



Farm Credit Administration
Accountability Report
Fiscal Year 2000

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Foreword



The Farm Credit Administration (FCA or Agency) Accountability Report for Fiscal Year (FY) 2000 consolidates the reporting requirements of the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993 (GPRA), and several other statutes covering public accountability.

This report covers FCA's activities from October 1, 1999, through September 30, 2000, with mention of some subsequent events and future plans. FCA's annual Performance Report required by GPRA is presented on pages 38 through 44. It contains actual performance achieved in FY 2000 compared with the performance goals set forth in FCA's Annual Performance Plan for FY 1999 and 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 2000, the seventh consecutive year.

This report is the final step in FCA's annual planning process. The process begins when we develop the Strategic Plan, which describes FCA's strategic goals and objectives along with the level of performance we expect to achieve. Next, we develop an Annual Performance Plan, which provides detailed information about how the Agency will achieve the goals and objectives outlined in the Strategic Plan and then measure the results. 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. Finally, we prepare this report, which spells out what we have done and how well we have carried out our mission during the year, for Congress, the Office of Management and Budget, our stakeholders, and the public.

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
E-mail Address:
info-line@fca.gov

Statement of the Chairman and CEO

March 11, 2001

My Fellow Citizens:

As Chairman and Chief Executive Officer of the Farm Credit Administration, I invite you to review our fiscal year 2000 Accountability Report, which outlines the Agency's goals and objectives and the measures we employ to gauge our success.

The congressionally mandated role and responsibility of the Farm Credit Administration (FCA) is to ensure that the Farm Credit System (System) remains a safe and sound, competitive, and dependable source of credit for agriculture and rural America.

The Agency has performed admirably while experiencing a net reduction in staffing levels during this past year. For example, the Agency acted upon 93 corporate charter applications involving 117 System associations—a record level of activity. The bulk of these requests dealt with organizational and structural changes designed to minimize risk, improve efficiency, and promote customer service. The Agency also approved a record issuance of \$362 billion in System securities and developed 13 regulations focusing on the reduction or elimination of unnecessary regulatory burden, reduction of risk, and improving statutory compliance. All this was accomplished at the lowest basis points assessed to System borrowers since FCA became an arm's length regulator in 1985.

The System is a self-help mechanism through which farmers and ranchers have organized themselves into lending cooperatives that provide their owner-borrowers a permanent and reliable competitively priced source of credit and related services through a network of over 1,100 offices across America. About 20 percent of American farmers and ranchers own the System, having invested billions of their own capital in these institutions and devoting their energy and effort to manage, control, and direct them as well.

Today the System is financially strong, with capital levels at historic highs, good asset quality, and solid earnings. Currently, no System institution is operating under an enforcement action. While we are pleased with these indicators, it is important to note that there are a number of emerging risks that bear watching over the coming year. These include continued low commodity prices, higher production costs, increasingly concentrated agricultural markets, and uncertain government support programs and their impacts on the underlying land values, to mention just a few.

The System is critical to the well-being of agriculture and rural America. The men and women of this Agency will remain ever vigilant in their efforts to ensure that the System remains financially viable and mission focused for generations of farmers and ranchers to come. We welcome your comments on ways we can continue to improve our operations and, hence, better fulfill our role and responsibility. If you have questions, comments, and or concerns, please give me a call at (703) 883-4005.

All the Best!

Michael M. Reyna
Chairman and CEO
Farm Credit Administration

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 (FCS or 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 (Farm Credit 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. FCA also annually examines the National Consumer Cooperative Bank (NCB). 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.¹

FCA issues regulations to implement the Farm Credit 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 Agency is headquartered in McLean, Virginia. It has field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

Farm Credit Administration Board

FCA policy making is vested in a full-time, three-person Board appointed by the President with the advice and consent of the U.S. Senate.² 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).

Michael M. Reyna was appointed to the FCA Board by President Clinton on October 22, 1998, for a term that expires May 21, 2004. He was designated Chairman by the President on January 13, 2000. As prescribed by statute, he will serve as Chairman and CEO until the end of his term.

Before his appointment to the FCA Board, Mr. Reyna served as the director of the U.S. Department of Agriculture's (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 Commu-



*Michael M. Reyna
Chairman and CEO*

1. The Federal Reports Elimination and Sunset Act of 1995 (Sunset Act) eliminated the requirement for FCA to submit Reports of Examination of the NCB to Congress. On December 12, 2000, FCA notified these congressional committees that, absent any request to the contrary, it would no longer routinely submit these reports.
2. The third position on the FCA Board, which has a term that expires on October 13, 2006, is vacant. In a recess appointment, President Clinton named Michael V. Dunn to the Board on December 21, 2000. Mr. Dunn resigned his position on the FCA Board on January 12, 2001, to accept a position as Director of the Office of Policy and Analysis.

nity program, the AmeriCorps program, and several Reinventing Government initiatives.

Previously, 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. In addition, he was a founding board member of Meadowview Community Action, a local nonprofit agency. 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, the California Coalition for Rural Housing, and the Valley Small Business Corporation 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.

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 was appointed to the FCA Board by President Clinton on May 27, 1997, for a term that expires May 21, 2002. She also serves as Chairman of the Board of Directors of the Farm Credit System Insurance Corporation (FCSIC). Elected to this position in January 2000, she is the first woman to serve as Chairman. 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 markets 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. Ms. Jorgensen 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*. She 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. Ms. Jorgensen and her



*Ann Jorgensen
Board Member*

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. In June 2000, she was named a member of the Farm Foundation's Bennett Agricultural Round Table. This provides a forum for discussion and dialogue among agricultural, agribusiness, government, academic, and interest group leaders on issues of importance to agriculture and rural America. A native of Iowa, she 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 Chief Operating Officer (OCCO) has broad responsibility for planning, organizing, and directing a wide range of Agency functions. It manages the day-to-day operations of the Agency and serves as liaison to the FCA Board for development of regulations and Board policies. The OCCO supervises the development and implementation of operating plans and budgets and ensures that program results fulfill approved budgets and plans and reflect effective and efficient 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 develops and monitors legislation pertinent to the FCA and the FCS, serves as the Agency's congressional liaison, and prepares testimony for the Chairman and other Agency officials. It also manages the content of the Agency's Web site and provides publication and graphic design services to the Agency.

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.



The Office of General Counsel provides the FCA Board and Agency with legal counsel. It supports the Agency in its development and promulgation of regulations, 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 that support FCA's mission to implement statutes and to 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 Chief Administrative Officer oversees and administers the Agency's Human Resources Management Program and provides administrative services that include training, payroll, contracting and procurement, mail management, and supply and property management.

The Office of Chief Information Officer (OCIO) oversees all activities related to planning, managing, and administering FCA's information technology. It provides office automation software, database administration, systems development, customer assistance, and network, Web, and e-business services. OCIO also provides records management and library services.

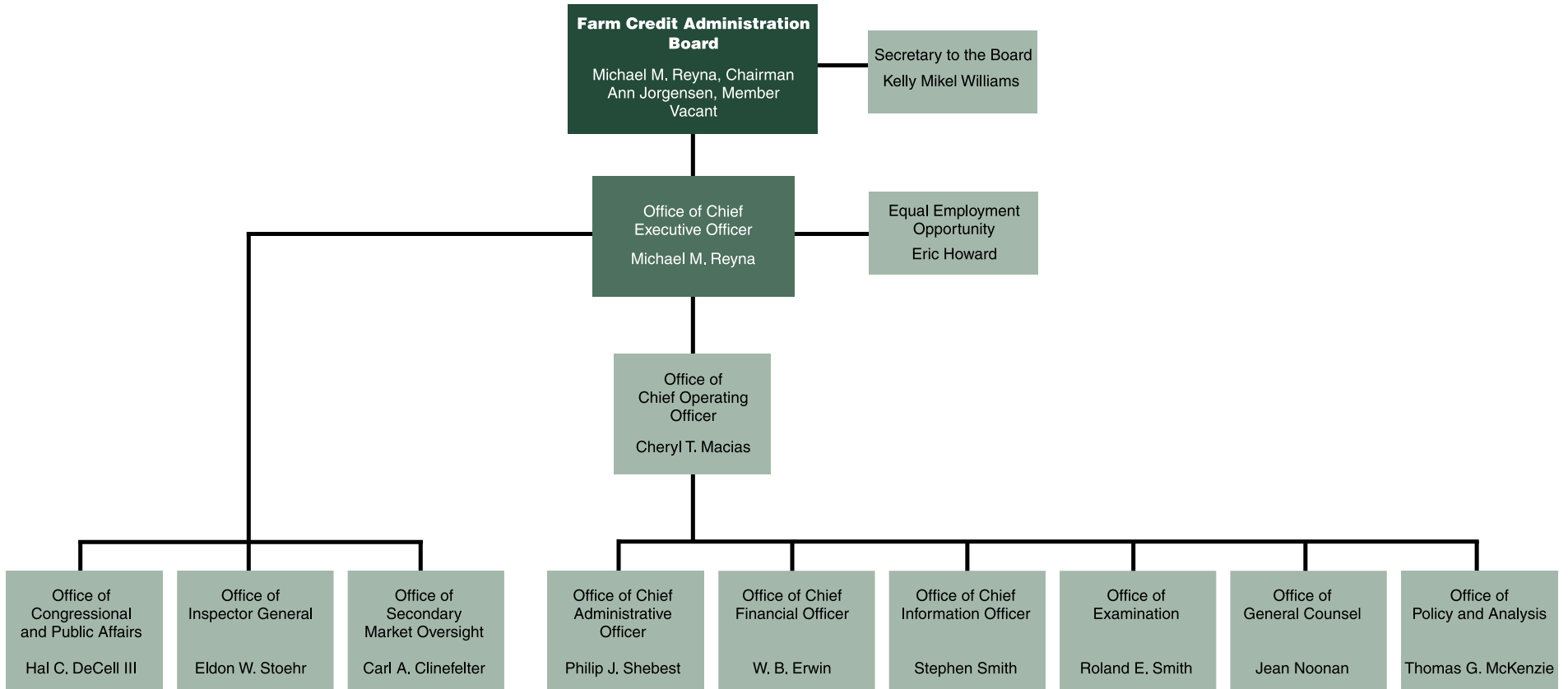
The Office of Chief Financial Officer provides financial services to the Agency and other customers, which include financial systems operations, periodic financial reports, and processing payments to vendors.

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

The Equal Employment Opportunity program provides leadership in an effort to achieve and manage a diverse workforce in FCA, encourages awareness of and respect for diversity in the workplace, and focuses on preventing employment discrimination and processing employee discrimination complaints.

Figure 1 on page 7 depicts FCA's organizational structure as of September 30, 2000.

Figure 1
 Farm Credit Administration
 Organizational Structure
 As of September 30, 2000





Officials

| | |
|-----------------------------------|--|
| Michael M. Reyna ³ | Chairman and Chief Executive Officer |
| Kelly Mikel Williams ⁴ | Secretary to the Board |
| Cheryl Bates Macias ⁵ | Chief Operating Officer |
| Hal C. DeCell III ⁶ | 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 |
| Philip Shebest | Chief Administrative Officer ⁷ |
| Stephen G. Smith | Chief Information Officer ⁷ |
| W. B. Erwin | Chief Financial Officer ⁷ |
| Carl A. Clinefelter | Director, Office of Secondary Market Oversight |
| Eric Howard | Director, Equal Employment Opportunity |

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 and 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 with FCA approval. These securities are not guaranteed by the U.S. Government. The funds are channeled to rural America through the FCS lending institutions.

- 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.
- Vivian L. Portis served as Secretary to the Board until July 1, 2000.
- Cheryl Bates Macias was named Chief Operating Officer on July 2, 2000.
- Eileen M. McMahon served as Director, Office of Congressional and Public Affairs, until her resignation on July 15, 2000. Miguel A. Gonzalez served as Acting Director, OCPA, from July 16 to August 26, 2000.
- Following a reorganization, effective October 1, 2000, three divisions within the Office of Resources Management were designated as offices and the Office of Resources Management was abolished. The Human and Administrative Resources Division was redesignated the Office of Chief Administrative Officer; the Information Resources Division was redesignated the Office of Chief Information Officer; and the Fiscal Resources Division was redesignated the Office of Chief Financial Officer.



As of January 1, 2001, the System was composed of 147 institutions. Seven Farm Credit banks provide loan funds to 56 Agricultural Credit Association (ACA) parent organizations,⁸ 11 ACAs, 28 Production Credit Associations (PCAs), and 38 Federal Land Credit Associations (FLCAs). ACAs make short-, intermediate-, and long-term loans; PCAs make short- and intermediate-term loans; and FLCAs make long-term loans.

One of the banks is an Agricultural Credit Bank (ACB), which also makes loans to agricultural, aquatic, and public utility cooperatives, and other persons or organizations owned by or having transactions with such cooperatives. The ACB finances U.S. agricultural exports and provides international banking services for farmer-owned cooperatives. In addition to making loans to cooperatives, the ACB provides loan funds to four ACA parent organizations, which serve New York, New Jersey, Connecticut, Rhode Island, Maine, Massachusetts, New Hampshire, and Vermont.

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

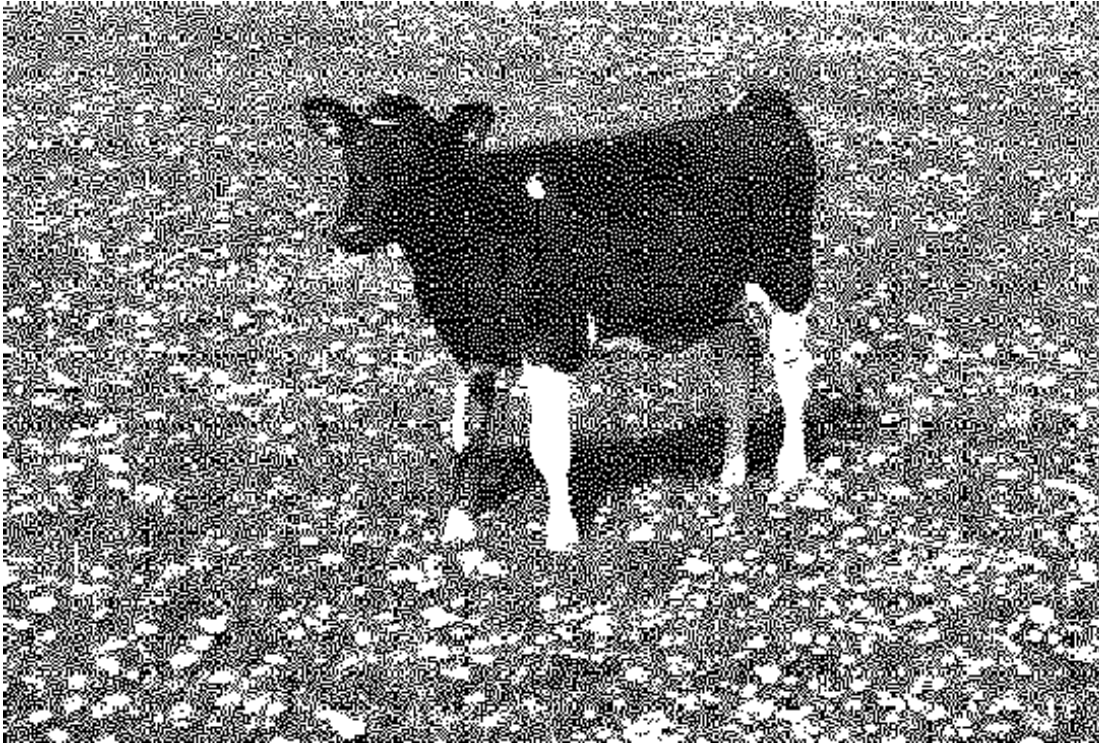
The Federal Farm Credit Banks Funding Corporation (Funding Corporation)

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 Corporation⁹ 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 (the Farmer Mac I Program), 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

8. The ACA is the parent company with two wholly owned subsidiaries, a Production Credit Association (PCA) and a Federal Land Credit Association (FLCA). Although legally separated, the ACA, PCA, and FLCA operate an integrated lending business with loans made through the subsidiaries appropriate to the authority of each subsidiary. The ACA, PCA, and FLCA are jointly and severally liable on the full amount of the indebtedness to the bank under the bank’s General Financing Agreement. In addition, the three associations agree to guarantee each other’s debts and obligations, pledge their respective assets as security for the guarantee, and share each other’s capital. The three institutions have a common board and management and a common set of shareholders. Under the Farm Credit Act, the FLCA is exempt from Federal income taxes.
9. 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 for policy.



Agriculture (the Farmer Mac II Program). Farmer Mac also purchases or commits to purchase qualified loans or securities backed by qualified loans directly from lenders through the Farmer Mac I Program.

FCA also examines and regulates the following service corporations organized under Section 4.25 of the Farm Credit Act.¹⁰

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 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 primarily 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 13 of the 21 associations affiliated with the Western FCB.

10. 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.

The FCS Building Association acquires, 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 System's Accomplishment of Its Public Policy Mission

Congress established the System as a Government-sponsored enterprise to provide a permanent, reliable source of credit and related services to agriculture and aquatic producers, their cooperatives, and related businesses in rural America. Congress intended that the farmer-owned cooperative FCS improve the income and well-being of American farmers and ranchers by supplying sound, adequate, and constructive credit at competitive rates. It further encouraged farmer- and rancher-borrower participation in the management, control, and ownership of these cooperative institutions to help them remain focused on serving members' needs. Eligible borrowers include all types of agricultural producers, their cooperatives, and rural home buyers having a basis for credit. In addition, the System's lending authority extends to certain agricultural marketing and processing operations, farm-related businesses, certain rural utilities, and activities in support of international agricultural trade. Thus, the System's purpose is to serve a broad public need by ensuring the presence of competitive rural credit markets and by serving all the nation's farm and rural areas in both good and bad economic times.

The sections that follow assess the System's financial strength and its service to rural America. Our discussion relies on commonly used measures, such as volume by lending type, market share, loans to young, beginning, and small (YBS) farmers and ranchers, and coordination with government guarantee programs.

FCA seeks to ensure that FCS institutions operate in a safe and sound manner without undue risk to taxpayers, buyers of System securities, or to System borrower-stockholders. Because the System is a

single sector lender, with only limited opportunities to manage industry and commodity concentration or geographical risks, this task presents huge challenges. However, the System currently is financially strong.

Financial Condition of the Farm Credit System¹¹

As of September 30, 2000, the System's loan asset quality, risk-bearing capacity, earnings performance, and capital levels collectively indicate that the System has rebuilt its financial strength and improved its management systems. Despite various external factors affecting agriculture, such as reduced export demand, adverse weather conditions, and low commodity prices, the System's strong financial position will help it weather adverse effects from potential deterioration in the agricultural economy. However, federal direct payments to farmers in 2000 totaled \$22.1 billion, or almost half of net farm income. This support allowed farmers to continue to meet their financial obligations. A loss of or reduction in Government payments to farmers coupled with a continuation of last year's farm economic conditions would have a serious impact on many agricultural producers, likely resulting in upsurges in credit quality problems at System institutions.

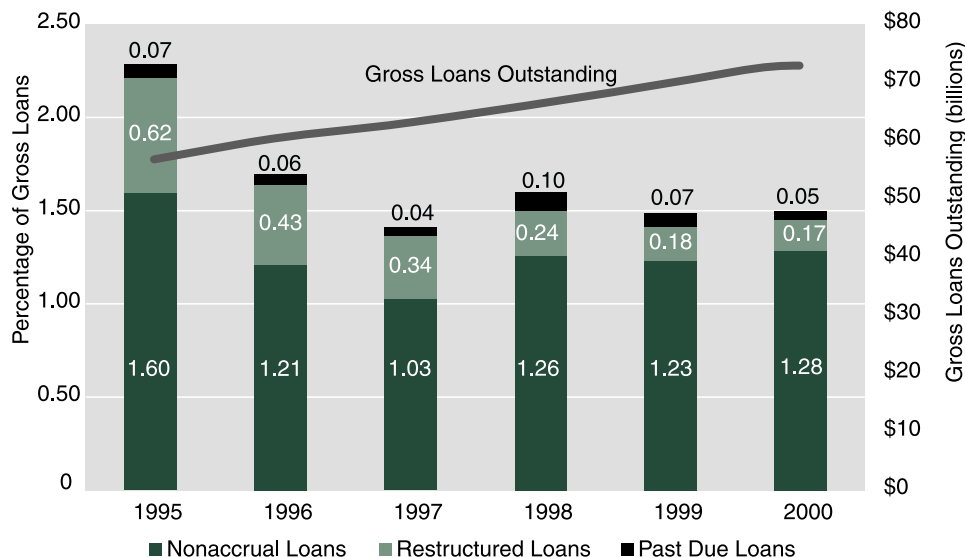
Asset Quality

The quality of the System's loan portfolio remained generally favorable despite continued adverse economic conditions in the agricultural sector and a slight deterioration in the performance of certain loans to cooperatives. Signs of deterioration have yet to materialize in the System's loan portfolio, and early warning indicators are much more positive than in



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 FCS analysis were 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 and, except where noted, is based on the 12-month period ended September 30, 2000. See the Appendix (Tables 4 and 5) for System measures of financial condition.

