I) Guaranteed Loan program. Also, FCA examiners completed reviews of B&I program operations at selected USDA State Offices. While the safety and soundness of the System remains the primary objective of FCA, we believe the continuing use of FCA examination

28. The National Consumer Cooperative Bank (NCB) Act of 1978, as amended, provides for FCA to examine and report on the condition of the NCB. Since the passage of this law, FCA has conducted safety and soundness examinations of the NCB and issued reports of examination to the NCB's board.

resources by SBA and USDA is a positive reflection on the professionalism of FCA examiners, and serves to broaden their examination skills while increasing job satisfaction and employee retention.

Measuring the System's Safety and Soundness

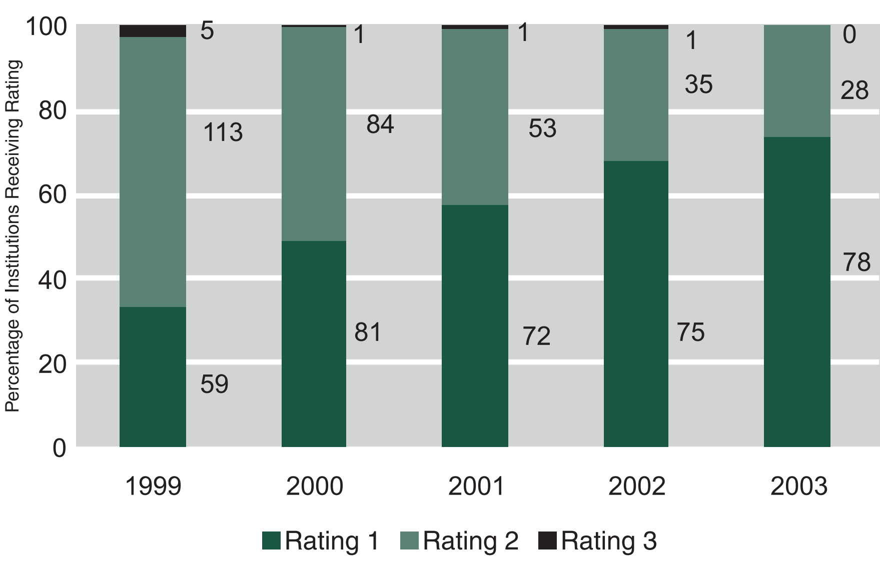
Using the FIRS, examiners evaluate the risk in each bank and direct-lender association at least every 90 days based on quantitative and qualitative benchmarks to ensure that assigned ratings reflect current risk and conditions in the FCS. The FIRS provides a general framework for assimilating and evaluating all significant financial, asset quality, and management factors to assign a composite rating to each institution on a scale of 1 to 5. A 1 rating means an institution is sound in every respect. A rating of 3 means an institution displays a combination of financial, management, or compliance weaknesses ranging from "moderately severe" to "unsatisfactory." A 5 rating means there is an extremely high, immediate, or near-term probability of failure.[29]

Throughout FY 2003, FIRS ratings as a whole continued to reflect the stable financial condition of the Farm Credit System, and, as Figure 8 reflects, the overall trend in FIRS ratings continued to be overwhelmingly positive. At September 30, 2003, there were nearly three times as many 1-rated institutions (78, or 74 percent) than 2-rated institutions (28, or 26 percent). There were no 3-, 4-, or 5-rated institutions at September 30, 2003. The strength of FCS institutions displayed by these ratings reflects a financially safe and sound Farm Credit System, thanks in part to government support program payments, which allow many borrowers to

Figure 8

Farm Credit System FIRS Composite Ratings Steadily Improve

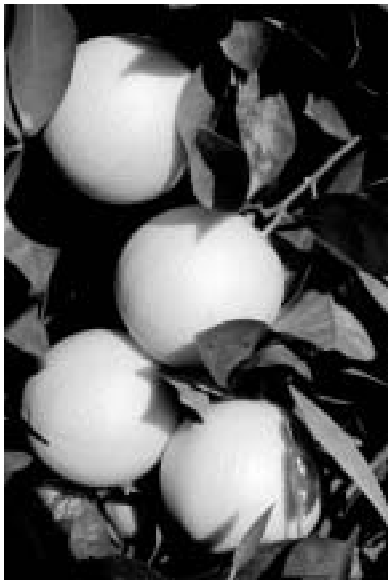
As of September 30



Note: FIRS ratings are based on capital, asset quality, management, earnings, liquidity, and sensitivity to market risk. Ratings range from 1 (a sound institution) to 5 (an institution that is likely to fail).

Source: Farm Credit Administration Reports of Examination.

29. See the Glossary for a complete description of the FIRS ratings.



meet debt obligations during a period of low market prices for many commodities. The overall financial strength maintained by the System reduces the risk to investors in FCS debt, the Farm Credit System Insurance Corporation, and FCS institution stockholders.

Identifying Potential Threats to Safety and Soundness

Every six months, the FCA uses a financial forecasting model to identify and evaluate prospective risk in institutions over the upcoming 12- and 24-month periods under “most likely” and “worst case” scenarios, respectively. By evaluating each institution’s financial condition and performance under various scenarios, we can identify institutions with emerging risks. This evaluation helps FCA carry out the risk-based supervision program to ensure that FCS institutions address and correct problems before irreparable harm to their financial conditions occurs. Our current financial forecasting analysis, based on June 30, 2003, Call Report data, projects that the financial condition of the FCS will remain sound through June 30, 2004, and June 30, 2005, under “most likely” and “worst case” scenarios, respectively. These projections rely heavily on the expectation of continued government support for agriculture.

FCA’s early warning system includes a loan portfolio stress model to evaluate the potential impact of interest rate changes and a decline in borrower repayment capacity on an institution’s earnings and financial condition. In addition, we perform an analysis of new money, refinancing, and rollover trends to identify the potential for transfer of risk from other lenders to FCS institutions (especially during stressful times in agriculture). We also maintain a database of FCS institutions’ underwriting standards to analyze whether boards are properly adjusting standards in response to changing risk. During FY 2003, the results of these analyses indicated the System would remain financially sound and well-positioned to meet its mission through good and bad times.

Differential Supervision and Enforcement

Some risks are inherent to lending, and lending to a single industry such as agriculture is particularly risky. If examiners discover unwarranted risks, they work with an institution’s management and board to establish a plan of action to mitigate or eliminate such risks. Appropriate actions may include reducing exposures, increasing capital, or strengthening risk management.

When an individual institution is not properly managing its risks or complying with laws and regulations, FCA’s goal is to use suitable means to influence the institution’s board of directors to adjust its practices. When examiners discover unsafe or unsound conditions or violations of laws or regulations, we require, through the report of examination, the institution’s board to take corrective actions. The board then must provide FCA with a written response that addresses how the problems will be corrected, including specific time frames for correction. Eighty-one percent of the reports of examination issued in FY 2003 required corrective actions. This follows a noticeable increase in 2002, when 39 percent of reports required corrective actions, after a three-year declining trend in required actions through 2001. While the percentage of reports requiring corrective actions is much higher than during previous years, the requirements were almost entirely in the areas of regulatory compliance and YBS program compliance. Regulatory compliance includes such areas as E-commerce regulation compliance, eligibility and scope of financing, and consumer compliance.

FCA uses a three-tiered supervision program (normal, special, and enforcement) to distinguish the risks and special oversight needs of institutions. Institutions under normal supervision are generally performing in a safe and sound manner and in compliance with applicable laws and regulations. These institutions have demonstrated they can correct identified weaknesses in the normal course of business. Nonetheless, our examinations may identify violations of laws or regulations or potentially unsafe or unsound practices that require corrective actions. In addition, we regularly recommend to institution boards ways to improve the efficiency or effectiveness of their risk management processes and/or controls to maintain financial stability. This practice of requiring corrective actions and recommending improvements to processes and/or controls is critical to our success in supervising regulatory compliance and the safety and soundness of FCS institutions.

For institutions displaying conditions that are serious but do not necessarily critically impair their safety and soundness, we increase the concern from normal supervision to special supervision, and our examination oversight increases accordingly. Special supervision gives the institution's board and management the opportunity to correct the problems discovered during the examination or oversight process before irreparable harm occurs. This process has been successful where the institution's board and management are both willing and able to correct the identified problems. The institution is allowed time to correct identified weaknesses before enforcement actions by the agency become necessary.

A formal enforcement action may be necessary if an institution engages in unsafe or unsound practices, violates laws or regulations, or exhibits excessive risk, and its board and management are unable or unwilling to correct the problems. FCA uses its enforcement authority to ensure that the operations of FCS institutions are safe and sound, do not exhibit excessive risk, and comply with laws and regulations. This authority includes the power to enter into formal agreements, issue orders to cease and desist, levy civil money penalties, and suspend or remove officers, directors, and any other persons or forbid them from engaging in FCS institutions' affairs. If the FCA Board votes to take an enforcement action, these institutions perform under enforcement supervision, and our examiners oversee the institution's performance to ensure compliance with the enforcement action.

Working With Financially Stressed Borrowers

Agriculture is a risky business that can be affected by adverse weather, changes in imports and exports, and local supply and demand, sometimes causing borrowers difficulty in repaying their loans. The Farm Credit Act provides borrowers with certain rights when they apply for loans and when they have difficulty repaying loans. For example, the Act requires FCS institutions to consider restructuring an agricultural loan before initiating foreclosure. The Act also provides an opportunity for borrowers to seek review of certain credit and restructuring decisions. If a loan is foreclosed, the Act provides borrowers with the opportunity to buy back their property at the fair market value.

FCA adopted regulations to implement the borrower rights provisions of the Act. FCA also includes a review of borrower rights compliance in its examination of FCS institutions. Further, FCA receives and reviews complaints from borrowers regarding their borrower rights. Through these efforts, FCA helps the FCS institutions ensure that every effort is made to retain loans with improved prospects for repayment and, at the same time, continue to provide sound and constructive credit and related services to farmers and all types of agricultural producers.

Texas Couple Goes Back to the Farm . . . with Help from Farm Credit

Kelly Broyles worked on a dairy farm while growing up, but chose to move to the city with his wife, Gayle, after they married. But the pull of rural life proved too much. In 1996 the couple returned to Kelly's hometown and bought 10 polled Herefords and 434 acres of pasture land in Hopkins County, Texas. By 1999, though they both had full-time jobs off the farm, the couple had increased the herd to more than 75 cows and calves, and added two poultry houses to their holdings.

In 2001, after attending a fishing show, the Broyles contacted AgriLand, FCS, seeking financing for commercial catfish ponds on their property. Today, the five 10-acre ponds can hold more than 10,000 fish per acre. The operation relies heavily on technology to monitor water conditions, oxygen levels, and to automatically measure and distribute food throughout the ponds each evening. "When the oxygen level gets low, my computer calls me," says Kelly.

Kelly and Gayle, who now farm full-time, attribute much of their success to the support of Farm Credit. "We had such a positive experience dealing with AgriLand that we refinanced our poultry houses with them. Now they handle the financing on all our enterprises," says Gayle. Kelly adds, "AgriLand is extremely committed to farmers and ranchers, and are doing a good job to ensure the future of agriculture by providing us with the resources we need to succeed."

Challenges Facing Agriculture and the Rural Economy

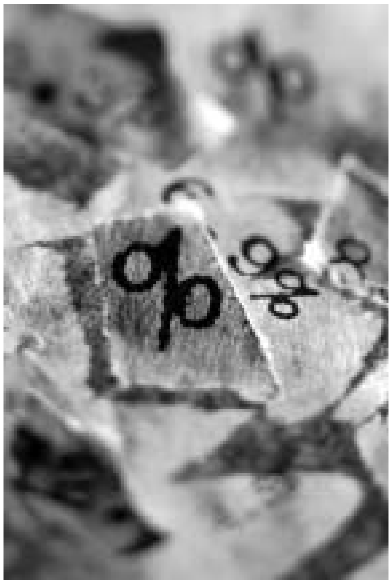
Farm Credit System institutions, their borrowers, and rural America face a variety of risks that can affect their performance and viability. The FCA analyzes a wide range of risks to the agricultural and financial sectors that could pose significant challenges to farmers and ranchers, their cooperatives, their communities, and the institutions that comprise the Farm Credit System. While credit quality and capital positions at System institutions remain adequate and provide a strong buffer to protect against losses, we have identified and are monitoring the following principal risks.

Uneven Economic Recovery, Improved Outlook for Rural America

Changing economic conditions, that is, the forces of supply and demand, affect the System's borrowers by altering the prices of goods and services they purchase and sell. Additionally, many farm borrowers depend upon non-farm employment and earnings to help service their debt and support their households. The current recovery, which began with the end of the recession in November 2001, was characterized by uneven growth, a lack of business investment, minimal inflation, and rising unemployment through the first half of 2003. The much-anticipated acceleration in the recovery showed up in the third quarter of 2003, as near-record low interest rates and a series of tax cuts spurred consumer spending for durable goods, like homes and autos, in addition to nondurable goods, like clothes and food. The labor market also began to show signs of improvement in the third quarter with payrolls growing slightly, enough to lower the unemployment rate to 5.9 percent. The improved outlook for the U.S. economy should provide a stimulus to consumption of certain farm products, particularly for meats, dairy, and various high-valued horticultural products (wine grapes, for example). The demand for grains and protein feeds should also improve as livestock inventories rise to satisfy the increased consumption of livestock products.

There are a number of risks to the current recovery, including the sluggish job market, concern over the sustainability of consumer spending, and the twin deficits in the trade account and the federal budget. Job growth has been constrained by a combination of factors including technological advances that allow businesses to do more with less labor, the migration of jobs overseas, and the high cost of providing health insurance and other benefits to employees. Thus, meaningful recovery in the job market may be slow, and it is likely to remain uneven across regions and rural communities. This sluggishness is a cause for concern for many farm families and System borrowers, who have become increasingly dependent on the non-farm sector for the majority of their household income. Today more than one-half of farm operators and their spouses are employed off the farm, and non-farm income sources account for more than 90 percent of household income on average.

The energy situation has become more unsettled, and this could adversely affect both households and businesses. Following supply cuts by the Organization of Petroleum Exporting Countries (OPEC) producers in the fall of 2003 and the tense situation in the Middle East, which pushed oil prices above $32 per barrel with little prospect of declining anytime soon. Low stock levels for heating oil



could lead to price spikes this winter, depending on the severity of the weather. A positive development on the energy front, however, is the expected increase in the demand for corn for ethanol production as a result of the ban on the fuel additive methyl tertiary butyl ether in California beginning in 2004, with other states likely to follow.

Near-Record Low Interest Rates May Rise in 2004

Movements in interest rates affect borrowers in a fairly predictable manner. The effect on their lenders' earnings and competitive position is more complex depending on how well they manage to match their assets and liabilities. Short-term interest rates reached their lowest levels in almost half a century in 2003, with the Federal Reserve's Open Market Committee (committee) cutting the federal funds rate to 1 percent on June 25th and holding it at that level to provide a boost to a lackluster recovery. The committee indicated that its principal concern for the foreseeable future is the risk of inflation becoming undesirably low and that it expects an accommodating monetary policy to continue for a considerable period. The near-record low interest rates provided significant debt relief to some highly leveraged farm operations and encouraged some refinancing. The wide use of variable-rate farm loans may partially explain the lack of a refinancing boom in the agricultural sector compared with what occurred in the housing market.

