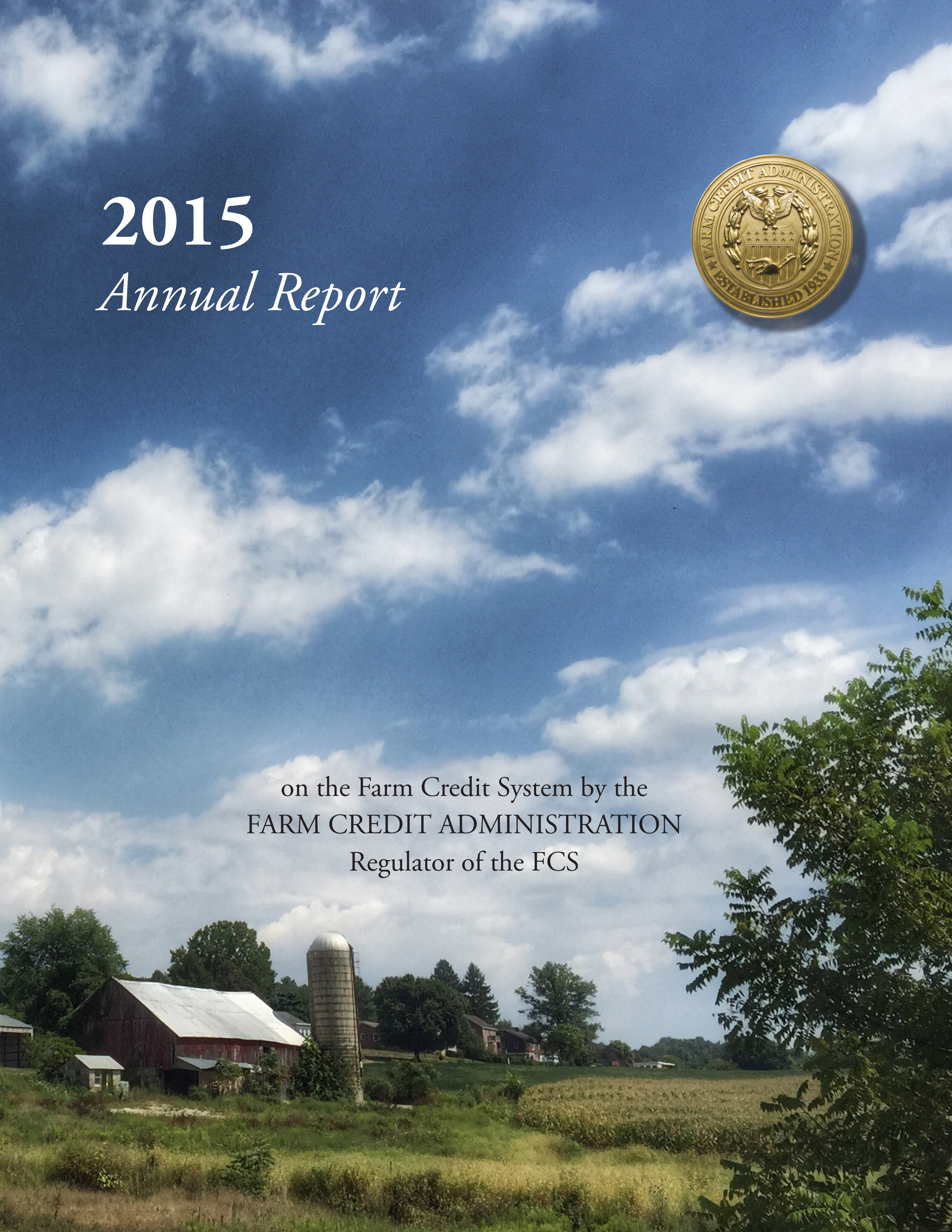

2015
Annual Report

on the Farm Credit System by the
FARM CREDIT ADMINISTRATION
Regulator of the FCS

Contents

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Statement of the Board Chairman and CEO

June 2016

Dear Reader,

On behalf of the board and the staff of the Farm Credit Administration, I present the 2015 Annual Report on the Farm Credit System. I am pleased to report that the System's overall condition and performance remain sound. Its net income was $4.69 billion in 2015, down slightly from $4.72 billion in 2014, and its capital position is strong.

Overall, the quality of System loans remains high. As of December 31, 2015, 0.69 percent of the System's gross loans outstanding were nonperforming. This was a slight improvement over the prior year, when nonperforming loans accounted for 0.80 percent at year-end.

However, credit quality is expected to decline in 2016 because large supplies of corn and soybeans are pushing prices down for farmers. The decline in commodity prices in turn is pushing prices down for farmland, which serves as collateral for many System loans.

Another factor that may affect the System's asset quality is the high U.S. dollar, which makes it hard for U.S. products to compete with the products of other agricultural exporters. In addition, slower growth in the economies of some of our biggest trading partners, such as China, may further reduce export sales.

We expect that the System will withstand these challenges in 2016 for several reasons. First, the underwriting standards of System institutions were prudent during the recent rapid increase in farmland values. Also, until 2014, farmers had several years of record farm income, and many used these gains to pay down debt.

The System's strong capital levels also safeguard the System from credit quality declines. As of December 31, 2015, the System's total capital had increased to $48.8 billion, up from $45.7 billion a year earlier.

Because the System obtains its loan funds from the securities it sells to the debt capital markets, investor demand for System securities is also key to the System's ability to withstand these challenges. In 2015, Systemwide debt increased by 8.0 percent, and we expect investor demand for System securities to remain strong in 2016. The Farm Credit Insurance Fund, which held just over $4 billion at year-end 2015, further strengthens the financial position of the System by protecting investors in Systemwide debt, thus strengthening investor confidence in the System.

This report also contains our annual report on the System's service to young, beginning, and small (YBS) farmers and ranchers. In 2015, the number of new loans made and the dollar volume of new loans made rose for each YBS category. The number and dollar volume of loans outstanding also rose in every category. The growth in outstanding loan volume for beginning and small farmers exceeded the growth in the System's overall farm lending, while the growth in outstanding loan volume for young farmers lagged slightly behind the growth in the System's overall farm lending.

As the arm's-length regulator of the System, we examine System institutions for their safety and soundness and their compliance with laws and regulations, providing heightened oversight of institutions with higher risk. In addition to the areas normally considered, our examiners are currently emphasizing internal controls and operations risk, and they are monitoring the growth in credit risk.

I am pleased to report that, after publishing a proposed capital rule in September 2014, the agency issued a final rule in early 2016 that made extensive revisions to the agency's capital regulations. The rule modernizes our capital requirements while ensuring that System institutions continue to hold enough regulatory capital to fulfill their mission. It ensures that the System's capital requirements are appropriate for the System's cooperative structure and comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted.

The final capital rule represents the agency's largest, most significant rulemaking in many years. It helps ensure the continued safety and soundness of the Farm Credit System. The rule will also make it easier to compare the System's capital adequacy and financial condition with that of a joint-stock bank. This ease of comparison should make System debt securities more attractive to informed investors.

This document also includes a report on the Federal Agricultural Mortgage Corporation, or Farmer Mac. On December 31, 2015, Farmer Mac's portfolio of program business reached $15.9 billion, and its tier 1 capital was approximately $560 million, the highest levels achieved in both measures in the corporation's history. The credit quality of program assets also remained near historically high levels. Farmer Mac is well positioned to withstand the widely anticipated decline in credit quality throughout the agricultural sector in 2016.

For 100 years the System has provided a dependable and affordable source of credit to our nation's farmers and ranchers. The Farm Credit System played an important role in giving the United States one of the strongest farm economies in the world. We at the Farm Credit Administration will work hard to ensure that the System will be there to serve our farmers and ranchers for the next 100 years.

Sincerely,
Kenneth A. Spearman

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.

Farm Credit Administration

Overview and mission

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and supervising the Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac).

The System is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers.

FCA derives its powers and authorities from the Farm Credit Act of 1971, as amended (12 U.S.C. 2001 – 2279cc). The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCA and the FCS.

FCA is responsible for ensuring that the System remains a dependable source of credit for agriculture and rural America. We do this in two specific ways:

- We ensure that System institutions, including Farmer Mac, operate safely and soundly and comply with applicable laws and regulations. Our examinations and oversight strategies focus on an institution's financial condition and any material existing or potential risk, as well as on the ability of its board of directors and management to direct its operations. We examine each institution's compliance with laws and regulations to serve eligible borrowers, including young, beginning, and small farmers and ranchers. If a System institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to bring about appropriate corrective action.
- We issue policies and regulations governing how System institutions conduct their business and interact with borrowers. These policies and regulations focus on protecting System safety and soundness; implementing the Farm Credit Act; providing minimum requirements for lending, related services, investments, capital, and mission; and ensuring adequate financial disclosure and governance. We also approve corporate charter changes, System debt issuances, and other financial and operational matters.

Our headquarters and one field office are in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

FCA does not receive a federal appropriation. We maintain a revolving fund financed primarily by assessments from the institutions we regulate. Other sources of income for the revolving fund are interest earned on investments with the U.S. Treasury and reimbursements for services we provide to federal agencies and others.

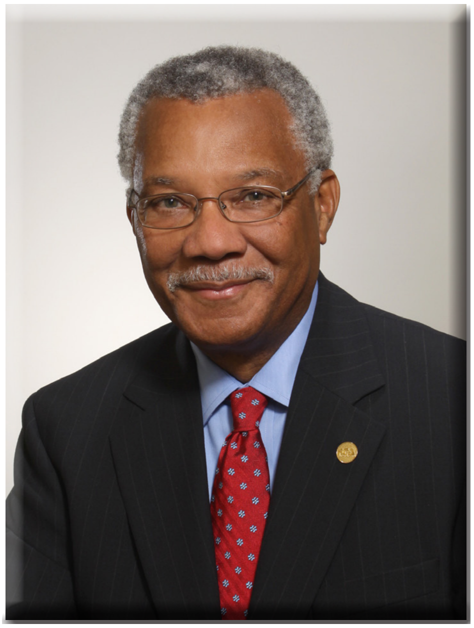
The Board

FCA policy, regulatory agenda, and supervisory and examination activities 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. Board members serve a six-year term and may remain on the Board until a successor is appointed. The President designates one member as Chairman of the Board, who serves in that capacity until the end of his or her own term. The Chairman also serves as our Chief Executive Officer.

FCA Board members also serve as the Board of Directors for the Farm Credit System Insurance Corporation.

Kenneth A. Spearman

Board Chairman and CEO



Kenneth A. Spearman is Chairman of the Board and CEO of the Farm Credit Administration. Mr. Spearman was appointed to the FCA Board by President Barack Obama on October 13, 2009. He was designated Chairman and CEO by President Obama on March 13, 2015.

Since his appointment to the FCA Board in 2009, Mr. Spearman served as Chairman of the Board of Directors of the Farm Credit System Insurance Corporation, which is responsible for ensuring the timely payment of principal and interest on obligations issued on behalf of Farm Credit System banks. He will continue to serve concurrently as a member of the FCSIC Board of Directors.

Mr. Spearman brings to his position on the FCA Board many years of experience in finance, agriculture, and agricultural cooperatives. He spent 28 years in the citrus industry. From 1980 to 1991, he was controller of Citrus Central, a $100 million cooperative in Orlando, Florida, where he was responsible for financial management and reporting and the supervision of staff accountants.

He later served as director of internal audit for Florida's Natural Growers, where he designed and implemented the annual plan for reviewing and appraising the soundness, adequacy, and application of accounting, financial, and other operating internal controls.

From January 2006 until his appointment to the FCA Board, Mr. Spearman served as an independently appointed outside director on the AgFirst Farm Credit Bank board in Columbia, South Carolina. During his tenure, he served on the board compensation committee and the board governance committee.

Before entering agriculture in central Florida, Mr. Spearman served with the U.S. Army and is a Vietnam veteran. He later was employed by the public accounting firm Arthur Andersen & Co. and was involved with the development of a public accounting firm in Chicago, Illinois. He served as chairman of the board of trustees for the Lake Wales Medical Center.

He is a member of the Institute of Internal Auditors, as well as the National Society of Accountants for Cooperatives, where he served a term as national president.

He obtained his master's degree in business administration from Governors State University in University Park, Illinois, and his B.S. in accounting from Indiana University. He also attended Harvard Kennedy School Executive Education, where he completed a program with a concentration in Government Agency Strategic Planning.

Mr. Spearman and his wife, Maria, of Winter Haven, Florida, have three children — twin daughters, Michelle Springs and Rochelle Puccia, and a son, Dr. Kenneth Spearman.

Dallas P. Tonsager

Board Member

Dallas P. Tonsager was appointed to the FCA Board by President Barack Obama on March 13, 2015, for a term that expires May 21, 2020.

Mr. Tonsager also serves as Chairman of the Board of Directors of the Farm Credit System Insurance Corporation, which is responsible for ensuring the timely payment of principal and interest on obligations issued on behalf of FCS banks.

Mr. Tonsager served as Under Secretary for Rural Development at the U.S. Department of Agriculture (USDA) from 2009 to 2013. In this position, he expanded broadband communication in rural America and implemented other key elements of the Recovery Act for rural America. He dramatically expanded USDA's water and wastewater programs, expanded funding for first- and second-generation biofuels, and funded hospitals and other public facilities in rural America.

In addition, Mr. Tonsager worked with the Farm Credit System and others to set up new venture capital investment funds. From 2010 to 2013, he was a member of the Commodity Credit Corporation Board of Directors.

From 2004 to 2009, Mr. Tonsager served as a member of the FCA Board as well as a member of the FCSIC Board of Directors.

From 2002 to 2004, he was the executive director of the South Dakota Value-Added Agriculture Development Center. In this position, he coordinated initiatives to better serve producers interested in developing value-added agricultural projects. Services provided by the center include project facilitation, feasibility studies, business planning, market assessment, technical assistance, and education.

In 1993, he was selected by President William J. Clinton to serve as USDA's state director for rural development in South Dakota. Mr. Tonsager oversaw a diversified portfolio of housing, business, and infrastructure loans in South Dakota. His term ended in February 2001.

A longtime member of the South Dakota Farmers Union, Mr. Tonsager served two terms as president of the organization, from 1988 to 1993. During that same period, he was a board member of Green Thumb Inc., a nationwide job training program for senior citizens. In addition, he served on the Board of National Farmers Union Insurance from 1989 to 1993, and he was a member of the Advisory Board of the Commodity Futures Trading Commission from 1990 to 1993.

Mr. Tonsager grew up on a dairy farm near Oldham, South Dakota. For many years, he and his older brother owned Plainview Farm in Oldham, a family farm on which they raised corn, soybeans, wheat, and hay. Mr. Tonsager is a graduate of South Dakota State University, where he earned a Bachelor of Science in agriculture in 1976.

Jeffery S. Hall

Board Member

Jeffery S. Hall was appointed to the FCA Board by President Barack Obama on March 17, 2015. Succeeding Leland A. Strom, Mr. Hall will serve a term that expires on October 13, 2018.

Mr. Hall was president of The Capstone Group, an association management and consulting firm that he cofounded in 2009. He was the State Executive Director for the U.S. Department of Agriculture's Farm Service Agency in Kentucky from 2001 to 2009. In that role, he had responsibility for farm program and farm loan program delivery and compliance.

From 1994 to 2001, Mr. Hall served as Assistant to the Dean of the University of Kentucky, College of Agriculture, advising the Dean on state and federal legislative activities and managing a statewide economic development initiative called AgProject 2000.

Mr. Hall also served as a senior staff member in the office of U.S. Senator Mitch McConnell from 1988 until 1994. During that time, he was the Legislative Assistant for Agriculture, accountable for internal and external issue management.

Before joining Senator McConnell's staff, Mr. Hall served on the staff of the Kentucky Farm Bureau Federation. Over his 30-year career in agriculture, he has held leadership positions in the following nonprofits: the Kentucky Agricultural Council, the Agribusiness Industry Network, the Louisville Agricultural Club, the Kentucky Agricultural Water Quality Authority, and the Governor's Commission on Family Farms.

Mr. Hall was raised on a family farm in southern Indiana, which has been in his family for nearly 200 years. He is currently a partner in the farm with his mother and sister. Mr. Hall received a B.S. from Purdue University.

Farm Credit System—Role, Structure, and Safety and Soundness

FCS role

The Farm Credit System (FCS or System) is a network of borrower-owned cooperative financial institutions and service organizations serving all 50 states and the Commonwealth of Puerto Rico. Created by Congress in 1916 to provide American agriculture with a dependable source of credit, the FCS is the nation's oldest government-sponsored enterprise.[1]

FCS institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and agricultural and aquatic cooperatives. They also make credit available for agricultural processing and marketing activities, rural housing, certain farm-related businesses, rural utilities, and foreign and domestic entities in connection with international agricultural trade.

The System raises funds for its business activities by selling securities in the national and international money markets; its Systemwide debt funding is subject to FCA approval. The U.S. government does not guarantee the securities issued by the System.

According to the Farm Credit Act of 1971, as amended, Congress established the System to improve the income and well-being of American farmers and ranchers. The System is to provide a permanent, reliable source of credit and related services to agriculture and aquatic producers, farmer-owned cooperatives, and farm-related businesses in rural America.

Congress formed the FCS as a system of farmer-owned cooperatives to ensure that farmer- and rancher-borrowers participate in the management, control, and ownership of their institutions. The participation of member-borrowers helps keep the institutions focused on serving their members' needs.

The System helps to meet 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, and small farmers, as well as rural homeowners.

FCS structure

The lending institutions

As of January 1, 2016, the System was composed of 78 banks and associations. The following 4 banks provide loans to 72 Agricultural Credit Association (ACA) parent organizations and 2 stand-alone Federal Land Credit Associations (FLCAs)[2]:

- CoBank, ACB
- AgriBank, FCB
- AgFirst Farm Credit Bank
- Farm Credit Bank of Texas

An ACA can make agricultural production and intermediate-term loans and real estate mortgage loans; an FLCA can make only long-term real estate loans. Under the Farm Credit Act of 1971, as amended, the FLCA is exempt from state and federal income taxes.

CoBank, one of the four Farm Credit 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 that have transactions with, or are owned by, these 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 23 ACAs and 1 FLCA.

Each ACA contains two subsidiaries, a Production Credit Association (PCA), which can make only agricultural production loans and intermediate-term loans, and an FLCA.[3] The parent-subsidiary structure, with an ACA as parent and its wholly owned PCA and FLCA as subsidiaries, accounted for over 97 percent of all direct-lender associations as of January 1, 2016.

The ACA and its two subsidiaries operate with a common board of directors and staff, and each of the three entities is responsible for the debts of the others. For most regula-

1. The Federal Land Banks were created in 1916, when the System was originally established. Other major parts of the FCS were created in 1923 and 1933.
2. An FLCA is a Federal Land Bank Association that has received a transfer of direct long-term real estate lending authority under section 7.6 of the Farm Credit Act.
3. Although legally separated, the ACA, the PCA, and the FLCA operate an integrated lending business, with loans made through the subsidiaries possessing the appropriate authority. The ACA, the PCA, and the 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.

tory and examination purposes, FCA treats the ACA and its subsidiaries as a single entity; however, when appropriate, we may choose to treat the parent and subsidiaries as separate entities.

The ACA's parent-subsidiary structure enables the ACA to preserve the tax-exempt status of the FLCA. This structure offers several other benefits as well. It allows the ACA to build and use capital more efficiently, and it enables members to hold stock in only the ACA but to borrow either from the ACA or from one or both of its subsidiaries. This gives the ACA and its subsidiaries greater flexibility in serving their borrowers, and it allows credit and related services to be delivered to borrowers more efficiently.

Further, the structure allows an association to provide a broader range of specialized services to its member-borrowers. It enables one-stop borrowing, allowing borrowers to obtain agricultural production and intermediate-term loans and real estate mortgage loans from the same institution.

Special-purpose entity and service corporations

In addition to the banks and lending associations, the System also contains a special-purpose entity known as the Federal Farm Credit Banks Funding Corporation. Established under the Farm Credit Act, the Funding Corporation issues and markets debt securities on behalf of the Farm Credit banks to raise loan funds. It also issues quarterly and annual information statements for investors.

The System also contains the following five service corporations. These corporations exist under the authority of section 4.25 of the Farm Credit Act[4]:

- AgVantis, Inc., provides technology-related and other support services to the associations affiliated with CoBank, ACB. AgVantis is owned by the bank and 14 of its affiliated associations.

- Farm Credit Leasing Services Corporation provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities. It is wholly owned by CoBank, ACB.

- Farm Credit Financial Partners, Inc., provides support services to four associations affiliated with CoBank; one association affiliated with AgriBank, FCB; and the Leasing Corporation. It is owned by four associations to which the corporation provides services.

- The FCS Building Association acquires, manages, and maintains facilities to house FCA headquarters and field office staff. The FCS Building Association is owned by the FCS banks, but the FCA Board oversees the Building Association's activities.

- Farm Credit Foundations provides human resource services to its employer-owners. These services include payroll processing, benefits administration, centralized vendor management, workforce management and operations, corporate tax and financial reporting services, and retirement workshops. Employer-owners consist of 39 Farm Credit associations, 1 service corporation (AgVantis, Inc.), and 1 Farm Credit Bank (AgriBank, FCB).

Farmer Mac

The Federal Agricultural Mortgage Corporation (Farmer Mac), which is also recognized by law as an FCS institution, provides a secondary market arrangement for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans. The

4. Section 4.25 of the Farm Credit Act provides that one or more FCS banks 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.

purpose of Farmer Mac's activities is to provide greater liquidity and lending capacity to all agricultural and rural lenders, including insurance companies, credit unions, commercial banks, and FCS lending institutions.

The Farm Credit Act established Farmer Mac as a federally chartered instrumentality and an institution of the FCS. However, it 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 owned by its investors — it is not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and FCS institutions. Any investor may own nonvoting stock.

FCA regulates and examines Farmer Mac through its Office of Secondary Market Oversight, whose director reports to the FCA Board on matters of policy.

Although Farmer Mac is an FCS institution under the Farm Credit Act, we discuss Farmer Mac separately from the other entities of the FCS. Therefore, throughout this report, unless Farmer Mac is explicitly mentioned, the Farm Credit System refers only to the banks and associations of the System. For more information about Farmer Mac, see "Condition of Farmer Mac" on page 45.

The safety and soundness of the FCS

FCA regulates the FCS — its lending institutions, the Funding Corporation, the service corporations, and Farmer Mac. Our regulatory activities and examinations support 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 borrower-stockholders. For an overview of our agency, see page 5 or visit our website at www.fca.gov.

The Farm Credit System Insurance Corporation (FCSIC) also helps protect the safety and soundness of the Farm Credit System. It was established by the Agricultural Credit Act of 1987 in the wake of the agricultural credit crisis of the 1980s, when the FCS, like most lenders heavily concentrated in agriculture, experienced severe financial difficulties. The purpose of FCSIC is to protect investors in Systemwide debt securities by ensuring the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks.

FCSIC ensures timely payment by maintaining the Farm Credit Insurance Fund, a reserve that represents the equity of FCSIC. The balance in the Insurance Fund at December 31, 2015, was $4.0 billion. For more information about FCSIC, go to www.fcsic.gov. Also see FCSIC's 2015 annual report.

Investors in Systemwide debt securities are further protected by the Farm Credit Act's joint and several liability provision, which applies to all FCS banks. The banks are jointly and severally liable for the principal and interest on all Systemwide debt securities. Therefore, if a bank is unable to pay the principal or interest on a Systemwide debt security and if the Farm Credit Insurance Fund has been exhausted, then FCA must call all nondefaulting banks to satisfy the security.

FCS Banks and Associations

Financial condition

The overall condition and performance of the FCS[5] was strong in 2015, and the System remains fundamentally safe and sound. For 2015, the System reported solid earnings, strong capital levels, and favorable portfolio credit quality. Tables 1 and 2 provide a breakdown of the System's major financial indicators.

While the overall FCS remained financially sound, a small number of individual System institutions exhibited weaknesses. As the System's regulator, we addressed these weaknesses by increasing our supervision of these institutions. For more information on measures we took to address these weaknesses, see "Maintaining a Dependable Source of Credit for Farmers and Ranchers" on pages 41 to 44 of this report. For more information on the condition of the System, see the 2015 Annual Information Statement of the Farm Credit System on the website of the Federal Farm Credit Banks Funding Corporation at www.farmcreditfunding.com.

Agricultural producers faced a more difficult operating environment in 2015. The U.S. Department of Agriculture estimates that both crop and livestock receipts were down in 2015. As a result, USDA expects that net farm income has dropped significantly for the second consecutive year.

Crop producers continued to see considerable pressure on profitability in 2015. Margins were low to negative as a result of two factors: weak grain prices, which have declined because of large U.S. and global crop supplies, and high input costs, which have been slow to adjust downwards. Financial stress is expected to intensify for the crop sector if commodity prices remain low for an extended period of time.

Low grain prices are also putting downward pressure on farmland values, especially in the Midwest. Rising interest rates in response to a strengthening of the U.S. economy would put additional pressure on farmland values.

For livestock producers, lower crop prices translated into lower feed costs, but profitability fell as product prices weakened. Expanding production, particularly in the hog, dairy, and broiler sectors, was responsible for the decline in product prices.

In 2015, fears of slowing global economic growth in major foreign markets, particularly China, and a strengthening of the U.S. dollar hurt export demand for agricultural products. U.S. agricultural exports are again projected to fall in 2016 because of the strong dollar, stiff competition from other major exporting nations, and reduced demand from slowing economies around the world.

For a detailed discussion of potential risks facing the System in 2016 and beyond, see "Challenges Facing the Agricultural Economy and the Farm Credit System" on pages 50 to 61.

5. Throughout this chapter, when referring to the Farm Credit System, we mean only the banks and direct-lending associations of the System, excluding Farmer Mac. The analyses in this section are based on data that System institutions provided to FCA or to the Federal Farm Credit Banks Funding Corporation. These analyses are based on publicly available information and, except where noted, are based on the 12-month period ended December 31, 2015. They are based on a combination of bank and association data; these data exclude transactions between System entities.