Figure 2
Nonperforming Loans in the Farm Credit System, 1995–2000
As of September 30



Source: Federal Farm Credit Banks Funding Corporation, Quarterly Information Statements, Third Quarter.

the mid-1980s, when the System and other lenders to agriculture last experienced serious asset quality problems.

Loan volume continues to grow, while levels of nonaccrual and nonperforming loans¹² remain low, at 1.3 percent and 1.5 percent of total loans, respectively, as of September 30, 2000 (see Figure 2). The allowance for loan losses continues to keep pace with the System's increased loan volume, and delinquencies (accrual loans more than 90 days past due) remain minimal.

Earnings

The repayment capacity of the borrowers in the agricultural sector remains strong, buoyed in part by record government support. The System's \$1.0 billion in net income for the nine months ended September 30, 2000, was up \$114 million from the same period the previous year. Although competitive pressures increased, net interest margins were stable with a Systemwide net interest margin of 2.74 percent as of September 30, 2000, compared with 2.75 percent a year earlier. The annualized return on average assets (ROA) improved from the previous year, rising from 1.47 percent to 1.57 percent. Asso-

ciation operating expenses as a percentage of loan volume declined slightly, reflecting a leveling of efficiency gains over the past five years and the one-time expenses of recent reorganizations and consolidations.

The Federal Farm Credit Banks Funding Corporation reported that the 2000 provisions for income taxes were favorably influenced by the ongoing restructurings of ACAs and the recognition of \$20 million of income as a result of a model settlement agreement reached with the Internal Revenue Service during the third quarter of 2000.¹³

Capital¹⁴

The System continues to build capital through increased loan volume and earnings. Total capital (\$14.1 billion) as a percentage of total assets (\$90.8 billion) has increased from 14.0 percent as of September 30, 1995, to 15.6 percent as of September 30, 2000, while the minimal amount of protected borrower capital continued to decline (see Figure 3). All institutions met their regulatory core surplus ratio requirement at September 30, 2000. Permanent capital ratios at FCS banks ranged from a low of 10.1 percent to a high of 22.2 percent.

12. Nonperforming loans consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due.
13. While ACAs are not exempt from Federal taxes, they may restructure, with the necessary approvals of their stockholders and the FCA, to operate their long-term mortgage lending activities through an FLCA subsidiary, which is tax exempt, and their short- and intermediate-term lending activities through a taxable PCA subsidiary. The net effect is increased capital at the association level.
14. Total capital includes protected capital and restricted capital. Protected capital (\$56 million at September 30, 2000) consists of borrower stock, participation certificates, and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated before October 8, 1988. Protection of certain borrower capital is provided under the Farm Credit Act, which requires FCS institutions, when retiring protected borrower capital, to retire such capital at par or stated value regardless of its book value. Restricted capital (\$1.6 billion at September 30, 2000) represents the total assets under the control of the Farm Credit System Insurance Corporation, including assets that have been identified for estimated insurance obligations and the Farm Credit Insurance Fund balance.

Borrowers Served

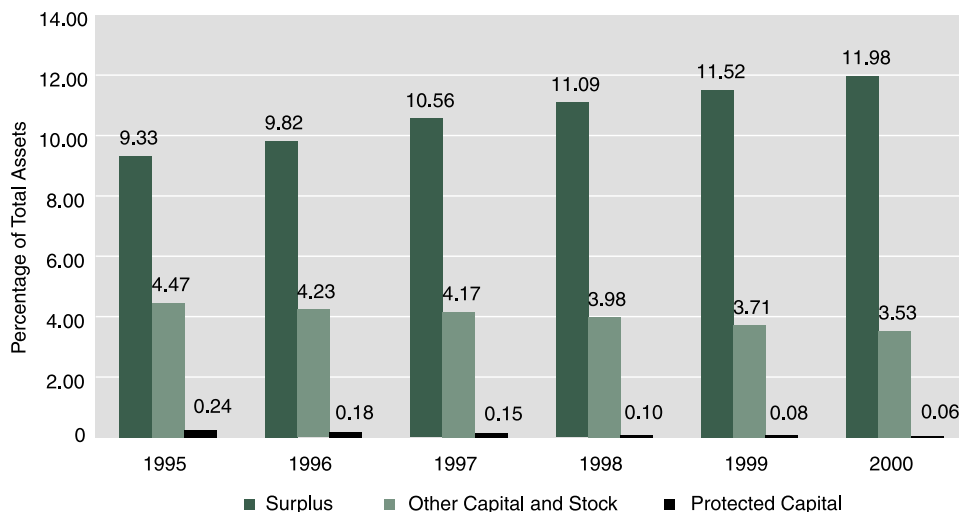
One way to measure how well the System is fulfilling its mission is to review the use of its authorized lending authority. The System’s initial authority in 1916 was to provide credit for long-term real estate loans. In 1923, it was granted authority to establish a short- and intermediate-lending structure for agriculture. And in 1933, it received authority to develop a lending structure for farmer-owned agricultural cooperatives. Since then, its authorities have been expanded to include lending to rural utility cooperatives, rural water and waste facilities, and financing for agricultural exports.

Agricultural producers represent, by far, the System’s largest group of borrowers, with \$54.5 billion, or almost three-quarters of the dollar amount of loans, outstanding as of September 30, 2000. Borrowers are also stockholder-owners of System institutions. As of September 30, 2000, the 420,000 System stockholders represented about 20 percent of U.S. farms.¹⁵ The stockholder numbers have been declining, mostly due to the merger

of PCAs with FLCAs or FLBAs. (Following a merger, a stockholder of both merging associations becomes a stockholder of only one association.) Another way to look at service to borrowers is to review market share data maintained by USDA. The System’s share has been stable during the past decade (see page 15).

About half of the System’s total loan volume outstanding as of September 30, 2000, was in long-term real estate loans, one-quarter in short- and intermediate-term loans to agricultural producers, and one-quarter to cooperatives. Rural home loans (included in long-term real estate loans) make up about 2 to 3 percent of total loans. Similarly, loans to finance exports (included in cooperative loans) represent 3.5 percent of the overall loan volume. Lease receivables account for about 3 percent of the overall System loan portfolio. The total loan volume outstanding has grown by 4.7 percent over the past fiscal year and 27.7 percent over the past five years, showing a continued commitment to agriculture, even during the past few years when commodity prices have been unusually low (see Table 1).

Figure 3
Farm Credit System Capital as a Percentage of Total Assets,
1995–2000
As of September 30



Source: Federal Farm Credit Banks Funding Corporation, Quarterly Information Statements, Third Quarter.

15. Some member-borrowers are rural homeowners who are not agricultural producers.

Table 1
Farm Credit System Gross Loans Outstanding, 1995–2000
As of September 30
Dollars in Millions

| Loan Category | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Percentage Change from 1995 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------------------|
| Long-Term | | | | | | | |
| Real Estate ¹ | \$28,151 | \$29,579 | \$30,346 | \$32,009 | \$34,218 | \$35,549 | 26.3 |
| Short- and Intermediate-Term ² | 13,804 | 15,192 | 16,474 | 18,162 | 18,616 | 18,917 | 37.0 |
| Domestic Cooperatives ³ | 12,416 | 13,414 | 14,053 | 13,768 | 14,549 | 15,908 | 28.1 |
| International | 2,746 | 2,724 | 2,128 | 2,171 | 2,274 | 2,583 | (5.9) |
| Total | \$57,117 | \$60,909 | \$63,001 | \$66,110 | \$69,657 | \$72,957 | 27.7 |

1. Includes rural home loans and various loans classified as "other."
2. Includes a portion of loans classified as "lease receivable" and various loans classified as "other."
3. Includes loans to rural utilities, rural water and waste facilities, and a portion of loans classified as "lease receivable."

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

Another way to examine customer service to the System's member-borrowers is to look at the commodities financed by System institutions. As seen in Figure 4, the products produced by FCS borrowers include the full spectrum of the nation's agriculture.

Funding for Other Lenders

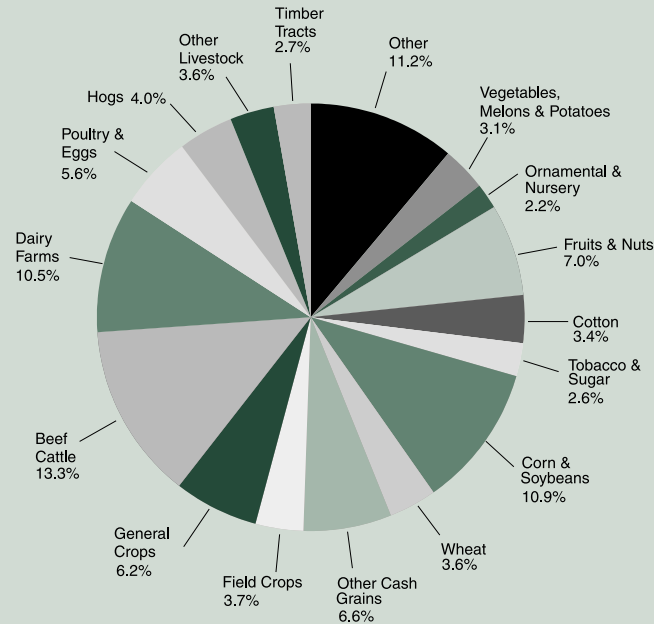
System banks also serve as a limited source of funds for non-System lending institutions through authority under the Farm Credit Act to provide short- and intermediate-term funds to "other financing institutions" (OFIs).¹⁶ On September 30, 2000, 25 OFIs had \$260 million in loans outstanding from System banks. While outstanding loans to OFIs have increased by 18 percent over the past five years, they still represent only one-half of 1 percent of System loans to producers. In April 2000, FCA issued an advance notice of proposed rule making seeking comment on regulatory changes that would remove impediments for OFIs wishing to obtain System funding and

would encourage greater use of the OFI authority within the limits of the Farm Credit Act (see page 29).

Another way in which the System cooperates with other rural lenders is through participation loans. System institutions can buy and sell participations with commercial banks, as well as among themselves. Participation activity helps small agricultural banks facing lending limit restrictions to better serve their customers and to diversify the risks inherent in large loans. Some FCS institutions have high commodity concentrations and use participations as a tool to help manage the concentration risk inherent in their local lending territory. Participation transactions between System and non-System lenders have grown rapidly in recent years. FCS institutions reported about \$3.3 billion in outstanding participations purchased from non-System lenders as of September 30, 2000, compared with about one-third that amount three years earlier. However, System institutions have only limited opportunity

16. OFIs include commercial banks, thrifts, credit unions, trust companies, agricultural credit corporations, and other agricultural lenders.

Figure 4
Farm Credit System Loans Outstanding to Agricultural Producers by Commodity¹
 As of September 30, 2000



1. The total does not equal 100% because of rounding.
 Source: FCA Loan Account Reporting System (LARS) Agricultural and Aquatic Loans.

to reduce concentration risk through participations with non-System lenders because of the small number of willing participation partners.

Market Shares of Farm Debt

The shares of farm debt dollars provided by various agricultural lenders show wide cycles and dramatic changes when considered over a 75-year period. The willingness and the ability of lenders to compete for farm debt share over the period reflect several important factors:

- The cyclic nature of the agricultural economy, at times leaving some lenders reluctant to lend when agricultural stress exists
- Better profit opportunities outside agriculture (However, System lenders are required by law to remain with the agricultural sector.)
- Limits on loan fund sources at non-System lenders (mostly deposits), leaving some lenders either with inadequate liquidity or without competi-

tively priced funding sources

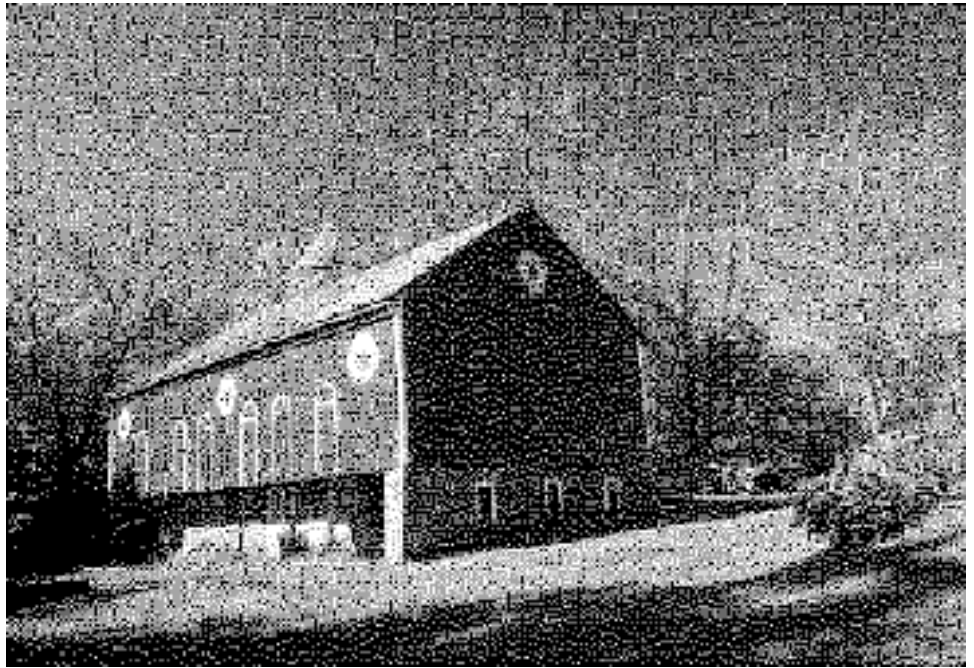
- Difficulty competing because of weak financial condition, which occurred in the FCS during the latter part of the 1980s and early 1990s
- Changes in government policy, leading to a gradual decline in USDA direct lending since 1985 (USDA now prefers to guarantee loans on the books of other lenders.)

Over the 75-year period, FCS institutions and commercial banks have each maintained extended periods of market share leadership. Today, commercial banks have about 41 percent of the farm debt dollars on their books, compared with 26 percent for the FCS. However, in the late 1970s, when commercial bank liquidity was tight, the System had the higher market share. The key point is that regardless of which lender group happens to have greater market share, the System's continued presence in all geographic markets helps preserve liquidity and competitive interest rates in agricultural credit markets. Over the past decade, the System's share has

stayed within a narrow range of 24 to 26 percent, while commercial banks have gradually increased their market share from 32 to 41 percent.

Market Share for Real Estate Debt¹⁷

Further evidence of the role played by the FCS is seen by reviewing lender share differences between long-term and short-term agricultural credit markets and differences by state. Because of its ready access to long-term debt markets, the FCS has been the dominant institutional provider of farm real estate secured debt since the late 1960s. Although its share declined slightly during the 1990s, it was 32.2 percent nationally as of the end of 1999. However, commercial banks, which have aggressively pursued the real estate secured market since the early 1980s, increased their share by 50 percent in the 1990s. Their share nationwide is now only slightly less than the System's. Commercial banks hold a higher real estate market share than the System in 19 states. Historically, individuals providing seller financing, as well as insurance companies, have also been important providers of credit to this market.



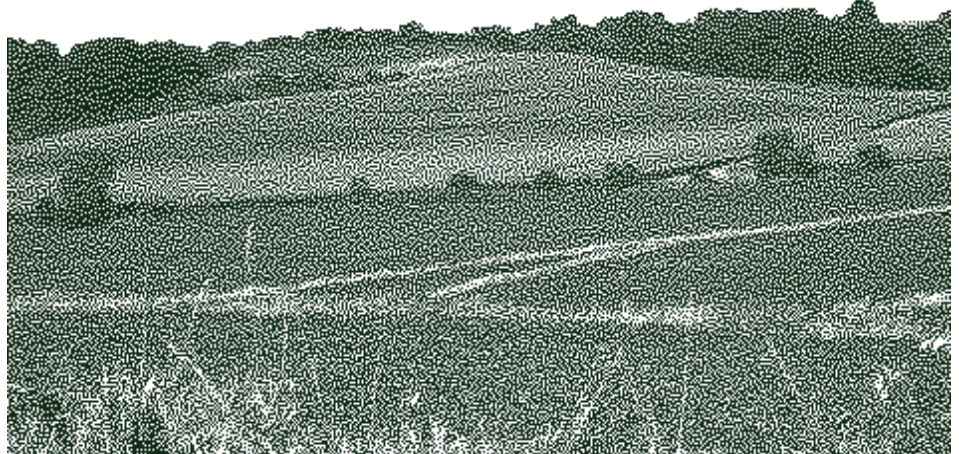
17. Real estate loans are defined for System institutions and for commercial banks as loans collateralized by real estate. Loan dollars are sometimes used for short- and intermediate-term purposes even if collateralized by real estate.

Market Share for Non-Real Estate Debt

Commercial banks have always been the market leader for non-real estate secured farm debt. Short- and intermediate-term farm production loans better match the maturities of deposits, the traditional funding source of commercial banks. On December 31, 1999, commercial banks' market share of this segment stood at 51.1 percent, while that of the FCS was only 19.4 percent. The System increased its share by about 4 percentage points during the 1990s, while commercial banks' share has been stable. Commercial banks lead as short-term lenders to agriculture in states that have the most farm debt. (They lead in 29 states, mostly in the Midwest.) But the FCS leads this market segment in 15 states, mostly those with much lower agricultural debt. These markets may be more costly to serve and therefore less attractive for commercial banks. Market shares for individuals and others (dealer, integrator, or contractor credit) have been increasing in recent years. Individuals and others lead in six states, most notably in several eastern seaboard states, which have large poultry operations. Both System and commercial bank shares are likely higher than reported by USDA, due to "point-of-sale" credit provided by farm input or equipment dealers. Often this credit is funded through line-of-credit arrangements with System lenders or commercial banks.

Market Share to Cooperatives

Market share data for lending to agricultural cooperatives is limited. However, a USDA survey of agricultural cooperatives found that the System provided about 54 percent of the funds borrowed (FY 1997)



by nearly 2,000 responding cooperatives. The remaining 46 percent was borrowed in roughly equal shares from commercial banks, issues of bonds and notes, and other sources, including commercial paper. Among very small and very large cooperatives (those with assets of under \$1 million and more than \$1 billion, respectively), the System provided less than a quarter of the borrowed funds. The very small cooperatives obtained 52 percent of their borrowed funds from commercial banks, while the largest cooperatives relied mostly on their own security issues and access to the money markets. In contrast, among midsize cooperatives, the System provided more than 60 percent of the borrowed funds.

Service to Young, Beginning, and Small Farmers and Ranchers

FCA believes that providing financially sound and constructive credit and related services to borrowers identified as young, beginning, or small farmers or ranchers should be a high priority for the System. Loans to borrowers meeting these characteristics help ensure a smooth transition of agribusiness to the next generation of farmers and ranchers and a strong customer base for the FCS. These loans

also aid a changing agricultural industry that includes many new and smaller farmers and ranchers.

Section 4.19(b) of the Farm Credit Act and FCA Regulation 614.4165(b) require each System bank to report yearly on the operations and achievements under programs that benefit YBS farmers and ranchers. In addition, in December 1998, the FCA Board adopted a policy statement on YBS farmers and ranchers. The policy statement emphasized the need for each direct lender association¹⁸ to renew its commitment to be a reliable, consistent, and constructive lender for YBS customers. To implement the policy statement, FCA also issued a Bookletter to the System, which provided new definitions and reporting procedures to be fully phased in by January 1, 2001. The revisions will improve our capacity to analyze and report on the System's service to all YBS borrowers, as well as the credit and related service needs of these borrowers.