Low interest rates have likely encouraged some borrowers to take on additional debt. Such borrowers run the risk of repayment problems should either farm income or off-farm income decline. Furthermore, if their debt is based on variable rate loans, rising interest rates will pose a repayment risk. While most economists expect short-term rates to remain relatively low into early 2004, rates could rise later in the year in line with increased economic activity.

Agricultural Income Improves in 2003, Mixed Outlook in 2004

Overall, USDA forecasts that the earnings prospects for U.S. farmers, ranchers, and landlords improved significantly in 2003, due to a combination of higher cash receipts for both crops and livestock products along with a sharp rise in government payments. Reduced global output in some key growing regions combined with strong domestic and foreign demand contributed to a general strengthening of commodity prices. Even with the higher prices, direct government payments were expected to jump 80 percent to an estimated $19.7 billion in 2003, due primarily to a one-time bunching of payments associated with moving to the 2002 farm act. This helped boost net cash income (the funds available to farm operators to meet family living expenses and make debt payments) to an estimated $65.1 billion for 2003, an increase of nearly one-third from the 2002 level and a record high.

The financial condition of individual farm households, however, shows some variation due to differences in commodity mix, input use, government payments, and weather conditions. With the exception of tobacco and specialty crops (fruits, tree nuts, vegetables, and nursery products), income gains were expected for most crop producers in 2003, particularly for soybeans, rice, and cotton. Returns to livestock producers were expected to be

up across the board for 2003, particularly for beef, which benefited from reduced supplies from Canada stemming from the mad cow disease episode. Production expenses were generally up for most categories in 2003, led primarily by double-digit increases for petroleum products, fertilizer, and feeder livestock. The exception was pesticides and interest expense, which were little changed.

Income prospects for 2004 and beyond are mixed. Near-term price prospects for most major farm commodities, other than dairy, have improved, while prices for specialty crops remain mixed. The energy situation noted earlier could bring a near-term rise in production costs for farm operators who use a high level of energy inputs. However, an increased demand for corn for ethanol production could boost returns to corn growers, particularly in the Midwest and the West, where much of the ethanol facilities are located. Government payments are expected to decline in 2004 but will likely continue to be a major factor contributing to the ability of many farm borrowers to make regular loan payments. However, the mounting budget deficit, forecast to reach a half a trillion dollars in 2004, combined with international pressure to lower farm subsidies, could lead to reduced government support for the agricultural sector in the future. This poses a particular risk to farm families that concentrate on program crops like grains, oilseeds, and cotton. Fortunately, as previously noted, credit quality and capital positions at System institutions remain adequate and provide a strong buffer to protect against these future risks.

Farmland Values Continue to Rise, Some Negative Factors Raise Concern

Farm real estate accounts for more than 80 percent of the value of all farm business assets, and loans secured by such assets account for nearly 61 percent of the loan volume at FCS associations. The value of farmland is generally based on the income it generates, and, despite net farm income remaining below its 1996 peak in recent years, farmland values continued a strong upward trend. According to USDA, the average value of farm real estate (all land and buildings on farms), as of January 1, 2003, increased by 5 percent to $1,270 per acre from a year earlier. The overall gain was the 16th consecutive annual increase in U.S. farm real estate values since the collapse during the agricultural crisis of the mid-1980s. The rising trend continued in 2003, as quarterly surveys of agricultural bankers by several Federal Reserve District Banks reported solid year-over-year gains for most types of crop and pasture land through the second quarter.

The robust farmland market in the face of weak market returns from farming raises two questions—What's behind the increase? How long will it last? A host of factors have contributed to the recent increase in farmland values: strong demand for land spurred by low interest rates, investors looking for alternatives to the stock market, the large infusion by the government of farm support payments, urban sprawl, and a scarcity of land for sale in some areas. Competition for farmland among farmers, developers, and investors has more than offset weak

agricultural returns in recent years and, thus, has generally strengthened the balance sheet for the farm sector. Real estate values have risen faster than real estate debt for most years since the late 1980s, providing farmland owners with an extra cushion to weather a short-term decline in income or land values.

However, there are a number of negative factors that are raising concerns among farm lenders about the future collateral value of farmland. Among these are the somewhat slower than normal economic recovery, the rising uncertainty about the dependability of government support for agriculture, and the prospect of rising interest rates. Two factors are increasing the risk that government payments may decline: (1) the pressure from the World Trade Organization (WTO), developing countries, and environmental groups to reduce agricultural subsidies in industrialized countries and (2) the surging budget deficit. A spike in interest rates could quickly cut developers' and short-term investors' demand for farmland. While farmland is less leveraged today and farmers and lenders are in better financial positions than during the agricultural crisis of the mid-1980s, a decline in the farm real estate markets would cause financial stress for those farm borrowers, whose cash flow might also be dropping at the same time.

Agricultural Exports Approaching Former Peak, Increased Competition Ahead

The nation's agricultural export picture has brightened with exports forecast to increase for the fifth consecutive year in FY 2004 (October 1, 2003, through September 30, 2004), by nearly 6 percent to $59.5 billion. Improved global economic growth, reduced agricultural output in some key countries, and a weaker U.S. dollar are factors behind the improved export outlook. Access to world markets is critical to the financial health of many System borrowers, particularly for those producing items with high proportions of their product typically exported.

The 2004 forecast is about 1 percent below the peak in fiscal year 1996, and the risk to the favorable export picture is substantial. Over the longer term, our producers face growing competition in other regions of the world, particularly South America, Eastern Europe, the former Soviet Union, China, and India, where production continues to expand in response to technological advances and government support. The breakdown in multilateral trade talks sponsored by the WTO in Cancún, Mexico, in September 2003, is likely to delay the reduction in trade barriers that are restricting U.S. exports into some markets. Concerns about biotechnology along with animal health issues continue to pose a risk to the further expansion of U.S. agricultural sales abroad.

In addition, imports of agricultural products, some of which compete directly with U.S. production, are expected to rise for the 17th consecutive year to a record $48.5 billion, up 6 percent from 2003. Rising imports, particularly for horticultural products, continue to put downward price pressure on certain U.S. producers, who have had to turn to the federal government for assistance, primarily through special purchase programs. U.S. farmers are likely to face additional competition in the future from developing countries as those countries continue to

adopt new production technologies, improve their infrastructure for moving products to markets, and gain some trade advantage through the depreciation of their currencies relative to the U.S. dollar. Pressure at the WTO talks from a newly formed block of developing countries to dismantle the $300 billion in annual subsidies provided by developed countries to their farmers, could lead to additional competition for U.S. farmers for both the domestic and export markets.

Food Safety a Top Priority

Food safety covers a wide range of issues. Maintaining a safe and secure food system is paramount to the health and well-being of consumers here and abroad, as well to the viability of the nation's agricultural sector. Microbial pathogens like *E. Coli* in meat, animal diseases like mad cow disease, and chemically tainted food can result in serious health consequences and cause serious disruptions to the food supply. This can lead to significant economic losses to farmers, their marketing and processing businesses, and their cooperatives. Fortunately, the most recent outbreak of a major food safety problem did not involve U.S. producers.

The discovery in Canada on May 20, 2003, of a single cow infected with bovine spongiform encephalopathy (BSE), or mad cow disease, led USDA and a number of countries to ban the imports of Canadian ruminants and their products, thereby bringing the lucrative Canadian beef trade to a virtual halt. This resulted in significant income losses for their producers, meat packers, and those involved in live animal trade. The U.S. has stepped up its surveillance and safety procedures in recent years to reduce the possibility of BSE and other hazards—microbial, chemical, and physical—from entering the United States. The more recent threats to the nation's food supply from terrorist groups underscore the growing importance of ensuring food safety from the farm gate to the dinner plate. The financial health of U.S. farmers, ranchers, and their credit providers depends on the U.S. continuing to be recognized as a world leader in food safety. While some measures may impose a cost on producers, food processors and retailers are willing to pay higher prices for commodities to ensure food safety.

Challenges Facing Agricultural Cooperatives

With trends toward fewer farmers, vertical integration in the food system, and an increasingly global and competitive market for all goods and services, concerns are being raised that the traditional agricultural cooperative form is not flexible enough. Unlike when the cooperative movement developed, today there are relatively few fulltime farmers who can join and contribute financial resources. The high number of farmers at or nearing retirement age means that many of today's farmers are likely more interested in cashing out their stock than in investing in more enterprises. Yet, as producers seek additional income sources by shifting away from traditional bulk commodity lines and toward niche and value-added products, the capital requirements grow. In addition, effective marketing often requires the cooperative to do considerable business with non-members to provide adequate product lines. The response by some farmer groups, as well as by some existing cooperatives, has been to form limited liability corporations or hybrid cooperative organizations. These organizations can provide incentives to

attract outside equity and or reduce the tax obligations on nonmember business. Add the recent demise of several large agricultural cooperatives, and the question of whether farmers need to consider alternative business structures comes into sharper focus.

Unlike other business structures, cooperatives are owned and controlled by the people who use their services. As a result, the cooperative operates for the mutual benefit of their member-owners—typically to enhance their income by marketing their raw products or to lower their costs for inputs or services. Most agricultural producers have significant investments in one or more cooperatives and expect that their cooperatives will remain viable market outlets or reliable sources of inputs. But changes in their memberships and the market place are forcing many agricultural cooperatives to redefine their core business, including how best to organize and finance subunits or auxiliary business entities. Farmers must also deal with the issue of how much control to give up if the decision is to use outside sources of equity.

Governance is another structural issue facing cooperatives. Although exempt from the Sarbanes-Oxley Act of 2002,[30] investors, lenders, and associated business partners will be looking at the governance practices of cooperatives and other small businesses to see whether they are well-managed, financially viable, and transparent. A related challenge for the System is whether special governance rules and/or reporting requirements will be expected of or imposed on government-sponsored enterprises.

Over the years, Congress has sought to preserve and enhance the benefits that cooperatives bestow on farmers, their domestic and foreign customers, and America as a whole by enacting laws that enable agricultural cooperatives to grow and prosper. This includes policies that grant cooperatives legal protections, tax benefits, and other advantages not conferred on investor-owned agribusinesses. Two states have enacted legislation to allow farmers and investors the flexibility to form new types of hybrid cooperatives in which farmers share control/ownership with non-patron investors. Several other states are expected to follow suit. Whether Congress will grant these new forms the same benefits as traditional cooperatives, including eligibility for Title III financing by the System, remains to be seen.

30. The Sarbanes-Oxley Act (Public Law 107-204) was passed by Congress in 2002 to enhance the oversight of publicly held corporations by establishing stronger reporting requirements. The Securities and Exchange Commission has issued, and continues to issue, regulations implementing provisions of the act.

Farm Credit Helps a Young Farmer Build a Solid Foundation in Agriculture

Mike Job had just recently graduated from high school, when his parents decided to move . . . out of state. The 17-year-old wanted a career in production agriculture, but his ambition far outstripped his experience or his capital. With the help of friends, relatives, and Northern California Farm Credit, Mike was able to plant 41 acres of rice that year. Ten years later, he plants 200 acres of his own in rice, and custom-farms 800 acres for landowners in the Richvale, California, area.

In 1998, when new laws and regulations prohibited rice farmers from spraying some herbicides from the air, Mike and several friends took the initiative to build "ground rigs" to apply the materials. Today, with financing from Farm Credit, the company ground sprays more than 4,000 acres per year in areas where crop dusting is not allowed. The firm also applies fertilizer to more than 10,000 acres of land, before they are flooded and planted with rice.

Mike is the third generation in his family to farm, and he and his wife, Jennifer, hope to pass on the love of agriculture to their sons Tyler and Tanner. "If you want it bad enough, you will find a way to make it happen," says Mike. With the help of a committed agricultural lender like Northern California Farm Credit, the Jobs are making it happen today, and for the future.

Corporate Activity, Regulatory Guidance, and Other Agency Activities

Association Restructuring in FCS Slows While Bank Activity Increases

In FY 2003, the System continued streamlining its structure through mergers that reduced the number of Farm Credit Banks from six to four. At the association level, activity slowed but continued toward a single type of direct lender association—an Agricultural Credit Association with wholly owned Production Credit Association and Federal Land Credit Association subsidiaries. As a result of this year's corporate activity, all remaining PCAs were eliminated as independent, standalone, direct-lender associations when they merged and became ACA subsidiaries. The ACA parent/subsidiary structure is the most common structure in the System and accounted for 85 percent of all associations on September 30, 2003.[31] Under this structure, the ACA and its subsidiaries operate with a common board of directors and joint employees and are obligated on each other's debts and liabilities. The structure allows the ACA to build capital more efficiently. Additionally, the structure enables customers to be stockholders of one entity—the ACA—and borrowers from either or both subsidiaries. This arrangement provides the ACA and its subsidiaries with greater flexibility for serving its customers and results in the efficient delivery of credit and services to borrower-stockholders. This section describes the changes in the FCS structure that occurred during FY 2003.

Of 86 ACAs, two have not yet adopted the ACA parent/subsidiary structure. In addition, 13 FLCAs, which are authorized to provide long-term credit, continue as independent associations. In FY 2003, two ACAs with subsidiaries received FCA and stockholder approval to merge on January 1, 2004. On that date, the number of associations will decline by one to 98.

Summary of Activity

The number of corporate applications submitted for FCA Board approval declined from that of the previous year as the pace of association restructuring slowed. In contrast, bank-level restructuring activity increased. In FY 2003, we analyzed and approved eight applications, compared with 24 applications processed during 2002. The applications processed were for:

- two mergers of Farm Credit Banks, with each merger involving two banks,
- the reaffiliation of an association from a Farm Credit Bank to an Agricultural Credit Bank,
- a merger of two ACAs with subsidiaries,
- a restructuring of an ACA to establish a PCA and an FLCA as wholly owned subsidiaries of the ACA,
- a merger of a PCA and an FLCA into an ACA with subsidiaries,
- a consolidation of two PCAs and an FLCA to establish an ACA with subsidiaries, and
- an amendment to the Articles of Incorporation for a service corporation.

31. FCA, in approving the ACA parent/subsidiary structure, views the ACA and its wholly owned operating subsidiaries as a single entity for most regulatory and examination purposes based on their common ownership and control and cross-guarantees between and among the entities, with each entity responsible for the debts of the others and their capital and assets combined to absorb any losses.

The total number of associations decreased from 104 on September 30, 2002, to 99 as of September 30, 2003. At the bank level, mergers reduced the number of Farm Credit Banks by two. One of the two bank mergers took effect on October 1, 2003, the first day of the new fiscal year; however, we have included this merger in the report. Figure 9 depicts the chartered territory of each FCS bank. More details about specific corporate applications in FY 2003 are available on FCA's Web site at www.fca.gov.