Table 1

Farm Credit System major financial indicators, annual comparison

As of December 31

Dollars in thousands

At and for the 12 months ended	31-Dec-15	31-Dec-14	31-Dec-13	31-Dec-12	31-Dec-11
FCS Banks[1]					
Total assets	267,533,786	249,370,568	230,427,442	219,043,177	205,087,928
Gross loan volume	208,766,996	192,083,080	179,260,572	173,227,170	158,420,741
Nonaccrual loans	231,520	227,872	275,228	365,478	384,795
Cash and marketable investments	57,123,019	55,472,944	49,241,806	43,618,788	44,047,407
Net income	1,945,693	2,042,527	2,057,199	2,011,314	1,860,347
Nonperforming loans/total loans[2]	0.13%	0.15%	0.18%	0.23%	0.27%
Capital/assets[3]	6.28%	6.41%	6.58%	6.51%	6.49%
Unallocated retained earnings/assets	3.45%	3.42%	3.39%	3.23%	3.25%
Return on assets	0.74%	0.84%	0.91%	0.94%	0.92%
Return on equity	11.47%	12.76%	13.31%	13.86%	13.68%
Net Interest margin[4]	0.98%	1.05%	1.15%	1.25%	1.28%
Operating expense ratio[5]	0.33%	0.33%	0.32%	0.31%	0.31%
Efficiency ratio[6]	25.30%	24.20%	22.20%	20.00%	20.14%
Payout ratio[7]	59.44%	58.19%	54.61%	47.79%	53.76%
FCS Associations					
Total assets	180,005,335	167,312,405	157,085,461	148,778,120	136,717,742
Gross loan volume	169,995,422	157,543,635	146,873,767	138,314,966	126,187,799
Nonaccrual loans	1,095,207	1,146,358	1,465,651	1,932,706	2,353,352
Net Income	3,126,729	3,383,894	3,304,680	2,989,912	3,007,154
Nonperforming loans/gross loans[2]	0.80%	0.92%	1.17%	1.59%	2.03%
Capital/assets[3]	18.68%	18.78%	18.48%	17.80%	17.84%
Unallocated retained earnings/assets	17.33%	17.40%	17.24%	16.65%	16.78%
Return on assets	1.84%	2.07%	2.14%	2.06%	2.24%
Return on equity	9.57%	10.69%	11.34%	11.23%	12.42%
Net interest margin[4]	2.68%	2.75%	2.80%	2.83%	2.94%
Operating expense ratio[5]	1.50%	1.51%	1.48%	1.45%	1.43%
Efficiency ratio[6]	41.38%	39.52%	37.14%	39.13%	31.27%
Payout ratio[7]	28.31%	25.22%	25.45%	25.82%	22.57%
Total Farm Credit System[8]					
Total assets	303,503,000	282,733,000	260,782,000	246,664,000	230,411,000
Gross loan volume	235,890,000	217,054,000	201,060,000	191,904,000	174,664,000
Bonds and notes	246,214,000	228,958,000	210,704,000	200,365,000	186,889,000
Nonperforming loans	1,629,000	1,737,000	2,040,000	2,608,000	2,997,000
Nonaccrual loans	1,324,000	1,375,000	1,736,000	2,300,000	2,738,000
Net income	4,688,000	4,724,000	4,640,000	4,118,000	3,940,000
Nonperforming loans/gross loans[2]	0.69%	0.80%	1.01%	1.36%	1.72%
Capital/assets[3]	16.09%	16.17%	16.34%	15.65%	15.60%
Surplus/assets	13.33%	13.36%	13.44%	12.94%	12.90%
Return on assets	1.62%	1.74%	1.84%	1.73%	1.71%
Return on equity	9.75%	10.50%	11.28%	10.89%	11.17%
Net interest margin[4]	2.55%	2.64%	2.78%	2.87%	2.86%

Sources: FCA's Consolidated Reporting System as of December 31, 2015, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

Note: Changes to previous periods occasionally occur for accounting reasons.

1. Includes Farm Credit Banks and the Agricultural Credit Bank.
2. Nonperforming loans are defined as nonaccrual loans, accruing restructured loans, and accrual loans 90 or more days past due.
3. Capital includes restricted capital (amount in Farm Credit Insurance Fund) and excludes mandatorily redeemable preferred stock and protected borrower capital.
4. Net interest margin ratio measures net income produced by interest-earning assets, including the effect of loanable funds, and is a key indicator of loan pricing effectiveness.
5. Operating expenses divided by average gross loans.
6. The efficiency ratio measures total noninterest expenses for the preceding 12 months divided by net interest income plus noninterest income for the preceding 12 months.
7. The percentage of earnings paid out in patronage dividends to borrower-owners and in dividends to holders of preferred stock. (Patronage dividends constitute the majority of earnings paid out.) This ratio is only valid at year-end (December 31).
8. Cannot be derived by adding the categories above because of intradistrict and intra-System eliminations used in Reports to Investors.

Table 2

Farm Credit System major financial indicators, by district

December 31, 2015

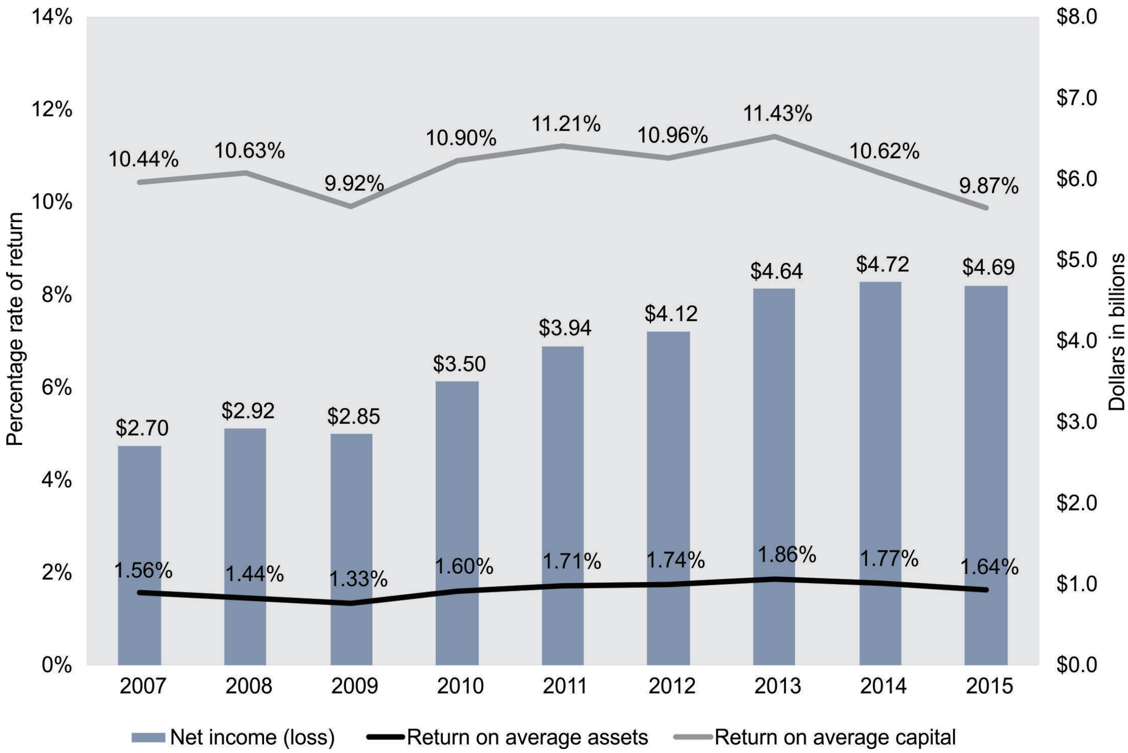
Dollars in thousands

Farm Credit System Banks	Total Assets	Gross Loan Volume	Nonaccrual Loans	Allowance for Loan Losses	Cash and Marketable Investments[1]	Capital Stock[2]	Surplus[3]	Total Capital[4]	Operating Expense Ratio[5]
AgFirst	30,642,851	22,140,758	26,649	15,113	8,192,858	462,471	1,732,628	2,255,021	0.58%
AgriBank	99,506,834	82,819,652	43,394	18,076	16,237,330	2,313,343	2,945,638	5,174,116	0.16%
CoBank	117,394,526	89,035,580	156,805	486,144	27,674,227	4,024,728	3,845,728	7,810,469	0.39%
Texas	19,989,575	14,771,006	4,672	5,833	5,018,604	855,823	725,086	1,553,578	0.59%
Total	267,533,786	208,766,996	231,520	525,166	57,123,019	7,656,365	9,249,080	16,793,184	0.33%
FCS Associations									
AgFirst	19,914,776	18,934,719	225,859	163,503	156,344	216,156	3,876,687	4,062,643	2.12%
AgriBank	92,654,127	86,905,787	473,613	267,635	1,778,921	341,760	16,360,541	16,702,301	1.39%
CoBank	50,921,973	48,168,349	286,946	259,523	368,974	1,513,008	8,685,717	10,100,608	1.43%
Texas	16,514,459	15,986,567	108,789	64,514	36,439	285,982	2,473,875	2,756,213	1.55%
Total	180,005,335	169,995,422	1,095,207	755,175	2,340,678	2,356,906	31,396,820	33,621,765	1.50%
Total FCS[6]	**303,503,000**	**235,890,000**	**1,324,000**	**1,280,000**	**29,378,000**	**1,726,000**	**40,458,000**	**48,834,000**	

Sources: Farm Credit System Call Report as of December 31, 2015, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

1. Includes accrued interest receivable on marketable investments.
2. Includes capital stock and participation certificates, excludes mandatorily 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. For the total Farm Credit System amount, total capital also includes $4.038 billion of restricted capital, which is the amount in the Farm Credit Insurance Fund. Excludes mandatorily redeemable preferred stock and protected borrower capital.
5. Operating expense per $100 of gross loans.
6. Cannot be derived by adding the categories above because of intradistrict and intra-System eliminations used in Reports to Investors.

Figure 1
FCS net income, 2007 – 2015
As of December 31



Sources: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

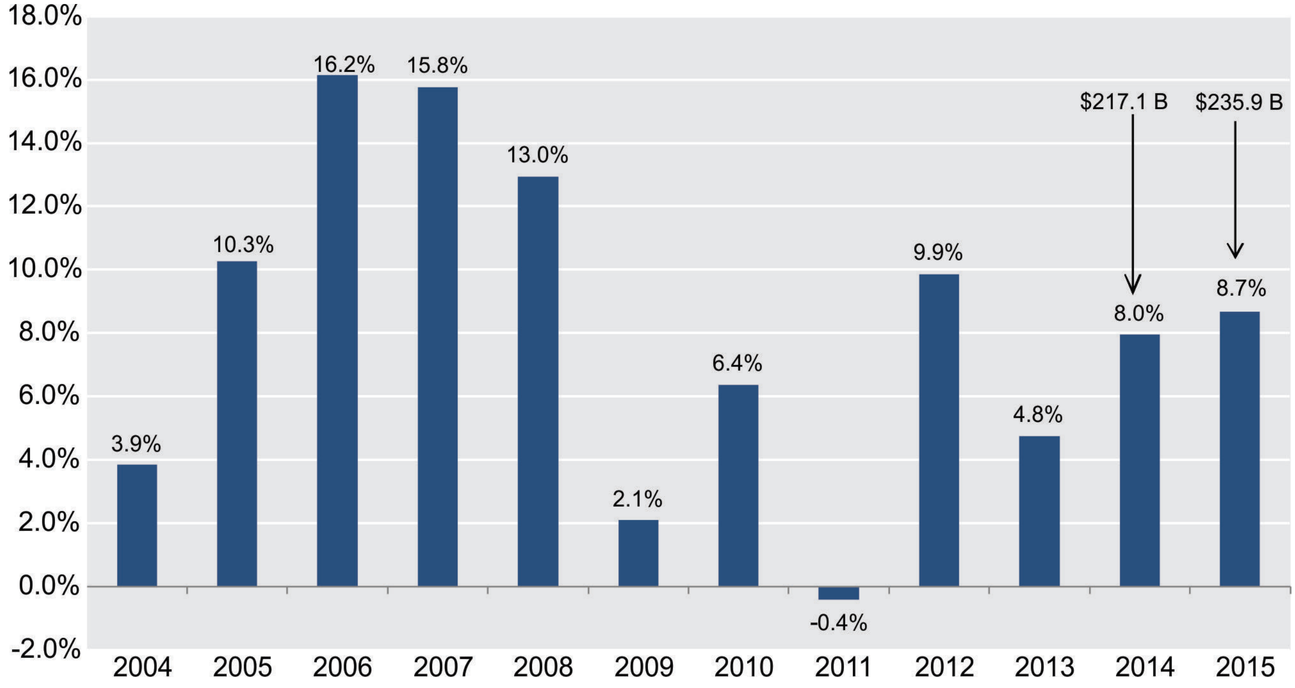
Earnings

Despite the challenges facing U.S. agriculture, the System reported solid earnings in 2015, with net income of $4.69 billion, down slightly from $4.72 billion for 2014 (See figure 1). Although net interest income was up in 2015, higher provisions for loan losses and noninterest expenses resulted in the slight drop in net income.

For 2015, net interest income increased by $211 million because higher average earning asset balances offset the effect of lower net interest margins. Driven largely by growth in loan volume, average earning assets grew by $17.5 billion, or 6.8 percent, to $275 billion in 2015. Net interest margin decreased 9 basis points to 2.55 percent as a result of competitive pressures, loan volume repricing at lower rates, and higher debt costs. Return on average assets declined to 1.64 percent in 2015 from 1.77 percent in 2014, and the return on average capital decreased to 9.87 percent from 10.62 percent.

As cooperative institutions, FCS banks and associations typically pass a portion of their earnings on to their borrower-owners as patronage distributions. For 2015, System institutions declared a total of $1.5 billion in patronage distributions — $1.12 billion in cash, $308 million in allocated retained earnings, and $72 million in stock. This represents 32.0 percent of the System's net income for 2015 as compared with 30.4 percent in 2014. Also in 2015, the System distributed $161 million in cash from patronage allocations for earlier years.

Figure 2
Annual growth rate of FCS loans outstanding, 2004 – 2015



Source: Federal Farm Credit Banks Funding Corporation, Annual Information Statements.

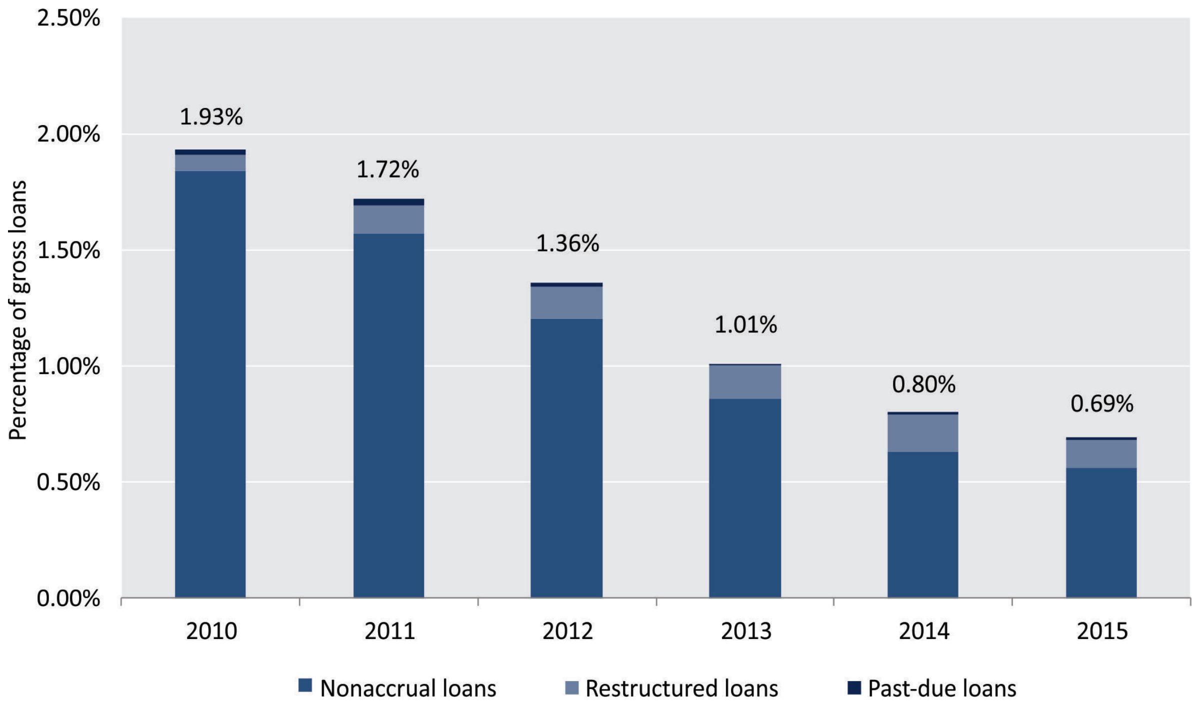
System growth

The System continued to grow at a moderately strong pace in 2015. Total assets increased to $303.5 billion, up $20.8 billion or 7.3 percent from 2014. Gross loan balances were $235.9 billion at year-end, up $18.8 billion or 8.7 percent from 2014. (See figure 2.)

The growth in System loan balances was largely due to increases in real estate mortgage, agribusiness, production and intermediate-term, and energy lending. Real estate mortgage lending was up $7.0 billion or 6.9 percent mainly due to continued demand for cropland. Real estate mortgage loans represent the largest component of the System's loan portfolio at 45.7 percent.

Agribusiness lending (primarily processing and marketing loans) was up $3.7 billion or 11.1 percent. Production and intermediate-term lending increased $2.9 billion or 6.3 percent primarily because farmers financed more of their production costs. Energy loans increased by $2.9 billion or 19.2 percent because of greater lending activity in the electric distribution and power supply sectors.

Figure 3
FCS nonperforming loans, 2010 – 2015
As of December 31



Sources: Federal Farm Credit Banks Funding Corporation, Annual Information Statements.

Asset quality

Overall, the quality of System loans remains very good. Credit stress continued to build for cash grain producers because large supplies of corn and soybeans weighed on prices. As a result, loan delinquencies may rise. With weak margins, farmers will look to strengthen their balance sheets and change their operating structures to reduce their cost of production.

As of December 31, 2015, nonperforming loans totaled $1.6 billion, or 0.69 percent of gross loans outstanding, down from $1.7 billion or 0.80 percent at year-end 2014. (See figure 3.) Loan delinquencies (accruing loans that are 30 days or more past due) fell slightly to 0.20 percent of total accruing loans from 0.23 percent at year-end 2014.

The allowance for loan losses was $1.280 billion, or 0.54 percent of loans outstanding, at year-end 2015. This compares with an allowance for loan losses of $1.237 billion, or 0.57 percent of loans outstanding, at year-end 2014. The System recognized provisions for loan losses of $106 million in 2015 as compared to $40 million in 2014 and a loan loss reversal of $31 million in 2013. Net loan charge-offs remain low, falling to $37 million in 2015 from $68 million in 2014.

Funding

Throughout 2015, the System had reliable access to the debt capital markets to support its mission, and investor demand for all System debt products remained favorable. Securities due within a year increased by 5.4 percent while securities with maturities greater than one year increased by 9.6 percent. In total, Systemwide debt increased by 8.0 percent.

The System's funding composition remained stable. Securities due within a year accounted for 37.7 percent of total Systemwide debt compared with 38.6 percent a year ago. (See "Funding Activity in 2015" on page 39 for further discussion of the System's funding environment.)

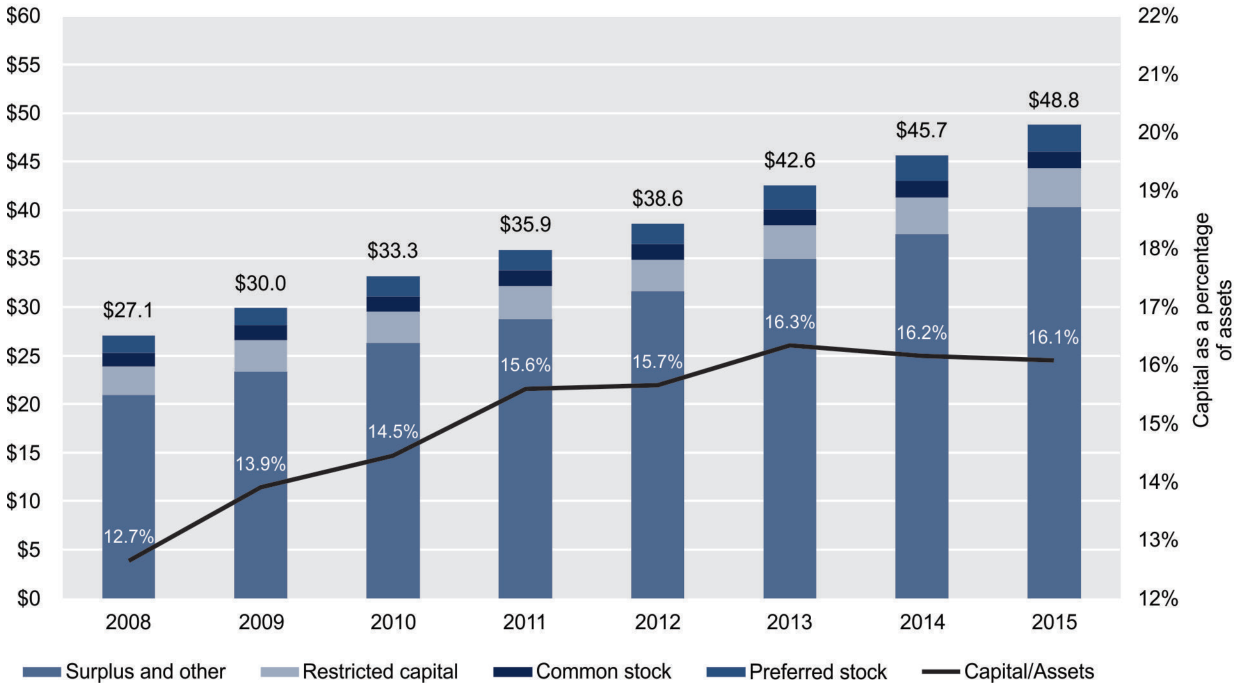
Liquidity

Each System bank maintains a liquidity reserve to ensure adequate liquidity to meet its business and financial needs, especially during unanticipated disruptions in the capital markets. As of December 31, 2015, the System's liquidity position equaled 181 days, up from 173 days at year-end 2014 and significantly above the 90-day regulatory minimum.

Investments available for sale (based on fair value) increased 1.5 percent to $50.0 billion in 2015, with a weighted average yield of 1.37 percent. Mission-related and other investments available for sale (based on fair value) decreased 21.7 percent to $300 million, with a weighted average yield of 2.61 percent. Mission-related and other investments held to maturity decreased 6.0 percent to $2.5 billion, with a weighted average yield of 3.11 percent.

Each System bank may hold federal funds and available-for-sale securities in an amount not to exceed 35 percent of its average loans outstanding for the quarter. Criteria for eligible investments are defined by FCA regulations. If an investment no longer meets the eligibility criteria, it becomes ineligible for regulatory liquidity calculation purposes, but the bank may continue to hold the investment provided certain requirements are met.

Figure 4
FCS capital, 2008 – 2015
As of December 31
Dollars in billions



Sources: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Capital

The System maintained its strong capital position in 2015. Total capital equaled $48.8 billion at December 31, 2015, compared with $45.7 billion at year-end 2014. The increase in capital was due in large part to the System's strong earnings performance. At year-end 2015, the System's capital-to-assets ratio was 16.1 percent, compared with 16.2 percent in 2014.

As figure 4 shows, surplus accounts for the vast majority of total capital. FCA regulations establish the minimum capital requirements that each System bank and association must achieve and maintain. As of December 31, 2015, the permanent capital ratios for all System banks and associations were significantly above the regulatory minimum of 7.0 percent. The ratios ranged between 14.9 percent and 20.8 percent for System banks and between 13.1 percent and 36.0 percent for System associations. In addition, as of December 31, 2015, the FCS had $4.0 billion of restricted capital in the Farm Credit Insurance Fund.

Table 3
FCS gross loans outstanding, 2011 – 2015
As of December 31
Dollars in millions

	2011	2012	2013	2014	2015	Percent change from 2011	Percent change from 2014
Agricultural real estate mortgage loans	$85,644	$92,504	$95,209	$100,811	$107,813	25.9%	6.9%
Agricultural production and intermediate-term loans	40,578	43,446	44,309	46,305	49,204	21.3%	6.3%
Agribusiness loans to the following:							
Processing and marketing operations	8,098	10,735	13,164	16,974	19,949	146.3%	17.5%
Cooperatives	9,207	10,255	10,885	12,553	13,113	42.4%	4.5%
Farm-related businesses	2,596	2,858	2,999	3,408	3,533	36.1%	3.7%
Rural utility loans by type of utility:							
Energy	11,585	13,193	14,304	15,036	17,925	54.7%	19.2%
Communication	2,638	3,435	4,159	5,044	6,196	134.9%	22.8%
Water/wastewater	1,061	1,215	1,325	1,488	1,677	58.1%	12.7%
Rural home loans	6,047	6,430	6,511	6,754	7,117	17.7%	5.4%
Agricultural export finance	4,486	4,729	4,743	4,837	5,075	13.2%	4.9%
Lease receivables	2,139	2,415	2,706	2,976	3,373	57.7%	13.3%
Loans to other financing institutions	585	689	746	868	915	56.4%	5.4%
Total	**$174,664**	**$191,904**	**$201,060**	**$217,054**	**$235,890**	**35.1%**	**8.7%**

Sources: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Borrowers served

The System fulfills its overall mission by lending to agriculture and rural America. Its lending authorities include the following:

- Agricultural real estate loans
- Agricultural production and intermediate-term 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
- Rural home loans
- Loans that finance agricultural exports and imports
- Loans to rural utilities
- Limited portions of loans to entities that qualify under the System's similar-entity authority[6]

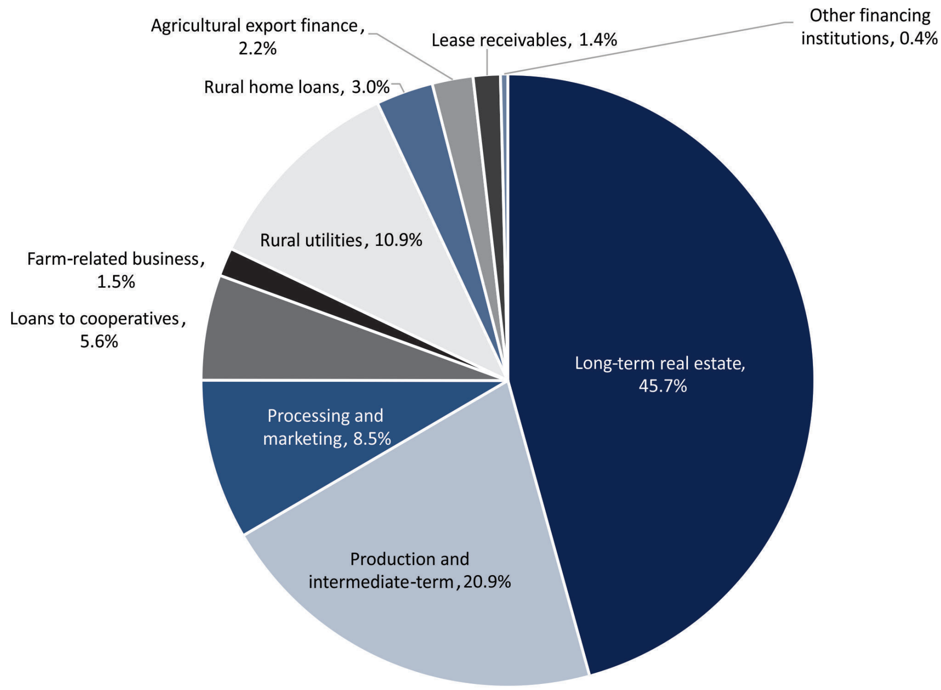
Nationwide, the System had $236 billion in gross loans outstanding as of December 31, 2015. Agricultural producers represented by far the largest borrower group, with $157 billion, or 66.6 percent, of the total dollar amount of loans outstanding.[7] See table 3 and figure 5 for a breakdown of lending by type.

