2021

Annual Report

of the Farm Credit Administration

Regulator of the Farm Credit System








Contents

About this report

This is the Farm Credit Administration's annual report to Congress. Section 5.17(a)(3) of the Farm Credit Act of 1971, as amended, requires this report to include the following:

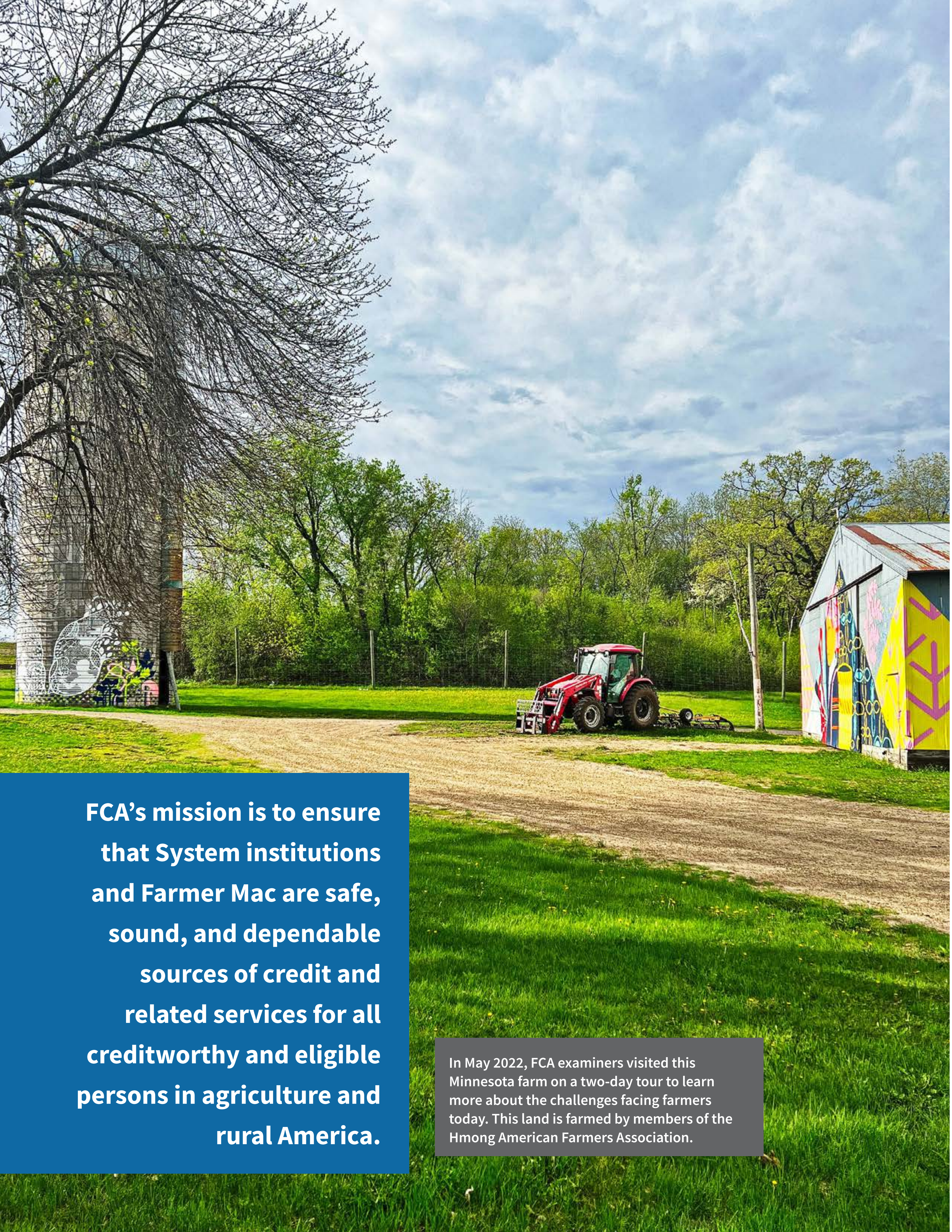
- An annual report to Congress on the condition of the Farm Credit System (FCS or System) and its institutions and on the manner and extent to which the objectives of the Farm Credit Act are being carried out
- A summary and analysis of the annual reports submitted to us by the FCS banks regarding programs for serving young, beginning, and small farmers and ranchers

The report also includes information about our agency and the work we do to ensure that the System continues to meet its mission and to operate safely and soundly.

About the cover

In this report, we typically include lots of stock photos featuring farmers, farm scenes, and commodities, but this year we decided to invite our staff to send us their own farm photos for inclusion in the report.

Our cover features a photo illustration of the Indiana farmstead of Board Member Jeff Hall and his family. The small inset photo on the front cover shows associate FCA examiner Susan Graves as she bottle-feeds a calf. On the back cover, from top to bottom and left to right, we have (1) associate FCA examiner Nicole Peek holding a baby goat; (2) associate FCA examiner Betsy States with her prom date; (3) associate FCA examiner Gretchen Corson on a tractor; (4) the son of FCA examiner Peter Desens stacking hay with a neighbor; (5) the young son of FCA examiner Cindi Burke; and (6) the granddaughter of FCA administrative assistant and photographer Sherrell Carr.



FCA's mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

In May 2022, FCA examiners visited this Minnesota farm on a two-day tour to learn more about the challenges facing farmers today. This land is farmed by members of the Hmong American Farmers Association.

About FCA and the Farm Credit System

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and supervising the Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

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

Farmer Mac is a federally chartered corporation that provides a secondary market for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans.

FCA's mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. We have two primary functions: examination and regulation.

Examination

We conduct onsite examinations at every System institution on a regular basis to

- evaluate its financial condition;
- evaluate its compliance with laws and regulations;
- identify any risks that may affect the institution or the System as a whole; and
- ensure it is fulfilling its public mission to serve the credit and related needs of farmers and ranchers, including those who are young, beginning, or small.

If a System institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to bring about appropriate corrective action.

Regulation

We issue policies and regulations governing how System institutions conduct their business and interact with borrowers. These policies and regulations focus on

- protecting System safety and soundness;
- implementing the Farm Credit Act;
- providing minimum requirements for lending, related services, investments, capital, and mission; and
- ensuring adequate financial disclosure and governance.

We also approve corporate charter changes, System debt issuances, and other financial and operational matters.

[1] Although Farmer Mac is an FCS institution under the Farm Credit Act, we discuss Farmer Mac separately from the other institutions of the FCS. Therefore, throughout this report, unless Farmer Mac is explicitly mentioned, the Farm Credit System refers only to the banks and associations of the System. For more information about Farmer Mac, see page 41.

Our authorities and governance

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

FCA does not receive a federal appropriation. We maintain a revolving fund financed primarily by assessments from the institutions we regulate. Other sources of income for the revolving fund are interest earned on investments with the U.S. Treasury and reimbursements for services we provide to federal agencies and others. FCA's access to the revolving fund, however, is regulated through congressional appropriations legislation.

FCA is governed by a full-time, three-person board whose members are appointed by the president of the United States with the advice and consent of the Senate. Board members serve a six-year term and may remain on the board until a successor is appointed. The president designates one member as chairman of the board, who serves in that capacity until the end of his or her term. The chairman also serves as our chief executive officer. For information about our current board, see page 46.

The Farm Credit System Insurance Corporation

FCA board members also serve as the board of directors for the Farm Credit System Insurance Corporation (FCSIC), which was established by the Agricultural Credit Act of 1987 in the wake of the agricultural credit crisis of the 1980s. The purpose of FCSIC is to protect investors in Systemwide debt securities by insuring the timely payment of principal and interest on obligations issued by FCS banks.

It fulfills this purpose by maintaining the Farm Credit Insurance Fund, a reserve that represents the corporation's equity. FCSIC reports the balance of the Insurance Fund in its quarterly financial statements, which are posted on its website at www.fcsic.gov.

As part of the May 2022 FCA farm tour, participants visited the Iowa family farm of FCA Board Chairman and CEO Glen Smith. Chairman Smith took the group on a brief tour of the 2,000-acre farm, which is managed and operated by his son Peter. For FCA employees who have not had much experience with agriculture, the visit gave them an opportunity to see up close the kind of land and equipment financed by the institutions they help examine and oversee.

Supervisory FCA examiner Rachel Connolly grew up on a Wisconsin dairy farm. Her young son likes to ride the tractor with his grandpa.

Message from the board

On behalf of the agency's board, it is our pleasure to present the 2021 annual report of the Farm Credit Administration. Most of the report focuses on the 2021 calendar year. However, our "message from the board" describes current conditions (as of late summer 2022) in the Farm Credit System, Farmer Mac, and the general and farm economies. This message, which serves as an introduction to the report, also outlines our priorities and the progress we've made toward achieving them.

Our priorities and progress

To protect the health and well-being of our staff, we placed our employees on mandatory telework beginning March 2020. This status continued through much of 2021 as our nation continued to wrestle with the challenges of the COVID-19 pandemic. However, by early spring of 2022, after the vaccines had been widely disseminated and FCA had instituted careful health and safety protocols, we asked some of our employees to begin returning to the office. Today most of our employees have returned to in-office work for at least a portion of the work week.

We continued to fulfill our mission as regulator of the Farm Credit System and Farmer Mac throughout the pandemic. However, returning to the office when health conditions improved allowed us to pursue our priorities with renewed vigor. Three of our greatest priorities continue to be monitoring credit risk; improving service to young, beginning, and small (YBS) farmers and ranchers; and improving the timeliness and efficiency of our regulatory activities.

Monitoring credit risk

To ensure that the System can continue to finance future generations of American farmers and ranchers, one of our highest priorities must be monitoring credit risk. Currently, both the Farm Credit System and Farmer Mac are strong and financially sound. During the pandemic, we relied on resources provided by our information technology team to help us monitor the safety and soundness of System institutions remotely. Now that COVID-19 conditions have improved, our examiners are again able to perform in-person examinations.

The pandemic and efforts to contain its spread created several challenges: supply chain issues, labor constraints, and rapidly rising consumer prices. These challenges continue to affect producers and their lenders. Although prices for agricultural products are strong, producers face major cost increases across a broad range of inputs, including feed, transportation, chemicals, and labor. Also, drought conditions in the western United States continue to affect both crop and livestock producers, especially those in the cattle sector.

We will continue to closely monitor the effects on credit quality of these and other challenges.

Improving service to YBS producers

Since both of us were at one time young farmers, we understand the challenges facing YBS producers, and we want to do whatever we can to support them. This is also a high priority for Congress: In 1980, Congress enacted a law mandating that System associations maintain programs to provide credit and related services to young, beginning, and small farmers and ranchers. And the topic of service to YBS producers often comes up at congressional hearings in which FCA representatives participate.

We're happy to report that we've taken advantage of the improvement in COVID-19 conditions to strengthen the agency's YBS focus. In the fall of 2021, we partnered with the University of Nebraska – Lincoln to sponsor a YBS symposium. The event brought YBS borrowers together with government agencies and agricultural lenders to discuss ways to better serve the credit needs of YBS producers. The symposium gave the agency a chance to hear from many YBS producers and learn about the opportunities and challenges they face with their businesses.

Then, in March 2022, we partnered with Colorado State University to hold a national YBS event. This forum brought together leaders from CSU, USDA, the Farm Service Agency, the Farm Credit System, and FCA; agricultural industry stakeholders; and YBS producers to discuss matters of importance to the YBS community.

A few weeks later, the agency held a two-day farm tour in which a number of FCA employees, including several young examiners, visited the operations of YBS producers in Minnesota and Iowa. The purpose of the tour was to help our employees better understand and appreciate the challenges YBS producers face.

In addition to hosting these events, we published a proposed rule in May of 2022 on service to YBS producers. This rule would revise parts 614 and 620 of FCA's regulations. The purpose of the proposed rule is to increase System associations' service to YBS producers. The comment period for the proposed rule has just closed, and we are now in the process of reviewing the comments received.

Meanwhile, we continue to make progress on these three YBS initiatives:

1. Work with System institution data workgroups to modernize YBS data collection and reduce the reporting burden
2. Improve the agency's ability to track System associations' service to YBS producers and identify best practices the associations can use to serve them — such as working with other government agencies for the benefit of YBS producers
3. Evaluate the effectiveness of each association's YBS program

FCA Board Chairman and CEO Glen Smith (left) and FCA Board Member Jeff Hall.

Since both of us were at one time young farmers, we understand the challenges facing YBS producers, and we want to do whatever we can to support them.

Jeff Hall

We're pleased with the progress we've made toward meeting our YBS goals, and we look forward to further progress over the next year.

Improving the timeliness and efficiency of regulatory activities

Another important priority for our board has been to improve the timeliness and efficiency of our regulatory activities. The FCA board believes in a strong regulatory presence, with efficient, timely processes for policymaking and rulemaking. We use a collaborative process to carry out the policy direction of the board. This process requires early discussion of regulatory and policy issues among agency leaders.

As a result, so far in 2022, we have accomplished the following:

- Adopted a proposed rule that implements provisions of the 2018 Farm Bill concerning FCA's appointment of the Farm Credit System Insurance Corporation as the conservator or receiver of a distressed System bank, association, service corporation, or the Funding Corporation
- Issued a final rule on current expected credit loss (CECL), a new accounting standard that changes how financial institutions account for expected credit losses
- Issued, together with four other federal regulatory agencies, revised questions and answers regarding flood insurance
- Adopted a proposed rule on YBS service (as mentioned above)
- Issued a request for comment on regulatory burden
- Issued a proposed rule on cyber risk management
- Issued an informational memorandum on the LIBOR transition rule, annual threshold adjustments, and compliance resources
- Issued a revised bookletter providing guidance to System institutions on implementing the tier 1/tier 2 capital framework
- Developed an initiative to explore how the size and complexity of an association can affect its ability to achieve its mission

Fulfilling its mission as a GSE and a cooperative

In addition to the three priorities we've outlined above, another important priority is to ensure that the System continues to fulfill its mission.

In 1916, Congress created the System as the nation's first government-sponsored enterprise — that is, a quasi-government entity established to enhance the flow of credit to a specific sector of the American economy. In this case, of course, the economic sector is agriculture, and the Farm Credit System's public purpose is to provide a dependable source of credit to American farmers, ranchers, and their cooperatives, and to provide a flexible flow of money into rural areas.

