Farm Credit Administration

Fiscal Year 2019 Proposed Budget and Performance Plan

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List of Acronyms and Abbreviations

ACA .... Agricultural credit association
ACB .... Agricultural credit bank
CAMELS .... capital, assets, management, earnings, liquidity, and sensitivity
CCS................................. competitive consulting service
Dodd-Frank Act .... Dodd-Frank Wall Street Reform and Consumer Protection Act
EEO .... Equal employment opportunity
Farm Credit Act.............. Farm Credit Act of 1971, as amended
FCB................................. Farm credit bank
Farmer Mac.................... Federal Agricultural Mortgage Corporation
FCA................................. Farm Credit Administration
FCS or System .... Farm Credit System
FCSIC .... Farm Credit System Insurance Corporation
FIRS .... Financial Institution Rating System
FLCA .... Federal Land Credit Association
FTE................................. full-time equivalent
FTP................................. full-time permanent
Funding Corporation ..... Federal Farm Credit Banks Funding Corporation
FY .... fiscal year
GSE .... government-sponsored enterprise
IRM .... information resources management
IT.................................... information technology
NCB .... National Consumer Cooperative Bank
OSMO............................. Office of Secondary Market Oversight
PCA .... Production Credit Association
RBC .... risk-based capital
RBICs .... Rural business investment companies
SS .... single-source
USDA .... U.S. Department of Agriculture
YBS................................. young, beginning, and small (farmers and ranchers)

Preface

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for the regulation and examination of the banks, associations, and related entities that constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

Created by an executive order of the president in 1933, FCA now derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. We promulgate regulations to implement the act and examine System institutions for compliance with the act and regulations, and with safe and sound banking practices. Our mission is to ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

This document presents and justifies our proposed budget for fiscal year 2019. It discusses our functions and program activities and presents an overview of the financial condition of the FCS and Farmer Mac, the entities we regulate. Also included is the fiscal year 2019 performance budget, which ties proposed expenditures to the goals and objectives in our strategic plan.

This document is organized into four sections as follows:

1. Part I contains our budget request. This section presents budget trends that we monitor annually.
2. Part II covers the functions, programs, and services we undertake to fulfill our public mission. It also provides information on actions we have taken to improve internal operations.
3. Part III discusses the System's financial condition and performance.
4. Part IV contains our FY 2019 performance budget, which provides a basis for measuring our overall effectiveness.

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[1] Although Farmer Mac is an FCS institution under the Farm Credit Act (12 U.S.C. 2279aa-1(a)(2)), we discuss Farmer Mac separately from the other entities of the FCS in this document because of the secondary market authorities unique to Farmer Mac. Farmer Mac is not jointly and severally liable on debt issuances with other parts of the FCS.

Part I

Fiscal Year 2019

Proposed Budget

Fiscal Year 2019 Budget Overview

The FY 2019 proposed budget request, as shown in table 1, includes $74.6 million in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture, Farm Credit System Insurance Corporation, and the National Consumer Cooperative Bank adds $680,000 to this amount, bringing the total proposed FCA budget request to $75.28 million.

Table 1. Farm Credit Administration FY 2019 proposed budget

Description	Amount Proposed	Percentage of Total Budget
Full-time-permanent personnel (FTP)	$44,093,178	58.6
Other than FTP	1,188,249	1.6
Other personnel compensation	412,597	0.5
Total personnel compensation	**$45,694,024**	**60.7**
Personnel benefits	17,706,820	23.6
Benefits for former personnel	25,000	0.0
Total compensation and benefits	**$63,425,844**	**84.3**
Travel and transportation of persons	3,453,024	4.5
Transportation of things	156,058	0.2
Rent, communications, and utilities	793,742	1.1
Printing and reproduction	210,702	0.3
Consulting and other services	5,135,301	6.8
Supplies and materials	997,978	1.3
Equipment	1,107,351	1.5
Total budget	**$75,280,000**	**100.0**

Note: Of the amount collected in assessments from current and prior years, no more than $74.6 million may be used for administrative expenses in FY 2019. The total budget includes an additional $680,000 from anticipated reimbursable activity.

The FY 2019 proposed budget of $75.28 million increased by $2.05 million over the FY 2018 proposed budget of $73.23 million. Because we have leveraged technology and continually emphasized savings and efficiencies in operations, our costs have remained relatively stable. As a result, we are able to present a prudent, cost-effective budget.

The FY 2019 budget is necessary to maintain an effective examination program. A robust examination program will help us identify any emerging risks early so that we can better protect the safety and soundness of the Farm Credit System.

The environment in which the FCS operates is dynamic and increasingly complex. The challenges in the nation's financial sector over the past few years were important considerations during our most recent strategic planning period. As a result, we have redirected staff resources to proactively manage systemic risk and to continually seek ways to increase our effectiveness and efficiency.

In the FY 2019 proposed budget, the full-time-equivalent (FTE) staffing level increases slightly. The FY 2019 budget anticipates increases in spending for salaries and benefits because of career-ladder promotions, benefit increases, career progression, on-line training, and funded leave.

In addition, the Office of Information Technology anticipates an increase in costs for IT security enhancements, data efficiencies, IT maintenance, and equipment life cycle replacement for mobile devices and laptops. The Office of Examination has submitted a travel budget that covers examiner training and costs associated with examination of institutions to ensure safety and soundness in accordance with the Farm Credit Act.

As an agency covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, we must also strive to achieve comparability in compensation and benefit programs with other agencies covered under the act.

The budget provides the resources needed to fulfill the following objectives of the FCA board chairman and CEO:

- To maintain strong examination and supervisory programs
- To establish the right level of regulatory capital for FCS institutions
- To ensure that the public purpose and mission-related responsibilities of the System are carried out appropriately

The budget continues to implement the FCA board's philosophy on risk-based examination. We have included sufficient resources to ensure that risks are properly identified, managed, and controlled. These resources will enable us to send our examiners to the institutions we regulate to perform on-site testing of the institutions' credit reviews, internal audits, and internal controls. In addition, we will continue to invest in IT modeling applications to help us identify risk throughout the System. The budget also includes resources to hire contractors when we need technical specialists and technology upgrades. For more information about our risk-based examination and supervision, see page 36.

The budget provides resources for developing regulations and policy positions that implement statutes, for promoting the safety and soundness of the FCS, and for supporting the System's mission as a dependable source of credit and related services for agriculture and rural America.

The budget includes a significant investment in our Strategic Human Capital initiatives. With about 42 percent of our workforce eligible to retire within the next five years, we continue investing in development of programs designed to create and sustain an engaged, results-oriented culture within the agency that emphasizes the importance of learning, expertise, and personal growth.

Thus, knowledge management remains a key component of our continuous learning strategy. When we project vacancies in critical fields, we arrange to have newly hired employees work closely with experienced employees whenever possible so that the new hires can quickly acquire the knowledge and skills they need. Our policies on training and employee development further enhance the transfer of knowledge.

We will continue to emphasize training for pre-commissioned examiners and the need to capture the knowledge of employees who are eligible to retire.

As part of our overall Information Resources Management (IRM) program, we maintain a strong capital planning and investment control process. Our Office of Information Technology invites FCA operating units to submit proposals for information technology projects at any time. Our IT staff also holds “partnership meetings” throughout the year with staff from each operating unit to discuss the projects. These discussions define the priority, urgency, and scope of each project. The project review process considers cost, risk, anticipated return, and alignment with and impact on FCA’s enterprise architecture.

The CIO may reprioritize IRM initiatives at any time during the year to accommodate changing business needs. The following table shows current development, modernization, or enhancement projects and their links to FCA’s strategic goals. These projects enhance our ability to perform essential functions.

The IRM Plan initiatives listed in table 2 are multiyear efforts that apply to numerous FCA projects. Rather than simply maintaining operations, these projects are designed to improve the agency’s work processes.

Table 2. Information Resource Management Plan initiatives

Development, Modernization, or Enhancement (DME)	Regulation and Policy	Safety and Soundness	Staff Development	Distributed
Acquire data and improve quality and accessibility		X		
Automate forms and workflow processes				X
Develop reports or dashboards to systematize analysis		X		
Implement a human resource information system				X
Improve access to FCA network				X
Improve interoffice communication and transparency			X	
Leverage geographic information system technology to support FCA mission				X
Modernize FCA custom applications				X
Improve examination approach and tools		X		

Background

We expect the FCS to continue to evolve in the coming years to meet the demands of an increasingly complex marketplace for agriculture and rural America. As FCS institutions grow and change, their operations become more complex. Because of increased risk in several institutions, we expect mergers and consolidations to continue; and because of challenges in the global economy, we expect the System's asset base to grow at only a moderate pace. Currently, the average institution's asset base exceeds $1 billion.

Our budget strategy will enable us to leverage our most valuable investment — our people. It will enable us to continue to streamline and improve operations and to enhance staff expertise to meet challenges and opportunities that may arise. Our budget strategy will also support our IT needs, allowing us to acquire and maintain the infrastructure we need and to protect our data against the growing number of cyberthreats.

FCA program areas

The agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The policy and regulation program

The budget provides resources for developing regulations and policy solutions for mission and compliance issues facing the System. Our policy and regulation program involves developing regulations and policy positions that implement applicable statutes, promote the safety and soundness of the FCS, and support the System's mission as a dependable source of credit and related services for agriculture and rural America. In addition, the budget provides for ongoing activities such as evaluating and recommending regulatory and funding approvals, managing merger and chartering activities, and providing strategic and systemic policy research and analyses of risks and other issues facing the System.

The budget also provides for support activities, including the processing of information, the communication of the agency's position on issues, training and development, and the administration of activities associated with the policy and regulation program. In total, policy and regulation activities account for approximately $16.5 million, including 56.04 FTEs, in the proposed FY 2019 budget (see table 26 on page 81).

The safety and soundness program

The budget provides resources to examine the System for safety and soundness. The budget resources provided through this program also ensure that FCS institutions comply with applicable laws and regulations and are financially positioned to meet the needs of agriculture and rural America. The budget continues to implement the FCA board's philosophy of a risk-based approach to oversight and examination, which maximizes the effectiveness of examinations. Sufficient resources are included to ensure that the FCS properly identifies, manages, and controls risk. Examination resources are allocated to matters presenting the highest risk or potential risk to the System. Initiatives include the development of risk topics, on-site examination presence, and a greater emphasis on loan review through the testing of credit reviews, internal audits, and internal controls.

A few FCS institutions require special supervision and enforcement actions to assist them in addressing identified weaknesses or risks. These actions are taken as a result of significant input from our staff. Currently, examiners are noting conditions that reflect the weaknesses in the agricultural economy and commodity markets, as well as a rapidly changing risk environment in agriculture. Examiners work with FCS institutions to ensure these and other risks are recognized and mitigated in a timely manner. The budget provides the resources necessary to maintain relevant regulations related to the safety and soundness of the FCS.

In total, safety and soundness activities account for $57.1 million, including 241.64 FTEs, in the proposed FY 2019 budget (see table 26 on page 81).

Office of Inspector General's FY 2019 budget request

Section 6(f)(1) of the Inspector General Act of 1978, as amended, requires an inspector general (IG) to include specific information in the budget request the IG submits to the head of the department or designated federal entity to which the IG reports. To fulfill the requirement of section 6(f)(2) of the IG Act, the FCA board must in turn include this same information in the budget request that we submit to the president.