Service to YBS farmers was a special focus area in the examination of FCS institutions in 2000, and it will continue to be one in 2001. FCA encourages all System associations to gather demographic information on farmers within their lending markets to help each association assess its own market penetration and the potential for expanded lending to YBS groups. If the assessment suggests an association needs to further penetrate the YBS market, we encourage the association's board to develop new programs, strengthen existing programs, or provide added incentives to contribute to the success of its marketing programs to these farmers. Thus, FCA's oversight increases public mission awareness in this area and prompts associations to provide added resources to serve these market segments.

As of year-end 1999,¹⁹ 16.3 percent of the number of the System's loans outstanding to farmers was to borrowers age 35 and



Table 2
Loans Outstanding at December 31, 1999, Benefiting Young, Beginning, and Small Farmers and Ranchers^{1,2}

| Loan Type | Number of Loans | Percentage of Total Number | Volume of Loans (\$ millions) | Percentage of Total Volume | Average Loan Size |
|--|-----------------|----------------------------|-------------------------------|----------------------------|-------------------|
| Young Farmers and Ranchers | 98,601 | 16.27 | \$7,331 | 12.24 | \$74,350 |
| Beginning Farmers and Ranchers | 125,181 | 20.65 | \$10,695 | 17.85 | \$85,440 |
| All Small Farmers and Ranchers | 351,204 | 57.94 | \$20,607 | 34.40 | \$58,675 |
| Loans to Small Borrowers by Loan Size | | | | | |
| \$50,000 or less | 218,567 | 63.78 | \$4,232 | 60.97 | \$19,365 |
| \$50,001 - \$100,000 | 75,411 | 61.11 | \$5,184 | 61.04 | \$68,750 |
| \$100,001 - \$250,000 | 46,289 | 48.92 | \$6,496 | 46.40 | \$140,330 |
| More than \$250,000 | 10,937 | 24.11 | \$4,694 | 15.36 | \$429,175 |

18. A direct-lender association is an association that has authority to make loans. ACAs, FLCAs, and PCAs are direct lender associations. Federal Land Bank Associations, which were the only associations that did not have direct lender authority, were lending agents for Farm Credit Banks. As of October 1, 2000, there were no remaining FLBAs.

19. Year 2000 data on the System's service to young, beginning, and small farmers and ranchers will be available in April 2001.

1. Young is 35 years old or less when the loan was made; beginning farmer has 10 years or less farming or ranch experience; and small means the borrower typically generates less than \$250,000 in annual sales of agricultural or aquatic products.

2. Full reporting under new definitions is not required until 2001. Thus the values in the table likely understate the System's 1999 YBS activity.

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

younger.²⁰ Borrowers with 10 or fewer years of farming experience accounted for 20.7 percent of the number of loans. Loans to small farmers, those with less than \$250,000 in annual sales, accounted for 57.9 percent of loans.²¹ Average loan sizes varied from \$58,675 for small farmers to \$85,440 for beginning farmers (averages include commitments) (see Tables 2 and 3).

Loans and commitments made during 1999 represent new lending activity and, therefore, are a good measure of the current service to YBS borrowers. Of the total number of loans to farmers made during 1999, 15.6 percent were made to young farmers, 23.0 percent to beginning farmers, and 55.0 percent to small farmers. The similarity of these percentages to those for the numbers of loans outstanding, as noted above, suggests the System has continued to emphasize its service to these important borrower groups during the recent period of unfavorable farm prices.

System institutions are required by FCA to respond each year to a questionnaire about the management and credit components of their YBS programs and their outreach programs for these farmers. To help YBS farmers qualify for credit, about half of all associations have programs with YBS-specific underwriting standards and/or concessionary interest rates for YBS farmers. Many associations also provide YBS borrowers differential loan covenants and lower loan fees.

Beyond individual institution programs, the System is increasing its focus on YBS issues through the Farm Credit System Foundation. The Foundation's mission is "to assist young, beginning, and small farmers and ranchers to thrive as businesspersons in their locales and the global agricultural marketplaces." The Foundation supports YBS program development, research, education, and issue awareness, primarily on a nationwide basis.²² Examples of programs now under consideration are sponsorship of national YBS symposiums and funding of YBS farmer institutes.

Table 3
Loans Made During 1999 Benefiting Young, Beginning, and Small Farmers and Ranchers^{1,2}

| Loan Type | Number of Loans | Percentage of Total Number | Volume of Loans (\$ millions) | Percentage of Total Volume | Average Loan Size |
|--|-----------------|----------------------------|-------------------------------|----------------------------|-------------------|
| Young Farmers and Ranchers | 18,696 | 15.58 | \$1,493 | 10.21 | \$79,855 |
| Beginning Farmers and Ranchers | 27,658 | 23.04 | \$2,698 | 18.44 | \$97,550 |
| All Small Farmers and Ranchers | 65,995 | 54.98 | \$4,161 | 28.45 | \$63,050 |
| Loans to Small Borrowers by Loan Size | | | | | |
| \$50,000 or less | 43,440 | 62.92 | \$854 | 55.06 | \$19,665 |
| \$50,001 - \$100,000 | 12,293 | 55.33 | \$862 | 53.70 | \$70,130 |
| \$100,001 - \$250,000 | 7,893 | 43.70 | \$1,142 | 41.60 | \$144,680 |
| More than \$250,000 | 2,369 | 22.09 | \$1,303 | 14.88 | \$549,860 |

1. Young is 35 years old or less when the loan was made; beginning farmer has 10 years or less farming or ranch experience; and small means the borrower typically generates less than \$250,000 in annual sales of agricultural or aquatic products.

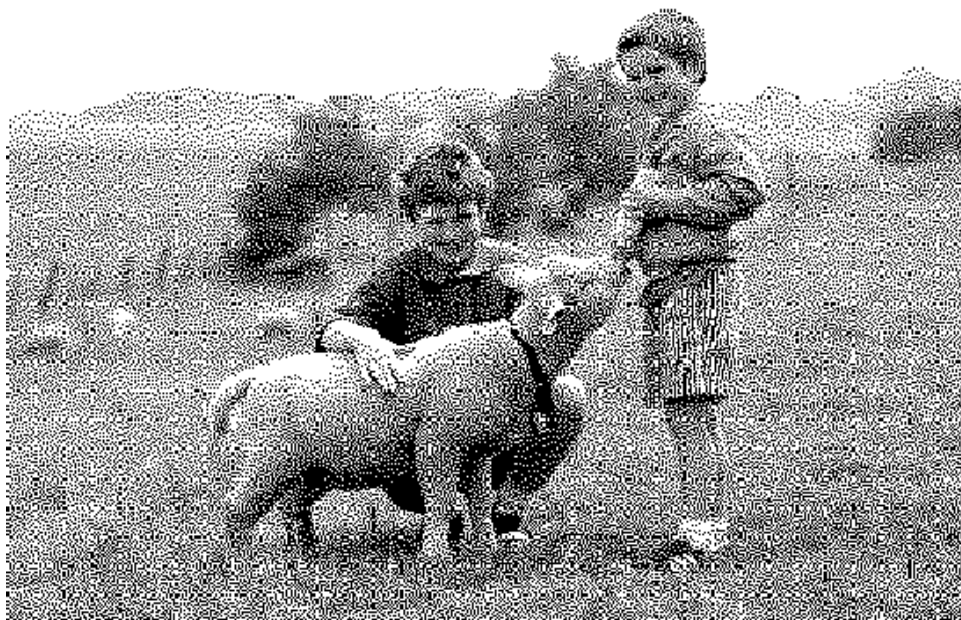
2. Full reporting under new definitions is not required until 2001. Thus the values in the table likely understate the System's 1999 YBS activity.

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

20. Year-to-year comparisons cannot be made now because of the three-year phase-in for YBS reporting under the new definitions and reporting requirements. Not all institutions had fully implemented the new requirements during the first two reporting cycles. Once 2002 data are available, it will be possible to compare with 2001 data, the first year the new reporting will be mandatory. Regionally, comparisons are also difficult since loans to small farmers are likely to vary substantially due to differences in the typical size of farming operations. Moreover, comparisons between System and commercial bank lending to young or beginning farmers are not possible since the commercial bank regulators do not collect this information. Although limited information on the number of small farm loans is collected, they use a much higher annual sales limit. For example, commercial banks identify a farming enterprise with less than \$500,000 in annual sales (compared with our definition of less than \$250,000 in sales) as a small farm loan for reporting under the Community Reinvestment Act.

21. The totals are not mutually exclusive and, depending on characteristics, a single borrower may be counted in two or even all three categories. Also, it is not unusual for individual member-borrowers of System cooperative lending associations to be a member of more than one association and to have multiple loans.

22. Each of the seven System banks has contributed to the Foundation.



Helping Farmers Through Loan Guarantees

The System's use of USDA's Farm Service Agency (FSA) guaranteed lending program provides additional evidence of the System's increased emphasis on YBS lending. Almost all System institutions coordinate their YBS programs with USDA's FSA guaranteed lending program. In fact, about half of the System's FSA guaranteed loan volume consists of loans to young, beginning, or small borrowers. FSA guarantees typically cover 90 percent of the loan principal and interest.

Over each of the past two years ending September 30, the System has posted increases of nearly 14 percent in the volume of loans outstanding in the FSA guaranteed loan program. Significant increases occurred in all FCS districts. Indeed, the increases exceeded overall loan volume growth, pushing up the proportions of total volume under loan guarantees in each district over the past two fiscal years. As of September 30, 2000,

2.64 percent of the System's loans to farmers were reported as having an FSA guarantee, and another 0.11 percent was guaranteed under other federal or state programs. The percentage of agricultural loan volume under the FSA program varies widely by FCS association. Although only a small number have more than 10 percent of loans guaranteed, more than 90 percent of System institutions participate in the program.

The FSA has recently established a Preferred Lender Program to allow better performing lenders to make more efficient use of the USDA programs through reduced paperwork requirements. As of September 30, the USDA reported that about a quarter of the System's associations qualified as preferred lenders to participate in FSA loan programs.

FCA Examination and Supervision Activities

FCA continues to deploy examination and supervisory resources based on the risk in each institution. We continuously identify, evaluate, and address each institution's risks through our Early Warning System and examination and supervision programs.

Risk Identification and Early Warning System

We use our Financial Institution Rating System (FIRS) to identify changes in each institution's risk characteristics. The FIRS is similar to the rating systems used by

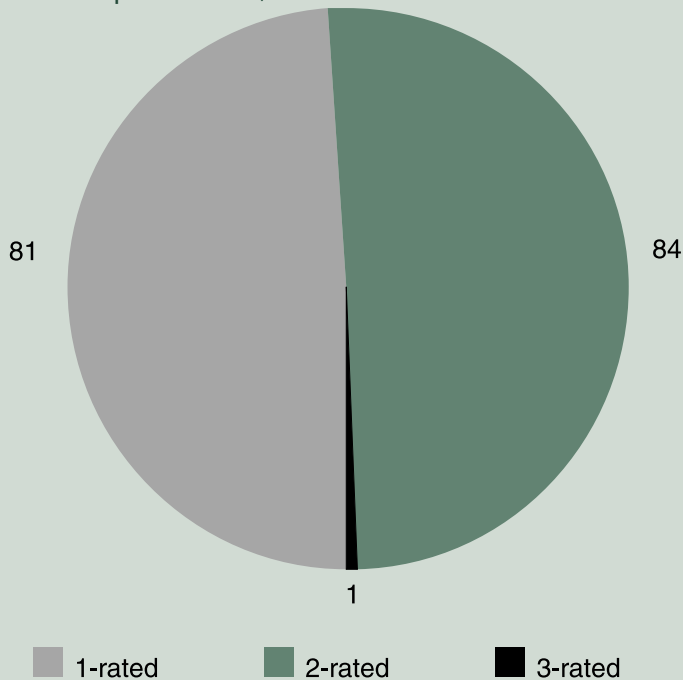
the other federal banking regulators, but it reflects the nondepository nature of FCS institutions. In recent years, we improved the timeliness with which the FIRS ratings reflect changes in the condition of institutions. We now evaluate the risk in each bank and direct lender association at least every 90 days based on quantitative and qualitative benchmarks to ensure that assigned ratings reflect current risk and conditions in the FCS.

FIRS ratings are based on an evaluation of each institution's capital, assets, management, earnings, liquidity, and sensitivity to

interest rate risk (CAMELS). 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, or compliance weaknesses ranging from moderately severe to unsatisfactory. A 5 rating means there is an extremely high, immediate or near-term probability of failure.

Throughout FY 2000, the FIRS ratings reflected the improving financial condition of FCS institutions. Improvement occurred in all CAMELS components, but particularly in assets. Upgrades in the rating for assets resulted from improved loan servicing and resolution of adverse accounts.²³ Improved asset quality was also responsible for upgrades in the rating for liquidity for several institutions. The few downgrades were concentrated in earnings, which reflected current market conditions and the effect of competitive pressures on interest rate spreads. As depicted in Figure 5, as of September 30, 2000, institutions with composite ratings of 1 or 2 represented more than 99 percent of all rated FCS institutions. There was only one 3-rated institution, which comprised less than 1 percent of the FCS's assets.

Figure 5
Composite FIRS Ratings for Farm Credit Banks and Associations
As of September 30, 2000



Source: FCA Office of Examination

23. Adverse accounts are the sum of all assets classified Substandard, Doubtful, or Loss plus other property owned.



In addition to the quarterly FIRS reviews, semiannually we use a financial forecasting model to identify and evaluate prospective risk in institutions over the next 12 to 24 months under “most likely” and “worst case” scenarios, respectively. By evaluating each institution’s financial condition and performance under various scenarios, we can identify institutions with emerging risk and the potential for decline. This evaluation enhances our ability to carry out our supervision program to address and correct problems. Our financial forecasting analysis, based on June 30, 2000 Call Report data, projected that the financial condition of the FCS will remain sound through June 30, 2001, and June 30, 2002, under “most likely” and “worst case” scenarios.

We continue to strengthen our modeling abilities so we can quickly identify economic developments that may affect the financial condition and performance of FCS institutions. For example, we have started to integrate a Loan Portfolio Stress Model, completed in early FY 2000, into the planning and examination phases. With this model, examiners can evaluate and project the impact of changes in interest rates, stock requirements, and borrower repayment capacity on an institution’s earnings and financial condition.

We review and analyze new money, refinancing, and rollover trends semiannually to identify the potential for transfer of risk from other lenders to FCS institutions, especially during stressful times in agriculture. The most recently issued report, evaluating trends from 1996 to 2000 among direct lenders in the FCS, did not reflect any material concerns for the first six months of 2000.

We maintain a database of all underwriting standards adopted by FCS institutions. This helps us track changes in the standards and determine whether institution boards are properly adjusting underwriting standards in response to changing risk.

We set up a task force to identify potential legal and regulatory issues concerning electronic commerce. The task force reviews all Web sites used by FCS institutions quarterly, evaluating adherence to our Informational Memorandum entitled “Web Site and Internet Guidelines” issued on November 8, 1999. Our first review revealed that several FCS institution Web sites did not include a privacy policy or statement, or notices that the institution was an Equal Credit Opportunity Lender, Equal Housing Lender, or Equal Opportunity Employer. We requested corrective actions from the applicable institutions.

We continue to communicate expectations about emerging risks affecting the FCS. During FY 2000, we issued 38 Informational Memorandums. The topics addressed by this guidance included accounting for the allowance for loan losses, credit bureau reporting, remaining year 2000 (Y2K) challenges, Early Warning System stress analysis results, audit committees, FIRS results, and Web site

and electronic commerce security. We also provided examination-related information, such as Examination Manual updates and alerts on unauthorized banking transactions, counterfeit checks, and other topics.

Examinations

FCA conducted 126 examinations in FY 2000. This included 118 examinations of FCS direct lender institutions, two Federal Land Bank Associations, two 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 2000, the Small Business Administration (SBA) continued to use FCA's examination expertise. SBA contracted with FCA to conduct examinations of 14 financial companies licensed by SBA to make guaranteed loans to small businesses.

We require corrective action by an institution when examiners discover unsafe or unsound conditions or violations of laws or regulations. These requirements are communicated to the institution's board in a Report of Examination (Report). The board then must provide FCA with a written response that addresses how the problems will be corrected, including specific time frames for correction. The number of Reports with required actions during FY 2000 comprised 38 percent of the total issued, compared with 66 percent of Reports issued during FY 1999. The decline in required actions correlates with the improving FIRS ratings trend over the past several quarters.

During the first quarter of FY 2000, we devoted substantial resources to Y2K examination activities. Examiners closely surveyed progress made by each institution to mitigate the risks associated with the century date change. In addition, examiners were on site or in contact with the FCS institutions during the rollover weekend, and the institutions met no significant problems. We believe this effort contributed to the FCS's smooth transition into the new millennium.

Supervision and Enforcement

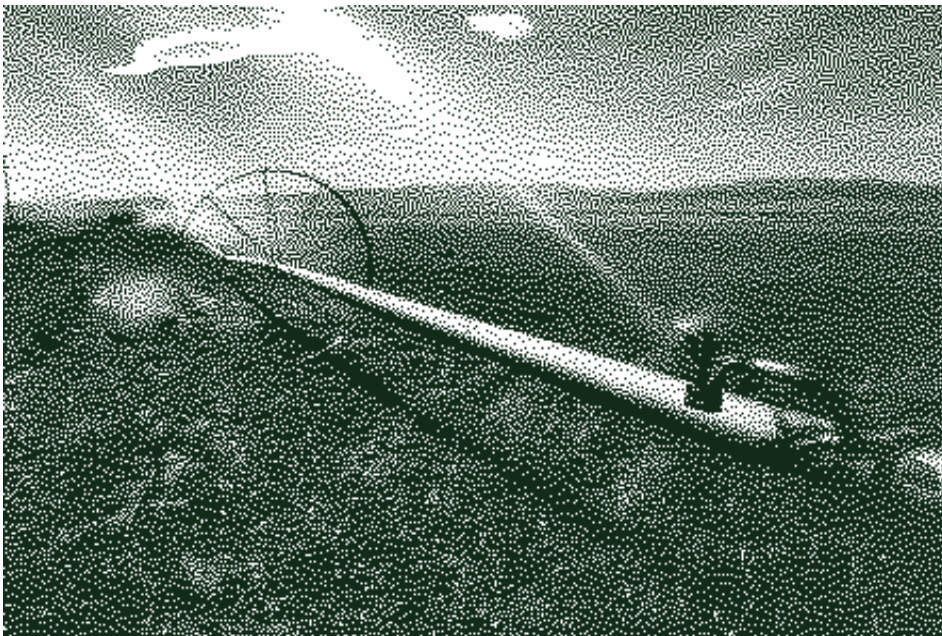
FCA uses various forms of enforcement authority to ensure that the operations of FCS institutions are safe and sound and comply with laws and regulations. This authority includes the power to enter into formal agreements; issue orders to cease and desist; levy civil money penalties; and suspend or remove officers, directors, and any other persons or forbid them from engaging in FCS institutions' affairs. If the FCA Board votes to take an enforcement action, our examiners oversee the institution's performance to ensure compliance. No FCS institutions were under an enforcement action during FY 2000.

We continue to use a three-tiered supervision program (normal, special, and enforcement) to distinguish the risks and special oversight needs of institutions. Our "special supervision" process is designed to initiate corrective measures before irreparable harm occurs in FCS institutions. This process has been successful where the institution's board and management are both willing and able to correct the problems threatening the institution's safety and soundness. Special supervision involves closer



coordination between the affected institution and the appropriate Office of Examination field office 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 start of FY 2000, seven associations were under special supervision. Total assets of those seven associations amounted to \$785 million, or less than 1 percent of total FCS assets. All of these institutions made progress during the year to correct weaknesses and were returned to normal supervision. No institutions are currently under special supervision. The decline in the number of institutions under special supervision or enforcement action is another sign of the System's sound financial condition and performance. This reduces the risk to investors in FCS debt, the Farm Credit System Insurance Corporation, and FCS institution stockholders.



