Farm Credit Administration

Accountability Report
Fiscal Year 1999

Contents

Farm Credit Adminstration Headquarters Staff

Celebration of FCA's 65th Anniversary, November 12, 1998, McLean, Virginia.

Foreword

The Farm Credit Administration (FCA or Agency) Accountability Report for Fiscal Year 1999 consolidates the reporting requirements of the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993 (Results Act), and several other statutes covering public accountability.

This report covers FCA's activities from October 1, 1998, through September 30, 1999, with mention of some subsequent events and future plans. FCA's first Annual Performance Report required by the Results Act is presented on pages 10 through 24. It contains actual performance achieved in FY 1999 compared with the performance targets set forth in FCA's Annual Performance Plan for FY 1999–2000.

Financial statements were prepared under standards developed by the Federal Accounting Standards Advisory Board and reporting instructions issued by the Office of Management and Budget. We are proud of achieving an unqualified audit opinion for FY 1999, the sixth consecutive year.

This report is the final step in FCA's annual planning process. The process begins with the development of the Strategic Plan, which describes FCA's long-term policy and management goals along with the level of performance we expect to achieve. Next, we develop the Annual Performance Plan, which provides detailed information about how the Agency will achieve the goals and objectives contained in the Strategic Plan and then measure the results obtained from operations. Embodied in these documents are not only the principles of safety and soundness, but of customer service, product quality, effective and efficient operations, and clear communication. This report provides detailed information to Congress, the Office of Management and Budget, our stakeholders, and the public that spells out not only what we do, but also how well we are doing in meeting our

FCA's Mission

The Farm Credit Administration will promote a safe and sound, competitive Farm Credit System to finance agriculture and rural America as authorized by Congress.

We welcome your comments on the content and presentation of this report. They may be sent to:
Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
or
Internet Address: info-line@fca.gov

Chairman's Message

My Fellow Citizens:

As Chairman and Chief Executive Officer of the Farm Credit Administration, I am pleased to present our fiscal year 1999 Accountability Report. This report is our first endeavor to produce a report that meets the requirements of the 1993 Government Performance and Results Act and consolidates both the FCA Annual Report (formerly issued by December 31) and the Report on the Financial Condition and Performance of the Farm Credit System (formerly issued by June 30).

All Federal agencies are required under the Results Act to produce a report on their annual performance goals and report on the measures for those goals. In addition, in 1995 Congress passed the Federal Reports Elimination and Sunset Act (Sunset Law) that provided for the automatic sunset in 1999 of many reports and reporting requirements. One of the objectives of the Sunset Law was to enable Federal agencies to consolidate reporting as much as possible, eliminating duplicative reports and streamlining the information flow to Congress and the public.

Congress has outlined an important mission for the Farm Credit Administration, which is to promote a safe and sound, competitive Farm Credit System (FCS or System) to finance agriculture and rural America. Our primary focus is to ensure the long-term financial safety and soundness of FCS. We take this mandate very seriously knowing that the conditions of the 1980s can never be repeated. In fact, this past year we noted the symbolic end of the farm credit crisis of the 1980s: the enforcement actions that FCA placed on institutions to correct identified weaknesses during this time have now all been lifted. The System is to be congratulated and the Agency's staff is to be commended for their efforts in this regard.

We believe that the Farm Credit System will continue to play a vital role in the 21st century. We are committed to providing a flexible regulatory environment that recognizes market forces and enables the System to meet agriculture and rural America's changing demands for credit and other financial services.

A financially safe and sound Farm Credit System is and always will be important. The System, however, as a Government-sponsored enterprise, is called upon to meet its public mission as well. Over and above being a dependable source of credit for agriculture and rural America, Congress has asked the System place a special emphasis on young, beginning, and small farmers. The future of agriculture depends on these groups having access to constructive credit. Going forward, the Agency will renew its efforts to ensure the System is meeting its public mission while remaining financially strong.

As we move into the new millennium, I am committed to continued improvement. I welcome your comments on how we as an Agency can improve our overall performance.

All the Best,

Michael M. Reyna

Chairman and CEO

Overview

Farm Credit Administration

The Farm Credit Administration, an independent agency in the executive branch of the U.S. Government, regulates and examines the banks, associations, and related entities that constitute the Farm Credit System, including the Federal Agricultural Mortgage Corporation (Farmer Mac). Created by an Executive order of President Franklin D. Roosevelt in 1933, the Agency derives its powers and authorities from the Farm Credit Act of 1971, as amended (Act). Congressional oversight of the System and FCA is provided by the U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture.

The FCA issues regulations to implement the Act and examines FCS institutions for compliance with applicable statutes, regulations, and safe and sound banking practices. If an institution violates statutes or regulations or operates in an unsafe or unsound manner, the Agency has several supervisory options to bring about corrective action. The FCA also annually examines the National Consumer Cooperative Bank. The report of examination of this institution is presented to the U.S. Senate Committee on Banking, Housing, and Urban Affairs and the U.S. House of Representatives Committee on Banking and Financial Services.

The Agency is headquartered in McLean, Virginia. It has field offices at its headquarters and in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

Farm Credit Administration Board

FCA policymaking is vested in a full-time, three-person Board appointed by the President with the advice and consent of the U.S. Senate. FCA Board members serve a six-year term and may not be reappointed after serving a full term or three or more years of a previous member's term. The President designates one of the members as Chairman of the Board, who serves until the conclusion of that member's term. The Chairman also serves as the Agency's chief executive officer (CEO).

Marsha Pyle Martin[1] was appointed to the FCA Board and designated Chairman by President Clinton on October 17, 1994; her term expires October 13, 2000. Ms. Martin also serves as CEO of the Agency. She brings to her position more than 30 years of experience in agriculture and agricultural finance.

A Texas native, she joined the Federal Intermediate Credit Bank (FICB) of Texas in 1970, and in 1979 she was the first woman appointed to a senior officer position in the System. During her career with the FICB of Texas and the Farm Credit Bank (FCB) of Texas, Ms. Martin gained broad management experience, providing leadership and direction for the banks' corporate relations, legal, operations and supervision, management information, human resources, marketing, and public and legislative affairs departments.

She has held leadership positions with various agricultural councils and advisory committees in Texas, including the Texas Agricultural Loan Mediation

1. Marsha Pyle Martin served as Chairman and CEO until her death January 9, 2000.

Program Advisory Board, the Texas Department of Commerce Credit Advisory Committee, the Texas Agricultural Lifetime Leadership Board of Directors, and the Texas Agricultural Cooperative Council.

In 1990, Ms. Martin received the Cooperative Communicators Association's highest honor, the H.E. Klinefelter Award, in recognition of her distinguished contributions to cooperative communications. In 1995, she was named to the Academy of Honor in Agriculture by the FCB of Texas Board of Directors in recognition of her contributions to agriculture and farm credit in Texas. In 1996, she was presented the Distinguished Alumni Award by Texas Woman's University. Ms. Martin holds a B.A. from Texas Woman's University and an M.S. from Texas A&M University.

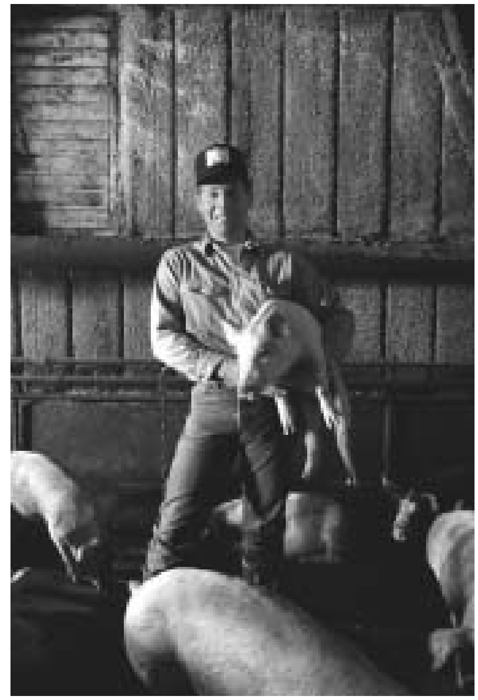
Michael M. Reyna[2] was appointed to the Farm Credit Administration Board by President Clinton on October 22, 1998, for a term that expires May 21, 2004. Mr. Reyna also serves as Chairman of the Board of Directors of the Farm Credit System Insurance Corporation (FCSIC). He was elected to this position in November 1998.

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

Before joining the Clinton Administration, Mr. Reyna served as a principal advisor to the California State Legislature for 11 years, working on financial service industry regulation, and a wide range of issues, including housing, economic development, local government finance, and political reform. He was an appointed member of several local commissions, including the Sacramento City Planning Commission, for which he served as Chairman in 1993. Prior to that he served as a private consultant to the Texas 2000 Project, an initiative of the Governor's Office of Budget and Planning. In that capacity, he developed and implemented a computer-based simulation model of the Texas economy, which estimated employment and population trends through the year 2000.

In 1996, Mr. Reyna received Vice President Al Gore's Hammer Award for helping to reinvent the USDA Rural Development Business and Industry Loan Guarantee Program. In 1998 and 1999, he received awards from the California Rural Builders' Council, the Rural California Housing Corporation, and the California Coalition for Rural Housing in recognition of his leadership and commitment to rural America. He was also acknowledged by the California State Legislature for his many contributions while on staff.

2. Michael M. Reyna was appointed by President Clinton as Chairman and CEO of the FCA following the death of Marsha Pyle Martin. He will serve as Chairman until May 21, 2004.



Mr. Reyna holds a bachelor's degree in business administration from the University of Texas at Austin and a master's degree in public policy and administration from the LBJ School of Public Affairs at the University of Texas at Austin.

Ann Jorgensen[3] was appointed to the FCA Board by President Clinton on May 27, 1997, for a term that expires May 21, 2002. She brings to her position extensive experience in production agriculture and accounting.

In 1963, she started farming in partnership with her husband. Their farming operation now includes a cropping operation, Jorg-Anna Farms, and a hog operation, Timberland Hogs Ltd. Ms. Jorgensen also worked for 10 years as a tax accountant and for seven years as a licensed commodity broker. In 1981, she started Farm Home Offices, a mail-order catalog company that sells farm management products designed to help farmers improve their financial and production management systems.

She served on a number of governing boards for the state of Iowa, including, for six years, the Board of Regents. The Board of Regents is responsible for the State's three universities, including the University of Iowa Hospital, a world-renowned teaching hospital, and its affiliated clinics. She is a coauthor of a producer's guide entitled The Farmer's Guide to Total Resource Management and is the author of a book, Put Paperwork in Its Place.

Ms. Jorgensen was honored as the Outstanding Young Woman for the State of Iowa in 1976 and was inducted into the Iowa Volunteer Hall of Fame in 1989. She and her husband were recognized by Farm Futures magazine in 1983 as the owners of one of the Top 10 Best Managed Farms. In 1997, she was one of the national agricultural leaders named by Alpha Zeta, the national honorary agricultural fraternity, to its Centennial Honor Roll. A native of Iowa, Ms. Jorgensen holds a B.A. from the University of Iowa.

Office Functions

The FCA Board is responsible for approving Agency policy, regulations, charters, and enforcement activities. It also provides for the examination and supervision of the FCS, including Farmer Mac, and oversees the FCS Building Association (FCSBA).

The Secretary to the Board processes all matters that go to FCA Board members, ensures compliance with public disclosure laws, and manages the day-to-day operations of the Office of the Board.

The Office of Chief Executive Officer operates in accordance with the policies established by the FCA Board. The CEO enforces the rules, regulations, and orders of the FCA Board and is responsible for planning, organizing, directing, coordinating, and controlling Agency operations.

The Office of Congressional and Public Affairs coordinates and disseminates Agency information to Congress, FCS institutions, employees, Federal agencies, the media, and others. It also develops and monitors legislation pertinent to the FCA and the FCS, serves as the

3. Ann Jorgensen was elected Chairman of the Farm Credit System Insurance Corporation on January 20, 2000. She succeeds Michael M. Reyna, who relinquished the FCSIC chairmanship after becoming Chairman of FCA.

Agency's congressional liaison, and prepares testimony for the Chairman and other Agency officials.

The Office of Examination provides regulation and oversight of FCS institutions through examination, supervisory programs, and regulatory standards that promote safe and sound operations and ensure compliance with applicable laws and regulations; directs a program of examination policy formulation; and manages the Agency's enforcement activities on behalf of the FCA Board.

The Office of General Counsel provides the FCA Board and staff with legal services. It supports the Agency in its supervision and examination of FCS institutions, including Farmer Mac, development and promulgation of regulations, review of legislative proposals, defense of civil litigation, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. It also fulfills the Agency's responsibilities under the Freedom of Information Act and the Privacy Act and provides guidance on general corporate, personnel, ethics, and administrative matters.

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 of Policy and Analysis develops regulations and policy statements in support of FCA's mission to implement applicable statutes and promote the safety and soundness of the FCS. It provides economic and risk analyses of factors affecting the FCS. It also manages the chartering, corporate approval, and other statutory and regulatory approval activities on behalf of the FCA Board, and manages the data collection activities from FCS institutions.

The Office of Resources Management provides Agency financial and administrative management services, including strategic and performance planning and information and human resources.

The Office of Secondary Market Oversight provides for the examination and general supervision of the safe and sound performance of the powers, functions, and duties vested in Farmer Mac.

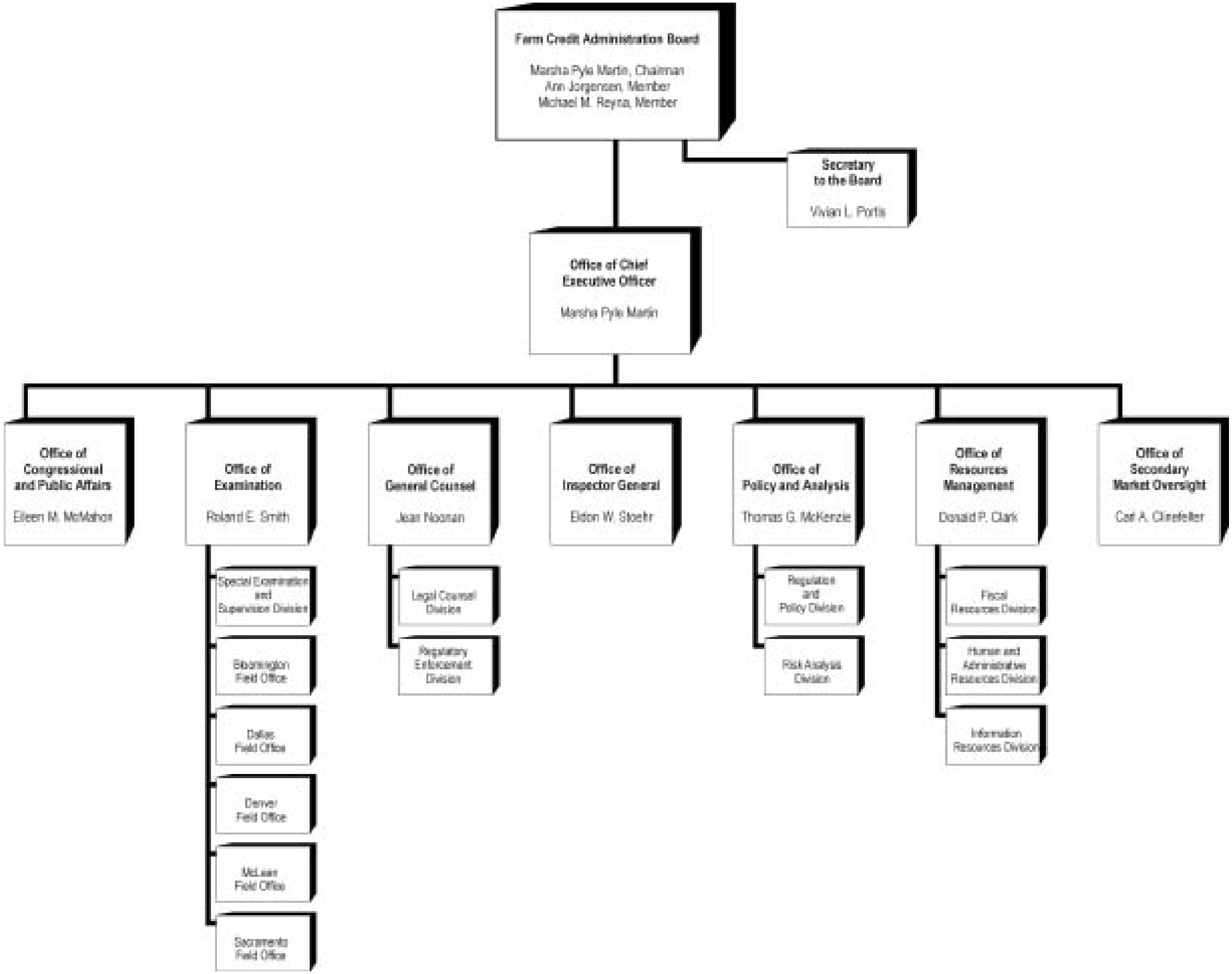
Figure 1 on page 7 depicts FCA's organizational structure as of September 30, 1999.