The information that the IG Act requires to be included is provided below:

- The aggregate budget request for the Office of Inspector General (OIG) is $1,612,727.
- The amount needed for OIG training is $17,755 (tuition).
- The amount needed to support the Council of the Inspectors General on Integrity and Efficiency is $3,545.

The FCA board is submitting the IG's budget request as received from the IG.

Budget Trends

This budget supports the agency's safety and soundness programs. It maintains our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. The FY 2019 budget is necessary to continue to fund employee salary and benefit costs, and technology expenditures — all of which represent approximately 90 percent of FCA's total budget.

Over the past two years our budget requests increased on average by 3 percent. The most recent increase request is 3 percent. Most of the cost increases are for salaries and benefits — as would be expected since salaries and benefits represent approximately 84 percent of our budget. Overall costs have remained relatively stable over the past three years with equipment increasing because of the life cycle replacement. Table 3 provides information on our budget trends.

Table 3. FCA budgets, FYs 2017 – 2019

	FY 2017 Revised Budget	FY 2018 Revised Budget	FY 2019 Proposed Budget
Full-time permanent (FTP)	41,665,633	43,303,006	44,093,178
Other than FTP	1,154,526	1,162,345	1,188,249
Other personnel compensation	386,867	407,519	412,597
Total personnel compensation	**$43,207,026**	**$44,872,870**	**$45,694,024**
Personnel benefits	16,702,576	17,121,045	17,706,820
Benefits for former personnel	25,000	25,000	25,000
Total compensation and benefits	**$59,934,602**	**$62,018,915**	**$63,425,844**
Travel and transportation of persons	3,166,819	3,716,239	3,453,024
Transportation of things	220,758	235,108	156,058
Rent, communications, and utilities	763,652	784,161	793,742
Printing and reproduction	221,150	202,690	210,702
Consulting and other services	4,705,713	4,976,552	5,135,301
Supplies and materials	839,094	756,535	997,978
Equipment	548,212	509,800	1,107,351
Total budget	**$70,400,000**	**$73,200,000**	**$75,280,000**

The Office of Management and Budget has issued guidance for agencies to reduce costs and increase efficiencies. We have taken the following actions to reduce costs:

- Implemented improved audio- and videoconferencing, thereby controlling travel costs
- Revised the Travel and Relocation Policy to encourage prudent travel practices
- Allowed employees to use penalty fares to take advantage of lower airfares
- Reduced travel to the field offices
- Increased reliance on the FCS Loans Database to help reduce travel costs
- Installed network copier printers with scanning capabilities to reduce hard copies, promote electronic files, and reduce the number of printers for individual employees
- Implemented additional electronic workflow processes to enhance internal controls, reduce paper, and increase our use of electronic records

In addition, we regularly use the following practices to keep our costs low:

- Use technology devices (such as laptops and smartphones) to keep travel costs down and maintain continuity of operations
- Ensure that service provider costs are well managed
- Make sure that we issue information technology devices only to employees who have a bona fide business need for them
- Review the usage of smartphones and other wireless devices every month to ensure they are being fully utilized and costs are being minimized
- Reduce the amount of printing by expanding our use of technology to disseminate publications (for example, by publishing documents on our website and distributing them by email)
- Reduce printing by instituting a “Going Green” initiative for training materials
- Use the EDGe Project to continue to make our workflow more efficient and integrated
- Increase efficiency by collaborating and sharing resources across FCA offices

- Increase efficiency by implementing inspector general recommendations as quickly as possible

Sources of FCA revenue and funding

We maintain a revolving fund financed primarily from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation, U.S. Department of Agriculture, and the National Consumer Cooperative Bank. Table 4 shows budgeted sources of revenue and funding for FYs 2017 to 2019.

Table 4. Budgeted sources of FCA revenue and funding, FYs 2017 – 2019

Source	FY 2017 Revised Budget	FY 2018 Revised Budget	FY 2019 Proposed Budget
ASSESSMENTS			
Banks, associations, and related entities	67,350,000	68,700,000	TBD
Federal Agricultural Mortgage Corporation	2,450,000	2,500,000	TBD
Carryover funds [a]	-	1,400,000	TBD
Assessments available for obligation	**$69,800,000**	**$72,600,000**	**$74,600,000**[b]
REIMBURSEMENTS[c]			
National Consumer Cooperative Bank	**95,275**	**68,346**	**121,020**
Farm Credit System Insurance Corporation	**405,891**	**358,013**	**363,904**
U.S. Department of Agriculture	**98,834**	**173,641**	**195,076**
Total	**$70,400,000**	**$73,200,000**	**$75,280,000**

a Carryover funds are amounts brought forward from prior years’ assessments that remain available for obligation.

b Our proposed obligation limit from assessments is $74.6 million for FY 2019.

c From a budget standpoint, reimbursements do not include indirect costs.

d We will determine assessments and carryover amounts for FY 2019 in September of FY 2018.

FCA reserve

The institutions we oversee are involved in two volatile industries — agriculture and finance. Volatility can produce financial stress for institutions, creating a need for heightened oversight and supervision. To ensure that we have the resources to provide the necessary supervision and oversight during periods of financial stress, we established a reserve. Congress granted approval for the reserve under section 5.15(a)(1)(B) of the Farm Credit Act, and the FCA board established guidelines for it.

The reserve ensures that we can effectively and efficiently respond to safety and soundness issues arising within the System. It allows us to respond to these issues without increasing assessments at a time that may be financially difficult for System institutions. At the end of FY 2017, we had approximately $12.6 million in our reserve.

Assessments

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. As table 5 shows, assessments in 2013 and 2014 were particularly low because we used carryover from prior-year assessments to help fund our operations. To fund the FY 2018 budget, we used $1.4 million of carryover and increased our assessments by $4.4 million.

Table 5. FCS assessments, FYs 2009 – 2018

Fiscal Year	Assessment (in millions)
2009	$45.1
2010	$49.1
2011	$52.5
2012	$54.1
2013	$50.0
2014	$50.0
2015	$51.5*
2016	$58.3
2017	$66.8**
2018	$71.2

* The original assessment was $54.5 million and was reduced by $3.0 million during the year.

** Because of the budget limitation in the continuing resolution, the assessment was reduced in the fourth quarter by $3.0 million

As table 6 shows, in FY 2017 we assessed the System $66.8 million and at the end of the year, we also had $1.6 million in reimbursable revenue and deobligations. During the year, we had obligations of $67.6 million. The difference between our obligations and our revenue was $.8 million which represents the increase to carryover.

Table 6. FCA funding, obligations, and assessment carryover, FYs 2016 and 2017 (dollars in millions)

	FY 2016	FY 2017
Current-year assessments	$58.3	$66.8
Reimbursable revenue and deobligations	$1.5	$1.6
Total funding	**$59.8**	**$68.4**
Obligations	$64.1	$67.6
Total funding minus obligations	**($4.3)**	**$0.8**
Assessment carryover from prior years	$5.2	$0.9
Carryover from assessments at end of fiscal year	**$0.9**	**$1.7**

FCS borrower costs

As table 7 shows, FCS borrowers incurred a net cost of approximately 2.0 basis points, or 2.0 cents for every $100 of assets held, to pay for FCA operations in FY 2017. Since FY 2008, the net cost to borrowers has averaged approximately 2.0 basis points.

FCS borrower costs are based on the relationship between the System's total assessments and assets held (not including Farmer Mac). The FCS held $321.6 billion in total assets as of September 30, 2017, up from $314.4 billion a year earlier.

Borrower costs have declined over the years for the following reasons:

- System assets have grown.
- FCA has used carryover to offset additional costs.
- FCA has taken various measures to reduce operating costs. (See pages 10 and 11 for details.)

Table 7. FCA's net cost to System borrowers, FYs 2008 – 2017

FY Ended September 30	Basis Points
2008	2.0
2009	2.0
2010	2.1
2011	2.2
2012	2.2
2013	1.9
2014	1.8
2015	1.7
2016	1.8
2017	2.0

Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2018 is $2.50 million. As required by regulation, we will reconcile and adjust the assessment after the fiscal year-end to reflect the actual amount expended. Actual costs for FY 2017 were $2.48 million. The assessment for FY 2019 is not yet available because the Office of Secondary Market Oversight will not complete the FY 2019 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2018.

Table 8 shows Farmer Mac assessments for fiscal years 2009 to 2018. These assessments include costs associated with increased examination and oversight activities. We have increased these activities because, like other federal financial regulators, we are placing additional emphasis on capital adequacy and stress testing.

Table 8. Farmer Mac assessments, FYs 2009 – 2018

Fiscal Year	Assessment (in millions)
2009	$2.05
2010	$2.25
2011	$2.20
2012	$2.25
2013	$2.38
2014	$2.38
2015	$2.40
2016	$2.45
2017	$2.50
2018	$2.50

Part II

Farm Credit Administration

Profile of the Farm Credit Administration

The Farm Credit Administration was created through an executive order of President Franklin D. Roosevelt and currently derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. As an independent agency within the executive branch of the federal government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).[2]

The FCS is the oldest of the financial government-sponsored enterprises (GSEs). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

The FCS had $251.2 billion in outstanding loans to agriculture and rural America as of September 30, 2017.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac's secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural

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[2] By statute, Farmer Mac is an institution of the Farm Credit System; however, in this document, we will use the terms “FCS” and “System” to refer to all the entities in the Farm Credit System except Farmer Mac and affiliates of Farmer Mac.

lenders and intermediaries, including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2017, the volume of loans either purchased or guaranteed by Farmer Mac totaled $18.6 billion.

FCA is also required by the National Consumer Cooperative Bank Act of 1978, as amended, to examine and report on the condition of the National Consumer Cooperative Bank (NCB). Since the passage of this law, we have conducted safety and soundness examinations of NCB and issued reports of examination to NCB's board of directors. NCB is a federally chartered, privately owned banking corporation. It is not a federal instrumentality, and it is not part of the FCS. In addition, we contract with the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture to provide examination services.

The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee the FCS, Farmer Mac, and FCA. Our operations are funded through assessments paid by the System institutions and by our reimbursable activities; we do not receive a federal appropriation.

Mission statement

As stated in our Strategic Plan for FYs 2016 – 2021, our 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. To fulfill this mission, we issue regulations and conduct examinations of FCS institutions and Farmer Mac to evaluate and oversee the safety and soundness of their activities. Our examinations also evaluate whether institutions are complying with laws and regulations, especially the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers. In addition, we research, develop, and adopt rules, regulations, and other guidelines that govern how institutions conduct their business and interact with customers.

If any System institution, including Farmer Mac, violates laws or regulations, or if operations are determined to be unsafe or unsound, we may use our enforcement authority to ensure that the problem is corrected in a timely manner. We also ensure that the rights of certain borrowers are protected.[3]

[3] Provisions in the Farm Credit Act regarding borrower rights do not apply to loans to cooperatives.

Other statutory duties require us to issue and amend FCS institution charters, to report to Congress on the System's and Farmer Mac's financial condition and performance, and to approve the issuance of System debt obligations.

