FARM CREDIT ADMINISTRATION

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New FCS Directors Receive FCA Orientation

Twenty-five new Farm Credit System (FCS) directors representing 13 associations attended the initial session of FCA's "New Director Orientation," July 8 and 9 at FCA's headquarters in McLean, Virginia. "The chance to ask direct questions and get direct answers helped us to understand FCA and their efforts to work with us," said one of the participants.

The orientation was a success based on the evaluations submitted by the new directors. Of the 25 directors participating, 17 rated the program "9" or "10," the highest possible scores. They rated the best parts of the program as making personal contacts with the FCA Board Members and staff, attending the FCA Board meeting, and determining their roles and responsibilities as directors. FCA plans to hold another orientation for new directors early next year.

In welcoming the new directors to the orientation, FCA Board Chairman Marsha Pyle Martin said it is important for board members who are new to the FCS to have a clear understanding of the FCA and its role as the regulator. She also noted that the orientation is one way for FCA to inform directors of legal and regulatory matters affecting them and their institutions. Martin encouraged the new directors to regularly review FCA's publication, *The Director's Role*, which includes guidance and information about the duties, responsibilities, relationships, and liabilities of FCS institution directors.

Participants in FCA's New Director Orientation join FCA Board Chairman Marsha Martin (front row center) and Board Members Ann Jorgensen (left of Martin) and Michael Reyna (right of Martin) for a "class photo."

FCA Board Member Ann Jorgensen also addressed the group. "Election to the board of directors of an FCS institution is an honor," she said. "It is an expression of stockholder confidence in the director's ability to oversee the institution's safe and sound operation for the benefit of member-borrowers." Jorgensen also noted that as a former director of various state and local boards, she has experienced firsthand the importance of educating boards, especially with regard to their legal responsibilities.

Participants included: Jim Feldkamp and Mike Fawl, Farm Credit Services of Northeast Kansas, FLCA/PCA; Hugh Weathers, Edisto Farm Credit, ACA; James L. May, Central Kentucky ACA; Tony Wilkie, Cliff Gifford, Jane Pirani, and Marion Fletcher, Farm Credit Services of Eastern Arkansas; Dr. Nicklas J. Sojka, Blue Ridge Farm Credit, ACA; Jerry Evers, Farm Credit Services of Northeast Wisconsin, PCA/FLCA; J. Scott Markham, First Pioneer Farm Credit, ACA; Bobby Tarp, FLBA of Anadarko; Paul E. Doton and Clark W. Hinsdale, Yankee Farm Credit, ACA; Harold Rickertsen, Jim Lee, Bill Jacobs, Marlow Christensen, Tom Clausen, and Bob Slaughter, Farm Credit Services of America, PCA; Craig Stewart and Kenneth Fornoff, Northern Illinois FLCA; Ronald Thompson, Farm Credit of Northwest Florida, ACA; and Robert Morelli and John Eisenhut, Central Valley PCA.

FCA's Expertise as Premier Ag Regulator Sought by Office of Thrift Supervision

FCA's Office of Examination (OE) shared its expertise in examining agricultural loans with the Office of Thrift Supervision (OTS) through a specially designed training program.

The OTS is the regulator of all Federal and many state-chartered thrift institutions, which include savings banks and savings and loan associations.

"A growing number of thrifts in the Midwest have seen their portfolios expand in agricultural loans," said OE Chief Examiner Roland Smith.

OTS officials, recognizing that the increased lending activity in agriculture by thrifts would require additional training for their staff, turned to FCA for assistance.

"Given the recent problems in agriculture, we were delighted to assist the OTS and we appreciate the opportunity to share our expertise in examining agricultural loans with other regulators," Smith added.

"The OTS wanted its examiners to learn more about agricultural lending in general, risk management techniques, and how FCA examines and classifies agricultural loans," said Hal Derrick, Special Examination and Supervision Division, who served as project leader for the training program.

The foundation for the course designed for the OTS was the two-day Credit and Appraisal Training that all OE examiners were required to take in the fall of 1998. "At the request of the OTS, we expanded the course an additional day to include a session on managing risk by using hedging and futures contracts," Derrick said.

The training was held in late July at the OTS training facility in Dallas. Fourteen OTS examiners, primarily from the Midwest, participated. Derrick said reaction and feedback from OTS was very positive.

"As an added benefit," Smith said, "we will incorporate the hedging and future contracting portion of the training developed for the OTS into the FCA examiner commissioning training program."