Examination Focus Areas for FY 2001

FCA develops examination focus areas to ensure that the scope of each examination addresses areas of potential risk to the FCS. As the regulator, we must ensure that FCS institutions effectively manage risks while meeting rural America's demand for agricultural credit. FCA examinations in FY 2001 and 2002 will focus on the adequacy of portfolio management strategies to contain risks (individual loan risks, as well as portfolio-wide risks) while meeting increased demand for financial services in a competitive market. This focus will include the analysis of institution practices to survey and assess risk associated with specific integrators, adjustment of underwriting standards, and management strategies to offset production and financial risks. At a minimum, examination and oversight programs and Reports of Examination will focus on business planning, portfolio risk management, including portfolio concentrations and scorecard lending, and young, beginning, and small farmers and ranchers.

Economic Risks Ahead

FCA actively monitors systemic risks in the agricultural, financial, and economic environment within which System institutions operate. Besides long-term changes to the fundamental nature of the agricultural sector, such as increasing concentration, use of contracting, and environmental restrictions, several emerging risks will be closely watched over the next year.

Agricultural Economic Situation

Despite prospects for slight improvements in most commodity prices in 2001, crop prices are expected to remain between 20 and 25 percent below the average prices received by farmers during the 1990s. The U.S. agricultural sector is again confronted with plentiful world supplies for most agricultural products and strong competition from abroad, conditions that have prevailed since 1997. More recently,

farmers and ranchers have faced higher interest rates and higher input costs, particularly for fuel, fertilizer, and labor, which have squeezed profit margins further. In addition, drought conditions and fires plagued certain regions of the United States in 2000, which worsened the depressed farm income in these areas. USDA estimates net farm income for 2000 will be up about 5 percent from 1999, close to the 1990–1999 average. Beyond 2000, farm income will largely depend on the strength of economic growth abroad, U.S. competitiveness in export markets, and government payments.

Dependence on Government Support

Government payments as a share of net farm income have increased sharply since 1996, rising from 13 percent to 49 percent in 2000. Without government aid, many farmers would have been unable to meet the terms of their debt obligations. A particular area of concern is that the recent surge in government payments may have been capitalized into land values. Reduction of government support to agriculture may, therefore, have a detrimental effect on land values and, consequently, the underlying value of collateral held by agricultural lenders against farm debt obligations. A new Farm Bill is to be crafted by 2002 and the future role of the federal government relative to the agricultural sector is unclear at this point. Given the uncertainty about future government support, lenders will need to increase their knowledge of risk management practices and encourage borrowers to use hedging strategies, crop insurance, and other risk management tools.

International Trade

As the world economy continued to recover from the slow-down in the late 1990s, global trade and U.S. agricultural exports picked up slightly in 2000. The most serious threat to U.S. competitiveness in global commodity markets lies in countries like Brazil and Argentina with their potential acreage and yield increases. The rapid adoption of new technologies in these countries and recent infrastructure investments have positioned them to respond to any further growth in world

trade. Even China has emerged as an important competitor of the United States in some commodity markets. However, granting Permanent Normal Trade Relations to China could open previously restricted markets to U.S. agricultural products. As exports make up a growing share of cash receipts (14 percent in 1970 versus 26 percent in 2000), the incomes of farmers and ranchers are more exposed to economic and political shocks beyond U.S. borders.

Market Response to Biotechnology

The rapid adoption of biotechnology by U.S. farmers during the 1990s and subsequent consumer concerns about food safety and the environment have created uncertainty in the marketplace. International acceptance varies, as does regulatory response. Some countries are moving ahead with labeling requirements for bioengineered products that could result in loss of export markets and higher marketing costs. Because of consumer concerns, a growing number of U.S. food companies have announced that they will not use biotech crops in their products. Producers will need to balance the relative prices, cost of production, and yields of biotech and nonbiotech crops. A segregated marketing system is evolving that includes organically grown crops, biotech crops, and ordinary crops. This further complicates analysis of farmer financial capacity.

Competitive Pressures

Competitive advantages among banks, thrifts, and the FCS have been shifting in recent years. Although farmers may benefit from these changes, especially in the short run, System institutions are facing a more competitive environment. The FCA Board believes System institutions also must be provided the flexibility to remain competitive. The following developments are significant market forces facing the FCS.

- Since 1997, an increasing number of small commercial banks and thrifts have filed their tax returns as Subchapter S corporations, thereby avoiding double taxation. This has reduced the





comparative tax advantage available for cooperatives, such as FCS associations, many of which file as Subchapter T corporations to obtain similar tax advantages as the Subchapter S banks.

- The Federal Home Loan Bank System now provides easier access to GSE funding to commercial banks and thrifts for loans to agriculture. This GSE funding provides the opportunity to increase liquidity and to reduce the marginal cost of funds for many community banks.
- The Gramm-Leach-Bliley legislation allows regulatory agencies to charter new corporate structures for financial institutions that choose to exercise newly authorized powers in the insurance and securities industries. The legislation, however, does not extend these benefits to System institutions.

Funding Costs

Over the past year, market volatility has widened the System's spreads over comparable Treasury debt issuances. First, spreads increased early in 2000, when the Treasury Department announced that it would begin buying back outstanding issues of long-term Treasury debt. They increased again late in the first quarter when the House Banking Committee, the Treasury Department, and the Federal Reserve Board Chairman all announced concerns about the current status of GSEs

and the risks they pose to taxpayers. Although this criticism has not been directed at the FCS, funding costs for all GSEs have risen as a result. While these concerns regarding GSE risks are being addressed in congressional forums, some market volatility involving GSE point spreads may continue.

Restructuring of the FCS

Corporate restructuring activity in calendar year 2000 resulted in a significant drop in the number of FCS associations, from 172 on January 1, 2000, to 133 on January 1, 2001. Many associations have gone from either a short-term or a long-term lender to one with both authorities. In addition, the restructurings have increased the number of counties served by more than one association. These changes create increased operational risk during the time of transition. The resulting institutions are larger and more complex organizations that require commensurate management skills and internal control systems. Conversely, in most cases, these mergers bring the opportunity to make more diverse types of loans over broader geographic areas, serving to lessen concentration risks. It is FCA's primary responsibility to encourage FCS management teams and boards to effectively handle this transition in a safe and sound manner so that their cooperative owners and borrowers realize the benefits of these changes.

FCA Public Policy Related Activities

Regulations, Policy Statements, and Bookletters

The Agency issues regulations and policy statements to ensure that the Farm Credit System complies with the law and operates in a safe and sound manner. We also issue Bookletters to the FCS to provide guidance. Further, as the independent regulator of the FCS, we are responsible for protecting the public's interests. The FCA Board's objective is to issue regulations that achieve safety and soundness goals while lessening regulatory burden on the institutions we regulate. FY 2000 was an active regulatory year. Following are brief summaries of the final and proposed rules that we adopted.

Final Regulations

Regulatory Burden

This was the second phase of our most recent initiative to reduce regulatory burden on the FCS. In our first phase, we deleted several unnecessary or obsolete regulations. In the second phase, the notice informed the public of those regulations that we chose not to change because they implement the Farm Credit Act or protect the safety and soundness of the System. We also identified issues that we expect to address in future regulatory actions. (Adopted April 13, 2000; published April 20, 2000 [65 FR 21128])

Flood Insurance

The FCA, the Office of Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Credit Union Administration, jointly published technical amendments to their regulations on loans in areas having special flood hazards, which removed an outdated cross-reference to Federal Emergency Management Agency regulations.

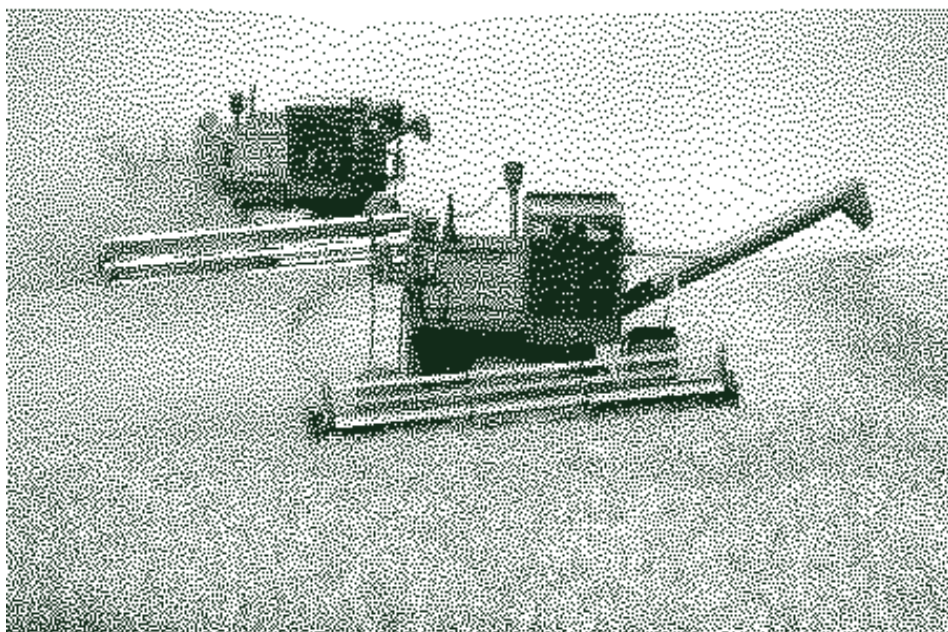
(Adopted December 8, 1999; published December 21, 1999 [64 FR 71272]; effective December 21, 1999)

Participations

We removed requirements that an FCS institution provide notice to or seek consent from other System institutions when it buys participation interests in loans originated outside its chartered territory. (Adopted April 13, 2000; published April 25, 2000 [65 FR 24102]; effective May 25, 2000) Several parties who opposed the final rule subsequently filed suit in the United States District Court for the District of Columbia. The plaintiffs asked the court for a Declaratory Judgment that the final rule is invalid and contrary to law. This action is currently pending.

Standards of Conduct

Through a direct final rulemaking, we rewrote, in plain language, FCA Standards of Conduct regulations that apply to FCS institutions and amended part 614 to correct an erroneous reference to those regulations. (Adopted June 8, 2000; published June 30, 2000 [65 FR 40486]) We did not make substantive changes to the existing regulations. Direct final rulemaking enables federal agencies to adopt noncontroversial regulations without the usual notice and comment period. In our direct final rule, we indicated that if we received a significant adverse comment on any amended provision, we would withdraw that provision, but adopt all others as a final rule. We received significant adverse comments on several provisions of part 612 of the rule. Therefore, part 612 of the rule did not become effective. (Adopted August 24, 2000; published September 11, 2000 [65 FR 54742]; effective September 11, 2000)



Credit bank or association choosing to terminate its FCS status. We also extended the comment period for our proposed termination rule an additional 30 days. (Adopted January 27, 2000; published February 3, 2000 [65 FR 5286])

Farmer Mac Risk-Based Capital

Our proposal would establish risk-based capital requirements for the Farmer Mac. The proposed rule would set guidelines for developing and implementing a risk-based capital stress test; specify capital calculation, reporting, and compliance requirements; outline our monitoring, examination, supervisory, and enforcement activities related to Farmer Mac's compliance with risk-based capital requirements; and prescribe certain requirements for business and capital planning. (Adopted September 30, 1999; published November 12, 1999 [64 FR 61739]) We subsequently extended the comment period on the proposed rule to June 12, 2000. (Adopted February 17, 2000; published February 24, 2000 [65 FR 9223])

Civil Money Penalties

The Federal Civil Penalties Inflation Adjustment Act of 1990 requires us to adjust our civil money penalties (CMPs) at least once every four years for inflation to ensure that the penalties deter future violations. In accordance with the law, we made cost-of-living adjustments for all CMPs under our jurisdiction. (Adopted July 20, 2000; published July 27, 2000 [65 FR 46087]; effective October 23, 2000)

Proposed Regulations

Termination of Farm Credit Status

We proposed amendments that would allow a System institution to terminate its FCS charter and become a financial institution under another federal or state chartering authority. Our proposal would amend the existing regulations so they apply to all banks and associations and make other changes. We also withdrew an earlier proposal published in 1993. (Adopted September 30, 1999; published November 5, 1999 [64 FR 60370]) Subsequently, we published a sample exit fee calculation for a hypothetical Farm

Stock Issuance

We proposed amending our regulations to allow FCS service corporations to sell stock to non-System entities and to let System institutions issue unlimited amounts of certain classes of equities. The purpose of our proposal is to provide System institutions more opportunities to fulfill their borrowers' needs through service corporations and provide more flexibility for institutions when they issue equities related to earnings distributions and transfers of capital. We also proposed a conforming technical amendment to our disclosure regulations. (Adopted December 9, 1999; published December 23, 1999 [64 FR 72041])

Disclosure

Currently, regulations require Farm Credit banks that present their financial statements on a combined basis to distribute their annual reports to the shareholders of their related associations. Our proposal would allow a bank to not distribute its annual report to the shareholders of any related association that discloses, in a separate section of its own annual report,

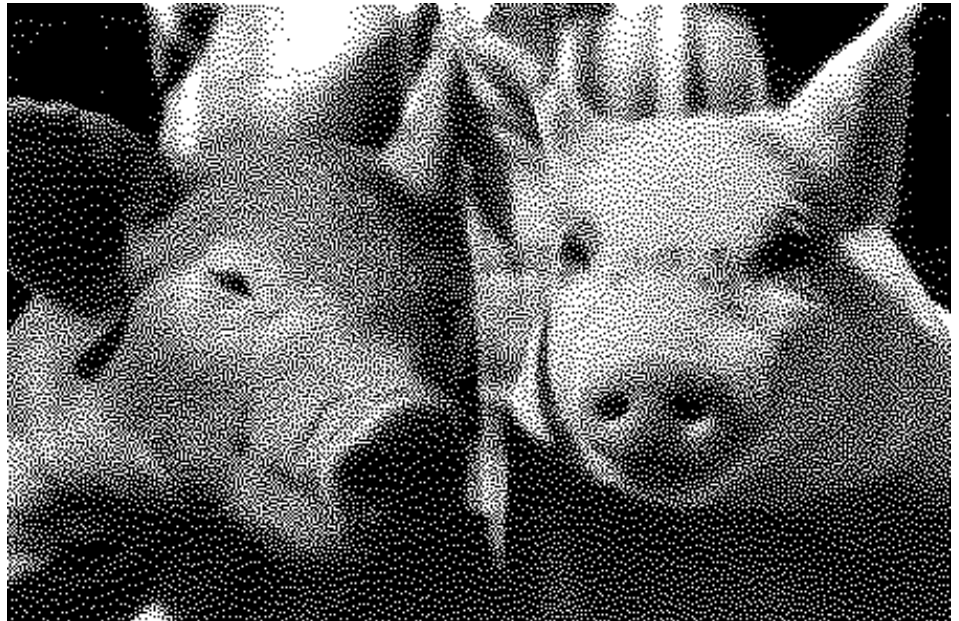
specified information about its financial and supervisory relationship with the bank. Our proposal would continue to require any bank that experiences a “significant event” during the reporting period to distribute its annual report to the shareholders of its related associations. In addition, our proposal would require banks to tell stockholders of related associations that the Farm Credit banks would make their annual reports available upon request. Our proposal would reduce costs while continuing to make important shareholder information available. (Adopted March 9, 2000; published March 17, 2000 [65 FR 14494])

Loans to Designated Parties

The proposed rule addresses the approval of loans to designated parties who are System “insiders” and those FCA and FCSIC employees who may legally borrow from the System. Our proposal would allow FCS associations to delegate to management the approval of loans to designated parties that are \$25,000 or less. Under the proposed rule, an association must either delegate approval of such loans above \$25,000 to its funding bank or require its board (or a committee thereof) to approve these loans. (Adopted March 9, 2000; published March 17, 2000 [65 FR 14491])

OFI Lending

We issued an advance notice of proposed rule making (ANPRM) seeking comment on whether to revise our regulations governing System banks that lend to other financing institutions. OFIs include commercial banks, thrifts, credit unions, trust companies, agricultural credit corporations, and other agricultural and aquatic lenders. We asked the public to comment on (1) our capitalization requirements for Farm Credit bank loans to OFIs; (2) whether the public should know the identities of OFIs; (3) whether we should continue the current territorial restrictions on an OFI funding; and (4) ways to improve System banks’ funding of OFIs. (Adopted April 13, 2000; published April 20, 2000 [65 FR 21151]) We subsequently extended the comment



period on our ANPRM for an additional 30 days. (Adopted June 19, 2000; published June 26, 2000 [65 FR 39319])

Stockholder Vote

We proposed regulations to carry out territorial consent requirements of the Farm Credit Act. Section 5.17 of the Farm Credit Act requires FCS stockholders in certain areas of the country to vote on whether to allow other System associations with like lending authorities to lend in their territories. If approved by the institutions covered by the Act, eligible customers would have the opportunity to borrow from more than one association. (Adopted May 3, 2000; published May 9, 2000 [65 FR 26776]) Subsequently, we repropoed the rule and requested additional comment. (Adopted July 20, 2000; published September 29, 2000 [65 FR 58486])

Loan Purchases and Sales

We proposed revisions to our regulations on loan participations to allow System institutions greater flexibility to buy loan



participations from non-System lenders under certain conditions. We proposed removing the current 10-percent retention requirement when loan servicing remains with a non-System seller. We also proposed removing two restrictive regulatory definitions of “loan participation” and proposed other technical and clarifying changes. (Adopted July 20, 2000; published July 26, 2000 [65 FR 45931])

Policy Statements

Borrower Privacy (FCA-PS-77)

The FCA Board adopted a policy statement requiring FCS institutions to inform borrowers that their personal financial information is protected by regulation. The policy statement requires that System institutions inform new borrowers at loan closing of the FCA regulations pertaining to the release of borrower information and to address this information in the institution’s Annual Report to Shareholders. (Adopted November 10, 1999; published November 22, 1999 [64 FR 63812]; effective November 10, 1999)

Official Names of Farm Credit System Institutions (FCA-PS-78)

We revised an existing policy statement (FCA-PS-63) to provide institutions more guidance on official names and trade names. This policy statement will ensure that the public will be able to identify institutions as FCS institutions and will understand relationships between FCS institutions as their corporate structures become more complex. (Adopted May 3, 2000; published May 10, 2000 [65 FR 30117]) effective May 3, 2000)

Bookletter Guidance

We provided guidance on the “Electronic Signatures in Global and National Commerce Act” (E-SIGN), which reduces barriers to e-commerce while giving consumers adequate protection. E-SIGN generally permits the use of electronic records and signatures in business and consumer transactions, with the consent of the parties.

No Gobbledygook Award

We earned Vice President Gore’s “No Gobbledygook” Award for the plain language rewrite of our Freedom of Information/Release of Information regulations. The new shorter and simpler version will be easier for the public to use.

Borrower Rights Pamphlet

We revised our informational pamphlet on borrower rights. The pamphlet explains our role in reviewing borrower rights complaints and gives borrowers information on where to file complaints and what information to include.

Regulatory Interpretations

We provided regulatory interpretations to individual FCS institutions on a variety of matters, including trade credit programs, appropriate relationships between FCS and non-FCS lenders, and charitable contributions by FCS institutions.

Litigation

Louisiana Federal Land Bank Association, FLCA et al. v. FCA

On June 30, 2000, the Farm Credit Bank of Texas and its affiliated Federal Land Credit Associations in Alabama, Mississippi, and Louisiana filed a Complaint for Declaratory Relief against FCA. The lawsuit in the United States District Court for the District of Columbia challenges our final rule deleting the consent requirements for out-of-territory loan participations. On September 1, 2000, we filed a Motion to Dismiss or, in the Alternative, for Summary Judgment. The First South PCA filed a Motion to Intervene on August 18, 2000, and the Court granted the motion on September 14. All briefs have been filed.

Corporate Activity

During the past year, many associations have merged or adopted new corporate structures that include wholly owned operating subsidiaries. These restructurings are expected to lower risk through diversification, lower operating expenses, and provide for more efficient use of capital and a broader array of services organized on a one-stop basis. While structural changes have significantly reduced the number of associations and expanded their geographic territories, the FCS continues to provide convenient access for its customers through its more than 1,100 branch offices.

