

# STRATEGIC PLAN

## May 2011

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*Farm Credit Administration  
Strategic Plan*

***Fiscal Years 2011–2016***

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## I. INTRODUCTION

### A. Who We Are

The Farm Credit Administration (FCA or Agency) is the independent Federal agency responsible for regulating and examining the Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation (Farmer Mac), the nation's two agricultural Government-sponsored enterprises (GSEs).<sup>1</sup>

FCA is also required by law to examine the National Consumer Cooperative Bank. This bank, which is not part of the FCS, operates as a federally chartered, privately owned banking corporation. FCA also provides contract examination services to the U.S. Department of Agriculture (USDA).

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

### B. What We Regulate

The System is a network of borrower-owned cooperative financial institutions and affiliated service organizations serving all 50 States and the Commonwealth of Puerto Rico. It is the oldest of the financial GSEs. In accordance with the objective of the Farm Credit Act of 1971, as amended (Act), the System was established to improve 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.

Farmer Mac is America's secondary market for first mortgage agricultural real estate, rural utility, and USDA-guaranteed loans. By purchasing qualified loans from primary lenders, it replenishes the funds of these lenders, enabling them to make more loans. Farmer Mac funds its loan purchases by issuing debt or securities backed by pools of loans and selling them into the capital markets. This allows Farmer Mac to facilitate the flow of lendable money from Wall Street to rural America and to provide a stable supply of mortgage credit to lenders and borrowers.

### C. How We Regulate

As an arm's length regulator, FCA executes its safety and soundness oversight with impartiality. FCA is committed to objectivity and evenhandedness in all of its actions and its communication with its regulated entities.

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<sup>1</sup> Although Farmer Mac is a chartered institution of the System, we are distinguishing Farmer Mac for strategic planning purposes because of its unique and separate mission.

#### **D. What We Do**

As the arm's length, safety and soundness regulator of the System and Farmer Mac, FCA has two basic functions:

- **Issuing Regulations and Implementing Public Policy**  
FCA establishes regulations and policies that interpret the Act and other laws applicable to the System and Farmer Mac. We also review and take action on a variety of System applications, including corporate applications (such as mergers, consolidations, reaffiliations, liquidations, and other System restructurings) and related service applications.
- **Identifying Risk and Taking Corrective Action**  
FCA examines all System institutions (93 entities in total as of May 1, 2011) and the National Consumer Cooperative Bank at least once every 18 months, and Farmer Mac annually. Our examination and oversight program for System institutions is risk-based, concentrating resources on institutions with the greatest complexity or risk exposure.

We have authority to take enforcement actions against an institution, or any of its directors, officers, employees, or agents who violate statutes or regulations or operate in an unsafe or unsound manner. Enforcement actions can result in written agreements; orders to cease and desist; civil money penalties; and orders of removal, suspension, or prohibition.

#### **E. Agency Mission Support**

Agency employees support FCA's two basic functions with activities that include long-range planning and budgeting; providing 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.

## **II. MISSION STATEMENT**

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

## **III. GUIDING PRINCIPLES**

- In recognition of its role as an arm's length financial regulator, FCA is committed to the highest standards of ethics, impartiality, and fairness as it carries out its functions, powers, and duties. We also recognize that we add value to all stakeholders by placing the safety and soundness of the System and Farmer Mac foremost in our decisions and actions.
- FCA is committed to operating effectively and efficiently. We will continue to balance the costs required to operate the Agency against the benefits we provide our stakeholders. In no case will we compromise safety and soundness.

- The people who work for and with FCA are a strategic priority. We will continue to invest in hiring, developing, and retaining a talented, diverse workforce and to provide employees with the tools they need to be highly effective. Our human capital, technology, and financial plans provide us with the resources we need to be an effective and trusted regulator. We will strive to keep our work environment positive, innovative, diverse, and family-friendly, and to encourage teamwork and high productivity.
- FCA maintains open, flexible, and appropriate communication and relationships with our constituencies. Strong communication ensures that FCA remains well informed about the System and Farmer Mac and that it understands the agricultural sectors, marketplaces, and rural communities it serves, as well as the relevant financial markets and System investors.
- Because the System's lending institutions are cooperatives, FCA will continue to advocate both strong governance and local control through its examination and regulatory activities.
- FCA understands the System's public purpose role as a GSE. Therefore, the Agency will continue to ensure that the System remains focused on providing opportunities to young, beginning, and small (YBS) farmers; increasing diversity in the System's customer/owner base; and providing an adequate and flexible flow of funds into rural America.

#### **IV. ASSUMPTIONS**

We will continually monitor the following assumptions and make refinements as conditions change.