FCA board and governing philosophy

Our policy and regulations are established 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. They serve staggered six-year terms and may not be reappointed to succeed themselves after serving a full term or more than three years of a previous member's unexpired term. A board member may serve after expiration of his or her term until a successor has been appointed and qualified. The president designates one member as chairman of the board; this member serves as chairman until the end of his or her term. The board chairman also serves as the agency's chief executive officer.

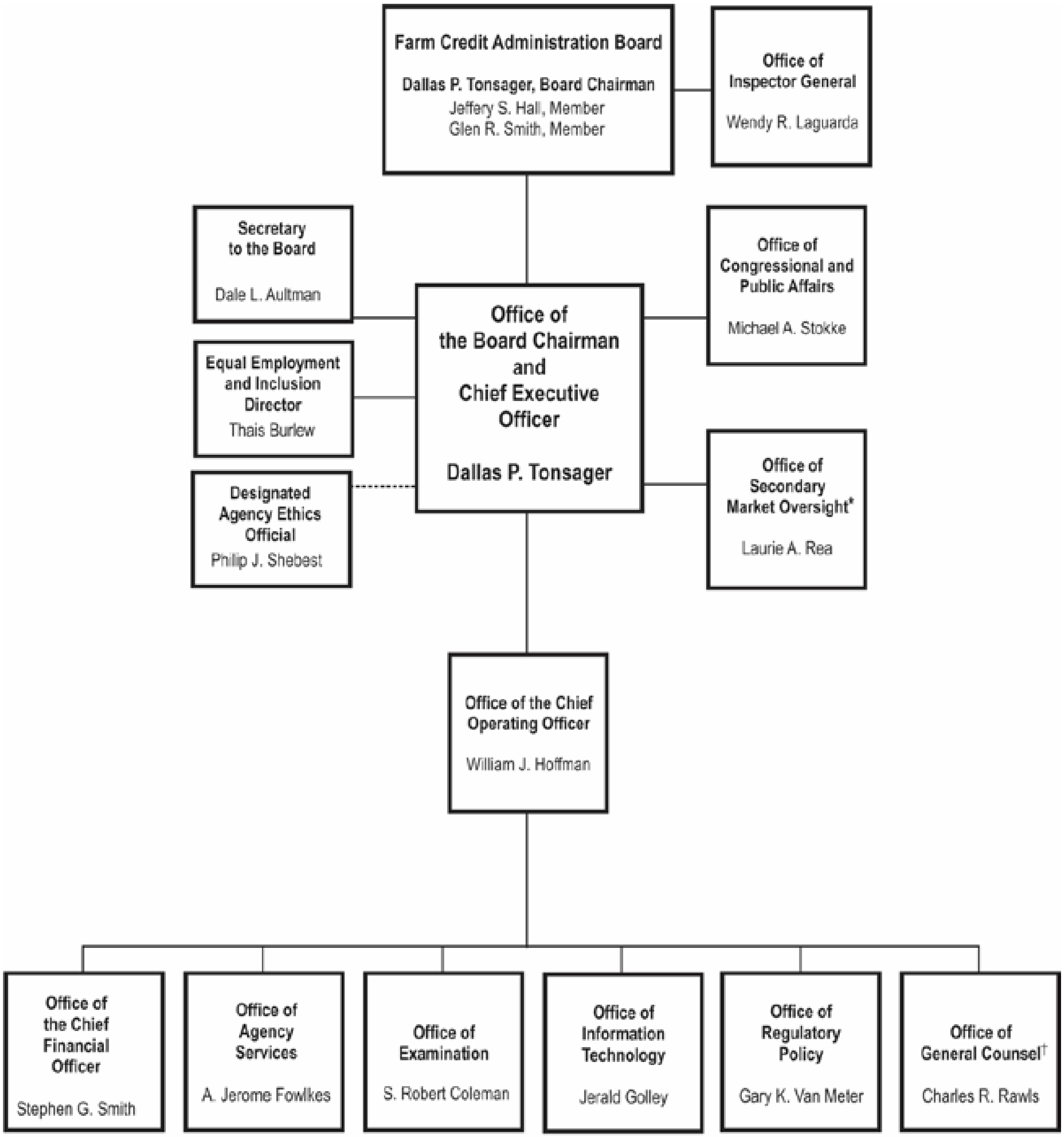
The FCA board approves charters of FCS institutions, oversees the agency's supervision and examination of those institutions, and issues enforcement actions. The governing philosophy of the FCA board is grounded in the Farm Credit Act. The board believes that the principles on which the System was founded are just as important today as they were in the early decades of the 20th century.

FCA organizational structure

Figure 1 presents our organizational structure and shows how the offices provide strategic support to the FCA board and ensure that our mission and goals are performed effectively and efficiently. We have our headquarters in McLean, Virginia, with field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

Figure 1. FCA organizational chart as of January 2018

For the text version of this chart, go to www.fca.gov/about/offices/orgchart_accessible.html.



*Reports to the Board for policy and to the CEO for administration.
†Maintains a confidential advisory relationship with each of the Board members.

FCA Internal Operations

FCA is firmly committed to the continuous development and support of its greatest asset — its employees. This commitment is at the core of our agency's five-year strategic plan. The plan focuses on workforce planning and talent management, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of our strategic human capital initiatives is based on the Human Capital Standards for Success, a collaboration of the Office of Management and Budget, the Office of Personnel Management, and the U.S. Government Accountability Office.

Human capital management

Human capital strategies are linked to our strategic plan through clearly defined strategic initiatives and action plans. We continually monitor workforce trends and implement best practices. We also monitor the System's changing environment so that we can adjust our staffing levels and maintain requisite skill sets by hiring additional staff, providing employee training and development, and transitioning employees from staff positions that are no longer necessary. We review our workforce planning strategies annually. See table 9 for full-time-equivalent (FTE) staffing levels (rounded to the nearest whole number) from FYs 2009 through 2019.

Table 9. Full-time-equivalent staffing levels, FYs 2009 – 2019

Fiscal Year	FTE Staffing Level
2009	261
2010	277
2011	286
2012	287
2013	273
2014	278
2015	277
2016	290
2017	296
2018	307 (authorized)
2019	306 (authorized)

Note: From FYs 2009 to 2019, our ratio of managers and supervisors to other personnel has ranged between one to five, and one to six.

We perform workforce assessments annually to obtain information on critical staffing variables, such as the age and grade of employees. From this analysis, we develop five-year projections to determine and mitigate the impact of employee retirements and separations.

As of September 30, 2017, approximately 20 percent of our personnel were eligible to retire; we expect that number to remain relatively stable through the end of FY 2018. See table 10 for retirement eligibility projections at FCA.

Table 10. FCA retirement eligibility, FYs 2017 – 2021

At Fiscal Year End	Eligible Retirements	Cumulative Eligible
2017	58	58
2018	7	65
2019	11	76
2020	16	92
2021	19	111

Identifying our human capital needs over the next five years, including the optimal size of our workforce and the appropriate skill sets of our employees, is one of our primary goals. Assessments take place at all levels to accurately gauge human capital requirements. We use the results of these assessments to develop, enhance, and redirect training and development programs.

As we face the retirement of a significant percentage of the FCA workforce, we are working hard to sustain a high level of institutional knowledge, job skills, and analytical expertise. In addition to succession planning and cross-training, we provide a variety of resources and programs for sharing knowledge across the organization.

Our continuous learning strategy emphasizes leadership, competencies, and knowledge management. Succession planning is also an important element. By providing education, training, and other development opportunities, we seek to attract and retain bright, creative, and enthusiastic people.

We coordinate training goals with the leadership skills and competencies that are integral to achieving our mission. We establish training projection plans at the office level and the agency level each year to help us manage employee training and development activities. These plans project budget needs for training and development; they are directly linked to FCA's performance management system. Supervisors and employees collaborate on training and development goals.

By working closely with agency management and conducting staff surveys, our learning officer gauges our training needs and develops efficient and effective methods to acquire outside training and to develop internal training courses and learning techniques. This training strategy helps prepare our workforce for emerging challenges and leadership succession.

Formal training programs support the needs of core occupational groups through a variety of methods, such as in-house training, vendor courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop computer with the technology to support e-learning initiatives. In addition, all employees have regular access to training on our computer systems.

We demonstrated our commitment to our training and knowledge transfer goals in FY 2017 by providing training to pre-commissioned examiners and capturing the knowledge of examiners who are eligible to retire. We also conducted agencywide supervisory training in March, shortly before the Office of Personnel Management issued recommendations to do so. As more and more employees become eligible to retire, knowledge transfer becomes a greater concern. We have created an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key part of our continuous learning strategy. When we hire new employees in critical fields, we require them to work closely with experienced employees to ensure the transfer of critical knowledge and skills. We regularly update our policies on training and employee development, and we use details and special projects to provide development opportunities.

FCA's electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, are another component of knowledge management and best practices. These databases enable employees to communicate and share knowledge.

We have also established internal SharePoint sites to enhance knowledge transfer and collaboration. All employees have access to most of the sites, including the sites containing resources on contracting, technology, leadership development, audit and internal controls, and plain writing. Other sites are intended for the use of specific groups of employees, such as credit specialists, operations specialists, and recruiters. Still others are set up for workgroups on topics such as training, planning and reporting, and policy development. Through these sites, we can deliver information in real time to multiple audiences.

In addition, because we recognize the value of diversity and inclusion to the agency, we work hard to attract and retain staff with varied backgrounds and skills. We have developed procedures to evaluate relevant recruiting data and have implemented a recruiting committee to identify opportunities to improve agency diversity and attract skilled talent. We also endorse programs that promote equal employment opportunity (EEO), diversity, and inclusion, and we have an active EEO program.

FCA compensation program

Section 1206 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires federal financial regulators to "seek to maintain comparability regarding compensation and benefits." This provision enables financial regulators to attract and retain qualified staff.

To comply with the FIRREA, we participate in a biannual survey of the other federal bank regulators and adjust our employees' compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under the FIRREA.

We use a pay-for-performance program to adjust each employee's salary according to his or her performance rating and salary range position. We make salary adjustments each calendar year based on several factors, including the compensation programs of other federal bank regulators and available funding.

On December 19, 2017, the FCA board approved the agency's compensation program for 2018. The program includes pay-for-performance increases based on a 1.6 percent pay matrix. We increased salary ranges by 1.5 percent for FY 2018. We did not increase locality rates from the previous year. Career senior executives received a percentage increase equal to the average increase for all employees. Those below the midpoint for their salary range received a pay increase; those above the midpoint received a bonus.

These changes were consistent with the compensation adjustments of other FIRREA agencies.

External contracting and shared services

Outsourcing

As table 11 shows, we continue to outsource several functions. We have a shared-service agreement with the Bureau of the Fiscal Service. We also outsource our payroll services to USDA's National Finance Center. Outsourcing these services allows us to manage our employee benefits and other agency functions without additional personnel costs.

Table 11. Shared services, FY 2017

Contract	Purpose	Amount
Administrative Service Center (Bureau of the Fiscal Service)	To provide full-service accounting, e-travel, credit card, and platform procurement services	$680,767
National Finance Center (USDA)	To provide payroll services	$45,000

Note: FCA's shared-service agreements during FY 2017 totaled $725,767.