Summary of Activity

Last year, the number of corporate applications received by FCA set a new record. For FY 2000, we analyzed and approved 93 applications, which was double the number processed a year earlier (46). In fact, 117 of the 172

associations that existed on January 1, 2000, filed corporate applications with FCA last year, and most of them arrived during the last half of the year. By reprioritizing our other work and using creative and streamlined approaches for processing the applications, we were able to handle the increased workload with existing staff. We met all of our 60-day statutory review requirements, unless waived by the applicants, and granted timely approvals for requested effective dates in every case. During FY 2000, the FCA Board approved the following 93 corporate applications:

- 26 restructurings of Agricultural Credit Associations to establish a Production Credit Association and a Federal Land Credit Association as wholly owned subsidiaries of the ACA;
- 18 consolidations of unlike associations to form ACAs which then restructured to establish a PCA and an FLCA as wholly owned subsidiaries of the ACA;
- 17 formations of FLCAs as a result of transfers of direct lending authority to Federal Land Bank Associations from their affiliated Farm Credit Banks;
- Nine conversions of PCAs and FLCAs to the ACA structure with a PCA and an FLCA subsidiary (the associations that converted had no identifiable merger partner and most were to be overchartered by adjacent associations that were consolidating to establish ACAs);
- One conversion of a PCA with no identifiable merger partner to an ACA; however, no subsidiaries were established;
- Seven association consolidations and mergers involving like or unlike associations that did not result in the formation of ACAs with subsidiaries;



- Six consolidations and mergers of ACAs and restructuring of the resulting or continuing ACA to establish a PCA and an FLCA as wholly owned subsidiaries of the ACA;
- Eight association name changes; and
- One association headquarters' relocation.

Focal Point of Corporate Activity

The FCA Board's approval of a new type of System structure in 1999 set the stage and the pace for this year's corporate activity. The new structure — that of an ACA with a PCA and an FLCA as its wholly owned subsidiaries — provides an association greater flexibility for serving its customers and contributes to a more cost-efficient organizational structure.²⁴ During the past year, 31 ACAs adopted the new organizational structure.²⁵

In the year 2000, 18 groups of jointly managed PCAs and FLCAs requested our approval to consolidate and establish ACAs with the subsidiary structure. Some of these consolidations involved PCAs and FLCAs whose territories were not identical. In most instances, where permitted by the Farm Credit Act, the resulting charters allow the ACAs and their operating subsidiaries to offer short-, intermediate-, and long-term credit to customers throughout the ACA's chartered territory.

We also permitted individual PCAs and FLCAs that were overchartered by new ACAs to become ACAs themselves. As a result, nine associations (five PCAs and four FLCAs) converted their charters and became ACAs.

During the year, the remaining 17 FLBAs in the Texas and Wichita districts became direct lender FLCAs. This transition was completed on October 1, 2000.

Corporate activity has resulted in a decrease in the number of associations from 172 on January 1, 2000, to 133 on January 1, 2001 — a reduction of nearly 23 percent. Figure 6 depicts the chartered territory of each FCS bank. More detailed information about specific corporate applications in 2000 can be found on FCA's Web site at www.fca.gov.

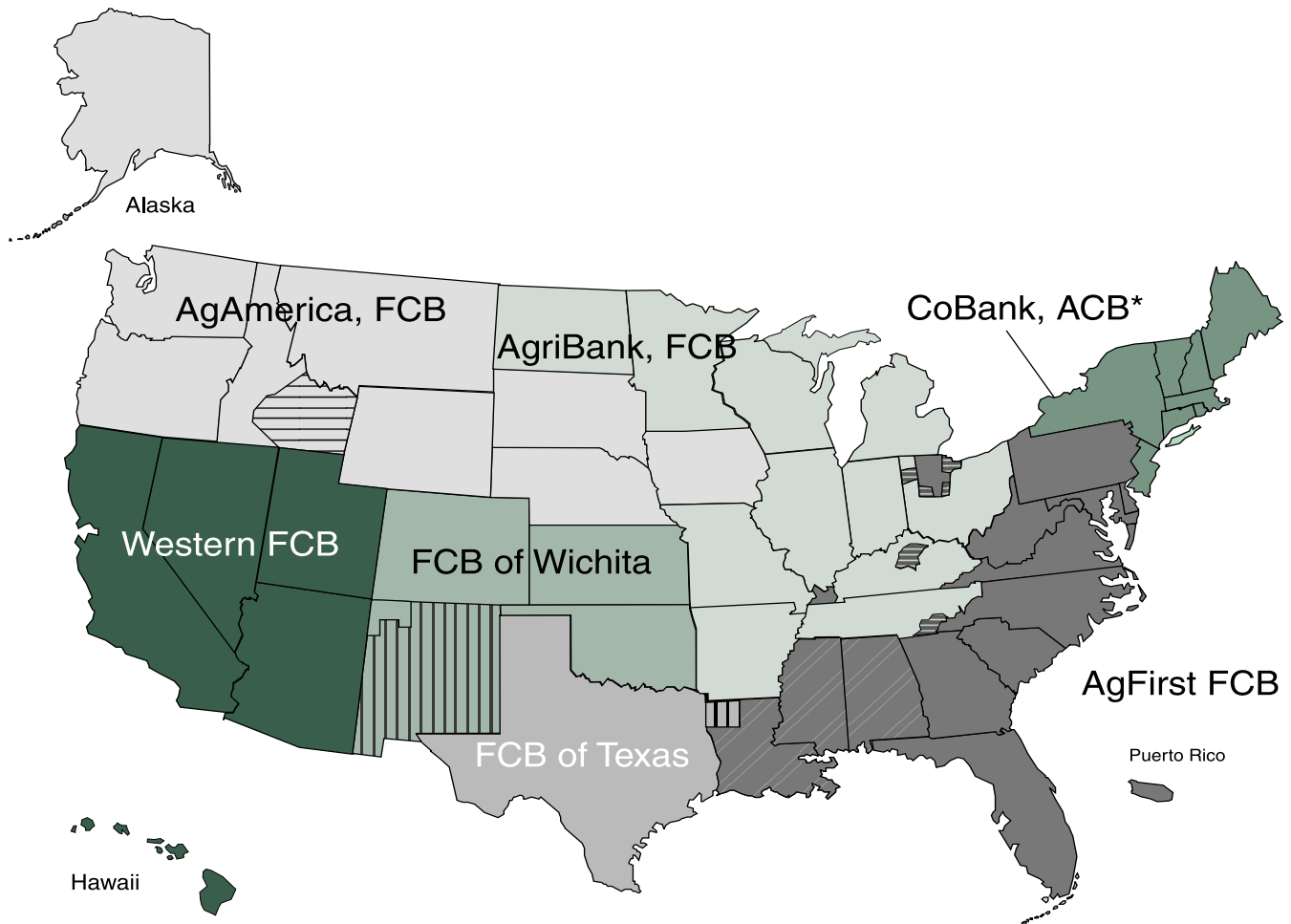
National Charters

As the System's regulator, FCA is responsible for ensuring the safety and soundness of the System and its institutions by helping to minimize unnecessary risk to System institutions as they fulfill their public policy mission. With the advent of globalization and other changes in financial markets, a growing concern is the extent of geographic and concentration risk faced by individual institutions due to territorial boundaries. These boundaries apply to all associations and have existed in the FCS for decades, although some counties have been served by more than one FCS institution for years. Hence, in July 1998, the FCA Board issued a philosophy statement that, among other things, announced the FCA's support for removing regulatory geographic barriers imposed on FCS institutions.

24. FCA, in approving the ACA parent/subsidiary structure, views the ACA and its wholly owned operating subsidiaries as a single entity for most statutory, regulatory, and examination purposes, based on their common ownership and control and cross-guarantees between and among the entities, with each entity responsible for the debts of the others and their capital and assets combined to absorb any losses.

25. In one instance, after stockholders of two ACAs had voted to approve a merger and a restructuring, a petition was filed with FCA by at least 15 percent of the voting stockholders of one of the merging associations to reconsider the vote, as permitted under section 7.9 of the Farm Credit Act. Upon a second vote, stockholders of one of the ACAs disapproved the merger.

Figure 6
Farm Credit System Banks Chartered Territories
As of January 1, 2001



| AgAmerica, FCB | Western FCB | FCB of Wichita | FCB of Texas | AgriBank, FCB | CoBank ACB | AgFirst FCB |
|----------------|----------------|----------------|-----------------|-----------------|----------------|-----------------|
| 1 ACA Parent♦ | 1 ACA | 7 ACA Parents♦ | 10 ACA Parents♦ | 11 ACA Parents♦ | 4 ACA Parents♦ | 10 ACAs |
| 1 FLCA | 9 ACA Parents♦ | 11 FLCAs | 10 FLCAs | 10 FLCAs | | 14 ACA Parents♦ |
| 1 PCA | 6 FLCAs | 8 PCAs | 3 PCAs | 11 PCAs | | |
| | 5 PCAs | | | | | |



The PCA of New Mexico and Ag New Mexico, Farm Credit Services, PCA are funded by the FCB of Texas. Farm Credit of New Mexico, ACA is funded by the FCB of Wichita.



The FLCAs in Alabama, Louisiana, and Mississippi are funded by the FCB of Texas. The First South ACA is funded by AgFirst FCB.



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



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 Idaho ACA is funded by the Western FCB.

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

♦Designates ACAs that have PCA and FLCA subsidiaries.



On November 9, 1998, we published a proposed rule that would have eliminated geographic restrictions on direct lending, related services, and certain loan participations by amending or repealing several regulations. After receiving numerous comments during the six-month public comment period, we published a final rule on April 25, 2000, that removed the requirements for a System institution to provide notice to or seek consent from other System institutions when it buys participation interests in loans originated outside its chartered territory. This final rule became effective on May 25, 2000. Other parts of our original regulatory proposal — those that would have removed restrictions on direct lending and related services outside an institution's chartered territory — were not adopted.

Through an Informational Memorandum dated March 8, 2000, to all FCS institutions, the FCA Board announced plans to remove the territorial restrictions on direct lending and related services by issuing national charters. This chartering authority emanates from sections 2.0, 2.10, 5.17, 7.6, and 7.8 of the Farm Credit Act. We believe that the removal of artificially imposed geographic constraints will reduce risks and improve efficiency, customer service, and the ability of the System to meet the current and future needs of rural America.

On May 3, 2000, the FCA Board issued a second Informational Memorandum and a national charters booklet to all FCS institutions that explained (1) how a direct lender association could apply for a national charter; (2) the territory FCA contemplated for national charters; and (3) that the FCA planned to impose certain conditions in connection with granting a national charter. The booklet stated that we would process all national charter applications received between July 1, 2000, and September 30, 2000, so that, if the FCA Board approved them, they would all be effective on January 1, 2001. A total of 149 of 158 associations applied for national charters during this period.

Following issuance of the booklet on May 3, 2000, interested parties asked us to publish for public notice and comment our national charter applications procedures, and we did so on July 20, 2000 (see the *Federal Register*, 65 FR 45066). We received more than 1,000 comment letters, most of which supported the proposal by a ratio of 2 to 1. However, almost 200 commercial banks expressed opposition to the proposal.

In response to a request from the Chairman of the House Committee on Banking and Financial Services, the General Accounting Office issued an opinion that concluded the FCA's national charter initiative was a "rule" under the Administrative Procedure Act and the Congressional Review Act. The GAO asserted that FCA should have followed notice and comment rulemaking procedures and submitted the national charters booklet for congressional review.

The Farm Credit Act gives the FCA broad authority to issue and amend the charters of System associations, including specifying the territories in which associations may carry on their operations. FCA's legal counsel does not agree with the GAO that a notice and comment rulemaking must precede the issuance of national charters. Nevertheless, to alleviate any procedural

concerns, the FCA Board adopted a proposed rule on national charters on January 11, 2001. The proposed rule would establish procedures for a direct lender association to request a national charter, strengthen safety and soundness controls through new business planning requirements, and help ensure that the System meets its public policy mission.

FCA Symposium on Risk Management

We sponsored a symposium, “Successful Ag Lending: Accomplishing Your Mission in Stressful Times,” May 25–26, 2000. The symposium focused on the mission of the FCS, agricultural risk identification and management, and agricultural policy issues. More than 250 participants from

the Farm Credit System, other financial regulatory agencies, and the USDA attended the conference.

Funding Activity

The FCS raises funds for loans through the sale of debt securities. Systemwide debt securities are issued as discount notes, master notes, bonds, designated bonds, or global debt securities.

As required by the Farm Credit Act, the System must obtain FCA approval for all funding requests. For the 12 months ended September 30, 2000, the FCS issued \$361.6 billion in debt, up from the \$314.2 billion issued during the same period in 1999. As Figure 7 illustrates, the annual calendar issuance of debt increased each

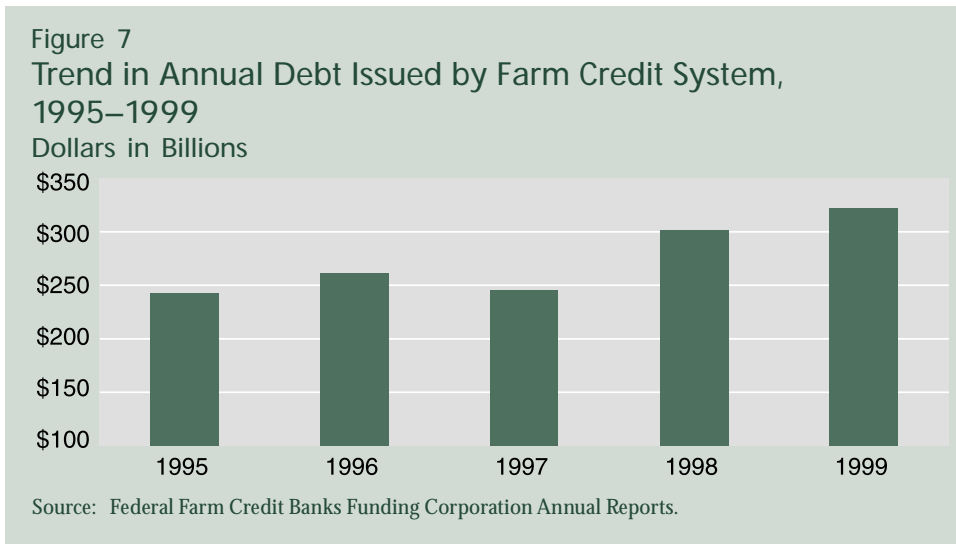
year since 1997 due to increased loan demand and to the issuance of shorter-term debt. While this is a record for the System, it represents about 4 percent of the total debt issued by all GSEs.

Data Reporting

We implemented new technology that enables all FCS institutions to submit Consolidated Reporting System data electronically through the Internet. By accepting electronic submissions, we have reduced the reporting burden on FCS institutions and enhanced customer service. We also published on the Internet a new FCS address database, which allows anyone visiting our Web site to search for information and link to the FCS institutions’ Web sites.

Pilot Program

We approved a pilot program for an association to buy loan participations from a non-System lender with a lower retention requirement. We limited this two-year program to a specific amount of participations and required the association to provide special reports. These reports will assist us in evaluating participation retention requirements as we consider revisions to our regulation on loan participations and sales.



Oversight of Farmer Mac

Farmer Mac is regulated by the FCA through its Office of Secondary Market Oversight (OSMO), which was established in 1992, as required by Public Law 102-237. 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 the banks and associations of the FCS.

In FY 2000, the OSMO provided for the annual examination of Farmer Mac and the ongoing monitoring of its operations and financial condition. Additionally, OSMO oversaw communication between the public and the Agency concerning the FCA Board's proposed Farmer Mac risk-based capital rule. The comment period on the proposed rule ended June 12, 2000, and included one 90-day extension. After considering all comments on the proposed rule, the FCA Board approved a final Farmer Mac risk-based capital rule on February 21, 2001.

For the 12-month period ended September 30, 2000, Farmer Mac's net worth increased \$12.2 million to \$99.6 million. At September 30, 2000, Farmer Mac's capital remained above the minimum prescribed by section 8.33 of the Farm Credit Act. For the nine-month period ended September 30, 2000, net income

was \$7.564 million, up \$2.535 million from the same period in 1999. Net income has continued an increasing trend begun in 1996.

Farmer Mac's on- and off-balance sheet program activity continued an upward trend, reaching \$2.963 billion at September 30, 2000, an increase of \$888 million from a year earlier. Farmer Mac's ability to achieve this growth and its statutory mission improved when the Farm Credit System Reform Act of 1996 (1996 Act) was signed into law on February 10, 1996. This legislation made significant and positive revisions to Farmer Mac's operating authorities.

At September 30, 2000, Farmer Mac I loans purchased or guaranteed after the enactment of the 1996 changes to Farmer Mac's statutory charter (post-1996 Act loans) that were 90 days or more past due, in foreclosure or in bankruptcy, represented 1.80 percent of the principal amount of all post-1996 Act loans, compared with 1.56 percent at September 30, 1999. (Farmer Mac assumes 100 percent of the credit risk on post-1996 Act loans; pre-1996 Act loans are supported by 10 percent subordinated interests that mitigate credit risk exposure.) Higher delinquency rates are likely during the first and third quarters of each year, due to the semiannual payment characteristics of most Farmer Mac loans.



At September 30, 2000, 97 percent of all post-1996 Act loans that were 90 days or more past due, in foreclosure or in bankruptcy, had a loan-to-value (LTV) ratio of 70 percent or less. No such loans had an LTV ratio in excess of 80 percent. At September 30, 2000, Farmer Mac's reserve for losses was \$10.0 million, or 0.43 percent of outstanding post-1996 Act loans, compared with \$5.7 million (0.38 percent) at September 30, 1999.

Weak market opportunities for agricultural products and low commodity prices have persisted in recent years. Nevertheless, Farmer Mac's loan and guarantee portfolio continues to generate an adequate quality and quantity of net income and is supported by a level of capital that meets statutory requirements.

Audits, Inspections and Investigations

During FY 2000, the Office of Inspector General (OIG) completed an audit of FCA's Preparation for Year 2000 Compliance. The rollover went smoothly with no disruptions to normal operations. The Agency also provided effective supervision of FCS institutions, and the significant dates on which problems with computer systems could be expected passed uneventfully in all FCS institutions.

OIG completed an audit of FCA's Supply and Procurement Functions. Users were generally satisfied with the services offered. OIG and FCA management achieved "agreed-upon action" on 12 issues that would improve the efficiency of both functions. The report also contained two recommendations to improve operations and reduce expenses.

OIG contracted with the independent accounting firm Harper, Rains, Stokes & Knight, P. A. to audit the financial statements for the fiscal year ended September 30, 2000. The report was issued March 8, 2001. FCA earned an unqualified opinion.

OIG issued an audit report on the Office of Examination's Early Warning System Stress Model. OIG evaluated the model for its reliability in projecting any Farm Credit System institutions that will develop weaknesses that threaten their safety and soundness. OIG also reviewed the effectiveness of special supervision in causing correction of such weaknesses. OIG found the model was reliable in forecasting emerging risk and that special supervision was effective. The report includes one agreed-upon action and one recommendation to improve the administration of the model.

OIG issued six inspection reports, including two reports of the Denver and the McLean field offices. OIG also issued inspection reports on the Imprest Fund, Cash Management and Investment Practices, Telecommunication Costs and Services, and Performance Measures.

OIG publishes summaries of audit reports and inspections in its "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 on FCA's Web site at www.fca.gov. OIG audit and inspection reports may also be accessed through the Office of Inspector General at www.fca.gov/oig.

OIG manages a continuing survey of FCS institutions. The survey is designed to provide the FCA Board feedback about FCA's performance during examination and enforcement activities. A report of the results is issued each year. During FY 2000, 114 surveys were mailed. OIG received 79 responses. Overall, the average rating for the questions answered this fiscal year was very good (1.44 on a scale of 1 to 5, with 1 signaling the best). The examination teams' professionalism and courtesy received an average rating of 1.15.

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. Three investigations were open at the beginning of FY 2000 and one more investigation was opened during the

year. Two investigations were closed during the year, so two remained open on September 30, 2000. 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) and the e-mail Hotline, fca-ig-hotline@starpower.net, are the primary vehicles used by Agency employees and the public to report fraud, waste, abuse, and mismanagement. All Hotline contacts are carefully evaluated, investigated, or referred, as warranted.