##### *Conditions in Agricultural and Financial Markets*

- Commodity and input prices will continue to be volatile, directly impacted by volatility in the global financial and agricultural markets.
- Interest rates, while currently at historic lows, will likely rise over the long term.
- Farmland values across the country will continue to follow varying trends. Land values in many areas of the country may continue to experience significant downward pressure as a result of the housing downturn. On the other hand, agricultural land values in the Midwest may continue to rise because of increasing commodity prices in the global marketplace.
- The System and Farmer Mac will continue to have access to the capital markets at favorable rates if significant events do not occur.
- Rural infrastructure and economic development will create jobs and remain important to the success of American agriculture.
- The cultural differences in agriculture, such as between big and small and organic and nonorganic farm operations, will continue to generate policy debates.
- Sustainability, environmental, food safety, and animal welfare issues among interested parties will continue to influence agricultural policy decisions.
- Diversity in the U.S. population will increase diversity in agriculture and System borrowers.

### Government Policy Factors

- Congress will soon address GSE reform. Although FCA, the System, and Farmer Mac may not be directly affected, they are likely to be affected indirectly.
- Wall Street reform (the Dodd-Frank Act) implementation will be a long process, especially with the newly formed Congress. This reform implementation may have unintended consequences on the System and Farmer Mac.
- Legislative developments regarding agriculture and finance will potentially affect the business of the System and Farmer Mac.
- The new Congress has made eliminating the Federal debt and balancing the Federal budget a top priority, which will result in more pressure to substantially reduce subsidies for ethanol and support payments in the upcoming Farm Bill.

### Farm Credit System Factors

- Structural changes, including, but not limited to, consolidations, mergers, and reaffiliations, in the System and in agriculture will continue.
- The System will continue to resist FCA's regulatory and policy oversight during strong economic times.
- Human capital issues in the System will remain critically important.
- Improving System data retrieval and data sharing with FCA will remain critical to assessing System risk.

### Agency Factors

- The strength of FCA's arm's length status; human capital issues (including the ability to recruit and retain talented staff); and FCA's relationships with Congress, the other financial regulators, agricultural groups, academia, and other stakeholders are critically important to fulfilling its mission.
- Technology is critical to the Agency's ability to carry out its mission, and its importance will only increase.
- In today's fast-changing financial environment, FCA will need to continually evaluate how best to fulfill its mission to remain an effective and strong arm's length regulator.

## **V. AGENCY GOALS**

The Agency's talent and technology are critical to accomplishing its goals. The Agency creates and updates human capital and information management plans to support the accomplishment of our strategic goals.

FCA has two primary strategic goals that link directly to what we do. Under each goal, we have identified a number of actions that the FCA Board expects management to undertake to accomplish the goals. These actions will measurably improve the Agency's results.

### **Goal I: Ensure that the System and Farmer Mac fulfill their public mission for agriculture and rural areas.**

The agricultural industry is changing in fundamental ways. The face of the industry is changing as the U.S. population becomes more diverse. Agricultural production and processing methods are evolving and becoming more integrated. The varieties and types of food and fiber production continue to grow. These changes make financing agriculture in a safe and sound manner a challenge. This is particularly true given the many other factors affecting agriculture, such as uncertain commodity and energy prices; changing world competition and public policy;

continued concentration and integration in agriculture; concerns about the safety and security of the food supply; transition to the next generation of farmers and ranchers; and the need to improve producers' income through value-added agriculture. To address these challenges, FCA adopts the following strategies and actions.

### **Strategies**

1. Within the framework of the Farm Credit Act, continuously update policies and regulations to provide an operating environment for the System and Farmer Mac that meets the changing needs of agriculture and rural America.
2. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs serving rural America, including the use of innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.
3. Encourage System institutions to find and develop both public and private partnerships and alliances with other financial service providers to address the changes in agriculture through new and existing programs.
4. Promote System business practices, including outreach activities to all creditworthy and eligible potential customers, emphasizing minority and socially disadvantaged farmers and ranchers and minority-owned entities.
5. Promote public trust and investor confidence in the System and Farmer Mac by developing policy guidance that helps them achieve their missions.
6. Consistent with cooperative principles and the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their customers and rural America.
7. Encourage full participation from stakeholders in the development and review of regulatory proposals.

### **Actions**

1. Enhance YBS data analysis to better assess System progress in serving YBS borrowers and in identifying further opportunities to serve them.
2. Establish early and continuous communication between internal stakeholders (the FCA Board and Agency staff) and external stakeholders, including the Farm Credit System Insurance Corporation, about policy and regulation development.
3. Support policy and regulatory positions with sound regulatory, economic, legal, and financial analysis.
4. Research, analyze, and communicate challenges and opportunities for the System and Farmer Mac to enhance business planning, capital management, portfolio risk management, debt issuance, and secondary liquidity sources.
5. Review and update policies and regulations to promote executive compensation and employee incentive programs that protect the safety and soundness of System institutions and are consistent with the System's GSE status and mission.
6. Support initiatives and develop policy guidance to enhance the System's access to the debt markets and encourage active collaboration across the System and with FCSIC to address systemic risk issues.
7. Develop policy guidance that enhances the governance and disclosures of System institutions.
8. Continuously evaluate significant environmental, economic, and financial issues that may affect the mission performance of the System and Farmer Mac and the well-being of agricultural producers.
9. Develop and maintain economic and financial databases to support the information needs for examination, and policy and regulation development.