Officials

Marsha Pyle Martin[4]	Chairman and Chief Executive Officer
Vivian L. Portis[5]	Secretary to the Board
Eileen M. McMahon	Director, Office of Congressional and Public Affairs
Roland E. Smith	Chief Examiner and Director, Office of Examination
Jean Noonan	General Counsel
Eldon W. Stoehr	Inspector General
Thomas G. McKenzie	Director, Office of Policy and Analysis
Donald P. Clark	Director, Office of Resources Management

4. Marsha Pyle Martin served as Chairman and CEO until her death January 9, 2000. Michael M. Reyna was designated Chairman by President Clinton on January 13, 2000, and, by statute, also serves as CEO.
5. Floyd J. Fithian served as Secretary to the Board until his retirement on January 31, 1999.
6. George D. Irwin served as Director, Office of Secondary Market Oversight, until his retirement on October 3, 1998.

Figure 1
Farm Credit Administration
Organizational Structure
(As of September 30, 1999)



Carl A. Clinefelter[6]	Director, Office of Secondary Market Oversight

Farm Credit System Insurance Corporation

The FCSIC was established by the Agricultural Credit Act of 1987 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. By ensuring the repayment of FCS securities to investors, FCSIC helps maintain a dependable source of funds for farmers, ranchers, and other FCS borrowers. FCA Board members serve ex officio as the Board of Directors for FCSIC. The FCA Board Chairman may not serve as the FCSIC Board Chairman.

Farm Credit System

The FCS is a network of borrower-owned cooperative financial institutions and related service organizations, which serves all 50 states and the Commonwealth of Puerto Rico. It is the oldest of the Government-sponsored enterprises (GSEs) and was created by Congress in 1916 to provide American agriculture with a dependable source of credit. System institutions specialize in providing credit and related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. They make loans for agricultural processing and marketing activities; rural housing; certain farm-related businesses; agricultural, aquatic, and public utility cooperatives; and foreign and domestic entities in connection with international trade. The System raises its loan funds by selling securities in the national and international money markets. These securities are not guaranteed by the U.S. Government. The funds are channeled to rural America through the FCS lending institutions.

As of October 1, 1999, the System was composed of 185 institutions. Six Farm Credit Banks provide loan funds to 60 Production Credit Associations (PCAs), 45 Agricultural Credit Associations (ACAs), 50 Federal Land Credit Associations (FLCAs), and one ACA parent with a PCA and an FLCA subsidiary.[7] Three of these banks also make direct long-term real estate loans through 18 Federal Land Bank Associations (FLBAs). PCAs make short- and intermediate-term loans; ACAs make short-, intermediate-, and long-term loans; and FLCAs make long-term loans.

The Agricultural Credit Bank (ACB) makes loans to agricultural, aquatic, and public utility cooperatives and other persons or organizations owned by or having transactions with such cooperatives. The ACB is authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. In addition to making loans to cooperatives, the ACB provides loan funds to four additional ACAs, which serve New York, New Jersey, and the New England states.

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

7. See page 30 for a discussion of the ACA parent structure.

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

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

The Federal Agricultural Mortgage Corporation[8] provides a secondary market for agricultural real estate and rural housing mortgages. Farmer Mac guarantees the timely payment of principal and interest on securities representing interests in, or obligations backed by, mortgage loans secured by first liens on agricultural real estate or rural housing, and on securities backed by the "guaranteed portions" of farm ownership and operating loans, rural business and community development loans, and certain other loans guaranteed by the U.S. Department of Agriculture (USDA). Farmer Mac also purchases or commits to purchase qualified loans or securities representing interests in, or obligations backed by, qualified loans directly from lenders.

FCA also examines the following service corporations organized under Section 4.25 of the Act.[9]

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

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

Farm Credit Financial Partners, Inc., provides support services to the four associations affiliated with CoBank, ACB and 23 of the 26 associations affiliated with the Western FCB.

The FCS Building Association acquires,

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

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

Farm Credit Administration

Performance Achievements

We believe that the Farm Credit System will continue to play an important role in agriculture in the 21st century. To that end, FCA is committed to providing a regulatory environment that enables the System to meet rural America's changing demands for credit and other financial services within the authorities established by Congress. In so doing, our primary focus is to ensure the long-term safety and soundness of the FCS and develop rules and policies that respect market forces. These commitments are captured in the Agency's mission statement:

> The Farm Credit Administration will promote a safe and sound, competitive Farm Credit System to finance agriculture and rural America as authorized by Congress.

One of our key objectives in recent years has been to improve the strategic planning and implementation process to better meet our congressional mandate and the requirements of the Government Performance and Results Act of 1993. The FCA Board's vision is for FCA to be the premier regulator of agricultural financial institutions, ensuring dependable credit for agriculture and rural America. In keeping with this vision, and to help guide operations, the Board adopted two strategic goals for FY 1998–2003.

1. Supervise risk in the Farm Credit System for the benefit of stakeholders.
2. Maximize opportunities for the Farm Credit System to provide competitive and dependable services for agriculture and rural America.

Our Strategic Plan contains eight objectives designed to ensure that the Agency meets the goals. The Performance Achievements section of this report details the accomplishment of these objectives with 13 of our performance measures. An additional seven performance measures relate to achieving effective and efficient administration of Agency operations and improving our communication with Congress and the public.

During FY 1999, our work focused on implementing initiatives to accomplish our strategic goals and developing methods for measuring the Agency's performance. We also committed to improving efficiency, minimizing the cost burden on FCS borrowers, adding value in everything we do, and helping our customers meet the challenges and opportunities of the approaching millennium.

Performance Goals and Outcomes

This section relates our success in achieving various performance measures to the goals and objectives of our Strategic Plan. We have also included a brief description of FCA actions that supported the objective.

Goal 1 — Supervise risk in the Farm Credit System for the benefit of stakeholders.

The purpose of our first goal is to ensure that the Agency accomplishes its primary mission of regulating and supervising the safety and soundness of the Farm Credit System.

Description	Measure and Calculation	Baseline 6/30/98	Goal[10]	Actual
Risk—Financial Institution Rating System (FIRS) The health of	the Farm Credit System, as depicted by the percentage of FCS institution assets assigned to each of the five numeric ratings, i.e., 1 through 5, with 5 representing the poorest rating. 97.7%	2.3% 0% >85% 1+2 <10% 3	<5% 4+5 99.70% 0.30% 0.00% Risk—	Number of Institutions The number of direct-lender institutions
with adversely classified as-	sets to risk funds less than 100 percent divided by the total number of direct-lender institutions. 99.4% >90% 100.0%	Risk—Volume of Risk	The total assets of	direct-lender institutions
with adversely classified assets to risk funds less	than 100 percent divided by the total assets of direct-lender institutions. 97.7% >85% 100.0% Risk—Corrective Actions	with adversely classified	assets to risk	funds greater
than 100 percent with corrective action	The number of direct-lender institutions plans that mitigate the excessive risk. 100% 100% 100% Capital Adequacy The total assets of direct-lender institutions complying with all minimum capital	ratios (permanent capital	ratio, total	surplus ratio,
core surplus ratio, net col-	lateral ratio) divided by the total assets of direct-lender institutions. 96.7% 100% 98.70% System Earnings The 3-year average	tions. 1.72%	≥ 1.25 1.60%	
	Return on Average Assets of FCS institu-			

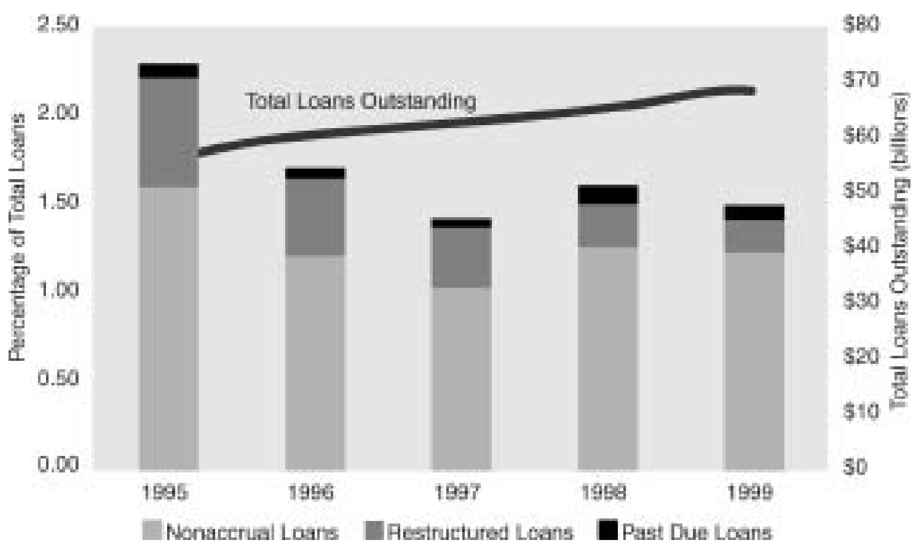
10. The following defines the symbols and abbreviations used to describe goals in the performance tables: < is less than; > is greater than; ≤ is less than or equal to; ≥ is greater than or equal to; NA is not applicable; and TBD is to be determined.

Objective 1 — Enhance the value and effectiveness of FCA's risk-based examination, oversight, and correction of problems in FCS institutions.

As of September 30, 1999, the quality of loan assets, risk-bearing capacity, and stable earnings levels collectively evidence a healthy Farm Credit System[11] (Table 1). These favorable conditions reflect the System's progress in building its financial strength and in improving its management systems during the 1990s. We believe the System's strong financial position will help it weather adverse effects from any expected continued deterioration in the agricultural economy.

Asset Quality — Despite adverse economic conditions in the agricultural sector, the credit quality of the System's loan portfolio did not deteriorate. While loan volume continues to grow, the System has maintained a consistently low level of nonperforming loans[12] (Figure 2). Total nonperforming loans were 1.49 percent and nonaccruals were 1.23 percent of total loans as of September 30, 1999, similar to the 1.60 percent and 1.26 percent levels, respectively, a year earlier. The allowance for loan losses continues to keep pace with the System's increased loan volume.

Figure 2
Nonperforming Loans in the Farm Credit System, 1995-1999
(As of September 30)



Source: Farm Credit System Quarterly Information Statements, Third Quarter.

11. The information presented in this section includes all Farm Credit Banks and the Agricultural Credit Bank and their affiliated associations. The data used in the overall analysis of the FCS was provided by the FCS institutions to the FCA, or to the Federal Farm Credit Banks Funding Corporation. The analysis in this report is based on publicly available information.
12. Nonperforming loans consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due.

Table 1
Farm Credit System Major Financial Indicators[1]
(Dollars in Thousands)

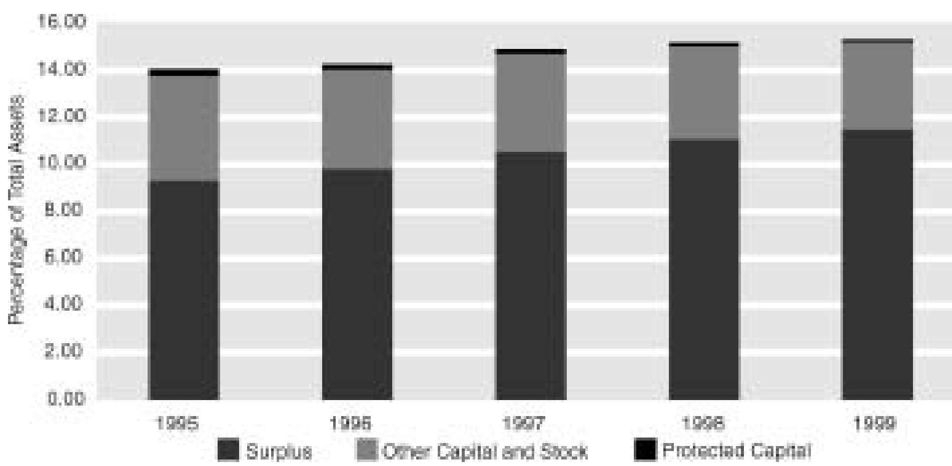
Year to Date	30-Sep-99	30-Sep-98	30-Sep-97	30-Sep-96	30-Sep-95
Farm Credit System Banks[2]					
Gross Loan Volume	63,920,055	60,992,400	58,281,477	56,587,082	53,201,916
Formally Restructured Loans[3]	202,910	280,708	316,486	328,813	369,542
Accrual Loans 90 or More Days Past Due	15,321	35,902	7,803	15,220	15,166
Nonaccrual Loans	438,057	469,550	263,050	292,989	383,369
Nonperforming Loans/Total Loans[4]	1.03%	1.29%	1.01%	1.13%	1.44%
Cash and Marketable Investments	13,389,314	12,678,099	11,428,955	10,797,050	9,792,987
Total Capital/Total Assets[5]	7.80%	8.38%	8.60%	8.57%	8.75%
Total Unallocated Retained Earnings/Total Assets	3.99%	4.06%	4.05%	3.96%	4.27%
Total Net Income	379,919	482,574	503,160	501,287	441,918
Return on Assets[6]	0.66%	0.88%	0.97%	0.98%	0.95%
Return on Equity[6]	8.32%	10.32%	11.16%	11.55%	10.61%
Net Interest Margin	1.35%	1.45%	1.58%	1.70%	1.68%
Operating Expense Rate[7]	0.48%	0.46%	0.51%	0.60%	0.75%
Associations Excluding Federal Land Bank Associations					
Gross Loan Volume	42,759,760	39,975,359	36,330,432	33,794,209	30,850,168
Formally Restructured Loans	72,523	74,400	76,932	90,451	118,727
Accrual Loans 90 or More Days Past Due	38,502	30,746	20,355	18,345	27,739
Nonaccrual Loans	418,474	361,679	383,250	442,427	530,786
Nonperforming Loans/Total Loans[4]	1.24%	1.17%	1.32%	1.63%	2.20%
Total Capital/Total Assets[5]	16.40%	16.12%	16.49%	16.55%	16.94%
Total Unallocated Retained Earnings/Total Assets	13.14%	12.61%	12.49%	12.11%	11.89%
Total Net Income	485,716	526,556	474,647	462,755	452,460
Return on Assets[6]	1.44%	1.66%	1.64%	1.71%	1.84%
Return on Equity[6]	8.78%	10.29%	9.94%	10.31%	10.77%
Net Interest Margin	3.05%	3.16%	3.25%	3.34%	3.48%
Operating Expense Rate[7]	1.65%	1.63%	1.75%	1.81%	1.95%
Total Farm Credit System[8]					
Gross Loan Volume	69,657,000	66,110,000	63,001,000	60,909,424	57,116,554
Formally Restructured Loans3	127,000	161,000	216,000	264,543	351,278
Accrual Loans 90 or More Days Past Due	52,000	66,000	28,000	34,264	42,000
Nonaccrual Loans	857,000	831,000	646,000	735,411	912,563
Nonperforming Loans/Total Loans[4]	1.49%	1.60%	1.41%	1.70%	2.29%
Total Bonds and Notes	70,902,000	67,651,000	63,964,000	62,045,482	58,032,026
Total Capital/Total Assets[5]	15.23%	15.07%	14.73%	14.06%	14.04%
Total Surplus/Total Assets	11.52%	11.09%	10.56%	9.82%	9.33%
Total Net Income	934,000	1,008,000	935,000	951,000	907,000
Return on Assets[6]	1.47%	1.68%	1.64%	1.71%	1.79%
Return on Equity[6]	9.67%	11.07%	11.16%	12.29%	12.76%
Net Interest Margin	2.75%	2.90%	2.93%	3.02%	3.02%

1. Some of the previously published data have been restated to include subsequent adjustments.
2. Includes Farm Credit Banks, the Bank for Cooperatives, and the Agricultural Credit Bank.
3 Excludes loans past due 90 days or more.
4. Nonperforming Loans are defined as Nonaccrual Loans, Formally Restructured Loans, and Accrual Loans 90 or More Days Past Due.
5. Total capital includes protected borrower stock and restricted capital (amount in Farm Credit Insurance Fund).
6. Income ratios are annualized.
7. Defined as operating expenses divided by average gross loans.
8. Cannot be derived through summation of above categories due to intradistrict and intra-System eliminations.
Source: Call Reports received from the Farm Credit System and the Federal Farm Credit Banks Reports to Investors of the Farm Credit System.