FCA Performance Report

As the independent regulator of the Farm Credit System, the Farm Credit Administration is responsible for protecting the public interest by ensuring the safety and soundness of the FCS. FCA regulations and policies must be sound and constructive, use an approach that is proactive, manage risks within reasonable costs, and reflect the continuing changes in, and the needs of, agriculture. We are committed to providing a flexible regulatory environment that recognizes market forces and enables the System to meet agriculture's and rural America's changing demands for credit and other related services within the authorities established by Congress. In so doing, our primary focus is to ensure the safety and soundness of the FCS.

This commitment is 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.

The Agency performs two basic functions to fulfill its mission:

- Identifying risk and taking corrective action
- Issuing regulations and public policy

To measure how effectively the Agency is fulfilling its mission, the FCA Board and senior management identified two key outcomes:

- Effective Risk Identification and Corrective Action
- Effective Regulation and Public Policy

These outcomes measure FCA's ability to carry out its mission and support the Agency's two basic functions. The tables that follow contain the measures for each outcome, with the goals and objectives that reflect the Agency's desired performance for fiscal years 2000 and 2001.

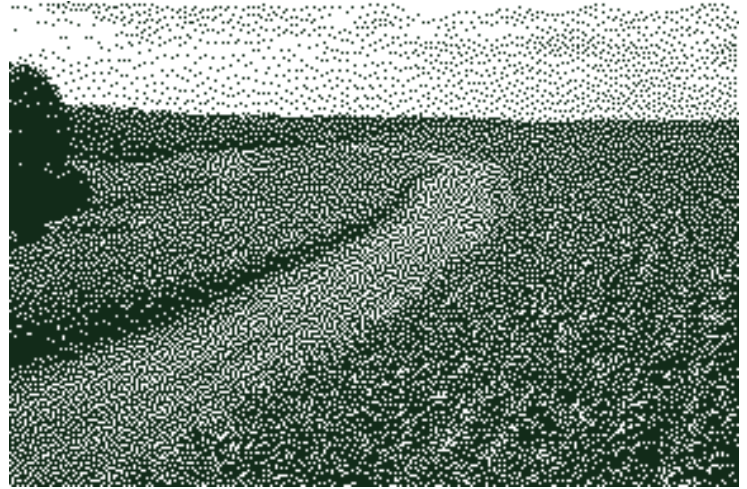
To achieve our desired outcomes, the Board adopted the following two strategic goals for FY 1998–2003.

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 assist the Agency in meeting its strategic goals. In this section, we address the accomplishment of these objectives with our 12 performance measures.

During FY 2000, 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 new millennium.

We were successful in meeting or exceeding all but two of our performance measure goals. We completed nine of the 13 Board actions scheduled for FY 2000, which was a 69 percent completion rate. Our performance goal was 90 percent.



This goal requires us to not only determine the number of Board actions to be completed for a 12-month period, but to also predict which specific actions are to be completed. Due to significant corporate activity²⁶ and the focus on national charters,²⁷ which was previously discussed, four of the scheduled actions were put on hold. Agency resources were redirected to complete seven new actions. When considering only the number of completed Board actions for the year (16), the completion rate equates to 123 percent of the performance goal.

The second performance measure goal we did not achieve was the measure of the percentages of regulations that customers believe meet the regulation's original objectives. The reason this measure was not met is because the baseline measure does not exist at this time. The FCA Inspector General will test survey questions to obtain initial customer service ratings during FY 2001. Following completion of the survey, performance measure goals will be developed for each question and included in the Annual Performance Plan for FY 2002.

Performance Goals and Outcomes

This section relates our success in achieving various performance measures to the goals and objectives in our Strategic Plan.

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

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

26. See page 31 for a discussion of corporate activity.

27. See page 32 for a discussion of national charters.

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

| Number | Description | Measure, Calculation, and Current Status | Goal ²⁸ | Actual 9/30/00 |
|--------|-----------------------------|--|--------------------|----------------|
| 1 | Risk—Number of Institutions | <p>Measure: The number of direct-lender institutions with adversely classified assets to risk funds less than 100 percent divided by the total number of direct-lender institutions.</p> <p>Status: Performance measure goal was achieved for all four quarters of FY 2000. As of September 30, all direct-lender institutions had adversely classified assets to risk funds less than 100 percent, with only three institutions at or above 50 percent.</p> | >90% | 100% |
| 2 | Risk—Volume of risk | <p>Measure: 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.</p> <p>Status: Performance measure goal was achieved for all four quarters of FY 2000. Refer to performance measure No. 1.</p> | >85% | 100% |
| 3 | Risk—Corrective Actions | <p>Measure: The number of direct-lender institutions with adversely classified assets to risk funds greater than 100 percent with corrective action plans that mitigate the excessive risk.</p> <p>Status: Performance measure goal was achieved for FY 2000.</p> | 100% | 100% |
| 4 | Capital Adequacy | <p>Measure: The total assets of direct-lender institutions complying with all minimum capital ratios (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio) divided by the total assets of direct-lender institutions.</p> <p>Status: Performance measure goal was achieved for FY 2000. All direct-lender associations complied with all provisions of the FCA capital adequacy regulations.</p> | 100% | 100% |
| 5 | System Earnings | <p>Measure: The 3-year average Return on Average Assets (ROAA) of FCS institutions.</p> <p>Status: Performance measure goal was achieved for all four quarters of FY 2000. Furthermore, due to improved performance in 2000, the 3-year rolling average of ROAA as of September 30, 2000, indicated a stabilizing trend over the past 12 months.</p> | ≥1.25 | 1.58% |
| 6 | Examination Frequency | <p>Measure: The percentage of examinations of FCS institutions meeting statutory examination frequency requirements.</p> <p>Status: All FCS institutions were examined within the statutory time frames.</p> | 100% | 100% |

28. 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 2 — Ensure that information systems of the FCS and FCA are effective in delivering appropriate data and analytical tools in the year 2000 and beyond.

| Number | Description | Measure, Calculation, and Current Status | Goal | Actual 9/30/00 |
|--------|-----------------------------|---|-------|----------------|
| 7 | Year 2000 Compliance | <p>Measure: The number of FCS institutions that have mission-critical system failures caused by year 2000-related problems.</p> <p>Status: Performance measure goal was achieved. The System successfully transitioned into the year 2000 without any mission-critical failures.</p> | 0.00% | 0.00% |
| 8 | Year 2000 Contingency Plans | <p>Measure: The percentage of FCS institutions' Y2K contingency plans that meet the institution's needs when the institution experiences a problem in a critical system caused by disruptions (such as power outage or telephone systems failure).</p> <p>Status: All Y2K contingency plans met the FCS institutions' needs. No disruptions were experienced by FCS institutions.</p> | 0.00% | 0.00% |

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

| Number | Description | Measure, Calculation, and Current Status | Goal | Actual 9/30/00 |
|--------|---------------------|---|--------------------------|-----------------------|
| 9 | Customer Acceptance | <p>Measure: 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).</p> <ul style="list-style-type: none"> • The board and management believe the findings of the examination will assist (or have assisted) the institution in correcting identified weaknesses. • The board and management believe the actions required by the enforcement document will assist (or have assisted) the institution in correcting identified weaknesses. (Baseline data not applicable at June 30, 1998, because no FCS institutions were under an enforcement action.) <p>Status: Performance measure goals were achieved for all four quarters of FY 2000. The September 30, 2000, average rating in the matrix for the first question from the survey data provided by the Office of Inspector General reflects the overall rating for FY 2000.</p> | <p>≤2.25</p> <p>≤2.5</p> | <p>1.48</p> <p>NA</p> |

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

Our continued emphasis on effective communication, the Early Warning System, the Examination Manual, and streamlining operations has contributed to our success in addressing emerging risk, as the results for all the Performance Measures show. (Refer to the specific results for Performance Measures 1 through 9.)

We also held two conferences related to risk management issues. The first was FCA’s Regulators’ Agricultural Risk Conference, which brought financial regulators together to discuss how agricultural economic risks were affecting financial institutions. The second was the FCA Symposium on Risk Management discussed on page 35.

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. 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. 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 2000 for each strategic objective.

| Description | Measure and Calculation | Goal | Actual 9/30/00 |
|--|---|------|---------------------|
| The percentage of regulatory projects completed in the Board-approved annual Regulatory Performance Plan. | FY 2000 – 13 Board Actions Scheduled in Plan. <ul style="list-style-type: none"> • Nine of 13 scheduled Board actions (69%) were completed during FY 2000. • Total of 16 Board actions (123% of the number of originally anticipated projects) were completed during FY 2000. ** • One Board Policy Statement (Borrower Privacy FCA-PS-77) was approved during the first quarter of FY 2000. | >90% | 69% (123%)** |
| The percentage of regulations completed that utilize “special” customer service focus or features. ²⁹ | FY 2000 Customer Focus. Fourteen of the 16 Board actions completed during FY 2000 (87%) used “special” customer service focus or features. | ≥40% | 87% |
| The percentage of regulations that customers believe meet the regulation’s original objectives. | Project on Schedule. The FCA Inspector General will test survey questions to obtain initial customer service ratings during FY 2001. After the initial testing, the questions may be revised. Performance goals will be developed for each question and the goals will be included in the Annual Performance Plan. | TBD | NA |

29. “Special” customer service focus or features include the following rulemaking techniques: Advance Notice of Proposed Rulemaking (ANPRM); Fast-Track or Streamlined Regulation Development Procedures; Direct Final Rulemaking; Reproposal or Resolicitation of Public Comments; Comment Period Extension; Question and Answer Format; Response to Petitions; and Information Meetings with Constituents.

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

As shown in the above table, we completed only 69 percent of the regulatory projects included in our annual Regulatory Performance Plan, which was 21 percent less than our performance measure goal of 90 percent. This occurred because four of the 13 projects listed on the annual Regulatory Performance Plan were postponed due to significant corporate activity and the national charter initiative. The four regulatory projects postponed were (1) Eligibility, (2) Mission-Related Investments, (3) Comprehensive Borrower Rights, and (4) Termination Regulations. However, we completed seven additional regulation projects not contained in the annual Regulatory Performance Plan. The seven new high priority projects were (1) Stockholder Vote on Like Lending Authority, Proposed Rule, (2) Civil Money Penalties, Final Rule, (3) Stockholder Vote on Like Lending Authority, Reproposed Rule, (4) Termination Rule, Supplemental and Extension of Comment Period, (5) Proposed Farmer Mac Risk-based Capital Rule, Extension of Comment Period, (6) OFI Lending, ANPRM Reopening of Comment Period, and (7) Standards of Conduct, Confirmation of Effective Date and Partial Withdrawal. The ability to remain flexible and focused on the emerging needs of the Agency allowed us to respond to a mid-course change in priorities using the same resources to complete more Board actions than originally projected.

Our final performance measure also 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 and continued to refine it in 2000. We expect to have sufficient data and experience with the third measure to establish an appropriate performance goal in FY 2001. Further, we are exploring ways to better measure whether the FCS is meeting its public policy mission of furnishing adequate, sound, and competitive credit to farmers, ranchers, and their cooperatives. We want to identify additional measures needed during FY 2001.

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

We used “special” customer service focus or features on 14 of the 16 Board actions, or 87 percent of rules developed during the year, exceeding our 40 percent performance goal. It is our goal to utilize special customer features in developing regulations whenever possible.

We are in the midst of implementing a survey instrument to obtain customer feedback on our success in meeting the original objectives when developing regulations. To maintain the impartiality and confidentiality of the survey, FCA’s Inspector General will administer and test the survey questions during FY 2001 and make necessary revisions based on test results. Once the survey is tested, we will develop performance goals for each of the following questions:

1. Did our rulemaking and policy activities recognize market forces and encourage innovation for System institutions?
2. Did we adequately involve the public to seek its perspective regarding our rulemaking activities?
3. Did our rulemaking and policy activities implement the Farm Credit Act without imposing unnecessary burden?

We expect to have this performance measure fully implemented within the next two fiscal years.

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

This initiative continued to show progress during FY 2000, with continued efforts by Agency staff to brief visitors from other countries on the System, the FCA, and agricultural lending. In addition, Agency staff accepted invitations to speak at international conferences in Brazil and Uzbekistan and provided technical assistance in Armenia and Russia. In coordination with the USDA, FCA staff assisted in the development of a guide addressing a regulatory framework for the South African Village Bank program. The outcome of this effort is to help educate FCA staff regarding international banking needs, risk, and culture.

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

In support of this objective, we pursued a number of activities to better communicate with System institutions, as well as actions to relieve some of the administrative burden currently placed on banks and associations. These included seeking comment on whether we should revise FCA's regulations to improve OFI access to System funding. We developed a communication plan for the draft FY 2000–2005 Strategic Plan that included posting it on the FCA Web site and providing information on how the public could submit comments on the draft plan. This is an area that we will focus on in FY 2001 to develop better measures of performance.

One of our key objectives is 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. In FY 2000, the Chief Operating Officer established a goal, to be implemented in FY 2002, to streamline and refine the annual Performance Plan and budgeting process so that it more readily links to the Board's strategic plan and improves accountability for achieving our goals and objectives. To help us achieve this goal, we have retained the services of a leading private sector consultant to assist us in reviewing and revamping our process of establishing performance goals and measures and ensuring that they clearly tie to the budget. It is our goal to have a process ready for implementation in FY 2002 that fully integrates strategic planning, performance measures, and the budgeting process.

Compliance with Legal and Regulatory Financial Requirements

This section provides information on FCA’s compliance with the:

- Inspector General Act,
- Federal Managers’ Financial Integrity Act (FMFIA),
- Federal Financial Management Improvement Act (FFMIA),
- Prompt Payment Act,
- Civil Monetary Penalty Act, and
- Debt Collection Act.

Inspector General Act

The Inspector General Act of 1978, as amended, requires semiannual reporting on Inspector General audits and related activities as well as agency follow-up. The Inspector General’s two semiannual reports covering FY 2000 are summarized in this Accountability Report. This summary provides information about recommendations made in audits and inspections by the Office of Inspector General, management’s progress in taking corrective action, and internal management controls.

During this fiscal year, OIG began reporting actions required to correct audit or inspection findings as “agreed-upon actions” whenever OIG and management agreed on a mutually acceptable way to resolve a problem identified during reviews. OIG’s objective is to recognize management’s preferred method of correcting problems whenever the approach is a reasonable solution. The use of the term “recommendation” will often include these “agreed-upon actions.”

Summary of Audit and Inspection Recommendations October 1, 1999 to September 30, 2000

| | |
|--|----|
| Recommendations uncorrected at October 1, 1999 | 20 |
| Recommendations made during FY 2000 | 44 |
| Recommendations corrected during FY 2000 | 46 |
| Open recommendations at September 30, 2000 | 18 |
| Recommendations open more than one year | 0 |

Nine of the open recommendations were made in two reports issued during the last week of the reporting period.

Federal Managers’ Financial Integrity Act

FMFIA requires agencies to implement and maintain financial management systems that substantially comply with federal financial management requirements, government accounting standards, and the United States Government standard general ledger. It also requires the OIG to report on the Agency’s compliance.

FCA management installed new financial management software (FINASST™) as of October 1, 1999, to correct systemic weaknesses that existed in the predecessor system. FINASST™ is the Agency’s system of record for FY 2000. FINASST™ did not substantially comply with federal financial management systems requirements to produce financial statements for the fiscal year ended September 30, 2000.

The problems with this system caused FCA to enter into a cross-servicing agreement with the Department of Interior's National Business Center. This service agreement will go into effect no later than the beginning of FY 2002. The system of record for FCA will then be the Federal Financial System, as managed by the Department of Interior, a system widely used by other federal agencies and one that substantially complies with the requirements of FMFIA.

Summary of Audit Activities for FY 2000

At the beginning of FY 2000, there were 19 unimplemented recommendations from two audits and one unimplemented recommendation from an inspection.

OIG issued four audit reports and six inspection reports during FY 2000. These reports contained a total of 44 recommendations. Management worked with the OIG to close 30 recommendations.

At the end of the FY 2000 reporting period there were 18 open recommendations and agreed-upon actions. Five agreed-upon actions are from the audit of the Supply and Procurement Functions issued March 29, 2000. Two recommendations are from the inspection report on Performance Measures issued March 24, 2000; one agreed-upon action from the inspection report on Telecommunications Costs and Services issued March 28, 2000; one agreed-upon action from the inspection report on the Imprest Fund issued May 4, 2000; eight agreed-upon actions from the report on Cash Management and Investment Practices issued September 28, 2000; and one agreed-upon action from the inspection of the Denver Field Office issued September 29, 2000. Management decisions have been made on all of these recommendations and corrective actions are in progress.

Federal Financial Management Improvement Act

FFMIA requires agencies to report on their substantial compliance with federal financial management systems requirements, federal accounting standards, and the U.S. Government Standard General Ledger. Although in substantial compliance with Federal Accounting Standards and the U.S. Government Standard General Ledger, the Agency was not in compliance with the financial management systems requirements in that the Agency financial management systems could not be relied upon to produce the financial statements for the fiscal year ended September 30, 2000.

Prompt Payment Act

This act generally requires agencies to pay vendors 30 days after receipt of a valid invoice for goods and services ordered and delivered. During FY 2000, FCA paid most of its bills within the time requirements of the act. In some instances invoices were received without complete or accurate information, which delayed

payment while the invoice was returned to the vendor. FCA paid \$2,100 in interest penalties for the payments that FCA did not process on time. Payments are made by electronic funds transfer unless payment by check is specifically authorized.

Civil Monetary Penalty Act

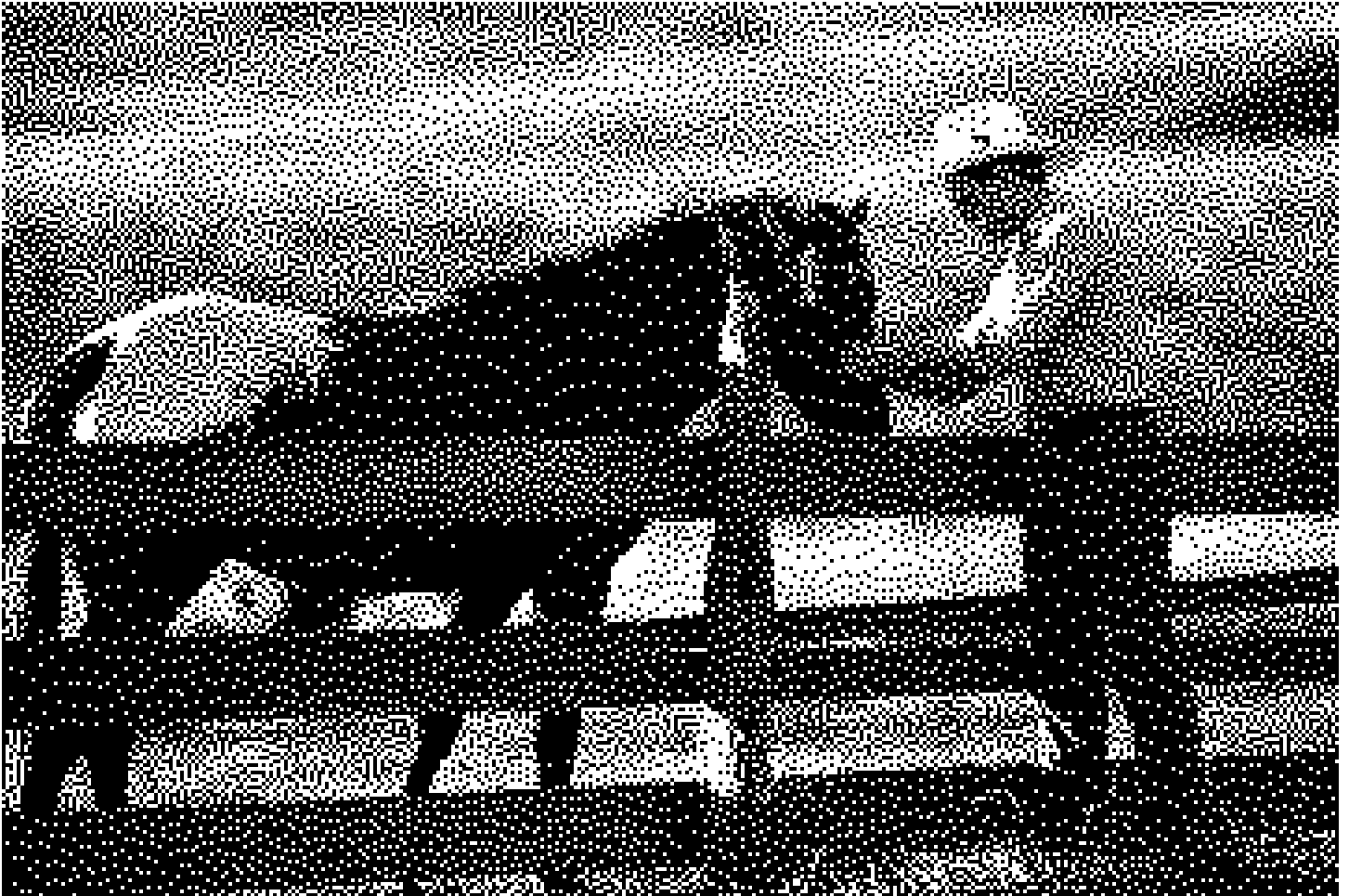
The Civil Monetary Penalty Act allows FCA to assess civil penalties against FCS institutions, including their officers, directors, employees, and agents for violation of a valid order, law, or regulation. There were no civil money penalties assessed by FCA in FY 2000.

