FARM CREDIT ADMINISTRATION
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FCA Predicts Overall Condition of Farm Credit System To Remain Sound in Short Term

Even under the "worst case" scenario for the agricultural environment, the Farm Credit System is expected to remain financially sound during the next 12 to 24 months, according to a recent internal Stress Analysis Report prepared by FCA's Office of Examination (OE).

"Because of the System's strong financial condition, we don't see a material threat emerging during the next 12 months," said OE Chief Examiner Roland Smith. "However, there may be pockets of stress in certain regions for several FCS institutions," he added.

Under "worst case" conditions, Smith noted that six FCS associations, representing 1.4 percent of total assets of all direct lending associations, project adverse assets in proportion to risk funds of greater than 90 percent. In addition, 43 associations would have adverse assets to risk funds of greater than 60 percent at yearend 2000. An association's risk funds include at-risk capital, surplus, and allowance for losses.

"While these 43 associations collectively present a definite concern, they would not materially impair the safety or soundness of the System," Smith said.

The System's risk funds totaled $14.4 billion at December 31, 1998, and covered more than 21 percent of System loans.

"This is a substantial improvement from 10 years ago when risk funds totaled $3.9 billion and covered slightly less than 8 percent of System loans," said Smith.

The study also includes "most likely" scenarios. Copies are available from FCA's Office of Congressional and Public Affairs, 1501 Farm Credit Drive, McLean, VA 22102-5090; phone, 703-883-4056; e-mail, info-line@fca.gov.

FCA Responds Quickly to FCS Funding Requests

Obtaining loan funds in the nation's money markets is one of the keys to the Farm Credit System's success in financing America's farmers, ranchers and cooperatives. It's also important that the FCS, through the Federal Farm Credit Banks Funding Corporation (Funding Corporation), is able to act quickly when issuing debt securities.

"FCA does its part in this critical process by promptly responding to System institutions' funding requests," said Tom McKenzie, Director of the Office of Policy and Analysis (OPA). "FCA responds to funding requests usually within 24 hours or sooner, so the FCS can take advantage of capital market opportunities," he said. "In fact, it's highly unusual to take overnight to approve a funding request."

To facilitate the process, FCA Chairman and CEO Marsha Pyle Martin delegated the authority to approve most funding requests to McKenzie or his designee. McKenzie can approve routine funding requests, but must consult with the Chairman and CEO on non-routine issues. Also, only the Chairman and CEO can disapprove funding requests.

"Recently a new kind of funding request was presented for FCA approval — the Designated Bond program," said McKenzie. He noted the Funding Corporation developed this new initiative to consolidate certain of the System banks' term debt needs into large, non-callable, regularly announced issues.

"The Funding Corporation sees a distinct pricing advantage in issuing large and simply structured securities," said McKenzie. "Therefore, under this program, it plans to bring at least $1 billion of fixed-rate, intermediate-term securities to the market on at least a quarterly basis."

The Designated Bond program is similar to Fannie Mae's Benchmark program. In addition, Freddie Mac and the Federal Home Loan Banks have similar programs.

The Funding Corporation held its first Designated Bond sale on March 25, 1999. It was a 2-year fixed rate $1 billion offering. The sale was successful and the bonds were priced only 1 to 1.5 basis points higher than Fannie Mae's well-established Benchmark bonds. The Fannie Mae program is considered the "standard" for large liquid issues by Government-sponsored enterprises.

Ceremony Honors Michael Reyna as Newest Farm Credit Administration Board Member

Michael M. Reyna, left, takes the oath of office as a Member of the Farm Credit Administration Board during the formal swearing-in ceremony. Also pictured, left to right, are Karen Reyna, Mario Obledo, and Keda Alcala-Obledo.

A celebration was held May 24 in California's State Capitol building to ceremonially swear in Michael M. Reyna as FCA's newest Board Member. The event was attended by more than 150 friends and well-wishers, including representatives of Western-AgAmerica Farm Credit Bank, Sacramento Valley Farm Credit, ACA, and the Farm Credit Administration. Following the event, guests attended a reception in the Capitol Rotunda.

Reyna was sworn in by Mario Obledo, a recipient of the Presidential Medal of Freedom — the nation's highest civilian award — for his leadership on civil rights issues. Also participating in the event were State Senator John Vasconcellos and Sacramento Mayor Joe Serna. Participants described Reyna as a "man of integrity" and spoke of his long record of public service. California's Governor, Gray Davis, sent a congratulatory letter that was delivered to Reyna during the ceremony.