As of September 30, 1999, no direct-lender institution had adversely classified assets to risk funds greater than 100 percent. Two institutions with adversely classified assets to risk funds greater than 70 percent are currently under special supervision.

Capital — The FCS continues to build capital through increased loan volume and earnings. Total capital as a percentage of total assets has increased from 14.04 percent as of September 30, 1995, to 15.23 percent as of September 30,1999 (Figure 3). All System institutions met minimum regulatory permanent capital ratios. One institution did not meet the core surplus ratio regulatory requirement (12 CFR 615.5330(b)(1)) at September 30, 1999. The institution is operating under an FCA approved capital restoration plan, which puts it in compliance with FCA regulations.

Figure 3
Farm Credit System Capital as a Percentage of Total Assets, 1995-1999
(As of September 30)



Source: Farm Credit System Quarterly Information Statements, Third Quarter.

Earnings — The FCS reported $934 million in net earnings for the first nine months of the System's fiscal year, which ended December 31, 1999, 7 percent less than the same period a year earlier. Net interest margins continue to decline as competitive pressures increase, with a Systemwide net interest margin of 2.75 percent (annualized as of the nine months ending September 30, 1999), compared with 2.90 percent a year earlier. Earnings and profits continue to be strong, with an annualized return on average assets (ROA) of 1.47 percent. The three-year average ROA was 1.60 percent. The strong earnings and profits are the result of increased capital, loan growth, and low levels of problem assets. Operating expenses as a percentage of loan volume remain steady at 1.40 percent, reflecting a leveling of efficiency gains over the past five years.

The Agency has been successful in obtaining corrective actions that ensure the safety and soundness of each System institution. In order to obtain corrective actions in institutions before problems become serious, we implemented a "special supervision" process that produces corrective actions more quickly, yet achieves the same results as a formal enforcement action would under more serious conditions. During the year, several institutions were placed under special supervision. The boards of these institutions were willing and able to take corrective action. The special supervision process has been successful in resolving problems in a timely manner. Seven institutions are under special supervision as of December 31, 1999. Assets of these institutions total $782 million and represent less than 1 percent of total System assets. These institutions have made progress in resolving the problems in their loan portfolios. As a result, we mitigated the need for formal enforcement actions and, presently, no institutions are under such actions by the FCA Board.

The Financial Institution Rating System (FIRS)[13] has been an effective regulatory tool to encourage corrective action by an institution's board of directors before serious problems arise. During the year, we continuously reviewed the condition and performance of each institution, and each quarter we tested and evaluated all FIRS ratings to determine if the ratings assigned remained valid. If conditions changed, institutions were contacted to discuss causes for changes and, if necessary, we changed the FIRS ratings. In some instances, we accelerated on-site examinations to investigate problems identified by the quarterly review of FIRS ratings.

Semiannual reports on new money, refinancing, and rollover trends in the FCS were prepared as part of our Early Warning System process. The most recent report found that refinancing levels were lower than in 1998. Causes of refinancings during 1999 included a slightly higher interest rate environment and less favorable agricultural economic conditions. Overall, patterns for the first six months of 1999 were similar to patterns of the past five years for most institutions for direct new money, refinancing, and conversions of accrued interest. Thus, no major concerns existed regarding the FCS refinancing existing debt.

As part of our Early Warning System, we prepared and issued a report on trends in national agricultural real estate values. The report is a valuable tool for analyzing System risk management practices. We found that risk remains stable even though agricultural real estate values have increased over the past five years. However, declining trends in agricultural prices, especially for grains and livestock, could place added downward pressure on agricultural real estate values and thus increase the risk in association portfolios by reducing farmer equity and tightening the loan-to-collateral margins.

13. A discussion of the FIRS appears on page 29.

We are in the final stages of developing a loan portfolio stress test model that can test the characteristics of risk in a loan portfolio under various scenarios to determine what effect changed conditions can have on the risk profile of an institution. We established a workgroup to develop a model that can be used to stress test loan portfolios of institutions. We plan to add the features of this model to our Early Warning System.

During the year, we completed two analyses of the potential effects that stress in the agricultural environment would have on System institutions over the next 12 and 24 months. In the most recent report, as of June 30, 1999, the results indicated that while pockets of stress may occur in certain regions, the financial condition of the System is projected to remain sound at June 30, 2000, and June 30, 2001, under "most likely" and "worst case" scenarios, respectively.

The work of our loan underwriting standards task force continues as part of our [illegible]e underwriting standards and complia[illegible]t and as[illegible]

Description	Measure and Calculation	Baseline 6/30/98	Goal	Actual
Year 2000 Compliance	The percentage of FCS institutions and FCA that develop programs to meet established timelines to achieve year 2000 compliance in all mission-critical systems by 12/31/99.	99%	100%	100%
Year 2000 Contingency Plans	The percentage of FCS institutions and FCA having contingency plans in place when mission-critical systems have not been certified to be year 2000 compliant by 12/31/99.	0%	100%	100%

risk. We assembled a database that contains all quantitative underwriting criteria for each System institution. The database will be used to prepare and distribute comparative information on underwriting standards to our examiners.

Objective 2 — Ensure that the information systems of the FCS and FCA are effective in delivering appropriate data and analytical tools in the year 2000 and beyond.

Year 2000 (Y2K) activities remain a primary focus of the Agency as well as System institutions. The Agency and the System met established timelines to be Y2K compliant in all mission-critical systems by December 31, 1999. Likewise, the Agency and System institutions have contingency plans in place for mission-critical systems that have not been certified to be Y2K compliant. During the year, we provided regular reports to the Senate Agriculture Committee and the Office of Management and Budget.

lemented an off-the-shelf financial mai stem (FII

Description	Measure and Calculation	Baseline 6/30/98	Goal	Actual
Customer Acceptance Customer	acceptance of FCA's examination and supervisory programs through the average of the ratings received on the following survey questions (1 to 5, with 1 being the highest):			
	• The board and management believe the findings of the examination will assist (or have assisted) the institution in correcting identified weaknesses.	1.9	$\leq$ 2.25	NA
	• The board and management believe the actions required by the enforcement document will assist (or have assisted) the institution in correcting identified weaknesses.	NA	$\leq$ 2.5 1.83	

which successfully passed unit-testing phases, and no Y2K issues surfaced. An independent review of the Agency's information systems was conducted during the latter part of the year. Actions are being taken to address the 20 recommendations noted in the review.

Objective 3 — Enhance operations in regulated institutions through appropriate guidance.

We issued 42 Informational Memorandums to the System that covered safety and soundness issues. Operational guidance covered primarily Year 2000 readiness, allowance for loan losses, loan pricing, credit bureau reporting, and administration of general financing agreements. We also provided information such as Examination Manual updates, Stress Analysis Reports, and the FIRS Rating Guide.

In response to the collapse of prices for hogs, the FCA Board adopted a policy statement that urged System institutions to work with affected pork producers. We prepared a special report on hog loans that identified System institutions with high concentrations in and potential risk exposures to the hog industry. We evaluated how institutions are dealing with the risk inherent in high concentrations of such loans, as well as any impact on the institutions' financial condition.

The FCA Board adopted a policy statement regarding credit and related needs of young, beginning, and small (YBS) farmers and ranchers.[14] We modified examination programs and focus areas to assess each institution's commitment to provide reliable, consistent, and constructive credit to YBS borrowers, as well as minority borrowers.

14. A discussion of the System's service to YBS farmers and ranchers appears on page 35.

We attended or held several productive meetings with System representatives to discuss safety and soundness issues. One of the more important subjects focused on risk management tools to protect institutions from emerging risks in agriculture. We have encouraged System officials to make better use of various risk management tools for individual borrowers, such as: (1) Farm Service Agency guarantees, d guarantees, (3) insurance coverage, (4 nd forwa

Description	Measure and Calculation	Baseline 6/30/98	Goal	Actual
Examination Frequency	The percentage of examinations of FCS institutions meeting statutory examination frequency requirements.	100%	100%	100%

pricing, (5) additional collateral, and (6) participations with other lenders. We met with the chief credit officers of the System banks to discuss credit classifications, the FIRS rating process, and the need for System institutions to share information and coordinate on loans to the same borrower. We also provided training on loan underwriting standards to more than 75 System credit officers and managers.

Objective 4 — Ensure that FCA has the appropriate tools to address emerging risk in the FCS.

We successfully established a forum to discuss issues with regulators of other Government-sponsored enterprises. We met periodically with the Office of Federal Housing Enterprise Oversight, the Federal Housing Finance Board, and the U.S. Treasury Department office responsible for the Student Loan Marketing Association. These meetings reflect our continuing efforts to maintain an awareness of what is happening in the GSE environment. Typically, we discuss the principles of the examination process and share knowledge and resources in our respective examination programs.

The Agency sponsored a Loan Portfolio Management Symposium and a Pork Commodity Conference. During the year, we hosted conferences to give financial regulators and System officials opportunities to discuss how adverse agricultural conditions were affecting financial institutions and agricultural producers.

We successfully conducted an orientation program for new directors of System institutions. Twenty-five System institution directors attended the orientation.

We remain successful in marketing our Agency training and precommissioning training program. We entered into an interagency agreement with the Office of Thrift Supervision to provide training for its examiners in Dallas, Texas.

Updates to the examiner commissioning program progressed according to plan. All courses have been revised or a plan is in place. During the year, we provided train-

ing for newly hired precommissioned examiners.

We maintained frequent contact with the accounting staff of other regulatory agencies, the Financial Accounting Standards Board, and the Systemwide Accounting Standards Work Group. These contacts are useful in keeping us informed on financial disclosure issues that have implications for the System. During the year, we attended meetings of the Federal Financial Institutions Examination Council's (FFIEC's) Supervisory Task Force, as well as periodic meetings of external and internal System auditors. We also monitor and observe the FFIEC meetings to help coordinate our regulatory and supervisory activities with the other Federal financial regulators.

Goal 2 — Maximize opportunities for the Farm Credit System to provide competitive and dependable services for agriculture and rural America.

The purpose of Goal 2 is to take actions that will maximize opportunities for the FCS to provide competitive and dependable services for agriculture and rural America. We focused our regulation and policy development program on:

- Streamlining our policy development process,
- Producing "user-friendly" rules,
- Reducing regulatory burden, and
- Improving the quality of our regulations and policies through communication with our customers and achieving greater public involvement.

To measure our performance in these areas, we developed three quantitative Agency-level performance measures for effective regulation and public policy. We continue to refine the measures to better reflect the public policy outcomes we want to carry out in partnership with the FCS. Along with these performance measures, FCA's Strategic Plan lists four objectives under Goal 2 that provide more specific guidance and direction for our activities in support of this goal. Following a discussion of the performance measures, we summarize some of the more important accomplishments during FY 1999 for each strategic objective.

In 1999, we performed at levels higher than our goals for two of three measures. As shown in the following chart, we completed 92 percent of the regulatory projects included in our annual Regulatory Performance Plan, which exceeded our performance goal of 90 percent. In addition, we completed one additional regulation project not contained in the annual Regulatory Performance Plan, the Release of Information regulation. We also used "special"[15] customer service focus or features

15. "Special" customer service focus or features include the following rulemaking techniques: Advance Notice of Proposed Rulemaking (ANPRM); Fast-Track/Streamlined Regulation Development Procedures; Direct Final Rulemaking; Reproposal or Resolicitation of Public Comments; Comment Period Extension; and Information Meetings with constituents or focus groups.

Description	Measure and Calculation	Baseline 6/30/98	Goal	Actual
Completed Regulation Projects	The percentage of regulatory projects completed in the Board-approved annual Regulatory Performance Plan.[16] (The baseline is the projected accomplishment for FY 1998.)	92%	>90%	92% Regulation
Projects Using Special Rulemaking Methods The percentage of regulations	completed that utilize "special" customer service focus or features. (The baseline is the projected accomplishment for FY 1998.)	100%[17] >40%	58%	Regulations
Meeting Original Objectives The percentage of	regulations that customers believe meet the regulation's original objectives. Regulatory objectives are to: • Involve the public • Achieve the stated objective • Promote safety and soundness • Recognize market forces and promote competition • Encourage innovation and provide flexibility • Establish standards that are appropriate • Use plain language that is easy to understand TBD	TBD[18]	NA	

on 58 percent of rules developed last year, exceeding our 40 percent performance goal. Our final performance measure involves customer beliefs of whether a regulation meets its original objectives. During 1999, we made significant progress in developing a customer survey for this measure. We expect to have sufficient data and experience with the third measure to establish an appropriate performance goal in FY 2001. Furthermore, we are exploring ways to better measure whether the FCS is meeting its public policy purpose of furnishing adequate, sound, and competitive credit to farmers, ranchers, and their cooperatives. We want to identify additional measures needed during FY 2000 and begin testing them in FY 2001.

Along with achieving quantified performance standards for the regulation development process, we had significant qualitative accomplishments for Goal 2. During 1999, we began implementation of the FCA Board's philosophy statement on competition, which addressed important policy issues for providing cost-effective credit and other services to agriculture and rural America. Under this initiative, we sought to:

- Provide farmers, ranchers, and other eligible customers a choice for credit and related services,
- Lower the cost of credit and improve services for producers and rural customers,

16. The FCA Board decided to postpone action on one approved regulatory project, the final Customer Choice rule, until FY 2000.
17. At September 30, 1998, the baseline performance for the full year was 77 percent.
18. We continued to explore ways to measure this goal. A survey of our principal stakeholders is being considered for implementation in FY 2000.

- Ensure that agricultural creditors remain responsive to constant changes in agricultural and rural economics,
- Improve the operating efficiencies of System institutions, and
- Maintain safe and sound lending practices of System institutions.

Key accomplishments under this initiative include enhancing our internal Early Warning System, evaluating flexibility for System institution governance, initiating a rulemaking that would allow customer choice, reducing regulatory burden, and approving novel corporate applications. Approval of novel corporate applications is particularly important because the approvals help address governance and operational issues that have long stymied System institution restructuring. One such novel corporate restructuring application approved by the FCA Board will likely result in significant tax savings and other efficiencies throughout the FCS.