As required by law, borrowers own stock or participation certificates in System institutions. The FCS had nearly 1,304,000 loans and more than 504,000 stockholders in 2015. Approximately 86.0 percent of the stockholders were farmers or cooperatives with voting stock. The remaining 14.0 percent were nonvoting stockholders, including rural homeowners and other financing institutions that borrow from the System. Over the past five years, the total number of System stockholders has increased gradually, rising 3.4 percent since year-end 2011.

Total loans outstanding at FCS banks and associations (net of intra-System lending) increased by $18.8 billion, or 8.7 percent, during the year that ended December 31, 2015. This compares with increases of 8.0 percent in

6. A similar-entity borrower is not eligible to borrow directly from an FCS institution, but because the similar-entity borrower's operation is functionally similar to that of an eligible borrower, the System can participate in these loans (the participation interest must be less than 50 percent).
7. This amount includes real estate mortgages, production loans, and intermediate-term loans, but excludes leases and loans to "rural homeowners" (as defined in 613.3030 of the FCA regulations).

Figure 5
Farm Credit System lending by type
As of December 31, 2015



Sources: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

2014 and 4.8 percent in 2013. Since year-end 2011, total System loans outstanding have increased by $61.2 billion, or 35.1 percent.

The increase in 2015 was driven by increases in real estate mortgage, processing and marketing, energy, and production and intermediate-term loans. Real estate mortgage loans increased $7.0 billion, or 6.9 percent, primarily because of the continued demand for cropland financing. Production- and intermediate-term loans also increased, going up $2.9 billion, or 6.3 percent primarily because farmers needed to finance more of their production costs (for inputs such as fertilizer, seed, and fuel).

Processing and marketing loans increased $3.0 billion, or 17.5 percent, in 2015 largely because of advances on existing loans. And loans to energy utilities increased $2.9 billion, or 19.2 percent, because of increased lending activity in the electric distribution and power supply sectors.

The other loan categories also posted significant increases for the year. For example, communication loans increased $1.2 billion, or 22.8 percent, primarily because of new loans to develop or expand data networks.

System 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 certain non-System lending institutions described in our regulations as "other financing institutions." OFIs include the following:

- Commercial banks
- Savings institutions
- Credit unions
- Trust companies
- Agricultural credit corporations
- Other specified agricultural lenders that are significantly involved in lending to agricultural and aquatic producers and harvesters

System banks may fund and discount agricultural production and intermediate-term loans for OFIs that demonstrate a need for additional funding to meet the credit needs of borrowers who are eligible to receive loans from the FCS. OFIs benefit by using the System as an additional source of liquidity for their own lending activities and by capitalizing on the System's expertise in agricultural lending.

As of December 31, 2015, the System served 23 OFIs, down from 24 in 2014 and 26 in 2013, 2012, and 2011, and down from 28 in 2010 and 2009. Outstanding loan volume to OFIs was $917 million at year-end, up $47 million from 2014. OFI loan volume continues to be less than half of one percent of the System's loan portfolio. About three-quarters of the System's OFI lending activity occurs in the AgriBank district.

Syndications and loan participations with non-FCS lenders

In addition to the authority to provide services to OFIs, the Farm Credit Act gives System banks and associations the authority to partner with financial institutions outside the System, including commercial banks, in making loans to agriculture and rural America. Generally, System institutions partner with these financial institutions through loan syndications and participations.

- A loan syndication (or "syndicated bank facility") is a large loan in which a group of financial institutions work together to provide funds for a borrower. Usually one financial institution takes the lead, acting as an agent for all syndicate members and serving as a liaison between them and the borrower. All syndicate members are known at the outset to the borrower.

- Loan participations are large loans in which two or more lenders share in providing loan funds to a borrower. One of the participating lenders originates, services, and documents the loan. Generally, the borrower deals with the institution originating the loan and is not aware of the other participating institutions.

Financial institutions primarily use loan syndications and participations to reduce credit risk and to comply with lending limits. For example, a financial institution with a high concentration of production loans for a single commodity could use participations or syndications to diversify its loan portfolio, or it could use them to sell loans that are beyond its lending limit. Institutions also use syndications and participations to manage and optimize capital, earnings, and liquidity.

The System's gross loan syndication volume has grown by more than $1 billion over the past three years to $13.8 billion at year-end 2015. This figure includes volume from syndications that System institutions have with other System institutions as well as with non-FCS institutions.

At year-end 2015, the System had $4.8 billion in net eligible-borrower loan participations with non-System lenders. Net eligible-borrower loan participations peaked in 2010 at $5.4 billion when sales of these participations were at a low point. The volume of eligible-borrower loan participations purchased from non-System lenders has grown from $6.3 billion in 2011 to $7.5 billion in 2015, and the volume of eligible-borrower loan participations sold to non-System lenders was $2.6 billion in 2015, down from $3.0 billion the year before. However, this figure is up from $1.2 billion in 2010.

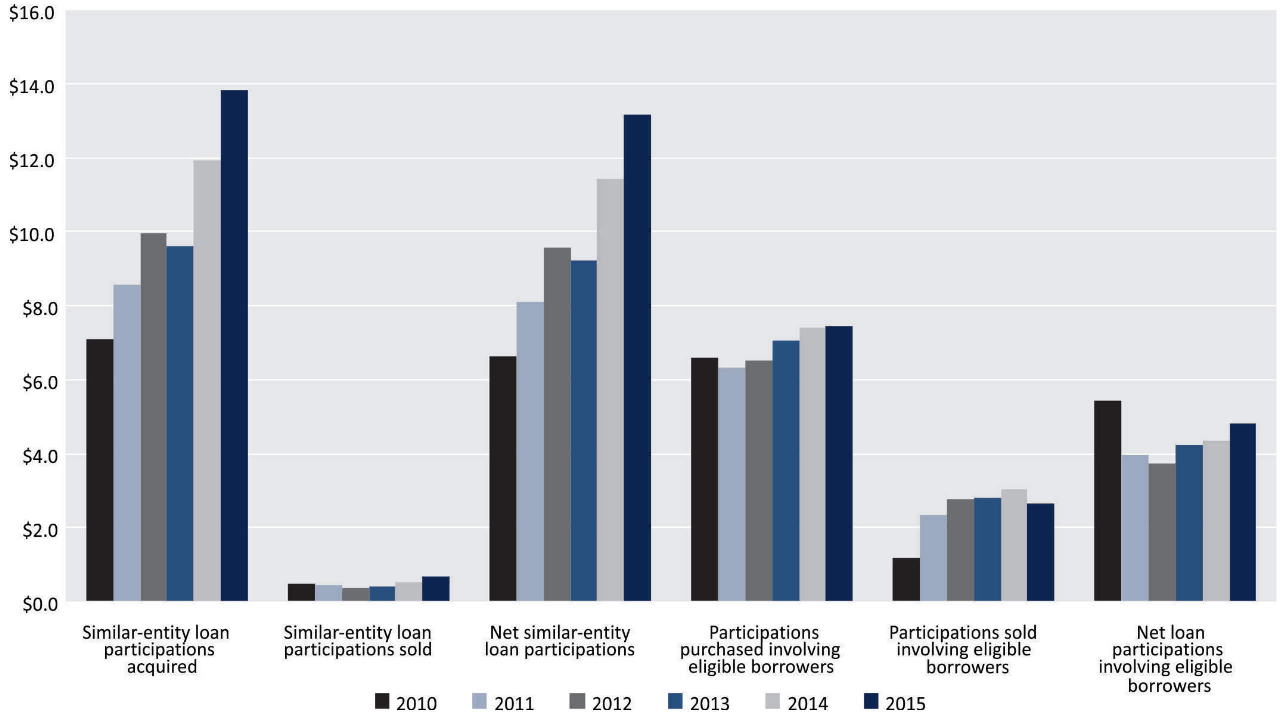
In addition to participating in loans to eligible borrowers, FCS institutions have the authority to work with non-System lenders that originate "similar-entity" loans. A similar-

Figure 6

Loan participation transactions with non-System lenders, 2010 – 2015

As of December 31

Dollars in billions



Sources: Farm Credit System Call Reports.

entity borrower is not eligible to borrow directly from an FCS institution, but because the borrower's operation is similar in function to that of an eligible borrower's operation, the System has authority to participate in the borrower's loans (the participation interest must be less than 50 percent).

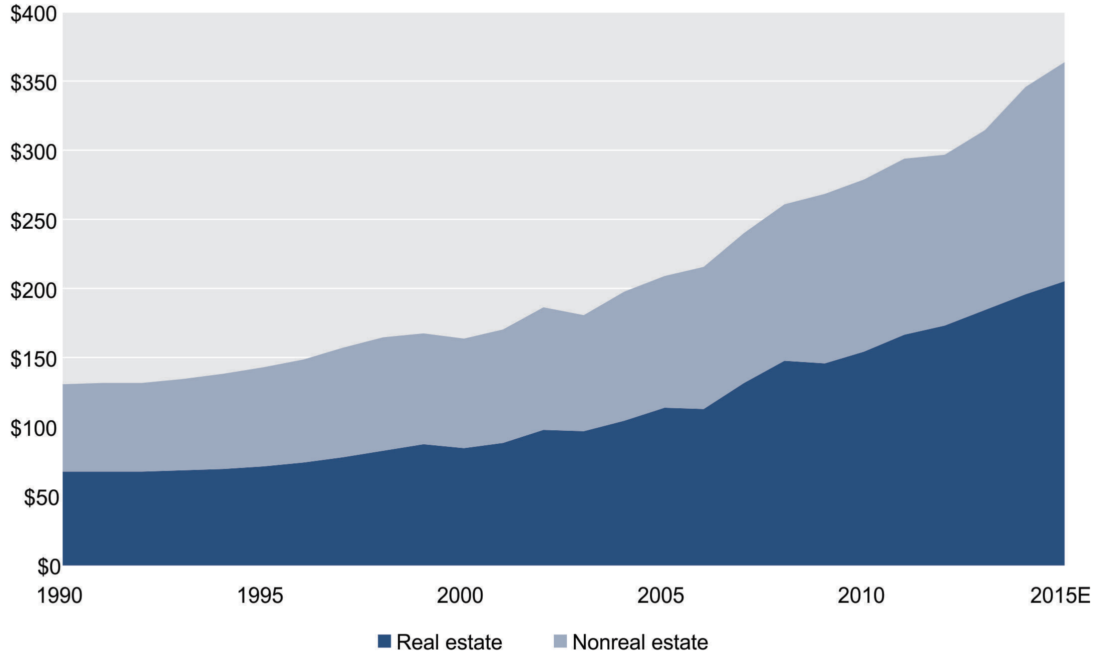
The System had $13.2 billion in net similar-entity loan participations as of December 31, 2015, up from $11.4 billion the prior year. As figure 6 indicates, the volume of similar-entity participations that System institutions sell to non-System institutions is relatively small, amounting to $700 million or less each year over the past six years.

AgDirect, LLP

AgDirect is a point-of-sale agricultural equipment financing program developed by Farm Credit Services of America, ACA, which is affiliated with AgriBank, FCB. AgDirect allows System institutions to participate in retail installment loans or leasing contracts originated by equipment dealerships. The program enhances financial options for borrowers and institutions, and provides an additional revenue stream to AgDirect owners and AgriBank.

In 2015, FCA approved investments by an additional three System associations, bringing the total number of institutions participating in AgDirect to 16. AgDirect financing is now available in many states. As of December 31, 2015, the total outstanding participation interests in loans purchased was $3.2 billion.

Figure 7
U.S. farm business debt, 1990 – 2015
Dollars in billions



Source: FCA's Office of Regulatory Policy, based on data from USDA, Economic Research Service.

Note: Figure shows year-end estimates.

Farm debt and market shares

The U.S. Department of Agriculture's estimate of total farm business debt for the year ended December 31, 2015, was $364 billion, up 5.4 percent from its $346 billion estimate for year-end 2014.[8]

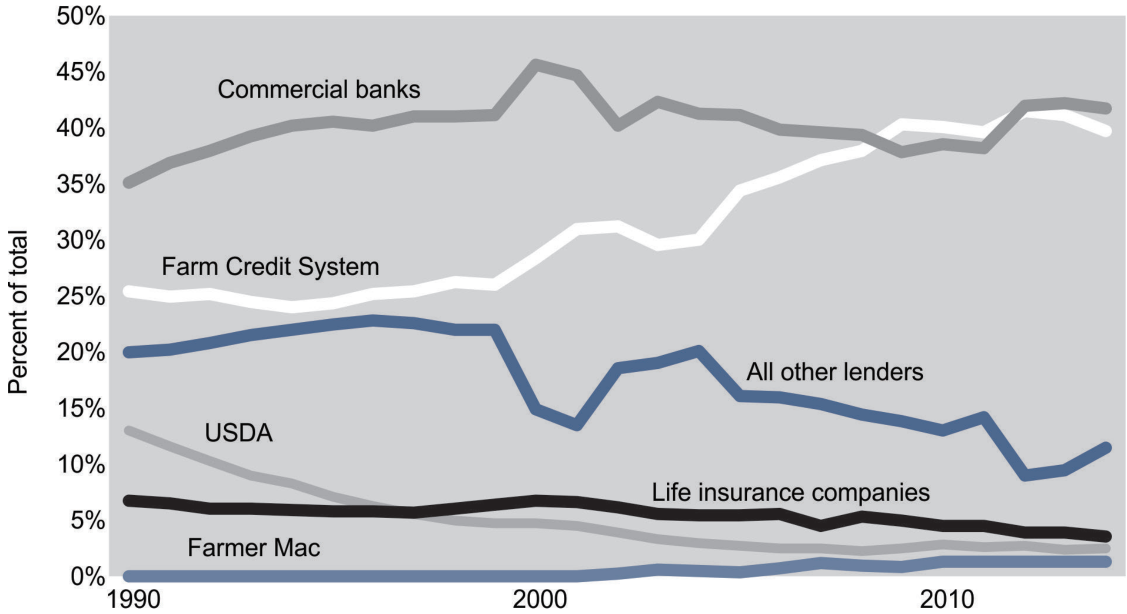
USDA estimates that, from 2005 to 2015, total farm business debt rose by more than $155 billion, or 74 percent. (See figure 7.) In inflation-adjusted dollars, this is an increase of $104 billion, or 46 percent. During this period, farmers invested heavily in new capital items, and they took on more debt to cover rising farm production costs.

Farm real estate debt grew more slowly in 2015 than it did in 2014. Producers were discouraged from investing in farmland, as well as farm equipment and structures, because of lower prices for major crops and tighter livestock margins. However, non-real estate debt grew faster than farm real estate debt because many farmers needed to borrow to cover their production costs.

On the supply side, lenders had sufficient funds to lend in 2015. Even with the prospect of weak live-

8. USDA calculates market share for farm business debt only (i.e., debt that is used for farm production and real estate purposes). The estimate for 2015 debt held by the various lender groups will be released in August 2016. Market share information is not available for the other portions of the System's portfolio, such as agribusiness lending, rural utility lending, or rural home lending.

Figure 8
Estimated market shares of U.S. farm business debt, 1990 – 2015



Source: FCA's Office of Regulatory Policy, based on data from USDA, Economic Research Service.

stock and crop revenues, demand for credit could be strong again in 2016 because of the greater need to finance farm production expenses. However, a significant rise in farm interest rates could weaken demand for credit.

The most current market share information from USDA is for year-end 2014. USDA's estimate of debt by lender shows that the System held 39.6 percent of total farm business debt, while commercial banks held 41.7 percent. (See figure 8). Before stabilizing in recent years, the System's market share for farm business debt was growing faster than the commercial banks' share.

Except for brief periods, the FCS has typically had the largest market share of farm business debt secured by real estate. At year-end 2014, the System held 45.2 percent of this debt, compared with 37.3 percent for commercial banks.

Commercial banks have historically dominated non-real estate farm lending. At year-end 2014, commercial banks held 47.5 percent of this debt, and the System held 32.2 percent.

Serving Young, Beginning, and Small Farmers and Ranchers

The Farm Credit Act requires Farm Credit System banks and associations to have programs to provide financially sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers. Loans to YBS borrowers can help individuals enter the agriculture industry, and they can help smooth the transition of farm businesses from one generation to the next. They also allow System institutions to serve a more diversified customer base — from very small to very large operations, from producers of grain staples for export to producers of organic foods for local and regional food markets.

At FCA, we are strongly committed to ensuring that the System fulfills its responsibility to serve all creditworthy producers, including those who are young, beginning, or small. We support the YBS mission through our regulatory activities, data collection and reporting, disclosure requirements, and examination activities.

We define young farmers as those who are 35 years of age or younger, beginning farmers as those who have 10 years or less of experience at farming or ranching, and small farmers as those who normally have gross annual sales of less than $250,000. These criteria apply to the date on which a loan is made.

Characteristics of YBS producers

Generally, the shares of Systemwide total farm lending going to the three separate YBS categories have been consistent with the shares of these farmer segments in the total farmer population. The smallest share of total System farm lending goes to the young farmer segment, and the largest share goes to the small farmer segment. Below, we look at some trends in these categories, then we discuss the System's lending to YBS borrowers.

Young

According to the 2012 Census of Agriculture, less than 6 percent of all principal farm operators and just over 8 percent of all operators (primary, secondary, and tertiary operators) were under 35 years of age in 2012.[9] These percentages have held relatively constant from 2002 to 2012. Demographic data generally show the share of those under 35 has been relatively stable over the past decade, while median or average ages have generally been rising.

Beginning

The Census of Agriculture data show a steady decline in the share of principal farm operators who have been on their farms for less than 10 years. Of the 2.1 million principal operators in 2012, 22 percent had been on their farms for less than 10 years. Thirty years ago, that percentage was much higher: 38 percent of all principal operators in 1982 had been on their farms for less than 10 years.

Small

U.S. farms have been consolidating for generations as new technologies have increased productivity and reduced the number of farmers needed. From 1982 to 2012, the share of total farms considered to be small farms — those with $250,000 or less in farm sales — declined from 96 percent to 88 percent. Commodity price inflation, particularly since the mid-2000s, has contributed to this decline, with total farm revenues and average sales per farm rising.

FCS lending to YBS borrowers

The Farm Credit Act stipulates that each System bank must have written policies that direct each association board to have a program for furnishing sound and constructive credit and financially related services to YBS farmers. Associations must also coordinate with other government and private sources of credit in implementing their YBS programs. In addition, each institution must report yearly on the lending volume, operations, and achievements of its YBS program. (See the YBS Programs section on page 32.)

9. FCA's definitions of a young farmer and a beginning farmer differ slightly from the Ag Census measures. See the note below table 4B.

FCA regulations require each System lender's YBS program to include a mission statement that describes the program's objectives and specific means to achieve the objectives. The regulations also require each program to include annual quantitative targets for credit to YBS farmers; these targets should be based on reliable demographic data for the institution's lending territory. YBS programs must also include outreach efforts and annual qualitative goals for offering credit and related services that are responsive to the needs of YBS farmers.

The association's board oversight and reporting are integral parts of each YBS program. Each association's operational and strategic business plan must include the goals and targets for YBS lending. And each association must have an internal control program to ensure proper implementation and management of the YBS program; it must also have methods in place to ensure that credit is provided in a safe and sound manner and within the lender's risk-bearing capacity.

FCA's oversight and examination activities encourage System institutions to assess their performance and market penetration in the YBS area. This self-assessment increases each institution's awareness of its mission and prompts it to allocate resources to serve the YBS market segment. In addition, we continuously consider ways to support and strengthen the System's YBS programs. For example, we issued an Informational Memorandum to System associations in 2014 to outline ways they can enhance their service to YBS farmers through loan programs provided by USDA's Farm Service Agency.

Please note that, because the YBS mission is focused on each borrower group separately, data are reported separately for each of the three YBS categories. Since some loans fit more than one category, adding the loans across categories does not produce an accurate measure of the System's YBS lending involvement.

System's YBS lending in 2015[10]

The number and volume of loans made during the year is an indicator of the extent to which System institutions are serving YBS farmers. Table 4A contains information on loans made in each category during the year; table 4B provides information on loans outstanding at the end of 2015. Loans and commitments to YBS farmers include real estate mortgages and production and intermediate-term credits, but do not include rural home loans.

Relative to 2014, the number of new loans made and the dollar volume of new loans made to YBS farmers rose in 2015. The number and dollar volume of loans outstanding in all three YBS categories also increased in 2015 from the number and dollar volume in 2014.

Young — The System made 62,143 loans, amounting to $9.4 billion, to young farmers in 2015. The dollar volume and the number of new loans made to young farmers rose 8.0 percent and 5.1 percent, respectively, from 2014.

Beginning — The System made 79,642 loans, amounting to $12.7 billion, to beginning farmers in 2015. The dollar volume and the number of new loans made to beginning farmers rose 12.2 percent and 7.5 percent, respectively, from 2014.

Small — FCS institutions made 150,022 loans, totaling $11.8 billion, to small farmers in 2015. The dollar volume and number of new loans made to small farmers rose 10.0 percent and 6.7 percent, respectively.

10. System data on service to YBS farmers and ranchers cover the calendar year and are reported at year-end. The statistics show loans made during the year (both number of loans and dollar volume of loans), as well as loans outstanding at year-end (both number and dollar volume). The volume measure includes loan commitments to borrowers, which typically exceed actual loan advances. Borrowers may have more than one loan; thus the loan numbers reported here do not directly measure the number of borrowers.

Table 4A
YBS loans outstanding
As of December 31, 2015

	Number of loans	Percentage of total number of System farm loans	Dollar volume of loans in millions	Percentage of total volume of System farm loans	Average loan size
Young farmers/ranchers	188,696	18.1	$27,070	11.0	$143,458
Beginning farmers/ranchers	274,942	26.4	$41,473	16.9	$150,844
Small farmers/ranchers	502,398	48.2	$46,729	19.0	$93,012

Table 4B
YBS loans made during 2015
As of December 31

	Number of loans	Percentage of total number of System farm loans	Dollar volume of loans in millions	Percentage of total volume of System farm loans	Average loan size
Young farmers/ranchers	62,143	17.2	$9,430	11.3	$151,749
Beginning farmers/ranchers	79,642	22.0	$12,741	15.2	$159,938
Small farmers/ranchers	150,022	41.4	$11,815	14.1	$78,754

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

Note: A "young" farmer/rancher is defined as 35 years old or younger when the loan is made; a "beginning" farmer/rancher has been operating a farm for not more than 10 years; and a "small" farmer/rancher 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. Also, the totals listed in tables 4A and 4B include loans, advancements, and commitments to farmers, ranchers, and aquatic producers, and exclude rural home loans, loans to cooperatives, and activities of the Farm Credit Leasing Services Corporation. In 2015, the Farm Credit System made 362,125 new farm loans, totaling $83.781 billion. As of December 31, the System had 1,042,171 farm loans outstanding, amounting to $245.550 billion.

Comparing the System's YBS lending with overall lending

In 2015, the pace of new lending to YBS farmers equaled or exceeded the pace in overall System lending to farmers.[11] Therefore, the share of new total System farm loan volume and loan numbers made to all three YBS categories equaled or rose from that of 2014.

In recent years, the total share of new System farm loans (in terms of loan numbers) made to young and beginning farmers has been slowly rising. For young farmers, the share rose to 17.2 percent in 2015 from 16.9 percent in 2014, and the share for beginning farmers rose to 22.0 percent from 21.2 percent in 2014. (See figures 9A and 9B.) The percentages for both categories were the highest since 2001, when the current reporting started. The total share of new System farm loan volume made to young and beginning farmers has been more stable in recent years around 11 percent for young farmers and 15 percent for beginning farmers.

The share of total new System loans made to small farmers rose in 2015 to 41.4 percent, up from 40.2 percent in 2014. (See figure 9C.) After trending down since the mid-2000s, the share of total new loan counts made to small farmers has now risen for the past two years. The share of total 2015 farm loan volume made to small farmers increased slightly in 2015 to 14.1 percent from 13.9 percent in 2014.

One of the reasons the small farmers' share of the System's total lending has trended downward is the growth in farm incomes since about 2005. Because the number of farms with gross farm sales in excess of $250,000 have increased, fewer farms qualify as small farms. However, over the past two years, farm incomes have dropped; this likely contributed to the increase in the loan counts and dollar amounts made within the small farmer category.

11. The volume of all System farm loans made (including commitments) during 2015 was $83.7 billion, up 8.8 percent from 2014 and the total number of farm loans made in 2015 (362,125) was up 3.7 percent from 2014.