Chairman Martin Addresses International Wheat Buyers

FCA Chairman Marsha Pyle Martin recently addressed several hundred prospective buyers of U.S. wheat from Southeast Asia at a conference in Singapore. She discussed agricultural policy issues that could affect U.S. agricultural trade.

The conference was attended by delegations from the United States, India, Pakistan, and Bangladesh, in addition to the Southeast Asia conferees. Last year these countries purchased 25 percent of U.S. wheat exports.

U.S. Wheat Associates hosted the buyers' conference. A portion of the program included financing U.S. agricultural exports. CoBank CEO Doug Sims also spoke to the attendees. CoBank, which has an international office in Singapore, has $2.3 billion in export loans outstanding.

Martin discussed the importance of trade to U.S. agriculture, domestic concentration in the agricultural sector, the interest in a farm safety net, and financial services reform.

"I am confident that U.S. agriculture will prosper in the next century," said Martin. "I am also confident that those who adapt to its changing environment, including financial services providers such as the Farm Credit System, will play a key role in its continued prosperity."

Reyna Discusses Insurance Issues with FCS Leaders

FCSIC Board Chairman Michael Reyna recently discussed various insurance issues raised by the Farm Credit System's Presidents Planning Committee, including potential alternative uses of the Insurance Fund.

Also discussed was a request for a reduced premium rate on certain long-term commitments from agencies such as Farmer Mac and Fannie Mae that reduce risks for the System institutions.

Reyna stressed that the purpose of the Insurance Fund is to protect investors in System securities and that the statute currently does not provide flexibility for alternative uses. He also noted that a reduced premium rate for such commitments is not currently permitted by statute.

The *FCA Newsline* is a publication of the Farm Credit Administration. Suggestions, comments or questions should be sent to:

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The Farm Credit Administration is the Federal agency responsible for the regulation and examination of the Farm Credit System, a nationwide network of cooperatively owned agricultural lending institutions and their service organizations.

FCA and FCS Prepared for Y2K, Surveys Results Show

The June 30, 1999, quarterly survey results show all 199 Farm Credit System (FCS) institutions have completed testing of their critical systems in preparation for the Year 2000 (Y2K) date change. One hundred percent of the FCS institutions received a “Satisfactory” rating, the highest possible rating.

As a Federal government agency, the Farm Credit Administration (FCA) is required to review, test, and develop a contingency plan for its internal Y2K operating readiness. As a financial regulator, FCA’s responsibility also includes ensuring the FCS institutions are Y2K compliant.

“This survey is a positive indicator that the probability of FCS institutions encountering serious Y2K problems has decreased from just a few months ago,” said FCA Board Chairman Marsha Pyle Martin. “However, recognizing that the recent ratings do not guarantee FCS institutions are immune from Y2K problems, we will continue to work diligently to ensure Y2K compliance for all FCS institutions in the remaining months of 1999 and beyond.”

The FCA set June 30, 1999, as a milestone for completing testing of FCS mission-critical systems. The FCA adopted the rating system from the Federal Financial Institutions Examination Council (FFIEC) and surveyed FCS institutions quarterly to measure their progress. Established by Congress, the FFIEC is a supervisory group made up of representatives from the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, and the National Credit Union Administration. Tom Glenn of FCA’s Office of Examination serves as liaison to the FFIEC as a non-voting participant.

The results of the latest survey of FCS institutions compare favorably with survey results recently reported by other financial regulators. Financial regulators’ June 30, 1999, results showed 99 percent of insured financial institutions received a “Satisfactory” rating compared with 100 percent “Satisfactory” rating of FCS institutions.

Internally, FCA also has made excellent progress. Specifically, it identified 28 mission-critical systems and 25 were found Y2K compliant in the latest survey. The remaining three are on the “to be replaced” list. All three systems are scheduled to be compliant by September 30, 1999. None of the three systems would pose a significant threat to internal operations of FCA.

The FCA will report the status of FCA and FCS institutions to the Y2K Information Coordination Center (ICC), which President Clinton recently established to coordinate any emergencies arising from the year 2000 conversion. The ICC will operate from October 31, 1999, to June 2000 to monitor essential private-sector activities, overseas developments, local, as well as state and Federal, computer systems. The ICC is composed of the Chair of the President’s Council on Year 2000 Conversion and officials from executive agencies with expertise in computer hardware, software or security systems, reconstitution and recovery, and management and technical areas.