Objective 1 — Encourage new initiatives that help FCS institutions serve the evolving needs of agriculture and rural America.

We approved novel corporate applications resulting in new types of System structures that provide the FCS greater flexibility for serving its customers. The new structures contribute to FCS operational efficiency, comprehensive product offerings, and significant savings of tax and other expenses. To aid institutions considering whether to adopt the new ACA operating subsidiaries model structure, we conducted workshops for System personnel. The workshops saved both time and dollars for the Agency and for the associations that plan to submit applications. We successfully communicated to System institutions new opportunities for restructuring and demonstrated our commitment to processing restructuring requests under new, streamlined approval procedures.

During the year, we eliminated unnecessary FCA approvals of the transfer of capital between System institutions. Similarly, we revised our investment regulations to provide more flexibility to System institutions and issued guidance on how to seek approval for mission-related investments. Mission-related investments permit System institutions to form alliances and partnerships with other institutions to provide additional financial and other services to FCS customers.

We also supported the use of various Farmer Mac products, such as long-term standby purchase commitments, to allow System institutions to more effectively manage credit risk and capital requirements. For instance, we adjusted FCS institution risk-based capital requirements for long-term standby purchase commitments from Farmer Mac, given the significantly reduced credit risk exposure. To facilitate additional agricultural credit, we provided guidance on how System institutions can take part in the new rural lending program sponsored by USDA's Farm Service Agency Rural Development Authority.

In our continuing effort to reduce regulatory burden, we provided institutions greater flexibility in the areas of loan sales, secondary market activities, and disclosure of borrower information. This will help FCS institutions to better serve the evolving needs of agriculture and rural America.

Objective 2 — Promote better customer service at lowest cost through support of healthy competition.

Our accomplishments for this objective resulted from projects implementing the Board's July 1998 philosophy statement. We proposed a Customer Choice rule that would change the competitive landscape for agricultural credit well into the future. This rule was intended to increase customer use of the FCS, improve efficiencies, and result in lower interest rates and better service to farmers, ranchers, and rural America. We also issued final leasing regulations that are clearer and provide greater flexibility to System institutions. In addition, we developed a funding cost comparison report that compares the costs of Farm Credit banks to their direct lender associations. The report was provided to the System Leadership Committee and continues to generate dialogue. We hope to further improve funding efficiencies at the wholesale bank level by disclosing to all FCS associations the funding costs and programs offered by each Farm Credit bank.

Objective 3 — Ensure that the FCS has the ability to compete in global markets.

We sponsored a Loan Portfolio Management Symposium, as well as several smaller conferences relating to weaknesses in the current agricultural economy. We assisted one System institution in its effort to establish an office and a contact point in South America and removed regulatory burdens related to the issuance of letters of credit that finance international agricultural trade. We made presentations to several foreign delegations on agricultural credit in the United States and FCS. We monitored the global marketplace and prepared timely analysis to support the policy development process. We worked with USDA to establish an interagency agreement for FCA staff to provide consulting services to help develop a regulatory structure for South African credit cooperatives. To further enhance our global perspective, we continue to evaluate marketplace trends and develop appropriate strategic responses in our policy formulation.

Objective 4 — Support the continuance of the FCS as a Government-sponsored enterprise for agriculture.

In congressional testimony and annual Information Exchange meetings with our stakeholders, we addressed the potential benefits of GSE status and conveyed our estimate that it saves farmers and ranchers at least $350 million per year. We also discussed the benefits of GSE status as a part of our annual Information Exchange meetings with our principal stakeholders. In 1999, we began monthly publication of the FCA Newsline to communicate important news and information to the public about FCA and the Farm Credit System. The FCA Board issued a policy statement and reporting guidelines on lending to young, beginning, and small farmers and ranchers. This statement encourages boards of directors to renew their commit-

ment as lenders to YBS borrowers and enhances our ability to report on such programs. The improved reporting requirements help communicate how the System is being responsive to its public policy role in lending to YBS farmers and ranchers. Through our examination process, we encouraged System institutions to review their minority lending programs and compare results achieved against market potential. We also studied various risk management programs for farmers, including crop and revenue insurance, and other features of the farm safety net.

We introduced the FCA Board's Strategic Vision to Agency employees. FCA's vision is to ensure dependable credit for agriculture and rural America by taking the Agency's "best people, best practices, and best products" concept to new partners and expanded opportunities.

Management Focus Areas

In addition to taking substantial action to implement activities to accomplish our two strategic goals, we wanted to continue improving our service delivery process and reduce costs to the FCS where possible. In FY 1999, we installed a new financial management system to improve information and controls. We also tested all mission-critical applications for potential Year 2000 issues. The few problems that were identified were all resolved in the normal course of business. FCA was the first Federal agency to publish its electronic records schedule in the Federal Register.

In a continuing effort to improve communication, we sponsored Information Exchange meetings with board members and presidents of FCS institutions. The meetings focused on a vision for Farm Credit's future, and the theme was "Building a Foundation for the 21st Century." These meetings provided an opportunity for two-way communication on topics ranging from the Agency's internal operations to current regulatory issues. FCA Board members and executives visited FCS institutions, farmer and agricultural organizations, and Agency field offices. We conducted a Loan Portfolio Management Symposium that was attended by more than 250 regulators and lenders. We also worked closely with Congress by providing testimony and staff briefings on several issues — the health of the Farm Credit System, agricultural credit and farm income issues, and the Agency's regulatory initiatives, including the proposed Customer Choice regulation.

During FY 1999, we exercised effective controls over spending with actual costs totaling $34.18 million. We provided testimony to the House and Senate Appropriations subcommittees on the Agency's budget request for FY 2000. The $35.8 million FY 2000 budget request, which was the same amount requested for FY 1999, was approved by the committees, Congress, and the President. We estimate that $2.55 million will be applied to reduce the FY 2000 assessments paid by FCS institutions. The $2.55 million is composed of unobligated assessments, earned interest and miscellaneous income in FY 1999. We responded to requests from the public for information about our programs and operations and conducted 52 reviews based on inquiries about borrower rights.

Description	Measure and Calculation	Baseline 6/30/98	Goal	Actual
Opinion on FCA Financial Statements	Opinion received on FCA's financial statements is Unqualified. Yes	Yes Yes	FMFIA	Material Weak-
nesses Number of material weaknesses	noted in the Federal Managers' Financial Integrity Act letter from the Agency Chairman/CEO to the President. 0	0 0	FCA Cost to FCS	Cost of FCA to
FCS borrowers (FCA's actual	expenses divided by average total System assets). $.0004	<$.0005	$.000369	Disposition of External
Correspondence The percentage of inquiries and complaints from	Congress and the general public that: • Are answered within specified time frames • Do not require supplemental responses due to inaccurate or incomplete information. 40%[20]	76% 98%	98% 50%	97% Congressional Consider-
ations Congressional rejection of proposed final	FCA regulations and proposed legislative initiatives, or requests for delay in FCA Board action on regulations. 0	0	1[21]	Budget Limita-
tions Percentage of the Agency's	annual budget request approved by Congress without conditions. 100%	100% Issuance of	External	Reports Percent-
age of external reports issued on time in accor-	100% dance with the Publication Schedule. 100% 100%	100%		

19. The FCA Annual Financial Report begins on page 42.
20. New measures are being developed that better portray FCA's commitment to respond to requests from external sources. These measures will be implemented in FY 2000.
21. One proposed final regulation, Customer Choice, was delayed for FCA Board action at the request of a congressional committee.

We reduced occupancy costs through consolidation of space and housing FCA staff in the System-owned Farm Credit Building in McLean, Virginia. During FY 1998, we reduced our space requirements by 5,500 square feet, which generated $137,500 in additional income for the FCSBA during calendar year 1999. FCA's net occupancy costs during calendar year 1999 for the McLean location were $3.73 per square foot, substantially below the average rental rates for similar office space in Northern Virginia ($27 per square foot) and Washington, D.C. ($39 per square foot).

For the sixth consecutive year, the FCA received an unqualified opinion on its financial statements from its external auditor.[19] Two reportable conditions from the FY 1998 audit, having to do with inadequate procedures for detecting manipulation of financial statement information and inadequate controls over the payroll audit function, were remedied in early FY 1999.

Highlights of FCA Activities

Regulations and Policy Statements

FCA has statutory authority to establish policy and prescribe rules and regulations necessary or appropriate to fulfill its duties and carry out the purposes of the Farm Credit Act of 1971, as amended. The Agency promulgates policy statements and regulations to ensure that the Farm Credit System complies with the law and operates in a safe and sound manner. Furthermore, as the independent regulator of the System, the FCA is responsible for protecting the public's interests. Therefore, the FCA Board strives to adopt sound and constructive policies and regulations, using a proactive and preventive approach, to reflect the changing needs of agriculture. The FCA Board's objective is to promulgate regulations that achieve safety and soundness goals while minimizing regulatory burden on System institutions. Fiscal year 1999 was an active regulatory year. Following are brief summaries of the final and proposed rules and policy statements adopted by the FCA Board.

Final Regulations

Balloting and Stockholder Reconsideration Issues — This final rule amended FCA regulations concerning Farm Credit System ballots and the effective dates for mergers, consolidations, or transfers of direct lending authority from a Farm Credit Bank or Agricultural Credit Bank to a Federal Land Bank Association. The amendments allow the use of identity codes on ballots if the votes are tabulated by an independent third party; limit the scope of the regulation to System banks and associations; and remove from the regulations descriptions of specific balloting procedures. The amendments also change the effective date of a merger, consolidation, or transfer of lending authority from 50 days to 35 days after stockholder notification, or 15 days after submission of documents to the FCA for final approval, whichever occurs later. The amendments provide more flexibility to institutions and stockholders when stockholder votes occur, extend security and confidentiality requirements to all stockholder votes of banks and associations, apply such requirements only to banks and associations, and accelerate the effective date of the above-described corporate actions. (Adopted November 12, 1998; published November 24, 1998 [63 FR

64841]; effective February 11, 1999)

FCS Board Compensation Limits — This final rule amended FCA regulations on FCS bank director compensation. The amendment replaced the requirement for FCS banks to obtain our prior approval before paying their directors more than the generally applicable limit. Banks must document the exceptional circumstances justifying additional compensation. (Adopted March 23, 1999; published April 6, 1999 [64 FR 25423]; effective May 11, 1999)

Investment Management — These regulations will help FCS banks and associations respond to rapid and continual changes in financial markets and instruments. The final regulations: expand the list of high-quality investments that FCS banks and associations can purchase and hold to comply with the requirements of § 615.5132 and redesignated § 615.5142, respectively; provide more flexibility for FCS institutions to use comprehensive analytical techniques to manage risks at the portfolio or institutional level; strengthen our requirements for sound investment management practices; and provide more flexibility for FCS banks and associations to invest in mortgage securities issued or guaranteed by the Federal Agricultural Mortgage Corporation. (Adopted May 13, 1999; published May 28, 1999 [64 FR 28884]; effective July 15, 1999)

Leasing Authorities — The FCA Board adopted final leasing regulations to provide FCS institutions, including the Farm Credit Leasing Services Corporation, clear and concise regulatory guidance concerning leasing activities. On October 15, 1997, we published a proposed rule (62 FR 53581) to replace the existing regulatory guidance about FCS institutions' leasing activities. After reviewing the comments received, we asked for additional comment on a reproposed rule (63 FR 56873, October 23, 1998). We adopted a final rule addressing a number of issues regarding leasing, including underwriting standards, lease participations, and borrower rights requirements. (Adopted June 10, 1999; published June 28, 1999 [64 FR 34514]; effective August 6, 1999)

Releasing Information — This final rule amended FCA regulations on the release of information under the Freedom of Information Act to reflect new fees and make it easier for the public to get FCA records, revise the procedures for requests for testimony by FCA employees on official matters and for producing FCA documents in litigation when FCA is not a named party, and add procedures for getting records in public rulemaking files. (Adopted July 8, 1999; published August 2, 1999 [64 FR 41770]; effective October 6, 1999)

Regulatory Burden — The FCA Board approved a direct final rule, with opportunity for comment, amending parts 612, 614, and 618. This direct final rule reduces regulatory burden on the System by repealing or amending several regulations. These revisions provide System banks and associations with greater flexibility concerning loan sales, agricultural secondary market activities, loans to insiders, letters of credit, information programs, travel expenses, and disclosing borrower information during litigation. The opportunity for comment expired on September 8, 1999. We received an adverse comment on the direct final rule regarding insider loans

and withdrew the revision to subpart M of part 614. All other regulations in the direct final rule became effective. (Adopted July 8, 1999; published August 6, 1999 [64 FR 43046]; effective October 13, 1999)

Transfers of Capital from Banks to Associations — In this final rule, we amended the FCA regulation previously entitled "Additional Investments of Farm Credit Banks." We removed the requirement that Farm Credit Banks and Agricultural Credit Banks (collectively referred to as banks) obtain our prior approval before making certain transfers of capital to affiliated associations. Instead, we require banks to take into account certain considerations, and to notify bank shareholders and us, before making such transfers. This amendment benefits banks and their associations because it provides clear guidelines and streamlined procedures for banks to follow when they wish to transfer capital to associations. It also enables them to transfer the capital in a more timely manner. (Adopted August 12, 1999; published September 15, 1999 [64 FR 49959]; effective October 21, 1999)

Proposed Regulations

Customer Choice — On November 9, 1998, we published a proposed rule in the Federal Register to amend regulations in parts 611, 614, and 618 so farmers, ranchers, and other eligible customers could seek financing and related services from any FCS lender operating under title I or II of the Farm Credit Act of 1971, as amended. The rule proposes to eliminate notice and consent requirements that often prevent an FCS lender from serving customers beyond its designated territory. At the same time, the rule continues to ensure that every eligible customer will have access to FCS credit and related services. The comment period was scheduled to expire on February 8, 1999. On December 10, 1998, in response to several requests, the Board extended the comment period until May 10, 1999 (see 63 FR 69229, December 16, 1998). (Adopted October 8, 1998; published November 9, 1998 [63 FR 60219])

Farmer Mac Risk-Based Capital — This proposed rule, adopted by the FCA Board, through the Office of Secondary Market Oversight, would amend FCA regulations to establish risk-based capital requirements for Farmer Mac. The proposed regulations in part 650, subpart B, set forth the risk-based capital rules for Farmer Mac, including definitions, methods, parameters, and guidelines for developing and implementing the risk-based capital stress test; specify capital calculation, reporting, and compliance requirements; delineate our monitoring, examination, supervisory, and enforcement activities; and prescribe certain policy requirements for business and capital planning. (Adopted September 30, 1999; published November 12, 1999 [64 FR 61739])

Termination — This proposed rule would amend the FCA's regulations that allow System institutions to terminate their FCS status and become financial institutions under another Federal or State chartering authority. The proposal would amend the existing regulations so they apply to all banks and associations and would make other changes. (Adopted September 30, 1999; published November 5, 1999 [64 FR 60370])

Policy Statements

Interest Rate Risk Management (FCA-PS-74) — This policy statement provides guidance to System institutions other than Farmer Mac concerning interest rate risk management. The policy statement also describes the Agency's approach to evaluating interest rate risk when making a determination of capital adequacy; identifies key elements of sound business principles and practices for interest rate risk management by a System institution; and provides criteria by which examiners will evaluate the adequacy and effectiveness of a System institution's interest rate risk management. (Adopted December 10, 1998; published December 16, 1998 [63 FR 69285]; effective December 10, 1998)

FCS Service to Young, Beginning, and Small Farmers and Ranchers (FCA-PS-75) — This policy statement encourages each FCS institution to renew its commitment to providing credit and related services to young, beginning, and small farmers, ranchers, and producers or harvesters of aquatic products. The policy addresses the FCA Board's position on the System's service to YBS borrowers and coordination with other parties while maintaining safe and sound lending programs. (Adopted December 10, 1998; published December 21, 1998 [63 FR 70406]; effective December 10, 1998)

Temporary Relief for Pork Producers (FCA-PS-76) — This policy statement recognizes that conditions in the pork industry have resulted in the lowest prices in nearly 50 years and have created economic hardship for many hog producers. In the interest of providing the most efficient and highest quality service to agricultural borrowers, the policy statement encourages FCS institutions to work to help alleviate pressures on borrowers under stress. (Adopted January 14, 1999; effective January 14, 1999)

Litigation

IBAA and ABA v. FCA

On January 19, 1999, the United States Court of Appeals for the District of Columbia Circuit substantially upheld the FCA's regulations governing eligibility and scope of Farm Credit System financing. The Independent Bankers Association of America (IBAA) and the American Bankers Association (ABA) had challenged portions of FCA's regulations in a complaint filed on April 9, 1997, in the United States District Court for the District of Columbia. On November 24, 1997, the District Court found in FCA's favor, stating that the FCA "had acted well within its regulatory authority in each of the five sections in question."