While being a GSE has many benefits, including the ability to issue highly sought-after GSE debt, those benefits come with responsibility. Over the years the System has fulfilled its responsibility and lived up to its public purpose. FCA will expect all System institutions to continue to act in a manner commensurate with its status as a GSE.

Another important part of the System's mission relates to its cooperative business model. Because System institutions are cooperatives, their farmer- and rancher-borrowers participate in the management, control, and ownership of their institutions. This structure, different from that of most non-GSE lenders, ensures that customers — both big and small — have a voice in the business of the institutions and receive a share of the profits in the form of patronage. It keeps the focus of the institution on fulfilling its congressionally mandated public purpose of improving the income and well-being of American farmers and ranchers by providing them with credit and related services. Therefore, it is one of FCA's priorities to critically review any structural changes that could jeopardize borrower-member control at System institutions.

The System has done a remarkable job of navigating through challenging conditions and economic changes. As we look toward the future, we must continue to respect the System's special role and status as a GSE and a cooperative in fulfilling its critical mission to provide credit to agriculture and rural America.

Current conditions

Following is a brief update about current conditions in the Farm Credit System and Farmer Mac, as well as conditions in the general and farm economies.

The Farm Credit System

Despite the usual risks, such as weather and volatility in commodity prices and input costs, the Farm Credit System reported solid financial results for the first half of 2022, including increased earnings, low portfolio credit risk, and a strong capital base. For the six months ended June 30, System net income equaled $3.6 billion, up from $3.4 billion for the same period a year ago. Higher net interest income, partially offset by an increase in noninterest expenses, accounted for much of the increase.

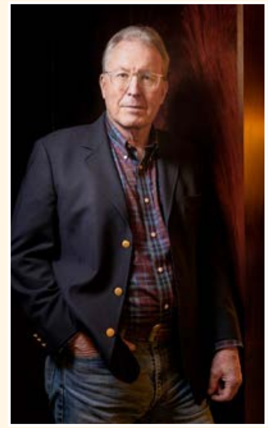
System loans continued to perform well, and credit risk in the portfolio remained low. Nonperforming assets (nonaccrual loans, accruing restructured loans, accruing loans that are 90 days or more past due, and other property owned) increased $191 million during the first six months of 2022 to $1.8 billion. At June 30, nonperforming assets represented 0.50% of the System's loans and other property owned. Loans classified less than acceptable amounted to 3.5% of the System's loan portfolio, down from 5.2% a year ago.

A strong capital base ensures that System institutions have the risk-bearing capacity to support U.S. farmers and ranchers during difficult times. At June 30, System capital totaled $68.9 billion, up 0.8% from a year ago. Capital as a percentage of total assets was 15.1%, down from 15.9% at Dec. 31, 2021. Regulatory capital ratios at all System banks and associations were well above minimum capital requirements.

Farmer Mac

Farmer Mac also remains safe and sound. For the first half of 2022, its outstanding business volume grew from $23.6 billion to $24.5 billion, or 3.7%. The Agricultural Finance portfolio, which includes Farm & Ranch and Corporate AgFinance, was the primary contributor to this growth, increasing by $0.5 billion (3.0%) over the six-month period. Rural Infrastructure Finance volume, which includes Rural Utilities and Renewable Energy, increased by $0.3 billion (5.6%).

Farmer Mac's core capital was $1.3 billion as of June 30, 2022, up 8.5% for the 12-month period, which is $506.3 million above the minimum requirement. Farmer Mac's credit risk remained manageable, and year-over-year trends showed improvement. Loans classified as 90 days past due decreased from 0.70% to 0.20%



Glen Smith

of loans outstanding. As a percentage of total outstanding agricultural finance loan volume, special-mention and substandard volume decreased from 6.5% at year-end 2021 to 6.3% six months later.

The general economy

In 2021, the U.S. economy continued its strong recovery from the unprecedented impacts of COVID-19 on communities, businesses, and markets around the world. Pent-up demand, low interest rates, and additional government support fueled growth.

With the ramp-up of economic activity, supply chains and labor markets struggled to adjust, and demand-driven price increases heightened inflationary concerns. Although the U.S. economy remained resilient in the face of these challenges, growth started to slow. The Federal Reserve initially held interest rates steady despite growing concerns about inflation.

In February 2022, Russia's invasion of Ukraine and the subsequent war added tremendous uncertainty to global energy and commodity markets, where prices were already rising. By spring 2022, the U.S. economy was experiencing its highest annual inflation in 40 years, driven by energy, shelter, and food. The Federal Reserve has responded by raising interest rates and reducing its balance sheet to try to curb inflation.

As 2022 continues to unfold, the U.S. economy faces several challenges. Economic growth has slowed amid continued supply chain disruptions, inflation, and rising interest rates. Consumer spending, which has leveled off, is a major concern, along with declining consumer confidence. Economic challenges outside the United States have pushed up the value of the dollar, helping to lower the cost of imported goods but negatively affecting export-dependent sectors like agriculture.

One bright spot has been the labor market, which has seen strong wage growth amid a return to near-historic lows in the unemployment rate. However, labor force participation remains below pre-pandemic levels, and increasing expectations of future inflation could set off a wage-price spiral.

A deterioration in U.S. and global economic conditions later this year and next would adversely impact the agricultural economy if household income levels weaken. Demand for agricultural products — especially high-value products like meat and dairy — could decline and put downward pressure on farm prices.

The farm economy

For agricultural producers in 2021, the U.S. food system continued to adjust to demand shifts and supply questions. More costly inputs and supply chain problems affected agricultural producers and marketers, with major cost increases for energy, transportation, chemicals, and labor. Difficulties obtaining farm equipment and parts added to the challenges facing farmers. Still, economic growth fueled demand for farm products domestically and abroad, supporting commodity prices and farm receipts.

Higher crop profits in 2021, favorable farm financials, low borrowing rates, and strong farmer and investor demand helped push up cropland values, especially in the Midwest. Livestock producer margins in 2021 were generally favorable because strong domestic and export demand and limited production gains helped lift livestock prices. Cow-calf producers in drought-impacted areas were under greater stress. Dairy margins were near breakeven, with milk price gains falling far short of rising feed costs.

In 2022, high commodity prices have been offsetting high input costs for many producers. Fertilizer, which was already expensive and in short supply before the invasion of Ukraine, became even more expensive and hard to come by after the invasion because Russia is a major exporter of fertilizer and fertilizer inputs. However, the disruption of grain exports from Ukraine, coupled with less-than-ideal weather in some regions for planting and growing, supported prices in late spring. Drought in the western half of the United States continues to affect both crop and livestock sectors, supporting commodity prices but increasing financial pressure on many producers.

Relatively high input costs, including interest expenses, are expected to increasingly impact agricultural producers this year and next. Margin compression could result if commodity prices decline while input prices remain elevated. Consequently, producers and their lenders will need to be ready for financial pressures ahead.

Government payments to farmers have bolstered farm income in recent years, with ad hoc assistance providing significant support. If farm receipts decline sharply next year, a similar level of government support would likely require additional action by Congress or the current administration. Under current farm programs, farm payments would not be activated until market prices drop well below current levels.

Regardless of the course of the farm economy, the Farm Credit System will continue its vital role in providing competitive rates of financing to the agriculture industry.

In conclusion

As a GSE devoted to agriculture, whose institutions are owned and operated by the producers who borrow from them, the Farm Credit System understands its borrowers and their needs better than many nonagricultural lenders can. And like the board members and employees of System institutions, FCA's board members and employees have strong personal connections to agriculture.

Some of us are currently involved in farming operations on a part-time basis; some grew up on farms or spent time on farms as children. In our report this year, we've decided to visually highlight these connections by featuring farm photos provided by FCA employees. For all original photos, we provide captions that tell you a bit about the employees and the farming operations in which they are or were involved.

And for those employees who don't have strong farm or ranch connections, we make a point to provide them with opportunities to see agriculture up close and personal. That was one of the goals of the May farm tour. In fact, we've included some of the photos from that tour in this report.

We're exceptionally proud of, and grateful to, the FCA workforce. Based on employee feedback on the 2021 Federal Employee Viewpoint Survey, FCA has once again ranked high on the Partnership for Public Service's list of best places to work in the federal government. We ranked number 6 among small federal agencies, and our engagement and satisfaction score was 79.1 — over 15 points higher than the governmentwide average.

Thanks to the dedication of FCA employees, we have no doubt that the agency will continue to fulfill its important mission as regulator of the Farm Credit System for years to come.

Glen R. Smith
FCA Board Chairman and CEO

Jeffery S. Hall
FCA Board Member

Like the board members and employees of System institutions, FCA's board members and employees have strong personal connections to agriculture.

Created by Congress in 1916 to provide American agriculture with a dependable source of credit, the FCS is the nation's oldest government-sponsored enterprise.

Associate FCA examiner Betsy States grew up on a lifestyle farm, where she was active in 4-H. She enjoyed raising and showing all kinds of animals, including the sheep she is washing here.

FCS banks and associations

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

As federally chartered cooperatives, the banks and associations of the Farm Credit System are limited-purpose lenders. Congress created them to "improve the income and well-being of American farmers and ranchers" by providing credit and related services for them, their cooperatives, and "selected farm-related businesses necessary for efficient farm operations." Congress also gave the Farm Credit System the authority to support rural economic development by financing rural residences and rural utilities.

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

The System helps to meet broad public needs by providing liquidity and competition in rural credit markets in both good and bad economic times. The accomplishment of this public goal benefits all eligible borrowers, including young, beginning, and small farmers, as well as rural homeowners.

The System obtains the money it lends by selling securities in national and international money markets through the Federal Farm Credit Banks Funding Corporation. Established under the Farm Credit Act, the Funding Corporation issues and markets debt securities on behalf of the FCS banks to raise loan funds. The System's debt issuances are subject to FCA approval. The U.S. government does not guarantee the securities that the System issues.

The banks are jointly and severally liable for the principal and interest on all Systemwide debt securities. Therefore, if a bank is unable to pay the principal or interest on a Systemwide debt security and if the Farm Credit Insurance Fund has been exhausted, then FCA must call all non-defaulting banks to satisfy the liability.

FCS structure

The System is composed of the following four banks:

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

As of July 1, 2022, these banks provide loans to 63 associations, which in turn make loans to farmers, ranchers, and other eligible borrowers. (See figure 1.) All but one of these associations are structured as agricultural credit associations (ACAs) with two subsidiaries — a production credit association (PCA) and a federal land credit association (FLCA). The PCA primarily makes agricultural production and intermediate-term loans, and the FLCA primarily makes real estate loans. The other remaining association is a stand-alone FLCA.

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

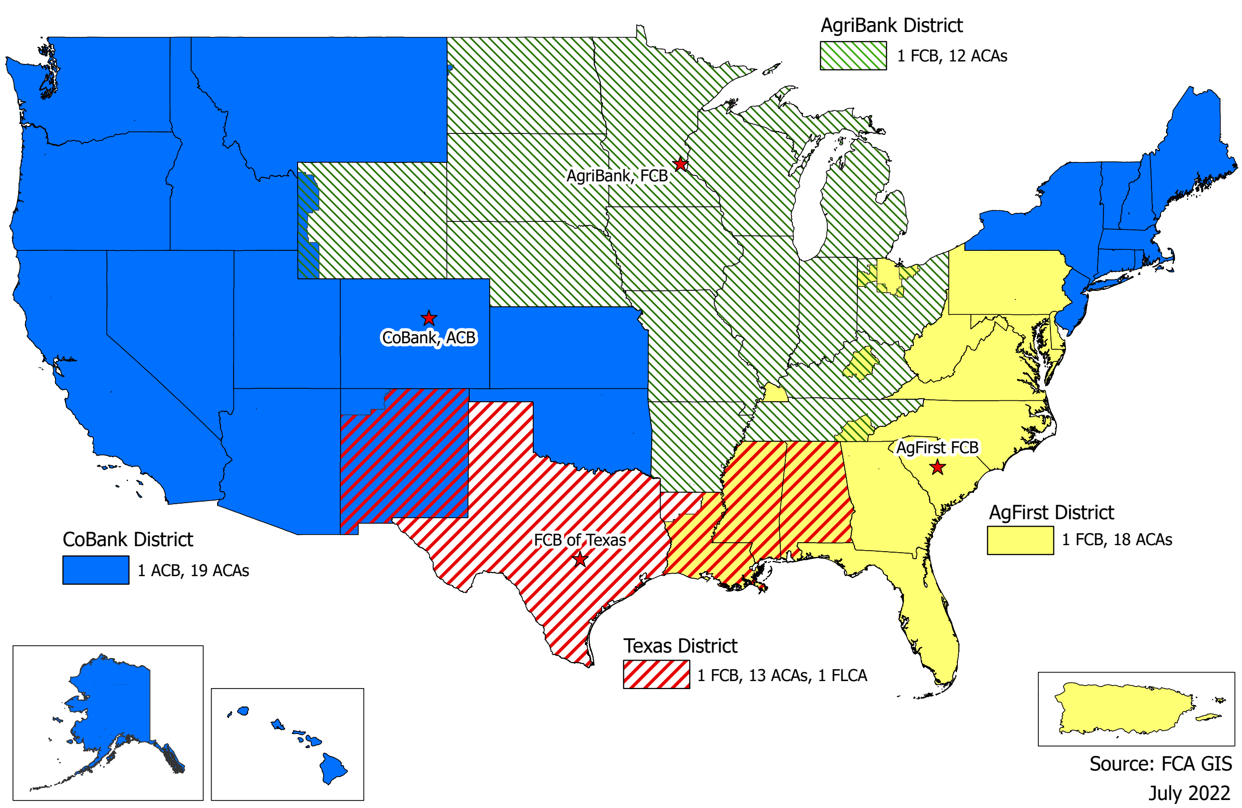
Each ACA and its two subsidiaries operate with a common board of directors and staff, and each of the three entities is responsible for the debts of the others. For most regulatory and examination purposes, FCA treats the ACA and its subsidiaries as a single entity; however, when appropriate, we may treat the parent and subsidiaries as separate entities.

CoBank, one of the four FCS banks, is an agricultural credit bank (ACB). It has a nationwide charter to make loans to agricultural and aquatic cooperatives and rural utilities, as well as to other persons

Figure 1

Chartered territories of FCS banks

As of July 1, 2022



Note: As of July 1, 2022, CoBank funds 19 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 12 associations; and AgFirst Farm Credit Bank funds 18 associations. The Farm Credit System contains a total of 67 banks and associations.

or organizations that have transactions with, or are owned by, these cooperatives. The ACB finances U.S. agricultural exports and imports and provides international banking services for farmer-owned cooperatives. In addition to making loans to cooperatives, CoBank provides loan funds to 19 ACAs.