Debt Collection Act

The Debt Collection Act prescribes standards for the administrative collection, compromise, suspension, and termination of agency collection actions, and referral to the proper agency for litigation. Debt collection has no material effect on FCA since we operate virtually without delinquent debt.



FCA Annual Financial Report



Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

March 14, 2001



The Honorable Michael M. Reyna
Chairman of the Board
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Mr. Chairman:

This letter relays Harper, Rains, Stokes & Knight's, P.A. (HRSK) report on its audit of the Farm Credit Administration's (FCA) financial statements (including the balance sheet, net cost, changes in net position, budgetary resources, and financing) for the fiscal year ended September 30, 2000. The letter also passes on HRSK's reports on the FCA's internal control structure and on FCA's compliance with applicable laws and regulations.

The Office of Inspector General (OIG) contracted with HRSK, an independent accounting firm, to perform the audit. The contract required HRSK to perform the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. To ensure the quality of the work performed, the OIG:

- reviewed HRSK's approach and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- oversaw progress of the audit; and
- reviewed the audit report.

However, because of the time involved for completing the fiscal year 2000 FCA Accountability Report, we have not completed our review of HRSK's workpapers.

HRSK issued an unqualified opinion. HRSK's opinion is FCA's principal financial statements present fairly, in all material respects, the financial position of FCA as of September 30, 2000, in conformity with generally accepted accounting principles. HRSK did not note any matters involving the internal control structure and its operation that HRSK considered to be material weaknesses. HRSK did not provide an opinion on internal control but noted other matters involving internal control and its operations will be reported to management in a separate letter.

The HRSK report on compliance with laws and regulations noted the FCA's financial management systems did not substantially comply with the Federal financial management systems requirements. Specifically, the Agency could not rely on its financial management systems to produce financial statements for the fiscal year ended September 30, 2000. Problems resulted in excessive delays in producing financial statements. These delays extended into March 2001. The financial management systems are a serious management challenge facing the Agency. During the fiscal year, new management recognized critical problems in FCA's financial management systems. Management initiated corrective action by changing staff and establishing a cross-servicing agreement with the Department of Interior's National Business Center to implement and use its financial management system prior to the beginning of fiscal year 2002. Strong project management skills and close oversight by FCA executive management will be critical to successful implementation of another financial management system.

Respectfully,

Stephen G. Smith
Inspector General

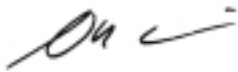
Farm Credit Administration Report of Management

The management of the Farm Credit Administration (FCA or Agency) 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 for the year ended September 30, 2000. 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. Audit reports including appropriate recommendations are provided to the FCA Board.

Independent public accountants whose report appears elsewhere in this Report 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, 2000, in conformity with generally accepted accounting principles.



W. B. Erwin
Chief Financial Officer



Overview

Mission and Organizational Structure

The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the United States Government. Initially created by an Executive order in 1933, FCA now derives its power and authority from the Farm Credit Act of 1971, as amended (Act). Policymaking of 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.

FCA is responsible for the regulation and examination of the banks, associations, and related entities that collectively compose the Farm Credit System (FCS or System). Specifically, FCA is empowered to ensure safe and sound operation of all System institutions. The Act requires System institutions to be examined periodically by FCA. FCA is also responsible for examination and regulation of the Federal Agricultural Mortgage Corporation (FAMC) through the Office of Secondary Market Oversight.

The System is a nationwide network of borrower-owned lending institutions and specialized service organizations. The System raises its funds as a Government-sponsored enterprise, however, the bonds issued by the System are not guaranteed by the United States Government. System institutions consist of Farm Credit Banks, related associations, one Agricultural Credit Bank and other related entities. The institutions within the System provide credit and credit-related services to farmers, ranchers, producers and harvesters of aquatic products, rural

homeowners, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and certain foreign and domestic entities in connection with international activities. These credit facilities are pledged as collateral for the bonds issued by the System.

FCA operates under authorities conferred by the Act. The operations of FCA are financed by means of a revolving fund. This fund is reimbursed primarily from assessments received from the System institutions 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 usually imposed a limitation on the amount of obligations that may be incurred in the fund in a given fiscal year from assessments collected from FCS institutions and from the FAMC. The limitation imposed for fiscal year 2000 was \$35,800,000.

Changes in Accounting Principles and Presentation

With the enactment of the Chief Financial Officers Act of 1990, as amended (CFO Act), Congress called for the publication 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



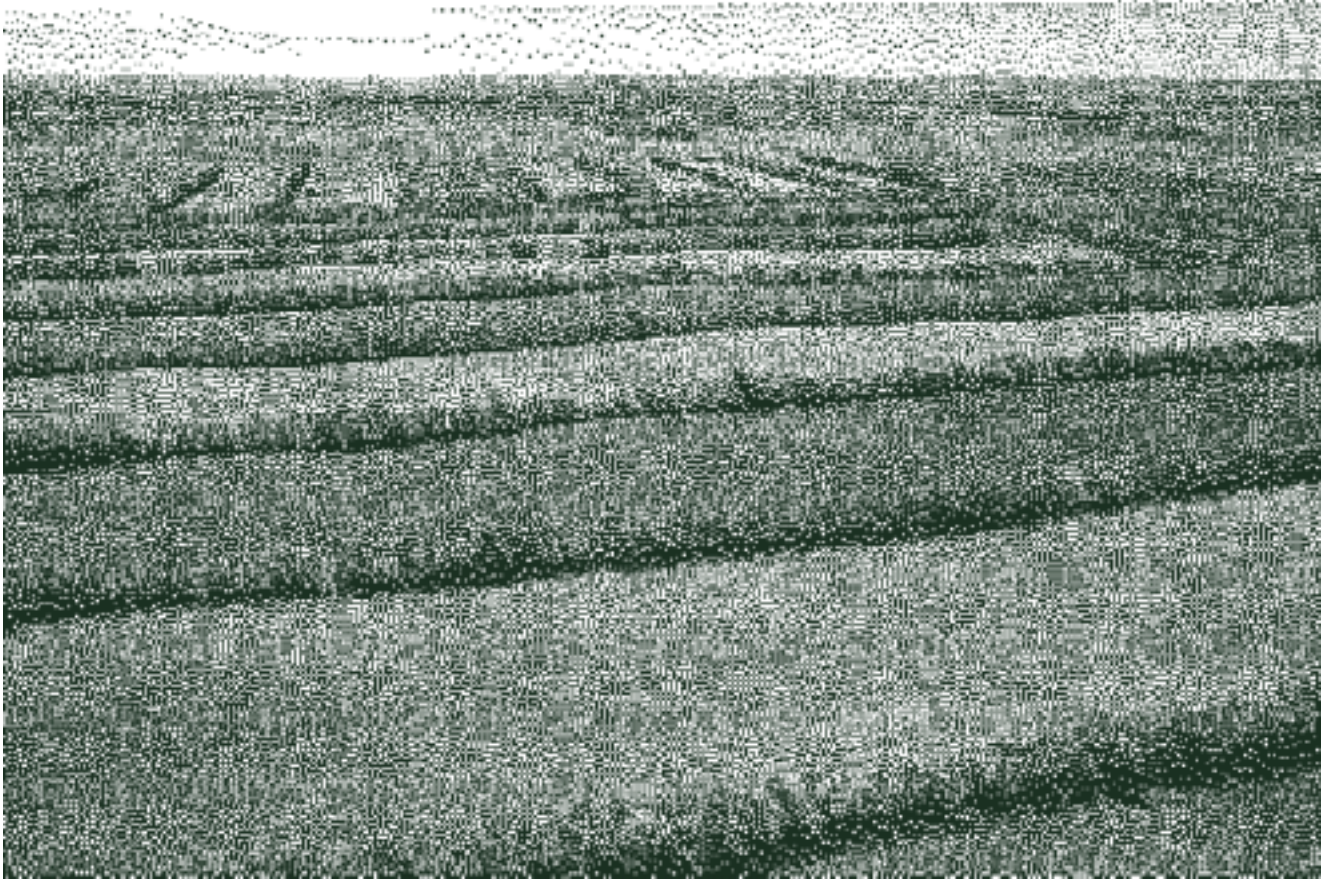
information with which Congress, agency managers, the public, and others can assess management performance and stewardship. The Office of Management and Budget (OMB), in consultation with the CFO Council, the President's Council on Integrity and Efficiency, and other interested parties, developed formats and instructions for standard financial statements that would meet these objectives and published them in OMB Bulletin 97-01, as amended, *Form and Content of Agency Financial Statements*.

The CFO Act established the Federal Accounting Standards Advisory Board (FASAB) to recommend federal accounting principles and standards to the Secretary of Treasury, Director of the OMB, and the Comptroller General, the co-principals of the Joint Financial Management Improvement Program (JFMIP). The Director of OMB and Comptroller General issue the accounting principles and standards recommended by FASAB and approved by the JFMIP co-principals in Statements of Federal Financial Accounting Concepts (SFFAC) and Statements of Federal Financial Accounting Standards (SFFAS). On October 19, 1999, the American Institute of Certified Public Accountants Council designated the FASAB as the accounting standards-setting body for federal government entities. Thus, the SFFAC and SFFAS concepts and standards constitute generally accepted accounting principles (GAAP). The OMB Bulletin 97-01, as amended, includes GAAP standards and concepts, along with the standard formats and instructions for development of federal 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, as amended, and the related federal accounting concepts and standards. Accordingly, the financial statements for fiscal year 2000 are prepared in accordance with GAAP. The statements are presented without prior year comparative information. Comparative financial statements are required to be issued for reporting periods beginning after September 30, 2000 (FY 2001). The Statement of Custodial Activity contained in OMB Bulletin 97-01, as amended, is not included with these financial statements because it is not applicable to FCA.

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). Although FCA is not one of the agencies listed under this requirement, Agency management has elected to voluntarily comply with its requirements.
- While the statements have been prepared from the books and records of FCA in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources 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 liquidated without legislation that provides resources to do so.

Fiscal Year 2000 Financial Highlights

FCA programs for overseeing risk and providing policy and regulatory direction to the Farm Credit System remains adequately funded. FCA has minimized cost with sound planning, effective and efficient use of resources, and maximizing opportunities to expand services without increasing operation expenses. Of course sound planning and effective use of resources are dependent on the availability of accurate financial information. We continue to upgrade and improve our financial management systems and practices to support operations through an evolving business environment as we move into the 21st century. We have committed available funds and resources to the modernization of our financial

management systems and information technology infrastructure to achieve our vision of the future electronic workplace. The September 30, 2000, financial statements should be viewed in context with the information included in the other sections of this Accountability Report:

- The *Net Cost of Operations* for fiscal year 2000 improved \$2,633,126 from the previous fiscal year and represents a more efficient use of resources.
- In fiscal year 2000, total assessments of Farm Credit System and related institutions remained unchanged from the previous fiscal year.
- The improvement in *Net Cost of Operations* increased the Agency's *Net Position* \$3,112,788, compared with a \$480,769 increase in fiscal year 1999.
- Total budgetary outlays for fiscal year 2000 was a negative \$3,824,813, compared with a positive \$2,393,618 for fiscal year 1999.

HARPER, RAINS STOKES & KNIGHT

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

FARM CREDIT ADMINISTRATION
Board of Directors and Office of Inspector General

We have audited the balance sheet of the Farm Credit Administration (FCA) as of September 30, 2000, and the statements of net cost, changes in net position, budgetary resources, and financing for the year then ended. These financial statements are the responsibility of the FCA'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 statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net position of the Farm Credit Administration as of September 30, 2000, and the net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the FY 2000 principal financial statements of the FCA. The accompanying financial information discussed below is not a required part of the principal financial statements.

The information on pages 38-52 and the Required Supplemental Information on page 69 is supplementary information required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and express no opinion on it. The information in pages 1-37 and pages 70-78 is presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Harger, Rainor, Stokes & Krueger P.A." The signature is written in a cursive, flowing style.

March 8, 2001

HARPER, RAINS STOKES & KNIGHT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements (hereinafter referred to as "financial statements") of Farm Credit Administration (FCA) as of and for the year ended September 30, 2000, and have issued our report thereon dated March 8, 2001. 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. 01-02, "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 control, determined whether 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. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

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. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

With respect to internal control related to performance measures reported in the Performance Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noted other matters involving the internal control and its operations that will be reported to the management of FCA in a separate letter.

This report is intended solely for the information and use of the management of FCA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script: Harger, Rainor, Stehno & Krueger P.A.

March 8, 2001

HARPER, RAINS STOKES & KNIGHT

INDEPENDENT AUDITOR'S REPORT 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) as of and for the year ended September 30, 2000, and have issued our report thereon dated March 8, 2001. 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. 01-02, "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 No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to FCA.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a)

requirements. The results of our tests disclosed instances, described below, where the agency's financial management systems did not substantially comply with Federal financial management systems requirements.

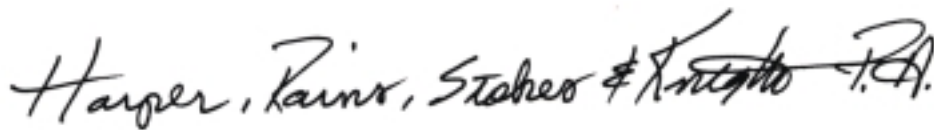
Federal financial management systems requirements:

The Office of Chief Financial Officer's financial management system, FINASST, could not be relied on to produce financial statements for the fiscal year ended September 30, 2000. During the implementation of the new system, difficulties in maintaining functionality for all accounting cycles required FCA to manually reconcile all FY 2000 activity and rely on a manual trial balance to prepare the annual financial statements. Because of the difficulties with FINASST, FCA's management decided to outsource the financial management system prior to the beginning of fiscal year 2002. We recommend the OCFO and the Office of Chief Information Officer (OCIO) develop and document procedures to be followed in evaluating and implementing financial management systems (fms) used to process accounting and budgetary activity for FCA or procedures to be used in connection with outsourcing of accounting and budgetary functions. The documentation should include a description of the requisite personnel skill levels needed in connection with the financial management system and specific change control techniques required for system implementation.

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level and applicable Federal accounting standards.

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 solely for the information and use of the management of FCA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



March 8, 2001

**FARM CREDIT ADMINISTRATION
BALANCE SHEET
As of September 30, 2000**

ASSETS

Intragovernmental:

| | |
|------------------------------|-------------------|
| Fund balance With Treasury | \$ 1,065,282 |
| Investments (Note 2) | 17,268,097 |
| Accounts Receivable (Note 3) | 109,112 |
| Prepaid Expenses | <u>4,015</u> |
| Total Intragovernmental | <u>18,446,506</u> |

Non-Federal:

| | |
|--|----------------|
| Accounts Receivable (Note 3) | 160,283 |
| Cash and Other Monetary Assets | 1,500 |
| General Property and Equipment, Net (Note 4) | 278,243 |
| Prepaid Expenses | <u>5,197</u> |
| Total Non-Federal | <u>445,223</u> |

Total Assets

\$18,891,729**LIABILITIES**

Intragovernmental:

| | |
|-------------------------------------|---------------|
| Accounts Payable | \$ 24,270 |
| Accrued Payroll and Benefits | <u>46,084</u> |
| Total Intragovernmental Liabilities | <u>70,354</u> |

Non-Federal:

| | |
|------------------------------|------------------|
| Accounts Payable | 403,110 |
| Accrued Payroll and Benefits | 4,082,264 |
| Deferred Revenue (Note 1J) | <u>1,980,907</u> |
| Total Non-Federal | <u>6,466,281</u> |

Total Liabilities

6,536,635**NET POSITION**

| | |
|----------------------------------|-------------------|
| Cumulative Results of Operations | <u>12,355,094</u> |
|----------------------------------|-------------------|

Total Net Position

12,355,094

Total Liabilities and Net Position

\$18,891,729

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

**FARM CREDIT ADMINISTRATION
STATEMENT OF NET COST
For the year ended September 30, 2000**

COSTS:

Risk Segment:

| | | |
|---------------------|-------------------|--|
| Intragovernmental | \$ 303,994 | |
| With the Public | <u>25,783,114</u> | |
| Total Segment Costs | 26,087,108 | |

| | | |
|----------------------|-------------------|------------|
| Less Earned Revenues | <u>25,802,002</u> | |
| Net Program Costs | | \$ 285,106 |

Policy Segment:

| | | |
|---------------------|------------------|--|
| Intragovernmental | 104,010 | |
| With the Public | <u>8,821,559</u> | |
| Total Segment Costs | 8,925,569 | |

| | | |
|----------------------|------------------|--------|
| Less Earned Revenues | <u>8,828,020</u> | |
| Net Program Costs | | 97,549 |

Reimbursable Segment:

| | | |
|----------------------|------------------|----------|
| Less Earned Revenues | 1,050,805 | |
| Net Program Costs | <u>1,050,805</u> | <u>0</u> |

| | | |
|---------------------------------|--|-------------------|
| NET COST OF OPERATIONS (Note 5) | | <u>\$ 382,655</u> |
|---------------------------------|--|-------------------|

**FARM CREDIT ADMINISTRATION
STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 2000**

| | | |
|---|------------------|-----------------------------|
| Net Cost of Operations | | \$ (382,655) |
| Financing Sources (other than exchange revenues): | | |
| Imputed Financing: | | |
| Federal Employee Benefits (Note 6) | \$ 1,449,246 | |
| Rent (Note 9) | <u>2,046,197</u> | |
| Total Financing Sources | | <u>\$ 3,495,443</u> |
| Net Change in Cumulative Results of Operations | | 3,112,788 |
| Net Position—Beginning of Period | | <u>9,242,306</u> |
| Net Position—End of Period | | <u><u>\$ 12,355,094</u></u> |

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

**FARM CREDIT ADMINISTRATION
STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 2000**

Budgetary Resources:

| | |
|--|----------------------|
| Unobligated Balances–Beginning of Period | \$ 8,842,108 |
| Spending Authority from Offsetting Collections | <u>36,211,713</u> |
| Total Budgetary Resources | <u>\$ 45,053,821</u> |

Status of Budgetary Resources:

| | |
|--------------------------------------|----------------------|
| Obligations Incurred | \$ 34,548,974 |
| Unobligated Balances–Available | 8,523,940 |
| Unobligated Balances–Not Available | <u>1,980,907</u> |
| Total, Status of Budgetary Resources | <u>\$ 45,053,821</u> |

Outlays:

| | |
|---|-----------------------|
| Obligations Incurred | \$ 34,548,974 |
| Less: Spending Authority From Offsetting Collections and Adjustments | <u>(36,211,713)</u> |
| Beginning of Period Obligated Balance (Note 10) | 5,838,588 |
| Less: Obligated Balance, Net–End of Period | <u>(8,000,662)</u> |
| Total Outlays | <u>\$ (3,824,813)</u> |

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

**FARM CREDIT ADMINISTRATION
STATEMENT OF FINANCING
For the year ended September 30, 2000**

Obligations and Nonbudgetary Resources

| | |
|--|----------------|
| Obligations Incurred | \$ 34,548,974 |
| Less: Spending Authority for Offsetting Collections and Adjustments | (36,211,713) |
| Financing Imputed for Cost Subsidies (Notes 6 and 9) | 3,495,443 |
| Exchange Revenue not in the Budget | <u>536,134</u> |
| Total Obligations as Adjusted, and Nonbudgetary Resources | \$ 2,368,838 |

Resources That Do Not Fund Net Cost of Operations

| | |
|---|--------------------|
| Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided | (1,965,162) |
| Costs Capitalized in the Balance Sheet | <u>(191,517)</u> |
| Total Resources that do not Fund Net Cost of Operations | <u>(2,156,679)</u> |

Costs That Do Not Require Resources

| | |
|---|----------------|
| Depreciation and Amortization | 169,262 |
| Losses on Sale of Capitalized Assets | <u>1,234</u> |
| Total Costs that do not Require Resources | <u>170,496</u> |

| | |
|------------------------|-------------------|
| Net Cost of Operations | <u>\$ 382,655</u> |
|------------------------|-------------------|

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

NOTES TO THE 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 (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 Generally Accepted Accounting Principles (GAAP). The preparation of financial statements in conformity with GAAP 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 (CFO Act) of 1990 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, as amended, *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, 2000 (FY 2001). The Statement of Custodial Activity contained in OMB Bulletin 97-01, as amended, is not applicable to FCA and is not included with these financial statements.