The plaintiffs filed an appeal from the District Court's decision on January 20, 1998, and on October 9, 1998, the Court of Appeals heard oral arguments from each of the parties. The Court of Appeals stated that with "the exception of regulations governing rural housing and certain Farm Credit Bank loans to farm-related businesses, we hold that the agency's regulations are consistent with the statute's language and congressional intent." The court upheld two of the three challenged provisions of the farm-related business regulation: the revised eligibility for processing and marketing loans and the revised regulations for lending to service cooperatives. The court specifically affirmed FCA's removal of limitations in the farm-related business regulation that permitted financing

only for custom-type services and the elimination of restrictions on the sale of goods.

The court qualified provisions of the regulations governing farm-related businesses and rural housing. Loans to farm-related businesses by FCS lenders that offer only long-term mortgage loans must be limited to financing land, buildings, equipment, and initial working capital, according to the opinion. The court also disagreed with the provision that permitted the FCS to finance rural homes for borrowers who are not rural residents.

Examination

FCA conducted 145 examinations in FY 1999. This included 119 examinations of FCS direct lender institutions, 18 FLBAs, four FCS service corporations, the Federal Farm Credit Banks Funding Corporation, the FCS Financial Assistance Corporation, Farmer Mac, and the National Consumer Cooperative Bank, which is not an FCS institution. Also in 1999, the Small Business Administration (SBA) sought out FCA's expertise. SBA asked FCA to conduct examinations of certain financial companies licensed by SBA to make guaranteed loans to small businesses.

Examinations are conducted in accordance with risk-based examination principles whereby resources are deployed based on the level of risk in each institution. We identify, evaluate, and proactively address these risks on an ongoing basis through our Early Warning System and oversight programs.

FCA's Financial Institution Rating System is similar to the rating systems used by other Federal banking regulators. However, it has been modified to reflect the nondepository nature of FCS institutions and strengthened to enhance the timeliness of changes in ratings to reflect changes in conditions of institutions. The ratings are based on an evaluation of each institution's capital, assets, management, earnings, liquidity, and sensitivity to interest rate risk. This evaluation results in an overall composite rating for each institution on a scale of 1 to 5. A 1 rating means an institution is basically sound in every respect. A rating of 3 means an institution exhibits a combination of financial, management, operational, or compliance weaknesses ranging from unsatisfactory to moderately severe. A 5 rating means there is an extremely high immediate or near-term probability of failure. As of the end of FY 1999, institutions rated 1 or 2 represented 97.4 percent of all rated institutions. There were five 3-rated institutions, representing 2.6 percent of the number of rated institutions and .08 percent of the System's assets. No institutions were rated 4 or 5.

We continue to pursue means to enhance risk identification. The FCA Early Warning System identifies existing and prospective risk in FCS institutions. Each institution is reviewed quarterly to identify changes in institution risk characteristics, and the FIRS rating is adjusted as needed. In addition, we use our financial forecasting model semiannually to identify and evaluate prospective risk in institutions over the next 12 to 24 months under "most likely" and "worst case" scenarios. This includes monitoring trends in prices for various commodities. These activities represent a proactive approach intended to evaluate an institution's financial condition and performance under various scenarios to identify institutions with emerging risks and the potential for deterioration. This allows us to implement our differential supervision program to address and correct potential problems. We continue to enhance our modeling capabilities so that we can timely identify economic developments that may affect the financial condition of FCS institutions.

We continued to focus on Year 2000 examination activities, closely monitoring progress made by each institution to mitigate the risks associated with the century date change. As of June 30, 1999, we had rated all FCS institutions as satisfactory with regard to Year 2000 preparedness. FCS institutions have implemented corrective actions and developed operational contingency plans to ensure business continuity. We will continue to monitor institutions during the Year 2000 to ensure problems are identified and addressed.

Enforcement

FCA can use various forms of enforcement authority to ensure that the operations of FCS institutions are safe and sound and comply with statutes and regulations. This authority includes the power to enter into formal agreements; issue orders to cease and desist; levy civil money penalties; and suspend or remove officers, directors, and any other persons or prohibit them from participating in FCS institutions' affairs. If the FCA Board votes to take an enforcement action, our examiners oversee the performance of FCS institutions to ensure compliance.

In FY 1999, we implemented a process that initiated proactive measures to correct problems before irreparable harm occurs in FCS institutions. This process is used in instances where the institution's board and management are both willing and able to correct the problems that threaten the institution's safety and soundness. In each case, the institution is placed under "special supervision," which involves closer coordination between the affected institution and the Agency until the weaknesses are corrected. This process allows the institution to correct identified weaknesses before more stringent enforcement actions by the Agency become necessary.

At the beginning of FY 1999, only one institution, which accounted for less than 5 percent of the System's assets, was under enforcement action. As of September 30, 1999, no institutions were under enforcement action nor were any in receivership or conservatorship. The declining trend in the number of institutions under enforcement action is another indication of the System's sound financial condition. This sound financial condition reduces the risk to FCS institution customers/stockholders, investors in FCS debt obligations, and the Farm Credit System Insurance Corporation.

Corporate Activity

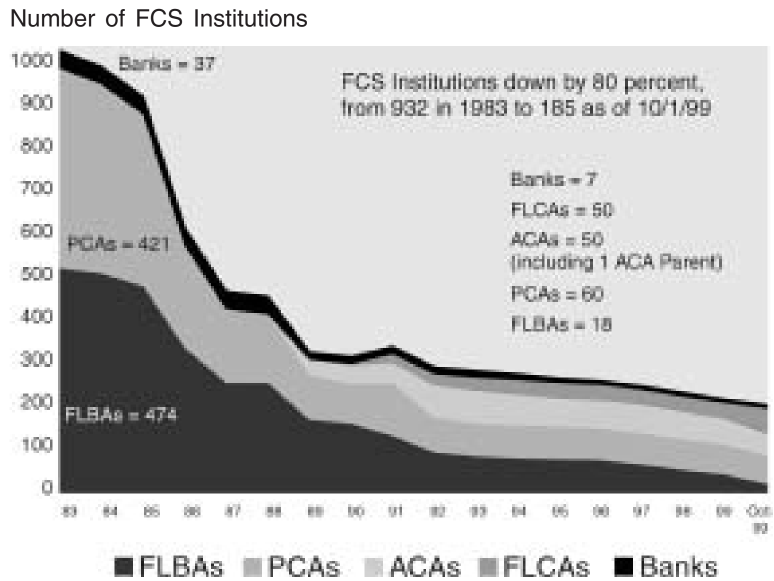
During FY 1999, the FCA Board approved 46 corporate applications. These consisted of one bank merger, one

22. More detailed information on FCA Board approval of specific corporate applications in 1999 can be found on FCA's Web site at www.fca.gov.

request to restructure an Agricultural Credit Association by establishing a PCA and an FLCA as wholly owned subsidiaries of the ACA parent, and one proposal from a Farm Credit Bank to transfer authority to make long-term real estate mortgage loans to its affiliated Federal Land Bank Associations. The approved corporate applications also included 19 requests from FLBAs to form Federal Land Credit Associations, 10 association mergers, three FLBA mergers combined with requests to form FLCAs, one service corporation charter amendment, nine association name changes, and one association headquarters relocation.[22]

On July 1, 1999, the St. Paul Bank for Cooperatives (BC) merged into CoBank, ACB. The St. Paul BC charter was cancelled simultaneously with its merger into CoBank. CoBank is now the only System institution with authority to make loans to agricultural, aquatic, or public utility cooperatives under Title III lending authority of the Farm Credit Act of 1971.

Figure 4
Trend in Numbers of Farm Credit Banks and Associations, 1983-1999
(As of January 1)

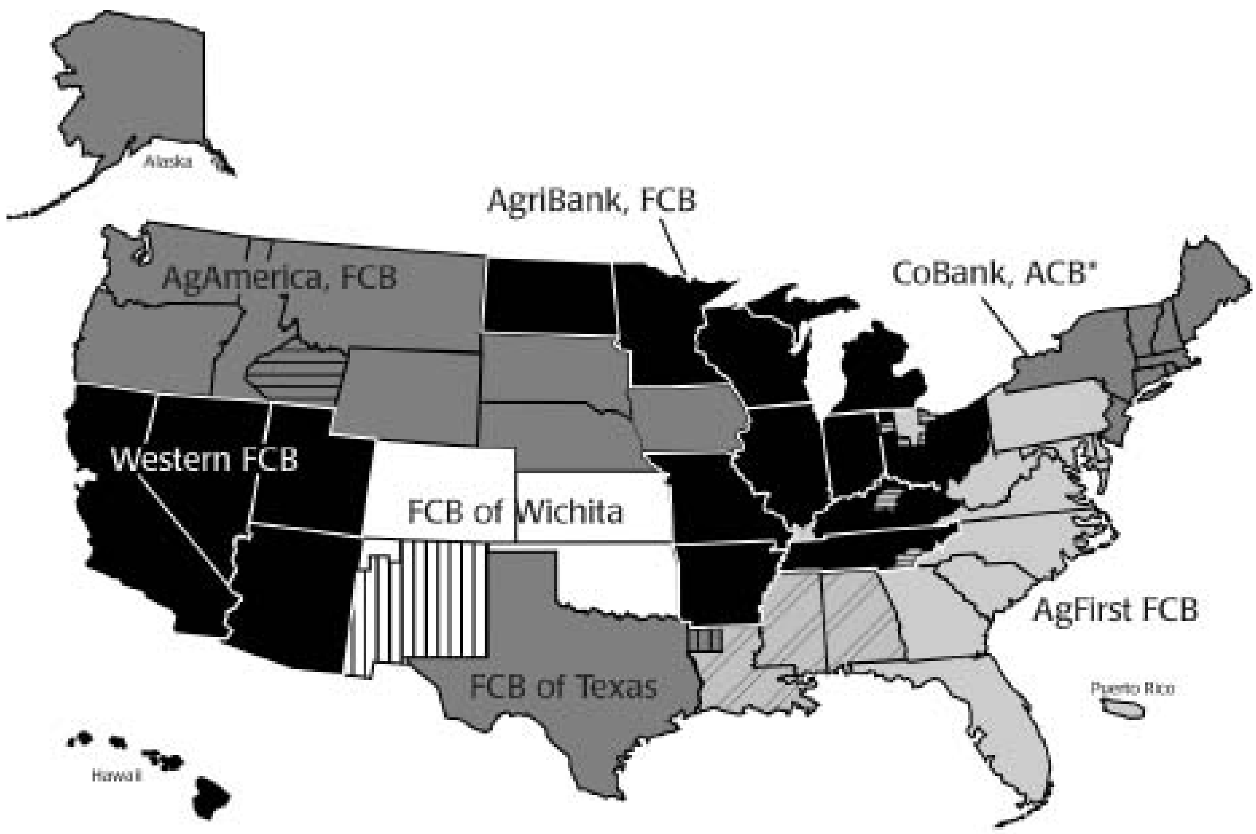


Source: FCA, Office of Policy and Analysis, Risk Analysis Division.

Focal Point of Corporate Activity — In FY 1999 the FCA Board approved a novel application resulting in a new type of System structure. The new structure enables an ACA to establish a PCA and an FLCA as its wholly owned subsidiaries. The parent ACA/subsidiary structure will provide System associations with greater flexibility for serving their customers and contribute to significant tax savings. As of October 1, 1999, one ACA implemented the new structure and more are expected to follow. The new structure will contribute to greater operational efficiencies for those PCAs and FLCAs that choose to adopt this structure.

Over the past 17 years, the number of banks and associations has declined from 932 to 185 as System boards have sought to enhance operating efficiencies, reduce commodity and geographic concentration, and expand the services that can be offered their borrowers (Figure 4). As of October 1, 1999, the System was composed of the banks and affiliated associations as depicted in

Figure 5
Farm Credit System Banks Chartered Territories
(As of October 1, 1999)



AgAmerica, FCB	Western FCB	FCB of Wichita	FCB of Texas	AgriBank, FCB	CoBank, ACB	AgFirst FCB
1 ACA	4 ACAs	4 FLBAs	14 FLBAs	8 ACAs	4 ACAs	32 ACAs
1 FLCA	1 ACA Parent**	18 FLCAs	3 FLCAs	17 FLCAs		1 PCA
1 PCA	11 FLCAs	18 PCAs	13 PCAs	17 PCAs		
	10 PCAs					

The PCA of New Mexico and PCA of Eastern New Mexico are funded by the FCB of Texas. The PCA of Southern New Mexico is funded by the FCB of Wichita.

The FLBAs in Alabama, Louisiana, and Mississippi generate and service loans for the FCB of Texas. The First South PCA is funded by AgFirst FCB.

The Northwest Louisiana PCA is funded by the FCB of Texas.

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

** Designates ACA that has PCA and FLCA subsidiaries.

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

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

The Eastern Idaho ACA is funded by the Western FCB.

Figure 5 on page 32.

Oversight of the Federal Agricultural Mortgage Corporation

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

In 1999, the OSMO completed an annual examination of Farmer Mac and the development of a proposed risk-based capital regulation for Farmer Mac. In addition, OSMO continued to monitor Farmer Mac's strategic and operational business planning and its debt issuance and nonmortgage investment strategy, and continued to comply with a congressional request for the joint monitoring of Farmer Mac by the FCA and the Department of the Treasury.

From September 30, 1998, to September 30, 1999, Farmer Mac's net worth increased $7.8 million to $87.4 million. Farmer Mac's capital level remains above the minimums prescribed by section 8.33 of the Act. Total program activity continued to increase and reached $2.078 billion at September 30, 1999.

Audits, Inspections, and Investigations

During FY 1999, the Office of Inspector General (OIG) issued an audit report on FCA's specialization/certification programs. This audit evaluated the Agency's programs for developing effective and credible subject matter experts. OIG is also performing an ongoing audit of the Agency's Year 2000 activities. This effort will continue through the first half of FY 2000 with quarterly status reports to the FCA Board. The OIG also issued two field office inspection reports on the Sacramento Field Office and the Dallas Field Office.

OIG contracted with Planning Technologies Incorporated to perform an assessment of FCA's information technology infrastructure. Overall, the assessment found FCA's network infrastructure is well-designed and documented. The networking technology is comparable to or better than that of other information technology organizations throughout industry and government. Management agreed with the 20 recommendations to improve operations of the Agency's infrastructure and is taking corrective action on 18 of the recommendations. The other two recommendations need further study. In addition, the OIG contracted with the independent accounting firm Tichenor and Associates to audit the financial statements for the fiscal year ended September 30, 1999.[23] The report was issued December 15, 1999. FCA earned an unqualified opinion.