Single-source and competitive consulting service contracts

Tables 12 and 13 provide a summary of our single-source and competitive consulting service contracts for FYs 2016 and 2017.

Table 12. Competitive consulting service (CCS) contracts of more than $25,000 and single-source (SS) contracts, FY 2016

Contract	Purpose	Amount
Art of Resolution LLC; 16-FCA-113-001 (SS)	To provide EEO services	$14,000
Dorothy Salak; 16-FCA-240-007 (SS)	To provide editor/writer services	$12,150
Robert Half Inc.;16-FCA-240-006 (SS)	To provide administrative support services	$24,616
FedResults; 16-FCA-240-011 (SS)	To provide cloud communication software	$41,189
AGFIRST Farm Credit Bank; 16-FCA-301-004 (SS)	To provide examination training	$7,500
Centrec Consulting Group, LLC; 16-FCA-301-006 (SS)	To provide self-study course set	$17,852
Vertex Solutions Group LLC; 16-FCA-301-007 (SS)	To provide eLearning services	$6,600
Second Pillar Consulting Inc.; 16-FCA-450-001 (SS)	To provide technical expertise to the Agency's evaluation of capital adequacy with Farm Credit Institutions	$40,000
Delta Research Association Inc.; 16-FCA-601-001 (SS)	To provide human resource support	$25,976
David Redden-New Life Retirement; 16-FCA-601-005 (SS)	To provide retirement counseling and related services	$69,240
Digital Office Products;16-FCA-601-006 (SS)	To provide maintenance for Toshiba	$4,594
David Redden;16-FCA-601-009 (SS)	To provide human resource services	$10,000
Northern Virginia Temporaries Inc. ;16-FCA-601-011 (SS)	To provide temporary mail clerk services	$60,000
Murphy Brothers Inc.;16-FCA-601-014 (SS)	To provide transportation services	$11,000
Focused Strategies Inc. ;16-FCA-601-022 (SS)	To provide negotiation skills training	$10,154

Contract	Purpose	Amount
John Reid and Associates Inc. ;16-FCA-601-023 (SS)	To provide techniques for investigative interviewing	$10,950
Economic Systems Inc.; 16-FCA-601-028 (SS)	To provide human resource services	$14,995
TrueNorth LLC; 16-FCA-651-003	To provide consulting service for the design and development of data warehouse solution	$174,000
Traid Technology Partners LLC; 16-FCA-651-008 (SS)	To install MobileIron services	$5,855
Barracuda Cloud Storage Service; 16-FCA-651-019 (SS)	To provide cloud storage service	$22,499
Audio Fidelity Communications Corp; 16-FCA-651-014 (SS)	To provide IT support services	$40,314
Gartner, Inc.;16-FCA-651-023 (SS)	To provide IT services	$61,385
Day 1 Solutions; 16-FCA-651-025	To provide IT services	$115,026
Entrust Inc; 16-FCA-651-026 (SS)	To provide IT cloud services	$7,701
SAP National Security Service, Inc. ;16-FCA-651-027 (SS)	To provide software license and services	$9,746
Barracuda Networks Inc.; 16-FCA-651-029 (SS)	To provide IT services	$9,023
Day 1 Solutions; 16-FCA-651-030 (SS)	To provide IT storage service and support	$19,283
Patch Advisor Inc.; 16-FCA-651-036(SS)	To provide IT services	$33,000
Patch Advisor, Inc.; 16-FCA-651-041 (SS)	To provide IT services	$48,000
Ekahau Inc.; 16-FCA-651-047 (SS)	To provide software support	$6,303
Day 1 Solutions Inc.; 16-FCA-651-048 (SS)	To provide IT support services	$37,630
Electronic Systems Inc.; 16-FCA-651-050 (SS)	To provide IT services	$10,400

Contract	Purpose	Amount
Emergency Power Services Inc.; 16-FCA-651-052 (SS)	To provide IT services	$5,458
Teracai Corporation; 16-FCA-651-054 (SS)	To upgrade Cisco Voice Application services	$7,700
Learning Tree Inc.; 16-FCA-651-063 (SS)	To provide training	$19,950
Dell Marketing, L.P.; 16-FCA-651-067 (SS)	To provide Dell workstations	$13,520
Carahsoft Technology; 16-FCA-651-068 (SS)	To acquire training vouchers for Qlik Sense software	$6,220
Electronic Systems Inc.;16-FCA-651-069 (SS)	To provide IT support services	$120,000
Environmental System Research Institute; 16-FCA-911-001	To provide IT maintenance support services	$51,072
Phase One Consulting Group LLC; 16-FCA-651-037A	To provide various IT support services	$616,387

Note: The agency's SS and CCS contracts totaled $1,821,288 in FY 2016.

Table 13. Competitive consulting service (CCS) contracts of more than $25,000 and single-source (SS) contracts, FY 2017

Contract	Purpose	Amount
Ivy Planning Group LLC; 17-FCA-113-002 (CCS)	To conduct diversity and inclusion study	$76,241
Second Pillar Consulting; 17-FCA-450-005 (SS)	To provide critical and objective advise as needed with monitoring Farmer Mac	$150,000
Extron Electronics; 17-FCA-651-077 (SS)	To provide IT equipment	$9,267
Iron Bow Technologies; 17-FCA-651-078 (SS)	To provide IT services	$22,982
Norseman Defense Technologies; 17-FCA-651-075 (SS)	To provide IT services	$61,493
Microsemi Frequency and Time Corporation;17-FCA-651-069 (SS)	To provide IT services	$7,546
Skillsoft Corporation; 17-FCA-641-028 (SS)	To provide IT learning solutions	$23,214
Secure Government Technologies; 17-FCA-651-066 (SS)	To provide IT services	$12,497
Modcomp; 17-FCA-651-067 (SS)	To provide IT services	$5,215
Qlik Sense Site Tokens; 17-FCA-651-020 (SS)	To provide Qlik Sense site tokens	$6,750
Iron Bow Consulting; 17-FCA-651-065 (SS)	To provide IT services	$30,000
Iron Bow Technologies;17-FCA-651-057 (SS)	To provide IT services	$28,739
Discover Technologies; 17-FCA-651-044 (SS)	To provide IT services	$24,496
JBH Video Production Services; 17-FCA-240-009 (SS)	To provide video production services	$17,000
BJ Chagnon Corp; 17-FCA-240-016 (SS)	To provide 508 Training	$9,955

Contract	Purpose	Amount
N2Shape; 17-FCA-641-006 (SS)	To support the agency's wellness program	$5,060
Ad Specialist Unlimited; 17-FCA-641-025 (SS)	To provide length of service awards	$10,116
Varidesk Pro;17-FCA-301-003 (SS)	To provide portable desks	$8,167
Deloitte Consulting, LLP; 17-FCA-651-081	To provide IT services	$9,641
Learning Tree International; 17-FCA-651-042 (SS)	To provide Learning Tree training vouchers	$19,950
John Martin Discover Technologies; 17-FCA-651-040 (SS)	To provide IT services	$5,821
Tower Watson; 17-FCA-641-022 (SS)	To conduct compensation survey	$17,000
EconSys; 17-FCA-641-020 (SS)	To provide human resource services	$15,766
Adobe Acrobat Professional; 17-FCA-651-037 (SS)	To provide Adobe renewal upgrade	$40,156
PowerBuilder Enterprise Software; 17-FCA-651-033 (SS)	To provide IT services	$9,746
Planet Depos; 17-FCA-501-007 (SS)	To provide legal services	$5,793
Entrust Inc; 17-FCA-651-028 (SS)	To provide IT services	$7,701
Partnership of Public Services; 17-FCA-641-018 (SS)	To provide employment engagement training	$6,619
Federal Employment Law Training Group; 17-FCA-641-017 (SS)	To provide employee training	$6,975
Carasoft Technology Corporation; 17-FCA-651-020 (SS)	To provide IT training	$55,588
Michelle Coles; 17-FCA-450-004 (SS)	To provide temporary administrative support	$23,400
Retina Beyond Light License; 17-FCA-651-015 (SS)	To provide a license agreement	$10,399
Office Team; 17-FCA-641-015 (SS)	To provide mail operation support	$35,200

Contract	Purpose	Amount
Digital Office Copier; 17-FCA-641-011 (SS)	To provide a color copier	$5,283
Murphy Brothers; 17-FCA-641-009 (SS)	To provide transportation services	$12,000
Four Point Technology; 17-FCA-651-002 (SS)	To provide IT maintenance services	$4,499
Temporary Writer-Editor; 17-FCA-240-001 (SS)	To provide writer-editor services	$31,500
Art of Resolution; 17-FCA-113-001 (SS)	To provide EEO services	$20,000
Info-Tech Research Group; 17-FCA-651-021 (SS)	To provide IT services	$24,000

Note: The agency's SS and CCS contracts totaled $875,775 in FY 2017.

Other functions and activities

Reception and representation expenditures

FCA spent $186.94 on reception and representation expenses in FY 2017.

Foreign travel expenditures

During FY 2017 there were no foreign travel expenses.

Leveraging FCA technology

We have designed a flexible IT program at FCA so that we can adapt to changing needs. Our IT staff holds regular partnership meetings with staff from other business units to ensure that we monitor our IT investments closely and adjust our priorities as needed. Through these partnership meetings, we identify multiyear IT initiatives and include these in our annual Information Resources Management (IRM) Strategic Plan.

The current plan drives our IT spending through 2019 and beyond. In 2019, we will continue improve FCA's data reporting, dashboard, and analysis capabilities and strengthen our cybersecurity hygiene. We will hire contractors when we need special expertise, and we will expand our use of cloud services where feasible. And we will build on the accomplishments we made towards the IRM Strategic Plan initiatives in FY 2017. Over the past year, we accomplished the following:

- Expanded our use of cloud services and improved disaster recovery capabilities by moving the FCSIC.gov website to a cloud hosting provider. In 2018, we intend to modernize the FCA.gov website and move it to a cloud hosting provider also. By hosting the sites externally, we reduce the amount of support that our staff must provide.

- Purchased ServiceNow, a cloud-based application, to improve our customer service delivery.

- Created the “Advance Team” to help FCA staff examine institutions more effectively and efficiently. The team is composed of examiners and technologists. They work to resolve any potential connectivity issues or security concerns before an exam starts.

- Upgraded our network equipment to improve performance, enhance security, and increase storage capacity.

- Updated the Consolidated Reporting System (CRS) to meet the reporting requirements of the new capital regulation. The changes to the tables, reports, and other components of the system represent the most significant changes to CRS in over a decade.

- Strengthened IT security. We formalized a vulnerability management program, a change control process, and a phishing awareness campaign. We changed the email transmission protocol between FCA and certain Farm Credit System institutions to fortify security. We also finalized the routing of our network traffic through the Department of Homeland Security’s mandatory program to monitor email and domain name services.

- Purchased a business process management tool to develop key workflows in support of the agency’s business functions.

- Established multiple blanket purchase agreements for system development and data support contract services to improve FCA’s data reporting, dashboard, and analysis capabilities.

- Switched to commitment accounting to strengthen our internal controls and budget reconciliation process.