Figure 9A, 9B, and 9C
Loans made to, and loans outstanding to, YBS farmers and ranchers, 2001 – 2015

Figure 9A
Young farmers and ranchers

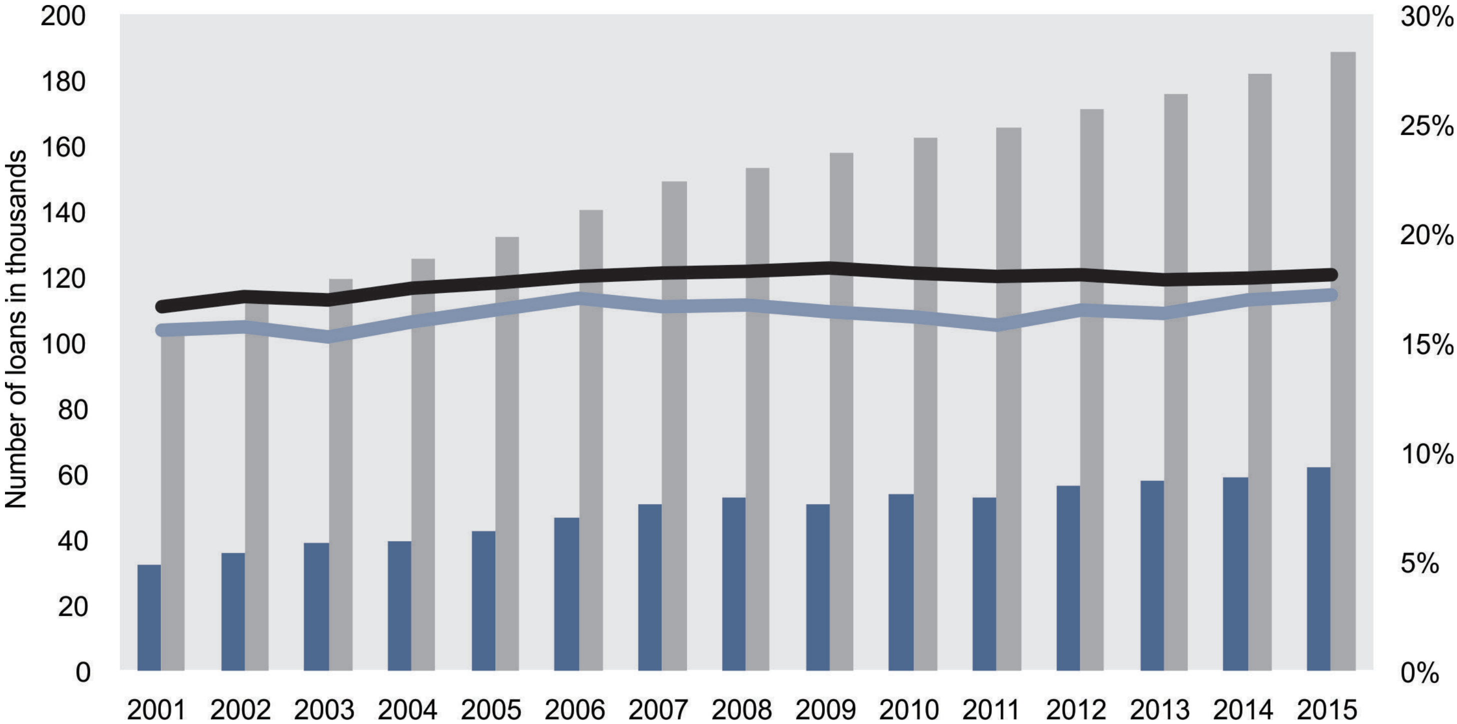


Figure 9B
Beginning farmers and ranchers

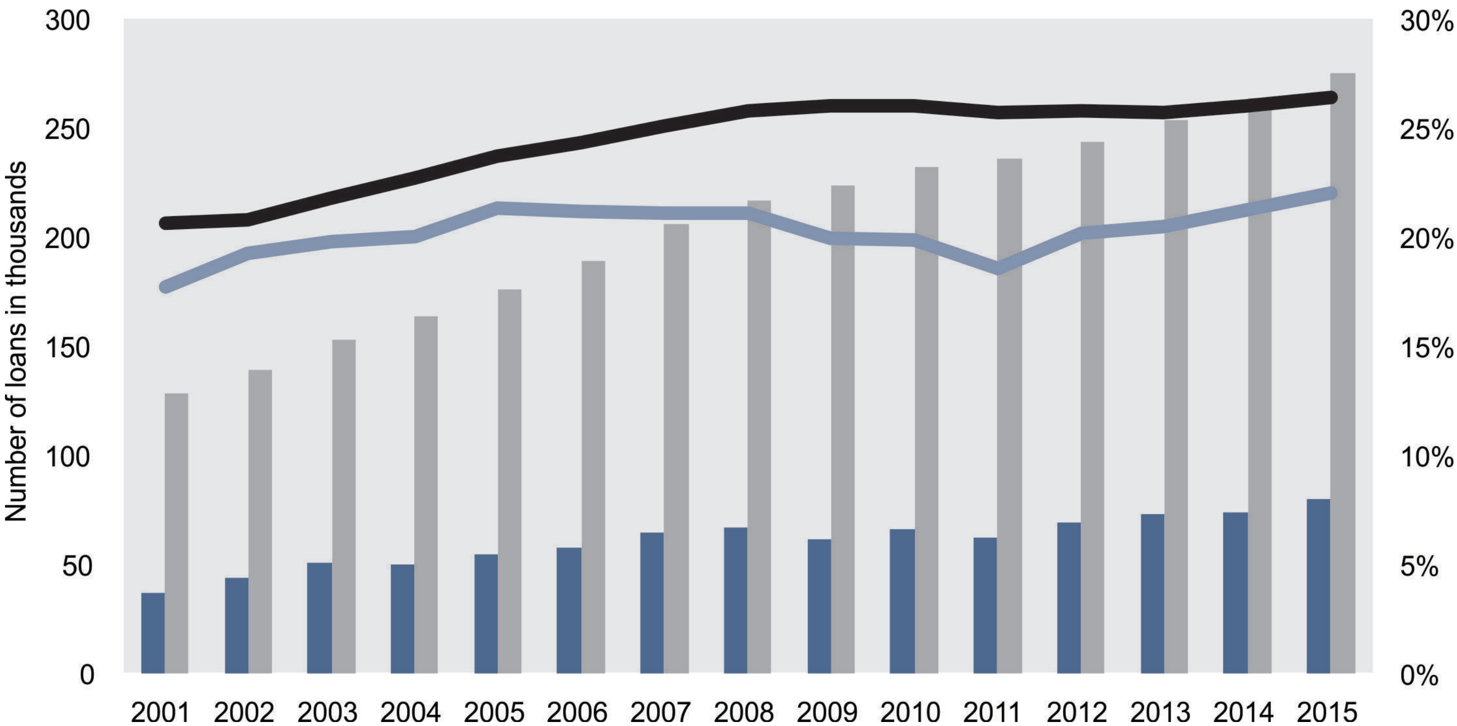
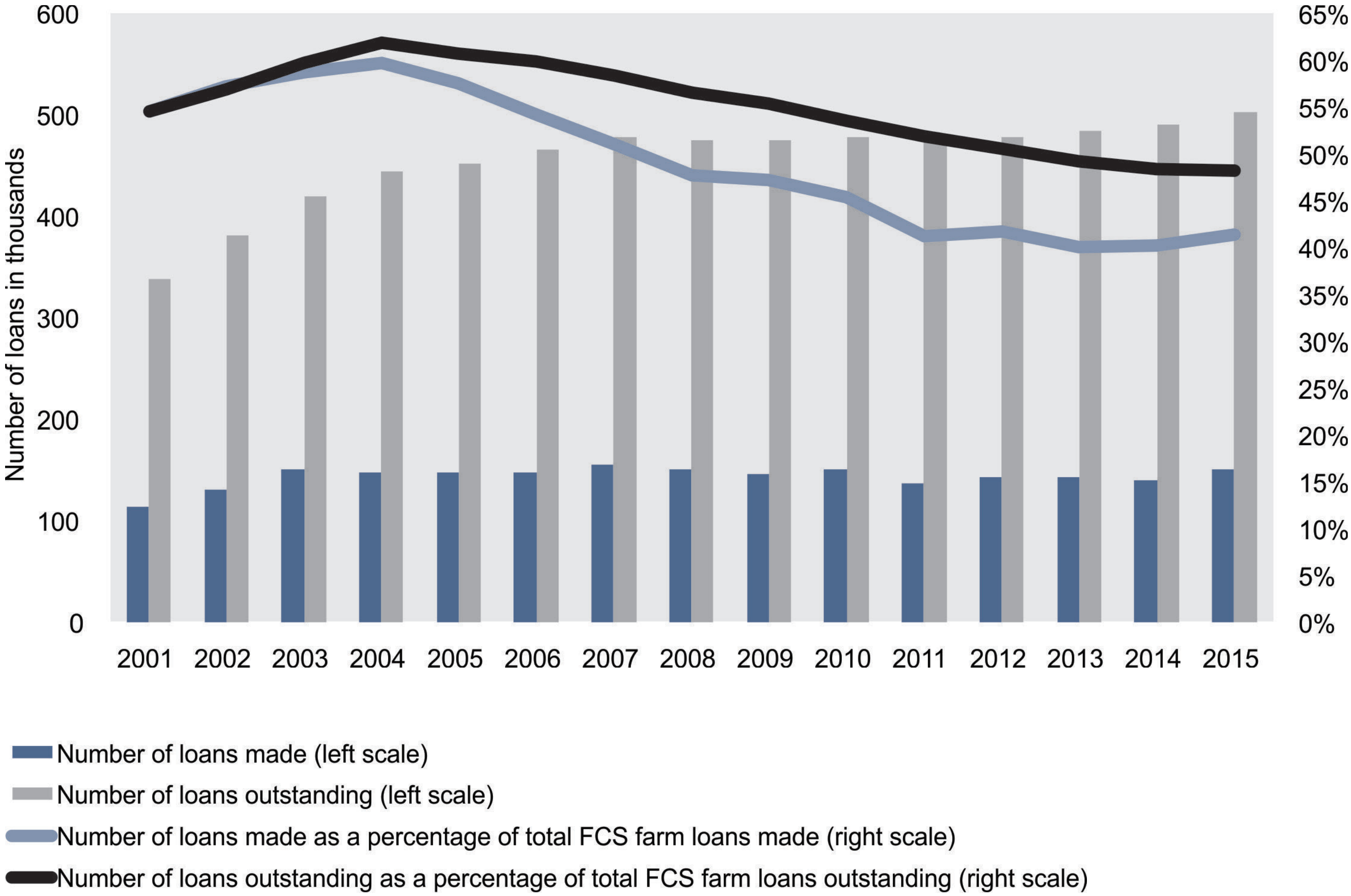


Figure 9C
Small farmers and ranchers



YBS results for individual associations versus the System's average YBS results

YBS lending varies considerably across FCS associations. Some institutions may have a high number or dollar volume of loans in one category and be low in another, while activity levels for other institutions may be just the opposite. Activity can vary considerably from one year to the next, especially for institutions with a small lending base. Outstanding volumes and loan numbers are more stable from one year to the next, especially for larger institutions.

While the share of total outstanding System farm loans to young farmers was 18 percent, this share ranged from 5 percent to 26 percent at individual associations. The ranges in the share of total outstanding loans to beginning farmers were even greater. Whereas 26 percent of the System's total farm loans outstanding were to beginning farmers in 2015, this share ranged across associations from as little as 13 percent to as much as 62 percent.

The ranges for the small farmer category are greater still. In 2015, 48 percent of the System's total farm loans outstanding went to small farmers, but the percentage for individual associations ranged from less than 16 percent to more than 83 percent. For this YBS category, almost half of all associations had lending shares that exceeded the Systemwide average.

With the general increase in loan numbers and loan volume made to young, beginning, and small farmers, most associations experienced gains in the share of their total farm lending to these groups. The share of total loans and dollar volume made in 2015 to young borrowers rose in three-quarters of the associations, and the share of total loans and dollar volume to beginning and small borrowers rose in about two-thirds of the associations.

YBS programs

Delivering credit services

As a government-sponsored enterprise with a statutory YBS mandate, the FCS is in a unique position to assist the next generation of American farmers, and System institutions have developed and cultivated YBS programs to provide this assistance.

Using these programs, System associations may offer lower interest rates and more flexible underwriting standards, such as higher loan-to-value ratios or lower debt coverage requirements, to allow potential YBS borrowers to qualify for loans. Associations also offer training through their YBS programs to help these borrowers be successful.

In 2015, System institutions used the following methods to help them make loans to young, beginning, or small farmers.

- **Interest rate concessions —** offered to young and beginning farmers by 60 percent of associations and to small farmers by 53 percent. These percentages rose from 2014.

- **Exceptions to underwriting standards —** offered by 77 percent of associations to young farmers, by 59 percent to beginning farmers, and by 53 percent to small farmers. The percentage of associations that used this method for young farmers increased significantly from 2014; the percentages using this method for beginning and small farmers were similar to those in 2014.

- **Concessionary loan fees —** offered to young and beginning farmers by 39 percent and to small farmers by 33 percent of associations. All of these percentages were similar to those in 2014.

- **Specifically designed loan covenants —** offered to young and beginning farmers by 21 percent of associations and to small farmers by 19 percent. All of these percentages increased slightly from 2014.

As required by the Farm Credit Act, System institutions coordinate their YBS programs with other government programs whenever possible. Several state and federal programs provide interest rate reductions, guarantees, or loan participations for YBS farmers. By partnering with these government programs, FCS institutions are able to better mitigate the credit risk to these borrowers.

In 2015, approximately 40 percent of System institutions used government loan participations for loans to young and beginning farmers, and 37 percent used these participations for loans to farmers in the small category. The percentages to all of these categories were up from 2014.

Also, System institutions continued to use guarantee programs from federal, state, and local sources for YBS lending. About 70 percent of associations indicated they had obtained loan guarantees for YBS loans made in 2015, down slightly from 75 percent of associations in 2014.

YBS program management

FCS institutions are using various approaches and sources of information to more effectively manage and assess their YBS programs. They continued to develop mission statements that describe program objectives and quantitative measures for achieving those objectives.

Over the past five years, 33 institutions have modified their YBS mission statements. Modifications include adding references regarding outreach towards diversity and inclusion; the goal is to ensure that the institutions reach out to all demographics, geographic locations, and types of agriculture practiced in their territories. To measure performance of individual YBS programs, associations primarily used goals in loan volume and the number of loans made each year.

Many associations used advisory committees to get input on credit and related services to best serve the needs of YBS farmers in their territories. Advisory committees are composed of a variety of stakeholders — both internal and external. YBS advisory committees were used by 40 percent of all associations in 2015.

Of the associations with YBS advisory committees, approximately 60 percent of them used these committees to provide input to their board members more frequently than annually. In 2015, advisory committees provided valuable input that improved outreach efforts and services for YBS farmers; for example, some committees recommended additional loan programs and more educational efforts.

FCS institutions continued to provide training to staff on their YBS programs. In 2015, over 90 percent of associations provided training at least annually, up slightly from 2014. In addition, more associations now link YBS performance criteria to the performance evaluations of management and lending staff. The percentage of institutions that do so increased from 39 percent in 2014 to 43 percent in 2015.

Training, outreach, and education

System institutions offer many opportunities to educate existing and potential YBS borrowers. Most associations provided educational opportunities to the YBS segment. For example, they developed comprehensive educational or outreach programs, sponsored seminars delivered by third parties, and sponsored local organizations that deliver education or training.

Associations provide these opportunities by using the expertise of their own staff, by coordinating with other associations, and by partnering with district banks. In 2015, many FCS institutions attended a Systemwide YBS conference.

Over one-third of FCS institutions conducted new studies or market research in 2015 to better understand the demographics and financial needs of current and potential YBS borrowers. The institutions that didn’t conduct studies in 2015 relied upon either recently completed studies or the most recent Ag Census data to understand YBS demographics and financial needs in their territories.

System institutions use a variety of methods to train and educate current and potential YBS borrowers. YBS programs continue to evolve to meet the needs of changing agricultural markets. FCS programs are specialized for the YBS segment and are customized to meet the specific needs of YBS farmers through ongoing training and education. These YBS-specific programs cover such topics as the following:

- Production and risk management
- Business management, including financial recordkeeping
- Succession and estate planning
- Leadership and business start-up

In addition, System institutions continued to work with local groups, collaborating with colleges and universities and youth agricultural groups to foster continuing education. These organizations provided education in various ways: by providing online and in-person workshops and by disseminating information through social media and web-based resource centers.

Identifying and reaching potential YBS borrowers remain a key component to fulfilling the Farm Credit mission. In 2015, the FCS used a variety of methods to market to potential YBS borrowers. Institutions foster early relationships by partnering with state or national young farmer groups, colleges of agriculture, land-grant extension offices, state or national cooperative association leadership programs, local chapters of 4-H and National FFA, Ag in the Classroom, and other agricultural organizations. Also included in these outreach, training, and educational activities are local and regional YBS food producers and supporters of local food systems, as well as producers who are veterans and members of minority groups.

Institutions reach out to these potential borrowers by providing grant money, participating in conferences related to local food markets, advertising in different languages and through diverse media hubs, and creating specific programs to enhance credit opportunities to all YBS borrowers.

Regulatory Policy and Approvals

As the regulator of the Farm Credit System, we issue regulations, policy statements, and other guidance to ensure that the System, including its banks, associations, Farmer Mac, and other related entities, complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission. Our regulatory philosophy is to provide a regulatory environment that enables the System to safely and soundly offer high-quality, reasonably priced credit and related services to farmers and ranchers, agricultural cooperatives, rural residents, and other entities on which farming depends.

We strive to develop balanced, well-reasoned regulations whose benefits outweigh their costs. With our regulations, we seek to meet two general objectives. The first is to ensure that the System continues to be a dependable source of credit and related services for agriculture and rural America while also ensuring that System institutions comply with the law and with the principles of safety and soundness. The second is to promote participation by member-borrowers in the management, control, and ownership of their System institutions.

Regulatory activity in 2015

The following paragraphs describe some of FCA's regulatory efforts in 2015, along with several projects that will remain active in 2016. Full text for the items below is available on the FCA website.

To access Board Policy Statements, FCA Bookletters, and Informational Memorandums, go to www.fca.gov/law/guidance.html. To access proposed rules and final rules whose effective dates are pending, go to www.fca.gov. Under the Law & Regulations tab, select FCA Regulations. Then from the menu on the left, select FCA Pending Regulations and Notices.

Governance

Mergers, consolidations, and charter amendments — The FCA Board approved a final rule in August 2015 to amend the regulations pertaining to mergers, consolidations and charter amendments of System banks and associations. The amendments clarify processes and incorporate existing practices into the rule.

Pension benefits disclosure — The FCA Board approved a final rule in February 2015 to amend the rules for the disclosure requirement regarding the summary compensation table. The amendment excludes certain employees and their associated compensation amounts from the reporting requirement.

Institution stockholder voting procedure — The FCA Board approved a final rule in May 2015 to clarify and enhance voting procedures related to the tabulation of votes, the use of teller committees, and the handling of ballots.

Portfolio management in volatile times — We issued an Informational Memorandum to System institutions in January 2015 to discuss emerging risks and areas we will be examining to determine how institutions are responding to the volatile environment.

TILA-RESPA integrated mortgage disclosures – clarification of borrower stock and participation certificates disclosure — We issued an Informational Memorandum to System institutions in April 2015 to clarify how to properly disclose System borrower stock and participation certificate purchases on the new integrated mortgage disclosures under the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA). Institutions were to begin using these integrated mortgage disclosures on August 1, 2015.

Safety and soundness of the Farm Credit System — We issued an Informational Memorandum to System institutions in July 2015 to stress the importance for System institutions to have effective internal controls. The memorandum also communicated our intent to conduct more comprehensive evaluations of internal controls during our examinations of System institutions.

Whistleblower programs — We issued an Informational Memorandum to System institutions in July 2015 to provide guidance on whistleblower programs.

Cybersecurity assessment and expectations for System institutions — We issued an Informational Memorandum to System institutions in August 2015 to communicate recent guidance concerning cybersecurity risks, as well as our expectations related to cybersecurity.

Compliance with section 4.38 of the Farm Credit Act – affirmative action — We issued an Informational Memorandum to System institutions in November 2015 to clarify how we will evaluate an institution's compliance with section 4.38 of the Farm Credit Act, which relates to affirmative action.

Compensation for 2016 — We issued an Informational Memorandum in February 2016 to communicate the annual adjustment in the maximum annual compensation payable to FCS bank directors. The adjustment reflects the change in the Consumer Price Index.

Lending

Flood insurance — The FCA Board approved a final rule in June 2015 to require System institutions to escrow premiums and fees for flood insurance for any loan secured by residential improved real estate or a mobile home. The amendments also address force-placement of flood insurance and detached structures.

Limited suspension of enforcement actions relating to private flood insurance — We issued an Informational Memorandum to System institutions in December 2015 to clarify the mandatory purchase requirement for designated loans. The memorandum clarifies that we will not bring an enforcement action against any System institution for accepting a private flood insurance policy in satisfaction of the mandatory purchase requirement for designated loans. This limited suspension will remain in effect until the FCA Board adopts final regulations implementing the private flood insurance provision of the Biggert-Waters Insurance Reform Act of 2012, or until we determine that the suspension is no longer appropriate.

Servicing loans to borrowers in distressed industries — We issued an Informational Memorandum to System institutions in January 2016 as a follow-up to the January 2015 communication titled "Portfolio Management in Volatile Times." This memorandum expanded the discussion of the servicing of loans when industries are under widespread stress.

Loan syndications and assignment markets study — We continued to study loan syndications and assignment markets to determine whether our regulations should be modified to reflect significant changes in the markets.

Capital and investments

Capital requirements — The FCA Board approved a final rule in March 2016 to modify the regulatory capital requirements for System banks and associations. The purpose of the rule is to modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise. The rule ensures that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but it also recognizes the cooperative structure and the organization of the System.

Margin and capital requirements for swap entities — The FCA Board approved an interagency final rule in October 2015 that establishes margin and capital requirements for FCS institutions, including Farmer Mac, that engage in noncleared swaps and noncleared security-based swap transactions. The rulemaking fulfills a requirement of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The FCA Board further approved an interagency interim final rule that exempts certain financial end users from the margin requirements in the final rule.

Similar-entity authority — The FCA Board approved a bookletter in March 2016 that provides guidance to System institutions that purchase participations in loans originated by non-System lenders to qualified similar-entity borrowers.

Farmer Mac

Farmer Mac board governance and standards of conduct — The FCA Board approved a proposed rule in February 2015 that would enhance existing regulations on Farmer Mac board governance and standards of conduct, including director election procedures and conflicts of interest.

Farmer Mac investment eligibility — The FCA Board approved a proposed rule in January 2016 that would consider changes related to eligible investment asset classes and address the removal of references to credit ratings as required by section 939A of the Dodd-Frank Act.

Other

National Oversight and Examination Program for 2015 — We issued an Informational Memorandum in September 2015 that summarized the National Oversight Plan for 2016. The plan detailed strategies for addressing critical risks and other areas of focus.

Corporate activity in 2015

In 2015 and early 2016, we analyzed and approved five corporate applications.

- On January 1, 2015, two ACAs affiliated with the Farm Credit Bank of Texas merged their operations following stockholder approval. The PCA and FLCA subsidiaries associated with the ACAs also merged.

- On January 1, 2015, an ACA affiliated with CoBank, ACB, changed its name. The names of its subsidiaries also changed.

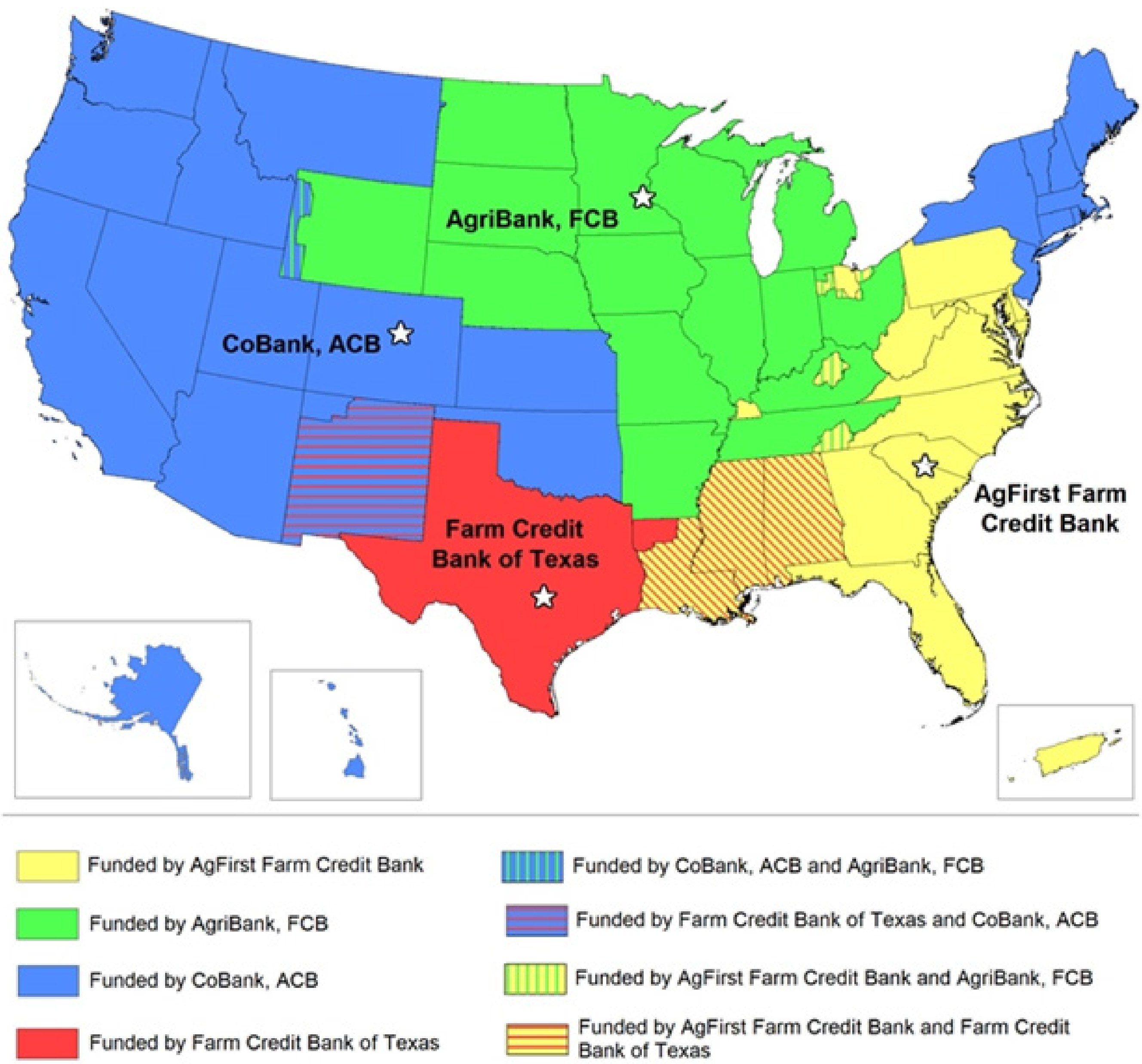
- On July 1, 2015, an FLCA affiliated with the Farm Credit Bank of Texas changed its name.