Bank Activity Involving AgAmerica, FCB, AgriBank, FCB, and CoBank, ACB

Two significant restructurings were completed on January 1, 2003, involving three banks and two of the largest associations in the System. Northwest Farm Credit Services, an Agricultural Credit Association (Northwest ACA), was one of two stockholders of AgAmerica, FCB (AgAmerica). It desired to become affiliated with CoBank, ACB (CoBank), which operates under both title I and title III of the Act.[32] The AgAmerica board adopted a plan that facilitated Northwest ACA's reaffiliation with CoBank prior to AgAmerica's planned merger into AgriBank, FCB (AgriBank). The voting stockholders of CoBank and AgAmerica voted to approve the reaffiliation following FCA Board approval. The territory that Northwest ACA serves—the states of Alaska, Idaho, Montana, Oregon, and Washington, and parts of northern California and western North Dakota —is included in CoBank's title I charter authorities.

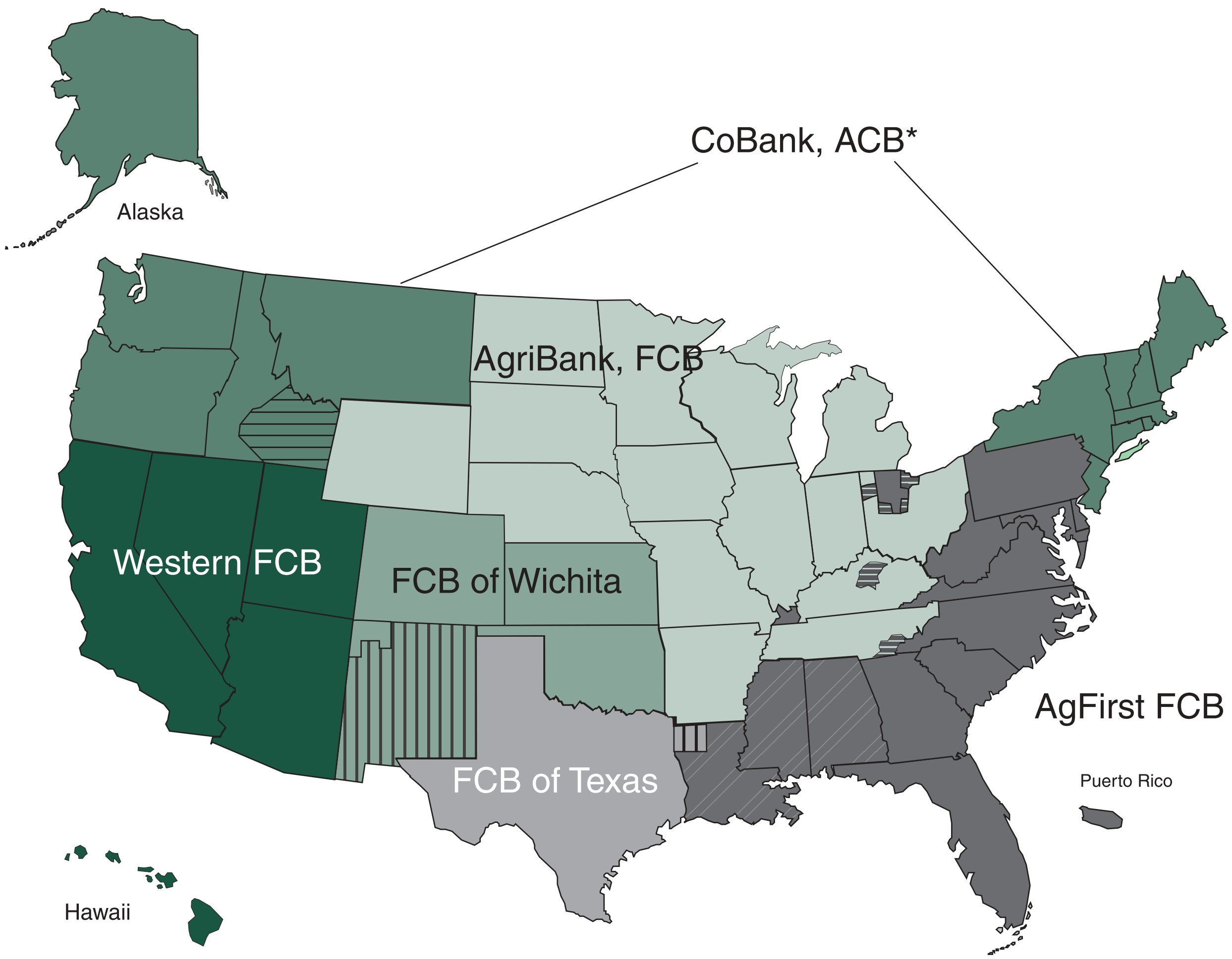
After Northwest ACA reaffiliated with CoBank, AgAmerica (and its remaining stockholder, Farm Credit Services of America, ACA) merged into AgriBank on January 1, 2003. This followed approval by the voting stockholders of both banks and the FCA Board. As a result of the merger, AgriBank's charter was amended to include AgAmerica's remaining territory—the states of Iowa, Nebraska, South Dakota, and Wyoming. AgriBank's headquarters remain in St. Paul, Minnesota.

Bank Activity Involving Western Farm Credit Bank and Farm Credit Bank of Wichita

The FCA Board approved a proposed merger of the Western Farm Credit Bank (WFCB) into the Farm Credit Bank of Wichita (FCBW) in May 2003. At the time, the two banks were operating under a joint management agreement, which had been put in place on January 1, 2002. Voting stockholders of the two banks approved the merger, which took effect on October 1, 2003. The FCBW, the continuing bank, is now known as U.S. AgBank, FCB, and its headquarters remain in Wichita, Kansas. The FCBW's charter was amended to include the territory served by the WFCB—the states of Arizona, California, Hawaii, Nevada, and Utah, 24 counties in Idaho, and three counties in western Wyoming.

32. Under title I, CoBank can provide services and funds to local associations in Alaska, Idaho, Montana, New England, New York, New Jersey, Oregon, and Washington. These associations, in turn, lend those funds to farmers, ranchers, producers, and harvesters of aquatic products, rural residents for housing, and some agriculture-related businesses. Under title III, CoBank can lend to and provide other financial services to farmer-owned cooperatives, rural utilities (electric and telephone), and rural sewer and water systems within the United States including Puerto Rico. It is also authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives.

Figure 9
Farm Credit System Banks Chartered Territories
As of September 30, 2003



Western FCB	FCB of Wichita	FCB of Texas	AgriBank, FCB	CoBank ACB	AgFirst FCB
12 ACA Parents♦ 1 FLCA	15 ACA Parents♦ 2 FLCAs	12 ACA Parents♦ 10 FLCAs	18 ACA Parents♦	5 ACA Parents♦	22 ACA Parents♦ 2 ACAs

Ag New Mexico, Farm Credit Services, ACA is funded by the FCB of Texas. Farm Credit of New Mexico, ACA is funded by the FCB of Wichita.

The FLCAs in Alabama, Louisiana, and Mississippi are funded by the FCB of Texas.
First South Farm Credit, ACA is funded by AgFirst FCB.

Louisiana Ag Credit, ACA is funded by the FCB of Texas.

*CoBank, ACB is headquartered in Denver, Colorado, and serves cooperatives nationwide and ACAs in the indicated area.

♦Designates ACAs that have PCA and FLCA subsidiaries.

AG CREDIT, ACA (Ohio), Central Kentucky ACA (Kentucky), Chattanooga ACA (Tennessee), and Jackson Purchase ACA (Kentucky) are funded by AgFirst FCB.

Mid-America ACA, funded by AgriBank, FCB, is also authorized to lend in this territory.

Idaho ACA is funded by the Western FCB.

Regulations

FCA routinely issues regulations and policy statements to ensure that the Farm Credit System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission. The following paragraphs describe some of our efforts during FY 2003.

Young, Beginning, and Small Farmers and Ranchers Public Meeting and Proposed Amendments

We held a public meeting in Kansas City, Missouri, on November 13, 2002, to consider whether regulatory changes were needed to enhance the Farm Credit System's service to young, beginning, and small farmers, ranchers, and producers or harvesters of aquatic products. This public meeting was another step in the agency's efforts to obtain public input, which will help us ensure that the System accommodates the current and evolving needs of YBS farmers and ranchers for credit and related services. The objective of the meeting was to generate ideas on ways to (1) develop clear, meaningful, and results-oriented guidelines for System YBS policies and programs, (2) measure the System's YBS performance to ensure that the System is fulfilling its YBS statutory mission, and (3) provide adequate reporting and disclosure to the public on the System's compliance with its statutory YBS mission.

We sought specific testimony on whether (1) the FCA should require System YBS programs to include special credit treatment for YBS farmer and rancher loans (including guarantees, concessionary underwriting standards, loan fees, interest rates, and differential loan covenants), (2) the System currently offers appropriate related services, such as farm business consulting, recordkeeping, insurance, and tax planning and preparation services to YBS farmers and ranchers, (3) certain types of marketing and outreach activities best help promote YBS programs, (4) certain types of System partnerships, alliances, or other joint efforts best help promote YBS programs, and (5) non-System lenders offer programs or services to YBS farmers and ranchers that the System could offer as well. (Public Meeting Notice published October 18, 2002 [67 FR 64320])

Subsequent to the public meeting, we proposed a rule that would amend our YBS regulations. The proposed rule attempts to balance the needs for additional guidance while allowing System direct-lender associations the flexibility to design YBS programs unique to the needs of their territories and within their risk-bearing capacities.

The proposed rule, among other things, would (1) require Farm Credit bank policies on YBS programs to focus on ensuring that direct-lender associations adopt YBS programs in fulfillment of the explicit requirements of § 4.19 of the Act, (2) establish minimum components that each direct-lender association must have in its YBS program, including a YBS mission statement, quantitative targets, qualitative goals, and risk management methods to ensure safety and soundness, (3) encourage direct-lender associations to form YBS advisory committees to learn more about the needs of YBS farmers and ranchers, (4) require each association to include YBS program quantitative targets and qualitative goals in its operational and strategic business plan, and (5) require System banks and associations to

disclose YBS performance information in their published annual reports. (Adopted August 14, 2003; published September 15, 2003 [68 FR 53915] comment period ended November 14, 2003) In response to two requests, we took action to reopen the rule to allow the public an additional 60 days to submit comments. (Reopening adopted November 13, 2003; published November 20, 2003 [68 FR 65417])

Other Financing Institutions

We proposed a rule that would amend our regulations governing other financing institutions and investments in farmers' notes. The proposed rule is intended to make affordable credit more available to agriculture and rural America by increasing cooperation between System and non-System lenders. The proposed rule would remove provisions in the existing OFI and farmers' notes regulations that impede the flow of credit, but are not required by law, or do not enhance safe and sound operations. The rule also proposes related amendments to our capital regulations. The proposed rule will complement other efforts we are exploring to increase the flow of credit to agriculture and rural America by promoting greater cooperation between System and non-System lenders. System banks and associations have many different powers that enable them to act as a funding source for a wide array of credit products that non-System lenders offer their customers.

The proposed rule would make substantial revisions to our farmers' notes regulations. If adopted, the new rule will expand the farmers' notes program to more non-System lenders, and allow all System associations to invest, for the first time, in both long- and short-term loans between these other lenders and eligible farmers and ranchers. The proposed rule, in combination with other powers, would give the System more avenues to meet the varied funding needs of a wide variety of non-System lenders that finance agriculture. The proposed rule would enhance the ability of non-System lenders to access any one or a combination of the System's funding programs, depending on their individual needs. The proposed rule would enhance the System's ability to fulfill its mission to finance agriculture and other specified credit needs in rural America by serving as a steady source of funding and liquidity for other lenders. The proposed rule could lower credit costs and provide more credit options for farmers, ranchers, aquatic producers and harvesters, and other eligible rural residents. (Proposed rule adopted July 10, 2003; published August 11, 2003 [68 FR 47502])

Distressed Loan Restructuring

We proposed a rule that would amend portions of our borrower rights regulations governing (1) an applicant's or borrower's right to review certain loan decisions, (2) a borrower's right to receive notice when a loan becomes distressed and the opportunity to request a restructuring of a distressed loan, and (3) the right of first refusal to repurchase or lease agricultural real estate following foreclosure or voluntary conveyance. Subsequent to our initial publication of final borrower rights rules on September 14, 1988, we have observed differences in how FCS institutions apply these regulations and reviewed complaints from applicants and borrowers regarding their rights. We also have received comments from FCS institutions and the public on our

borrower rights regulations in response to a June 23, 1993, regulatory burden solicitation. As a result of our deliberation, we believe the proposed rule clarifies existing provisions, responds to comments, and reorganizes the rule into one distinct section of our regulations. This update will help agricultural borrowers and FCS institutions better understand the rights Congress afforded applicants and borrowers of the System. (Adopted December 20, 2002; published February 4, 2003 [68 FR 5595]; comment period ended April 7, 2003)

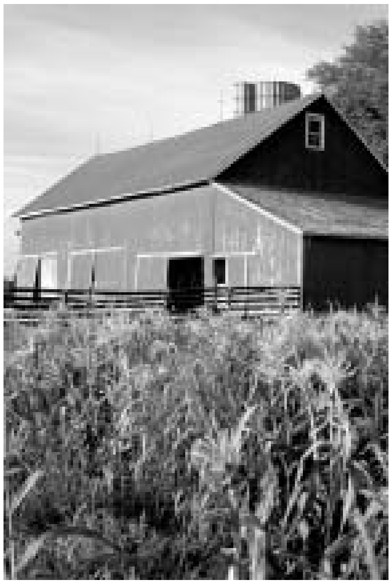
Capital Amendments

We issued a final rule that amended portions of our capital adequacy regulations. The final rule added a definition of total liabilities for the net collateral ratio calculation and limited the amount of term preferred stock that may count as total surplus. Two System banks petitioned us to limit the impact of new accounting requirements for derivatives when calculating their net collateral ratios. In response to the banks' petition, we added a definition of total liabilities to exclude derivatives that are used by banks to hedge against interest rate risk. We believe such hedges should not negatively affect a bank's net collateral ratio because these instruments protect a bank against declines in net collateral. However, derivatives that are not used as hedges are included in our total liabilities definition. We also limited the amount of term preferred stock that a System institution can count as total surplus. We believe System institutions should not overly rely on term preferred stock to meet regulatory capital requirements. (Adopted March 28, 2003; published April 16, 2003 [68 FR 18532]; effective June 5, 2003.)

We also issued an interim final rule amending our regulatory capital standards to allow System institutions to use a lower risk weighting for highly rated investments in non-agency asset-backed securities (ABS) and mortgage-backed securities (MBS) that have reduced exposure to credit risk. We issued this rule so that the capital requirements for risk-weighting of highly rated non-agency ABS and MBS investments would more closely reflect an institution's relative exposure to credit risk and help achieve a more consistent regulatory capital treatment with the other financial regulatory agencies. (Adopted February 19, 2003; published March 28, 2003 [68 FR 15045]; effective May 13, 2003.)

Scope of Lending

In response to two regulatory petitions, we published an Advance Notice of Proposed Rulemaking (ANPRM) soliciting comments on whether to revise our regulations governing eligibility and scope of financing for farmers, ranchers, and aquatic producers or harvesters who borrow from System institutions that operate under titles I or II of the Act. Our ANPRM also requested comments on whether we should modify our regulatory definition of "moderately priced" rural housing. We also held a public meeting so that members of the public could present testimony that responded to the questions that we asked in the ANPRM. After the public meeting, we granted a petition from two trade associations to extend the ANPRM comment period for an additional 90 days. (Adopted April 25, 2003; published May 2, 2003 [68 FR 23425]; comment period extended July 29, 2003 [68 FR 44490]; comment period ended October 29, 2003).