- Completed several enhancements to the Enterprise Documentation and Guidance (EDGe) system. We rebuilt the Loan Workpaper application from a disparate set of Microsoft Access databases to a single, modern web application that integrates with the EDGe applications. We also transitioned the Financial Institutions Rating System to a modern web application that provides real-time feedback, incorporates built-in workflow, and incorporates advanced auditing and search capabilities.

- Adapted the FCS Data Portal to allow institutions to use it to submit additional document types.
- Improved communication and transparency. We added links to useful resources and dynamic organizational charts to the SharePoint sites of most of the business units. We developed a new FCA Careers page on www.fca.gov to provide a central location for information about careers at FCA.
- Streamlined business processes to improve efficiency. We transitioned the criminal referral form from hard copy to an electronic fillable form. We also developed a module that significantly simplified the process of billing Farm Credit System institutions for their assessments.

There are numerous projects for each IRM initiative planned for FY 2018 and FY 2019 that will further use technology to support our mission and achieve our strategic goals. For a listing of these initiatives, please see table 2 on page 6.

Independent auditing and accountability

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2017 audit of FCA's financial statements. On November 8, 2017, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2017.

- First, the auditor opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2017, in conformity with generally accepted accounting principles.
- Second, the auditor did not identify any deficiencies in internal control over financial reporting that would be considered material weaknesses.
- Third, the auditor did not identify any instances of noncompliance with selected provisions of laws and regulations or other reportable matters that could have a direct and material effect on the financial statements.

Ensuring Safety and Soundness

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including the Federal Agricultural Mortgage Corporation.

The first section below, titled The Farm Credit System, summarizes examination and supervisory activities performed on the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled Other Entities.

Our examination and supervision responsibilities are carried out by staff located in five field offices. One field office is in the McLean, Virginia, headquarters; the other field offices are in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2019.

The Farm Credit System

Statutory and regulatory requirements

The Farm Credit Act requires FCA to examine each FCS institution at least once every 18 months. We meet this requirement through a risk-based process of oversight and examination designed to maximize efficiency while addressing System risk effectively.

To monitor and evaluate the System's safety and soundness, we must have loan portfolio and other data from System institutions, and section 5.9(4) of the Farm Credit Act gives us the authority to collect these data. Our regulations include the following reporting requirements:

- Each System institution must prepare and file quarterly reports of condition and performance with FCA in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information.
- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR 630.4.

System institutions submit other data to us through our Consolidated Reporting System. Some of the submitted information is available to the public on our website (www.fca.gov). We also collect loan data for all System institutions. We have been expanding loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to have minimum capital levels, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder oversight.

Risk-based examination and supervision

We design examination and supervision processes to address material risks and emerging issues at the institution level and Systemwide. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, guarding the safety and soundness of the System is more important and challenging than ever. Annually, to help address these challenges, we identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The oversight and examination program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2018 are as follows:

- Portfolio Risk — Weathering the Storm
- Internal Controls Over Financial Reporting

When our examiners identify unsafe and unsound practices within a System institution or find that an institution has failed to comply with a law or regulation, we outline the corrective actions the institution must take in a Report of Examination or other form of communication. If necessary, we use our enforcement powers to bring about changes in an institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. However, in most cases, we achieve corrective action without the use of formal enforcement powers.

Measuring the safety and soundness of the System

We use our Financial Institution Rating System (FIRS) as a key method to assess the safety and soundness of each FCS institution. The FIRS provides a general framework, consisting of component and composite ratings, for evaluating and assimilating all significant financial, asset quality, and management factors. Similar to systems used by other federal financial regulators, the FIRS evaluates six key component areas to properly assess the degree of risk in an institution. These key component areas are capital, assets, management, earnings, liquidity, and sensitivity (CAMELS).

On the basis of our CAMELS ratings, we assign an overall composite rating for the institution. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect and that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

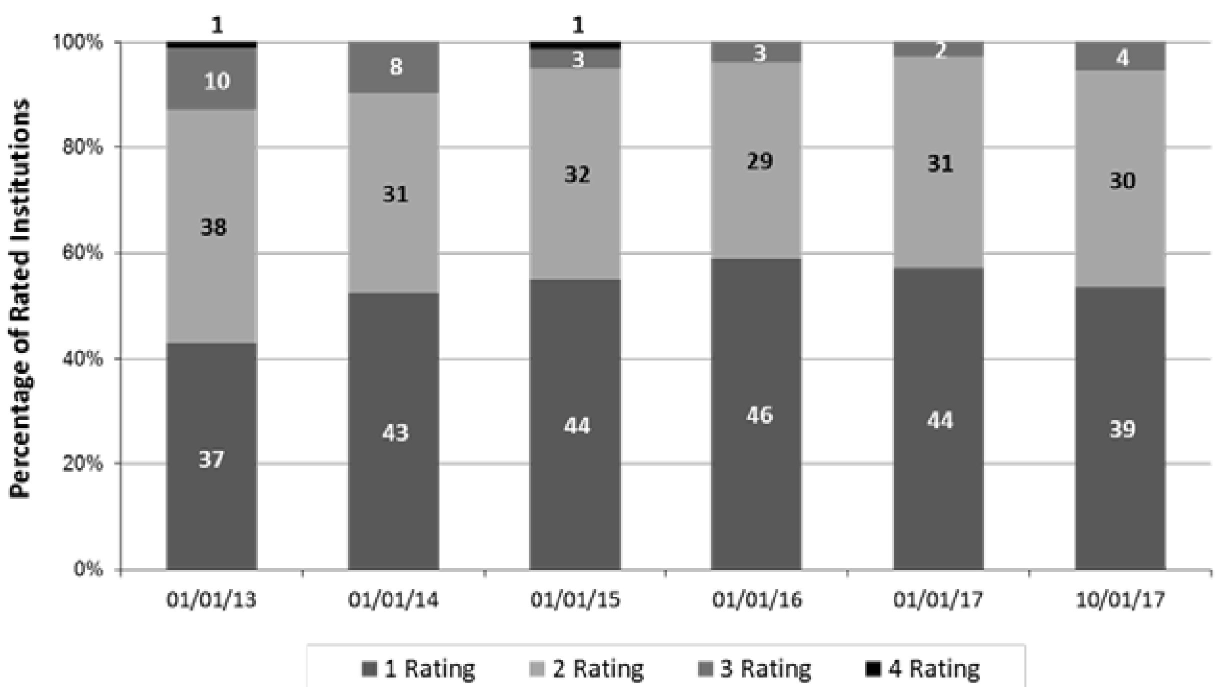
Recent results

As the composite FIRS ratings over the past several years show, the System's condition and performance have remained satisfactory. The following summarizes FIRS ratings for System banks and associations as of October 1, 2017:

- Thirty-nine institutions were rated 1.
- Thirty were rated 2.
- Four were rated 3.

See figure 2 for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

Figure 2. Farm Credit System Financial Institution Rating System (FIRS) composite ratings



Source: FCA's FIRS Ratings Database.

Note: This chart reflects ratings for the System's banks and direct-lending associations only; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. 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.

Table data for figure 2

	Rating	01/01/13	01/01/14	01/01/15	01/01/16	01/01/17	10/01/17
Total	1	37	43	44	46	44	39
	2	38	31	32	29	31	30
	3	10	8	3	3	2	4
	4	1	-	1	-	-	-
	Total	86	82	80	78	77	73

Federal Agricultural Mortgage Corporation

Through our Office of Secondary Market Oversight (OSMO), we examine and supervise Farmer Mac to ensure both its safety and soundness and the achievement of its mission. OSMO performs annual CAMELS-based examinations, which include examination of capital, assets, management, earnings, liquidity, and sensitivity. Throughout the year, OSMO oversees Farmer Mac's condition and compliance with regulations and supervises its operations.

Statutory authority

We regulate Farmer Mac through OSMO, which was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102 – 237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO be managed by a full-time director who reports to the FCA board and that OSMO's activities, to the extent practicable, be carried out by individuals not responsible for supervising the banks and associations of the FCS.

Data reporting requirements

Farmer Mac is required to submit quarterly Call Reports to OSMO in addition to meeting several other periodic reporting requirements related to Farmer Mac's regulatory risk-based capital, mission, liquidity, and financial derivatives portfolio. Farmer Mac is also subject to the disclosure and reporting requirements of the Securities and Exchange Commission.

Financial condition and performance

Farmer Mac's financial condition and performance trends were generally positive in FY 2017 despite a modest increase in troubled loan volume.

- Net income available to common shareholders was $80.1 million for the 12 months ended September 30, 2017, compared with $53.7 million during FY 2016.

- Core earnings, a financial performance measure that does not rely on generally accepted accounting principles, totaled $62.5 million during FY 2017, compared with $52.9 million during FY 2016.

- Farmer Mac's core capital totaled $653.4 million at the end of FY 2017, compared with $587.1 million at the end of FY 2016. The minimum core capital requirement for Farmer Mac's on- and off-balance-sheet exposures is set in the statute and totaled $515.7 million at the end of FY 2017. Thus, Farmer Mac exceeded its minimum core capital requirement by approximately $137.6 million.

- At the end of FY 2017, Farmer Mac had $661.9 million in regulatory capital available to meet the $244.6 million minimum requirement established by FCA's Risk-Based Capital Model.

- Program activity increased approximately 8.1 percent and ended FY 2017 at $18.6 billion. Farmer Mac had $2.6 billion in its liquidity portfolio as of September 30, 2017.

Credit quality remained stable and generally good. Real estate owned decreased over FY 2017, finishing the year at $1.1 million, down approximately $0.4 million from fiscal year-end 2016. Total acceptable loan volume decreased 0.8 percent to 93.8 percent in FY 2017.

Risk-Based Capital (RBC) Model

Section 8.32 of the Farm Credit Act requires the RBC Model to be used to determine the amount of regulatory capital that Farmer Mac needs to maintain positive capital during a 10-year period under certain credit risk and interest rate risk situations. The RBC Model must estimate credit losses on agricultural mortgages owned or guaranteed by Farmer Mac.

The rate of loan default and severity of losses on agricultural mortgages must be reasonably related to the default rate and severity of losses experienced in contiguous areas of the United States; the contiguous areas considered must contain at least 5 percent of the total U.S. population that experienced the highest rate of default and severity of agricultural mortgage losses during the past two consecutive years or more. The rate of loan default and severity of losses on rural utility loans must be reasonably related to risks in electric and telephone facility loans.[4]

The Farm Credit Act also requires the RBC Model to incorporate an interest rate risk stress scenario based on rising and falling interest rates on Treasury obligations of various terms. In addition, the Farm Credit Act requires Farmer Mac to maintain capital to protect against management and operational risks. This additional capital must amount to 30 percent of the sum of the credit loss and interest rate risk components of the RBC Model.

The output of the stress test depends on Farmer Mac's risk profile. High-risk loan assets or significant interest rate risk exposure causes the RBC Model to calculate a higher regulatory capital requirement. Conversely, if Farmer Mac maintains a low risk profile in both its loan portfolio and interest rate risk exposure, the stress test will calculate a low capital requirement. Our regulations require Farmer Mac to have its operation of the RBC Model validated by an independent third party at least every three years. In all these third-party validations, Farmer Mac has been found to be operating the model appropriately.