Borrowers served

Under the Farm Credit Act of 1971, as amended, the System has the authority, subject to certain conditions, to make the following types of loans:

- Agricultural real estate loans
- Agricultural production and intermediate-term loans (e.g., for farm equipment)
- Loans to producers and harvesters of aquatic products
- Loans to certain farmer-owned agricultural processing facilities and farm-related businesses
- Loans to farmer-owned agricultural cooperatives
- Rural home mortgages
- Loans that finance agricultural exports and imports
- Loans to rural utilities
- Loans to farmers and ranchers for other credit needs

Also, under its similar-entity authority, the System may participate with other lenders to make loans to those who are not eligible to borrow directly from the System but whose activities are functionally like those of eligible borrowers. Through these participations, the System diversifies its portfolio, reducing the risks associated with serving a single industry.

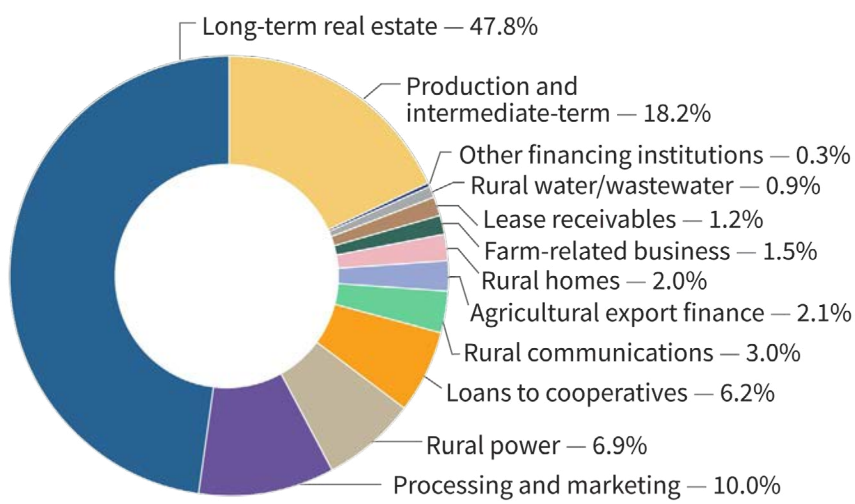
As required by law, borrowers own stock or participation certificates in System institutions. The FCS had approximately 964,000 loans and 632,000 stockholders at year-end 2021. Approximately 89% of the stockholders were farmers or cooperatives with voting stock. The remaining percent were nonvoting stockholders, including rural homeowners and other financing institutions that borrow from the System.

Nationwide, the System had $343.9 billion in gross loans outstanding as of Dec. 31, 2021. Loans for agricultural production and agricultural real estate purposes represented by far the largest type of lending, with $227.2 billion, or 66%, of the total dollar amount of loans outstanding. See figure 2.

Figure 2

Farm Credit System lending by type

As of Dec. 31, 2021



Source: 2021 Federal Farm Credit Banks Funding Corporation Annual Information Statement.

System funding for other lenders

Other financing institutions

Under the Farm Credit Act, System banks may further serve the credit needs of rural America by providing funding and discounting services to certain non-System lending institutions described in our regulations as "other financing institutions" (OFIs). These include the following:

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

As of Dec. 31, 2021, the System served 17 OFIs, down from 18 in 2020. Outstanding loan volume to OFIs stood at nearly $1 billion at year-end.

Syndications and loan participations with non-FCS lenders

In addition to the authority to provide services to OFIs, the Farm Credit Act gives FCS banks and associations the authority to partner with financial institutions outside the System in making loans to agriculture and rural America. Generally, System institutions partner with these financial institutions through loan syndications and participations, primarily to reduce credit risk and comply with lending limits.

A loan syndication (or "syndicated bank facility") is a large loan in which a group of financial institutions work together to provide funds for a borrower. Usually, one financial institution takes the lead, acting as an agent for all syndicate members and serving as a liaison between them and the borrower. All syndicate members are known at the outset to the borrower. The System's gross loan syndication volume grew by almost $2.9 billion over the past year to $26.3 billion at year-end 2021.

Loan participations are loans in which two or more lenders share in providing loan funds to a borrower. At year-end 2021, the System had $7.4 billion in net eligible-borrower loan participations with non-System lenders.

As noted above, FCS institutions also have the authority to lend to "similar-entity" borrowers (that is, those who are not eligible to borrow directly from the System but whose operations are functionally similar to those of eligible borrowers). This authority allows FCS institutions to participate with other lenders to make loans to similar-entity borrowers. The System had $17.9 billion in net similar-entity loan participations with non-System lenders as of Dec. 31, 2021, up from $16.0 billion the prior year (figure 3).

Farm debt and market shares

The U.S. Department of Agriculture's estimate of total farm business debt for the year ended Dec. 31, 2020, was $441 billion, up 5.1% from its $420 billion estimate for year-end 2019. The System's market share of total farm business debt rose from 42.6% at the end of 2019 to 44.4% at the end of 2020. (See figure 4. Also, please note that 2021 data were not available at the time of publication of this report.)

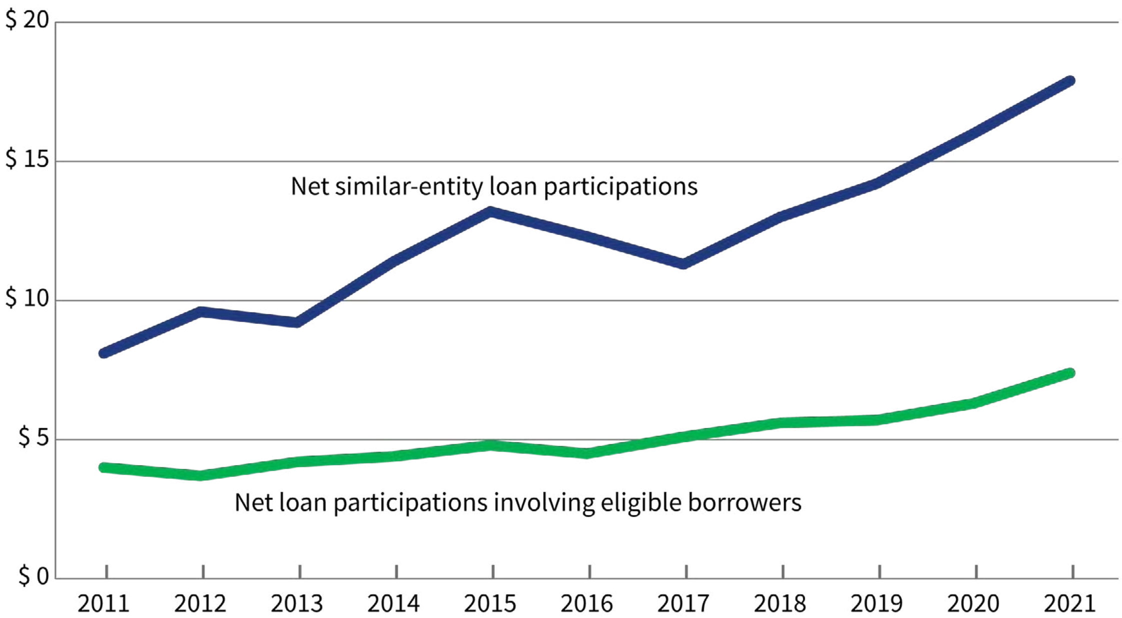
Except for brief periods, the FCS has had the largest market share of farm business debt secured by real estate. At year-end 2020, the System held 48.7% of this $289 billion of debt; by comparison, commercial banks held 33.6%. Commercial banks have historically dominated non-real estate farm lending. At year-end 2020, commercial banks held 41.4% of this $153 billion of debt, and the System held 36.2%.

Figure 3

Loan participation transactions with non-System lenders, 2011 – 2021

As of Dec. 31

Dollars in billions

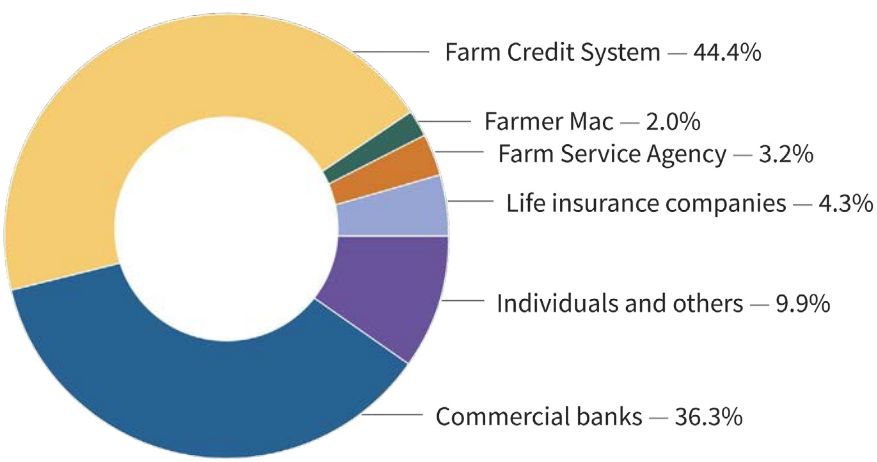


Source: Farm Credit System Call Reports.

Figure 4

Estimated market shares of U.S. farm business debt

As of Dec. 31, 2020



Source: FCA's Office of Data Analytics and Economics, based on February 4, 2022, data from USDA's Economic Research Service.

Financial condition

Farm income rebounded sharply in 2021 as economic growth increased demand for agricultural products here and aboard. The System reported strong 2021 financial results, including higher earnings, increased capital, and strong portfolio credit quality. FCS banks had reliable access to debt capital markets and maintained liquidity levels well above the 90-day regulatory minimum.

Tables 1 and 2 provide a summary of the System's major financial indicators. For more information on the condition and performance of the System, see the 2021 Annual Information Statement of the Farm Credit System on the website of the Federal Farm Credit Banks Funding Corporation.

While the System is financially sound, a small number of individual FCS institutions displayed some weaknesses in 2021. As the System's regulator, we addressed these weaknesses by increasing our oversight and supervision of these institutions. For more information on our supervisory and enforcement approach, see pages 35 to 37.

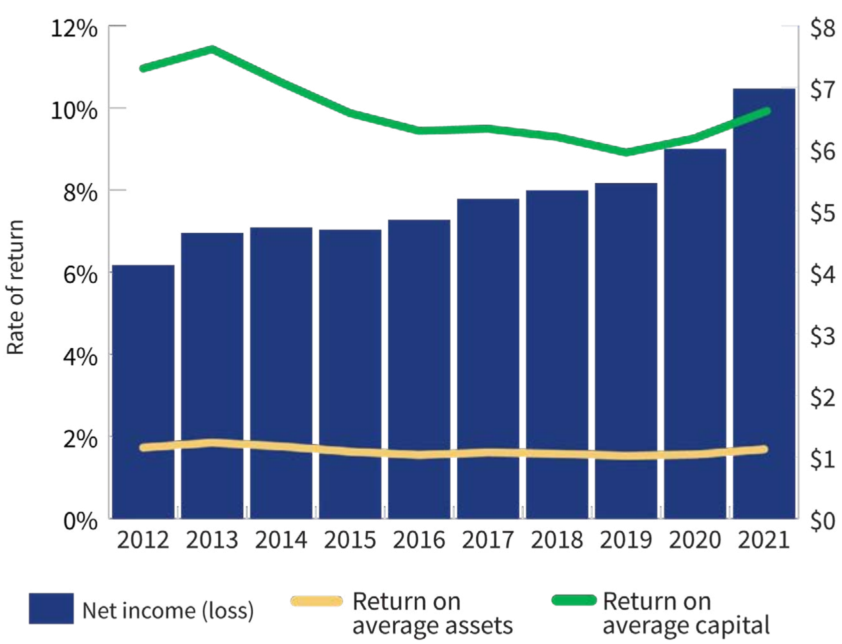
The U.S. economy remained resilient in 2021 despite supply chain issues, labor constraints, and rapidly rising prices. Although prices for agricultural products were strong, producers faced major cost increases across a broad range of inputs, including feed, transportation, chemicals, and labor. Also, drought in the western United States continued to affect both crop and livestock producers, especially those in the cattle sector.

Major cash crop prices soared higher in 2021 on strong global demand and tighter-than-expected world supplies. High prices and strong yields pushed producer profitability to near record levels for cash grain producers.

For the protein sector, strong domestic and export demand and limited production gains supported higher prices in 2021. Margins were favorable, but higher feed costs squeezed profitability gains.

Higher crop profits, favorable farm financials, low borrowing rates, and strong demand from both farmers and investors pushed cropland values significantly higher in 2021, particularly in the Midwest. Water availability, especially in the western half of the United States, became an increasingly important consideration in assessing land use and valuation. Rising interest rates will pressure farmland prices in 2022.

Figure 5
FCS net income, 2012 – 2021
As of Dec. 31, Dollars in billions



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

Earnings

The System reported strong earnings growth in 2021. For the year, System consolidated net income totaled $6.8 billion, up $794 million or 13.2% from 2020 (See figure 5). Growth in net income was the result of a $718 million increase in net interest income and a $259 million change in loan provisions, partially offset by a $196 million increase in noninterest expense.

Higher average earning assets were the principal driver of the increase in net interest income. Because of the System's strong loan growth, average earning assets rose $28.8 billion, or 7.8%, to $396.7 billion. Net interest spread increased 7 basis points to 2.33% mainly because of a decline in rates on interest-bearing liabilities. During 2020 and 2021, System banks were able to leverage the low interest rate environment to lower costs by calling debt. Net interest margin remained unchanged at 2.46% because the rate on earning assets funded by noninterest sources (principally capital) offset the increase in interest spread. The System's

Table 1

Farm Credit System major financial indicators, by annual comparison

Dec. 31, 2021

Dollars in millions

Item	31-Dec-21	31-Dec-20	31-Dec-19	31-Dec-18	31-Dec-17
Total assets	$435,957	$400,693	$365,359	$348,992	$329,518
Gross loan volume	$343,929	$315,490	$286,964	$273,378	$259,888
Bonds and notes	$356,446	$325,214	$295,499	$283,276	$267,119
Nonperforming assets[1]	$1,578	$1,897	$2,347	$2,282	$2,022
Net income, full year	$6,796	$6,002	$5,446	$5,332	$5,189
Nonperforming assets/Gross loans and other property owned	0.46%	0.60%	0.82%	0.83%	0.78%
Capital & insurance/Assets[2]	15.94%	16.36%	16.90%	16.75%	16.81%
Retained earnings/Assets	12.59%	12.92%	13.41%	13.31%	13.24%
Return on average assets	1.66%	1.57%	1.54%	1.59%	1.62%
Return on average capital	9.94%	9.26%	8.91%	9.29%	9.49%
Net interest margin[3]	2.46%	2.46%	2.42%	2.46%	2.48%
Efficiency ratio[4]	35.3%	35.9%	36.2%	35.2%	35.1%
Operating expenses/Average loans[5]	1.14%	1.18%	1.18%	1.17%	1.17%

Sources: FCA's Consolidated Reporting System as of Dec. 31, 2021, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

1 Nonperforming assets are defined as nonaccrual loans, accruing restructured loans, accrual loans 90 or more days past due, and other property owned.