Effective Interest Rate Disclosure

We proposed to amend our regulations governing disclosure of effective interest rates (EIR) and related information on loans. The proposed rule clarifies the current rule as to when and how (1) qualified lenders must disclose the EIR and other loan information to borrowers, (2) the cost of System borrower stock must be disclosed to borrowers, and (3) loan origination charges and other loan information must be disclosed to borrowers. The rule would require System institutions to use a discounted cash flow method in determining the EIR to provide meaningful disclosures to borrowers. (Adopted December 20, 2002; published February 4, 2003 [68 FR 5587])

Credit and Related Services

We proposed amendments to our regulations governing domestic and international lending, certain intra-System agreements concerning similar entity participation transactions, provisions of general financing agreements, and related services. These amendments are intended to conform our regulations with recent changes in the Act, address comments we received requesting that the FCA reduce regulatory burden, ensure compliance with the Act, and clarify certain provisions in our existing regulations. (Adopted April 10, 2003; published May 21, 2003 [68 FR 27757])

Regulatory Burden Solicitation

We published a notice seeking public comment on the appropriateness of our regulatory requirements on the System. Our notice solicited comments on our regulations and policies that may duplicate other requirements, are ineffective, or impose unnecessary burdens. The solicitation continues our efforts to improve the regulatory framework under which System institutions operate. From 1988 through 1992, as part of our initial effort to reduce regulatory burden, we reduced, by more than 70 percent, the number of matters that required our "prior approval." In 1993, we took the additional step to identify ways to provide relief by issuing a solicitation for public comment on regulatory requirements that are no longer necessary. We issued a similar solicitation again in 1998. Both solicitations resulted in the elimination of many outdated and unnecessary regulatory requirements. (Adopted May 8, 2003; published May 16, 2003 [68 FR 26551])

Civil Money Penalty

We amended the cost-of-living adjustment provisions of our civil money penalty (CMP) regulations. The amendment was based on a clarification of the requirements of the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, provided to us and several other agencies by the General Accounting Office (Adopted October 10, 2002; published November 14, 2002 [67 FR 68931]; effective November 15, 2002)

Loan Syndications

After we received several requests to provide guidance about the scope of System institutions' authorities to engage in syndications that non-System lenders originate, we published a notice soliciting public comment about the proper regulatory treatment of System loan syndication transactions. We were seeking the public's input before responding to those requests. (Notice published January 17, 2003 [68 FR 2540]) After the comment period closed, we reopened the notice for an additional 60 days of comment. (Reopening published February 25, 2003 [68 FR 8764]) Subsequently, we extended the comment period twice to provide additional opportunities for comment. (Extensions published April 21, 2003 [68 FR 19538] and June 25, 2003 [68 FR 37824])

Funding Activity

The FCS raises funds for loans through the sale of debt securities, channeling funds from capital market investors to agriculture and rural communities by bringing resources from Wall Street to Main Street. Systemwide debt securities are issued as discount notes, master notes, bonds, designated bonds, or global debt securities.

As required by the Farm Credit Act, the System must obtain FCA approval for all funding requests. For the 12 months ended September 30, 2003, the FCS issued $332 billion in debt, down from $448 billion issued during the same period in 2002 and $517 billion in 2001. Overall issuance declined due to a decrease in discount note issuance as Farm Credit Banks extended the maturity of their debt over the past year. This debt extension was in response to a new internal minimum liquidity standard that each Farm Credit Bank agreed to achieve.

Data Reporting

During the year, we maintained financial and operational information about Farm Credit System institutions that was easily accessible to the public through the agency's Web site. We continued to provide electronic access to each System institution's quarterly Call Report submission that provides financial and operational information in the form of a balance sheet, an income statement, and a series of supporting schedules. Along with Call Report information, we provided public access to various analytical reports[33] and additional operational data including:

- the Uniform Peer Performance Report, which is a comparison report of one FCS institution to a group of FCS institutions of similar asset size,
- the Six-Quarter Trend Report and the Six-Year Trend Report, which show trend information for individual FCS institutions,
- the Institution Comparison Report, which is a comparison report of up to six selected FCS institutions, and
- the YBS Report, which provides annual data on the lending activities of FCS institutions for young, beginning, and small farmers and ranchers.

In FY 2003, the agency began an effort to re-evaluate the collection of loan level data in a systematic and uniform manner from all System institutions. The agency currently collects loan level data consistent with Loan Account Reporting System-Modified (LARS-M) requirements. LARS-M, however, does not reflect significant technological advancements in the collection of loan level data by System institutions that have occurred since LARS-M was implemented in the early 1990s. As a result, the agency is considering how it can enhance the collection of loan level data for regulatory and supervisory oversight purposes.

Litigation

Louisiana Federal Land Bank Association, FLCA, *et al., v.* FCA

On July 29, 2003, the U.S. Court of Appeals for the District of Columbia Circuit substantially upheld FCA's final rule removing requirements for a Farm Credit System institution to seek consent from other System institutions when it participates in loans made by non-System lenders. The court ordered the case remanded to FCA to respond to a comment letter submitted by the plaintiffs. The court refused to vacate the rule and agreed with FCA that the rule was a "logical outgrowth" of FCA's proposed rule to amend 12 C.F.R. § 614.4070.

33. The reports present information in various relational formats, including key financial ratios, percentages, and dollar amounts. The reports show a condensed balance sheet and income statement, as well as other areas on capital, assets, earnings and profitability, and liquidity.

Oversight of Farmer Mac

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. Farmer Mac conducts its business primarily through two core programs, Farmer Mac I and Farmer Mac II. Under the former, Farmer Mac purchases, or commits to purchase, qualified loans, or obligations backed by qualified loans, that are not guaranteed by any instrumentality or agency of the United States. Under the latter, Farmer Mac purchases the guaranteed portions of farm ownership and farm operating loans, rural business and community development loans, and certain other loans guaranteed by USDA.

Farmer Mac is regulated by FCA through the Office of Secondary Market Oversight (OSMO), which was established in 1992, as required by Public Law 102-237. OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO constitute a separate office, reporting to the FCA Board, and that its activities, to the extent practicable, be carried out by individuals not responsible for the supervision of the banks and associations of the FCS.

In FY 2003, the agency, through OSMO, continued its comprehensive CAMELS-based[34] examination and expanded supervision of Farmer Mac's operations and condition for safety and soundness and mission achievement. This work included a comprehensive review of Farmer Mac's compliance with the risk-based capital regulations and ongoing supervision of its operations and condition throughout the year. Table 10 summarizes Farmer Mac's balance sheet at the end of the third quarter for two years.

Capital

By statutory design, secondary market government-sponsored enterprises, such as Farmer Mac, operate with thin capital margins relative to primary market lenders. Accordingly, monitoring the capital levels of Farmer Mac is a central component of FCA's oversight programs.

On September 30, 2003, Farmer Mac's net worth (i.e., Generally Accepted Accounting Principles (GAAP) equity capital) was $204.1 million, compared with $195.5 million a year earlier. Net worth was 4.9 percent of on-balance sheet assets as of September 30, 2003. When Farmer Mac's off-balance sheet program assets (i.e., guarantee obligations) are added to total

Table 10

Farmer Mac Balance Sheet

As of September 30

Dollars in Millions

	2002	2003	Growth Rate Year-on-Year
Total Assets	$4,037.0	$4,196.4	3.95%
Total Liabilities	$3,841.5	$3,992.3	3.93%
Net Worth or Equity Capital	$195.5	$204.1	4.40%

Source: Farmer Mac's Third Quarter Security and Exchange Commission Form 10-Q.

34. CAMELS is an acronym for the six general section headings of FCA examinations: capital, asset quality, management performance (including the board of directors), earnings, liquidity, and sensitivity to interest-rate risk.

on-balance sheet assets, capital coverage declines to 2.8 percent. By comparison, Farm Credit System capital (excluding the FCSIC insurance fund) equates to roughly 15 percent of total assets. However, another point of comparison is the Federal National Mortgage Corporation's (Fannie Mae) 1.5 percent capital-to-program assets ratio.

Farmer Mac's core capital (the sum of the par value of outstanding common stock, the par value of outstanding preferred stock, paid-in capital, and retained earnings) remained above the statutory minimum requirement, and its regulatory capital (core capital plus the allowance for losses) exceeded the required amount of regulatory capital as determined by the risk-based capital rule and stress test. Farmer Mac's core capital continued its upward trend and at September 30, 2003, totaled $206.4 million, exceeding the statutory minimum capital requirement[35] of $137.7 million by $68.7 million. Farmer Mac's regulatory capital (core capital plus allowance and reserves for losses) totaled $229.1 million at September 30, 2003, exceeding the regulatory risk-based capital (RBC) requirement of $45.4 million by $183.7 million. Table 11 sets forth an historical perspective on capital and capital requirements at year-end for the prior four years and the quarter ended September 30, 2003.

Table 11

Comparison of Capital Positions Over Time

Dollars in Millions

	December 1999	December 2000	December 2001	December 2002	September 2003
GAAP Equity	$87.1	$132.7	$134.4	$183.5	$204.0
Core Capital	$88.8	$101.2	$126.0	$183.9	$206.4
Statutory Requirement	$79.6	$96.9	$110.5	$137.2	$137.7
Regulatory Requirement	N/A	N/A	N/A	$73.4	$45.5
Excess over Statutory or Regulatory Requirement[1]	$9.2	$4.2	$15.5	$46.7	$68.7
Capital Margin Excess > Minimum	11.6%	4.4%	14.0%	34.0%	49.9%

1. Farmer Mac is required to hold capital at the higher of the statutory minimum capital requirement or the amount required by FCA regulations as determined by the Risk-Based Capital Stress Test model.

N/A=Not Applicable

Source: Farmer Mac's Security and Exchange Commission Form 10-Q.

35. The statute requires 2.75 percent for on-balance sheet assets and 0.75 percent capital coverage for off-balance sheet obligations.

Throughout the past year, OSMO's supervisory activity was substantially focused on capital planning and management. In the coming year, FCA also will consider revisions to the risk-based capital regulations that became effective in 2002.

Program Activity

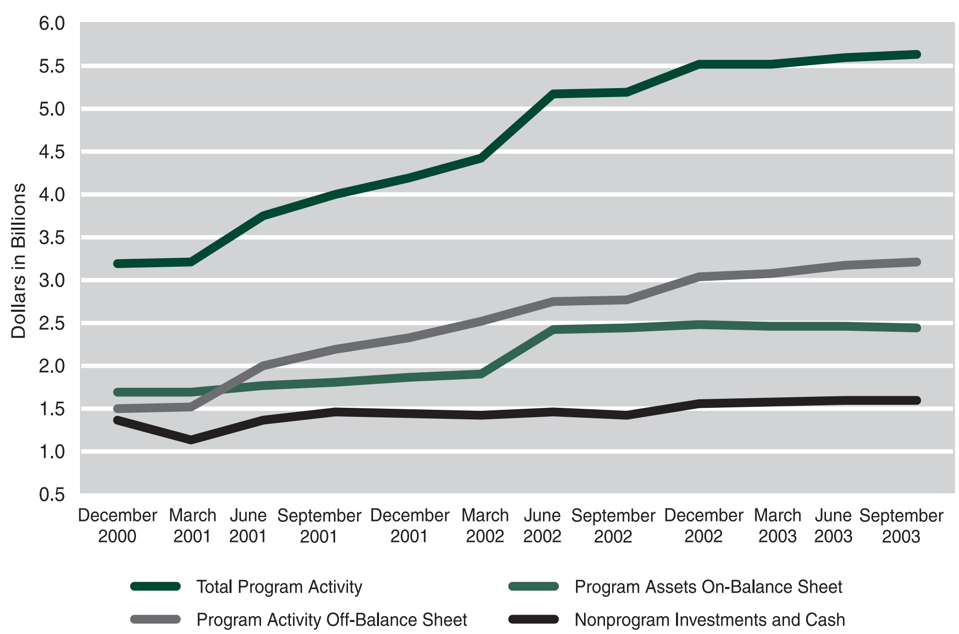
Farmer Mac's on- and off-balance sheet program activity continued to increase, reaching $5.6 billion on September 30, 2003, up $441 million from a year earlier (see Figure 10). A significant portion of Farmer Mac's recent growth has come from its Long-Term Standby Purchase Commitment (LTSPC, or Standby) product. Under Farmer Mac Standbys, a financial institution pays an annual fee in return for Farmer Mac's commitment to purchase loans in a specific pool under certain specified conditions at the option of the institution.

The Standby product largely drove the rapid growth in off-balance sheet program activity over the past four years. Standbys grew from $862.8 million at December 31, 2000, to $2.174 billion at September 30, 2003, an increase of $1.3 billion, or 152 percent. Standby volume now dominates program activity, making up 38.5 percent of Farmer Mac's total program activities.

Figure 10

Farmer Mac Program Growth and Nonprogram Investments and Cash Trends

December 2000 through September 2003

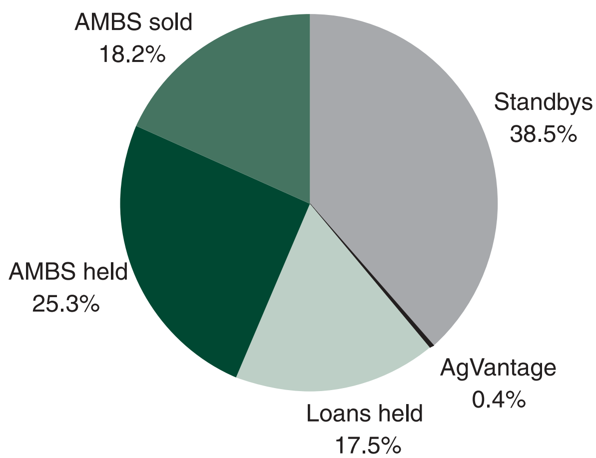


Source: Farmer Mac's Security and Exchange Commission Form 10-Q.

Figure 11

Farmer Mac's Total Program Activity by Product

As of September 30, 2003



Source: Farmer Mac's Third Quarter Security and Exchange Commission Form 10-Q.

Off-balance sheet program activity is comprised ot Agricultural Mortgage-Backed Securities (AMBS) held by investors (AMBS sold) and Standbys. At the end of September 2003, 56.7 percent of program activity was off-balance sheet obligations (see Figure 11).

Asset Quality

On September 30, 2003, the portion of the Farmer Mac I program portfolio that was nonperforming was $84.6 million in loan principle, or 1.74 percent of the principal balance of all loans purchased, guaranteed, or committed to be purchased since enactment of the Farm Credit System Reform Act of 1996 (1996 Act).[36] This compares with $91.3 million, or 2.03 percent, on September 30, 2002. Nonperforming assets are those that are 90 or more days past due, in foreclosure, in bankruptcy, or real estate owned (REO), i.e., property acquired by Farmer Mac through foreclosure. REO at September 30, 2003, was $16.4 million, up significantly from $3.7 million a year earlier.