After taking the Oath of Office, Reyna spoke of being encouraged by former Congresswoman Barbara Jordan to consider doing "the people's business" by pursuing a career in public service. He also spoke about being motivated by former President Kennedy's challenge to "Ask not what your country can do for you, but what you can do for your country." On a personal note, Reyna spoke of his belief that because each of us are part of a common humanity, we have an ethical and moral responsibility to help others — each in our own way — improve their quality of life.

Steady Growth in S Corporations Creates More Competition for FCS

Commercial banks filing as S Corporations increased 23 percent in the first quarter of 1999 compared with the last quarter of 1998. A total of 1,253 commercial banks have converted to S Corporations. The FDIC estimates that 500 of these are agricultural banks.

"In 1998, S Corporations represented 12 percent of all commercial banks. The number is expected to be even higher in 1999," said Linda Sherman of the Risk Analysis Division.

She said in 1997 small, investor-owned banks with fewer than 75 shareholders received the authority to reorganize as S Corporations under new IRS laws. Commercial banks that convert to S corporations pass through all of the income and expenses associated with their operations to their stockholders, achieving single-level taxation, and a higher level of earnings available to retain or reinvest. Sherman noted that many FCS institutions file their taxes under Subchapter T of the IR Code, which provides similar benefits of single level taxation.

"Many rural and community banks now have the same tax advantage available to all FCS institutions through Subchapter T," said Sherman. "The competitive implications for FCS institutions are significant."

Also on the horizon is H.R. 242, a bill introduced in Congress last January that would let a company qualify for S Corporation status if it has no more than 150 stockholders. If enacted, this legislation would expand eligibility and, with other proposed changes, make it easier for small banks to convert to S corporations.

"This added tax relief will make them even more competitive with the FCS," said Sherman.

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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.

FCSIC Makes Adjustments to Reviews of Premium Decisions

The Farm Credit System Insurance Corporation (FCSIC) Board recently approved several changes relating to the periodic review and communication of Insurance Fund premium decisions. These changes include:

- Adjusting the timing for FCSIC's semiannual premium reviews to September and March.
- Making most premium rate changes effective prospectively rather than retroactively.
- Expanding the survey of market growth projections to include some FCS associations in addition to banks.

"We hope the timing change will allow us to advise FCS institutions of premium rate changes in advance of a new fiscal year so they can plan for the new rates in their budget process," said FCSIC Board Chairman Michael M. Reyna. He noted the September 1999 adjustment will establish the premium for calendar year 2000, with the March 2000 review reserved for any adjustment that may be necessary due to interim events. "This change will not affect the second premium review for 1999, which will be conducted shortly after midyear," Reyna added.

Since the FCSIC Board increased premium rates earlier this year, the Insurance Fund as a percentage of adjusted insured debt rose from 1.94 percent at yearend 1998 to 1.98 percent on March 31, 1999. By law, the FCSIC Board must maintain the Insurance Fund at 2 percent of insured debt outstanding.

FCA's Best People, Best Practices, Best Products Recognized

Vice President Gore's Hammer Award

FCA's Office of General Counsel (OGC) received the prestigious Hammer Award for creation of a legal "hot line."

OGC partnered with FCA's Office of Examination (OE) to reinvent the way it provides legal services to examiners conducting examinations of Farm Credit System institutions. The result was the Law Line, which allows examiners to e-mail legal questions that arise during an exam directly to legal staff. An attorney is always "on duty." OGC provides an informal, plain English response by close of business the next business day. The result is a simple, yet highly efficient, way to conduct business and has resulted in large savings for the Agency.

Individual certificates of recognition were given to employees who played a role in developing and making a success of the Law Line. They are: Jean Noonan, Kathleen Buffon, Vic Cohen, Joy Strickland, James Morris, Gary Van Meter, Wendy Laguarda, Richard Katz, Jane Virga, Rebecca Cohn, Antonya Brown, Kay Livingston, and Debra Buccolo from OGC; Roland Smith, Charlotte Miller, Michael Anderson, Gordon Hansen, and Bill Stevens from OE; and Stephen Smith and Jeannie Schaffer from the Information Resources Division.

The Hammer Award is presented to teams of Federal employees for using reinvention principles to create a government that works better, costs less, and delivers results. The Award is the Vice President's answer to yesterday's government and its $400 hammer. Fittingly, the award consists of a $6 hammer, a red, white and blue ribbon, and a note from Vice President Gore, all in an aluminum frame. More than 1,250 Hammer Awards have been presented to teams who are working to build a better government.

The Hammer Award is given under the auspices of the National Partnership for Reinventing Government (formerly the National Performance Review), which is the Clinton-Gore Administration's initiative to reform the way the Federal government works. It is the longest-running reform effort in U.S. history.