2 Capital excludes mandatorily redeemable preferred stock and protected borrower capital. Insurance refers to the funds in the Farm Credit Insurance Fund administered by the Farm Credit System Insurance Corporation.

3 Net interest margin ratio measures net income produced by interest-earning assets, including the effect of loanable funds, and is a key indicator of loan pricing effectiveness.

4 The efficiency ratio measures total noninterest expenses for the preceding 12 months divided by net interest income plus noninterest income for the preceding 12 months.

5 Operating expenses divided by average gross loans.

return on average assets was 1.66%, up from 1.57% in 2020. The return on average capital increased to 9.94% from 9.26%.

As cooperative institutions, FCS banks and associations typically pass on a portion of their earnings as patronage distributions to their borrower-owners. For 2021, System institutions declared a total of $3.0 billion in patronage distributions — $2.7 billion in cash, $221 million in allocated retained earnings, and $99 million in capital stock and participation certificates. This represents 44.2% of the System's net income for 2021 as compared with 48.1% in 2020. The System also distributed $166 million in cash from allocated retained earnings related to patronage distributions from previous years.

System growth

The System continued to experience strong growth in 2021. Total assets increased to $436 billion, up $35.3 billion or 8.8% from 2020. Gross loan balances

Table 2

Farm Credit System major financial indicators, by district

Dec. 31, 2021

Dollars in millions

Institution Name	Total Assets	Gross Loan Volume	Nonaccrual Loans	Allowance for Loan Losses	Cash and Investments	Capital Stock[1]	Total Capital	Net Income
FCS banks								
AgFirst	$39,275	$28,536	$35	($20)	$10,362	$299	$2,303	$486
AgriBank	$142,417	$121,994	$51	($37)	$19,698	$3,826	$7,006	$765
CoBank	$170,306	$128,529	$123	($651)	$40,538	$4,013	$12,234	$1,314
Texas	$33,093	$25,674	$6	($12)	$6,912	$477	$1,998	$255
Total[2]	$384,688	$304,366	$215	($720)	$77,510	$8,302	$23,244	$2,700
FCS associations								
AgFirst	$27,075	$26,103	$162	($192)	$36	$151	$5,421	$766
AgriBank	$135,058	$126,747	$452	($335)	$2,080	$171	$24,549	$2,508
CoBank	$77,666	$72,724	$268	($311)	$1,099	$53	$14,217	$1,652
Texas	$26,674	$25,777	$81	($74)	$125	$72	$3,995	$548
Total[2]	$266,520	$251,351	$963	($912)	$3,356	$512	$48,211	$5,474
Total FCS[2]	$435,957	$343,929	$1,176	($1,632)	$80,816	$2,069	$69,477	$6,796

Sources: FCA's Consolidated Reporting System as of Dec. 31, 2021, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

[1] Includes capital stock and participation certificates, excludes mandatorily redeemable preferred stock and protected borrower capital.

[2] Cannot be derived by adding the categories above because of intradistrict and intra-System eliminations used in Reports to Investors. Also, the total FCS numbers exclude mandatorily redeemable preferred stock and protected borrower capital but include restricted capital from the Farm Credit Insurance Fund.

increased 9.0% or $28.4 billion to $343.9 billion. (See figure 6 and table 3.)

A strong increase in real estate mortgage lending, and to a lesser extent production and intermediate-term and agribusiness lending, accounted for much of the System's loan growth in 2021.

Real estate mortgages, the largest segment of the loan portfolio at almost 48%, increased by $16.9 billion or 11.5% from a year ago. Production and intermediate-term lending increased $4.6 billion or 8.0%, and agribusiness lending grew by $4.2 billion or 7.5%.

Several factors contributed to the strong demand for real estate mortgage loans, including high profits for the crop sector, favorable interest rates, and both farmer and investor demand for farmland. For production and agribusiness lending, increased loan demand reflected greater seasonal financing needs and accelerated purchases of production inputs.

With respect to portfolio commodity concentrations, loan volume increased across most major commodity categories in 2021. The cash grains and cattle sectors were the System's two largest commodity categories, equaling almost 25% of the total loan portfolio. For the year, loan volume for these sectors increased 9.6% and 13.3% respectively.

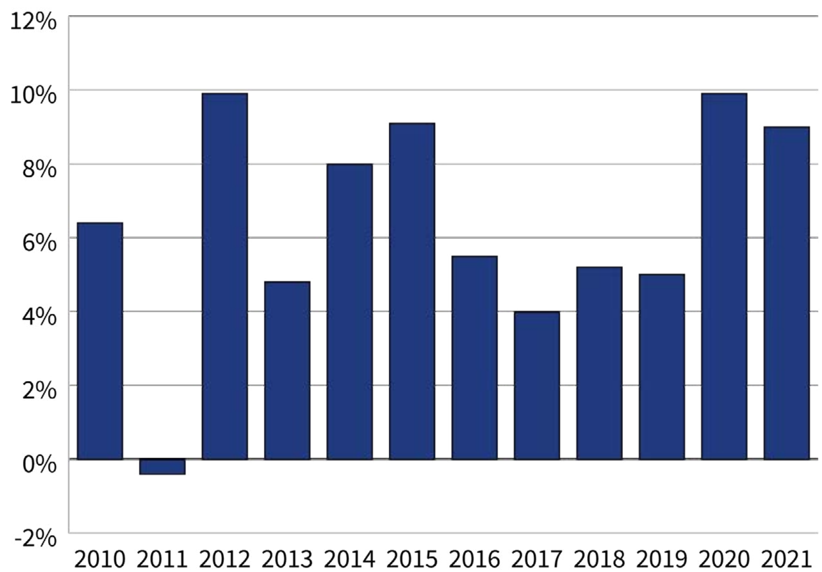
Asset quality

Agricultural producers experienced significant market uncertainty in 2021. U.S farmers and ranchers faced escalating input costs, supply chain issues, drought, and uncertain demand. Despite these challenges, the System's portfolio performed well, and loan quality was strong.

As of Dec. 31, 2021, nonperforming loans totaled $1.54 billion, or 0.45% of gross loans outstanding. This is down from $1.86 billion, or 0.59%, at year-end 2020 (See figure 7.) Loan delinquencies (accruing loans that are 30 days or more past

Figure 6

Annual growth rate of FCS loans outstanding, 2010 – 2021

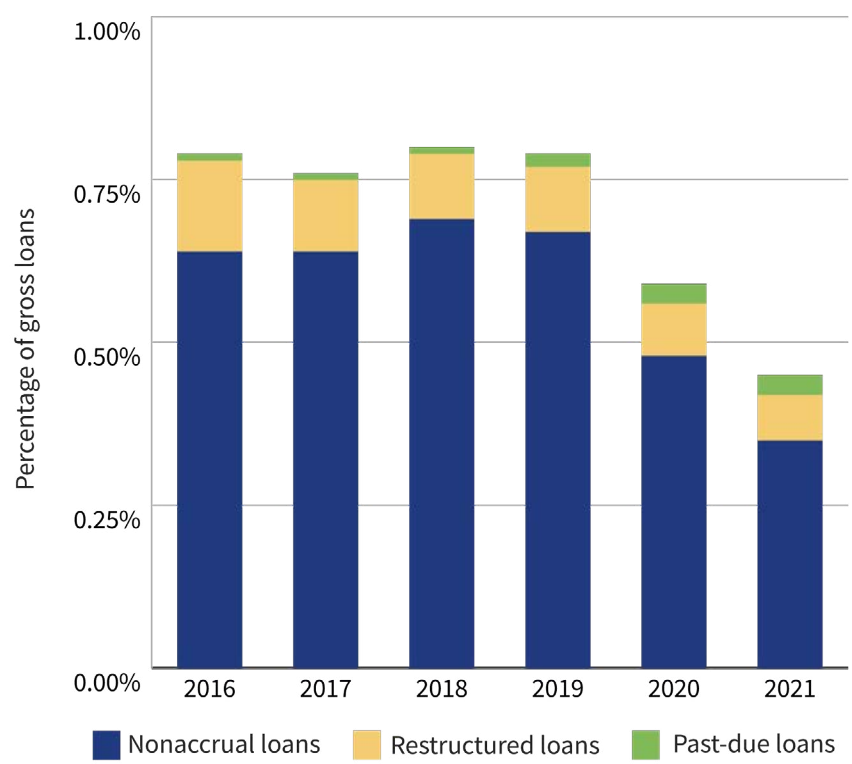


Source: Annual Information Statements of the Federal Farm Credit Banks Funding Corporation.

Figure 7

FCS nonperforming loans, 2016 – 2021

As of Dec. 31



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

Table 3

FCS gross loans outstanding, 2017 – 2021

As of Dec. 31

Dollars in millions

Loan Type	2021	2020	2019	2018	2017	Percent Change from 2017	Percent Change from 2020
Agricultural real estate mortgage loans	$164,535	$147,623	$132,215	$126,310	$120,561	36.5%	11.5%
Agricultural production and intermediate-term loans	62,620	57,973	56,095	53,447	51,724	21.1%	8.0%
Agribusiness loans to the following:							
Processing and marketing operations	34,308	31,939	28,205	24,832	21,582	59.0%	7.4%
Cooperatives	21,286	20,020	17,776	17,589	17,335	22.8%	6.3%
Farm-related businesses	5,053	4,453	4,068	3,692	3,293	53.4%	13.5%
Rural utility loans by type of utility:							
Energy	23,621	22,066	19,432	20,100	19,689	20.0%	7.0%
Communication	10,272	9,708	7,847	6,755	6,311	62.8%	5.8%
Water/wastewater	3,122	2,703	2,390	2,305	1,965	58.9%	15.5%
Rural home loans	6,883	6,928	7,405	7,308	7,261	-5.2%	-0.6%
Agricultural export finance	7,079	6,873	6,712	6,581	5,645	25.4%	3.0%
Lease receivables	4,165	4,345	3,902	3,630	3,665	13.6%	-4.1%
Loans to other financing institutions	985	859	917	829	857	14.9%	14.7%
Total	$343,929	$315,490	$286,964	$273,378	$259,888	32.3%	9.0%

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

due) remained largely unchanged at 0.27% of total accruing loans compared with 0.28% at year-end 2020. In total, 95.7% of System loans were classified as acceptable, up from 94.0% at year-end 2020.

Because of improvements in portfolio quality combined with a release of the general reserves that were added during 2020, the System reported a reversal of loan loss provisions of $152 million in 2021. This compares with provisions for loan losses of $107 million in 2020. Largely because of the loan loss reversal, the allowance for loan losses declined to $1.63 billion, or 0.47% of loans outstanding, down from $1.80 billion, or 0.57% of loans outstanding, at year-end 2020. Also, net loan charge-offs declined to $19 million in 2021 compared with $90 million in 2020.

Capital

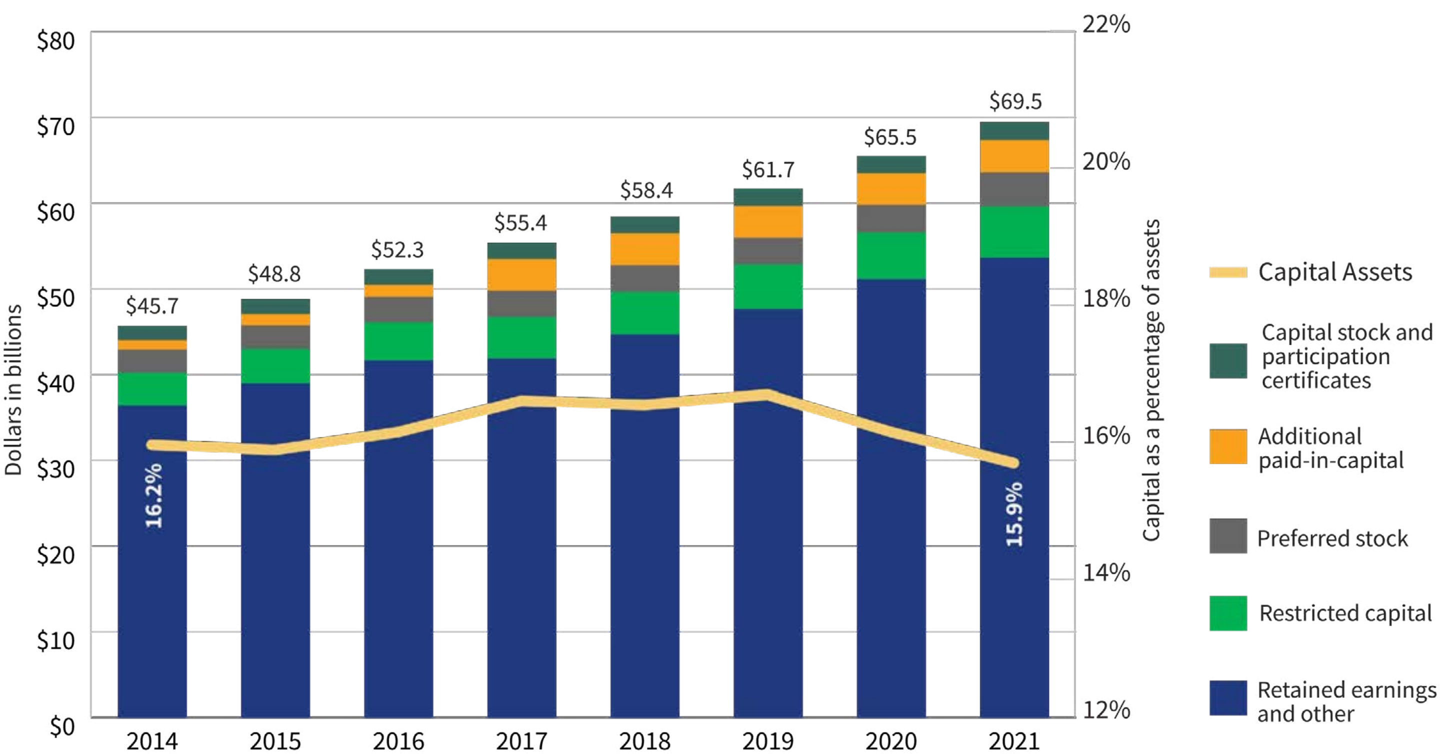
Strong earnings continued to support increased capital levels in 2021. At Dec. 31, total capital equaled $69.5 billion compared with $65.5 billion at year-end 2020. (Please note that these numbers include restricted capital, which is the amount held in the Farm Credit Insurance Fund.) At year-end, the System's capital-to-assets ratio was 15.9%, compared with 16.4% a year ago.