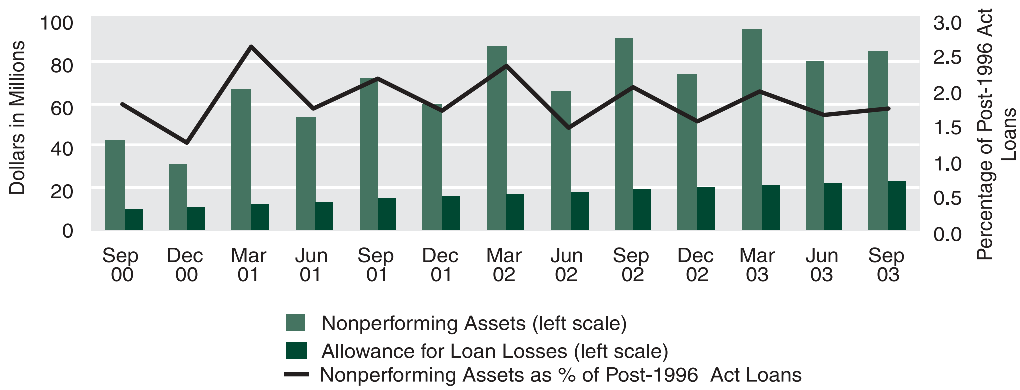
Farmer Mac attributes the increasing trend in the total dollar amount of nonperforming assets over the past four years to the maturing of a significant segment of its portfolio into its peak default years. However, over the past two years, nonperforming assets are trending downward, reportedly due to that same segment maturing beyond peak default years.

On September 30, 2003, Farmer Mac's allowance for losses totaled $22.7 million, compared with $19.1 million on September 30, 2002. Of the $22.7 million allowance, $3.4 million represents specific

36. Farmer Mac assumes 100 percent of the credit risk on post-1996 Act loans, whereas pre-1996 Act loans are supported by mandatory 10 percent subordinated interests that mitigate Farmer Mac's exposure. For that reason, pre-1996 loans are excluded from analysis for comparison purposes.

Figure 12

Allowance and Nonperforming Asset Trends



Source: Farmer Mac's Security and Exchange Commission From 10-Q.

allowances related to newly identified under-collateralized nonperforming assets during the fourth quarter of fiscal year 2003. Figure 12 sets forth the level of Farmer Mac's allowance and nonperforming assets relative to outstanding post-1996 Act program volume. Post-1996 Act volume is used in the chart in consideration of the minimal risk associated with pre-1996 Act program activity.

FCA continues to monitor nonperforming assets closely and OSMO's examination and supervisory function continues to encourage Farmer Mac to improve risk identification and management systems.

Earnings

GAAP net income for the nine months ended September 30, 2003 was $20.1 million, up $1.6 million (8.2 percent) over the same period last year. Core earnings[37] for the first nine months of 2003 were $17.2 million, an increase of 1.2 percent over the same period in 2002. Net interest income, which excludes guarantee fee income from Standbys, was $28.2 million for the first nine months of 2003, slightly lower than the same period in 2002, though higher guarantee fee income of $1.1 million over last year offset the decline. Nonprogram investments accounted for 22 percent of interest income for the three quarters ended September 30, 2003, down from 25 percent for the first three quarters of 2002. Table 12 sets forth trends in key income components since December 2001.

New Product—AMBS Participation Swap

Farmer Mac introduced a product into its programs in July. The Participation Swap product involves Farmer Mac's purchase

37. Core earnings, reported for the first time for the quarter ending March 31, 2003, is a non-GAAP measure of financial results that excludes the effects of unrealized gains and losses on available-for-sale securities and financial derivatives. Core earnings are now reported by the other housing GSEs and have been adopted in order to provide the investing public with a less volatile measurement of earnings.

Table 12

Comparison of Farmer Mac Statements of Operations

Dollars in Millions

	Dec. 31, 2001 (12 months ended)	Dec. 31, 2002 (12 months ended)	Sept. 30, 2002 (9 months ended)	Sept. 30, 2003 (9 months ended)	Growth Rate Yr-on-Yr As of Sept. 30
Total Revenues	$42.0	$49.9	$40.2	$41.8	4.0%
Total Expenses	$26.3	$28.6	$21.6	$21.7	0.3%
Net Income	$16.3	$21.3	$18.6	$20.1	8.2%
Core Earnings	N/A	$22.9	$17.0	$17.2	1.2%

N/A=Not Available
Source: Farmer Mac's Security and Exchange Commission Form 10-Q.

of a 100 percent participation in a pool of loans in return for an AMBS. Farmer Mac's first contract under this new program became effective on July 1, 2003. The Participation Swap product is economically identical to the Standby program for Farmer Mac, but appears to offer the opportunity for participating FCS institutions to avoid insurance premiums assessed by the Farm Credit System Insurance Corporation. OSMO will continue to monitor the development of this program.

General Accounting Office Report on Farmer Mac

During the 16 months between June 2002 and October 2003, the General Accounting Office conducted an in-depth study of Farmer Mac's risk management, mission focus, and corporate governance, as well as FCA's oversight function. The GAO report, entitled "Farmer Mac: Some Progress Made, but Greater Attention to Risk Management, Mission, and Corporate Governance Is Needed," was released on October 16, 2003. The report directs five recommendations to FCA on topics such as the data used to calculate the risk-based capital requirements, OSMO's offsite-monitoring methods, capital issues surrounding the Farm Credit System's use of the Standby product, Farmer Mac's lack of a regulatory requirement to obtain a credit rating, and assessing Farmer Mac's impact on agricultural real estate lending markets. A letter communicating FCA's general agreement with the recommendations and actions taken, or planned to address them, was sent to congressional committees on December 11, 2003.

Glossary

A

Agricultural Credit Association (ACA) — An ACA results from the merger of a Federal Land Bank Association or a Federal Land Credit Association and a Production Credit Association and has the combined authority of the two institutions. An ACA borrows funds from a Farm Credit Bank or Agricultural Credit Bank to provide short-, intermediate-, and long-term credit to farmers, ranchers, and producers and harvesters of aquatic products. It also makes loans to these borrowers for certain processing and marketing activities, to rural residents for housing, and to certain farm-related businesses.

Agricultural Credit Bank (ACB) — An ACB results from the merger of a Farm Credit Bank and a Bank for Cooperatives and has the combined authorities of those two institutions. An ACB is also authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. CoBank is the only ACB in the Farm Credit System.

B

Bank for Cooperatives (BC) — A BC provides lending and other financial services to farmer-owned cooperatives, rural utilities (electric and telephone), and rural sewer and water systems. It also is authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. The last remaining BC in the Farm Credit System, the St. Paul Bank for Cooperatives, merged with CoBank on July 1, 1999.

F

Farm Credit Act — The Farm Credit Act of 1971, as amended, is the statute under which the Farm Credit System operates. The Farm Credit Act recodified all previous acts governing the Farm Credit System.

Farm Credit Bank (FCB) — FCBs provide services and funds to local associations that, in turn, lend those funds to farmers, ranchers, producers and harvesters of aquatic products, rural residents for housing, and some agriculture-related businesses. On July 6, 1988, the Federal Land Bank and the Federal Intermediate Credit Bank in 11 of the 12 then existing Farm Credit districts merged to become FCBs. The mergers were required by the Agricultural Credit Act of 1987. As of September 30, 2003, there were five FCBs: AgFirst Farm Credit Bank; AgriBank, FCB; Farm Credit Bank of Texas; Farm Credit Bank of Wichita; and Western Farm Credit Bank.

Farm Credit Leasing Services Corporation (Leasing Corporation) — The Leasing Corporation is a service entity owned by two Farm Credit System banks—CoBank, ACB, and AgFirst Farm

Credit Bank—to provide equipment leasing and related services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit System Insurance Corporation (FCSIC) — The FCSIC was established by the Agricultural Credit Act of 1987 as an independent U.S. government corporation. Its purpose is to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of Farm Credit System banks and to act as conservator or receiver of FCS institutions. The FCA Board serves *ex officio* as the Board of Directors for FCSIC; however, the chairman of the FCA Board is not permitted to serve as the chairman of the FCSIC Board of Directors.

FCA Financial Institution Rating System (FIRS) — The FIRS is similar to the Uniform Financial Institutions Rating System used by other federal banking regulators. However, it has been modified by FCA to reflect the nondepository nature of Farm Credit System institutions. FIRS provides a general framework for assimilating and evaluating all significant financial, asset quality, and management factors to assign a composite rating to each System institution. The ratings, which range from 1 to 5, are described below.

Rating 1 — Institutions in this group are basically sound in every respect; any negative findings or comments are of a minor nature and are anticipated to be resolved in the normal course of business. Such institutions are well managed, resistant to external economic and financial disturbances, and more capable of withstanding the uncertainties of business conditions than institutions with lower ratings. These institutions exhibit the best performance and risk management practices relative to the institution's size, complexity, and risk profile. As a result, these institutions give no cause for regulatory concern.

Rating 2 — Institutions in this group are also fundamentally sound but may reflect modest weaknesses correctable in the normal course of business. The nature and severity of deficiencies are not considered material and, therefore, such institutions are stable and able to withstand business fluctuations. Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile. While areas of weakness could develop into conditions of greater concern, regulatory response is limited to the extent that minor adjustments are resolved in the normal course of business and operations continue in a satisfactory manner.

Rating 3 — Institutions in this category exhibit a combination of financial, management, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory. When weaknesses relate to asset quality and/or financial condition, such institutions may be vulnerable to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting the areas of weakness. Institutions that are in significant noncompliance with laws and

regulations may also be accorded this rating. Risk management practices are less than satisfactory relative to the institution's size, complexity, and risk profile. Institutions in this category generally give cause for regulatory concern and require more than normal supervision to address deficiencies. Overall strength and financial capacity, however, still make failure only a remote possibility if corrective actions are implemented.

Rating 4 — Institutions in this group have an immoderate number of serious financial or operating weaknesses. Serious problems or unsafe and unsound conditions exist that are not being satisfactorily addressed or resolved. Unless effective actions are taken to correct these conditions, they are likely to develop into a situation that will impair future viability or constitute a threat to the interests of investors, borrowers, and stockholders. Risk management practices are generally unacceptable relative to the institution's size, complexity, and risk profile. A potential for failure is present but is not yet imminent or pronounced. Institutions in this category require close regulatory attention, financial surveillance, and a definitive plan for corrective action.

Rating 5 — This category is reserved for institutions with an extremely high, immediate or near-term probability of failure. The number and severity of weaknesses or unsafe and unsound conditions are so critical as to require urgent external financial assistance. Risk management practices are inadequate relative to the institution's size, complexity, and risk profile. In the absence of decisive corrective measures, these institutions will likely require liquidation or some form of emergency assistance, merger, or acquisition.

Federal Agricultural Mortgage Corporation (Farmer Mac) — Farmer Mac was created with the enactment of the Agricultural Credit Act of 1987 to provide a secondary market arrangement for agricultural real estate and rural housing mortgage loans and greater liquidity to agricultural lenders.

Federal Farm Credit Banks Funding Corporation (Funding Corporation) — The Funding Corporation, based in Jersey City, New Jersey, manages the sale of Systemwide debt securities to finance the loans made by Farm Credit System institutions. The Funding Corporation uses a network of bond dealers to market its securities.

Federal Intermediate Credit Bank (FICB) — The Agricultural Credits Act of 1923 provided for the creation of 12 FICBs to discount farmers' short- and intermediate-term notes made by commercial banks, livestock loan companies, and thrift institutions. The Farm Credit Act of 1933 authorized farmers to organize Production Credit Associations (PCAs), which could discount notes with FICBs. As a result, PCAs became the primary entities for delivery of short- and intermediate-term credit to farmers and ranchers. On July 6, 1988, the FICB and the Federal Land Bank in 11 of the 12 Farm Credit districts merged to become Farm Credit Banks. The mergers were required by the Agricultural Credit Act of 1987.

Federal Land Bank (FLB) — The Federal Farm Loan Act of 1916 provided for the establishment of 12 FLBs to provide long-term mortgage credit to farmers and ranchers, and later to rural home buyers. On July 6, 1988, the FLB and the Federal Intermediate Credit Bank in 11 of the 12 Farm Credit districts merged to become Farm Credit Banks. The mergers were required by the Agricultural Credit Act of 1987.

Federal Land Bank Association (FLBA) — FLBAs were lending agents for Farm Credit Banks. FLBAs made and serviced long-term mortgage loans to farmers and ranchers, and rural residents for housing. FLBAs did not own loan assets, but made loans only on behalf of the Farm Credit Bank with which they were affiliated. As of October 1, 2000, there were no remaining FLBAs.

Federal Land Credit Association (FLCA) — An FLCA is a Federal Land Bank Association that owns its loan assets. An FLCA borrows funds from a Farm Credit Bank to make and service long-term loans to farmers, ranchers, and rural residents for housing.

G

Government-Sponsored Enterprise (GSE) — A GSE is a federally chartered corporation that is privately owned, designed to provide a source of credit nationwide, and limited to servicing one economic sector. Each GSE has a public or social purpose: to improve the availability of credit to agriculture, education, or housing. GSEs are usually created because the private markets do not satisfy purposes that the Congress deems worthy—either to fill a credit gap or to enhance competitive behavior in the loan market. Each is given certain features or benefits, called GSE attributes, to allow it to overcome the barriers that prevented purely private markets from developing. Sometimes the public assistance is only to get started; at other times it is ongoing.

P

Production Credit Association (PCA) — PCAs are Farm Credit System entities that deliver only short- and intermediate-term loans to farmers and ranchers. A PCA borrows money from its Farm Credit Bank to lend to farmers. As of January 1, 2003, there were no independent, stand-alone PCAs remaining. All PCAs are now subsidiaries of ACA parent organizations.

FCA Employee Benefits . . .

The Farm Credit Administration helps employees balance their many different responsibilities—work, family, and community—with a variety of benefits and family-friendly programs. The unique combination of competitive salaries and federal government and agency benefits helps employees build rewarding careers while enjoying flexible and well-balanced work lives. The 284 dedicated men and women who work at our offices across the country are an integral part of this public-spirited government agency, and enjoy the following benefits.

Alternative Work Schedules

- Alternative work schedules that allow full-time employees and their managers to set work schedules that help them balance work and family needs.
- Flexible and compressed work schedules that let employees work nine or 10 hours per day so they can enjoy "flex days" off.
- A flexible time band that allows employees, with their supervisors' approval, to choose the start and end times for their workdays.
- Flexitour, which lets staff members change their workday start times with their supervisors' approval.
- With a supervisor's approval, an employee may earn credit hours, which can be used to accommodate work and family responsibilities.
- Compensatory time, subject to supervisors' approval, for overtime.

Flexible Work Arrangements

- A Flexiplace Program that allows employees to work from home, with supervisory approval, to reduce traffic congestion and pollution, avoid long commutes and bad weather, and accommodate family needs.
- Part-time job opportunities.