Summaries of audit reports and inspections are published in the OIG's "Semiannual Report to the Congress." Copies of semiannual reports may be obtained from FCA's Office of Congressional and Public Affairs, 1501 Farm Credit Drive, McLean, VA 22102-5090, phone, 703-883-4056, fax, 703-790-3260, e-mail, info-line@fca.gov or may be accessed

23. The FCA Annual Financial Report begins on page 42.

on FCA's Web site at www.fca.gov. OIG audit and inspection reports also may be obtained by contacting the Office of Inspector General.

The OIG administers an ongoing survey of FCS institutions. The survey is designed to provide the FCA Board with feedback concerning FCA's performance during examination and enforcement activities. A report of results is issued each year. During FY 1999, 101 FCS institutions responded to the survey. The average rating was very favorable (1.67 on a scale of 1 to 5, with 1 indicating the best). The examination teams' professionalism and courtesy were rated the highest (1.17) since the inception of the survey in FY 1996.

The OIG investigations focus on violations of law or misconduct by FCA employees and contractors, as well as allegations of irregularities or abuse in FCA programs and operations. Two investigations were open at the beginning of FY 1999 and three additional investigations were opened during the year. Two investigations were closed during the year, with the result that three remained open as of September 30, 1999. There were no criminal referrals or administrative actions following OIG investigations.

The OIG Hotline (1-800-437-7322 or 703-883-4316 in the Washington, D.C., metropolitan area) is the primary vehicle used by Agency employees and the public to report fraud, waste, abuse, and mismanagement. All Hotline calls are carefully evaluated, investigated, or referred, as warranted.

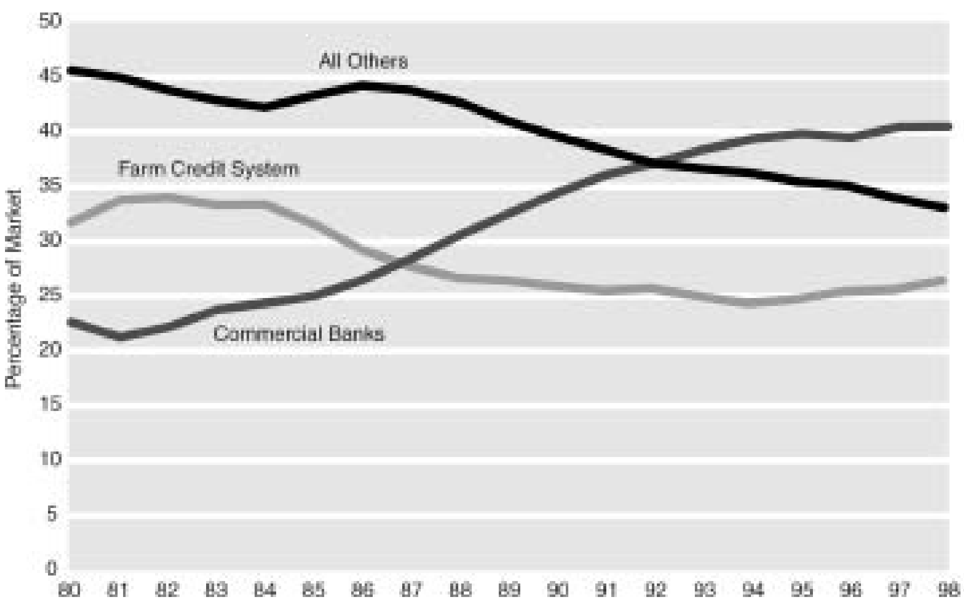
Farm Credit System

24. Market share trends are reported in more detail in the June 1999 FCA report, "Financial Condition and Performance of the Farm Credit System, 1998." Data reported here include updates through December 1999 as reported by USDA, Economic Research Service.

Figure 6

Total Farm Business Debt, Market Shares, 1980-1998

(As of December 31)



Note: "All Others" includes trade credit, seller financing of real estate, life insurance companies, USDA's Farm Service Agency, and Farmer Mac.

Source: USDA, Economic Research Service: Agrilcultural Income and Finance Situation and Outlook Report, AIS-72, September 1999.

25. Policy statement FCA-PS-75 is located on FCA's homepage, www.fca.gov, within the "Publications and Audio Tapes" section.
26. For the full YBS report, see FCA's "1998 Report on the Financial Condition and Performance of the Farm Credit System."

27. The new definitions for YBS borrowers are as follows:
    - A young farmer, rancher, or producer or harvester of aquatic products is defined as 35 years old or less at the time the loan is made.
    - A beginning farmer, rancher, or producer or harvester of aquatic products is defined as having 10 years or less farming or ranching experience.
    - A small farmer, rancher, or producer or harvester of aquatic products is defined as normally generating less than $250,000 in annual gross sales of agricultural or aquatic products.
    - Other changes were made to better report on all loan activity that benefits YBS borrowers.
28. Since full phase-in of the new definitions will occur over a three-year period, the numbers reported here are conservative and likely do not include the System's full lending volume to YBS borrowers.

Accomplishment of Its Public Policy Purpose

The Farm Credit System, as a Government-sponsored enterprise, was established to provide a permanent, reliable source of credit and related services to agriculture and aquatic producers, their cooperatives, and related businesses. Congress further intended that the farmer-owned cooperative FCS improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit at competitive rates. The sections that follow cover the traditional measures of credit services: volume of lending, market share, and lending to young, beginning, and small farmers. The Agency is also exploring other ways to measure the System's performance in meeting its public policy purpose.

Loan Volume Grows — The System's loan portfolio grew by 5.4 percent during the year ended September 30, 1999, to $69.7 billion in loans outstanding. The largest percentage gain came in long-term real estate lending, which increased by $2.2 billion (6.9 percent) to $34.2 billion due to increased demand and marketing efforts. Short- and intermediate-term loans were up about $0.5 billion (2.8 percent) during the 12 months to $18.6 billion. Domestic cooperative lending increased about 6 percent to $14.5 billion, despite lower prices on certain commodities. Loans made in conjunction with international transactions rose slightly to $2.3 billion.

FCS Gains Market Share of Farm Debt — The System's yearend 1998 share of total farm business debt increased nearly a full percentage point to 26.4 percent (from 25.6 at the end of 1997)[24] (Figure 6). This compares with a low of 24.4 percent at the end of 1994 and a high of 34.0 percent at the end of 1982. During 1998, the share held by commercial banks leveled off at 40.5 percent, ending what had been nearly two decades of steady growth in market share (from 21.3 percent at the end of 1981). Yearend 1999 loan volume, and thus market share estimates, were not available when this report was compiled, but information through the third quarter suggests that the System again gained market share in 1999.

Debt held by farm businesses consists of two distinct segments: farm real estate secured debt and non–real estate secured debt. Historically, the FCS has been the dominant real estate lender, while commercial banks have been the dominant non–real estate lender. During the 1984 to 1995 period, the System lost a major portion (more than 10 percentage points) of its real estate lending dominance, mostly to commercial banks, which posted huge gains (up nearly 20 percentage points) to nearly a 30 percent share. During the same period, commercial banks also added nearly 10 percentage points to their share of the non–real estate debt segment. The System lost market share in the non–real estate segment during the early to mid-1980s, but has regained about half of this loss over the last 10 years. As of yearend 1998, the System, with a 32.2 percent share, held about a 2 percentage point greater share in the real estate secured segment, while commercial banks continued to dominate the non–real estate lending segment with a 51.5 percent share versus 20.2 percent for the FCS.

Data on market share to agricultural cooperatives is limited. However, a

USDA survey of agricultural cooperatives found that FCS lending provided about 54 percent of borrowed (FY 1997) funds obtained by 1,929 responding cooperatives. The remaining 46 percent was borrowed in roughly equal shares from commercial banks, issues of bonds and notes, and other sources, such as commercial paper.

FCS Service to Young, Beginning, and Small Farmers and Ranchers Is Revised — Section 4.25 of the Act requires each Farm Credit System bank to report annually on the operations and achievements under programs in its district that benefit young, beginning, and small farmers and ranchers. During the first quarter of FY 1999, the FCA Board adopted the policy statement entitled "Farm Credit System Service to Young, Beginning, and Small Farmers and Ranchers."[25] To implement the Board's policy statement on financing YBS borrowers, we revised the reporting requirements to obtain data that better represents System service to YBS borrowers in the current farming and ranching environment. In June 1999, we issued the first report (covering 1998 results) in what will be a three-year transition to obtain improved data from the System.[26] The June report is based on new definitions for reporting on YBS activities that are significantly different from those used previously.[27] Highlights from the 1998 results are provided below. We will report on the System's 1999 YBS results in 2000.

Highlights from the June 1999 report show that the System had a total of 603,322 loans outstanding to farmers and ranchers at yearend 1998. Of this total, 15.7 percent were loans to young farmers and ranchers, 18.2 percent to beginning farmers and ranchers, and 56.0 percent to small farmers and ranchers.[28] Respectively, this amounted to 11.6, 16.6, and 36.8 percent of the System's loan volume. For loans that were $50,000 or less, 60 percent by number and 52.5 percent by volume benefited small farmers and ranchers. Additionally, of all loans more than $250,000, 26.4 percent by number and 19.8 percent by volume benefited small farmers and ranchers. The average size of a loan outstanding to a young, beginning, or a small farmer was $66,324, $81,845, and $59,434, respectively.

Results of a special questionnaire on YBS programs were also reported in the June 1999 report. The survey showed that about 40 percent of the FCS institutions allow some flexibility for YBS lending in their loan underwriting standards as long as the borrower exhibits compensating strengths in other standards or the credit risk can be otherwise managed.

A majority of FCS institutions coordinate their YBS program with the USDA's Farm Service Agency (FSA). The FSA guaranteed lending program is primarily used by the System as a means of providing loans to YBS borrowers. Almost 75 percent of the System's FSA guaranteed loans made were to YBS borrowers. Overall, more than 90 percent of System institutions participated in FSA's guaranteed lending program with about 2.2 percent of the System's outstanding farm loans guaranteed by FSA as of September 30, 1999. The volume of FSA guaranteed loans in the System increased by 11 percent during the fiscal year, more than double the overall rate of loan growth.

Examination Focus Areas and Economic Risks Ahead

Examination Focus Areas FY 2000–2001

FCA develops national examination focus areas each fiscal year to address areas of regulatory concern and emerging risks in the Farm Credit System. Emerging risk for FCS institutions results from declining commodity prices, increased competition within the lending industry, and environmental and concentration risk associated with commercialization and larger operations.

Our examinations will focus on the adequacy of portfolio management strategies to contain risks, both individual loan risks as well as portfolio-wide risks. We identified the following five focus areas for FY 2000–2001:

1. Portfolio Concentrations — Price and income volatility of some commodities and continued consolidation of agricultural segments in the United States affect the market environment and portfolio risk for FCS institutions.

2. Young, Beginning, and Small Farmers and Ranchers — The availability of sound and constructive credit and financially related services to borrowers identified as young, beginning, and small farmers and ranchers continues to be a high priority of FCS institutions and FCA. The adequacy and effectiveness of System lending programs to serve the needs of minority farmers are also a high priority.

3. Distressed Borrowers — A sustained period of low commodity prices and weak farm incomes will likely have a significant impact on the financial condition and, ultimately, the loan performance of many FCS borrowers. While containing risk associated with distressed loans, examiners will ensure compliance with the Act's protections

for borrowers.

4. Scorecard Lending — Some FCS institutions continue to report significant increases in scorecard volume, both in relation to risk funds and total loan volume. This trend is a concern, given the existing and projected stress in agriculture. Also, scorecard loan performance has not been fully tested under a sustained downturn in the business cycle.

5. Year 2000 Readiness — The preparedness of System personnel and information systems to deal with the date change will remain a focus of our oversight and examination work during FY 2000.

Economic Risks Ahead

Agricultural Economic Situation Is a Concern — In 1999, the U.S. farm economy was plagued by record low or near record low commodity prices from a global glut of agricultural products and weak foreign demand that began in 1997. Drought and flooding plagued certain regions of the United States, as well, particularly the Mid-Atlantic states, which exacerbated the depressed farm income situation. The Federal Government responded with a record $22.7 billion in financial assistance that helped support incomes and land prices and tempered economic hardship for many producers. Net cash income for 1999 is estimated at $59.1 billion, up $4.1 billion from 1998 and just $200 million less than the 1993 record. Farm income would have been significantly lower without record Government payments equal to 12 percent of cash receipts and 38 percent of net cash income in 1999.

The outlook for agricultural markets in 2000 is rather bleak, as prices are expected to remain substantially below the average for the 1990s for most commodities because of ample supplies around the world and sluggish demand in overseas markets. USDA forecasts net cash income at $49.7 billion in 2000, 16 percent less than the 1999 estimate, based on expected low commodity prices and reduced Government payments. Farm production expenses, other than fuel, are expected to remain stable in 2000, which should help farmers manage their financial situation.

Strategic Risks to System Lenders — FCA staff actively monitors strategic and systemic risks in the agricultural, financial, and economic environment within which System institutions operate. A number of risks will be watched over the next two years.

1. World Commodity Markets — For the third year in a row, farmers in the United States and around the world are facing record supplies and sluggish demand, which are contributing to more downside price risk. Lower commodity prices and stronger than anticipated export competition are primarily responsible for a stagnant $49.5 billion forecast for FY 2000 U.S. agricultural exports, unchanged from FY 1999. Input suppliers and bankers are concerned about the impact that weak export demand and low commodity prices are having on farmers' cash flow positions. As the United States continues to export a growing share of its agricultural production, U.S. farmers and food manufacturers will become increasingly exposed to economic and political shocks outside our borders.

2. Trade Liberalization — The ninth in a series of multilateral trade rounds under the auspices of the World Trade Organization was launched on November 30, 1999, in Seattle, Washington. Agriculture was a key sector in the negotiations in which the United States and the Cairns Group of 13 exporting countries sought further cuts in export subsidies, domestic support, and import barriers. However, the talks adjourned without

an agreement, which will likely slow trade expansion in the near term. The continued transition to a more open world economy and expanded growth in agricultural exports will depend on how fast the trade talks are resumed and their success in further reducing trade barriers, especially in large economies like China and India.

3. Biotechnology and Food Safety Concerns — Recent concerns in Europe about the health effects of genetically enhanced crops (GECs) have led to import restrictions on U.S. commodities and reduced export earnings. These concerns have now spilled over to the United States and are being raised by consumer and environmental groups that are calling for restrictions on the planting and use of GECs. Farmers, who have embraced the new GECs because of their cost savings and yield enhancing qualities, are now faced with the possibility of having limited markets in which to sell their crops. Lenders are concerned about negative effects on farmers' income caused by these disruptions in marketing channels, especially for corn and soybeans.

4. Environmental Restrictions on Production Agriculture — The growing concentration and intensity of agricultural production in the United States have raised concerns about soil degradation as well as air, stream, and groundwater pollution. The continued expansion of urban communities into traditional rural areas has resulted in an increased polarization about the use of natural resources and protection of the environment. Farmers and ranchers are likely to see increased environmental regulation of their operations, leading to less flexibility and higher costs of production.

5. Concentration in Supply Chains — Mergers, alliances, and various other forms of business arrangements are reducing the number of players and increasing the level of concentration in both the input supply and the output processing sectors. A greater portion of the value of production may be bid away from farmers by firms with greater market power, resulting in less compensation to the producer and less to capitalize into land values. This is an important risk since real estate is the most significant asset on most farmers' balance sheets. Concentration also adds to the uncertainty for lenders in understanding and adapting to the changes required to adequately serve agriculture.