As shown in figure 8, retained earnings are the most significant component of System capital, equaling 79.0% of total capital at year-end 2021, unchanged from a year ago. FCA regulations establish minimum capital levels that each FCS bank and association must achieve and maintain. As of Dec. 31, 2021, capital levels

Figure 8

FCS capital, 2014 – 2021

As of Dec. 31



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

Note: Retained earnings include accumulated other comprehensive income or loss.

at all System banks and associations were above the regulatory minimum capital requirements.

Funding and liquidity

During 2021, as global capital markets continued to grapple with the COVID-19 pandemic and its effects, the System maintained reliable access to the debt capital markets. Investors continued to be attracted to the System's debt offerings for a variety of reasons:

- The System is a government-sponsored enterprise (GSE), and certain regulatory requirements promote the use of GSE debt.
- The System's financial performance continued to be strong.
- The availability of GSE debt continued to decline, and the System accounted for nearly 25% of that debt at year-end 2021.

Risk premiums for pricing on System debt securities remained very favorable during most of 2021. However, continuing market volatility caused risk premiums demanded by investors to widen significantly at times. The primary causes of this widening were the economic impacts of the pandemic and efforts to control it. And the greatest economic impact was the significant rise in inflation, which has reached levels not seen since the 1980s. However, the Federal Reserve, along with other central banks, continued to provide many forceful accommodative monetary actions. Additional accommodative fiscal policy measures were also taken.

The System funds loans and investments primarily with consolidated Systemwide debt in concert with a sizeable portion of equity capital. The Funding Corporation, the fiscal agent for System banks, sells debt securities, such as discount notes, bonds, and designated bonds, on behalf of the System. This process allows funds to flow efficiently from worldwide capital-market investors to agriculture and rural America, thereby providing rural communities with ready access to global credit resources.

At year-end 2021 Systemwide debt outstanding was $352.9 billion, representing a 9.4% increase from the preceding year-end. Several factors contributed to the $30.4 billion increase in Systemwide debt outstanding. Gross loans increased $28.4 billion in 2021, while the System's combined investments, federal funds, and cash balances increased by $6.6 billion.

The System had $3.993 billion in outstanding preferred stock at the end of 2021, an increase of $689 million from the previous year-end. During 2021, the System issued subordinated debt totaling $400 million. As of the end of 2021, outstanding subordinated debt stood at $398 million. Prior to 2021, no subordinated debt had been outstanding since June of 2016. Certain individual System institutions recently issued either preferred stock or subordinated debt or both to help fund some of their growth; all preferred stock and subordinated debt issuances are the sole obligations of their respective issuing institutions.

The amount of debt issued by the System decreased slightly in 2021. For the 12 months ended Dec. 31, 2021, the System issued just under $415 billion in debt securities, compared with $421 billion in 2020. Although the size of the 2021 issuance was similar to that of the 2020 issuance, the composition was different: 60.2% of the 2021 issuance was in discount notes, which have a maximum maturity of one year, while only 45.2% of the 2020 issuance was in discount notes. The System issued more discount notes in 2021 because of the increase in longer-term interest rates while interest rates for debt securities with maturities under one year remained near zero.

The amount of outstanding debt on which the System exercised its call options decreased dramatically in 2021 because the Federal Reserve stabilized short-term interest rates by maintaining the target federal funds range of 0.0% to 0.25% throughout the year. The Federal Reserve left in place several other significant monetary policy actions to help reduce longer-term rates as well. The System exercised calls on only $35.6 billion of its outstanding debt during 2021, compared with a record $115.2 billion in the preceding year.

Favorable investor sentiment and lower yields continued to provide the System with access to a wide range of debt maturities in 2021. The weighted average of remaining maturities increased for 2021 to 3.2 years from 2.9 years at the end of 2020. The weighted-average interest rates for insured debt decreased further, from 1.04% as of Dec. 31, 2020, to 0.80% as of Dec. 31, 2021.

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

Furthermore, our regulations require each FCS bank to maintain a tier 1 leverage ratio (primarily unallocated retained earnings, certain common cooperative equities, and noncumulative perpetual preferred stock divided by total assets) of not less than 4%. FCA regulations also provide for a tier 1 leverage ratio buffer of an additional 1%. Certain restrictions apply if the buffer does not exceed 1%. Throughout 2021, all System banks maintained their tier 1 leverage ratios and their leverage buffer ratios above the required minimums, with 5.15% being the lowest for any individual bank as of Dec. 31, 2021.

All System banks have kept their days of liquidity well above the required minimum levels. The lowest liquidity levels at any individual bank as of Dec. 31, 2021, were as follows:

- 26 days (15 days regulatory minimum) of level 1 assets
- 97 days (30 days regulatory minimum) of level 1 and 2 assets
- 150 days (90 days regulatory minimum) of level 1, 2, and 3 assets
- 158 days overall (including the supplemental liquidity buffer)

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

- The Amended and Restated Market Access Agreement, which establishes certain financial thresholds and provides the Funding Corporation with operational oversight and control over the System banks' participation in Systemwide debt obligations.
- The Amended and Restated Contractual Interbank Performance Agreement, which is tied to the Market Access Agreement and establishes certain measures that monitor the financial condition and performance of the institutions in each FCS bank's district. For all of 2021, all Farm

The System funds loans and investments primarily with a combination of consolidated Systemwide debt and equity capital.

Credit System banks maintained scores above the benchmarks in the Contractual Interbank Performance Agreement.

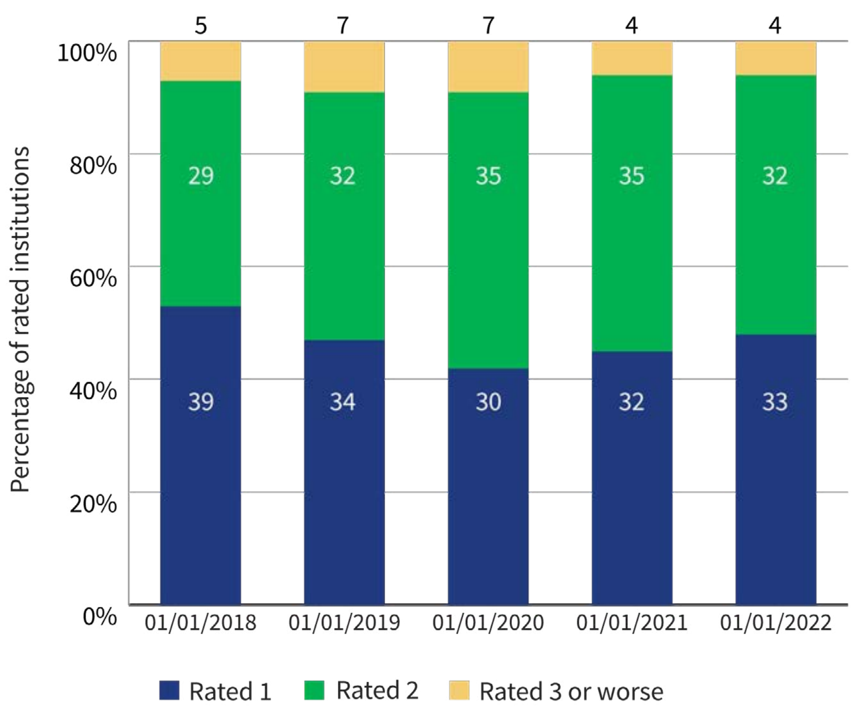
Ratings

FCA uses the Financial Institution Rating System (FIRS) to assess the safety and soundness of each FCS institution. Similar to the systems used by other federal banking regulators, FIRS is a framework of component and composite ratings to help examiners evaluate significant financial, asset quality, and management factors. FIRS ratings range from 1 for a sound institution to 5 for an institution that is likely to fail.

As figure 9 shows, the financial condition and performance of the FCS remains strong. The System's strength reduces the risk to investors in FCS debt, to the Farm Credit System Insurance Corporation, and to FCS institution stockholders. As of January 1, 2022, 65 FCS institutions were rated 1 or 2 (94%) and 4 institutions were rated 3 or worse (6%). The institutions rated 3 or worse represented less than 1.0% of the System's total assets.

Figure 9

Financial Institution Rating System (FIRS) composite ratings for the FCS, 2018 – 2022



Source: FCA's FIRS ratings database.

Note: Figure 9 reflects ratings for only the Farm Credit System's banks and associations. Also, the numbers shown on the bars reflect the total number of institutions with a given rating; please refer to the y-axis to determine the percentage of institutions receiving a given rating.

Peter Smith, son of FCA Chairman Glen Smith, is planting no-till soybeans. The Smith family farm consists of 2,000 acres devoted to corn, soybeans, hay, and a small beef cow herd. The field Peter is planting in this photo was part of the land homesteaded by Glen's great-grandfather in 1875.

Jim Duffy, father of Chief Examiner Mike Duffy, takes a break from the 2021 corn harvest. The Duffy farm has been in their family since 1883 when Mike's great-grandfather purchased the land. The family grows corn and soybeans and has a beef cattle operation. This was Jim Duffy's 65th and final harvest. He passed away the following February at the age of 84.

In fall 2021, following the 2020 conference with USDA, the University of Nebraska – Lincoln and FCA facilitated a YBS farmer symposium.

The children of FCA examiner Cindi Burke are following in their father's footsteps. Cindi; her husband, Dan; and their children recently moved back to the southwest Kansas farm where Dan grew up. They run a small, diversified operation where they raise corn, wheat, and milo, and have a small beef cattle herd. Cindi leads the YBS workgroup for FCA's Office of Examination.

Serving young, beginning, and small farmers and ranchers

FCA supports the Farm Credit System's mission to serve young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products. We define young farmers as those who are 35 years old or younger, beginning farmers as those who have been farming for 10 years or less, and small farmers as those with less than $250,000 in annual sales.

The System's YBS mission is outlined in the Farm Credit Act, and we have adopted regulations to implement the YBS provisions of the act. The Farm Credit Act and FCA regulations stipulate that each FCS bank must have written policies that direct each of the associations it supervises to have the following:

- A program for furnishing sound and constructive credit and financially related services to YBS farmers
- A mission statement describing the program's objectives and specific means to achieve the objectives
- Annual quantitative targets for credit to YBS farmers
- Outreach efforts and annual qualitative goals for offering credit and related services that meet the needs of YBS farmers

An association's board oversight and reporting are key parts of every YBS program. Each association must report annually to its supervisory bank on the operations and achievements of its YBS program, and each bank must provide to FCA an annual summary of its district associations' reports. Each association also must establish an internal controls program to ensure that it provides credit in a safe and sound manner.

In addition, FCA regulations require association business plans to include a marketing plan and strategies with special emphasis on diversity and inclusion within each market segment. Operational and strategic business plans must include the goals and targets for the association's YBS lending. System associations must also coordinate with other government and private sources of credit in implementing their YBS programs. FCA's oversight and examination activities monitor each institution's assessment of its performance and market penetration in the YBS area.

In fall 2021, following the 2020 conference with USDA, the University of Nebraska – Lincoln and FCA facilitated a YBS farmer symposium. The event brought YBS borrowers together with government agencies and agricultural lenders to discuss ways to better serve the credit needs of YBS producers. The symposium gave the agency a chance to hear from many YBS producers and learn about the opportunities and challenges they face with their businesses.

Because of the success of the Nebraska event, the agency partnered with Colorado State University to hold a national event in March 2022: the National Forum on Serving YBS Farmers and Ranchers. This

As a child, associate FCA examiner Allie Wilson loved to feed the chickens on her family's farm.

forum brought together leaders from CSU, USDA, the Farm Service Agency, the Farm Credit System, and FCA; agricultural industry stakeholders; and YBS producers to discuss matters of importance to the YBS community.

We continue to work with stakeholders to further improve financing opportunities for YBS farmers and ranchers.

Results

The following information summarizes the lending information that System institutions provided for their YBS programs. (See tables 4A and 4B.)

In 2021, the System made a total of 378,779 new loans, totaling $136.4 billion. The total number of outstanding loans at year-end 2021 was 963,530, amounting to $350.3 billion.

Young: The System reported making 67,647 new loans to young farmers in 2021, and the volume of these loans amounted to $14.9 billion. The new loans made to young farmers in 2021 represented 17.9% of all loans the System made during the year and 11.0% of the dollar volume of loans made. At the end of 2021, the System reported 186,323 loans outstanding to young farmers, totaling $37.0 billion.

Table 4A
YBS loans made during 2021

YBS Category	Number of Loans	Percentage of Total Number of System Loans	Dollar Volume of Loans in Millions	Percentage of Total Volume of System Loans	Average Loan Size
Young	67,647	17.9%	$14,946	11.0%	$220,941
Beginning	97,127	25.6%	$26,234	19.2%	$270,096
Small	167,729	44.3%	$25,627	18.8%	$152,790

Table 4B
YBS loans outstanding as of Dec. 31, 2021

YBS Category	Number of Loans	Percentage of Total Number of System Loans	Dollar Volume of Loans in Millions	Percentage of Total Volume of System Loans	Average Loan Size
Young	186,323	19.3%	$37,021	10.6%	$198,695
Beginning	297,289	30.9%	$64,665	18.5%	$217,516
Small	478,672	49.7%	$66,863	19.1%	$139,685

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

Note: The YBS totals listed in tables 4A and 4B include loans, advancements, commitments, and participation interests to farmers, ranchers, and aquatic producers. The totals exclude rural home loans made under FCA regulation 613.3030, loans to cooperatives, and the activities of the Farm Credit Leasing Services Corporation.