. . . A Strategy for Success

Family-Friendly Leave Policies and Programs

- The Office of Personnel Management (OPM) annual leave policy, which includes 10 paid federal holidays each year.
- The OPM sick leave policy. Full-time employees earn four hours of sick leave every two weeks.
- The FCA Leave Bank, which lets staff donate annual and/or sick leave to a general pool for use by other employees as needed for family or personal medical emergencies.
- The Federal Leave Transfer Program, which lets staff donate annual and/or sick leave to other federal government employees for medical emergencies.

Health, Wellness, and Fitness Programs and Activities

- A wide range of federal government health insurance plans. FCA pays part of insurance premiums.
- Reimbursement of up to $150 for annual physical examinations and preventive tests.
- A $400 Life Cycle Account to help employees pay for health-related insurance, equipment, and activities.
- A fitness center in the McLean, Virginia, headquarters.
- An Employee Assistance Program for short-term crisis counseling and guidance for employees and their families.
- On-site defibrillators.
- Subsidized flu shots.

Career and Self-Development Opportunities

- Individual Development Plans created by employees and supervisors to plan career goals and maximize training opportunities.
- Educational seminars.
- A Supervisory Development Program, designed to provide supervisory succession within the agency.
- Student loan repayment.

Awards and Recognition

- Cash and time-off incentive awards for exceptional work.
- Annual Peer Awards recognition in which employees may nominate peers who demonstrate FCA's core values—Caring, Communication, Diversity, Excellence, Fairness, Responsibility, Honesty, Initiative, Integrity, Respect, Teamwork, Trust, and Coach of the Year. Nominees and voting are anonymous, making the awards based on actions, not identities.
- Peer to Peer On-the-Spot Awards allow employees to recognize and reward fellow employees for exceptional work.

Transportation and Parking

- Monthly transit subsidies for employees who use public transportation.
- Free parking.
- Travel compensation of $50 per night for every night on eligible travel in excess of 50 nights but less than 100 nights and $75 per night for every night on eligible travel in excess of 99 nights.

Families with Children

- A subsidy of up to 70 percent of child care costs, depending on family income.
- A pre-tax Flexible Spending Account to help employees save money for health care or child care. In FY 2003, FCA contributed $750 to each employee's account.

Miscellaneous Work/Life Initiatives

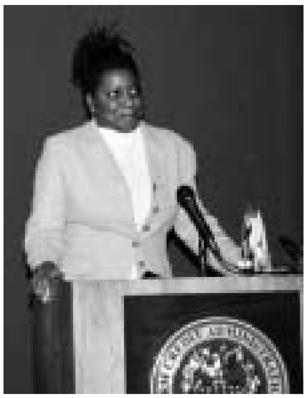
- Business casual dress at the office.
- The federal government's group life insurance program.
- The federal government's Thrift Savings Plan, a tax-deferred savings and investment program to help build retirement savings.
- An optional 401(k) plan to enhance retirement savings.
- Long-term disability insurance.
- Optional Federal Long-Term Care Insurance Program.
- Federal government retirement programs that provide annuities and death benefits.

Relocation Services

- Financial assistance for employees who must change locations for the agency because of new or changing job responsibilities.

Employees of the Farm Credit Administration

A final word of thanks to our employees whose dedication to excellence and hard work contributed to the accomplishment of the agency's mission to ensure a dependable source of credit for agriculture and rural America.



Amir Abdel-Wahab • Mark Adams • Susan Adams • Jack Ahlstrom • Margaret Alexander • Douglas Alford • Jeremias Alvarez • Dale Anderson • Kenneth Anderson • Michael Anderson • Robert Andros • David Antolini • Daniel Arendt • Brenda Armijo • Dale Aultman • Melissa Bannister • Mary Beth Barbagallo • Dianna Becerra • Curtis Bednarz • Kathleen Beery • Joseph Beltramo • William Benton • Winston Black • Julie Blacklock • Irma Blankenship • David Blanton • Karen Blue • Richard Bodine • Ronald Boehr • Melissa Boss • Jeanette Brinkley • Debra Buccolo • Kathleen Buffon • Kathryn Burcham • Laura Burke • Joy Burr • Regina Cacciavillani • Gaye Calhoun • Dennis Carpenter • Tong Ching Chang • Mary Chatman • Heriberto Chavarria • Paul Cheng • Donald Clark • Carl Clinefelter • Pamela Cochran • Ernest Coggins • Victor Cohen • Jennifer Cohn • Robert Coleman • Susan Coleman • Nicole Conner • Joseph Connor • Louise Conoboy • Elvis Cordova • Raquel Corona • Vickie Cosentino • Thomas Dalton • Damon D'Arienzo • April Davis • Elizabeth Dean • Hal DeCell • Billy Decker • Sharee Derocher • Hal Derrick • Mildred Dickens • William Dickinson • Vicki Dolezilek • Robert Donnelly • Lucille Dore • Michael Duffy • Myles Duffy • Michael Dunn • William Dunn • Gaylon Dykstra • Anjeanette Earhart • Darren Edwards • James Enzler • W.B. Erwin • Christine Evert • Tammy Fancher • Scott Fatula • Daniel Fennewald • John Floyd • Leslie Fridley • Stephen Frimpong • Douglas Gandy • Walter Gardiner • Shirley Garland • Mary Garver • Eugene Geschwend • Randy Gibson • Andy Gilliard • Thomas Gist • Thomas Glenn • Sara Glover • Janet Goktepe • Marla Goodwin • Keta Gray • Steven Green • Joan Greene • Ralph Greenway • Kristen Grifka • Carl Grilliot • Steven Guebert • Marla Guiliano • David Hale • Deborah Halling • Tim Halstrom • Scott Hanna • Gordon Hanson • Brian Harrington • Carol Harrod • Edward Harshbarger • Gail Hart • Heidi Heinsohn • Terrence Helwig • Donnie Herrera • Patricia Hickerson • Audrey Hicks • Damien Hill • Shirley Hixson • Betty Holden • Dorie Holland • Thomas Holland • Gregory Hosford • Eric Howard • Melinda Huber • Bruce

Hudson • Jon Hutchinson • Michael Inlow • Andrew Jacob • Jaime Jacob • Margaret Janssen • Linda Jew • Mark Johansen • Dawn Johnson • Erica Johnson • Michael Johnson • Marc Jones • Jonathan Joy • Richard Katz • Douglas Keins • Camille Keith • Steven Kim • Erica King • Tony Kirkham • Jo Ann Kissal • Kenneth Klein • Deborah Kleinwachter • Clifton Kornegay • Jeffrey Kostelecky • Mary Beth Krause •Sarah Kreger • David Kuhler • Sara Kuncaitis • Douglas Kuplic • Wendy Laguarda • David Landry • Dana Durst Lawrence • Michael Lee • Mark Leonard • Rosa Lerma • Robert Lescano • David Lewandrowski • John Lightner • Jerry Lindlauf • Kay Livingston • Robert Loewe • Kamika Lucas • Elna Luopa • Cheryl Tates Macias • Kelli MacLean • Michael MacLean • Sara Lynn Major • Barry Mardock • Alan Markowitz • Lori Markowitz • Cecilia Martinez • Patrick Mawyer • Lynn May • Kevin McAdoo • Mark McBeth • Veronica McCain • Laura McFarland • Jeffrey McGiboney • Lori McGuin • Thomas McKenzie • Edna McLean • Peter McLean • Daniel McLerran • Thomas McLey • Jacqueline Melvin • John Messing • Mary Meyer • Charlotte Miller • Carlos Mireles • Steven Mitchell • Allen Moore • John Moore • Vanessa Moreno • James Morris • Fred Mueller • Jody Muller • Rogelio Munoz • Carmen Naderi • Pamilla Nemeth • Timothy Nerdahl • Nancy Nevin • Lun Van Nguyen • Cynthia Nicholson • Kathleen O'Dowd • Joan Dec Ohlstrom • Douglas Olivas • Orlando Olona • Beverly Olson • Shirley Olson • Rebecca Orlich • Robert Orrick • Eric Ovsiew • Brett Parris • Irene Parungo • Roger Paulsen • Ricky Pederson • Vicki Perlstein • Leonard Peterson • Allen Pexa • Tuyen Pham • Joel Phelps • Carl Premschak • Thomas Pugh • Jie Qiu • Christine Quinn • Shanon Ratliff • Charles Rawls • Laurie Rea • Kathleen Reddaway • Shawn Reeves • Tracy Reeves • Robert Reinke • Manuel Reyes • Nicholas Riccobono • Thomas Risdal • James Ritter • Ricardo Rivera • Samuel Roberson • Eric Rodney • Jessica Romero • Roberto Romero • Regena Rose • Howard Rubin • Louise Ruhf • Claire Donovan Rusk • Ross Sargent • Aram Sarhadian • Barbara Schlein • Ryan Schumacher • James Schuyler • Earl Screven • Anita Sewell • Ralph Shafer • Jeannie Shaffer • Philip Shebest • Linda Sherman • Georgellen Shoger • Sarah Sholar • Brenda Silka • Sweta Singh • Chester Slipek • Roland Smith • Stephen Smith • Kim Snow • Rhonda Spraktes • Werner Stadel • Dennis Stephen • David Stephens • Robert Stricker • Joy Strickland • Donald Sullivan • Deborah Sulton-Brown • Ruth Surface • Robert Taylor • Patricia Telford • Rajkumar Thangavelu • Cheryl Thomas • Linda Thorne • Linda Toki • Jessica Tomlinson • Arthur Townsend • Sadie Uomoleale • Doug Valcour • Ramiro Valdez • Gary Van Meter • Ronald Vannier • Gretchen Vasquez • Jane Virga • John Von Reyn • Elton Waldrop • Jeffrey Walker • Sonny Wan • Joseph Washington • Lovi Washington • John Weaver • Jean Weaver • Donna Weigel • Steven Weisz • Kenneth Wells • Douglas Wheeler • Linda White • Rebecca McLeod White • Thomas Wild • Sharon Wilhite • Kelly Mikel Williams • Michael Wilson • James Wingfield • Gordon Wolfe • David Woltman • Nancy Womack • Craig Wondra • Timothy Wooten • Dana Wyckoff • Wade Wynn • Mania Wysolmerski • Peng Xu • Nancy Yeager • David Young • Woodrow Young • Gregory Yowell

Appendix

Farm Credit Administration Strategic Plan

Fiscal Years 2004–2009

A Message from the FCA Board

The Farm Credit Administration Board supports the efforts of the Farm Credit System to provide sound and constructive credit to America's farmers and ranchers and their cooperatives. We are proud of our past accomplishments and are confident of our future contributions to the continued success of the System in achieving its mission. We recognize that changes in the agricultural and financial marketplace create both risks and opportunities. As we address these changes, we will work together with all our constituencies in a reasonable and responsible manner.

The following strategic plan will guide our regulatory and oversight efforts during the next 5 years.

Michael M. Reyna
Chairman and Chief Executive Officer

Douglas L. "Doug" Flory, Member

Nancy C. Pellett, Member

Contents

Preamble

Introduction

The Farm Credit Administration (FCA or agency) is an independent Federal agency responsible for regulating and examining the agricultural government-sponsored enterprises (GSEs) serving rural America. These are the Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation[1] (Farmer Mac).

> *The FCS is a network of borrower-owned cooperative financial institutions and affiliated service organizations that serves all 50 States and the Commonwealth of Puerto Rico. The oldest of the financial GSEs, Congress provided for cooperative organization of the FCS in 1916 as a means to achieve affordable and available farm credit.*
>
> *The FCS currently provides approximately $91 billion in loans to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, agricultural cooperatives, rural utility systems, and agribusinesses. Overall, the FCS holds about 30 percent of the market share of agricultural credit.*
>
> *Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States. Through authorities granted in the Agricultural Credit Act of 1987, Farmer Mac was established in 1988 to create a secondary market arrangement for agricultural real estate and rural housing mortgage loans.*
>
> *Farmer Mac provides secondary market services through a network of agricultural lenders, originators and sellers, among them commercial banks, FCS banks and associations, life insurance companies, and mortgage companies. As of yearend 2002, the volume of loans, either purchased or guaranteed, totaled over $5.5 billion and represented an estimated 12 percent[2] of Farmer Mac's eligible agricultural mortgage market.*

FCA also has statutory responsibility to examine the National Cooperative Bank, a non-System entity operating as a federally chartered, privately owned banking corporation. Finally, FCA provides contract examination services to the Small Business Administration (SBA) and the United States Department of Agriculture (USDA).

Congressional oversight of the agricultural GSEs and FCA is provided by the U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture. FCA is funded by the institutions it regulates or examines and receives no Federal tax dollars in the execution of its mission.

1. Although technically a chartered institution of the Farm Credit System, due to its unique and separate mission, we are distinguishing Farmer Mac for strategic planning purposes.
2. Farmer Mac estimates market share based on the assumption that 40 percent of the total agricultural real estate lending market is eligible for Farmer Mac programs. Farmer Mac's source for total market data is the United States Department of Agriculture.

FCA is directed by a full-time, three-person board. Members are appointed by the President with the advice and consent of the U.S. Senate. The President designates one of the members as chairman of the board and chief executive officer (CEO) of the agency. FCA Board members serve ex officio as the Board of Directors for the Farm Credit System Insurance Corporation (FCSIC); however, the FCA Board chairman may not serve as the chairman of the FCSIC Board.

Vision

The Farm Credit Administration is dedicated to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring safety and soundness.

Mission

The Farm Credit Administration ensures a safe, sound, and dependable source of credit and related services for agriculture and rural America.

Legislative Mandate[3]

Originally created by an executive order in 1933, the Farm Credit Administration derives its authority and its responsibilities from the Farm Credit Act of 1971, as amended (Act). Pursuant to section 5.8 of the Act, the management of the FCA is vested in the FCA Board. Section 5.9 of the Act provides that:

> *The Board shall manage and administer, and establish policies for, the Farm Credit Administration. It shall approve the rules and regulations for the implementation of this Act not inconsistent with its provisions; shall provide for the examination of the condition of, and general regulation of the performance of the powers, functions, and duties vested in, each institution of the Farm Credit System; shall provide for the performance of all the powers and duties vested in the Farm Credit Administration; and may require such reports as it deems necessary from the institutions of the Farm Credit System.*

Furthermore, section 5.17 of the Act authorizes the FCA to "exercise the powers conferred on it under [the enforcement provisions of the Act] for the purpose of ensuring the safety and soundness of System institutions." Section 5.17 of the Act also requires FCA to make annual reports directly to Congress on the condition of the System and its institutions, the manner and extent to which the purposes and objectives of the Act are being carried out and, from time to time, recommend directly legislative changes.

3. At the request of Congress, the General Accounting Office (GAO), in the early 1990s, conducted a comprehensive study about the cost and availability of credit in rural America. Congress required GAO to address, among other things, whether the System should be granted new authorities to serve other credit markets in rural America. The GAO report, released in March 1994, concluded that the System did not need new statutory authorities in the near term, but ongoing structural changes in agriculture and rural America could justify such changes in the long-term. GAO noted that over time, as agriculture and rural America continued to change, the System's charter might need to be updated to ensure that the System is not hampered by outdated restrictions in serving its existing customer base. Additionally, if judged desirable in the context of the Nation's rural development agenda, the System's powers could be expanded so that it could serve new customers.

Section 1.1(a) of the Act sets out the policy and objectives for why Congress established the Farm Credit System.

