News Release

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For Immediate Release
NR 09-10 (06-30-09)

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Farm Credit System Ends 2008 in Safe and Sound Condition, Annual Report Shows

McLean, VA, June 30, 2009 —The Farm Credit System ended 2008 in overall safe and sound condition despite volatile farm prices and turmoil in financial markets, the 2008 Annual Report on the Farm Credit System, released by the Farm Credit Administration (FCA), shows.

"The Farm Credit System (FCS or System) experienced another year of solid financial results, despite the unprecedented instability in the U.S. and global financial markets and a recessionary world economy," said FCA Chairman and CEO Leland A. Strom. "The System remained on solid financial footing with good earnings, acceptable credit quality, adequate capital, and sufficient liquidity."

"However," Strom noted, "given stresses from the general economy, the financial and credit crisis, and shocks to commodity prices, the lending environment for the FCS going forward will be more challenging than the System has faced in many years."

The FCS, a government-sponsored enterprise, includes five regional Farm Credit banks, 82 agricultural credit associations, and eight federal land credit associations. System institutions are owned by their borrower-members and operate under a cooperative structure. The FCS served approximately 476,000 borrowers in 2008. The System also includes the Federal Agricultural Mortgage Corporation (Farmer Mac), which is a stockholder-owned, federally chartered instrumentality of the United States that provides a secondary market for agricultural real estate and rural housing mortgage loans.

FCS institutions helped borrowers cope with the difficult financial events of 2008. They helped meet the critical financing needs of the grain elevator industry when prices soared, assisted farmers affected by floods, assisted livestock producers, and made critical infrastructure projects possible through innovative bond financing.

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An important mission area for the FCS, which is required by Congress, is lending to young, beginning, and small (YBS) farmers. FCS institutions made solid gains in YBS lending in 2008, according to the report, a noteworthy achievement because these categories are a declining part of the overall farm population. The gains demonstrate the System's success in serving this market segment.

Financial indicators in the report show that the overall condition and performance of the FCS remained safe and sound. FCS earnings grew 8 percent in 2008 to $2.9 billion and capital grew to $27.1 billion from $26.4 billion a year before. Meanwhile, total assets grew 15 percent to $214.4 billion while loans increased to $161.4 billion at year-end, a 13 percent increase over 2007. Loan demand was stimulated by high commodity prices as well as the higher input costs farmers had to pay. The FCS was able to meet borrowers' demands even when other lenders were affected by the credit and liquidity crisis experienced late in the year.

FCA, a federal agency that regulates the FCS and ensures its safety and soundness, took proactive steps as the financial crisis erupted last year. FCA increased the System's discount note ceiling from $40 billion to $60 billion to give it more flexibility to raise funds if longer term debt could not be obtained. It also enacted an emergency standby resolution in the event of a serious market disruption. The resolution would allow Farm Credit banks to temporarily fund their assets with short-term liabilities even if a bank dropped below its 90-day regulatory minimum liquidity requirement.

FCA examines all System institutions and assigns each a risk rating of 1 to 5. Ratings of the 95 institutions in the System, while declining from the extremely positive levels of the past five years, remained relatively strong last year, with 88 institutions achieving the highest ratings of 1 or 2. Several institutions dropped from a risk rating of 1 to 2, mainly because of stresses in the livestock and ethanol industries and softening real estate markets in some regions of the country.

Nonperforming loans grew in 2008 but remain at the relatively low levels of 1.5 percent of total loan volume or just slightly more than 9 percent of combined System capital. Because of conditions in the economy and agricultural sector, the level of nonperforming loans is expected to increase in 2009 but to remain within the System's risk-bearing capacity.

In response to increased risk in the loan portfolio, the FCS recognized a provision for loan loss of $408 million in 2008 compared with just $81 million in 2007. Credit deterioration and loan loss provisions were caused mainly by volatile commodity prices, which adversely affected the livestock, poultry, and ethanol sectors.

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The FCS raises funds to lend to its borrowers by issuing Systemwide debt securities. While the System continued to have regular and flexible access to short-term debt markets during 2008, its flexibility in issuing securities with maturities greater than one year was reduced, and the spreads over similar Treasury securities for such term issuances increased. While the System has been able to endure the financial market uncertainties, continuing weaknesses in the financial markets and potential government actions will likely make 2009 another challenging year for System debt issuance.

FCS banks increased liquidity levels during 2008 to 177 days of liquidity (calculated by comparing maturing Systemwide debt securities and other bonds to the total amount of cash, investments, and other liquid assets maintained) by year-end. This was significantly above the regulatory minimum of 90 days and an increase of 55 days over the 2007 level of liquidity.

The report also looks ahead at future challenges facing agriculture and the FCS. Among the topics addressed are new directions in farm policy and trade, continuing concerns over the biofuels industry, the likelihood that commodity prices will remain subdued until a solid economic recovery takes hold, and concern over softening farmland values.

The full report is available on the FCA Web site. See the link, dated June 12, 2009, under Recent Updates on the front page.

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The Farm Credit Administration is the safety and soundness regulator of the cooperative Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). FCA charters, regulates, and examines the 102 banks, associations, and service corporations of the System and Farmer Mac. System institutions make loans to agricultural producers and their cooperatives nationwide. Farmer Mac provides a secondary market for agricultural real estate and rural housing mortgage loans. Members of the FCA Board are Leland A. Strom, Chairman and CEO, and Nancy C. Pellett.

Note: FCA news releases are available on the Web at www.fca.gov.