Beginning: The System reported making 97,127 new loans to beginning farmers in 2021, and the volume of these loans amounted to $26.2 billion. The new loans made to beginning farmers in 2021 represented 25.6% of all System loans made during the year and 19.2% of the dollar volume of loans made. At the end of 2021, the System reported 297,289 loans outstanding to beginning farmers, totaling $64.7 billion.

Small: System institutions reported making 167,729 new loans to small farmers in 2021, totaling $25.6 billion. The new loans made to small farmers in 2021 represented 44.3% of all System loans made during the year and 18.8% of the dollar volume of loans made. At the end of 2021, the System reported 478,672 loans outstanding to small farmers, totaling $66.9 billion.

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

Table 5A

Change in new YBS lending from 2020 to 2021

YBS Category	Dollar Volume	Loan Numbers
Young	8.3%	2.8%
Beginning	16.7%	3.0%
Small	9.3%	0.8%

Table 5B

Change in outstanding YBS lending from 2020 to 2021

YBS Category	Dollar Volume	Loan Numbers
Young	10.3%	2.9%
Beginning	18.1%	4.8%
Small	14.2%	1.7%

New loans made in 2021 by dollar volume and number of loans

From Dec. 31, 2020, to Dec. 31, 2021, the System's total new loan dollar volume increased by 12.7%. New loan dollar volume to young farmers increased by 8.3%, to beginning farmers by 16.7%, and to small farmers by 9.3%. (See table 5A.)[2]

The number of total System loans made during the year increased by 2.1%. The number of loans to young farmers increased by 2.8%, to beginning farmers by 3.0%, and to small farmers by 0.8%.

Over the past couple years (2020 and 2021), two key factors have contributed to increases in System lending:

- The System's ability to re-price existing loans at low rates
- Continued high demand for agricultural land and rural lifestyle

Outstanding loans by dollar volume and number of loans

Both the dollar volume of the System's total loans outstanding and the dollar volume of YBS loans outstanding increased in 2021. Total System loan dollar volume outstanding increased by 10.9%. The loan dollar volume outstanding to young farmers increased by 10.3%, to beginning farmers by 18.1%, and to small farmers by 14.2%. (See table 5B.)

The number of total System loans outstanding increased in 2021 by 1.8%. The number of loans outstanding to young farmers increased by 2.9%, to beginning farmers by 4.8%%, and to small farmers by 1.7%.

Ratio of new and outstanding YBS loans to total System loans

The ratio of new YBS loans (by number) to total new System loans was 17.9% for young farmers, 25.6% for beginning farmers, and 44.3% for small farmers. The ratio of outstanding YBS loans (by number) to total outstanding System loans was 19.3% for young farmers, 30.9% for beginning farmers, and 49.7% for small farmers. (See figures 10A, 10B, and 10C). Compared to 2020, all the ratios remained relatively stable, with some mix in direction.

Associate FCA examiner Gretchen Corson grew up on a hobby farm where she raised prize-winning goats. She now works part-time on a beef cattle operation.

2 Please note that some System institutions revised their totals for loan numbers and dollar volume after FCA's 2020 annual report was published. This revision was part of the normal course of business adjustments to their call report data. As a result, the System totals reported for 2020 changed slightly from the totals reported in last year's annual report, and one should not calculate year-over-year increases based on totals reported in last year's annual report.

Figure 10A
Young farmers and ranchers

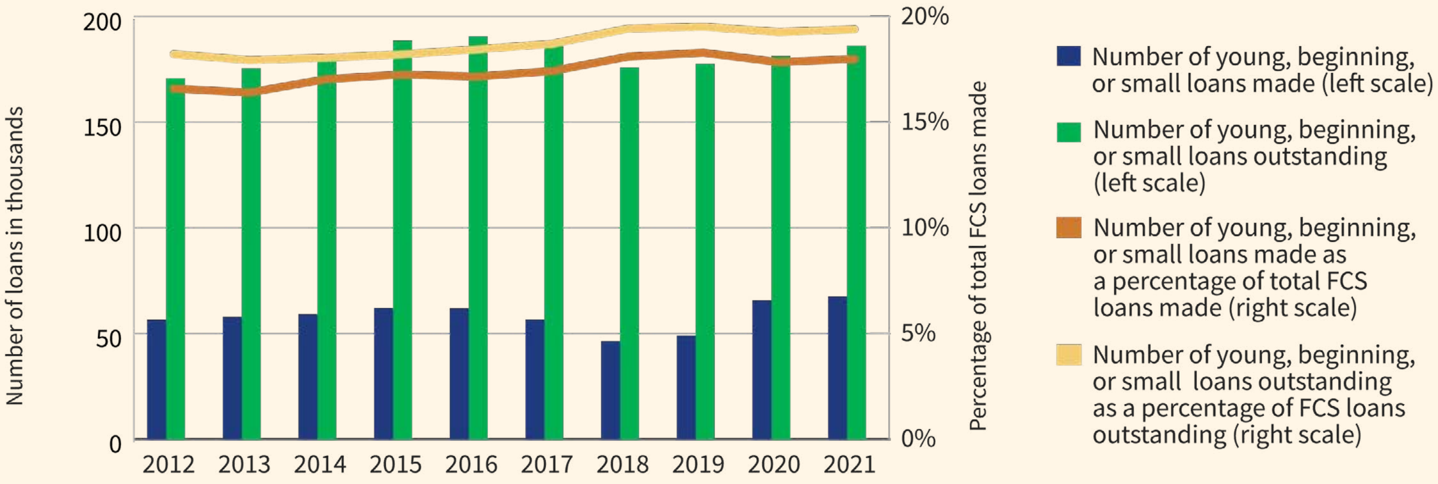


Figure 10B
Beginning farmers and ranchers

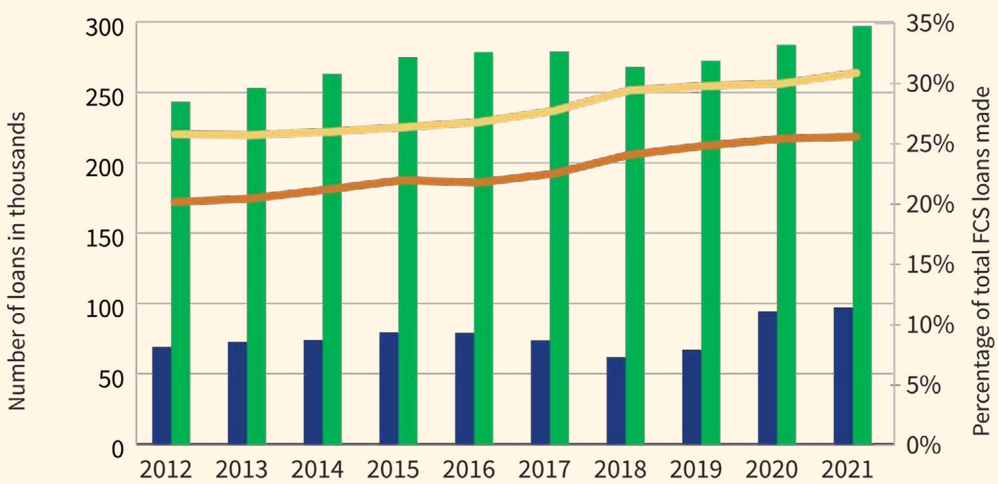
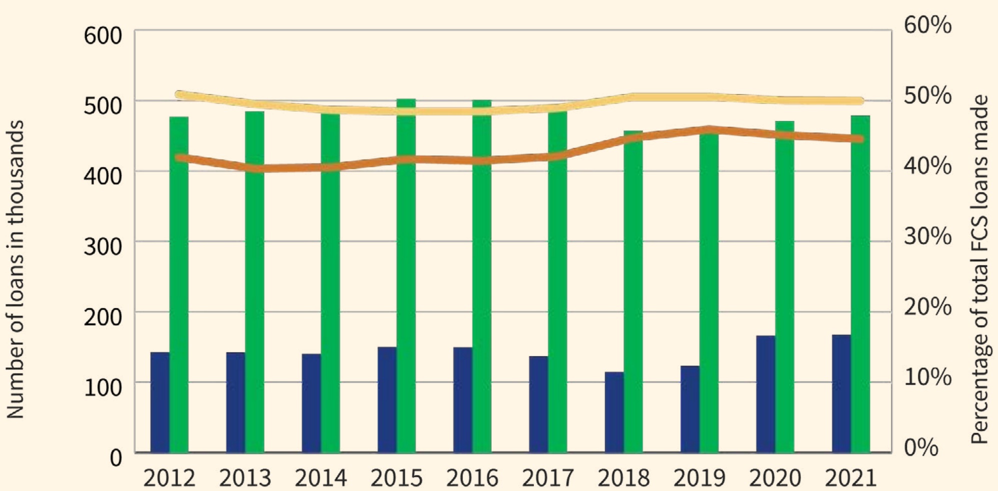


Figure 10C
Small farmers and ranchers



In this photo taken on the May 2022 FCA farm tour, several young FCA examiners admire a handsome turkey on the diversified family farm of Bryan and Shari Clemsen.

Our examiners determine how issues affecting agriculture and the economy create risk for System institutions.

Examining and regulating the banks and associations

Examination

Managing risk is a challenge for all kinds of lenders but especially for those lending to a single sector of the economy — in this case, agriculture. To manage this risk, Farm Credit System institutions must have both sufficient capital and effective risk management controls. As the independent regulator of the FCS, the Farm Credit Administration examines and supervises System institutions. Our examiners determine how issues affecting agriculture and the economy create risk for System institutions.

Our examiners also evaluate whether each institution is fulfilling its chartered mission to provide credit and financially related services to all eligible, creditworthy customers. They do so in a couple of ways. They determine whether each institution is complying with mission-related laws and regulations. They also evaluate the System's efforts to implement programs for serving the credit needs of eligible agricultural producers and cooperatives, including young, beginning, and small (YBS) farmers and ranchers.

Our examiners review System institutions' annual reports and business plans and encourage institutions to include a discussion of how they are meeting their mission. Ongoing oversight and examination efforts continue to address diversity and inclusion, as well as compliance with YBS regulations and YBS data integrity.

As required by the Farm Credit Act, FCA examines each institution at least once every 18 months. In between these statutory examinations, we also monitor and examine institutions on an ongoing basis. We customize our examination activities to each institution's specific risks. To monitor and address FCS risk as effectively and efficiently as possible, we assign highest priority to institutions, or the parts of an institution's operations, that present the greatest risk.

We require institutions to develop and maintain programs, policies, procedures, and controls to identify and manage risk. For example, our regulations require FCS institutions to have effective loan underwriting and loan administration processes. We also have regulations requiring FCS institutions to maintain strong asset-liability management capabilities.

National oversight program

In addition to monitoring risks that are unique to a single institution, we also monitor risks that affect the System as a whole. Each year we develop a national oversight plan that takes certain systemic risks into account. In fiscal year 2022, we are focusing on two risk areas:

Cybersecurity in an increasing threat environment

Cyber risks and threats continue to evolve and grow as the financial sector becomes more digitized and cybercriminals become more aggressive. Because so many people have been using technology to telework during the pandemic, cyber risks have increased for both individuals and organizations. Cyberattacks targeting agriculture-related companies and the financial sector, including System institutions, have also increased. Examples of these attacks include efforts to exploit software vulnerabilities, ransomware events, and misdirected electronic payments.

In view of these risks, our FY 2022 examinations focus on the adequacy of vulnerability management programs, cybersecurity incident response plans, and controls over ACH/wire transfer programs. We also continue to assess the adequacy of audit programs in evaluating these areas of cyber risk. Finally, we are evaluating the numerous pending transitions from legacy financial systems to more dynamic, cloud-based financial systems.

Loan underwriting in a period of significant volatility

Many external variables are contributing to a volatile operating environment. Adverse weather conditions, the potential for reduced government support, extreme volatility in commodity markets, and significant input cost increases have affected and may continue to affect producers, as well as consumers. These conditions may have a long-term effect on certain commodities, industries, and operations, and they have magnified the importance of strong risk management practices.

Discipline in loan underwriting and credit analysis is critical in this lending environment. It's imperative to use sustainable assumptions and well-supported income projections, to identify risk in a timely manner, and to ensure that portfolio management practices are effective. Our FY 2022 examination program will emphasize these areas, particularly in portfolios experiencing strong growth and escalating real estate values. We also focus on ensuring effective internal credit reviews, robust stress testing, and well-supported allowances for loan losses.

In addition to these topics, we continue to focus on several other important areas: programs for YBS farmers and ranchers, phaseout of the London Interbank Offered Rate (LIBOR), model risk management, and affiliation risk (when otherwise unrelated loans share a common link that creates interdependence).

Three tiers of supervision

In examining and overseeing System institutions, we use a three-tiered program: normal supervision, special supervision, and enforcement actions. Institutions under normal supervision are performing in a safe and sound manner and are complying with laws and regulations. These institutions can correct weaknesses in the normal course of business.

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

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

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

Our enforcement authorities include the following powers:

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

If we take an enforcement action, the FCS institution must operate under the conditions of the enforcement document and report back to us on its progress in addressing the issues identified. The document may require the institution to take corrective actions, such as reducing risk exposures, increasing capital, enhancing earnings, and strengthening risk management. Our examiners oversee the institution's performance to ensure compliance with the enforcement action.

As of Jan. 1, 2022, no FCS institutions were under enforcement action.

Borrower rights

We also examine institutions to make sure they are complying with the borrower rights provisions of the Farm Credit Act. These provisions provide certain System borrowers and loan applicants with the following rights:

- To know the current effective rates of interest on their loans by the dates the loans close
- To be informed that they are required to purchase at-risk stock in their FCS institutions
- To receive copies of all the documents they have signed by the time their loans close
- To be informed promptly as to whether their loan applications have been accepted, reduced, or denied
- To be informed of their right to request restructuring for their loans if they cannot meet current payments and their loans become distressed
- To obtain credit committee reviews of denials or reductions of loan requests and denials of restructuring requests
- To have first refusal when their FCS institutions decide to sell agricultural properties their institutions have acquired from them
- To receive cooperation from their FCS institutions if they seek mediation

We also receive and review complaints from borrowers and loan applicants who believe their rights have been denied. If we find violations of law or regulations, we have several options to bring about corrective action. The number of borrower complaints has been fairly consistent from 2020 to 2021, with around 30 complaints for each year. In June 2021, we added an online complaint form to our website to provide an additional means by which borrowers and loan applicants may submit complaints regarding System institutions.