C. 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.

D. Accounts Receivable – Accounts receivable comprises (1) administrative expenses for which FCA will receive reimbursement according to agreements with other Federal entities, (2) assessment of institutions in accordance with the 1971 Act and FCA Regulations, and (3) accounts owed FCA generated through its normal course of business with employees and vendors. The Office of Chief Financial Officer (OCFO) reviews the Agency's accounts receivable on an ongoing basis. The OCFO has determined all accounts receivable are fully collectible as of September 30, 2000.

E. Property and Equipment – 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.

F. 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.

G. 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.

H. 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.

I. 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.

J. Deferred Revenue – 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 principles from previous years. Under SFFAS No. 7, the entire amount of assessment revenue is recognized ratably over the fiscal year. Assessment paid in advance for the subsequent fiscal year is reported as deferred revenue in the Balance Sheet.

Note 2. Investments:

| | Intragovernmental Securities: | | | (4) Required Market Value Disclosure |
|------------------|-------------------------------|---|---------------------------|--|
| | (1) Amortized Cost | (2) Unamortized (Premium) Discount | (3) Investments Net | |
| Non-Marketable: | | | | |
| Market-Based | \$ 17,235,799 | \$ 201 | \$ 17,236,000 | \$ 17,236,501 |
| Accrued Interest | <u>32,298</u> | | | <u>32,298</u> |
| Total | <u>\$ 17,268,097</u> | | | <u>\$ 17,268,799</u> |

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 \$1,054,761 for FY 2000.

Note 3. Accounts Receivable:

| | Assessments | Reimbursables | Vendor Over- Payments | Other | Total |
|-------------------|-------------------|-------------------|-----------------------------|------------------|-------------------|
| Intragovernmental | \$ - | \$ 109,112 | \$ - | \$ - | \$ 109,112 |
| With the Public | <u>112,429</u> | <u>-</u> | <u>19,858</u> | <u>27,996</u> | <u>\$ 160,283</u> |
| Total | <u>\$ 112,429</u> | <u>\$ 109,112</u> | <u>\$ 19,858</u> | <u>\$ 27,996</u> | <u>\$ 269,395</u> |

Note 4. General Property and Equipment:

| | Estimated Useful <u>Life</u> | Depreciation <u>Method</u> | Amount <u>Acquisition</u> | Accumulated <u>Depreciation</u> | Book <u>Value</u> |
|---------------|------------------------------------|-------------------------------|------------------------------|------------------------------------|----------------------|
| ADP Equipment | 3 years | Straight Line | \$1,128,568 | (\$912,917) | \$215,651 |
| Software | 3 years | Straight Line | <u>313,926</u> | <u>(251,334)</u> | <u>62,592</u> |
| Total | | | <u>\$1,442,494</u> | <u>(\$1,164,251)</u> | <u>\$278,243</u> |

Note 5. Gross Cost and Earned Revenue by Budget Functional Classification:

| <u>Functional Classification</u> | <u>Gross Cost (*)</u> | <u>Earned Revenue</u> | <u>Net Cost</u> |
|----------------------------------|-----------------------|-----------------------|------------------|
| Agriculture | <u>\$36,063,482</u> | <u>\$35,680,827</u> | <u>\$382,655</u> |

(*) Intragovernmental costs were in the amount of \$408,004.

Note 6. Federal Employee Benefits:

| | |
|-----------------------------------|---------------------|
| Funded Pension Cost | \$ 2,089,780 |
| Imputed Pension Cost | 711,522 |
| Other Imputed Retirement Benefits | <u>737,724</u> |
| Total | <u>\$ 3,539,026</u> |

Retirement – FCA 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 7. Actuarial Liability

The Federal Employee Compensation Act (FECA) provides income and medical cost protection to cover Federal civilian employees injured on the job, employees who have contracted a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims for benefits under the FECA for eligible FCA employees are administered by the Department of Labor (DOL) and ultimately paid by the FCA.

The DOL estimates future workers compensation (FWC) liability for specified entities preparing statement under the Chief Financial Officers and Government Management Reform Act. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

There were no current FWC claims or actuarial liabilities related to FWC claims for fiscal year 2000.

Note 8. 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 9. Rent:

| | |
|----------------------|---------------------|
| Leased Field Offices | \$ 741,096 |
| FCA Headquarters | <u>1,305,101</u> |
| Total | <u>\$ 2,046,197</u> |

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 above imputed rent expense is an estimate based on FCSBA actual results of operations for the 12 months ended December 31, 1999.

In accordance with SFFAS No. 4, the rent expense and the associated imputed revenue are recorded as a nonmonetary 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.

Note 10. Budgetary Resources and Outlays:

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 from assessments collected from System institutions and from the Federal Agricultural Mortgage Corporation, and exclusive of reimbursable activities. The statutory limitation for FY 2000 was \$35,800,000. During FY 2000, FCA had direct obligations of approximately \$33,498,169 subject to the limitation. In addition, during FY 2000, FCA incurred obligations of approximately \$1,050,805 related to reimbursable activities. Budgetary resources cover all liabilities of the Agency. The FCA has undelivered orders totaling \$ 3,595,356 as of September 30, 2000. The year-end obligated balance was understated by \$164,686 for the financial statements issued for the period ending September 30, 1999, and the balance has been adjusted accordingly.

Note 11. Related Parties:

The Farm Credit System Insurance Corporation (FCSIC) was established to provide an insurance function for the System. 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 \$237,000 for FY 2000. Included in Intragovernmental Accounts Receivable on the Balance Sheet is \$40,901 due from FCSIC for reimbursable work. FCSIC is controlled by a board whose members are the same as the members of the FCA Board except that 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. In accordance with the Act, FCA occupies buildings owned and leased by FCSBA. Rent is provided at no cost to FCA (Note 9). FCSBA also leases telecommunications equipment to FCA under a reimbursable operating lease that is renewable annually. Telecommunication expenses were \$270,819 for FY 2000. The FCSBA is assessed for each fiscal year in which FCA examines them. FCA performed no examinations of FCSBA in fiscal year 2000. The FCA Board has exclusive oversight of the FCSBA and is authorized to act as the agent of the banks.

Required Supplemental Information As of September 30, 2000

Intragovernmental Assets

| Agency | Fund Balance with Treasury | Investments | Accounts Receivable | Prepayments |
|---|-------------------------------|-----------------------------|--------------------------|------------------------|
| Department of Treasury | \$ 1,065,282 | \$ 17,268,097 | \$ - | \$ - |
| Small Business Administration | - | - | 66,519 | - |
| Farm Credit System Insurance Corporation | - | - | 40,901 | - |
| Library of Congress | - | - | - | 4,015 |
| Other | - | - | 1,692 | - |
| Total | <u>\$ 1,065,282</u> | <u>\$ 17,268,097</u> | <u>\$ 109,112</u> | <u>\$ 4,015</u> |

Intragovernmental Liabilities

| Agency | Accounts Payable | Accrued Payroll and Benefits |
|--|-------------------------|------------------------------------|
| U. S. Department of Agriculture | \$ 21,530 | \$ - |
| Federal Deposit Insurance Corporation | 1,440 | - |
| U. S. Government Printing Office | 1,000 | - |
| Office of Personnel Management | <u>300</u> | <u>46,084</u> |
| Total | <u>\$ 24,270</u> | <u>\$ 46,084</u> |

Appendix



Table 4
Farm Credit System Major Financial Indicators¹
Dollars in Thousands

| Year to Date | 30-Sep-00 | 30-Sep-99 | 30-Sep-98 | 30-Sep-97 | 30-Sep-96 |
|--|--------------|--------------|--------------|--------------|--------------|
| Farm Credit System Banks² | | | | | |
| Gross Loan Volume | \$65,967,226 | \$63,920,055 | \$60,992,400 | \$58,281,477 | \$56,587,082 |
| Accruing Restructured Loans ³ | \$179,596 | \$202,910 | \$280,708 | \$316,486 | \$328,813 |
| Accrual Loans 90 or More Days Past Due | \$11,539 | \$15,321 | \$35,902 | \$7,803 | \$15,220 |
| Nonaccrual Loans | \$493,983 | \$438,057 | \$469,550 | \$263,050 | \$292,989 |
| Nonperforming Loans/Total Loans ⁴ | 1.04% | 1.03% | 1.29% | 1.01% | 1.13% |
| Cash and Marketable Investments | \$14,361,173 | \$13,389,314 | \$12,678,099 | \$11,428,955 | \$10,797,050 |
| Total Capital/Total Assets ⁵ | 7.55% | 7.80% | 8.38% | 8.60% | 8.57% |
| Total Unallocated Retained Earnings/Total Assets | 4.01% | 3.99% | 4.06% | 4.05% | 3.96% |
| Total Net Income | \$438,813 | \$379,919 | \$482,574 | \$503,160 | \$501,287 |
| Return on Assets ⁶ | 0.73% | 0.66% | 0.88% | 0.97% | 0.98% |
| Return on Equity ⁶ | 9.55% | 8.32% | 10.32% | 11.16% | 11.55% |
| Net Interest Margin | 1.21% | 1.35% | 1.45% | 1.58% | 1.70% |
| Operating Expense Rate ⁷ | 0.41% | 0.48% | 0.46% | 0.51% | 0.60% |
| Associations Excluding Federal Land Bank Associations | | | | | |
| Gross Loan Volume | \$50,030,494 | \$42,759,760 | \$39,975,359 | \$36,330,432 | \$33,794,209 |
| Accruing Restructured Loans ³ | \$81,519 | \$74,164 | \$76,097 | \$76,932 | \$90,451 |
| Accrual Loans 90 or More Days Past Due | \$22,707 | \$38,502 | \$30,746 | \$20,355 | \$18,345 |
| Nonaccrual Loans | \$443,610 | \$418,474 | \$361,679 | \$383,250 | \$442,427 |
| Nonperforming Loans/Total Loans ⁴ | 1.10% | 1.24% | 1.17% | 1.32% | 1.63% |
| Total Capital/Total Assets ⁵ | 16.86% | 16.40% | 16.12% | 16.49% | 16.55% |
| Total Unallocated Retained Earnings/Total Assets | 14.03% | 13.14% | 12.61% | 12.49% | 12.11% |
| Total Net Income | \$639,383 | \$485,716 | \$526,556 | \$474,647 | \$462,755 |
| Return on Assets ⁶ | 1.64% | 1.44% | 1.66% | 1.64% | 1.71% |
| Return on Equity ⁶ | 9.73% | 8.78% | 10.29% | 9.94% | 10.31% |
| Net Interest Margin | 2.98% | 3.05% | 3.16% | 3.25% | 3.34% |
| Operating Expense Rate ⁷ | 1.57% | 1.65% | 1.63% | 1.75% | 1.81% |
| Total Farm Credit System⁸ | | | | | |
| Gross Loan Volume | \$72,957,000 | \$69,657,000 | \$66,110,000 | \$63,001,000 | \$60,909,424 |
| Accruing Restructured Loans ³ | \$123,000 | \$127,000 | \$161,000 | \$216,000 | \$264,543 |
| Accrual Loans 90 or More Days Past Due | \$34,000 | \$52,000 | \$66,000 | \$28,000 | \$34,264 |
| Nonaccrual Loans | \$937,000 | \$857,000 | \$831,000 | \$646,000 | \$735,411 |
| Nonperforming Loans/Total Loans ⁴ | 1.50% | 1.49% | 1.60% | 1.41% | 1.70% |
| Total Bonds and Notes | \$74,369,000 | \$70,902,000 | \$67,651,000 | \$63,964,000 | \$62,045,482 |
| Total Capital/Total Assets ⁵ | 15.58% | 15.30% | 15.17% | 14.87% | 14.24% |
| Total Surplus/Total Assets | 11.98% | 11.52% | 11.09% | 10.56% | 9.82% |
| Total Net Income | \$1,048,000 | \$934,000 | \$1,008,000 | \$935,000 | \$951,000 |
| Return on Assets ⁶ | 1.57% | 1.47% | 1.68% | 1.64% | 1.71% |
| Return on Equity ⁶ | 10.14% | 9.67% | 11.07% | 11.16% | 12.29% |
| Net Interest Margin | 2.74% | 2.75% | 2.90% | 2.93% | 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, Accruing 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, annualized.

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.

Table 5
Farm Credit System Major Financial Indicators, By District¹
Dollars in Thousands

At and For the Quarter Ended September 30, 2000

| | Total Assets | Gross Loan Volume | Nonaccrual Loans | Allowance for Loan Losses | Cash and Marketable Investments | Capital Stock ² | Earned Net Worth ³ | Total Net Worth |
|--|---------------------|-------------------------|---------------------|------------------------------------|--|-------------------------------|-------------------------------------|-----------------------|
| Farm Credit System Banks | | | | | | | | |
| Wichita | \$4,917,754 | \$3,839,768 | \$14,794 | \$31,747 | \$962,087 | \$123,460 | \$347,736 | \$466,726 |
| Texas | 4,779,947 | 4,319,216 | 34,077 | 16,701 | 410,237 | 77,918 | 235,005 | 312,129 |
| Western | 7,021,928 | 5,843,225 | 99 | 5,065 | 1,039,662 | 235,016 | 208,427 | 442,028 |
| AgriBank | 19,854,706 | 15,618,372 | 122,198 | 156,608 | 4,064,598 | 568,564 | 944,895 | 1,511,908 |
| AgAmerica | 9,443,818 | 7,955,772 | 31 | 13,767 | 1,349,939 | 543,200 | 383,792 | 924,473 |
| AgFirst | 11,476,517 | 9,121,008 | 11,269 | 20,416 | 2,197,115 | 301,188 | 425,993 | 719,327 |
| CoBank | 23,637,566 | 19,269,865 | 311,515 | 320,908 | 4,337,535 | 1,028,131 | 731,002 | 1,752,908 |
| Total | \$81,132,236 | \$65,967,226 | \$493,983 | \$565,212 | \$14,361,173 | \$2,877,477 | \$3,276,850 | \$6,129,499 |
| Associations Excluding Federal Land Bank Associations | | | | | | | | |
| Wichita | \$4,173,298 | \$3,991,269 | \$41,604 | \$137,744 | \$17,624 | \$59,146 | \$836,321 | \$899,625 |
| Texas | 4,415,207 | 4,277,391 | 28,690 | 125,481 | 5,312 | 106,001 | 724,934 | 830,935 |
| Western | 7,116,048 | 6,522,813 | 25,716 | 132,588 | 229,701 | 121,276 | 909,285 | 1,030,561 |
| AgriBank | 16,550,307 | 15,459,843 | 172,743 | 323,996 | 110 | 211,281 | 2,406,190 | 2,620,390 |
| AgAmerica | 9,062,293 | 8,430,457 | 77,521 | 325,259 | 19,644 | 47,561 | 1,282,569 | 1,354,490 |
| AgFirst | 9,647,911 | 9,216,448 | 78,139 | 262,128 | 12,187 | 180,667 | 1,623,326 | 1,828,136 |
| CoBank | 2,246,670 | 2,132,273 | 19,197 | 57,676 | 6,318 | 47,330 | 361,367 | 408,697 |
| Total | \$53,211,734 | \$50,030,494 | \$443,610 | \$1,364,872 | \$290,896 | \$773,262 | \$8,143,992 | \$8,972,834 |
| Total Farm Credit System | \$90,757,000 | \$72,957,000 | \$937,000 | \$1,954,000 | \$15,224,000 | \$1,685,000 | \$10,875,000 | \$14,137,000 |

1. Aggregations of district data may not equal totals due to eliminations.

2. Includes protected borrower capital.

3. Excludes accumulated other comprehensive income.

Source: Call Reports received from the Farm Credit System and the Federal Farm Credit Banks Reports to Investors of the Farm Credit System.

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 and 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 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 and harvesters of aquatic products, rural residents for housing, and some agriculture-related businesses. As of September 30, 2000, 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 with the enactment of the Agricultural Credit Act of 1987 to provide a secondary market for agricultural real estate and rural housing mortgage loans.

Federal Farm Credit Banks Funding Corporation (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 were lending agents for Farm Credit Banks. FLBAs made and serviced long-term mortgage loans to farmers and ranchers, and rural residents for housing. FLBAs did not own loan assets, but made loans only on behalf of the Farm Credit Bank with which they were affiliated. As of October 1, 2000, there were no remaining FLBAs.

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 is 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 that deliver only short- and intermediate-term loans to farmers and ranchers. A PCA borrows money from its Farm Credit Bank to lend to farmers. PCAs also own their loan assets.



Additional Information

The *Farm Credit Administration Accountability Report Fiscal Year 2000* is now available on FCA's Web site at www.fca.gov. Depending on availability, printed copies of 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

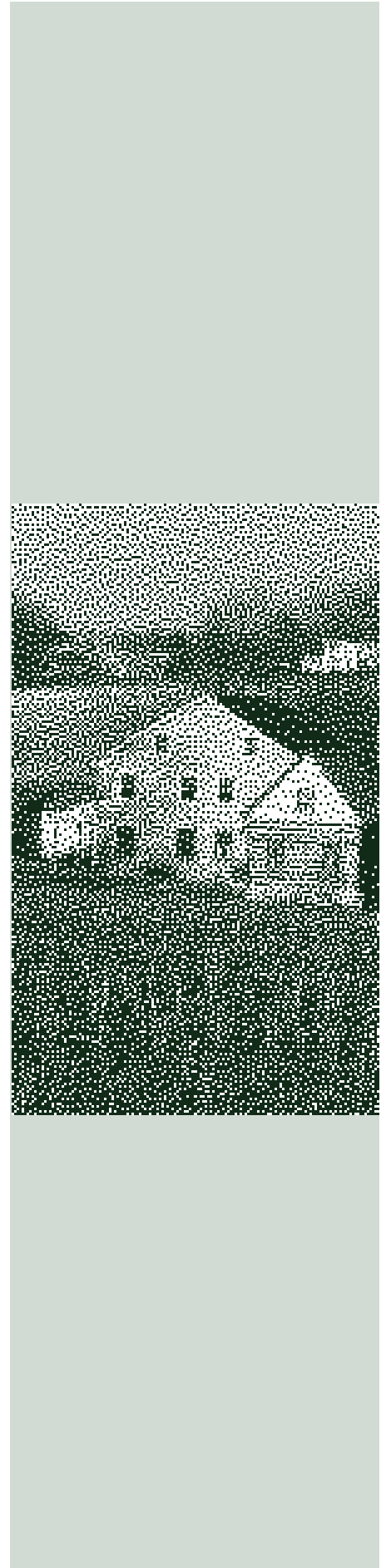
The Federal Farm Credit Banks Funding Corporation prepares the financial press releases, the *Report to Investors of the Farm Credit System*, the System's Annual and Quarterly Information Statements, and the System's combined financial statements contained therein, with the support of the System banks. 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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A final word of thanks to our employees, whose dedication to excellence and hard work made the accomplishments reported here possible.

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Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
703-883-4056