- On November 1, 2015, following stockholder approval, an ACA affiliated with CoBank, ACB, merged with and became a subsidiary of another ACA in that district.

- On January 1, 2016, two ACAs affiliated with CoBank, ACB, merged their operations following stockholder approval. The PCA and FLCA subsidiaries associated with the ACAs also merged.

The total number of associations as of January 1, 2016, was 74 (72 ACAs and 2 FLCAs), compared with 76 associations a year earlier. Figure 10 shows the chartered territory of each FCS bank. Details about specific corporate applications are available on FCA's website at www.fca.gov/info/mergers.html.

Figure 10
Chartered territories of FCS banks
As of January 1, 2016



Source: FCA Office of Regulatory Policy.

Note: As of January 1, 2016, CoBank was funding 24 associations in the indicated areas and serving cooperatives nationwide; Farm Credit Bank of Texas was funding 14 associations; AgriBank, FCB, was funding 17 associations; and AgFirst Farm Credit Bank was funding 19 associations. The FCS contains a total of 78 banks and associations.

Funding activity in 2015

During 2015, the System maintained reliable access to the debt capital markets. Investors were attracted by the System's status as a government-sponsored enterprise, as well as its long-term financial performance and strength.

Even after the Federal Reserve concluded its quantitative easing policy near the end of 2014, risk spreads and pricing on System debt securities during 2015 remained favorable for the System — albeit somewhat volatile at times — relative to corresponding U.S. Treasuries. Also, because of the continuing reduction in debt issuances by the two housing-related government-sponsored enterprises,[12] which are in conservatorship, investors viewed the System as a desirable alternative. As a result, the System was able to continue to issue debt on a wide maturity spectrum at very competitive rates.

The System funds loans and investments primarily with a combination of consolidated Systemwide debt and equity capital. The Funding Corporation, the fiscal agent for the System banks, sells debt securities such as discount notes, bonds, and designated bonds on behalf of the System.[13] This process allows funds to flow from worldwide capital-market investors to agriculture and rural America, thereby providing rural communities with efficient access to global resources. At year-end 2015, Systemwide debt outstanding was $243.2 billion, representing a 7.9 percent increase from the preceding year-end.[14]

Several factors contributed to the $17.8 billion increase in Systemwide debt outstanding. Gross loans increased $18.8 billion in 2015, while the System's combined investments, federal funds, and cash balances increased by $1.5 billion during the year.

As the System's regulator, we have several responsibilities pertaining to System funding activities. The Farm Credit Act requires the System to obtain our approval before distributing or selling debt. We make it a high priority to respond efficiently to the System's requests for debt issuance approvals. For example, we have a program that allows the System to issue discount notes at any time up to a maximum of $60 billion as long as it provides us with periodic reports on this activity. In addition, we approve the majority of longer-term debt issuances through a monthly "shelf" approval program. For 2015, we approved $158.6 billion in longer-term debt issuances through this program.

The amount of debt issued by the System decreased significantly in 2015. For the 12 months ended December 31, 2015, the System issued $298 billion in debt securities, compared with $330 billion for 2014, $377 billion for 2013, $371 billion for 2012, and $563 billion for 2011. The System has continued to exercise call options on higher-cost debt because unsettling global events as well as intermittent domestic economic concerns have shifted the yield curve downward for limited spans. However, the System has exercised far fewer call options than it did when the yield curve dropped precipitously immediately after the financial crisis; the drop in the yield curve contributed to the larger issuances noted in the prior years, particularly in 2011.

Favorable investor sentiment and continued low yields on the full spectrum of debt instruments allowed the System to access a wide range of debt maturities. Their weighted average of remaining maturity increased by one month during 2015 to 2.8 years. Also, the weighted-average interest rates for insured debt increased for the first time since 2006, going from 0.93 percent as of December 31, 2014, to 1.01 percent as of December 31, 2015.

12. The government-sponsored enterprises are the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).
13. The primary function of the Funding Corporation, whose headquarters are in Jersey City, New Jersey, is to issue, market, and handle debt securities on behalf of the System's four banks. In addition, the Funding Corporation assists the banks with a variety of asset/liability management and specialized funding activities. The Funding Corporation is responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.
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. Investors in Systemwide debt securities are also protected by a joint and several liability provision that applies to all System banks. If a bank is unable to pay the principal or interest on a Systemwide debt security and if the Farm Credit Insurance Fund has been exhausted, then FCA must call all nondefaulting banks to satisfy the security. However, an FCS bank may issue debt individually, as well. Debt issued by an individual bank is uninsured, and the issuing bank is solely liable for the principal payments.

To participate in the issuance of an FCS debt security, a System bank must maintain, free from any lien or other pledge, specified eligible assets (available collateral) that are at least equal in value to the total amount of its outstanding debt securities. Securities subject to the available collateral requirements include Systemwide debt securities for which the bank is primarily liable, investment bonds, and other debt securities that the bank may have issued individually.

Furthermore, to ensure safety and soundness, our regulations require each System bank to maintain a net collateral ratio (primarily assets divided by liabilities) of not less than 103 percent. We require certain System banks to maintain higher minimum net collateral ratios. All System banks have kept their net collateral ratios above the required minimum, with 105.7 percent being the lowest for any single bank as of December 31, 2015.

All System banks have kept their respective days of liquidity above the required minimum levels. The lowest liquidity levels at any single bank as of December 31, 2015, were as follows:

- 25 days (15 days regulatory minimum) of Level 1 assets
- 40 days (30 days regulatory minimum) of Level 1 and 2 assets
- 111 days (90 days regulatory minimum) of Level 1, 2, and 3 assets
- 136 days overall (including the supplemental liquidity buffer)

In addition to the protections provided by the joint and several liability provision, the Funding Corporation and the System banks have entered into the following voluntary agreements.

- The amended and restated Market Access Agreement, which establishes certain financial thresholds and provides the Funding Corporation with operational oversight and control over the System banks' participation in Systemwide debt obligations.[15]

- The amended and restated Contractual Interbank Performance Agreement, which is tied to the Market Access Agreement and establishes certain measures that monitor the financial condition and performance of the institutions in each System bank's district. For all of 2015, all Farm Credit banks maintained scores in excess of the benchmarks in the Contractual Interbank Performance Agreement.

15. The banks and the Funding Corporation entered into the Amended and Restated Market Access Agreement in the late 1990s. The agreement is periodically updated to adjust financial targets, economic incentives, and other matters. In 2011, FCA approved the draft of the Second Amended and Restated Market Access Agreement. The agreement became effective on January 1, 2012.

Maintaining a Dependable Source of Credit for Farmers and Ranchers

As federally chartered cooperatives, the banks and associations of the Farm Credit System are limited-purpose lenders. According to Congress, the purpose of the FCS is to "improve the income and well-being of American farmers and ranchers" by providing credit and related services to them, their cooperatives, and to "selected farm-related businesses necessary for efficient farm operations."

Making loans exposes the System to risk. To manage this risk, System institutions must have both sufficient capital and effective risk-management controls.

As the independent regulator of the FCS, the Farm Credit Administration examines and supervises System institutions. We monitor specific risks in each institution; we also identify and monitor risks that affect the System as a whole.

Through our risk-based examination and supervisory program, our examiners determine how issues facing an institution or the agriculture industry may affect the nature and extent of risk in that institution.

Our examiners also evaluate whether each institution is meeting its public mission. They do so by determining whether each institution is complying with laws and regulations and whether it is serving the credit needs of eligible agricultural producers and cooperatives, including young, beginning, and small farmers and ranchers.

Conducting a risk-based examination and oversight program

As required by the Farm Credit Act, FCA examines each FCS institution at least once every 18 months. In the interim between these statutory examinations, we also monitor and examine institutions as risk and circumstances warrant. This approach allows us to customize our examination activities to each institution's specific risks. In addition, we develop a National Oversight Plan every year that takes certain systemic risks into account.

We have designed our examination and oversight program to monitor and address FCS risk as effectively and efficiently as possible. Therefore, we assign highest priority to institutions, or the parts of an institution's operations, that present the greatest risk. This approach also considers the ability of an FCS institution to identify and manage both institution-specific and systemic risks. When institutions are either unable or unwilling to address unsafe and unsound practices or to comply with laws and regulations, we take appropriate supervisory or enforcement action.

Through our oversight, we require FCS institutions to have the programs, policies, procedures, and controls to effectively identify and manage risks. For example, our regulations require FCS institutions to have effective loan underwriting and loan administration processes. We also have specific regulations requiring FCS institutions to maintain strong asset-liability management capabilities. Our oversight program also requires compliance with laws and regulations.

We use a comprehensive regulatory and supervisory framework for ensuring System safety and soundness. FCS institutions, on their own and in response to our efforts, continue to improve their risk management systems.

Identifying and responding to potential threats to safety and soundness

Because of the dynamics and risks in the agricultural and financial industries, FCA assesses whether FCS institutions have the culture, governance, policies, procedures, and management controls to effectively identify and manage risks. We employ various processes for evaluating certain systemic risks in both agriculture and the financial services industry that can affect an institution, a group of institutions, and the System as a whole.

Currently, we are emphasizing the following areas:

- **Internal controls and operations risk.** FCA expects institutions to have an effective control environment, including active internal audit programs. Our examiners will ensure that boards invest sufficient resources to achieve effective preventive, detective, and corrective controls. Also, because of persistent security incidents in government and the banking industry, we will highlight cybersecurity as part of our internal controls assessment.

- **Intensifying credit risk.** Lower commodity prices and adverse weather conditions are causing the potential for increased credit and collateral risk in some agricultural sectors. As a result, some operators are expected to have lower profits and higher stress over the next several years. Fortunately, System institutions currently have the financial capacity and risk-bearing ability to work with borrowers experiencing stress. In January 2016, FCA issued an Informational Memorandum on servicing loans to borrowers in distressed industries. As we explained in this memorandum, we expect System institutions to intensify loan servicing efforts as borrowers begin encountering increased stress. Conditions in the farm economy, as well as the response of FCS institutions to borrower stress, will require close attention from FCA examiners.

When we identify systemic issues, we inform institutions about those issues by producing the following:

- Reports of Examination
- FCA Board Policy Statements
- Informational Memoranda
- Bookletters

We keep an online library of these documents. Go to our website at www.fca.gov, click on the Law & Regulations tab, and select Info Memos, Bookletters, and Other Guidance from the dropdown menu.

Measuring the System's safety and soundness

FCA uses the Financial Institution Rating System (FIRS) to indicate safety and soundness threats in each institution. Similar to the systems used by other federal banking regulators, the FIRS is a CAMELS-based system, with component ratings for capital, assets, management, earnings, liquidity, and sensitivity, all factoring into an overall composite rating.

The FIRS process includes quantitative benchmarks for evaluating institution performance, qualitative rating criteria for evaluating risk management practices, and outlook ratings for evaluating risks. These benchmarks help our examiners apply FIRS ratings consistently from one institution to the next.

Our examiners assign component and composite ratings to each institution on a scale of 1 to 5. A composite rating of 1 indicates 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 moderate to severe. A 5 rating represents an extremely high immediate or near-term probability of failure.[16]

Through our monitoring and oversight program, our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions. We disclose the FIRS composite and component ratings to the institution's board and CEO to give them perspective on the safety and soundness of their institution.

We also disclose these ratings to each association's funding bank to ensure that the bank takes any actions necessary to address safety and soundness issues as it administers its direct loan with the institution.

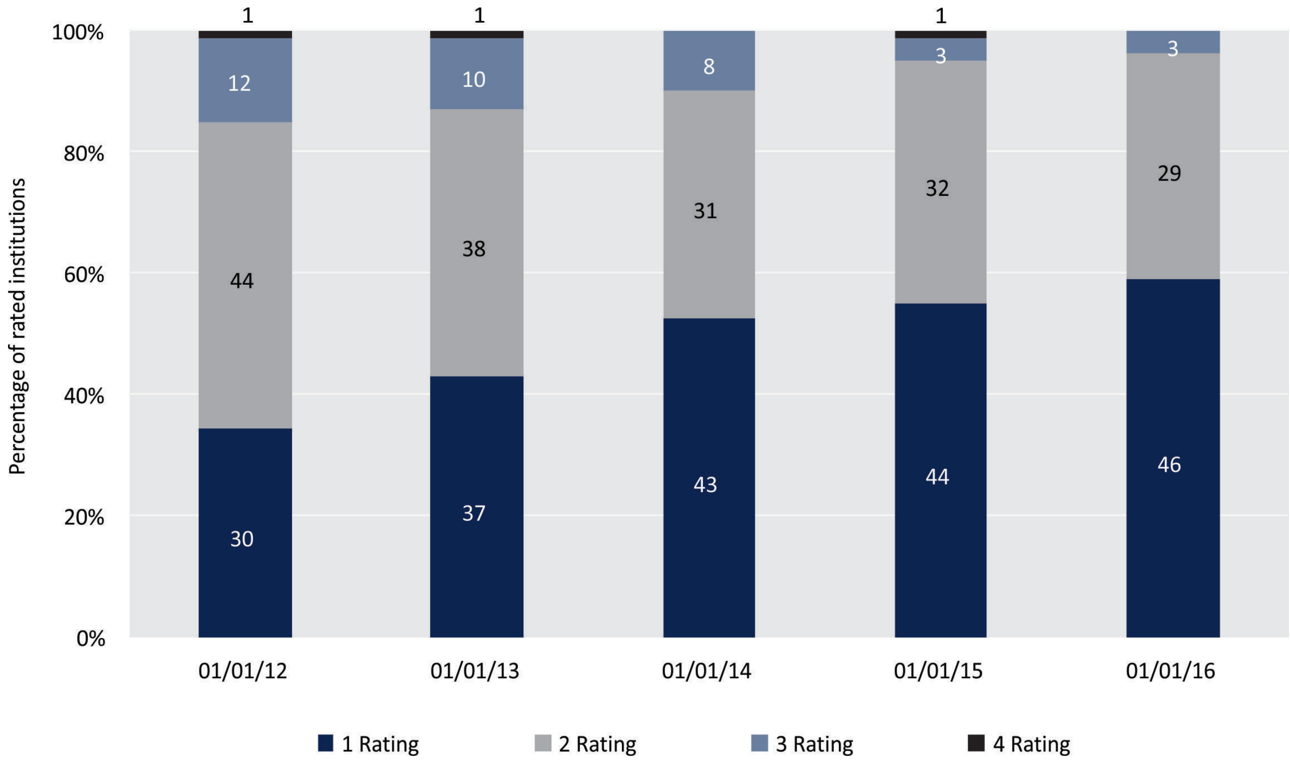
In addition, we issue examination reports and other communications to provide the institution board with an assessment of management's performance, the quality of assets, and the financial condition and performance of the institution.

As figure 11 shows, risks were higher in 2012 when stresses from the general economy, the credit crisis, and volatility in commodity prices affected some institutions. The ratings have gradually improved each year, and the FIRS ratings for 2015 show that the financial condition and performance of the FCS was strong. The System's strength reduces the risk to investors in FCS debt, to the Farm Credit System Insurance Corporation, and to FCS institution stockholders.

At December 31, 2015, 46 FCS institutions were rated 1 (59 percent), 29 were rated 2 (37 percent), and 3 were rated 3 (4 percent). Most of the institutions rated 3 were relatively small and collectively represent less than 1 percent of the System's total assets. There were no institutions with a 4 or 5 rating. (FCA applies FIRS ratings only to the banks and associations of the FCS, not to the System's service corporations. It also applies a FIRS rating to Farmer Mac, but Farmer Mac is not included in figure 11.)

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

Figure 11
Financial Institution Rating System (FIRS) Composite Ratings for the FCS, 2012 – 2016



Source: FCA's FIRS Ratings Database.

Note: Figure 11 reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers shown on the bars reflect the total number of institutions with a given rating; please refer to the y-axis to determine the percentage of institutions receiving a given rating.

Providing differential supervision and enforcement

FCA uses a risk-based supervisory and enforcement program to respond to the risks and particular oversight needs of each FCS institution. Risks are inherent in lending, and managing risks associated with a single sector of the economy — in this case, agriculture — presents an additional challenge for FCS lenders. If we discover unacceptable risks, we require institutions to take corrective action to mitigate the risks. Some corrective actions include reducing risk exposures, increasing capital and enhancing earnings, and strengthening risk management.

We use a three-tiered supervision program: normal supervision, special supervision, and enforcement actions.

Institutions under normal supervision are performing in a safe and sound manner and are complying with laws and regulations. These institutions are able to correct weaknesses in the normal course of business.

For those institutions displaying more serious or persistent weaknesses, we shift from normal to special supervision, and our examination oversight increases accordingly. Under special supervision, we give an institution clear and firm guidance to address weaknesses, and we give the institution time to correct the problems.

If informal supervisory approaches have not been or are not likely to be successful, we will use our formal enforcement authorities to ensure that FCS institutions are safe and sound and that they comply with laws and regulations. We may take an enforcement action for a number of reasons:

- A situation threatens an institution's financial stability.
- An institution has a safety or soundness problem or has violated a law or regulation.
- An institution's board is unable or unwilling to correct problems we have identified.

Our enforcement authorities include the following powers:

- To enter into formal agreements
- To issue cease-and-desist orders
- To levy civil money penalties
- To suspend or remove officers, directors, and other persons

If we take an enforcement action, the FCS institution must operate under the conditions of the enforcement document and report back to us on its progress in addressing the issues identified. The document may require the institution to take corrective actions in such areas as financial condition and performance, portfolio management, asset quality, and institution management or governance. Our examiners oversee the institution's performance to ensure compliance with the enforcement action.

As of December 31, 2015, we had a formal written agreement with one association, whose assets were under $200 million.

Protecting borrower rights

Agricultural production is risky for many reasons — adverse weather, changes in government programs, international trade issues, fluctuations in commodity prices, and crop and livestock diseases. These risks can sometimes make it difficult for borrowers to repay loans.

The Farm Credit Act provides System borrowers certain rights when they apply for loans and when they have difficulty repaying loans. The act requires FCS institutions to notify borrowers of the right to seek restructuring of loans before the institutions begin foreclosure. It provides borrowers an opportunity to seek review of certain credit and restructuring decisions. The Farm Credit Act also provides borrowers the opportunity to buy or lease back their former agricultural properties when System institutions acquire the properties through foreclosure. FCA examines institutions to make sure that they are complying with these provisions.

We also receive and review complaints from borrowers who believe their rights have been denied. In 2015, we received 22 borrower complaints. The number of complaints has declined in recent years.

Generally, borrowers who contact us with complaints are seeking clarification, additional information, and options to redress their concerns. If we find violations of law or regulations, we have several options to bring about corrective action.

Condition of Farmer Mac

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States and an institution of the Farm Credit System. Created in 1988, Farmer Mac provides a secondary market for agricultural real estate mortgage loans, rural housing loans, and rural utility cooperative loans. This secondary market is designed to increase the availability of long-term credit at stable interest rates to America's rural communities and to provide rural borrowers with the benefits of capital markets pricing and product innovation.

Farmer Mac conducts activities through four programs:

- **Farm & Ranch** (formerly Farmer Mac I), which involves mortgage loans secured by first liens on agricultural real estate and rural housing.

- **USDA Guarantees** (formerly Farmer Mac II), which involves certain agricultural and rural loans guaranteed by the U.S. Department of Agriculture, including farm ownership loans, operating loans, and rural business and community development loans.

- **Rural Utilities Program**, which involves loans to finance cooperatively owned rural electrification and telecommunications systems.

- **Institutional Credit**, which involves Farmer Mac's purchase or guarantee of collateralized bonds known as AgVantage securities. AgVantage bonds are general obligations of lenders that are secured by pools of eligible loans.

Farmer Mac purchases eligible loans directly from lenders, provides advances against eligible loans by purchasing obligations secured by those loans, securitizes assets and guarantees the resulting securities, and issues long-term standby purchase commitments (standbys) for eligible loans. Securities guaranteed by Farmer Mac may be held either by the originator of the underlying assets or by Farmer Mac, or they may be sold to third-party investors.

FCA regulates Farmer Mac through the Office of Secondary Market Oversight (OSMO), which was established by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991. This office provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties.

The statute requires OSMO to be a separate office within our agency and to report directly to the FCA Board on matters of policy. The law also stipulates that OSMO's activities must, to the extent practicable, be carried out by individuals who are not responsible for supervising the banks and associations of the FCS.

Through OSMO, we perform the following functions:

- Examine Farmer Mac at least annually for capital adequacy, asset quality, management performance, earnings, liquidity, and interest rate sensitivity

- Supervise and issue regulations governing Farmer Mac's operations

Table 5

Farmer Mac condensed balance sheets, 2010 – 2015

As of December 31

Dollars in millions

	2010	2011	2012	2013	2014	2015	Percentage growth rate 2014 – 2015
Total assets	$9,479.9	$11,883.5	$12,622.2	$13,361.8	$14,287.8	$15,540.4	8.8%
Total liabilities	$9,001.0	$11,329.0	$12,029.2	$12,787.3	$13,506.0	$14,986.6	11.0%
Net worth or equity capital	$478.9	$554.5	$593.0	$574.5	$781.8	$553.7	-29.2%

Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

- Oversee and evaluate Farmer Mac's safety and soundness and mission achievement

OSMO reviews Farmer Mac's compliance with statutory and regulatory minimum capital requirements and supervises its operations and condition throughout the year. Table 5 summarizes Farmer Mac's condensed balance sheets at the end of each year from 2010 to 2015.

Capital

On December 31, 2015, Farmer Mac's net worth (that is, equity capital determined using generally accepted accounting principles [GAAP]) was $553.7 million, compared with $781.8 million a year earlier. Net worth was 3.6 percent of on-balance-sheet assets as of December 31, 2015, compared with 5.5 percent at the end of 2014. The decrease was a result of the redemption of all outstanding shares of preferred stock known as Farm Asset-Linked Capital Securities (FALConS) during the first quarter of 2015 and a decrease in accumulated other comprehensive income due to decreases in the fair value of available-for-sale securities.

When Farmer Mac's off-balance-sheet program assets (that is, essentially its guarantee obligations) are added to its total on-balance-sheet assets, net worth was 2.6 percent as of December 31, 2015, compared with 4.3 percent in 2014. As of December 31, 2015, Farmer Mac continued to be in compliance with all statutory and regulatory minimum capital requirements.

At year-end 2015, 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. As of December 31, 2015, it totaled $564.5 million, exceeding the statutory minimum capital requirement[17] of $462.1 million by $102.4 million.

Its regulatory capital (core capital plus allowance for losses) exceeded the required amount as determined by the Risk-Based Capital Stress Test.[18] Farmer Mac's regulatory capital totaled $571.1 million as of December 31, 2015, exceeding the regulatory risk-based capital requirement of $72.2 million by $498.9 million.

Regulatory capital was 4.1 percent of total Farm & Ranch and Rural Utilities Program volume (including both on-and off-balance-sheet volume but excluding USDA guarantees). Risk exposure on USDA guarantee loans is extremely low because they are guaranteed by the U.S. Department of Agriculture. Table 6 offers a historical perspective on capital and capital requirements for 2010 through 2015.

Table 6
Farmer Mac capital positions, 2010 – 2015
As of December 31
Dollars in millions

	2010	2011	2012	2013	2014	2015
GAAP equity	$478.9	$554.5	$593.0	$574.5	$781.8	$553.7
Core capital	$460.6	$475.2	$519.0	$590.7	$766.3	$564.5
Regulatory capital	$480.7	$492.7	$535.9	$604.0	$776.4	$571.1
Statutory requirement	$301.0	$348.6	$374.0	$398.5	$421.3	$462.1
Regulatory requirement	$42.1	$52.9	$58.1	$90.8	$121.6	$72.2
Excess core capital over statutory requirement*	$159.6	$126.5	$145.0	$192.2	$345.0	$102.4
Capital margin excess over the minimum	53.0%	36.3%	38.8%	48.2%	81.9%	22.2%

Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

* Farmer Mac is required to hold capital at or above the statutory minimum capital requirement or the amount required by FCA regulations as determined by the Risk-Based Capital Stress Test, whichever is higher.

17. The statute requires minimum capital of 2.75 percent for on-balance-sheet assets and 0.75 percent for off-balance-sheet obligations.
18. See the FCA website at www.fca.gov/info/farmer_mac_test.html for more information about the Risk-Based Capital Stress Test.

We published a proposed rule in March 2015 on Farmer Mac's corporate governance and standards of conduct. The proposed rule included provisions related to board nominations and elections, conflicts of interest, and risk governance, among other topics. We are preparing a final rule, to be issued in summer 2016, for most of the proposed rule's provisions; we plan to prepare a second proposed rule, to be issued in late 2016, in which we will modify some of the provisions of the earlier proposed rule.

We published a proposed rule in February 2016 governing eligibility criteria for Farmer Mac's nonprogram investments. The proposed rule also includes revised creditworthiness standards; as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, these standards will replace references to credit ratings in these regulations. We expect the final rule to be presented for FCA Board action in late 2016.

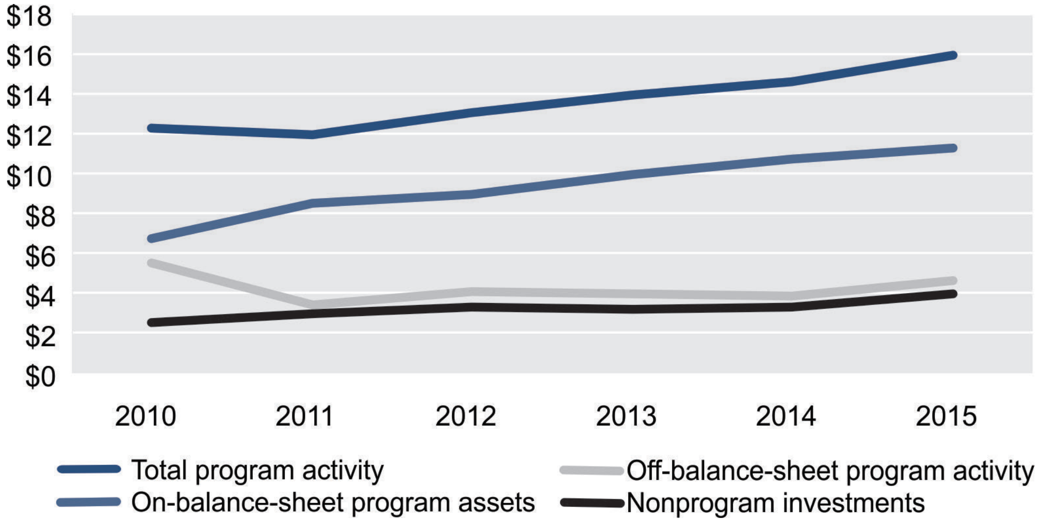
Program activity

Farmer Mac's total program activity increased to $15.9 billion on December 31, 2015, from $14.6 billion a year earlier. (See figure 12.) Farmer Mac experienced steady growth in its Farm & Ranch loan purchases, as well as its AgVantage products. AgVantage transactions are general obligations of the issuing financial institution that are purchased or guaranteed by Farmer Mac. In addition to the general obligation of the financial institution, each AgVantage security is secured by eligible loans under one of Farmer Mac's programs in an amount at least equal to the outstanding principal amount of the security.