We published a final rule in early 2011 to amend our RBC Model regulation to allow for revisions to the model, including a revision that would reflect loan activity involving rural utility cooperatives. An advance notice of proposed rulemaking was published in June 2011 to solicit public input on further revisions to the model. We are considering a revision to the software platform on which the model runs. Currently, the model uses a Microsoft Excel platform. As Farmer Mac's portfolio grows and its product mix broadens, we will need a different platform to streamline model runs.

[4] Farmer Mac's express program activities were expanded in the Food, Conservation, and Energy Act of 2008 to include rural utilities.

Other entities

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System.

- As mandated by 12 U.S.C. 3025, we examine the National Consumer Cooperative Bank, which owns a federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans.

- From time to time, the U.S. Department of Agriculture contracts with us to provide examination services for specific USDA programs. We annually review the amount of resources dedicated to providing these services. Currently, the amount is limited.

- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC board consists of the members of the FCA board. Section 5.59(5) of the Farm Credit Act provides that, to the extent practicable, FCSIC must use FCA personnel and resources to minimize duplication of effort and to reduce costs.

Developing Regulations and Policies

FCA routinely issues regulations, informational memorandums, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend.

We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

Regulatory and policy projects active at end of FY 2017

The FCA board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives. The FCA board-approved agenda is part of the federal Unified Agenda, which is published online at www.reginfo.gov. We are not obligated to act on our agenda items. We publish our Regulatory Projects Plan on our website to notify the public of our upcoming regulatory actions and to encourage the public to participate in the regulatory process.

The following list summarizes the topics for which we are considering regulatory action and other guidance.

Investment Eligibility: We plan to publish a final rule to revise the eligibility requirements for investments by System institutions. To comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Farmer Mac — Investment Eligibility: We plan to publish a final rule to change eligible investment asset classes and limits on exposure to individual issuers. To comply with the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Standards of Conduct: We plan to reissue a notice of proposed rulemaking to clarify and strengthen regulations related to the standards of conduct of directors, employees, and agents of System institutions.

Private Flood Insurance: We plan to issue a final rule to amend our regulations on private flood insurance to conform to the Biggert-Waters Flood Insurance Reform Act of 2012.

Amortization Limits — Agricultural Credit Associations and Production Credit Associations: We plan to issue a notice of proposed rulemaking to clarify or change the amortization limits for Agricultural Credit Associations and Production Credit Associations.

Regulatory Burden: We plan to issue a final notice to address the comments we received regarding the removal or revision of outdated, unnecessary, or burdensome regulations.

Borrower Rights: We plan to issue a notice of proposed rulemaking to clarify disclosure and servicing requirements related to borrower rights.

Revision of Permanent Capital Deductions: We plan to issue a notice of proposed rulemaking to consider whether to align the deductions used for permanent capital with those used for tier 1/tier 2 capital.

Criteria to Reinstate Nonaccrual Loans: We plan to issue a notice of proposed rulemaking regarding criteria for reinstating nonaccrual loans and reducing the compliance burden on System institutions.

Eligibility Criteria for Outside Directors: We plan to issue a notice of proposed rulemaking regarding the eligibility criteria for outside directors. In particular, this rulemaking will address the eligibility of a candidate for an outside director position if the candidate owns an interest in an entity that borrows from, or holds stock in, a System bank or association.

Financing Farm-Related Service Businesses: We plan to complete our evaluation of the System's lending to farm-related service businesses to determine whether our regulations provide the appropriate framework for determining borrower eligibility and purposes of financing. Among the businesses to be considered are service providers within local food systems.

Basel III Liquidity Requirements: We plan to complete our review to consider aligning liquidity requirements with those of other federal bank regulators and to consider adopting a Basel III liquidity regime. As part of this review, we will consider whether the liquidity coverage ratio and the net stable funding ratio are applicable to System banks.

Farmer Mac Basel III Liquidity Requirements: We completed our review to consider aligning Farmer Mac's regulatory liquidity requirements with those of other federal bank regulators under a Basel III-type liquidity regime. We plan to issue an advance notice of proposed rulemaking on this topic to solicit public input on the concepts generally and their applicability to a secondary market GSE.

Regulatory and policy projects completed in FY 2017 and early FY 2018

Following is a list of projects we completed in FY 2017 and early FY 2018, along with a list of communications we issued to System institutions to clarify our rules.

Removal of Regulatory Capital Conditions Previously Imposed on Third-Party Capital: We issued a final rule to remove conditions and limitations on third-party capital issuances that are now addressed in the tier 1/tier 2 capital framework of the new capital rule.

Technical Amendments to Eliminate Obsolete References: We published a direct final rule that eliminated obsolete, unnecessary, and confusing references in the regulations related to the assessment and apportionment of administrative expense.

Regulatory Burden: We issued a notice with request for comment to solicit comments for the removal or revision of outdated, unnecessary, or burdensome regulations.

Civil Money Penalty Adjustment: We published a final rule to adjust FCA's civil money penalties for inflation as required by the Federal Civil Penalties Inflation Adjustment Act Improvement Act of 2015.

Farmer Mac — Investment Eligibility: We published a notice of proposed rulemaking to change eligible investment asset classes. To comply with the Dodd-Frank Act, this rule also removed references to credit ratings in the regulations and substituted an appropriate standard of creditworthiness.

Appraisal Regulations: We completed our review to consider whether changes in appraisal regulations are necessary in light of changing credit and economic conditions.

Territorial Concurrence: We completed our review of current regulations requiring associations to notify each other and obtain concurrence when they extend loans in the chartered territories of other associations. The purpose of the review was to determine whether the regulations are appropriate for the System's current structure, lending practices, and operating environment, and whether the regulations support safety and soundness, operational efficiency, cooperative principles, and customer service.

Removal of Stockholder-Elected Directors: We completed our review of whether, and under what circumstances, a stockholder-elected director of a System bank or association can be removed by the bank's or association's board of directors.

Criminal Activity Referrals and Related Internal Controls: We completed our review of our regulatory guidance on internal controls designed to prevent, identify, and monitor fraud and criminal activity. We also reviewed the processes for referring known or suspected criminal violations.

Director Election Nomination Procedures: We completed our review of regulations and guidance related to the director nomination process. As part of the review, we considered the kind of information to which nominating committees should have access when considering potential nominees.

Reporting Security Incidents and Business Continuity Events to FCA: We issued an informational memorandum to provide further guidance on reporting security incidents and business continuity events to the Farm Credit Administration.

Maximum Bank Director Compensation: We issued an informational memorandum to notify Farm Credit banks of the maximum allowable bank director compensation for 2017.

FCS corporate activity and other prior approvals and clearances

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

Noncorporate applications include requests related to preferred stock and subordinated debt offerings and requests for prior approval of funding, mission-related investments, and any new financially related services.

Corporate activities in FY 2017 and early FY 2018

During FY 2017, we canceled the charters of 12 associations — 4 ACAs and 8 subsidiaries — as a result of three separate mergers.

- On January 1, 2017, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with two subsidiaries.
- On July 1, 2017, two ACAs affiliated with AgriBank, FCB, merged, resulting in an ACA with two subsidiaries.
- Also, on July 1, 2017, three ACAs affiliated with AgriBank merged, resulting in an ACA with two subsidiaries.

Thus far in FY 2018, we have canceled the charter of one association — an FLCA — as a result of a merger. We also approved a name change.

- On October 1, 2017, an FLCA and an ACA affiliated with CoBank merged, resulting in an ACA with two subsidiaries.
- On January 1, 2018, an ACA affiliated with AgriBank changed its name.

Projected mergers and FCS institution size

As of January 1, 2018, the System had 69 direct-lender associations and 4 banks. Seven service corporations and special-purpose entities (see pages 54 to 56) brought the total number of FCS institutions to 80 (including Farmer Mac). Because of mergers and consolidations, the number of FCS associations has declined by 63 percent since 2000, and the number of FCS banks has decreased by 43 percent.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decline. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also have more complex management systems and offer a broader range of financial services to their borrowers.

Security offerings during FY 2017

We reviewed and did not object to the proposed offering circular from AgTexas Farm Credit Services for issuing series A fixed-to-floating cumulative perpetual preferred stock.

Funding activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation[5], the fiscal agent for the Farm Credit banks. Through this conduit, funds flow from worldwide capital-market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with ready and efficient access to global resources. Systemwide debt securities are issued as discount

[5] See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation’s primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation assists the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System’s financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all debt issuances.

For the 12 months ended September 30, 2017, the FCS issued $296 billion in Systemwide debt, compared with $321 billion in FY 2016 and $286 billion in FY 2015. Investor demand for FCS debt instruments continued to be strong given the System's favorable financial performance and the minor change in the level of issuance of overall debt by government-sponsored enterprises. FCS debt outstanding increased to $258 billion at the end of FY 2017, an increase of just $6 billion from the end of FY 2016.

The financial markets exhibited overall stability, and investor demand for System debt remained favorable across the yield curve.

Rural business investment companies

The 2002 Farm Bill created the Rural Business Investment Program for leveraged rural business investment companies (RBICs) and gave the secretary of agriculture the authority to license and examine them. The 2008 Farm Bill modified the program to allow for nonleveraged RBICs and to permit System institutions to form and invest in nonleveraged RBICs.

In 2012, we entered into an interagency agreement with USDA whereby we perform the following services for nonleveraged rural business investment companies:

- Provide technical advice regarding regulatory and program requirements
- Receive and review nonleveraged RBIC licensing applications for RBICs in which System institutions would hold at least 10 percent in total ownership and advise USDA as to whether to approve the applications
- Examine licensed nonleveraged RBICs

The 2012 agreement was replaced with a new five-year agreement in 2017, under which we will continue to review nonleveraged RBIC licensing applications and examine licensed nonleveraged RBICs. The agreement calls for us to review and provide recommendations for seven RBIC applications over a five-year timeframe. We agreed to expend no more than 1,800 hours, or 90 percent of one full-time-equivalent staff position, to complete the RBIC assignments during a fiscal year.

Part III

Farm Credit System

Profile of the Farm Credit System

The Farm Credit System consists of a network of borrower-owned cooperative financial institutions, as well as related service organizations and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the financial government-sponsored enterprises (GSEs). As of January 1, 2018, the System had four banks providing loan funds to

- 68 Agricultural Credit Association (ACA) parent organizations, each of which generally has two subsidiaries — a Production Credit Association (PCA) and a Federal Land Credit Association (FLCA), and
- 1 stand-alone FLCA.