6. Uncertain Government Support — The 1996 Farm Bill called for a declining scale of Government payments that would expire at the end of 2002 and placed an emphasis on risk management tools to assist farmers in dealing with marketplace risk. Sharp declines in exports, lower commodity prices, and assorted weather problems in the 1997–1999 period resulted in record levels of Government emergency assistance and calls for a return to some form of countercyclical price

Farm Credit Administration Annual Financial Report

September 30, 1999

Report of Management

The management of the Farm Credit Administration is responsible for the accompanying Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing as of September 30, 1999. Amounts that must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the financial statements and financial information contained in this Annual Financial Report (Report).

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Agency are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Agency's Inspector General performs various audits of the accounting systems and internal controls. These audit reports, including appropriate recommendations, are provided to the FCA Board.

Independent public accountants, whose report begins on page 45, have examined the financial statements. In addition, in planning and performing the audit of the Agency's financial statements, the independent public accountants obtained an understanding of the internal control structure and assessed the control risk in order to determine their audit procedures for the purpose of expressing their opinion on the financial statements. Their report on the internal control structure appears elsewhere in this Report.

In the opinion of management, the financial statements present fairly the financial position of FCA at September 30, 1999, in conformity with statements of Federal financial accounting concepts and standards.

Donald P. Clark, Director

Overview

FCA operates under authorities conferred by the Farm Credit Act of 1971, as amended. FCA's operations are financed by means of a revolving fund. This fund is reimbursed primarily from assessments received from the System institutions regulated and examined by FCA. Institutions are assessed or otherwise charged directly and billed in accordance with a formula established by FCA regulations. Assessments and other income earned in excess of obligations are taken into consideration in determining the amount to assess System institutions in the subsequent fiscal year. All of FCA's administrative expenses are paid by the institutions it examines, regulates, or for which it provides reimbursable services. The Congress has historically imposed a limitation on the amount of obligations that may be incurred in the fund in a given fiscal year. The limitation imposed for fiscal year 1999 was $35,800,000.

Changes in Accounting Principles and Presentation

With the enactment of the Chief Financial Officers Act of 1990 (CFO Act), as amended, Congress called for the preparation of financial statements that fully disclose a Federal entity's financial position and results of operations and provide information not only for the effective allocation of resources but also provide information with which Congress, agency managers, the public, and others can assess management performance and stewardship. The Office of Management and Budget (OMB), in consultation with the CFO Council, the President's Council on Integrity and Efficiency, and other interested parties, developed formats and instructions for standard financial statements that would meet these objectives and published them in OMB Bulletin 97-01, Form and Content of Agency Financial Statements.

In October 1990 the Department of the Treasury, OMB, and the General Accounting Office, established the nine-member Federal Accounting Standards Advisory Board (FASAB). The FASAB was created to consider and recommend accounting principles for the Federal Government. These accounting principles include the concepts and standards contained in the Statements of Federal Financial Accounting Concepts and Statements of Federal Financial Accounting Standards recommended by the FASAB and issued by OMB. This basis of accounting has been accepted by the American Institute of Certified Public Accountants as Generally Accepted Accounting Principals for Federal Government entities. These concepts and standards were incorporated into OMB Bulletin 97-01 along with the formats and instructions for the development of standard financial statements.

The CFO Act required only certain Federal agencies to produce financial statements and have them audited. FCA was not one of the agencies mandated to comply with the CFO Act; however, Agency management elected to voluntarily do so. Voluntary compliance requires adherence to OMB Bulletin 97-01 and the related Federal accounting concepts and standards. Accordingly, the financial statements for FY 1999 are prepared in accordance with Federal accounting standards and concepts. The statements are presented without prior year comparative information. Comparative financial statements are required to be issued for reporting periods beginning after September 30, 1999 (FY 2000). The Statement of Custodial Activity contained in OMB Bulletin 97-01 is not included with these financial statements because it is not applicable to FCA.

Reporting Year 2000 (Y2K) Issues

The Agency's State of Readiness—All mission-critical systems of the Agency are Y2K compliant. A new Y2K compliant financial management system FINASST™ was implemented effective October 1, 1999, to replace the prior system that was not Y2K compliant. The Integration Testing Phase of its Y2K certification that included validating interdependent programs, as well as end-to-end testing of data exchange programs with external parties, has also been successfully completed. The FCS Building Association, which provides housing and supports telecommunications systems, successfully completed testing and has implemented a Continuity of Operations Plan (COOP) to support the Agency's COOP for Y2K related contingencies. A configuration freeze was instituted on September 30, 1999, to remove the potential for late-year client-server network configuration changes to affect the integrity of the completed testing.

The Costs to Address Y2K Issues—The Agency has spent approximately $1.4 million on Y2K remedial efforts, including staff time devoted to the Y2K component of examinations of Farm Credit System institutions, training, and testing. Another $300,000 was budgeted in FY 2000 to complete this effort. This brings the total estimated costs of Y2K projects to $1.7 million over a three-year period.

The Risks of Y2K Issues—Agency management is not aware of any risks that have not been considered. The worst case scenario envisioned to be possible is the triggering of the COOP due to some external event such as loss of electrical power. It has been determined that Agency functions can be sustained if that occurs.

Contingency Plans—Subsequent to the end of FY 1999, the Agency revised and expanded its COOP to include Y2K date-affected services, in addition to other business resumption considerations. All services classified as mission-critical or significant which depend on "public infrastructure" (e.g., power, transportation, and voice and data communications) and third-party vendor connectivity, have alternatives available. Training sessions on utilizing the COOP have been conducted. Individual contingency plans have been developed for critical systems. Field offices have also developed business continuity and contingency plans.

Limitations of the Financial Statements

- The financial statements have been prepared to report the financial position and results of operations of the Agency, pursuant to the requirements of 31 U.S.C. 3515(b).

- While the statements have been prepared from the books and records of FCA as prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budget accounts, which are prepared from the same books and records.

- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements, which include the balance sheet, and the related statements of net cost, changes in net position, budgetary resources and financing of the Farm Credit Administration (FCA) for the year ended September 30, 1999, collectively referred to as the financial statements. These financial statements are the responsibility of the Farm Credit Administration's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 98-08, "Audit Requirements for Federal Financial Statements". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, FCA's principal financial statements as of September 30, 1999, referred to above are fairly presented, in all material respects, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards and OMB Bulletin 98-08, we have also issued a report dated December 15, 1999, on our consideration of the Farm Credit Administration's internal control structure and a report also dated December 15, 1999, on its compliance with laws and regulations.

This report is intended for the information of the management of the Farm Credit Administration, OMB and Congress. However, this report is a matter of public record and its distribution is not limited.

Tichenor & Associates

TICHENOR & ASSOCIATES
Woodbridge, Virginia
December 15, 1999

INDEPENDENT AUDITOR'S REPORT

TICHENOR & ASSOCIATES
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ON INTERNAL CONTROL STRUCTURE

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Farm Credit Administration (FCA) for the year ended September 30, 1999, and have issued our report thereon dated December 15, 1999. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements".

In planning and performing our audit, we considered FCA's internal control over financial reporting by obtaining an understanding of the agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we considered to be a material weakness as defined above.

This report is intended for the information of the management of the Farm Credit Administration, OMB and Congress. However, this report is a matter of public record and its distribution is not limited.

Tichenor & Associates

TICHENOR & ASSOCIATES
Woodbridge, VA
December 15, 1999

INDEPENDENT AUDITOR'S REPORT

TICHENOR & ASSOCIATES
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ON COMPLIANCE WITH LAWS AND REGULATIONS

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Farm Credit Administration (FCA) for the year ended September 30, 1999, and have issued our report thereon dated December 15, 1999. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements".

The management of FCA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA[1] disclosed an instance of noncompliance with the following law required to be reported under Government Auditing Standards and OMB Bulletin 98-08, as described below.

> Some Offices and Divisions of FCA did not perform annual reviews of management controls in accordance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123 to ensure that systems are effective and operating as designed. FMFIA requires that executive agencies have internal accounting and administrative controls in accordance with the standards established by the Comptroller General. The Office of Management and Budget (OMB) Circular A-123 establishes the policies and procedures agencies should follow in establishing, maintaining, evaluating, improving and reporting on internal controls.
>
> Some Divisions of FCA either did not conduct internal reviews, or performed limited reviews. These Divisions did not follow the guidance contained in OMB Circular A-123. In some instances, documentation in support of internal reviews was inadequate. Management and other personnel responsible for the control evaluations lack a clear understanding of the nature of controls, as well as the assessment and documentation process.
>
> Consequently, adequate management evaluations of internal controls did not consistently exist to support the assurance letters provided by some Division Chiefs and Office Directors to the agency head. However, the Agency head's assessment of management controls for FMFIA reporting purposes was supported by various sources of information, including Inspector General and GAO reports, audits of financial statements conducted under the Chief Financial Officer's Act, and other types of sources referenced in OMB Circular A-123.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations except as discussed

[1] FFMIA does not impose any compliance requirements; rather, it requires reporting on whether any agency's financial management systems substantially comply with the financial management systems requirements contained in governmentwide policies, e.g., OMB Circular A-127, "Financial Management Systems;" Statements of Federal Financial Accounting Standards; and the United States Government Standard General Ledger published by the Department of the Treasury. FFMIA imposes additional reporting requirements when tests disclose instances in which agency systems do not substantially comply with the foregoing requirements.

in the preceding paragraph and exclusive of FFMIA that are required to be reported under Government Auditing Standards or OMB Bulletin 98-08.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08.

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with the requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended for the information of the management of the Farm Credit Administration, OMB, and Congress. However, this report is a matter of public record, and its distribution is not limited.

TICHENOR & ASSOCIATES
Woodbridge, VA
December 15, 1999

FARM CREDIT ADMINISTRATION
BALANCE SHEET
As of September 30, 1999

ASSETS	
Intragovernmental:	
Fund Balance with Treasury (Note 2)	$ 287,511
Investments (Note 4)	14,277,353
Accounts receivable, net (Note 5)	62,382
Prepaid expenses (Note 6)	4,774
Total intragovernmental	$ 14,632,020
Accounts receivable, net (Note 5)	124,926
Cash and other monetary assets (Note 3)	1,500
General property and equipment, net (Note 7)	240,326
Prepaid expenses (Note 6)	35,763
Total Assets	$ 15,034,535
LIABILITIES	
Intragovernmental:	
Accounts payable (Note 8)	$ 12,371
Accounts payable (Note 8)	215,644
Other liabilities (Note 8)	5,564,215
Total Liabilities	$ 5,792,230
NET POSITION	
Unexpended Appropriations (Note 11)	$ 9,242,305
Total Net Position	9,242,305
Total Liabilities and Net Position	$ 15,034,535

The accompanying notes are an integral part of these financial statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF NET COST
For the year ended September 30, 1999

COSTS:		
Risk Segment:	$24,892,070	
Less earned revenues	23,927,559	
Net program costs		$ 964,511
Policy segment:	9,537,054	
Less earned revenues	9,167,514	
Net program costs		369,540
Reimbursable segment:	2,746,269	
Less earned revenues	1,064,539	
Net program costs		1,681,730
NET COST OF OPERATIONS (Note 15)		$ 3,015,781

The accompanying notes are an integral part of these financial statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999

Net Cost of Operations		$(3,015,781)
Financing Sources (other than exchange revenues):		
Imputed financing:		
Federal employee benefits (Note 9)	$1,470,654	
Rent (Note 12)	2,025,896	
Total imputed financing		3,496,550
Net Results of Operations		480,769
Net Change in Cumulative Results of Operations		480,769
Change in Net Position		480,769
Net Position - Beginning of Period		8,761,536
Net Position - End of Period		$ 9,242,305

The accompanying notes are an integral part of these financial statements.

STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999

Budgetary Resources:	
Unobligated balances - beginning of period	$ 11,380,346
Spending authority from offsetting collections	31,316,837
Total budgetary resources	$ 42,697,183
Status of Budgetary Resources:	
Obligations incurred	$ 33,855,075
Unobligated balances-available	7,402,233
Unobligated balances-not available	1,439,875
Total, status of budgetary resources	$ 42,697,183
Outlays:	
Obligations incurred	$ 33,855,075
Less: spending authority from offsetting collections and adjustments	(31,316,838)
Obligated balance, net - beginning of period	5,529,283
Less: obligated balance, net - end of period	(5,673,902)
Total outlays	$ 2,393,618

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FARM CREDIT ADMINISTRATION
STATEMENT OF FINANCING
For the year ended September 30, 1999

Obligations and Nonbudgetary Resources		
Obligations incurred	$ 33,855,075	
Less: Spending authority for offsetting collections and adjustments	(31,316,838)	
Financing imputed for cost subsidies (Notes 9 and 12)	3,496,550	
Exchange revenue not in the budget	(3,056,061)	
Total obligations as adjusted, and nonbudgetary resources		$ 2,978,726
Resources That Do Not Fund Net Cost of Operations		
Change in amount of goods, services, and benefits ordered but not yet received or provided	(38,603)	
Costs capitalized in the balance sheet	(221,605)	
Other	125,977	
Total resources that do not fund net cost of operations		(134,231)
Costs That Do Not Require Resources		
Depreciation and amortization		171,286
Net Cost of Operations		$ 3,015,781

The accompanying notes are an integral part of these financial statements.

Note 1. Significant Accounting Policies:

A. Reporting entity–The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government. FCA is responsible for the regulation and examination of the banks, associations, and related entities that compose the Farm Credit System (FCS or System). Specifically, FCA is empowered to ensure safe and sound operations of all System institutions. Initially created by an Executive order of the President in 1933, FCA now derives its power and authority from the Farm Credit Act of 1971, as amended (Act). The Act requires System institutions to be examined periodically by FCA. Policy making for FCA is vested in a full-time, three-person board whose members are appointed by the President with the advice and consent of the Senate.

B. Basis of accounting –The accompanying financial statements have been prepared in accordance with Statements of Federal Financial Accounting Standards (SFFAS) and related concepts. This basis of accounting has been accepted by the American Institute of Certified Public Accountants (AICPA) as Generally Accepted Accounting Principals (GAAP) for Federal government entities. The preparation of financial statements in conformity with SFFAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. FCA's transactions are recorded on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, without regard to payment of cash.

The Chief Financial Officers Act of 1990 (CFO Act) required certain Federal agencies to develop financial statements that provide information useful to Congress, Government officials, and the public. FCA is not one of the Federal agencies mandated to adhere to the CFO Act, however, Agency management has voluntarily elected to have financial statements prepared and audited in accordance with this law. To comply with the CFO Act, the Agency's financial statements are presented in conformity with OMB Bulletin 97-01, Form and Content of Agency Financial Statements. The statements are presented without prior year comparative information. Comparative financial statements are required to be issued for reporting periods beginning after September 30, 1999 (FY 2000). The Statement of Custodial Activity contained in OMB Bulletin 97-01 is not applicable to FCA and is not included with these financial statements.

Investments–FCA is authorized by the Act to invest in public debt securities with maturities suitable to FCA's needs. All investments are classified as held to maturity and carried at cost, adjusted for unamortized premiums or discounts. Premiums and discounts are amortized and interest is accrued using the straight-line method (which approximates the interest method) over the term of the respective issues.

Property and equipment–As more fully disclosed under Note 7, property and equipment are recorded at cost, net of an allowance for accumulated depreciation. Repairs and maintenance costs are expensed as incurred. Property and equipment that costs $5,000 or more and has a useful life of two years or more is capitalized. The straight-line method of depreciation with half-year convention is used to allocate the cost of capitalized property and equipment over their estimated useful lives.

Rent–The Act provides for FCA to occupy buildings and use land owned and leased by the FCS Building Association

(FCSBA), an entity owned by System banks. FCA is not charged for the use of the buildings or land, owned or leased, nor does it pay for maintenance and repair of buildings and land improvements. See Note 12.