Off-balance-sheet program activity consists of standbys, certain AgVantage securities, and agricultural mortgage-backed securities (AMBS) sold to investors. At the end of December 2015, 33.8 percent of program activity consisted of off-balance-sheet obligations, as compared with 26.6 percent a year earlier.

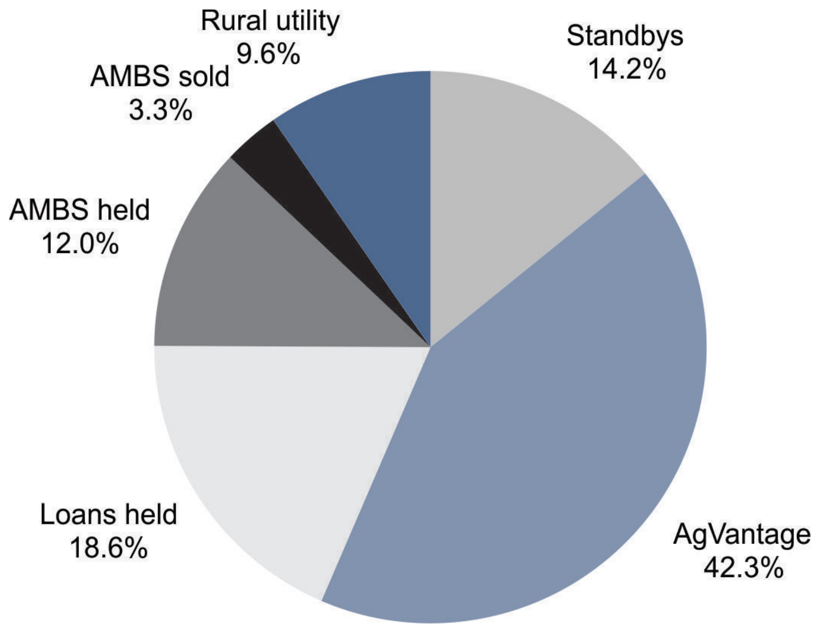
Farmer Mac's Long-Term Standby Purchase Commitment product is similar to a guarantee of eligible pools of program loans. Under the standbys, a financial institution pays an annual fee in return for Farmer Mac's commitment to purchase loans in a specific pool under specified conditions at the option of the institution. As shown in figure 13, standbys represented 14.2 percent of Farmer Mac's total program activity in 2015.

Figure 12
Farmer Mac program activity and nonprogram investment trends
As of December 31
Dollars in billions



Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Figure 13
Farmer Mac total program activity



Source: Farmer Mac's Report on Securities and Exchange Commision Form 10-K.

AMBS = agricultural mortgage-backed securities

Asset quality

Figure 14 shows Farmer Mac's allowance for losses, its levels of substandard Farm & Ranch assets, and its 90-day delinquencies relative to outstanding program volume, excluding AgVantage loan volume.

On December 31, 2015, Farmer Mac's allowance for losses totaled $6.6 million, compared with $10.1 million on December 31, 2014. Of its Farm & Ranch program portfolio, $104.5 million was substandard, representing 1.83 percent of the principal balance of Farm & Ranch loans purchased, guaranteed, or committed to be purchased.[19] This compares with $132.6 million, or 2.45 percent, on December 31, 2014. Assets are considered to be substandard when they have a well-defined weakness or weaknesses that, if not corrected, are likely to lead to some losses.

As of December 31, 2015, Farmer Mac's 90-day delinquencies increased to $32.1 million, or 0.56 percent of non-AgVantage Farm & Ranch loans, compared with $18.9 million, or 0.35 percent, as of December 31, 2014. Real estate owned as of December 31, 2015, was $1.37 million, up from $0.42 million a year earlier. Farmer Mac reported no delinquencies in its pools of rural utility cooperative loans.

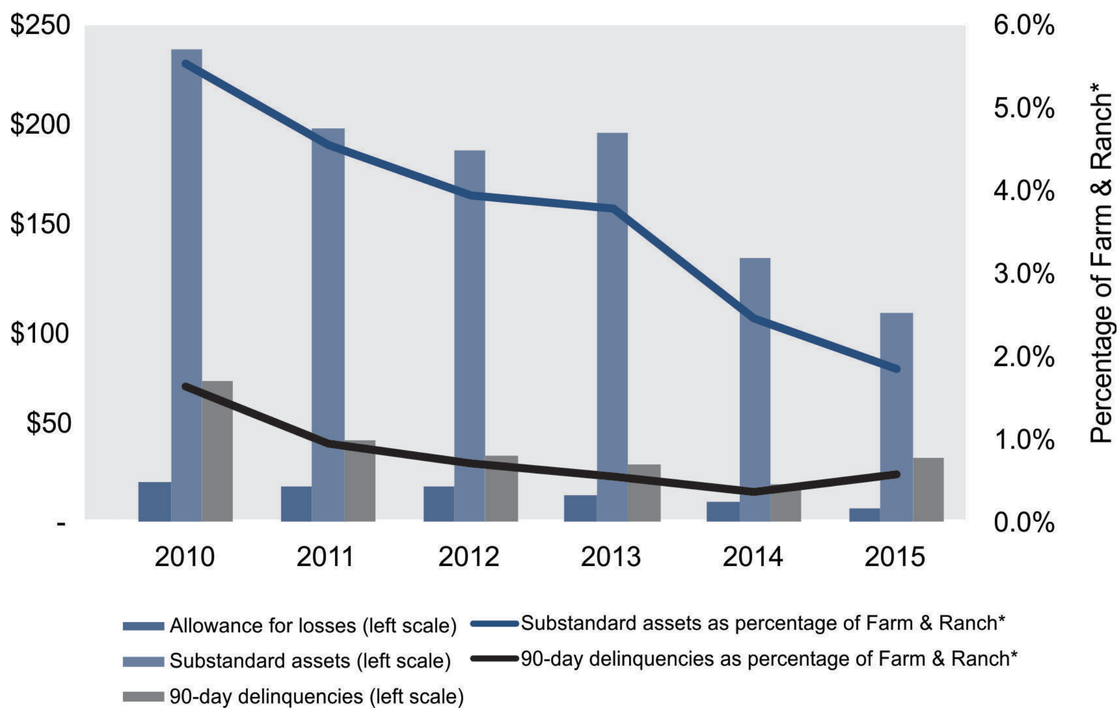
Earnings

Farmer Mac reported net income available to common stockholders of $47.4 million (in accordance with GAAP) for the year ended December 31, 2015, up from $38.3 million reported at year-end 2014. Core earnings for 2015 were $47.0 million, compared with $53.0 million in 2014.[20] Net interest income, which excludes guarantee fee income, was reported at $125.8 million in 2015, up from $60.8 million in 2014. Guarantee fee income was $14.1 million, compared with $25.2 million in 2014. Table 7 shows a six-year trend for the basic components of income.

19. We have excluded AgVantage volume from the Farm & Ranch loan volume because AgVantage products carry significantly less risk.

20. Core earnings provide a non-GAAP measure of financial results that exclude the effects of certain unrealized gains and losses and nonrecurring items. Farmer Mac reports core earnings to present an alternative measure of earnings performance. The components included in core earnings calculations are at Farmer Mac's discretion

Figure 14
Asset quality, allowance, and delinquency trends, 2010 – 2015
Dollars in millions



Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Table 7
Farmer Mac condensed statements of operations, 2010 – 2015
As of December 31
Dollars in millions

	2010	2011	2012	2013	2014	2015	Growth Rate 2014 – 2015
Total revenues	$99.1	$73.3	$122.0	$164.4	$103.6	$145.9	41%
Total expenses	$77.0	$59.5	$78.1	$92.5	$65.4	$98.5	51%
Net income available to common shareholders	$22.1	$13.8	$43.9	$71.8	$38.3	$47.4	24%
Core earnings	$25.4	$42.9	$49.6	$54.9	$53.0	$47.0	-11%

Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Challenges Facing the Agricultural Economy and the Farm Credit System

The following paragraphs identify the key challenges facing the Farm Credit System and Farmer Mac and their ability to fulfill their missions. We discuss the challenges encountered in 2015 and those expected in 2016. We first discuss the challenges arising from the farm economy, then the challenges arising from the general economy.

The farm economy

The U.S. agricultural economy was shaped by global factors in 2015. These included slowing economic growth in key export markets; a strong U.S. dollar, which hampered export sales and boosted imports; and ample supplies of crops and livestock products here and abroad. These factors continued to put downward pressure on commodity prices and farm incomes.

Despite lower energy and fertilizer costs in 2015, depressed prices for major crops lowered profits for most producers. For some producers, the reduced prices resulted in minimal or negative returns. While low feed costs benefited livestock producers, lower prices for meat and dairy products in the second half of the year reduced profit margins. For some cattle-feeder, hog, broiler, and dairy operations, the margins became negative.

As a result, net cash income fell for a third consecutive year from the historic highs of 2012. USDA estimates that net cash income fell 27 percent in 2015. Government payments and crop insurance helped offset some of the lower crop receipts for 2015.

Farmers adjusted to the lower income environment by cutting equipment purchases, restructuring debt, and using lines of credit for operating expenses. U.S. farmers carrying large amounts of debt are increasingly likely to experience cash flow problems if the current profit environment continues throughout 2016. The lower profitability will likely result in increased loan delinquencies and other credit quality issues for agricultural lenders in the coming year.

Drought

According to the National Oceanic and Atmospheric Administration, 2015 was the second warmest year but was also the third wettest year in 121 years of records. As a result, the national drought footprint shrank during the year.

The year began with 28.7 percent of the contiguous United States experiencing moderate to exceptional drought. The national drought footprint peaked in early April 2015 at 36.9 percent, then shrank to 18.7 percent by year-end. A strong El Niño, which resulted in heavy precipitation during the second half of the year, contributed to the contraction of the national drought footprint.

Drought conditions affected eight western states in 2015, especially California and Nevada. Other states experiencing drought included Oregon, Washington, Idaho, Montana, Utah, and Arizona. Heavy precipitation during December brought significant drought recovery to the Pacific Northwest. New Mexico saw above-normal precipitation during 2015, which brought some relief to the state's multi-year drought. Widespread storms in the spring of 2016 brought more drought relief to much of the West, particularly to Nevada, Utah, Colorado, and Wyoming.

California agriculture continued to endure severe drought conditions during 2015, with hundreds of thousands of acres of farmland fallowed. Even though most of California remains in drought as summer 2016 approaches, more plentiful rainfall has also significantly reduced the area listed in the most severe drought categories and has replenished reservoirs. As of May 2016, only the central sections of California were experiencing exceptional drought. (See figure 15.)

A long-term drought lasting about 60 months, which mostly affected Texas and Oklahoma, temporarily ended in the spring of 2015 following very heavy rains but returned with a dry summer. Heavy rains in fall 2015 and rainfall in 2016 have once again eliminated drought in the Southern Plains states.

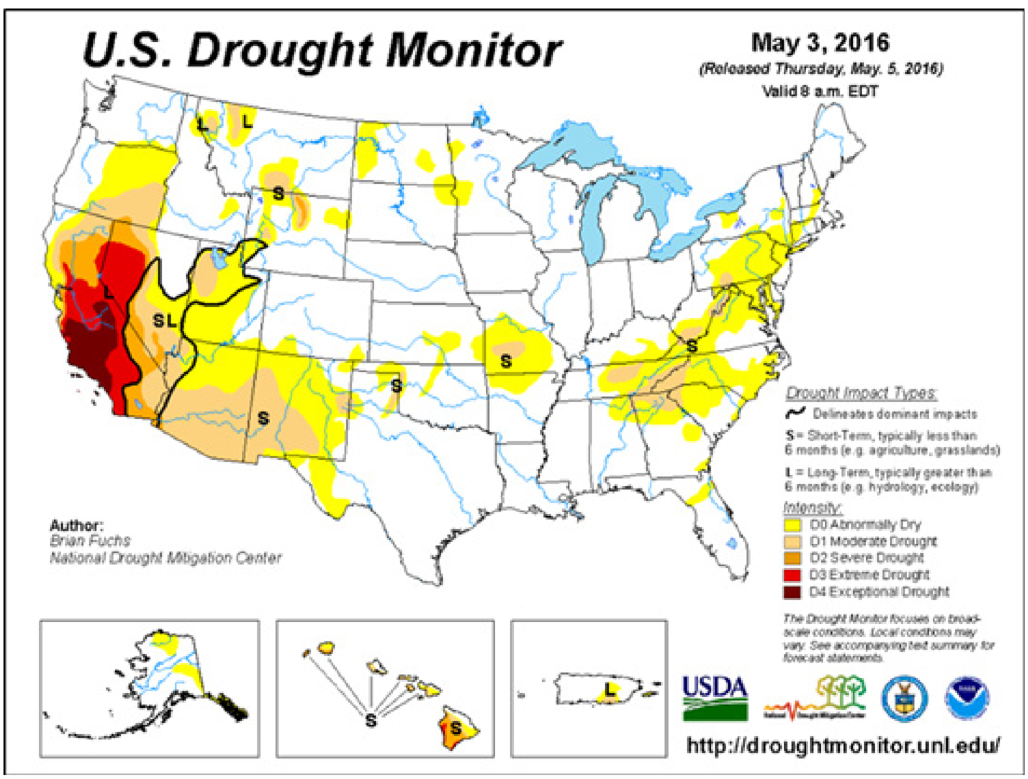
Major commodity prices

Over the past three years since the drought-reduced U.S. harvest of 2012, worldwide production has outpaced consumption for the major crops and some livestock products. Consumption and trade have slowed or declined because of sluggish economic activity around the world, particularly in China, a leading consumer and importer of U.S. agricultural products. Rising world inventories have led to downward pressure on commodity prices, leading to declines in cash receipts and farm incomes.

As of mid-May 2016, USDA projected all major crop prices to decline for the 2015/16 marketing year to their lowest levels in years: the 2006/07 marketing year for soybeans and rice, the 2008/09 marketing year for cotton, and the 2009/10 marketing year for corn and wheat. (See Figure 16.) Projected price declines for 2015/16 range from around 3 percent for corn to 18 percent for wheat. However, inclement weather in South America during March and April 2016 — too wet in Argentina and too dry in Brazil — gave a boost to some crop prices, particularly soybeans, which should help some producers who were operating below breakeven levels.

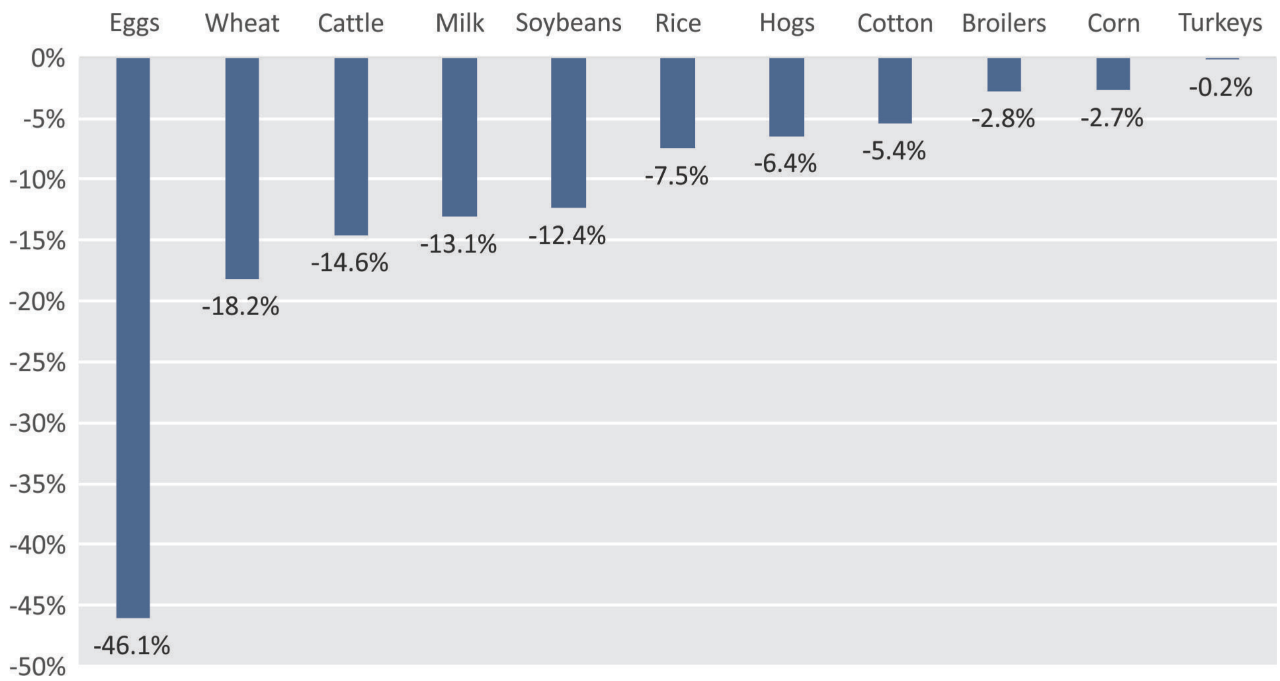
Except for turkeys and eggs (which experienced strong price increases in 2015 after the avian influenza outbreak reduced supplies), producer prices for steers, hogs, broilers, and milk all declined in 2015 because of larger supplies and weaker demand. The USDA outlook for 2016 is for all livestock product prices to decline from their 2015 levels to some of their lowest levels in years: 2006 for eggs, 2009 for hogs and milk, and 2012 for broilers. Projected price declines for 2016 range from a low of 0.2 percent for turkeys to as much as 46 percent for eggs. Egg supplies have rebounded quickly from the sharp cuts in 2015 from the depopulation of Midwestern layer flocks that were affected by avian flu.

Figure 15
U.S. Drought Monitor
As of May 3, 2016



Source: USDA, http://droughtmonitor.unl.edu.

Figure 16
Annual percentage change of prices for crop and livestock products for 2016 or 2015/2016*
As of May 10, 2016



Source: FCA's Office of Regulatory Policy, based on data from USDA's World Agricultural Supply and Demand Estimates, May 10, 2016.

* Livestock prices are for 2016; crop prices are for 2015/2016. Crops and milk are based on average prices received by farmers. Animal prices are based on wholesale prices.

Farm income

Lower commodity prices generally translate into lower profitability unless the cost of production falls by a greater amount. While input costs have been moderating recently, the cost savings have not been sufficient to offset the large declines in commodity prices over the past couple years.

USDA is forecasting that crop and livestock receipts will decline more modestly in 2016 and will more closely match declines in production expenses. The expected drop in cash receipts is led by declines in nearly all major product categories, including dairy, meat animals, and poultry/eggs, as well as vegetables and melons. Cash receipts for most feed crops are also expected to decline. Corn receipts are projected to decline 36 percent through 2016 mostly because of lower prices, while soybean receipts are projected to rise about 1.5 percent because production is expected to outweigh a slight price decline. Receipts for several other commodities are projected to increase slightly: turkeys, cotton, rice, sorghum, oil crops, dry beans, potatoes, and sugarcane/sugar beets.

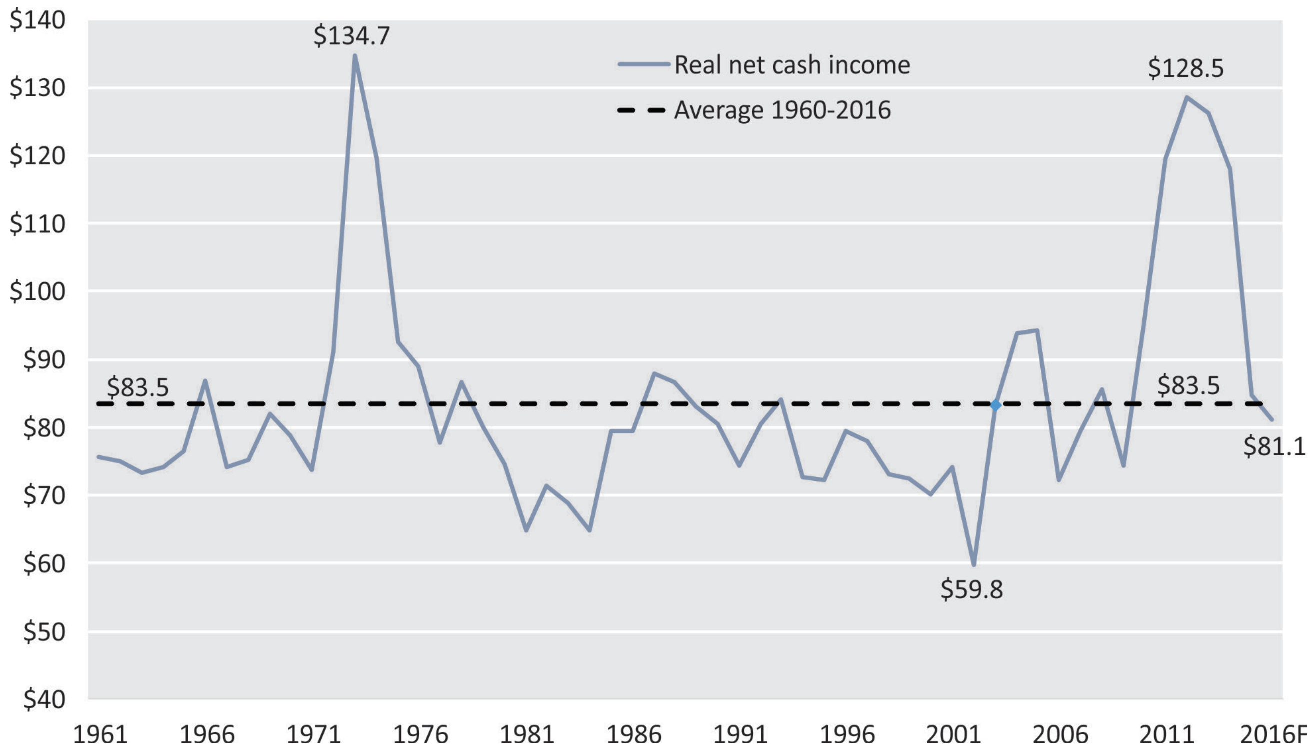
Farm production expenses are forecast to drop about 1 percent for 2016, which should soften the decline in cash receipts somewhat. Lower expenses for feed, livestock purchases, and fuels are projected to offset higher expenses for interest and hired labor. Interest expenses are forecast to increase by $1.3 billion, or 6.8 percent, for 2016, while costs for hired labor costs are projected to rise $1.5 billion, or around 5 percent.

Based on USDA's February 2016 outlook for the U.S. agricultural economy, net cash income is projected to fall for the fourth consecutive year because of lower farm receipts for most crop and livestock products. Net cash income is estimated at $90.9 billion for 2016, a 2.5 percent decrease from 2015 and a third lower than the record $135.3 billion farmers netted in 2012. Direct government farm program payments are forecast to rise 31 percent to $13.9 billion in 2016, or about 15 percent of net cash income, to help offset some of the income declines from the marketplace.

Figure 17

Inflation-adjusted net cash income for the farm sector, 1961 – 2016

In billions of 2009 dollars



Source: FCA's Office of Regulatory Policy, based on data from USDA's World Agricultural Supply and Demand Estimates, May 10, 2016.

Although net cash income in inflation-adjusted terms (2009 dollars) is down in recent years from 2012's high of nearly $129 billion, it is still near its long-run average of $83.5 billion. Figure 17 indicates that the farm sector's real net cash income has largely vacillated in a band between $70 billion and $90 billion, and the sharp peaks in net cash income in the early 1970s and in the 2011 to 2014 period were aberrations.

Cropland values

Consecutive years of lower farm incomes caused cropland values to soften in 2015, particularly in the nation's midsection. This follows five years of double-digit price increases since 2009 for most Midwestern states. USDA's August 2015 land values report shows that U.S. cropland values increased by just 0.7 percent for 2015, compared with increases of 13.7 percent for 2013 and 7.6 percent for 2014.

In the Corn Belt, cropland values decreased on average by 2.3 percent for 2015. Iowa cropland values dropped 6.3 percent in 2015, with eight other states also experiencing declines for 2015.

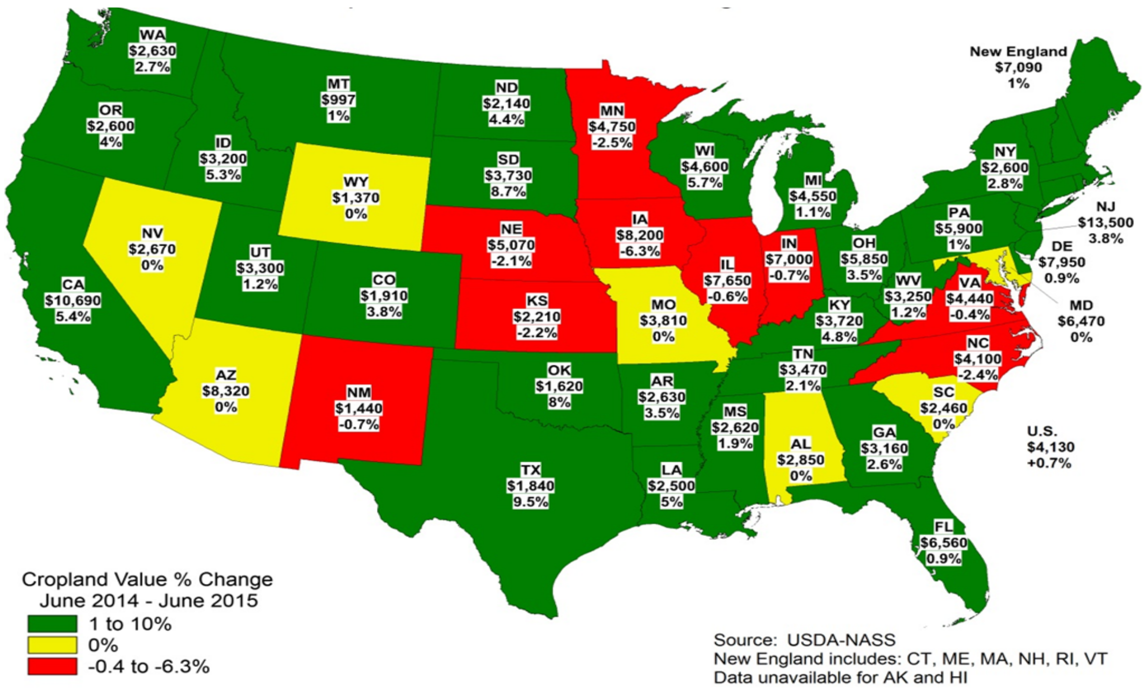
The Federal Reserve Banks' quarterly surveys of agricultural bankers show that, for the fourth quarter of 2015, cropland values declined between 2 percent and 6 percent over the past year in the Midwest and in some of the Mountain states. Depending on land quality and region of the state, some bankers report cropland is off as much as 10 percent over the past year. Figure 18 shows cropland vales by state and the percentage change from 2014.