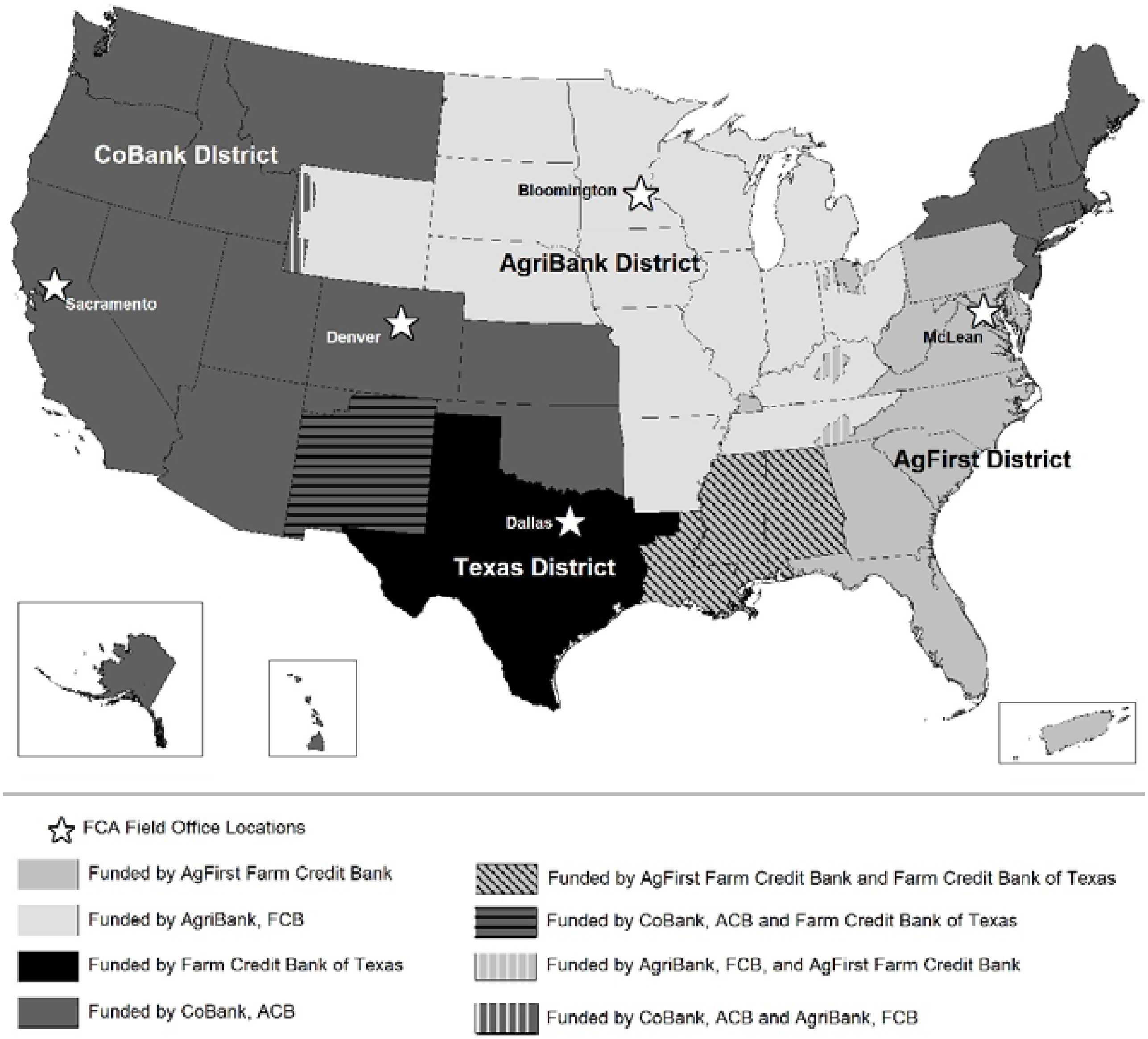
The map in figure 3 shows each bank's chartered territory.

Although legally separate, the ACA and its PCA and FLCA subsidiaries operate as an integrated lending business, with loans made through the subsidiaries appropriate to the authority of each subsidiary. The ACA, the PCA, and the FLCA are jointly and severally liable for the full amount of the indebtedness to the funding bank under a general financing agreement. In addition, the parent company and its subsidiaries pledge their respective assets as security for each other's debts and obligations and share each other's capital.

The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are Federal Land Bank Associations that originate long-term agricultural mortgages and are exempt from federal and state income taxes; ACAs and PCAs originate short- and intermediate-term operating loans and are not tax-exempt.

System institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling debt securities in the national and international money markets; these securities are subject to FCA's approval, but they are not guaranteed by the U.S. government.

Figure 3. Farm Credit System bank chartered territories as of January 1, 2018



NOTE: CoBank, ACB, funds 22 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 14 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 73 banks and direct-lending associations.

Additional System entities and service corporations

In addition to the System's banks and associations, we are responsible for regulating and examining the Federal Agricultural Mortgage Corporation and the Federal Farm Credit Banks Funding Corporation. We also regulate and examine the five service corporations organized under section 4.25 of the Farm Credit Act[6]: AgVantis, Inc.; Farm Credit Leasing Services Corporation; Farm Credit Financial Partners, Inc.; the FCS Building Association; and Farm Credit Foundations.

Federal Agricultural Mortgage Corporation — Farmer Mac[7] is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. In May 2008, the Food, Conservation, and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac conducts its business primarily through four core programs:

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

Under the Farm & Ranch and Rural Utilities segments, Farmer Mac purchases, or commits to purchase, qualified loans, or obligations backed by qualified loans, that are not guaranteed by any instrumentality or agency of the United States. Under USDA Guarantees, Farmer Mac purchases the guaranteed portions of farm ownership and farm operating loans, rural business and community development loans, and certain other loans guaranteed by USDA. Under Institutional Credit, Farmer Mac purchases bonds backed by eligible debt obligations of agricultural and rural utility lenders.

Federal Farm Credit Banks Funding Corporation — The Funding Corporation is owned by System banks; it sells debt securities on behalf of the banks to raise funds for loans and other purposes. System institutions obtain the majority of their funds through the sale of these

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[6] Section 4.25 of the Farm Credit Act provides that one or more FCS banks or associations may organize a service corporation to perform functions and services on their behalf. These federally chartered service corporations are prohibited from extending credit or providing insurance services.

[7] Farmer Mac is established in law as a part of the FCS. However, Farmer Mac has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac's debt. Farmer Mac is organized as an investor-owned corporation, not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and FCS institutions. Nonvoting stock may be owned by any investor. Farmer Mac is regulated by FCA through the Office of Secondary Market Oversight. The director of this office reports directly to the FCA board on matters of policy.

securities in the nation's capital markets. These securities, chiefly in the form of bonds and discount notes, are offered by the Funding Corporation through a nationwide group of securities dealers and dealer banks. The Funding Corporation's debt issuance programs provide the System banks with funds to lend to farmers, ranchers, and agricultural cooperatives; debt issuances also provide the banks with funding for their other operations.

AgVantis, Inc. — AgVantis provides technology-related and other support services to associations in the CoBank, ACB, district. It was chartered by FCA in 2001 and is owned by CoBank and 12 of its affiliated associations. In 2018, one association plans to leave AgVantis and obtain its services from Farm Credit Financial Partners, Inc.

Farm Credit Leasing Services Corporation — The Leasing Corporation, owned by CoBank provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit Financial Partners, Inc. — Farm Credit Financial Partners is owned by, and provides support services to, three associations affiliated with CoBank and one association affiliated with AgriBank, FCB. It is also a major alliance partner with two associations to provide services to them. In 2018, one association plans to join as an owner, while another association plans to become a Partner Services Program customer. Lastly, one association plans to leave and affiliate with another service provider.

FCS Building Association — The Building Association, which acquires, manages, and maintains facilities to house our headquarters and field office staff, was formed in 1981. It is owned by System banks and is subject to the oversight and direction of the FCA board.

Farm Credit Foundations — Farm Credit Foundations provides human resource services to its employer-owners, including payroll processing, benefits administration, centralized vendor management, workforce management and operations services, corporate tax and financial reporting services, and retirement workshops. It is owned by 39 Farm Credit associations, one service corporation (AgVantis), and one Farm Credit Bank (AgriBank).

FCS mission fulfillment

The System fulfills its overall mission by lending to agriculture and rural America. Through changes in the law since the System's original authorization in 1916, System lending authorities have evolved to include the following:

- Long-term agricultural real estate loans and rural home loans
- Short- and intermediate-term agricultural loans
- 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
- Loans that finance agricultural exports and imports
- Loans for rural utilities
- Limited portions of loans to entities that qualify under the System's similar-entity authority

Financial Condition and Performance

The overall condition and performance of the FCS remains safe and sound, and the System continues to be well positioned to withstand the challenges facing U.S. agriculture. For FY 2017, the System reported strong financial results, with stable earnings, strong capital levels, relatively low portfolio credit risk, and reliable access to debt capital markets. As of September 30, 2017, the System's liquidity position equaled 172 days, significantly above the 90-day regulatory minimum required for each FCS bank.

For many cash grain producers, margins were at or below breakeven levels in 2017 with high global production and abundant ending stocks keeping corn and soybean prices low. For livestock producers, cash receipts were up due to strong demand and continued favorable feed costs.

The System's loan portfolio grew at a modest pace in 2017, with gross loans increasing by 3.7 percent for the 12 months ended September 30, 2017. Real estate mortgage lending, the largest category, was up 4.0 percent because of continued demand for cropland in 2017.

Earnings

The FCS earned $3.72 billion in the first nine months of 2017, a 3.5 percent increase from the $3.59 billion earned in the same period in 2016. As table 14 shows, net interest income rose 4.1 percent, which was partially offset by higher noninterest expenses, which were up 5.3 percent.

Table 14: Net income (dollars in millions)

	First 9 Months of 2016	First 9 Months of 2017	Dollar Change	Percent Change
Net interest income	$5,524	$5,752	$228	4.1
− Provision for losses	218	188	(30)	(13.8)
= Net interest income after loss provision	$5,306	$5,564	$258	4.9
+ Noninterest income	448	430	(18)	(4.0)
− Noninterest expense	2,029	2,136	107	5.3
= Pretax income	$3,725	$3,858	$133	3.6
− Provision for income tax	136	142	6	4.4
= Net income	$3,589	$3,716	$127	3.5

Source: Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, p. F-3.

The increase in net interest income was due primarily to higher average interest-earning assets, which increased to $310.2 billion at September 30, 2017, from $297.8 billion at September 30, 2016. Net interest margin for the nine months ended September 30, 2017, was unchanged at 2.47 percent as from the same period a year ago (table 15). Net interest spread declined 5 basis points for the first nine months of 2017. Although the yield on earning assets increased by an annualized rate of 24 basis points, it was completely offset by a 29-basis-point increase in the annualized rate on interest-bearing liabilities.

Table 15: Interest margin in annualized percentages

	First 9 Months of 2016	First 9 Months of 2017	Change (bps)
Total interest-earning assets	**3.46**	**3.70**	**24**
Total loans	3.96	4.18	22
Investments and other assets	1.43	1.70	27
Total interest-bearing liabilities	**1.17**	**1.46**	**29**
Net interest spread	**2.29**	**2.24**	**(5)**
Impact of noninterest-bearing items	0.18	0.23	5
Net interest margin	**2.47**	**2.47**	**0**

Source: Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, p. 14.

bps = basis points

As table 16 shows, there was little change in the return on average assets across System districts for the first nine months of 2017 compared with 2016. Although most System districts reported a decline in the return on average capital during the first nine months of 2017, the System's net return measures remained satisfactory across all the districts.