> *It is declared to be the policy of the Congress, recognizing that a prosperous, productive agriculture is essential to a free nation and recognizing the growing need for credit in rural areas, that the farmer-owned cooperative FCS be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations.*

Sections 1.11(b) and 2.4(b) of the Act authorize certain FCS lenders to make loans to rural residents for single-family, moderately priced homes in rural areas where the population does not exceed 2,500 inhabitants. Additionally, section 3.7 of the Act authorizes title III banks to extend credit to entities that install, maintain, expand, improve, or operate water and waste disposal facilities in rural areas where the population does not exceed 20,000 inhabitants, based on the latest decennial census of the United States.

Section 701 of the Agricultural Credit Act of 1987 establishes the policy and objectives for why Congress established Farmer Mac.

It is the purpose of this subtitle—

1. *to establish a corporation chartered by the Federal Government;*
2. *to authorize the certification of agricultural mortgage marketing facilities by the corporation;*
3. *to provide for a secondary marketing arrangement for agricultural real estate mortgages that meet the underwriting standards of the corporation—*
   - A. *to increase the availability of long-term credit to farmers and ranchers at stable interest rates;*
   - B. *to provide greater liquidity and lending capacity in extending credit to farmers and ranchers; and*
   - C. *to provide an arrangement for new lending to facilitate capital market investments in providing long-term agricultural funding, including funds at fixed rates of interest; and*
4. *to enhance the ability of individuals in small rural communities to obtain financing for moderate-priced homes.*

Program Activities

In order to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America, FCA performs two basic functions:

- Issuing regulations and implementing public policy; and
- Identifying risk and taking corrective action.

Issuing Regulations and Implementing Public Policy: FCA is authorized to establish regulations and policies and interpret the Act and other laws applicable to the FCS and Farmer Mac. While keeping the public in mind, we place special emphasis on developing regulations using customer-focused techniques. These include advance notice of proposed rulemaking (ANPRM), comment period reopenings and extensions, constituent/congressional committee meetings, public meetings, focus groups, town meetings, and other unique approaches to gather a broad range of public input. We also review and take action on corporate applications for mergers, consolidations, liquidations, and other corporate restructurings of entities comprising the Farm Credit System.

Identifying Risk and Taking Corrective Action: FCA has statutory authority to examine all institutions comprising the two agricultural GSEs, as well as the National Cooperative Bank. The FCS, at October 1, 2003, was comprised of 5 Farm Credit banks, 99 associations, the Federal Farm Credit Banks Funding Corporation, the Farm Credit System Financial Assistance Corporation, and 5 service corporations.

We examine each institution at least once every 18 months and issue written examination reports that contain an evaluation of the overall condition and performance of these institutions. Our examination program is risk-based, concentrating resources on institutions with the greatest complexity and/or risk exposure. We continually identify, evaluate, and proactively address risks faced by the institutions we examine.

We have authority to take an enforcement action if an institution, or any of its directors, officers, employees, or agents violates statutes or regulations or operates in an unsafe or unsound manner.[4] Enforcement actions can result in written agreements, orders to cease and desist, civil money penalties, and orders of removal, suspension, or prohibition.

In addition to enforcement actions, we use a "special supervision" process to correct problems before significant harm occurs in the institutions we examine. This process is used for instances when the institution's board and management are both willing and able to correct the problems that threaten the institution's safety and soundness. The process allows the institution to correct identified weaknesses before more stringent enforcement actions by the agency become necessary.

4. While FCA has authority to examine and take corrective action against System institutions and Farmer Mac, FCA only has authority to examine the National Cooperative Bank.

Agency personnel engage in a variety of activities that support FCA's two basic functions. Such activities include long-range planning and budgeting; providing pertinent information to the Federal Executive Branch, Congress, the institutions we regulate, and the public; legal counsel; economic and financial analyses; management of information and human resources and training; and administration of the performance, compensation, and benefits programs for FCA staff.

Guiding Philosophy

In the furtherance of our mission, we will adhere to the following guiding philosophy. Specifically, we will:

- Remain a fair and effective regulator that provides our constituencies with timely, accurate, and useful communications.
- Continue to achieve a balance between costs required to operate the agency and the benefits that accrue to our stakeholders, but in no case will we compromise safety and soundness.
- Continue to issue regulations that promote safety and soundness and the fulfillment of public mission, while minimizing regulatory burden on the institutions we oversee.
- Continue to identify and eliminate, consistent with law and safety and soundness, all regulations that are unnecessary, unduly burdensome, or not based on law.
- Continue to seek and fully consider the public's perspective regarding regulatory proposals.
- Continue our commitment to add value to everything we do and help our stakeholders meet the challenges and opportunities of the 21st century.
- Continue to be a forward thinking organization and promote good communications, teamwork, and a positive, productive, diverse, and family-friendly work environment.

Core Values

The FCA Board endorses the following core values, adopted by its employees, which guide and reflect the way the agency conducts business. We believe these core values are essential to a positive and successful work environment.

Caring	*Initiative*
Communication	*Integrity*
Diversity	*Respect*
Excellence	*Responsibility*
Fairness	*Teamwork*
Honesty	*Trust*

Strategic Planning Process

The FCA Board began the creation of the agency's Strategic Plan 2004–2009 by holding a series of strategic planning sessions that sought input from farmers; the Farm Credit Council and other System representatives; academics, economists, and finance specialists; the American Bankers Association; the Independent Community Bankers of America; former FCA Board Chairmen; and FCA Senior Management as well as FCA employees.

Once formulated, the draft FCA Strategic Plan was announced in the *Federal Register* on October 21, 2003, and made available on FCA's Web site, inviting public, industry, and stakeholder comments. In addition, to meet the Government Performance and Results Act requirements for congressional consultation, the draft plan was sent to the House Committees on Agriculture, Appropriations, and Government Reform and the Senate Committees on Agriculture, Nutrition, and Forestry; Appropriations; and Governmental Affairs. We incorporated applicable comments received from the public and our stakeholders.

The FCA Board considers the agency's Strategic Plan 2004–2009 to be a dynamic document. As such, we will work with our constituencies and other experts to annually assess the plan's continued relevance.

Goals

FCA has three strategic goals. Goals 1 and 2 are primarily external in nature while Goal 3 is more internally focused. The goals are as follows:

Goal 1: Ensure the Farm Credit System and Farmer Mac fulfill their public mission for agriculture and rural areas.

FCA continues to emphasize the public purpose and mission-related responsibilities of the agricultural GSEs serving rural America while ensuring that they operate in a safe and sound manner.

The challenges of financing agriculture in a safe and sound manner remain great. This is particularly true given uncertain commodity prices, changing world competition and public policy, continued concentration and integration in agriculture, and concerns regarding safety and security of the food system, transition to the next generation of farmers and ranchers, and improving producers' income through value-added agriculture.

We will encourage system institutions to find and develop both public and private partnerships and alliances with other financial service providers to address these challenges through new and existing programs.

Goal 2: Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the Farm Credit System and Farmer Mac.

FCA's examination and supervisory programs have been recognized for their high quality and effective results. Goal 2 focuses on preserving and enhancing the integrity of FCA's examination and supervisory programs by making improvements to address changing risks in the institutions we oversee. FCA will retain a well-trained, professional, and experienced examination staff to maintain a strong safety and soundness perspective. We will stay abreast of changing market needs and customer forces, we will have a cost effective examination process that makes full use of available technologies, and we will take necessary supervisory action to proactively ensure safety and soundness of the System and Farmer Mac.

Goal 3: Implement the President's Management Agenda.

The following five government-wide initiatives comprise the President's Management Agenda (PMA). We intend to implement to the extent practicable these initiatives in the fulfillment of the agency's mission.

Strategic Management of Human Capital

Consistent with the PMA, we will link the agency's human capital needs and strategies to our organizational mission, vision, core values, goals, and objectives. We will use strategic workforce planning and flexible tools to recruit, retain, and reward our employees and continue to develop a high-performing workforce. This will maximize our flexibility in accomplishing our mission effectively and efficiently.

Improved Financial Performance

The agency will continue to invest significant resources in maintaining a financial management system that can produce accurate, reliable, and timely information to support policy, budget, and operating decisions. Our system will also facilitate consistent and comparable trend analysis over time and better performance measurement. Additionally, sustaining an unqualified audit opinion will continue to be the rule.

Expanded Electronic Government

We will advance E-government strategy by continuing to support projects that offer performance gains across agency boundaries, such as e-regulation, e-signatures, and e-procurement. We will continue to expand our ability to electronically collect information from the System over the Internet, and we will expand the information that is available to our constituents on our Web site. Finally, we will focus on compliance with Section 508 of the Workforce Reinvestment Act to ensure our electronic and information technology is accessible to people with disabilities. These and other initiatives will enable the public to have greater access and participate more fully in the agency's decision-making process.

Budget and Performance Integration

The agency implemented performance budgeting with its fiscal year 2003 budget submission. In future submissions, the agency will include high quality outcome measures, accurately monitor the performance of programs, and integrate this presentation with associated costs. Using this information, programmatic costs and benefits will be clearly identified. This will enable the agency to enhance its control over resources used and better establish accountability for results.

Competitive Sourcing

The agency supports the idea that competition promotes innovation, efficiency, and greater effectiveness. As such, we will continue to determine our "core competencies" and then decide how to build internal capacity and to what extent to contract for services from the private sector. This process will encourage the agency to focus on continuous improvement and remove roadblocks to greater efficiency.

Key Factors Affecting Achievement of Goals and Objectives

In developing this Strategic Plan, FCA identified a number of key factors that could significantly affect achievement of one or more of the agency's strategic and operational goals. These factors have been grouped into the following two categories—internal and external.

Internal Factors

1. *Changing work force.* The FCA work force is likely to change in the next 5 years, as a growing number of employees will become eligible for retirement. Ongoing staff retention is critical to the continued success of the agency and requires a careful assessment of staffing needs, promotion opportunities, and recruiting, training, and staff development efforts. Significant staff attrition would hamper the achievement of Goals 1, 2, and 3 due to the loss of institutional memory and technical expertise.

2. *Ensuring competitive compensation (salary and benefits).* FCA is required by the Act and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to seek to maintain employee compensation comparability with other Federal bank regulatory agencies (FBRAs). Since the FCA compensation strategy defines "pay comparability" as the average market rate paid by other FBRAs, the agency periodically conducts compensation surveys of the FBRAs to determine comparability. Additionally, through the efforts of a work/life coordinator, the agency remains on the forefront regarding the family-friendly programs available in the marketplace. Offering a unique combination of competitive compensation and a flexible, well-balanced work life should help employees build a rewarding career and desire to remain employed by the agency, thus enhancing the achievement of Goals 1, 2, and 3.

3. *Continued migration to electronic-based systems.* We will continue to look for ways to streamline our operations and leverage efficiencies gained by moving from paper-based systems to electronic workflow applications and records. The gained efficiencies from this migration should allow more time and effort to be spent on mission-critical tasks, which would enhance the achievement of Goals 1 and 2. The agency will use technology to mitigate the loss of experienced staff and to assist in knowledge transfer. This will further the achievement of Goal 3.

4. *Changing work environment.* We are currently experiencing a shift to an electronic information-based society. This shift is changing the way we conduct our activities and the way our customers communicate with us. Enhancing the agency's ability to communicate and share information with its constituents should promote achievement of both Goals 1 and 2. Enhancing the ability of FCA employees to fully utilize technology will also promote the achievement of Goals 1, 2, and 3.

5. *Limited budget resources.* Our program activities are primarily financed through assessments on the institutions we regulate and/or examine. We realize we have a fiduciary obligation to carry out our programs in a cost-effective and efficient manner while still fulfilling our mission. Responsibly managing our resources supports the achievement of Goal 3.

6. *Impact of technological change on regulatory and examination techniques.* The Internet and related technology offer opportunities for the agency to streamline regulatory and examination programs by enhancing the electronic exchange and evaluation of information. The continued adoption of updated technology is important to monitor and assess both safety and soundness and fulfillment of public mission issues related to the achievement of Goals 1 and 2.

External Factors

1. *Importance of GSE status.* GSE status of the System and Farmer Mac helps maintain a safe, sound, and dependable source of credit and related services in agriculture and rural America. This is because GSE status facilitates a competitive source of credit for eligible and creditworthy borrowers. Furthermore, it results in a capital structure that is vital to the borrowers themselves and to the safety and soundness of the System and Farmer Mac. A continuation of this status is a significant contributor to the successful achievement of Goals 1 and 2.

2. *Uncertain funding and implementation of farm policy.* Due to increased competition for Federal funds, farm program payments may be jeopardized. If farm program payments were significantly reduced or eliminated, those agricultural lenders having a concentration in program crops dependent on conservation or commodity payments could face safety and soundness weaknesses. This scenario would result in significant risks to the agency's achievement of Goal 2.

3. *Changing policy environment.* The policy environment for FCA will continue to be intertwined with ongoing changes in demographics and consumer preferences, increased Federal budget pressures, and focus on GSEs and corporate accountability. With fewer people directly involved in the production of agricultural products, there may be less grass-roots support for the needs of agriculture and rural America. These factors create the potential for shifts in agriculture policies and programs that may impact achievement of both Goals 1 and 2.

4. *Structural changes in agriculture and rural areas.* 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. Many producers are part-time farmers and rely on additional business opportunities to improve their economic welfare. These structural changes may impact policy actions relating to mission achievement in Goal 1 and safety and soundness in Goal 2.

5. *Lack of investment equity in many rural areas.* Some rural areas are suffering from a loss of critical infrastructure, population, and business investment necessary to support opportunities. Furthermore, much of the capital in rural areas is held in the form of fixed assets and is not easily converted for investment purposes. Therefore, there is a need for more flexible, innovative forms of capital that will help rural areas reach their economic potential. This situation presents a challenge to the achievement of Goal 1, and a continued decline in rural areas poses increased safety and soundness concerns that could impact the achievement of Goal 2.

6. *Uncertain economic conditions.* Uncertain economic growth presents potential risks that could affect the achievement of Goal 2. These risks include: (1) weak job growth thus reducing the opportunities for off-farm employment for farm families; (2) quickly rising interest rates that reduce borrower repayment capacity, especially for those loans with variable rates; (3) a drop in farm real estate values due to higher interest rates or a drop in farm income or government payments; and (4) higher inflation and/or increases in energy costs that raise input costs and reduce already thin margins of many producers.

7. *Bilateral and multilateral trade agreements.* The nature of trade agreements presents risks and opportunities to both agricultural producers and their lenders. Those with concentrations in tradable commodities could be particularly exposed to the impacts of the agreements, thus adversely affecting the agency's achievement of Goal 2.

8. *Heightened public concerns over food and water supply safety, and environmental issues.* Protecting the food chain, water supply, and environment from possible terrorist threats is a major public concern in the current climate of world affairs. Such concerns dramatically affect demand for food products; whereas, public acceptance and confidence are vital aspects of food safety. Environmental stewardship is also an important issue. These public concerns might affect agricultural lenders' mission fulfillment as they relate to Goal 1 and they might raise additional lending risks that could impact the achievement of Goal 2.