The majority of the bankers surveyed expect farmland values to decline between 5 percent and 10 percent for 2016. Large global supplies of agricultural commodities, sluggish world demand, and weak U.S. exports are seen as weighing on farm profits and

Figure 18

Cropland value by state for 2015 and percent change from 2014

Dollars per acre



Source: FCA's Office of Regulatory Policy, based on data from USDA's National Agricultural Statistics Service.

therefore farmland bids. A rise in long-term interest rates over the next few years would be expected to put additional downward pressure on cropland values.

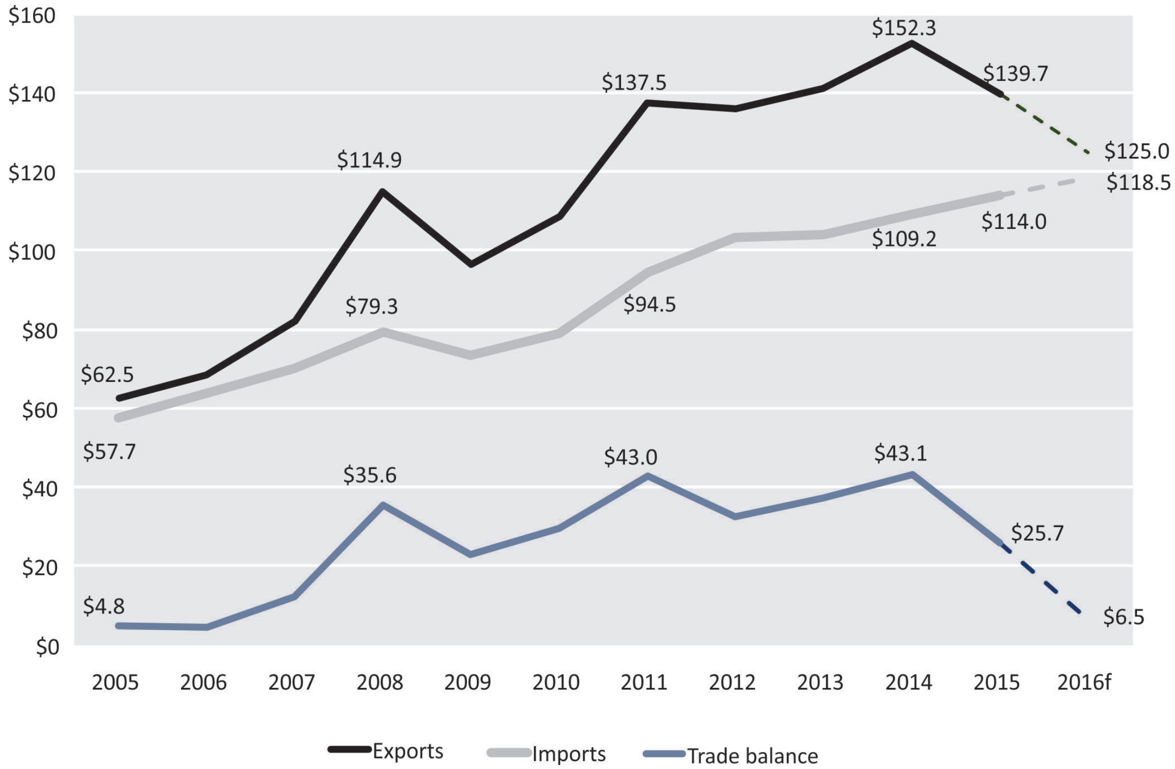
U.S. agricultural exports

According to its February 2016 trade outlook report, USDA forecasts agricultural exports in fiscal year 2016 to fall for the second year in a row to $125 billion. This is nearly 11 percent below FY 2015 and nearly 18 percent below FY 2014's record exports of $152.3 billion. (See figure 19.) The last time a consecutive year drop in exports occurred was 17 years ago, in 1999.

USDA's projections have most crops and crop products declining in value for FY 2016. Grain and feed exports are projected to drop nearly 14 percent in value as exports of corn, other coarse grains, wheat, and rice are all forecast to decline. Exports of oilseeds and products are also projected to decline in value for FY 2016 by nearly 20 percent. Declines in soybeans and soybean meal are projected to offset an expected increase in soybean oil exports.

On a positive note, products in which exports are projected to rise in value for FY 2016 include tree nuts, fruits, and vegetables. On a volume basis, most crops and crop products are forecast to decline except wheat and soybean oil, which are projected to increase in FY 2016.

Figure 19
U.S. agricultural trade, fiscal years 2005 – 2016*



Source: FCA's Office of Regulatory Policy, based on the Outlook for U.S. Agricultural Trade, published on February 25, 2016, by USDA's Economic Research Service.

* A fiscal year begins in October of the previous year and runs through September of the year indicated.

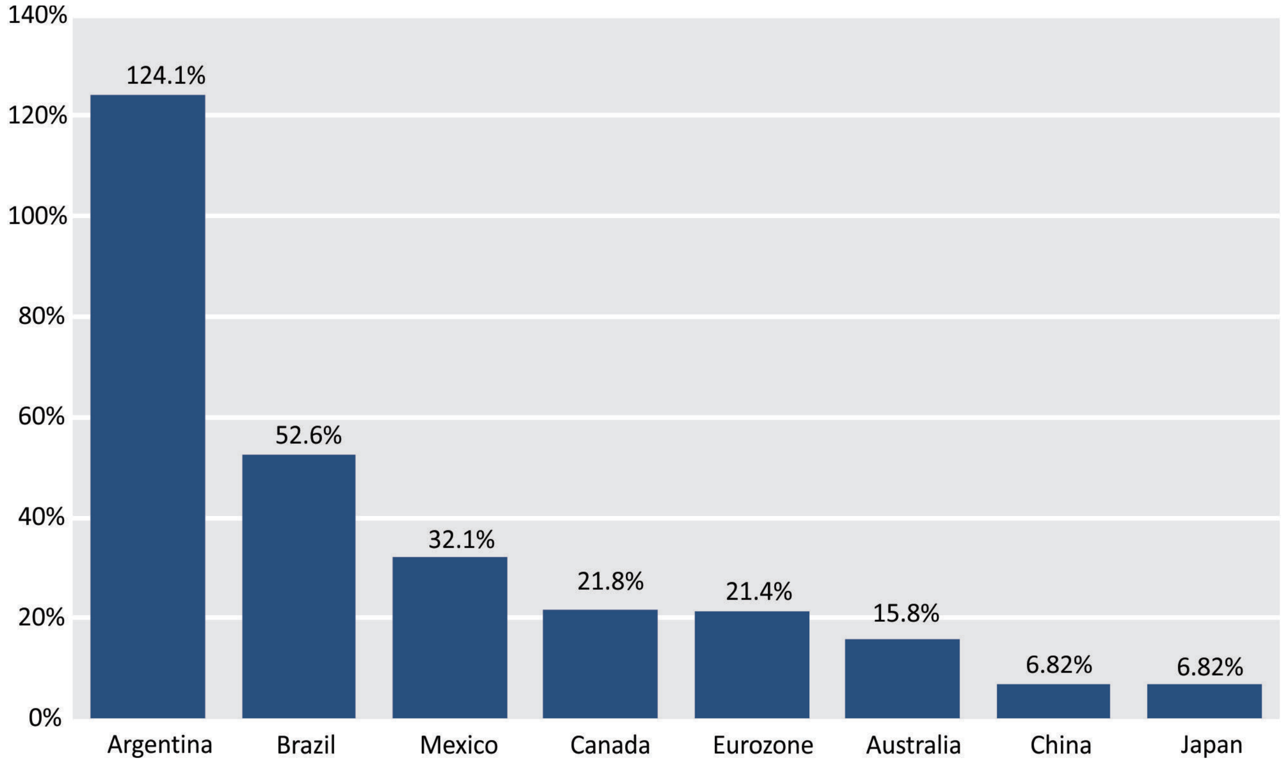
The outlook for livestock product exports for FY 2016 is for a decline in export value by 12.3 percent. All livestock categories are forecast to decline, mostly because of lower prices. On a volume basis, livestock product exports are projected to increase slightly in FY 2016, led by beef and pork variety meats at around 9 percent.

U.S. agricultural conditions for 2015 were largely driven by global factors: large supplies of crops and livestock products; sluggish demand because of the slower economic growth of key importers like China, Japan, and the European Union; and the strengthening of the U.S. dollar against the currencies of major importers and competing exporters.

Countries that rely on exporting goods to China experienced a sharp reduction in their earnings from abroad, which in turn contributed to slower economic growth at home. Low petroleum prices also reduced the earnings of petroleum-producing countries, which reduced their capacity to buy imported products. In terms of the global forces affecting agriculture, 2016 is shaping up to be quite similar to 2015.

From January 2014 through March 2016, the value of the U.S. dollar increased substantially relative to the currencies of many of our customers and competitors in agricultural trade — from nearly 7 percent against the Japanese yen to a high of 124 percent against the Argentine peso. (See figure 20.) This raises the cost of U.S. goods to importing countries

Figure 20
Change in value of U.S. dollar against foreign currencies
January 1, 2014 – March 30, 2016



Source: FCA's Office of Regulatory Policy, based on Bloomberg, LLC, data.

and makes our competitors' products a better bargain. The strong dollar also made foreign products cheaper for domestic consumers, which can displace American products.

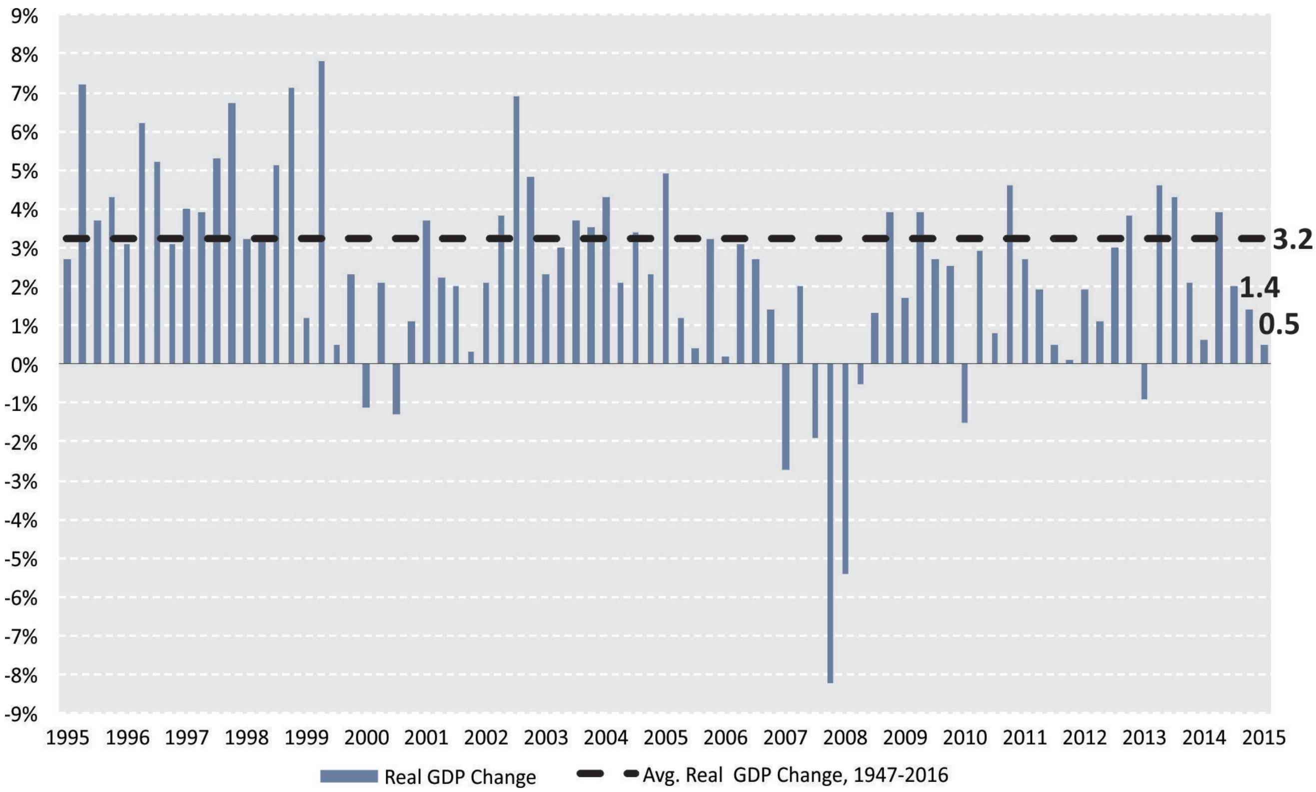
The general economy

Real gross domestic product (GDP) for the U.S. economy grew 2.4 percent in 2015, the same rate as in 2014. The growth in real GDP was driven primarily by personal consumption expenditures, residential and nonresidential fixed investment, private inventory investment, exports, and state and local government spending. However, an increase in imports weakened the GDP. The strength of the U.S. dollar and slower growth internationally have contributed to lower U.S. export growth and higher import growth. As a result, the deficit in net exports increased by $100.9 billion in 2015, which slowed U.S. economic growth.

Real GDP increased at an annual rate of 0.5 percent in the first quarter of 2016 — 0.9 percentage points lower than the prior quarter. This was the third consecutive quarter in which the rate of growth slowed. (See figure 21.) Increased imports, lower nonresidential fixed investment, lower private inventory investment, lower exports, lower federal spending, and lower private inventory investment were the drivers of slower GDP growth in the first quarter of 2016.

The consensus forecast from Consensus Economics projects real GDP for the U.S. economy to slow to 1.8 percent for 2016, down from 2.4 percent for 2015. The slowdown is attributed to two factors: a soften-

Figure 21
U.S. real GDP growth, chained 2009 dollars, quarterly
Seasonally adjusted annualized rate



Source: FCA's Office of Regulatory Policy, based on data from the U.S. Department of Commerce, Bureau of Economic Analysis.

Note: Average real GDP for the period 1947 to 2016 is 3.2 percent.

ing in domestic demand as consumers choose to save or reduce debt rather than spend, and a decline in U.S. exports as the strong dollar and slower economic activity abroad reduce demand for our products.

Real personal consumption is projected to increase by 2.6 percent, real government consumption is projected to increase by 1.2 percent, and real business investment is projected to be flat in 2016 as businesses draw down inventories rather than increase production. Real net exports are calculated by deducting imports from exports; therefore, a negative real export balance indicates that imports exceeded exports. Real net exports totaled -$543 billion in 2015, and imports are expected to further outpace exports in 2016, with real net exports forecast at -$583 billion.

Employment prospects

Overall, the labor market strengthened further in 2015, but the pace of improvement has slowed. Payroll employment averaged about 229,000 new jobs per month in 2015, almost 23,000 jobs per month slower than in 2014. In April 2016, 160,000 jobs were created, well below the monthly average and the weakest pace since September 2015. Slower job growth is attributed to slower economic growth, which makes employers cautious about hiring. Not only has job creation slowed in recent periods, but the number of people filing for unemployment claims has increased. For the week ended April 30, the four-week moving average of seasonally adjusted initial unemployment claims rose by 2,000 to 258,000.

In 2015, the unemployment rate declined from a high of 5.7 percent in January to a low of 5.0 percent in December 2015, and averaged 5.3 percent for the year. The unemployment rate fell to a new post-recession low of 4.9 percent in January and February 2016 — the lowest level since February 2008. In March and April 2016, the unemployment rate increased slightly to 5.0 percent. The consensus forecast from Consensus Economics projects a decline in the unemployment rate for 2016 to 4.8 percent.

The labor force participation rate is the percentage of adult Americans working or actively looking for a job. The annual average participation rate declined from 62.9 percent in 2014 to 62.6 percent in 2015. It reached a low of 62.4 percent in September 2015, the lowest level since October 1977. In April 2016, the labor force participation rate was 62.8 percent — 0.2 percentage points lower than the prior month. While down over the month, this is higher than the 2015 average.

Wages have shown gradual improvement over the past year. In December 2015, the average hourly earnings for all employees on private nonfarm payrolls increased by 2.5 percent to $25.24. Following a small increase in March 2016, average hourly earnings increased further in April to $25.53. In December 2015, growth in the employment cost index for the wages and salaries of workers in private industry increased by 2.1 percent over the year — slightly lower than the 2.5 percent year-over-year increase in December 2014. The consensus forecast from Consensus Economics projects employment costs to increase by 2.4 percent in 2016. This is 0.3 percentage points faster than the wage growth in December 2015.

Employment in nonmetropolitan areas

The recovery of the job market from the Great Recession in nonmetropolitan areas has lagged behind that of metropolitan areas. The growth of employment in metropolitan areas has been the key differentiator. Employment in nonmetropolitan areas has not reached pre-recession levels whereas metropolitan areas have exceeded those levels. According to USDA, employment in nonmetropolitan areas grew more than 1 percent in the year between the second quarter of 2014 and 2015. Meanwhile, employment in metropolitan areas increased nearly 2 percent over the same period.

In both areas, the unemployment rate has generally continued to decline. In nonmetropolitan areas, low growth in the population and labor force has contributed to the decline in the unemployment rate. Between 2010 and 2014, the total population in nonmetropolitan areas declined for the first time and by a total of 116,000 people. The more quickly the labor force grows, the more quickly employment must grow to keep unemployment rates from increasing. Therefore, if there is no change in the labor force, then employment growth is directly proportional to the rate of decline in unemployment.

Consumer price inflation

Inflation affects agriculture by raising input costs, curbing consumer demand for high-value products (dairy, meat, and processed foods), and reducing consumption of food away from home. Greater inflationary pressures also increase the likelihood of higher long-term interest rates. In 2015, the consumer price index (CPI) for all items increased 0.7 percent. This is slightly lower than the 0.8 percent increase in 2014 and the second smallest December-to-December increase in the past 50 years.

Declining energy prices contributed to lower total inflation. The CPI energy price index fell 12.6 percent in 2015 — following a 10.6 percent decline in 2014. The price of all major energy components declined in 2015, led by fuel oil, which fell 31.4 percent, followed by gasoline, which fell 19.7 percent.

While energy prices declined in 2015, food prices increased slightly faster than total inflation. The index for food prices rose 0.8 percent in 2015 — down from a 3.4 percent increase in 2014. This is the smallest increase since food prices fell in 2009. The index for food at home fell 0.4 percent in 2015, only the third time it has declined in the past 50 years. Declines in prices for meat and dairy products offset price increases for cereals, bakery products, fruits, and vegetables.

In March 2016, the CPI for all items increased 0.1 percent from the prior month. This change reflected a decline in food prices but higher energy prices for the first time since November 2015. The forecast from Consensus Economics for the change in total CPI is 1.2 percent for 2016.

The core CPI (excluding food and energy prices) increased by 2.1 percent in 2015 — this is 0.5 percentage points faster than in 2014. Core CPI increased 0.1 percent in March as well, but the increase was the smallest since August 2015. The increase in core CPI year-over-year as of March 2016 was 2.2 percent. Over the past 10 years, the average December-to-December increase in core CPI was 1.9 percent.

An alternative measure of price inflation is the price index for gross domestic purchases. The Federal Reserve uses this measure to target inflation for policy decisions. The index for personal consumption expenditures includes a broader range of expenditures than the CPI and is based on business surveys rather than the consumer surveys used for CPI. Similar to core CPI, the core index for personal consumption expenditures excludes the more volatile food and energy prices. In 2015, this index increased by 0.4 percent — 1.1 percentage points lower than in 2014.

Overall, inflation has continued below the Federal Reserve's long-term objective of 2 percent growth in personal consumption expenditures. Over the past year, declining import prices for energy and non-energy have placed downward pressure on inflation. Based on the April Federal Open Market Committee statement, short-term inflation is expected to remain low because of energy prices. Over the medium term, the committee expects the downward pressure from energy prices and imports to subside and prices to rise above 2 percent as the labor market strengthens.

Housing sector recovery

According to the Federal Housing Finance Agency, the seasonally adjusted purchase-only house price index increased by 1.4 percent in the fourth quarter of 2015. For the year, U.S. housing prices increased by 5.8 percent in 2015. Housing prices rose across the board in 2015, with the largest increases in the states of Nevada, Colorado, Idaho, Washington, and Oregon. The Pacific region experienced the strongest appreciation in housing prices, while the Mid-Atlantic had the smallest growth.

Based on the S&P/Case-Shiller home price index, few metropolitan areas have home prices that have fully recovered from the Great Recession. As of January 2016, 3 out of 20 metropolitan areas in the index (Denver, Dallas, and Portland) had housing prices that exceeded prior peak levels. Along with housing prices, mortgage delinquency rates and foreclosures have improved as well. For the fourth quarter of 2015, the seasonally adjusted delinquency rate on single-family residential mortgages was 5.17 percent. This is down from 5.46 percent in the prior quarter and from a high of 11.26 percent in the first quarter of 2010.

Homeownership has moved slightly lower, from 64 percent in the fourth quarter of 2014 to 63.8 percent in the fourth quarter of 2015. The homeowner and rental vacancy rates in the fourth quarter of 2015 were nearly unchanged from prior-year levels. Meanwhile, housing starts have increased over the past year. In March 2016, privately owned housing starts totaled 1,089,000 — down 8.8 percent from February but up 14.2 percent year-over-year. Single-family housing starts have driven most of the growth over this period. The growth in new home construction has been concentrated in the southern and western regions of the United States. The consensus forecast from Consensus Economics for housing starts is 1.20 million homes in 2016.

International trade

The U.S. dollar has been strengthening since 2011 and began appreciating more rapidly in mid-2014. It has continued to strengthen through 2015 as economic growth has declined globally, interest rates for key trading partners have fallen, and higher interest rates in the United States have become increasingly likely. These factors have driven greater demand for U.S. currency and resulted in appreciation. As the currency appreciates relative to trade partners, our imports tend to go up, and our exports tend to go down.

In the first months of 2016, the strength of the dollar has slightly subsided. The March 2016 trade-weighted U.S. dollar index level is 119.66, which is slightly higher than the October 2015 level. Still, the dollar remains strong and poses continued challenges for international trade. In February 2016, the goods and services deficit was $47.1 billion. This is a year-over-year increase of $10.8 billion — meaning the value of imported goods and services increased relative to exports. Driving this change is a $20.5 billion decrease in exports (5.5 percent), which was partially offset by a $9.7 billion decrease in imports (2.1 percent). Because exports declined more than imports, net exports declined year to date.

The largest trade deficits for the United States exist with China and the European Union. In 2015 the deficit with China and the European Union increased by 7 percent and 22 percent, respectively. However, some of the changes in the balance of trade were favorable to the United States in 2015. In 2014, the U.S. trade deficit with Saudi Arabia and OPEC countries was $21.3 billion and $29.6 billion, respectively. These deficits were eliminated in 2015 and in both cases became trade surpluses of $6.4 billion and $29.9 billion, respectively.

The growth in U.S. oil production has contributed to this change in trade position. From 2011 to 2013, the United States went from being the third largest to being the top producer of total petroleum and other liquids. Since 2012, U.S. production grew from 11.1 million barrels per day to 14.0 million. Meanwhile, production in Saudi Arabia fell from 11.8 million barrels per day to 11.6 million. The United States also became the fifth largest exporter of crude oil (including lease condensate) in 2013 while not appearing in the top 15 in years prior.

Household and business borrowing

The results of the Federal Reserve's January 2016 Senior Loan Officer Opinion Survey on Bank Lending Practices show that banks tightened their standards on commercial/industrial and commercial real estate loans in the fourth quarter of 2015. Demand for commercial/industrial loans declined in the fourth quarter while demand for auto and credit card loans remained largely unchanged. Demand for commercial real estate loans strengthened in the fourth quarter while demand for most residential real estate loans declined.

Banks indicated in the survey that, in 2016, standards were expected to tighten on commercial/industrial loans and commercial real estate loans. Meanwhile, banks indicated a moderate easing of standards on some residential mortgage loans and auto loans. Loan performance of multifamily residential properties and commercial/industrial loans is expected to deteriorate. Delinquency rates and charge-offs for subprime auto loans are expected to increase in 2016 as well. The survey also reported that credit standards for approving revolving home equity lines of credit were largely unchanged while demand for these loans has increased somewhat.

Household net worth and debt service as a percentage of disposable income have improved considerably since the recession. Household debt service payments as a percentage of disposable income peaked immediately preceding the recession at 13.2 percent in the fourth quarter of 2007. This declined significantly and bottomed out at 9.9 percent in the fourth quarter of 2012. In the fourth quarter of 2015 household debt service payments as a percentage of disposable income was 10.1 percent and has varied little since mid-2013.

Federal deficit

The annual deficit for fiscal year 2015 was $439 billion — nearly 10 percent less than the $485 billion deficit in 2014. Government revenues increased to 18.2 percent of GDP in 2015. As a percentage of GDP, individual income tax revenue reached the highest level since 2001, at 8.7 percent. Federal spending, driven by mandatory outlays, outpaced revenue growth in 2015 and rose to 20.7 percent of GDP.

According to the Congressional Budget Office (CBO), the deficit is projected to grow to $534 billion in fiscal year 2016. The deficit as a percentage of GDP is also expected to increase to 2.9 percent. This is a 0.4 percentage point increase from 2015 and ends a six-year stretch where the deficit declined relative to the size of the economy. The CBO attributes part of the increase in the deficit to a shift in the timing of benefit payments from the beginning of 2017 to the end of 2016 (October 1, 2016, falls on a weekend). Adjusting for this shift, the CBO estimates that the deficit would be $493 billion in 2016, or 2.7 percent of GDP.