## **Goal II: Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.**

As the System continues to consolidate and institutions become larger and more sophisticated, effective examination and risk monitoring become even more critical to the success of the System, Farmer Mac, and FCA. We must enhance the integrity of FCA's examination and supervisory programs by building on our greatest strength, which is the quality of our staff. We must also ensure that both FCA and the System have the ability to retrieve sufficient data to effectively examine and analyze risk. To accomplish these objectives, we adopt the following strategies and actions.

### ***Strategies***

1. Ensure that staff provides prompt and comprehensive information to the FCA Board and remains flexible and responsive to the Board's priorities so that the Board will be better able to make fully informed, arm's length decisions.
2. Recruit and retain a diverse and highly skilled workforce to meet FCA's current and future needs.
3. Continue proactive oversight of institution-specific and systemic risks.
4. Promote a vibrant program of Systemwide risk supervision that uses early-warning systems, research, and analyses to identify emerging systemic risks and yields proactive examination direction and policy guidance for use internally and externally.
5. Use Agency supervisory and enforcement authorities effectively to remediate weakened institutions.
6. Promote the continued importance and improvement in the quality of System loan data for use by both the Agency and the System in risk management and business planning.
7. Develop regulatory guidance and examination procedures that keep pace with evolving strategies and new programs to meet the changing needs of agriculture and rural America.

### ***Actions***

1. Maintain a highly skilled and performance-driven staff that is responsive to a rapidly changing environment and the Agency's emerging needs.
2. Enhance the Agency's use of institution and Systemwide loan data in examination and policymaking, with emphasis on improving the capacity to measure and monitor Systemwide collateral risk arising from volatile commodity and land prices.
3. Leverage improved data through investments in technology, modernized examination tools, and enhanced staff skills to advance the Agency's examination and policymaking roles.
4. Maintain an effective risk-based examination program that identifies and responds to emerging risks and ensures that institutions comply with laws and regulations.
5. Evaluate whether board governance and management of institutions are keeping pace with the increasing size and complexity of institutions' operations.
6. Evaluate whether each System institution and Farmer Mac are using risk management practices that are sophisticated enough to measure the risks to which they are likely to be exposed.
7. Use Agency supervisory strategies and enforcement authorities in a timely and effective manner to remedy weaknesses at troubled institutions, and closely monitor institution compliance with supervisory actions.
8. Evaluate institution business planning and outreach efforts to ensure that efforts target all eligible customers, meet the changing and diverse needs of agriculture and rural America, and properly consider risk in new program activities.
9. Effectively investigate and respond to written borrower complaints and inquiries about System institutions.



## VI. AGENCY PERFORMANCE MEASURES

**Goal 1: Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.**

<b>Desired Outcome</b>
A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac.
<b>Performance Measures</b>
<ol style="list-style-type: none"><li>1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons. (Target: 90 percent)</li><li>2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans. (Target: Yes)</li><li>3. Percentage of direct-lender institutions with satisfactory consumer and borrower-rights compliance. (Target: ≥90 percent)</li><li>4. Percentage of direct-lender institutions with satisfactory YBS programs. (Target: ≥90 percent)</li><li>5. Follow-up evaluation on appropriate rules and regulations issued related to GSE mission will demonstrate they meet the intended outcome. (Establish baseline in 2013—minimum one year after new rules are established, 5 percent improvement per year thereafter.)</li><li>6. Percentage of times the Agency reaches out to nontraditional commenters to solicit their input on regulations related to GSE mission. (Target: 100 percent)</li></ol>

**Goal 2: Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.**

<b>Desired Outcome</b>
Effective risk identification and timely corrective action.
<b>Performance Measures</b>
<ol style="list-style-type: none"><li>1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2. (Target: ≥90 percent)</li><li>2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements. (Target: ≥80 percent)</li><li>3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio). (Target: 90 percent)</li><li>4. Whether the Office of Secondary Market Oversight examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions are implemented to effect change when needed. (Target: Yes)</li><li>5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans. (Target: 100 percent)</li><li>6. Percentage of employees who report in the annual FCA employee viewpoint survey of being committed to, and engaged in, the Agency's work. (Target: Increase average score by 2 percent annually until it reaches at least 80 percent)</li><li>7. Percentage of FCS institutions providing FCA with consolidated loan data. (Target for 2012: ≥80 percent; target for 2013: ≥90 percent; target for 2014: 100 percent)</li></ol>