Federal employee benefits–Each employing Federal agency is required to recognize its share of the Federal Government's cost and imputed financing for pension, post-retirement health benefits, and life insurance. Cost factors used in the calculation of these Federal employee benefits expenses were provided by the Office of Personnel Management (OPM) to each agency to meet this requirement.

Annual, sick, and other leave–Annual leave is accrued as a liability when earned, with an offsetting reduction for leave taken. The accrued annual leave liability is calculated using current pay rates. Sick leave and other types of non-vested leave are expensed as the leave is taken.

Assessments–A substantial portion of FCA's revenues is based upon direct assessments billed to System institutions that are regulated or examined by FCA. FCA also recognizes revenues based on examination services provided by the Office of Examination. Direct assessments are derived using a formula established in FCA regulations and are based, in part, upon the average risk adjusted assets and the overall financial health of the institution being assessed.

Revenue recognition –Beginning in FY 1998, the Agency recognized revenue in accordance with SFFAS No. 7, Accounting for Revenue and Other Financing Sources. This was a change in accounting principle from previous years. Under SFFAS No. 7, the entire amount of assessment revenue is recognized ratably over the fiscal year.

Note 2. Fund Balance with Treasury:

Revolving Fund for Administrative Expenses	$ 287,511

Note 3. Cash and Other Monetary Assets:

Imprest Fund	$ 1,500

Note 4. Investments:

Amounts for Balance Sheet Reporting

	(1) Amortized Cost	(2) Unamortized (Premium) Discount	(3) Investments, Net	(4) Required Market Value Disclosure
Intragovernmental Securities:				
Non-Marketable:				
Market-Based	$14,236,687	$(9,687)	$14,227,000	$14,227,000
Accrued Interest	40,666			40,666
Total	$14,277,353			$14,267,666

Premiums and discounts are amortized and interest is accrued using the straight-line method (which approximates the interest method) over the term of the respective issues. Interest earned on investments was $870,117 for FY 1999.

Note 5. Accounts Receivable:

Assessments due from assessed institutions and Non-System entities:	$	74,122
Related parties:		
FCS Insurance Corporation (FCSIC)		44,842
FCSBA		200
Flexible Spending Account		8,627
Miscellaneous other receivables		59,517
Total	$	187,308

Miscellaneous income earned from the Flexible Spending Account in FY 1999 from the Plan Year ending December 31, 1998, was $4,062, net of $1,656 used to cover over-reimbursed accounts. See Note 10.

Note 6. Prepaid Expenses:

Intragovernmental	$	4,774
Other		35,763
Total	$	40,537

Note 7. General Property and Equipment:

Office equipment		$	1,294,134
Less accumulated depreciation		1,053,808	
Book value	$	240,326	
Depreciation expense	$	171,286	

Note 8. Other Liabilities:

Intragovernmental	
Accounts payable	$ 12,371
Total	$ 12,371
Accounts payable	$ 215,644
Accrued payroll and benefits	1,536,899
Accrued annual leave	2,391,710
Other accrued expenses	195,731
Prepaid assessments	1,439,875
Total	$5,779,859

Accrued annual leave includes $214,346 as a result of regulations issued by OPM regarding how agencies are to calculate lump-sum payment for annual leave. The OPM regulations will be implemented through a policy authorized by the Chairman. Prepaid assessments are first quarter FY 2000 assessment payments received before the due date of October 1, 1999.

Note 9. Federal Employee Benefits:

Funded pension cost	$2,067,359
Imputed pension cost	721,946
Other imputed retirement benefits	748,708
Total	$3,538,013

Retirement–FCA's employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which FCA makes contributions according to plan requirements. CSRS and FERS are multi-employer plans. FCA does not maintain or report information about the assets of the plan, nor does it report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM, but the pension expense of the Agency's employees is reported in accordance with SFFAS No. 5 (see Note 1). A corresponding amount of imputed revenue is recorded to offset the imputed expense.

Other retirement benefits expenses–SFFAS No. 5 (see Note 1) requires employing Federal agencies to recognize an expense for the cost of providing health benefits and life insurance to its employees after they retire. Factors used to calculate these costs were provided by OPM to meet this requirement. A corresponding amount of imputed revenue is recorded to offset the expense.

Note 10. Benefits:

Annual and sick leave–FCA's employees earn annual leave (vacation and personal time) based on years of service and sick leave of four hours per pay period. Annual leave is accrued as a liability when earned, generally up to a maximum of 240 hours per employee. The amount of the liability is based on current pay rates and is reduced as leave is taken. Any outstanding balance is payable to employees upon separation. Sick leave is not vested and is expensed as used.

Health benefits and life insurance–Health benefits and group life insurance are provided through the Federal

Employees Health Benefits (FEHB) plan and the Federal Employees Group Life Insurance (FEGLI) plan. Group life insurance may also be obtained through the FCA Group Life Insurance Program. Under these plans, premium costs are shared between FCA and the employees. FCA Life Insurance may be obtained separately from, or in addition to, FEGLI. FCA funds premiums for retirees.

Leave bank program–FCA administers a voluntary leave bank program which allows employees to donate annual leave to a leave bank for use by members in connection with personal or family medical emergency situations. Leave must be donated annually for an individual to become a member. Leave is accrued as a liability when donated. The amount of the liability is based on an average hourly pay rate.

Disability insurance–The Agency provides disability insurance, at no cost, to all employees who work at least 30 hours or more per pay period.

Flexible spending plan–FCA has established flexible spending accounts (cafeteria plan) for reimbursement to its employees of medical expenses and dependent care expenses from pre-tax payments withheld from their salary. Amounts contributed to the accounts that are not paid out as reimbursements are forfeited to the Agency at the end of the plan year. The Agency is liable for amounts paid out that are in excess of the amounts paid into the accounts in any plan year. This typically occurs when an employee leaves the Agency during the year and reimbursements paid to the employee exceed the amount of withholding the employee has contributed to the plan.

Employee assistance and wellness program–FCA funds an employee assistance and wellness program to increase employee efficiency and productivity. The employee assistance program is designed to assist employees who voluntarily seek counseling or who have been encouraged by their supervisors to seek counseling. The employee wellness program provides annual reimbursement up to $150 for periodic, routine physical examination or health screening costs that are not covered by health insurance.

Note 11. Net Position:

Unobligated Balance (available)	$7,402,233
Undelivered orders	1,630,193
Fixed Assets – current year purchases	221,605
Depreciation expense	(171,286)
Non-Federal receivables	159,560
Net Position	$9,242,305

The unobligated balance available contains funds to maintain a reserve to cover claims, judgments, litigative awards, and other contingencies.

Note 12. Rent:

Leased field offices	$ 712,754
FCA headquarters	1,313,142
Total	$2,025,896

In accordance with the Act, FCA occupies buildings owned and leased by the FCSBA. The FCA administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on behalf of FCA at various locations throughout the United States. Rent is provided at no cost to FCA. The market value of the facilities provided by FCSBA at no cost to FCA for FY 1999 was approximately $3.6 million.

In accordance with SFFAS No. 4, the rent expense and the associated imputed revenue are recorded as a non-monetary transaction (see Note 1). The full cost of the rent expense is calculated by subtracting, from the gross operating expenses of the FCSBA, the amount of rental income received from commercial tenants renting office space. The lease expenses for the field offices are included in FCSBA's gross operating expenses.

Note 13. Budgetary Resources:

The Farm Credit Act of 1971, as amended, provides FCA with a permanent indefinite appropriation to pay the expenses of the Agency. Except for FY 1996, Congress has placed an annual spending limit on the amount of administrative expenses that can be obligated by FCA in a given fiscal year, exclusive of reimbursable activities. The statutory limitation for FY 1999 was $35,800,000. During FY 1999, FCA had direct obligations of approximately $34,027,098 subject to the limitation. In addition, during FY 1999, FCA incurred obligations of approximately $148,217 related to reimbursable activities. Budgetary resources cover all liabilities of the Agency.

Note 14. Related Parties:

FCSIC was established to provide an insurance function for the FCS. FCA provides staff resources to FCSIC on a reimbursable basis. Services provided by FCA staff include examinations and administrative and legal support services. Services to FCSIC totaled approximately $148,217 for FY 1999. FCSIC is controlled by a board whose members are the same as the members of the FCA Board except the same individual cannot be the chairman of both boards.

The FCSBA was formed to provide a vehicle through which the banks of the System could acquire, construct, develop, own, hold, improve, maintain, lease, and dispose of physical facilities and related properties to house the offices of the FCA. As stated in Note 12, in accordance with the Act, FCA occupies buildings owned and leased by FCSBA. Rent is provided at no cost to FCA. FCSBA also leases telecommunications equipment to FCA under a reimbursable operating lease that is renewable annually. Telecommunications expenses were $288,853 for FY 1999. The FCSBA is assessed for each fiscal year in which FCA examines them. The assessment for FY 1999 was $14,300. The FCA Board has exclusive oversight of the FCSBA and is authorized to act as the agent of the banks.

Note 15. Gross Cost and Earned Revenue by Budget Functional Classification:

Functional Classification	Gross Cost	Earned Revenue	Net Cost

Glossary

A

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

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

B

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

F

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

Farm Credit Bank (FCB) — 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. FCBs provide services and funds to local associations that, in turn, lend those funds to farmers, ranchers, producers or harvesters of aquatic products, rural residents for housing, and some agriculture-related businesses. As of September 30, 1999, there were six FCBs: AgAmerica, FCB; AgFirst Farm Credit Bank; AgriBank, FCB; Farm Credit Bank of Texas; Farm Credit Bank of Wichita; and Western Farm Credit Bank.

Farm Credit Leasing Services Corporation (Leasing Corporation) — The Leasing Corporation is a service entity owned by two Farm Credit System banks — CoBank, ACB and AgFirst FCB — to provide equipment leasing and related services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities. The other Farm Credit Banks are nonvoting stockholders.

Farm Credit System Insurance Corporation (FCSIC) — The 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 Farm Credit System banks and to act as conservator or receiver of FCS institutions. The FCA Board serves ex officio as the Board of Directors for FCSIC; however, the chairman of the FCA Board is not permitted to serve as the chairman of the FCSIC Board of Directors.

FCA Financial Institution Rating System (FIRS) — The FIRS is similar to the Uniform Financial Institutions Rating System used by other Federal banking regulators. However, it has been modified by FCA to reflect the nondepository nature of Farm Credit System institutions. 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, which range from 1 to 5, are described below.

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

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

Rating 3 — Institutions in this category exhibit a combination of financial, management, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory. When weaknesses relate to asset quality and/or financial condition, such institutions may be vulnerable to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting the areas of weakness. Institutions that are in significant noncompliance with laws and regulations may also be accorded this rating. Risk management practices are less than satisfactory relative to the institution's size, complexity, and risk profile. Institutions in this category generally give cause for regulatory concern and require more than normal supervision to address deficiencies. Overall strength and financial capacity, however, still make failure only a remote possibility if corrective actions are implemented.

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

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

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

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

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

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

Federal Land Bank Association (FLBA) — FLBAs are lending agents for Farm Credit Banks. FLBAs make and service long-term mortgage loans to farmers and ranchers, and rural residents for housing. FLBAs do not own loan assets, but make loans only on behalf of the Farm Credit Bank with which they are affiliated.

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

G

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

P

Production Credit Association (PCA) — PCAs are Farm Credit System entities

Additional Information

A discussion of the financial condition and performance of the Farm Credit System

may be found in the Farm Credit Administration 1998 Report on the Financial Condition and Performance of the Farm Credit System, which was issued in June 1999. Depending on availability, this publication may be obtained without charge from:

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

The Farm Credit Administration Accountability Report Fiscal Year 1999 is now available on FCA's Web site at www.fca.gov.

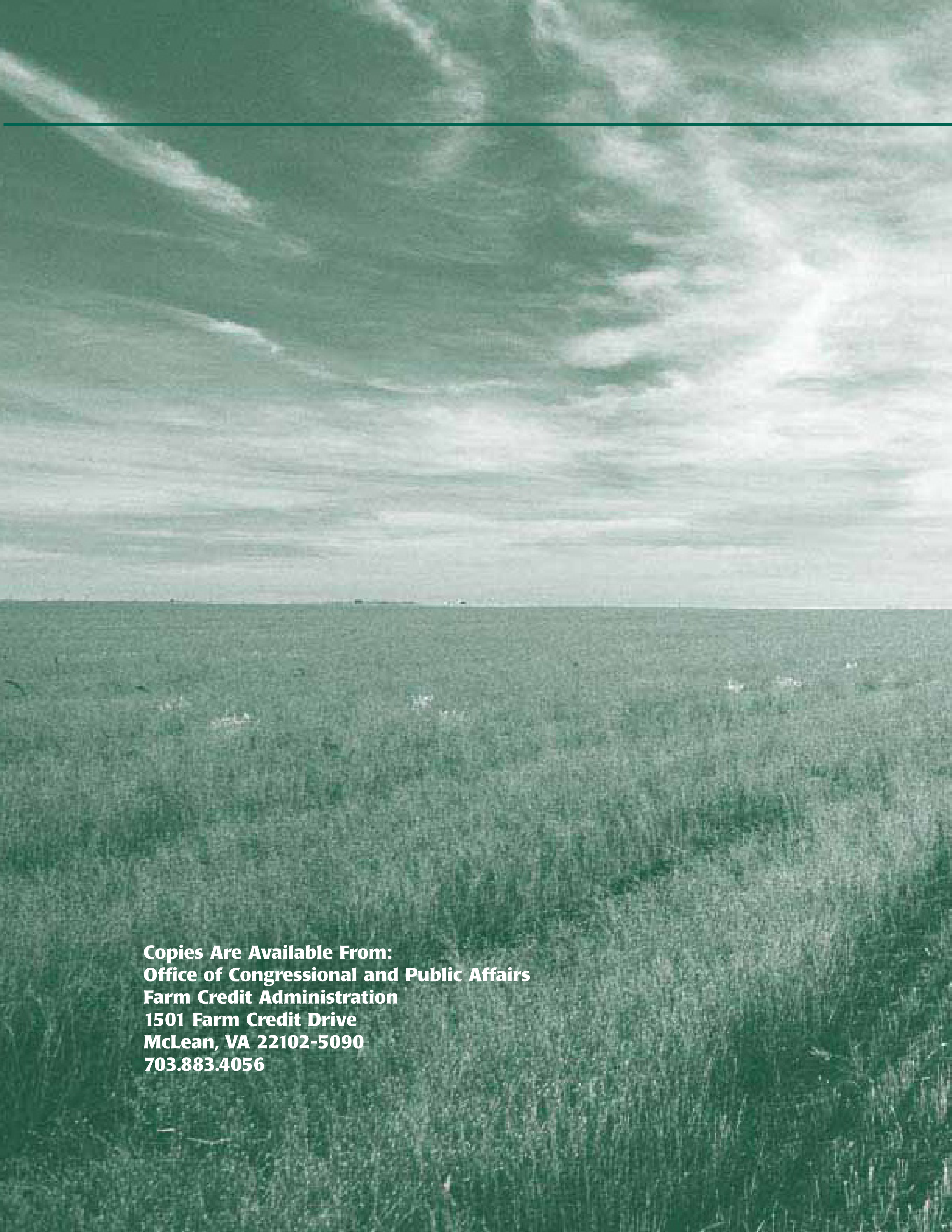
The Federal Farm Credit Banks Funding Corporation prepares the financial press releases, the Farm Credit System Annual Report to Investors, the System's Annual and Quarterly Information Statements, and the System's combined financial statements contained therein, with the support of the System banks. The Funding Corporation's Web site is located at www.farmcredit-ffcb.com. Copies of the publications are available for inspection at, or will be furnished, without charge, upon request to the Funding Corporation.

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

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

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

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



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703.883.4056