Debt held by the public increased by $337 billion to $13.1 trillion in 2015 and totaled 74 percent of GDP. In 2016, debt held by the public as a percentage of GDP is expected to increase to 75.4 percent and total $13.951 trillion. The last time the federal debt as a percentage of GDP reached these levels were the years following World War II.

According to the CBO, high and rising debt at these levels could have significant consequences for both the economy and the federal budget. When interest rates increase, federal spending on interest payments may rise considerably. Federal borrowing reduces national savings over time and would result in a lower net investment, lower productivity, and lower total wages. Fiscal policy could also become more constrained in its response to unexpected economic events. Investors might also demand significantly higher interest rates to compensate them for the additional risk of financing the government debt at higher levels.

Farm Credit System portfolio[21]

System loan volume grew almost 9 percent in 2015, and portfolio quality continued to improve. That growth was spread over most sectors of the portfolio. Growth continued in many areas where cash grain is produced, but also in other regions and sectors of agriculture.

Lending to finance production inputs, inventories, equipment, and real estate purchases increased even though commodity prices declined. Mortgage loans grew because of continued demand for higher quality farmland. Also, growth in loans to cooperatives, marketing and processing operations, and rural utilities contributed significantly to overall loan growth.

Weather conditions were favorable in most parts of the country although drought conditions in the West were beginning to affect operations. While a large part of the Midwest experienced excellent yields, the production increase was insufficient to offset lower prices for most crops. Some producers also benefitted from government support programs. However, these revenue sources were no longer sufficient to offset other cost increases in some sectors, and both agricultural income and agricultural real estate values showed some decline in parts of the United States.

Although commodity prices showed some decline, reduced costs for corn and other feedstuffs were sufficient to permit continued profits for animal protein and biofuel producers. As a result, the quality of loans to these sectors continued to improve this past year and no longer showed a higher risk profile than other sectors of the portfolio.

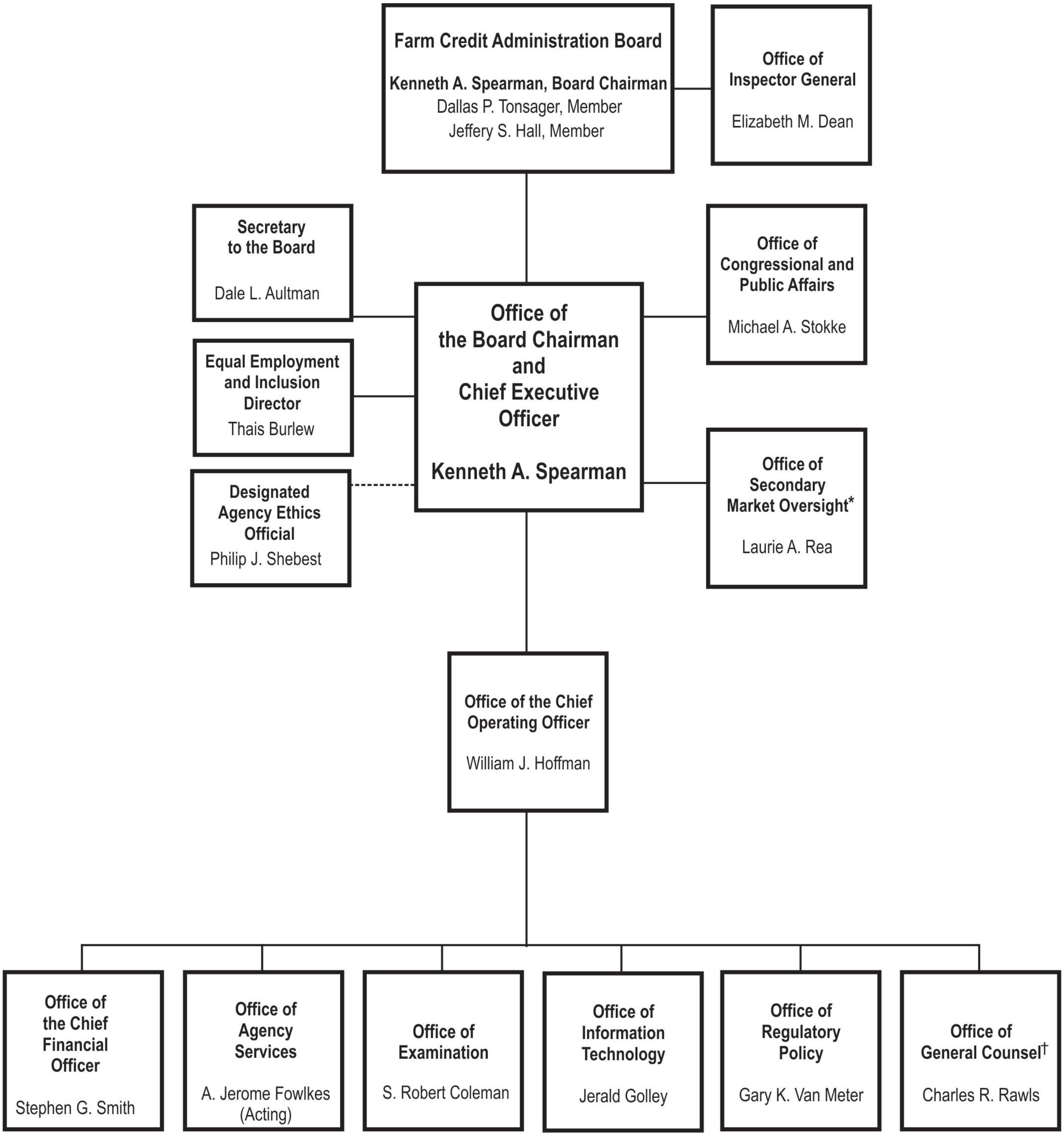
Sectors with a direct tie to housing, such as horticulture and forestry, continued to benefit from the recovery in housing demand and overall economic conditions. However, the $2.5 billion in loans to horticulture continued to include loans to borrowers with difficulty recovering from reduced demand and a high debt burden.

Nonaccrual loans continued to decline. The System reported $1.3 billion in total nonaccrual loans at year-end compared with almost $1.4 billion last year. The System also reported $37 million in net charge-offs on loans, down from $68 million the prior year.

21. When referring to the Farm Credit System in this section, we mean only the banks and direct-lending associations of the System, excluding Farmer Mac.

Appendix

Figure 22
FCA Organizational Chart
As of May 2015



***Reports to the Board for policy and to the CEO for administration.**
†Maintains a confidential advisory relationship with each of the Board members.

FCA offices

As of December 31, 2015, FCA had 294 full- and part-time employees. These employees are divided among the following offices, with the majority serving in the Office of Examination.

The **FCA Board** manages, administers, and establishes policies for FCA. The Board approves the policies, regulations, charters, and examination and enforcement activities that ensure a strong FCS. The Board also provides for the examination and supervision of the FCS, including Farmer Mac, and oversees the activities of the FCS Building Association, which acquires, manages, and maintains FCA headquarters and field office facilities.

The **Chairman of the FCA Board** serves as the chief executive officer (CEO). The CEO enforces the rules, regulations, and orders of the FCA Board. He or she directs the implementation of policies and regulations adopted by the FCA Board. The Office of the Chief Executive Officer plans, organizes, directs, coordinates, and controls FCA's day-to-day operations and leads the agency's efforts to achieve and manage a diverse workforce.

The **Chief Operating Officer** has broad responsibility for planning, directing, and controlling the operations of the Offices of Management Services, Examination, Regulatory Policy, and General Counsel in accordance with the operating philosophy and policies of the FCA Board. He or she supervises and provides policy direction to the executive staff responsible for managing these offices. The COO oversees and coordinates the development and implementation of the Agency-wide Strategic, Operating, and Budget plans and activities. The COO also coordinates the resolution of internal policy, personnel, and program issues with Agency executive leadership and the FCA Board.

The **Office of Agency Services,** which was created in April 2016, manages human capital and administrative services for the agency. This includes providing the following services to the agency: staffing and placement, job evaluation, compensation and benefits, payroll administration, performance management and awards, employee relations, employee training and development, contracting, acquisitions, records and property management, supply services, agency purchase cards, photography, video, graphic design and publication services, and mail service.

The **Office of the Chief Financial Officer,** which was created in April 2016, manages and delivers timely, accurate, and reliable financial services to the agency. The office establishes financial policies and procedures and oversees the formulation and execution of the agency's budget. The office reports periodically on the status of the agency's financial position, results of operations, and budgetary resources. It also oversees the agency's travel management, internal controls, and personnel security programs.

The **Office of Congressional and Public Affairs (OCPA)** serves as the agency's principal point of contact for Congress, the media, other government agencies, FCS institutions, employees, System borrowers, and the public. OCPA develops and monitors legislation pertinent to FCA and the FCS, serves as the agency's congressional liaison, facilitates intergovernmental relations, and prepares testimony for the Chairman and other Board members. The office also provides information to external audiences through news releases, fact sheets, reports, and other publications. It cultivates relationships with media representatives who report on matters related to agriculture and rural credit, and it manages the content of the FCA website. OCPA also organizes special meetings, briefings for international visitors, and field hearings.

The **Office of Examination** is responsible for examining and supervising each FCS institution in accordance with the Farm Credit Act and applicable regulations. The office develops oversight plans; conducts examinations; monitors the System's condition and current and emerging risks to the System; and develops supervisory strategies to ensure that the FCS operates in a safe and sound manner, complies with the law and regulations, and fulfills its public policy purpose. For more information about the role of the Office of Examination, go to www.fca.gov/law/guidance.html and click View Board Policy Statements to read "Examination Policy" (FCA-PS-53).

The **Office of General Counsel** (OGC) provides the FCA Board and staff with legal counsel as well as guidance on the Farm Credit Act and general corporate, personnel, ethics, and administrative matters. OGC supports the agency's development and promulgation of regulations, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. The office represents and advises the agency on civil litigation. It also serves as the liaison to the Federal Register, administers the agency's ethics program, and handles Freedom of Information Act requests.

The **Office of Information Technology** (OIT), which was created in June 2015, manages and delivers the agency's information technology, data analysis infrastructure, and the security supporting agency technology resources. The office is responsible for the planning and control of information technology investments and leading change to improve the efficiency and effectiveness of agency operations. OIT is responsible for continuing to leverage FCA's investment in technology by collaborating across agency offices to identify and re-engineer business processes. OIT provides strategies to collaborate across offices on business intelligence tools to develop analysis models to meet the strategic needs of the agency.

The **Office of 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 promotes economy and efficiency within FCA and seeks to prevent and detect fraud, waste, abuse, and mismanagement in the agency's programs and operations.

The **Office of Regulatory Policy** (ORP) manages policy and regulation development activities that ensure the safety and soundness of the FCS and support the System's mission. Policy and regulation development activities include the analysis of policy and strategic risks to the System on the basis of economic trends and other risk factors. ORP also evaluates all regulatory and statutory prior approvals for System institutions on behalf of the FCA Board, including chartering and other corporate approvals as well as funding approvals.

The **Office of Secondary Market Oversight** (OSMO) provides for the examination, regulation, and supervision of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. OSMO also ensures that Farmer Mac complies with applicable laws and regulations, and it manages FCA's enforcement activities with respect to Farmer Mac.

The **Secretary to the Board** serves as the Parliamentarian for the Board and keeps permanent and complete records of the acts and proceedings of the Board. He or she ensures that the Board complies with statutory, regulatory, and internal operation reporting requirements. The Secretary to the Board also serves as Secretary to the Farm Credit System Insurance Corporation Board. In addition, he or she serves as the Sunshine Act Official for the FCA Board.

The **Office of Equal Employment Opportunity and Inclusion** manages and directs the agency-wide Diversity, Inclusion, and Equal Employment Opportunity Program for FCA and FCSIC. The office serves as the chief liaison with the Equal Employment Opportunity Commission and the Office of Personnel Management on all EEO, diversity, and inclusion issues. The office provides counsel and leadership to agency management to carry out its continuing policy and program of nondiscrimination, affirmative action, and diversity.

The **Designated Agency Ethics Official** is designated by the FCA Chairman to administer the provisions of title I of the Ethics in Government Act of 1978, as amended, to coordinate and manage FCA's ethics program and to provide liaison to the Office of Government Ethics with regard to all aspects of FCA's ethics program.

Agency officials

William J. Hoffman is Chief Operating Officer. During Mr. Hoffman's tenure as FCA's COO (from 2008 to the present), the agency has issued several significant final rules, including a rule that updates and modernizes the agency's capital regulations and a rule requiring System institutions to include strategies in their business and marketing plans that emphasize diversity and inclusion. As COO, Mr. Hoffman has also supported diversity and inclusion programs and events at FCA. Before taking this position, Mr. Hoffman was Executive Assistant to Chairman and CEO Nancy C. Pellett. Prior to this, he served as the Associate Director for Examination and Supervision in the Office of Secondary Market Oversight, which oversees the Federal Agricultural Mortgage Corporation. He began his career as a credit representative in the Louisville Farm Credit District. In 1986 he joined the St. Louis Farm Credit Bank as vice president of risk assets. He later was the CEO of PennWest Farm Credit, ACA. Before joining FCA in 2004, he was involved in agricultural finance in the private sector and several international projects.

Samuel Robert Coleman is Director of the Office of Examination. Before accepting this position in October 2010, he was Director of the agency's Office of Secondary Market Oversight for five years. Mr. Coleman joined FCA in 1986 as an examiner in the Office of Examination. He held various positions in that office, providing technical support to FCA field offices and to the Policy Development and Planning Division. During this period, Mr. Coleman completed the commissioning program and became a commissioned examiner in 1990. In 1994, he transferred to the Office of Policy and Analysis, where he served as a policy analyst specializing in regulation development, and then as a senior policy analyst. Mr. Coleman was named Director of the Regulation and Policy Division in June 2003. He holds the Chartered Financial Analyst designation, which the CFA Institute awarded him in 2000.

Elizabeth M. Dean is the Inspector General. Before assuming this position in 2013, Ms. Dean was the Deputy Inspector General and Counsel to the Inspector General since 1989. As Deputy IG and Counsel, she directed the investigative function of FCA's OIG, periodically conducted inspections and evaluations, performed legal duties, and comanaged the OIG. From 1986 to 1989, Ms. Dean served as a senior attorney in FCA's Office of General Counsel, Litigation and Enforcement Division. Ms. Dean served on active duty as a U.S. Navy Judge Advocate from 1982 until 1986; she retired from the U.S. Naval Reserves in 2000. Upon completing law school in 1981, she worked for the Attorney General of the State of Ohio in the Criminal Activities Branch.

A. Jerome Fowlkes is Chief Human Capital Officer and Acting Director of the Office of Agency Services. Previously, from March 2014 to April 2016, he served as Deputy Director of the Office of Management Services. From September 2012 to March 2013, he served as the Associate Director and Team Leader of the Credit and Mission Team in the Office of Regulatory Policy. He joined FCA in 2010 as a senior financial analyst. Before that, he managed a portfolio of venture capital loans and investments for the Small Business Administration's Office of Liquidation and was responsible for negotiating and collecting outstanding obligations from portfolio companies. He has served as a commercial lender and vice president at the predecessors to Bank of America and SunTrust. He has also worked as an investment banker at BIA Capital Strategies. He holds an MBA from the College of William and Mary and a B.S. in business from Virginia Tech.

Jerald Golley is Chief Information Officer and Director of the Office of Information Technology. Before joining FCA in November 2015, Mr. Golley had 25 years of IT management experience. Most recently, he was the Deputy CIO for the Commodity Futures Trading Commission for six years. In 1996, he founded AMI Technical Consultants, Inc., a software development, Internet hosting, and technical consulting company based in Denver; he served as CEO there until 2009. He began his career as a programmer and geographic information system specialist at American Management Systems in Rosslyn, Virginia, where he worked from 1990 to 1994. Mr. Golley served in the 101st Airborne Division of the U.S. Army based out of Ft. Campbell, Kentucky, from 1982 to 1984. He holds a bachelor's degree in geography, with a minor in computer science from the State University of New York at Oneonta, as well as a Master of Arts in geography and geographic information systems from the State University of New York at Binghamton.

Charles R. Rawls is the FCA General Counsel. Before 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 to 2001, he was General Counsel for the USDA, and from 1993 to 1998 he was Chief of Staff to the Deputy Secretary of Agriculture. 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 to 1985.

Laurie A. Rea is Director of the Office of Secondary Market Oversight (OSMO). She was named to this position in January 2011. Ms. Rea joined FCA in 1986 after graduating from San Diego State University. She has held several positions with the agency, beginning with the Office of Examination where she became a commissioned FCA examiner in 1989. In 1992, she joined the Office of Policy and Analysis (now the Office of Regulatory Policy), where she gained experience in policy and regulation development. From 2005 until 2011, Ms. Rea served as associate director and finance and capital markets team leader in the Office of Regulatory Policy, where she managed the approval of Systemwide debt securities and led the agency's regulatory capital and investment policy development. Ms. Rea is a Chartered Financial Analyst from the CFA Institute and a Certified Risk Professional.

Stephen G. Smith is Chief Financial Officer and Director of the Office of the Chief Financial Officer. Previously, from 2005 to 2016, he served as the agency's Director of the Office of Management Services. From 2001 to 2005, he served as the agency's Inspector General. He joined FCA in 1981 as a technical specialist. He is a commissioned FCA examiner and served in several leadership roles, including Associate Regional Director for the Albany, New York, field office; Senior Staff Director for the Chief Examiner; and Director of the Technical and Operations Division. In 1993, he assumed 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 Association.

Michael Stokke is Director of the Office of Congressional and Public Affairs. Prior to joining FCA, Mr. Stokke was founder and president of Prairie Strategies, a consulting firm based in Illinois, where he advised corporations and nonprofit organizations. He served as Deputy Chief of Staff to former Speaker of the House Dennis Hastert from February 1998 to October 2007. Prior to this, Mr. Stokke served as Chief of Staff for the Office of the Speaker in the Illinois House of Representatives from 1995 to 1998. He served as Chief of Staff for Representative Thomas W. Ewing of Illinois from 1991 through 1994. From 1987 to 1991, he was Assistant Director of Personnel for the Office of the Governor of Illinois. He also served as Assistant to the Secretary of the Illinois Department of Transportation from 1985 to 1987.

Gary K. Van Meter is Director of the Office of Regulatory Policy (ORP). He was named to this position in November 2010 after having served as the Deputy Director of ORP for five years. Prior to this, he served in the Office of General Counsel (OGC) for 17 years. In OGC, he served as a senior attorney and later as senior counsel before joining ORP. Mr. Van Meter holds a J.D. from West Virginia University College of Law and a master of law in taxation from Georgetown University Law Center. He is also a certified public accountant. From 1972 to 1974, Mr. Van Meter was an enlisted member of the U.S. Marine Corps, and he was an officer in the U.S. Navy Judge Advocate General's (JAG) Corps from 1981 to 1986.

Dale L. Aultman became Secretary to the FCA Board in January 2011. He began working at FCA in 1988. For the first 10 years, he worked in the Office of Examination, where he became a commissioned examiner. Then for 12 years, he was a policy analyst in the Office of Regulatory Policy. Mr. Aultman is a member of the National Association of Parliamentarians. In 2010, he became Virginia's eighth electronic notary. In 2007, he completed FCA's Supervisory Development Program. Mr. Aultman graduated with distinction from Southwestern Graduate School of Banking at the Southern Methodist University and holds a finance degree from the University of Oklahoma.

Thais Burlew is Director of Equal Employment Opportunity and Inclusion. Before joining FCA in September 2011, she served as Executive Manager in the Office of EEO and Inclusiveness at the U.S. Postal Service. From 2001 to 2008, Ms. Burlew held several positions at the U.S. Equal Employment Opportunity Commission, including attorney advisor to Chair Naomi Churchill-Earp and Acting Chief for the Intake and Compliance Branch. Prior to this, she served as Advocate for the Housing and Consumer Law Clinic and for the Juvenile Special Education Clinic. Ms. Burlew earned a J.D. magna cum laude from David A. Clarke School of Law at the University of the District of Columbia, where she served as managing and associate editor of the school's law review. She also holds a B.S. in criminal justice from Middle Tennessee State University.

Philip J. Shebest is the Designated Agency Ethics Official (DAEO). As DAEO, Mr. Shebest administers the ethics program for FCA and the Farm Credit System Insurance Corporation. In addition to serving as DAEO, Mr. Shebest is an Assistant General Counsel in the Office of General Counsel and the Agency Contracts Officer. While at FCA, he has held the position of Alternate DAEO, as well as Acting General Counsel, Chief Administrative Officer, and Chief Human Capital Officer. Prior to joining FCA in 1990, Mr. Shebest was a senior attorney with the Drug Enforcement Administration and a lieutenant in the U.S. Navy Judge Advocate General's Corps. A graduate of East Stroudsburg University of Pennsylvania and Temple School of Law, he is a member of the Pennsylvania bar, as well as a certified mediator.

Glossary

Agricultural Credit Association — An ACA results from the merger of a Federal Land Bank Association or an FLCA and a PCA and has the combined authority of the two institutions. An ACA borrows funds from an FCB or ACB 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 — 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 FCS.

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

Farm Credit Act — The Farm Credit Act of 1971, as amended, (12 U.S.C. §§ 2001 – 2279cc) is the statute under which the FCS operates. The Farm Credit Act recodified all previous acts governing the FCS.

Farm Credit Bank — 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.

Farm Credit Leasing Services Corporation — The Leasing Corporation is a service entity owned by CoBank, ACB. It provides equipment leasing and related services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit System Insurance Corporation — FCSIC was established by the Agricultural Credit Act of 1987 as an independent U.S. government-controlled corporation. Its purpose is to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks and to act as conservator or receiver of FCS institutions. The FCA Board serves ex officio as the Board of Directors for FCSIC. The chairman of the FCSIC board of directors must be an FCA Board member other than the current Chairman of the FCA Board.

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

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

Federal Intermediate Credit Bank — 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 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. The FICBs and the Federal Land Banks in all Farm Credit districts merged to become FCBs or the ACB. Thus, no FICBs remain within the FCS.

Federal Land Bank — The Federal Farm Loan Act of 1916 provided for the establishment of 12 Federal Land Banks to provide long-term mortgage credit to farmers and ranchers, and later to rural home buyers. All Federal Land Banks and FICBs have merged to become FCBs or part of the ACB. Thus, no Federal Land Banks remain.

Federal Land Bank Association — These associations were lending agents for FCBs. Federal Land Bank Associations made and serviced long-term mortgage loans to farmers, ranchers, and rural residents for housing. The associations did not own loan assets but made loans only on behalf of the FCB with which they were affiliated. As of October 1, 2000, there were no remaining Federal Land Bank Associations serving as lending agents for FCBs.

Federal Land Credit Association — An FLCA is a Federal Land Bank Association that owns its loan assets. An FLCA borrows funds from an FCB to make and service long-term loans to farmers, ranchers, and producers and harvesters of aquatic products. It also makes and services housing loans for rural residents.

Financial Institution Rating System — The FIRS is similar to the Uniform Financial Institutions Rating System used by other federal banking regulators. However, unlike the Uniform Financial Institutions Rating System, the FIRS were designed to reflect the no depository nature of FCS institutions. 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 System institution. The ratings 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. Each institution in this category exhibits the best performance and risk management practices for its size, complexity, and risk profile. These institutions give no cause for regulatory concern.

- **Rating 2 —** Institutions in this group are fundamentally sound but may reflect modest weaknesses correctable in the normal course of business. Since the nature and severity of deficiencies are not material, such institutions are stable and able to withstand business fluctuations. Overall risk management practices are satisfactory for the size, complexity, and risk profile of each institution in this group. 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 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 for the size, complexity, and risk profile of each institution in this group. 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 for the size, complexity, and risk profile of each institution in this group. 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 for the size, complexity, and risk profile of each institution in this group. In the absence of decisive corrective measures, these institutions will likely require liquidation or some form of emergency assistance, merger, or acquisition.

Government-sponsored enterprise — A GSE is typically 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. GSEs are usually created because the private markets did not satisfy a purpose that 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. In some cases, the GSE receives public assistance only to get started; in other cases, the assistance is ongoing. The FCS is the oldest financial GSE.

Participation — A loan participation is usually a large loan in which two or more lenders share in providing loan funds to a borrower to manage credit risk or overcome a legal lending limit for a single credit. One of the participating lenders originates, services, and documents the loan. Generally, the borrower deals with the institution originating the loan and is not aware of the other participating institutions.

Production Credit Association — PCAs are FCS entities that deliver only short- and intermediate-term loans to farmers and ranchers. A PCA borrows money from its FCB to lend to farmers. PCAs also own their loan assets. As of January 1, 2003, all PCAs were eliminated as independent, stand-alone, direct-lender associations. All PCAs are now subsidiaries of ACAs.

Syndication — A loan syndication (or "syndicated bank facility") is a large loan in which a group of banks work together to provide funds for a borrower. Usually one bank takes the lead, acting as an agent for all syndicate members and serving as the focal point between them and the borrower. All syndicate members are known at the outset to the borrower and they each have a contractual interest in the loan.

Acronyms and abbreviations

ACA — Agricultural Credit Association
ACB — Agricultural Credit Bank
CAMELS — capital, assets, management, earnings, liquidity, and sensitivity
CEO — chief executive officer
Farm Credit Act — Farm Credit Act of 1971, as amended
Farmer Mac — Federal Agricultural Mortgage Corporation
FCA — Farm Credit Administration
FCB — Farm Credit Bank
FCS — Farm Credit System
FCSIC — Farm Credit System Insurance Corporation
FIRS — Financial Institution Rating System
FLCA — Federal Land Credit Association
GAAP — generally accepted accounting principles
OFIs — other financing institutions
PCA — Production Credit Association
USDA — U.S. Department of Agriculture
YBS — young, beginning, and small (farmers and ranchers)

Additional information

The Farm Credit Administration 2015 Annual Report on the Farm Credit System is available on FCA's website at www.fca.gov. For questions about this publication, contact FCA:

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With support from the System banks, 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. These documents are available on the Funding Corporation's website at www.farmcreditfunding.com. For copies of these documents, contact the Funding Corporation:

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The Farm Credit System Insurance Corporation's annual report is available on its website at www.fcsic.gov. To receive copies of this report, contact FCSIC:

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