9. *Global food production relative to changing demographics.* Increasing foreign competition will put additional pressure on profit margins for many U.S. producers. Shifts in worldwide consumption patterns could provide marketing opportunities and risks for producers. Failure by agricultural producers and their lenders to appropriately respond to changing market conditions might impact the achievement of Goal 2.

10. *Weather, pests, diseases, and other natural occurrences.* Any of these factors could enhance profitability or bring disaster to the various segments or commodity groupings of agriculture. Favorable weather, effective insect control, and healthy animals can increase producer profitability. Conversely, drought or floods, insect infestation, and animal diseases could be devastating to profitability in many segments of agriculture. The resulting financial difficulties could have significant implications affecting safety and soundness (Goal 2). Similarly, these factors could impact the achievement of Goal 1 based on the response by lenders in rural areas to the increased risk.

Performance Matrix

The strategic and operational goals listed in the following matrix reflect the agency's focus for future action. Means and strategies for each goal are those specific initiatives that, in concert with the agency's basic functions, achieve or advance agency goals over the next 5 years. The results achieved by the agency through the goals and initiatives identified in the Strategic Plan are reported through an integrated performance measurement system.

This system is based on three desired outcomes, or results, for the agency's operations, which are closely linked to the agency's strategic and operational goals. Agency-level performance measures have been developed for each outcome. The relationship between the agency's strategic and operational goals and its annual performance goals/ measures is illustrated in the following matrix.

Strategic Plan 2004–2009 Performance Matrix

Goal 1

Ensure the Farm Credit System and Farmer Mac fulfill their public mission for agriculture and rural areas.

Desired Outcome

A flexible regulatory environment that enables the System and Farmer Mac to fulfill their public mission.

Means and Strategies

1. Ensure FCS lenders and Farmer Mac fulfill their public mission by reaching out to all potential customers.
2. Ensure all eligible customers have access and are treated equitably.
3. Enable the System and Farmer Mac to serve evolving customer needs by maintaining a flexible regulatory environment.
4. Emphasize regulatory activities related to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.
5. Emphasize Farmer Mac's obligation to promote and encourage the inclusion of qualified loans for small farms and family farmers in the agricultural mortgage secondary market.
6. Encourage the System and Farmer Mac to use guarantee programs and work with Federal and State agencies that offer such programs to streamline processes.
7. Encourage all System institutions and Farmer Mac to continue to include a discussion in annual reports of how they are meeting their public mission.
8. Enable the agricultural GSEs to restructure themselves to best serve their customers and rural America.
9. Ensure regulatory definitions reflect the changes in agriculture, rural areas, and the financial marketplace.
10. Identify and eliminate, consistent with law and safety and soundness, all regulations that are unnecessary, unduly burdensome, or not based on law.

Strategic Plan 2004–2009 Performance Matrix (cont.)

11. Encourage partnerships between System and non-System lenders and Farmer Mac that facilitate the flow of funds to agriculture and rural areas.
12. Publish best practices findings or establish guidelines when appropriate on FCA-regulated institutions' efficient and effective use of partnerships and other relationships with non-FCA-regulated entities to facilitate the flow of funds to agriculture and rural areas.

Performance Measures

1. Percentage of institutions[5] with effective strategic business plans[6] for providing constructive credit and related services to all potential customers. (100%)
2. The aggregate annual change in Farmer Mac's program assets in relation to the change in the total eligible agricultural mortgage market. (> 1.00)
3. Percentage of direct-lender institutions with satisfactory consumer compliance and borrower rights examination ratings.[7] (100%)
4. Percentage of instances in which the agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches[8] to the notice and comment rulemaking process. (40%)
5. Percentage of direct-lender institutions that have effective programs[9] to furnish sound and constructive credit and related services to YBS farmers, ranchers, and producers or harvesters of aquatic products or that have acceptable corrective action plans in place. (100%)
6. The aggregate annual change in the level of System and Farmer Mac participation in Federal and State guarantee programs in relation to the aggregate annual change in total Federal and State guarantee programs. (> 1.00)

Goal 2

Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the Farm Credit System and Farmer Mac.

Desired Outcome

Effective risk identification and timely corrective action.

Means and Strategies

1. Maintain an effective examination and oversight program through maintenance of the Precommission Training Program and ongoing training of commissioned examiners.
2. Develop regulatory guidance and examination procedures that keep pace with evolving strategies used by the institutions comprising the two agricultural GSEs in addressing the changing needs of their customers in rural areas.
3. Evaluate whether each FCS institution and Farmer Mac have established and are maintaining proactive risk management practices commensurate with their respective risk-bearing capacity.
4. Evaluate whether each direct-lender institution maintains systems that allow it to analyze the characteristics of risk and borrower profiles in its loan portfolio.

5. For purposes of performance measurement, the term institutions does not include the National Cooperative Bank and institutions that FCA examines on behalf of SBA and USDA on a contract basis.
6. Effective strategic business plans are those that received a satisfactory rating from FCA examiners and comply with 12 CFR 618.8440.
7. FCA examiner reviews of consumer compliance and borrower rights are absent any material deficiencies or weaknesses.
8. Supplemental approaches include ANPRM, comment period reopenings and extensions, constituent/congressional committee meetings, public meetings, focus groups, town meetings, and other unique approaches to gather a broad range of public input.
9. An effective program is one that received a satisfactory rating from FCA examiners for the most recent review of an institution's YBS program.

Strategic Plan 2004–2009 Performance Matrix (cont.)

5. Evaluate whether management and board governance of FCA-regulated institutions is keeping pace with the increasing size and complexity of institutions' operations.
6. Maintain early warning systems that allow timely identification of emerging risks and related issues in FCS institutions.
7. Undertake research and analysis of emerging risks and related issues and incorporate the findings into examination and oversight programs.

Performance Measures

1. Number of institutions placed in receivership due to financial failure during the previous 12 months. (None)
2. The total assets of FCS institutions with composite Financial Institution Rating System (FIRS) ratings of "1" or "2" divided by the total assets of FCS institutions. (90%)
3. Percentage of FCS institutions with composite FIRS ratings of "3," "4," or "5" with corrective action plans in place to address the underlying problems. (100%)
4. Percentage of direct-lender institutions with adverse assets to risk funds less than 100 percent. (100%)
5. Percentage of institutions complying with all regulatory capital ratio requirements (permanent capital ratio, total capital ratio, core surplus ratio, net collateral, risk-based capital). (100%)
6. Percentage of instances of non-compliance with laws or regulations resolved to FCA's satisfaction. (100%)
7. Percentage of FCA-regulated institutions that have effective audit and review programs.[10] (100%)

Goal 3
Implement the President's Management Agenda (PMA).

Desired Outcome
Effective and efficient management of resources.

Means and Strategies

1. Strategically manage human capital.
2. Upgrade the agency's financial management system.
3. Continue the expansion of electronic government.
4. Continue the evolution of budget and performance integration.
5. Give due consideration to competitive sourcing.

Performance Measures

1. The agency's human capital goals and strategies support mission needs and the PMA. (Yes)
2. Structure of agency is assessed at least once every 3 years to determine whether changes are needed to better meet mission goals. (Yes)

10. An effective audit and review program is one that received a satisfactory rating from FCA examiners for the most recent review of an institution's internal controls.

Strategic Plan 2004–2009 Performance Matrix (cont.)

3. Percentage of available authorities and programs that were used to expand recruitment methods in an effort to enhance the pool of qualified applicants for entry-level hiring to include more individuals in underrepresented groups. (100%)
4. Percentage of vacancy announcements announced at multiple grade levels for positions in FCA's six most populous occupations in an effort to develop and fully utilize employees' potential. (100%)
5. Percentage of vacant non-entry level positions filled from within. (60%)
6. Percentage of established career paths for FCA's six most populous occupations to allow for the internal advancement of high-potential candidates. (100%)
7. Percentage of staff adhering to Individual Development Plans annually. (85%)
8. Audit opinion on the agency's annual financial statements as reported by the agency's external auditors. (Unqualified)
9. Number of material internal control weaknesses reported by the agency's external auditors. (None)
10. The number of business days after each month end that financial reports are available to agency managers. (<7)
11. Percentage of newly developed FCA training courses that are available electronically. (50%)
12. Percentage of agency staff with broadband connectivity remotely. (25%)
13. Percentage of the agency's Web pages and electronic devices that are section 508 accessibility compliant. (95%)
14. Availability of information technology resources and information to appropriate users to provide communication and information collection and delivery in a timely manner, as measured quarterly by reports on FCA's network and Web components. (97%)
15. Performance of an annual inventory of FCA's commercial activities for evaluation of outsourcing alternatives. (Yes)

Strategic Program Evaluation

A mix of internal and external program evaluations are employed to determine if FCA's programs are attaining their intended outcomes in a cost-effective manner.
Internal Program Evaluations

Internal Program Evaluations

The FCA uses an integrated process to ensure program objectives and goals are aligned, focused, and assessed with accurate data. The data used to assess the agency's progress toward its strategic goals are evaluated from several perspectives to ensure appropriate alignment, integrity, validity, and focus.

Senior Staff
Strategic program evaluation oversight begins with Senior Staff, which is led by the Chief Operating Officer (COO). Senior Staff at the agency consists of all Office Directors, the Secretary to the Board, the Equal Employment Opportunity Director, the Executive Assistants to the CEO and COO, and the COO. Senior Staff meets weekly, and as directed by the COO, to discuss agency programs and issues in an effort to maintain strategic alignment with FCA Board approved strategic and annual performance goals.

Quarterly Performance Updates
Senior Staff provides a Quarterly Goal Report to the FCA Board on the status of the agency's annual performance measures and goals. Reports are provided to the Senior Staff by the offices that have direct responsibility for data concerning program performance measures, such as the Office of Examination and the Office of Policy and Analysis.

Monthly Management Reports
Monthly management reports are prepared by the respective offices and provided to either the COO or the CEO, as appropriate. The reports address office accomplishments and performance during the month. The CEO and COO review the reports for strategic alignment and performance. The reports are consolidated and forwarded to the CEO and FCA Board as a single agency-wide management report. The consolidated management report is used by the Senior Staff, along with quarterly reports, in the development of the agency's Annual Performance and Accountability Report.

Weekly Management Reports
Weekly management reports are prepared by the respective offices and provided to the COO. The reports address office accomplishments and performance during the week. The COO reviews the reports for strategic alignment and performance.

Strategic Plan
The Strategic Plan details long-term policy and management goals along with the level of performance the agency will strive to achieve over the next 5 fiscal years. FCA's Strategic Plan is posted on the FCA Internet Web site for general public review.

Annual Performance Plan

The Annual Performance Plan provides detailed information about how FCA will implement initiatives contained in the FCA Strategic Plan and is posted on the FCA Internet Web site for general public review.

Performance and Accountability Report

The Performance and Accountability Report provides detailed information about what FCA does and how well it is meeting its mission and goals. This report is also available on the FCA Internet Web site for general public review.

Office of the FCA Ombudsman

Through liaison with groups external to the agency, the FCA Ombudsman provides feedback and recommendations to the FCA Board on program-level activities of the FCA. The purpose is to influence positive change to the agency's strategic management process.

Management Control Plan (MCP)

Each agency office annually updates the MCP for their respective office and provides the MCP to the Management Controls Officer. The MCP is used by the Management Controls Officer for monitoring to ensure that all planned review work is completed within established time frames. The MCP guides agency managers in evaluating, improving, and reporting on internal controls in their programs and administrative activities.

Office Annual Operating and Performance Plans

All offices within the agency prepare an Annual Operating and Performance Plan. Assignments and delegated authorities are planned and monitored through management, with reporting and ongoing communication to ensure results. Primarily, internal controls and reporting requirements are established for those program functions that link the Annual Operating and Performance Plan to the agency's Strategic Plan. Similarly, the plans support the dedicated and highly professional staff needed to accomplish the agency's programs. Investments in training and continuing improvements in programs and practices are ongoing to achieve desired outcomes in assignments and responsibilities under FCA's Strategic Plan.

Information Resources Management Oversight Committee

The Information Resources Management Oversight Committee (Committee) is responsible for oversight, evaluation, and alignment of the agency's major information technology programs and initiatives. The Chief Information Officer serves as the Chair. All offices in the agency are represented by a voting member. The Farm Credit System Insurance Corporation is also represented by a non-voting member. The Committee is cross-functional and meets monthly, serving as an advisory and recommending body to the Senior Staff and the COO.

Quality Assurance Programs

The agency's regulatory and examination functions maintain extensive quality assurance programs through a system of internal controls in accordance with the provisions of Policies and Procedures Manual No. 1007, Evaluation of Internal Control Systems, and the Office of Management and Budget (OMB) Circular A-123.

PART

Beginning with the fiscal year 2006 budget cycle, the agency will evaluate its programs and management using the new Program Assessment Rating Tool (PART) developed by OMB. The PART was established to enhance the practical use of performance information and to implement a systematic, consistent process for evaluating program performance.

External Program Evaluations

In addition to the FCA's ongoing internal program evaluation efforts, we receive program-level feedback from three primary sources:

Annual Independent Audit

An outside independent accounting firm conducts an annual Certified Public Accountant audit of FCA's fiscal yearend financial statements to opine on the accuracy of the financial data. This firm also provides senior management with conclusions regarding the effectiveness of the agency's program of financial controls.

Office of the Inspector General Reviews

The Office of the Inspector General (OIG) conducts targeted reviews of various aspects of FCA operations every year. The results of these evaluations are used to further enhance FCA's strategic and annual performance planning processes. The OIG review of the agency's Loan Accounting and Reporting System is a recent example of a program evaluation received from this source. Also, it conducts an ongoing formal survey of all FCS institutions' boards of directors as to the quality of FCA examination and supervisory programs.

General Accounting Office (GAO)

The GAO conducts targeted reviews of FCA operations on a periodic basis. In addition to providing agency specific results, it also provides an objective source of data for benchmarking purposes. GAO's review of FCA's oversight of the System's special mission to serve Young, Beginning, and Small Farmers was a more recent example of a program evaluation received from this source.

Additional Information

The *Farm Credit Administration 2003 Annual Report* is now available on FCA's Web site at www.fca.gov. While supplies last, printed copies of this publication may be obtained without charge from:

Office of Communications and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
Telephone: 703-883-4056
Fax: 703-790-3260
E-mail: info-line@fca.gov

The Federal Farm Credit Banks Funding Corporation prepares the financial press releases, the System's Annual and Quarterly Information Statements, and the System's combined financial statements contained therein, with the support of the System banks. Copies are available on the Funding Corporation's Web site at www.farmcredit-ffcb.com or from:

Federal Farm Credit Banks Funding Corporation
10 Exchange Place
Suite 1401
Jersey City, NJ 07302
Telephone: 201-200-8000

The Farm Credit System Insurance Corporation publishes an annual report. Copies are available on FCSIC's Web site at www.fcsic.gov or from:

Farm Credit System Insurance Corporation
1501 Farm Credit Drive
McLean, VA 22102
Telephone: 703-883-4380

In addition, FCS banks and associations are required by regulation to prepare annual and quarterly financial reports. Copies of these documents are available for public inspection at FCA headquarters in McLean, Virginia.

Copies Are Available From:
Office of Communications and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
703-883-4056
www.fca.gov

4500/1103