Roland Smith, Chief Examiner, and Jean Noonan, General Counsel, proudly display the Hammer Award, which was given by the National Partnership for Reinventing Government in recognition of the creation of a legal "hot line."

FCA Receives Top Awards for Creative Communication, Charitable Giving

FCA and FCSIC employees won the triple crown as a result of their generous contributions to the Combined Federal Campaign (CFC).

The CFC is the annual fund-raising drive conducted by Federal employees in their workplace each fall. Each year Federal employees and military personnel raise millions of dollars through the CFC that benefit thousands of non-profit charities.

For the fifth year in a row FCA earned the President's Award, the highest award a Federal agency can receive for CFC contributions. To qualify, 75 percent of an agency's employees must contribute to the

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CFC and the per capita gift must be at least $150. FCSIC won the President's Award for the second year in a row and for the third time since 1995.

FCA and FCSIC also won the Pacesetter Award, which recognizes agencies that exceed the previous year's contributions by a specified percentage. The criterion this past year was a 2.2 percent increase. FCA employees' contributions were 8 percent above the previous year. This was the second year in a row that FCSIC won the Pacesetter Award.

FCA also was a winner in the CFC's Communication Contest, taking top honors for the Best Kick Off or Victory Celebration in the small agency category. The winning entry was a take-off on "The Wizard of Oz," which was produced under the creative direction of Claire Rusk, Office of Congressional and Public Affairs. Cast members were: Bob Orrick, Office of Policy and Analysis (OPA), as the Wizard; Dorothy Nichols, FCSIC, as Dorothy; John Hays, OPA, as Scarecrow; Doug Valcour, IRD, as Tin Man; and Gary Van Meter, OGC, as Lion. Costume design, make-up, music, and art direction were provided by Becky McLeod, Linda Toki, and Pat Hickerson of IRD's Publications Group, and Ruth Surface, IRD.

Claire Rusk served as vice-chair for the FCA and FCSIC CFC Campaign and Kathleen Reddaway, IRD, was program manager. Employees who contributed their time to canvassing coworkers were: Ava Bell, Joy Burr, Leslie Fridley, and John von Reyn, who served as team captains. Also, Winston Black, Irma Blankenship, Antonya Brown, Gaye Calhoun, Tom Gist, Sara Glover, JoAnn Kissal, Sara Kreger, Anna Lacey, Lori McGuin, Mary Meyer, Charlotte Miller, Nan Mitchem, Ruth Surface, and Michael Wilson.

Federal Library/Information Center of the Year

The FCA Information Center received an honorable mention as a finalist in the selection of the 1998 Federal Library/Information Center of the Year. The competition is sponsored by the Federal Library and Information Center Committee (FLICC) of the Library of Congress. The FLICC praised the FCA Information Center "for consistently proactive and creative efforts to provide timely and relevant information and services to fulfill the agency's mission." Members of the FCA Information Center team are: Patty McLaughlin, Vicki Perlstein, Claire Robb, Cheryl Thomas, John von Reyn, and Jean Weaver.

The National Institutes of Health Library and the Defense Technical Information Center share the 1998 Federal Library/Information Center of the Year Award. The first annual FLICC Awards recognize the innovative ways Federal libraries, librarians and library technicians fulfill the information demands of government, business, scholarly communities and the American public.

In Brief . . .

Claire Donovan Rusk has been named Executive Assistant to FCA Board Member Michael Reyna. She came to the Agency in September 1993 from the White House Presidential Personnel Office. Since then she has served as FCA's White House Liaison and as a Congressional and Public Affairs Specialist.

Before joining FCA, Rusk worked on the Presidential Transition Team. During the Clinton/Gore Presidential Campaign, she was a member of the staff of the late Ambassador to France, Pamela Harriman.

Prior to her Government service she had 10 years' experience in human resources as a training coordinator and personnel director and also was employed as a personnel consultant and recruiter. Rusk is a graduate of Virginia Tech where she earned a B.S. in marketing and distributive education. In 1997 she earned the certified meeting professional (CMP) designation.

Andrew Jacob has been named Assistant Director for the Office of Policy and Analysis (OPA). He will lead OPA's budgeting process, planning and reporting, communication services, and other policy development and administrative matters. Jacob will supervise OPA's data management services and the funding approval process.

He began his FCA career more than 12 years ago in the Sacramento Field Office as an examiner. Commissioned as an examiner in 1990, Jacob has worked in the capital markets area for most of his career. He has been the primary analyst for funding requests of the System since 1993. He has participated in regulation and policy development initiatives where, most recently, he has been heavily involved with developing a capital model for the Farmer Mac risk-based capital rule.

Jacob earned a bachelor's degree from the University of California at Davis in Agricultural and Managerial Finance and an M.B.A. from George Mason University.