Survey Shows FCS Serving YBS Borrowers

A recent FCA survey found that slightly more than 40 percent of Farm Credit System (FCS or System) associations use reduced interest rates and loan fees to assist young, beginning, and small (YBS) farmers and ranchers. About 30 percent employ specific loan underwriting standards or use special loan covenants to administer YBS credit. Almost 80 percent of all associations report some method of differential underwriting for YBS loans.

The FCA Board issued a policy statement late last year encouraging each System institution to refocus its commitment as a reliable, consistent, and constructive lender for this next generation of agricultural producers.

The FCA has issued the first report on the results of the System’s lending to YBS borrowers under the new policy statement and recently updated definitions and reporting requirements. These new reporting requirements provide a more complete picture of the System’s lending to YBS borrowers.

At yearend 1998, the System reported 603,322 loans outstanding to farmers and ranchers. Of this number, 15.2 percent benefited young farmers, 18.2 percent benefited beginning farmers, and 55.6 percent benefited small farmers. Of the 118,919 new business loans made in 1998 by FCS associations, 13.8 percent benefited young farmers, 21.5 percent benefited beginning farmers, and 52 percent benefited small farmers.

Chairman Martin Provides Testimony on the Farm Income Crisis

FCA Board Chairman Marsha Pyle Martin provided testimony for the Senate Agriculture Committee's hearing on the farm income crisis in August. Following are excerpts from her statement to the Committee:

"No topic could be more timely than the current farm income crisis. My comments primarily address the financial condition of the Farm Credit institutions, not of the individual producer, America's farmers and ranchers.

"The Farm Credit System has improved its financial condition significantly in recent years and at this point, is performing well despite the current adversities. However, we are beginning to see some evidence of deterioration. Nonperforming assets increased slightly from 1.4 percent of total loans and other property owned at yearend 1997 to 1.7 percent. The System compensated by increasing its allowance for loan losses during this same period. As a result, earnings declined for the System during the first quarter of 1999.

"While the System remains financially strong, we, as its regulator, would be the first to note that its performance is just beginning to reflect the stress associated with the current adverse conditions. We recognize that current commodity prices will adversely affect many FCS customers, and this could have an effect on the financial condition of FCS institutions. But, even if the quality of System assets were to deteriorate to the level seen during the crisis of the 1980s, our analysis indicates the System would still be financially sound. The good news is that the financial condition of Farm Credit System entities today is very different than their condition going into agricultural crisis of the mid-1980s.

"In addition to building financial strength, the System has taken other important steps during the past few years to limit the effect of adverse conditions. For example:

- Consolidation and merger of System institutions enhanced capital positions for many institutions and increased critical mass.
- Movement from "collateral-based" lending to "repayment-based" lending.
- Improved management controls and information systems.
- Sophisticated asset/liability management practices.
- Increased efficiencies.

"In summary, the Farm Credit System, since the last agricultural crisis, has strengthened its financial condition significantly. You have my unqualified assurance that the FCA will remain vigilant in ensuring the continued safety and soundness of the Farm Credit System. There is no doubt that the next few years will present challenges and ample opportunity for the Farm Credit System to meet its mission and serve agriculture in its time of need. As Congress intended, the Farm Credit System has been and will continue to be there in the good times as well as the bad."

FCSIC Board Reduces Insurance Premium Rate by 50 Percent

The Farm Credit System Insurance Corporation (Corporation) Board of Directors reduced the insurance premium paid by Farm Credit System (System) entities by 50 percent at the Corporation's August board meeting.

The rate adjustment will be for the period July 1 through December 31, 1999. The premium rate on nonaccrual loans remains at 25 basis points and zero on government-guaranteed loans.

Reducing the insurance premium rate from 9 basis points to 4.5 basis points on accruing loans will save System institutions an estimated \$13 million to \$14 million during the second half of 1999.

The secure base amount, defined by law as 2 percent of the level of insured debt outstanding at System banks, was \$1.31 billion as of June 30.

The policy statement on adjustments to the insurance premiums provides for a review to be conducted at least semiannually and sets out five factors the Board must consider in determining whether to adjust premiums. The five factors are the level of the Insurance Fund relative to outstanding insured debt obligations, any projected losses to the Insurance Fund, the condition of the System, the health of the agricultural economy, and any risks in the financial environment.

"While the System's overall condition and performance remain sound, the most significant factors affecting our decision to assess a premium of 4.5 basis points were the current level of the Insurance Fund, prospects for further growth, and the current outlook for commodity prices and export markets," said Corporation Chairman Michael M. Reyna. Other factors influencing the Board's decision included increasing loan delinquencies and restructurings and severe drought conditions in the Eastern U.S.