Regulation

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

The son and nephew of FCA examiner Cindi Burke help feed the goats on the central Nebraska farm where Cindi grew up.

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

Regulatory activity in 2021

When the president declared a national emergency on March 13, 2020, FCA implemented a regulatory pause, which delayed the publication of three rulemaking actions in the Federal Register. This delay postponed the dates of some planned rulemaking activities listed in the agency's Spring 2020 Regulatory Projects Plan. However, by the end of 2021, we had published all three of the delayed rulemaking actions in the Federal Register.

During 2020 and early 2021, FCA issued guidance to FCS institutions on managing some of the challenges created by the COVID-19 pandemic. Our guidance covered working with borrowers, meeting capital and liquidity requirements, complying with financial reporting requirements, and handling other managerial and operational issues. Our guidance also addressed the impact on FCS institutions of regulations issued by other federal agencies. We provided guidance on the Small Business Administration's Paycheck Protection Program and the Consumer Financial Protection Bureau's forbearance relief on federally backed mortgage loans.

The following paragraphs describe some of FCA's regulatory efforts in 2021, along with several projects that will remain active in 2022. More information on these topics is available on our website. From the **Laws & regulations tab** at www.fca.gov, you can read our board policy statements, bookletters, informational memorandums, proposed rules, and any final rules whose effective dates are pending.

Standards of conduct — The FCA board approved a final rule in August 2021 on standards of conduct. The rule requires System institutions to establish a standards of conduct program and adopt a code of ethics.

Tier 1/tier 2 capital framework, clarifying corrections and revisions — The FCA board approved a final rule in September 2021 that amended the tier 1/tier 2 capital framework to clarify agency expectations on numerous provisions, to correct technical errors, and to codify previous guidance.

Repeal of certain FCA receiver and conservator regulations — The FCA board issued a direct final rule in March 2021 to repeal certain regulations in part 627, subparts B and C, because the regulations were superseded by the 2018 Farm Bill.

Change in the submission process for Farmer Mac reports — The FCA board issued a direct final rule in May 2021 that eliminates the requirement of the Federal Agricultural Mortgage Corporation (Farmer Mac) to submit to FCA's Office of Secondary Market Oversight paper copies of certain reports and filings that it provides in electronic form.

Collateral evaluation — The FCA board approved a proposed rule in April 2021 that changed FCA policy on collateral appraisals and evaluations.

Bank liquidity reserve — The FCA board approved an advance notice of proposed rulemaking in June 2021 to solicit public comment on liquidation management for farm credit banks during crises. Comments were solicited on how to address viability issues and any adverse impact on the banks.

Risk weighting of high-volatility commercial real estate — The FCA board approved a proposed rule in July 2021 that would increase risk-weight requirements for high-volatility commercial real estate exposures on certain loans.

Questions and answers regarding private flood insurance — In March 2021, the FCA board, along with four other agencies, issued a notice and request for comment that reorganized, revised, and expanded the interagency questions and answers regarding flood insurance.

Criminal referrals — The FCA board issued a bookletter in January 2021 that provides additional guidance to System institutions on how to deter, detect, and report known or suspected criminal violations of federal laws or regulations.

Sound governance of wholesale funding and related processes — The FCA board issued a bookletter in November 2021 that explains FCA's expectations for sound due diligence and adherence to best business practices in the governance and management of wholesale funding and related processes.

National oversight and examination program for 2021 — We issued an informational memorandum in October 2020 that summarized the national oversight plan for 2021. The plan detailed strategies for addressing critical risks and other areas of focus.

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

Corporate activity in 2021

In 2021 and early 2022, we analyzed and approved the following corporate applications.

On May 5, 2021, we issued a revised charter for a headquarters relocation to a service corporation affiliated with CoBank.

On Jan. 1, 2022, a CoBank-affiliated agricultural credit association (ACA) and its production credit association (PCA) and federal land credit association (FLCA) subsidiaries merged their operations with another ACA and its PCA and FLCA subsidiaries in the CoBank district.

On Jan. 1, 2022, an AgriBank-affiliated ACA and its PCA and FLCA subsidiaries merged their operations with another ACA and its PCA and FLCA subsidiaries in the AgriBank district.

The total number of associations as of Jan. 1, 2022 , was 64 (63 ACAs and 1 FLCA). We publish information about corporate applications on our website at www.fca.gov.

Funding activity in 2021

As the System's regulator, we have several responsibilities pertaining to System funding activities. The Farm Credit Act requires the System to obtain our approval before distributing or selling debt.

Because we make it a high priority to respond efficiently to the System's requests for debt issuance approvals, we have a long-standing program, which we monitor on an ongoing basis, that allows the System to issue discount notes at any time up to an outstanding balance of $100 billion.

In addition, we approve most longer-term debt issuances through a monthly "shelf" approval program. For 2021, we approved $214.9 billion in longer-term debt issuances through this program. For more information about the System's funding and liquidity, see pages 24 through 26.

FCA regulates Farmer Mac through the Office of Secondary Market Oversight (OSMO), which was established by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991.

Associate FCA examiner Susan Graves helps out regularly on the Iowa farm where she grew up. Here, she is getting ready for planting season by buying seed.

Farmer Mac

Created in 1988, the Federal Agricultural Mortgage Corporation (Farmer Mac) provides a secondary market for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans. It offers greater liquidity and lending capacity to agricultural and rural lenders, including insurance companies, credit unions, commercial banks, other FCS institutions, and investors.

Farmer Mac is owned by its investors — it is not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and other FCS institutions. Any investor may own nonvoting stock.

Farmer Mac is a federally chartered instrumentality and an institution of the FCS. However, it has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac debt.

Farmer Mac conducts activities through two major lines of business:

- Agricultural Finance, which includes mortgage loans secured by first liens on agricultural real estate, including part-time farms and rural housing, as well as agricultural and rural development loans guaranteed by USDA
- Rural Infrastructure Finance, which includes loans by lenders organized as cooperatives to finance electrification and telecommunications systems and renewable energy providers or projects in rural areas

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

Examining and regulating Farmer Mac

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

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

Through OSMO, we examine Farmer Mac at least annually for capital adequacy, asset quality, management performance, earnings, liquidity, and interest rate sensitivity. We oversee and evaluate Farmer Mac's safety and soundness and its mission achievement. We also supervise and issue regulations governing Farmer Mac's operations.

In 2021, OSMO issued the following guidance documents to Farmer Mac:

- Examination focus areas for 2021 (Informational memorandum, January 2021)
- The increase in ransomware attacks and how to protect critical data and systems (Informational memorandum, September 2021)
- Managing the LIBOR transition (Informational memorandum, December 2021)

Financial condition of Farmer Mac

OSMO reviews Farmer Mac's compliance with statutory and regulatory minimum capital requirements and supervises its operations and condition throughout the year. Table 6 summarizes Farmer Mac's condensed balance sheets at the end of each calendar year from 2016 to 2021.

While a neighbor bales straw, FCA examiner Peter Desens and his son stack the bales on a wagon. Peter and his family have a small farm in Minnesota.

Capital

As of Dec. 31, 2021, Farmer Mac's net worth (that is, equity capital determined using generally accepted accounting principles [GAAP]) was $1,204.4 million, compared with $992.5 million a year earlier. Its net worth was 4.8% of its on-balance-sheet assets as of Dec. 31, 2021, compared with 4.1% a year earlier. Net worth, in terms of dollars, went up primarily because of an issuance of preferred stock and an increase in retained earnings.

When Farmer Mac's off-balance-sheet program assets (essentially its guarantee obligations) are added to its total on-balance-sheet assets, net worth was 4.2% as of Dec. 31, 2021, compared with 3.6% in 2020. Farmer Mac continued to be in compliance with all statutory and regulatory minimum capital requirements.

At year-end 2021, Farmer Mac's core capital (the sum of the par value of outstanding common stock, the par value of outstanding preferred stock, paid-in capital, and retained earnings) remained above the statutory minimum requirement. It totaled $1,200.6 million, exceeding the statutory minimum capital requirement of $713.8 million by $486.8 million or 68.2%.

Its regulatory capital (core capital plus allowance for credit losses) exceeded the required amount as determined by the Risk-Based Capital Stress Test. Farmer Mac's regulatory capital totaled $1,217.0 million as of Dec. 31, 2021, exceeding the regulatory risk-based capital requirement of $218.7 million by $998.3 million.

Risk exposure on USDA guaranteed portions is very low because they are backed by USDA. Table 7 offers a historical perspective on capital and capital requirements for 2016 through 2021.

Program activity

Farmer Mac's total program activity increased to $23.6 billion by year-end 2021, up from $21.9 billion a year earlier. (See figure 11.) Farmer Mac experienced steady growth in its Agricultural Finance loan purchases, as well as in the purchase or guarantee of AgVantage securities. These bonds are general obligations of the issuing financial institution that are purchased or guaranteed by Farmer Mac. Each AgVantage security is secured by eligible

Table 6

Farmer Mac condensed balance sheets, 2016 – 2021

As of Dec. 31

Dollars in millions

Item	2016	2017	2018	2019	2020	2021	Growth Rate 2020 – 2021
Total assets	$15,606.0	$17,792.3	$18,694.3	$21,709.4	$24,355.5	$25,145.5	3.2%
Total liabilities	$14,962.4	$17,084.1	$17,941.8	$20,910.1	$23,363.0	$23,941.1	2.5%
Net worth or equity capital	$643.6	$708.1	$752.6	$799.3	$992.5	$1,204.4	21.4%

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

Table 7

Farmer Mac capital positions, 2016 – 2021

As of Dec. 31

Dollars in millions

Item	2016	2017	2018	2019	2020	2021
GAAP equity	$643.6	$708.1	$752.6	$799.3	$992.5	$1,204.4
Core capital	$609.7	$657.1	$727.6	$815.4	$1,006.4	$1,200.6
Regulatory capital	$617.1	$665.9	$736.8	$828.1	$1,024.0	$1,217.0
Statutory requirement	$466.5	$520.3	$545.0	$618.8	$680.9	$713.8
Regulatory requirement	$104.8	$235.4	$119.0	$122.1	$197.4	$218.7
Surplus core capital over statutory requirement*	$143.2	$136.8	$182.6	$196.7	$325.5	$486.8
Capital margin excess over the minimum	30.7%	26.3%	33.5%	31.8%	47.8%	68.2%

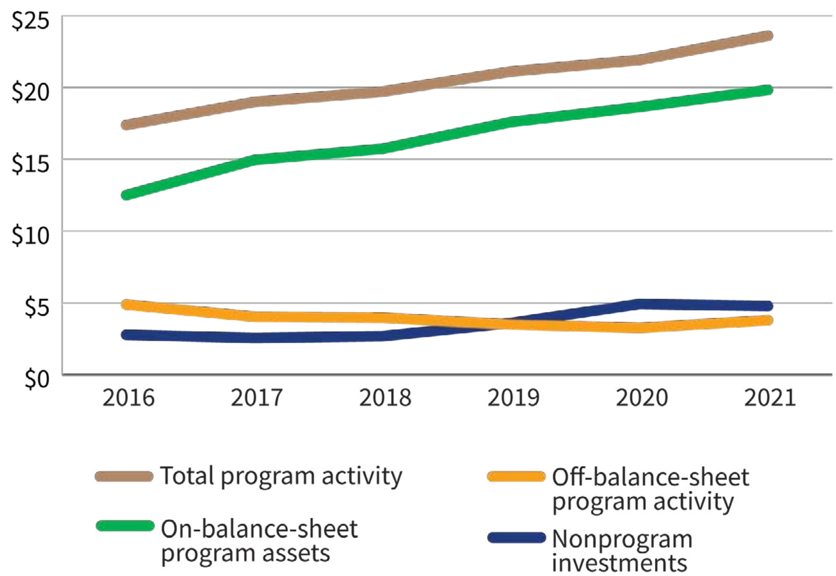
Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

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

Figure 11

Farmer Mac program activity and nonprogram investment trends

As of Dec. 31

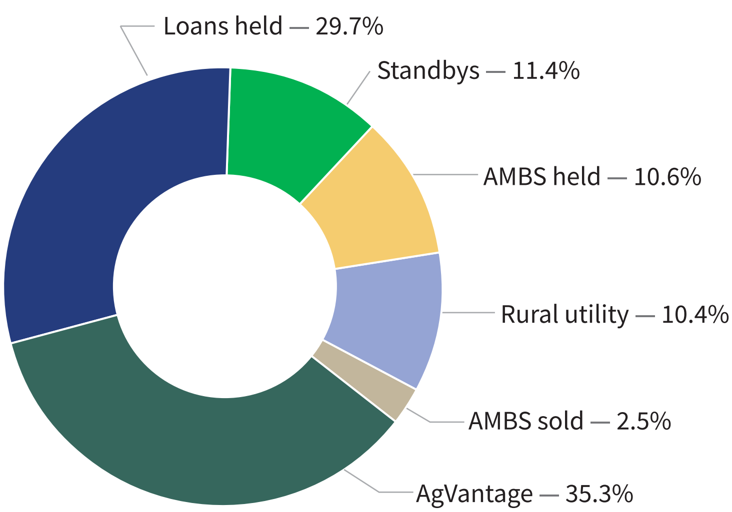


Source: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Figure 12

Farmer Mac total program activity

As of Dec. 31



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

AMBS = agricultural mortgage-backed securities

loans under one of Farmer Mac's programs in an amount at least equal to the outstanding principal amount of the security.

Off-balance-sheet program activity consists of standbys, certain AgVantage securities, and agricultural mortgage-backed securities (AMBS) sold to investors. At the end of December 2021, 16.1% of program activity consisted of off-balance-sheet obligations, as compared with 14.9% a year earlier.

Farmer Mac's Long-Term Standby Purchase Commitment product is similar to a guarantee of eligible pools of program loans. Under the standbys, a financial institution pays a fee in return for Farmer Mac's commitment to stand ready (that is, "stand by") to purchase loans at face value even under adverse conditions. As shown in figure 12, standbys represented 11.4% of Farmer Mac's total program activity in 2021.

Asset quality

Figure 13 shows Farmer Mac's allowance for credit losses, its levels of substandard Farm & Ranch assets, and its 90-day delinquencies relative to outstanding program volume, excluding AgVantage loan volume.

