News Release

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Farm Credit Administration Releases 2009 Annual Report on the Farm Credit System

McLean, VA, June 30, 2010—The Farm Credit Administration (FCA) this month released its 2009 Annual Report on the Farm Credit System (FCS or System). According to the report, the overall condition and performance of the System remained sound in 2009 despite the funding challenges the System faced in early 2009 and the commodity price volatility that continues to trouble the agricultural sector.

Noteworthy in 2009 is the decline in the System's loan growth. After growing by double-digits for several years, the System's gross loan volume grew by only 2.1 percent during 2009. Growth slowed for two reasons: loan demand was down, and System institutions adjusted underwriting practices to better reflect risk and market conditions. Despite the decline in growth, the System had another year of solid earnings, with a combined net income of $2.85 billion.

The report also revealed that, because of the difficult economic environment, some of the System's key performance measures weakened in 2009. The Agency responded to this weakening in three basic ways.

First, it increased its supervisory activities and enforcement actions. FCA placed 10 FCS associations under special supervision, and it entered into formal written agreements with two associations.

Second, FCA conducted special studies on distressed agricultural industries to assess emerging risks to the System. The studies identified concentrations within institutions, trends, and recent structural changes in these industries.

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Third, it increased its communication to the System on safety and soundness issues, providing guidance on managing risk, compensating executives, responding to local financial institution failures, financing land in transition, and providing guidance on borrower rights requirements.

Included in FCA's annual report on the System is a section describing the System's performance in delivering credit and related services to young, beginning and small (YBS) farmers and ranchers. The Farm Credit Act of 1971, as amended, requires the System to offer programs to serve YBS producers. Although loans made to YBS producers decreased in 2009, the declines were in step with declines in the System's overall lending activity. Since 2001, trends in the System's YBS lending volume have nearly kept pace with the System's strong loan growth. This is noteworthy because the number of YBS producers in the general farming population is declining.

The report also looks ahead at future challenges facing agriculture and the FCS. The report identifies the uncertain conditions in the macroeconomy as one challenge. For example, the persistent sluggishness in the housing sector negatively affects nursery and forestry operations. Another concern is the rise in credit risk. In recent years, agriculture has experienced large price swings not only in the prices farmers receive for their products but also in the prices they pay for their inputs. Extreme price volatility increases the risk that farmers will default on their loans, and it has caused lenders to require more collateral and greater cash flow relative to debt.

To view the full report, go to www.fca.gov/reports/annual_reports.html.

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