As of Dec. 31, 2021, Farmer Mac's allowance for credit losses totaled $16.4 million, compared with $17.6 million the year before. Of its Agricultural Finance portfolio, $246.7 million was substandard, representing 2.7% of the principal balance of Agricultural Finance loans purchased, guaranteed, or committed to be purchased. This compares with $291.5 million on Dec. 31, 2020. Assets are considered to be substandard when they have a well-defined weakness or weaknesses that, if not corrected, are likely to lead to some losses.

As of Dec. 31, 2021, Farmer Mac's 90-day delinquencies increased in volume to $47.3 million, or 0.48% of Agricultural Finance loans, from $46.2 million, or 0.54%, as of Dec. 31, 2020.

Farmer Mac had $0.64 million of real estate owned at the end of 2021; in 2020, it had no real estate owned. Farmer Mac reported no delinquencies in its pools of rural utility cooperative loans.

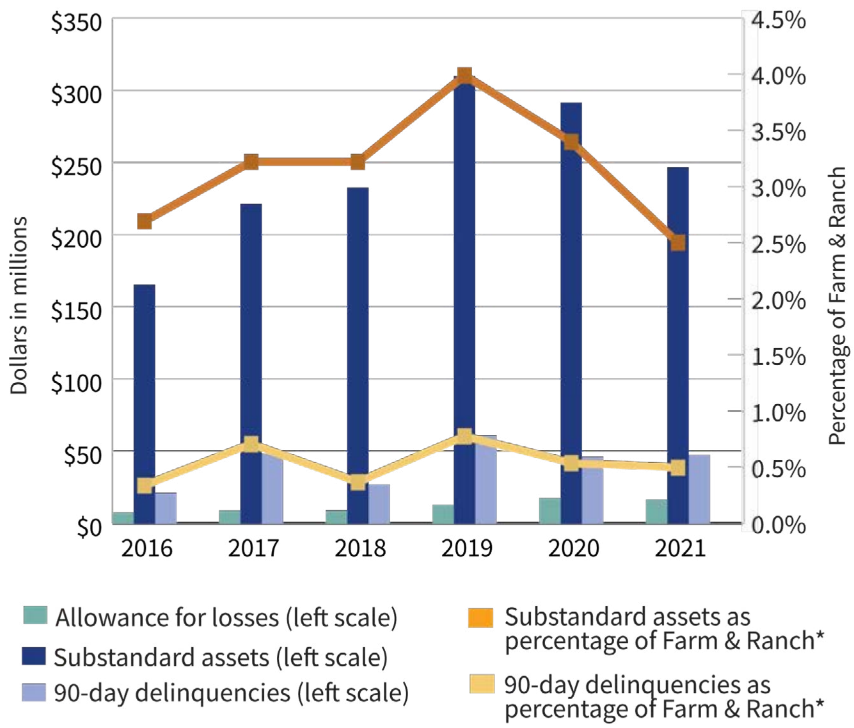
Earnings

Farmer Mac reported net income available to common stockholders of $107.6 million (in accordance with GAAP) for the year ended Dec. 31, 2021, up from $89.2 million reported at year-end 2020. Core earnings for 2021 were $113.6 million, compared with $100.6 million in 2020. Net interest income, which excludes guarantee fee income, was reported at $221.6 million in 2021, up from $182.8 million in 2020. Guarantee fee income was $12.7 million in 2021, compared with $12.5 million in 2020. Table 8 shows a six-year trend for the basic components of income.

Figure 13

Asset quality, allowance, and delinquency trends

As of December 31, 2021



*Referred to as Farm & Ranch before 2021

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

Table 8

Farmer Mac condensed statements of operations, 2016 – 2021

As of Dec. 31

Dollars in millions

Item	2016	2017	2018	2019	2020	2021	Growth Rate 2020 – 2021
Total revenues	$160.8	$175.1	$186.1	$194.1	$206.7	$240.2	16%
Total expenses	$96.6	$103.8	$91.2	$100.4	$117.5	$132.6	13%
Net income available to common stockholders	$64.2	$71.3	$94.9	$93.7	$89.2	$107.6	21%
Core earnings	$53.8	$65.6	$84.0	$93.7	$100.6	$113.6	13%

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

Figure 14
FCA organizational chart as of August 2022

For an accessible version of this chart, go to www.fca.gov/about/fca-organizational-chart.

FCA Board

Glen R. Smith, Chairman

Jeffery S. Hall, Member

- **Office of the Board Chairman and Chief Executive Officer**
  Glen R. Smith
  - **Office of the Chief Operating Officer**
    S. Robert Coleman
    - **Office of Agency Services**
      Vonda Bell
    - **Office of the Chief Financial Officer**
      Sandi Walters
    - **Office of Data Analytics and Economics**
      Jeremy D'Antoni
    - **Office of Examination**
      Mike Duffy
    - **Office of General Counsel**
      Clark Ogilvie†
    - **Office of Information Technology**
      Jerald Golley
    - **Office of Regulatory Policy**
      Kevin Kramp
  - **Office of Congressional and Public Affairs**
    Michael A. Stokke
  - **Office of Equal Employment Opportunity and Inclusion**
    Thais Burlew
  - **Office of Secondary Market Oversight***
    Laurie A. Rea
  - **Designated Agency Ethics Official**
    Jane Virga
  - **Secretary to the Board**
    Ashley Waldron
- **Office of Inspector General**
  Wendy R. Laguarda

* Reports to the board for policy and to the CEO for administration.

† Maintains a confidential advisory relationship with each of the board members.

FCA's organization and leadership

Organization of FCA

FCA's headquarters is in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. As of July 1, 2021, we had 337 employees.

FCA's leadership

Currently, FCA has only two board members: Chairman Glen R. Smith and Board Member Jeffery S. Hall. The board has one vacancy because former Chairman Dallas Tonsager passed away in May 2019.

Glen R. Smith, FCA Board Chairman and CEO

Glen R. Smith was designated chairman and CEO of the Farm Credit Administration

by President Donald Trump on July 17, 2019. He has served as a member of the FCA board since December 2017. Mr. Smith is serving a term that expired on May 21, 2022. He will continue to serve until his successor has been named.

He also serves as a member of the board of directors of the Farm Credit System Insurance Corporation, an independent U.S. government-controlled corporation that insures the timely payment of principal and interest on obligations issued jointly by Farm Credit System banks.

Mr. Smith is a native of Atlantic, Iowa, where he was raised on a diversified crop and livestock farm. His farm experience started at a very early age, after his father was involved in a disabling farm accident. He graduated from Iowa State University in 1979 with a Bachelor of Science in agricultural business and accepted a position with Doane Agricultural Services as state manager of the company's farm real estate division.

In 1982, Mr. Smith and his wife, Fauzan, moved back to his hometown and started farming and developing his ag service business. Today, their family farm, Smith Generation Farms Inc., has grown to encompass about 2,000 acres devoted to corn, soybeans, hay, and a small beef cow herd.

Mr. Smith is founder and co-owner of Smith Land Service Co., an ag service company that specializes in farm management, land appraisal, and farmland brokerage, serving about 30 Iowa counties. From 2001 to 2016, he was also co-owner and manager of S&K Land Co., an entity involved in the acquisition, improvement, and exchange of Iowa farmland. Mr. Smith has served on numerous community, church, and professional boards. He was elected to the Atlantic Community School Board of Education on which he served for nine years.

In 1990, he earned the title of Accredited Rural Appraiser from the American Society of Farm Managers and Rural Appraisers. In 2000,

FCA Chairman Glen Smith with his family on his Atlantic, Iowa, farm. In the background is a lineup of vintage tractors that have been restored for use on the farm.

he served as president of the Iowa chapter of that organization. He is a lifelong member of the Farm Bureau, Iowa Corn Growers Association, Iowa Soybean Association, and Iowa Cattlemen's Association.

The Smiths have four grown children and five grandchildren. Three of their children are directly involved in production agriculture. Their son Peter has assumed managerial responsibilities for both the family farm and business.

Jeffery S. Hall, FCA Board Member

Jeffery S. Hall was appointed to the FCA board by President Barack Obama on March 17, 2015. Mr. Hall is serving a term that expired on Oct. 13, 2018. He will continue to serve until his successor has been named.

Mr. Hall also serves as chairman of the board of directors of the Farm Credit System Insurance Corporation, an independent U.S. government-controlled corporation that insures the timely payment of principal and interest on obligations issued jointly by Farm Credit System banks.

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

From 1994 to 2001, Mr. Hall served as assistant to the dean of the University of Kentucky, College of Agriculture, advising the dean on state and federal legislative activities and managing a statewide economic development initiative called Ag-Project 2000.

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

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

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

In the photo to the left, Jeff Hall's mother, Marilyn Hall, receives the Hoosier Homestead Farm Award from Indiana Department of Agriculture Director Bruce Kettler (right) and Deputy Director Jordan Seger. The award is presented to Indiana farms that have been owned by the same family for more than 200 years.

Appendix

Glossary

Agricultural credit association — An ACA results from the merger of a federal land bank association (FLBA) (or a federal land credit association (FLCA)) with a production credit association (PCA) in which the FLBA (or FLCA) and the PCA are subsidiaries of the ACA. The ACA has the combined authority of its subsidiary institutions. An ACA borrows funds from a farm credit bank or an 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 residents for housing, and to certain farm-related businesses.

Agricultural credit bank — An ACB results from the merger of a farm credit bank and a bank for cooperatives and has the combined authorities of those two institutions. An ACB is also authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. CoBank is the only ACB in the FCS.

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

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

Farm credit bank — FCBs provide services and funds to local associations that, in turn, lend those funds to farmers, ranchers, producers and harvesters of aquatic products, rural residents for housing, and some agriculture-related businesses. On July 6, 1988, the federal land bank and the federal intermediate credit bank in 11 of the 12 then-existing Farm Credit System districts merged to become FCBs. The mergers were required by the Agricultural Credit Act of 1987.

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

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

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

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

Federal intermediate credit bank — The Agricultural Credits Act of 1923 provided for the creation of 12 FICBs to discount farmers' short- and intermediate-term notes made by commercial banks, livestock loan companies, and thrift institutions. The Farm Credit Act of 1933 authorized farmers to organize PCAs, which could discount notes with FICBs. As a result, PCAs became the primary entities for delivery of short- and intermediate-term credit to farmers and ranchers. The FICBs and the federal land banks merged to become FCBs or part of the ACB. Thus, no FICBs remain within the FCS.

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

Federal land bank association — These associations were lending agents for FCBs before they received their affiliated banks' direct-lending authority to make long-term mortgage loans to farmers, ranchers, and rural residents for housing. As lending agents, the associations did not own loan assets but made loans only on behalf of the FCBs with which they were affiliated. As of Oct. 1, 2000, all active federal land bank associations had received direct-lending authority and did not serve as lending agents for FCBs.

Federal land credit association — An FLCA is the regulatory term for a federal land bank association that has received direct-lender authority from its affiliated FCB. An FLCA borrows funds from its FCB to make and service long-term loans to farmers, ranchers, and producers and harvesters of aquatic products. It also makes and services housing loans for rural residents. Today there is only one FLCA in the System that is not a subsidiary of an ACA.

Financial Institution Rating System — The FIRS is similar to the Uniform Financial Institutions Rating System used by other federal banking regulators. However, unlike the Uniform Financial Institutions Rating System, the FIRS was designed to reflect the nondepository nature of FCS institutions. The FIRS provides a general framework for assimilating and evaluating all significant financial, asset quality, and management factors to assign a composite rating to each System institution. The ratings are described below.

Rating 1 — Institutions in this group are basically sound in every respect; any negative findings or comments are of a minor nature and are anticipated to be resolved in the normal course of business. Such institutions are well managed, resistant to external economic and financial disturbances, and more capable of withstanding the uncertainties of business conditions than those with lower ratings. Each institution in this category exhibits the best performance and risk management practices for its size, complexity, and risk profile.

These institutions give no cause for regulatory concern.

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

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

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

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

Government-sponsored enterprise — A GSE is typically a federally chartered corporation that is privately owned, designed to provide a source of credit nationwide, and limited to servicing one economic sector. Each GSE has a public or social purpose. GSEs are usually created because the private markets did not satisfy a purpose that Congress deems worthy — either to fill a credit gap or to enhance competitive behavior in the loan market. Each is given certain features or benefits (called GSE

Abbreviations

ACA — agricultural credit association

ACB — agricultural credit bank

CAMELS — capital, assets, management, earnings, liquidity, and sensitivity

CEO — chief executive officer

Farm Credit Act — Farm Credit Act of 1971, as amended

Farmer Mac — Federal Agricultural Mortgage Corporation

FCA — Farm Credit Administration

FCB — farm credit bank

FCS — Farm Credit System

FCSIC — Farm Credit System Insurance Corporation

FIRS — Financial Institution Rating System

FLCA — federal land credit association

GAAP — generally accepted accounting principles

OFIs — other financing institutions

PCA — production credit association

USDA — U.S. Department of Agriculture

YBS — young, beginning, and small (farmers and ranchers)

attributes) to allow it to overcome the barriers that prevented purely private markets from developing. The FCS is the oldest financial GSE.

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

Production credit association — PCAs are FCS entities that deliver only short- and intermediate-term loans to farmers and ranchers. A PCA borrows money from its FCB to lend to farmers. PCAs also own their loan assets. Before Jan. 1, 2003, some PCAs were independent, stand-alone direct-lender associations. All PCAs are now subsidiaries of ACAs.

Service corporation — Sections 4.25 and 4.28 of the Farm Credit Act authorize FCS banks and associations to organize service corporations for performing functions and services that banks and associations are authorized to perform under the Farm Credit Act, except that the corporations may not provide credit or insurance services to borrowers.

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

Additional information

The 2021 Annual Report of the Farm Credit Administration is available on FCA's website at www.fca.gov. For questions about this publication, contact FCA:

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With support from the Farm Credit System banks, the Federal Farm Credit Banks Funding Corporation prepares the financial press releases, the System's Annual and Quarterly Information Statements, and the System's combined financial statements. These documents are available on the Funding Corporation's website at www.farmcreditfunding.com. For copies of these documents, contact the Funding Corporation:

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

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▲ Newly hired examiners receive extensive training to ensure they have the skills they need to carry out the agency's mission.

▼ FCA senior policy analyst Dave Lewandrowski tries to keep this 1958 Ford tractor in working order. His family owns a farmette in upstate New York.

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