Table 16: Profitability across System districts for first nine months of year*

		AgFirst	AgriBank	Texas	CoBank
Percentage return on average assets	2016	1.53	1.53	1.53	1.32
	2017	1.54	1.54	1.52	1.33
Percentage return on average capital	2016	9.31	8.94	10.20	10.05
	2017	9.19	8.49	10.13	10.15

Source: Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, p. F-58

* The financial ratios are for the combined banks and associations.

Asset growth

System growth slowed during the year ended September 30, 2017. In total, FCS assets were up $7.2 billion or 2.3 percent to $321.6 billion. The increase was driven by gains in loans, which were up $9.0 billion or 3.7 percent.

Growth in all major loan categories (real estate mortgage, production and intermediate, agribusiness, and rural infrastructure) was relatively modest, with percentage increases ranging from 3.3 percent for rural infrastructure to 4.0 percent for real estate mortgage.

All System districts experienced loan growth for the year ended September 30, 2017. The CoBank district reported the largest increase in volume, with loan balances growing by $4.2 billion, an increase of 4.2 percent year over year. Provided in table 17 is the volume and percentage change in gross loan volume for all System districts from September 30, 2017, compared with September 30, 2016.

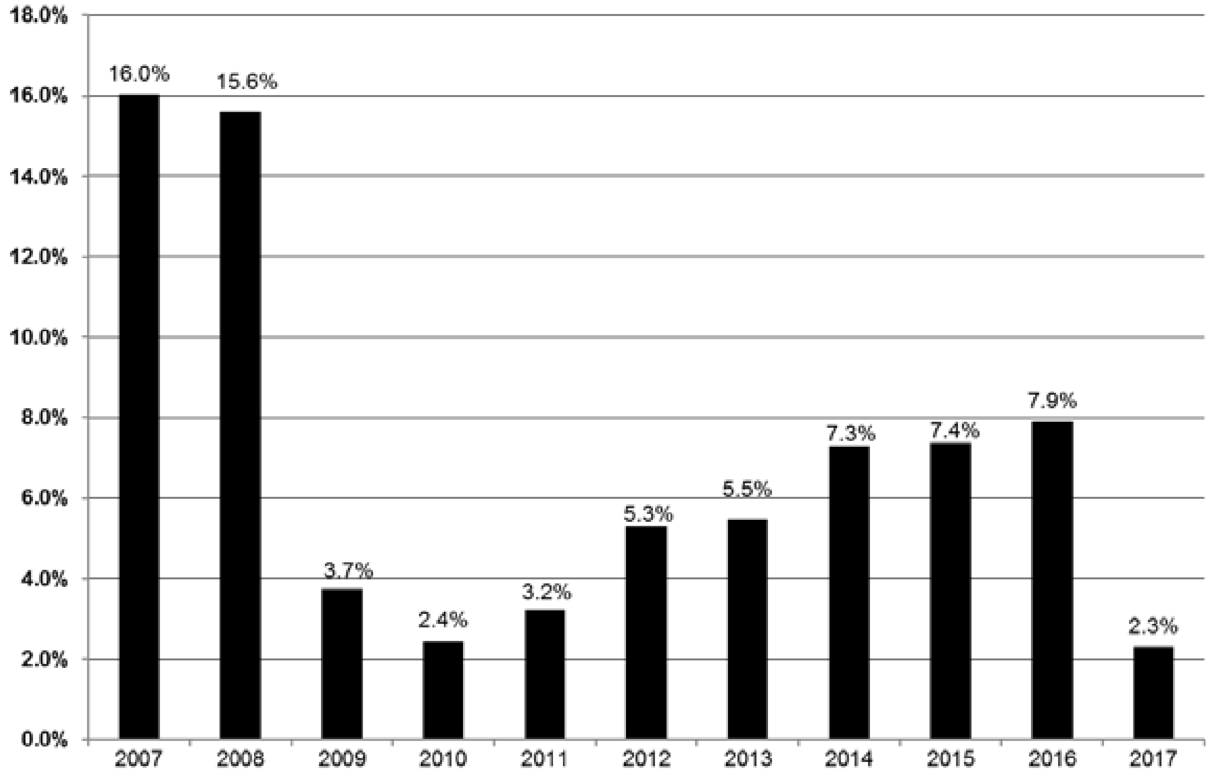
Table 17: Gross loan growth by district and Systemwide (dollars in millions)

	September 30, 2016		September 30, 2017		Change in Dollars	Percent Change
	Gross Loans	Percent Total	Gross Loans	Percent Total		
AgFirst	$27,185	11.2	$28,214	11.2	$1,029	3.8
AgriBank	97,746	40.4	100,692	40.1	2,946	3.0
Texas	22,121	9.1	23,237	9.3	1,116	5.0
CoBank	100,047	41.3	104,262	41.5	4,215	4.2
Insurance Fund and Intra-System Eliminations	(4,975)	(2.0)	(5,243)	(2.1)	(268)	5.4
Total for System	**$242,124**	**100.0**	**$251,162**	**100.0**	**$9,038**	**3.7**

Source: Third Quarter 2016 Quarterly Information Statement of the Farm Credit System, p. F-54; and Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, p. F-54.

As noted in figure 4 below, the System's total assets increased by 2.3 percent during the 12-month period ended September 30, 2017. This was the lowest percentage increase in the past 10 years and notably lower than the previous 3-year period.

Figure 4: Percent change in System assets, September 2007 to September 2017



Source: FCS Quarterly Information Statements.

Table data for figure 4

Year	Percent Change in System Assets
2007	16.0
2008	15.6
2009	3.7
2010	2.4
2011	3.2
2012	5.3
2013	5.5
2014	7.3
2015	7.4
2016	7.9
2017	2.3

Assets — Investments

As of September 30, 2017, the System's investments totaled $58.1 billion, down 0.7 percent from a year earlier. As shown in table 18, investments available for sale totaled $55.4 billion, including $0.3 billion for mission-related investments. Investments held to maturity were $2.7 billion, including $2.2 billion for mission-related mortgage-backed securities. The System increased its holdings of money market instruments, U.S. Treasury securities, and mortgage-backed securities while reducing holdings of U.S. agency securities and other asset-backed securities.

During the most recent 12-month period, the yield on investments available for sale increased from 1.39 percent to 1.78 percent with yields increasing on all available-for-sale segments. For investments held to maturity, the yield increased from 3.09 percent to 3.33 percent mainly because of an increase in the yield for mission-related mortgage-backed securities.

Ineligible investments held by the System at September 30, 2017, equaled $0.5 billion at fair value, unchanged from the prior year.

Table 18: FCS investments (dollars in millions)

		September 30, 2016		September 30, 2017		Change		
						Amount		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
Available for sale (fair value)	Money market instruments	$5,696	0.90	$5,921	1.40	$225	4.0	50
	U.S. Treasury securities	16,150	1.15	16,265	1.48	115	0.7	33
	U.S. agency securities	5,565	1.59	3,718	2.03	(1,847)	(33.2)	44
	Mortgage-backed securities	25,559	1.60	27,140	2.00	1,581	6.2	40
	Other asset-backed securities	2,595	1.20	2,020	1.68	(575)	(22.2)	48
	Mission-related investments	384	2.77	332	3.14	(52)	(13.5)	37
	Total	**$55,949**	**1.39**	**$55,396**	**1.78**	**($553)**	**(1.0)**	**39**
Held-to-maturity mission-related and other investments (amortized cost)	Mortgage-backed securities	2,044	3.07	$2,249	3.32	205	10.0	25
	Asset-backed securities	373	2.11	336	2.57	(37)	(9.9)	46
	Other securities	145	5.96	108	5.93	(37)	(25.5)	−3
	Total	**$2,562**	**3.09**	**$2,693**	**3.33**	**$131**	**5.1**	**24**

Source: Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, pp. F-10–12; and Third Quarter 2016 Quarterly Information Statement of the Farm Credit System, pp. F-9–12.

WAY = weighted average yield; bps = basis points

Loan quality

In its November forecast, USDA projects net cash farm income to increase $3.7 billion or 3.9 percent for 2017, breaking a streak of three consecutive down years. Although up moderately from 2016, net cash farm income is still down 28 percent from its peak in 2013.

Cash grain prices are expected to remain at the current low levels as record corn yields and high global soybean production will add to the existing plentiful ending stock inventories. Consequently, margins for many cash grain producers will remain at or below breakeven levels, further eroding farm balance sheets and repayment capacity.

In contrast, margins for dairy, poultry and most livestock sectors have been positive in 2017, helped by favorable pricing due to strong domestic and export demand, and continued low feed costs. Global competition, the strength of the U.S. dollar, and matching production increases to demand levels will be fundamental to producer profitability in 2018.

As anticipated, the Federal Reserve continued to raise its key policy rate in 2017. In response to improving economic and labor market conditions, the Federal Reserve increased the federal funds rate by 25 basis points 3 times, to a target range of 1.25 to 1.50 percent. Higher interest rates will mean borrowing costs for farmers for real estate, equipment, and other production inputs will increase, putting additional pressure on profit margins. The combination of low cash grain prices and rising interest rates also had a negative effect on farmland values as prices continued to soften in some key producing regions in 2017.

Credit quality in the System's loan portfolio remained steady in 2017. As of September 30, 2017, nonperforming assets equaled $2.099 billion (0.84 percent of total loans), essentially unchanged from $2.056 billion (0.85 percent of total loans) at September 30, 2016.

In the first nine months of 2017, net charge-offs for the System increased slightly to $21 million from $20 million for the same period one year ago. Net charge-offs for the first nine months of 2017 equaled just 0.01 percent of average loans outstanding, unchanged for the comparable period in 2016. The allowance for loan losses increased to $1.610 billion in the first nine months of 2017, up 11 percent from the same period of 2016. The allowance for loan losses as a percentage of total loans, nonperforming loans, and nonaccrual loans rose slightly from 2016 to 2017. See table 19.

Table 19: FCS loan quality

Loan Quality	September 30, 2016	September 30, 2017	Change in Percentage Points
Nonperforming assets as percentage of total loans and other property owned	0.85%	0.84%	−0.01
Nonperforming assets as percentage of capital	3.92%	3.78%	−0.14
Nonaccrual loans as percentage of total loans	0.65%	0.68%	0.03
ALL as percentage of total loans	0.60%	0.64%	0.04
ALL as percentage of nonperforming loans	73.80%	79.10%	5.30
ALL as percentage of nonaccrual loans	92.60%	94.70%	2.10

Source: FCS Quarterly Information Statements.

ALL = allowance for loan losses.

Liabilities, funding, and liquidity

For the year ended September 30, 2017, the System's total liabilities increased by 1.6 percent to $266.1 billion. See table 20 below. Short-term debt securities (due within one year) decreased 3.1 percent to $101.1 billion, while Systemwide debt securities due after one year increased 6.1 percent to $156.8 billion. Short-term debt securities represented 38.0 percent of the total Systemwide liabilities at September 30, 2017, down from 39.8 percent a year earlier.

Table 20: Systemwide debt (dollars in millions)

	September 30, 2016	September 30, 2017	Change	
			Dollars	Percent
Systemwide discount notes due within one year	$32,911	$25,430	($7,481)	(22.7%)
Systemwide bonds, medium-term notes, and master notes due within one year	71,366	75,641	4,275	6.0%
Total short-term liabilities	**$104,277**	**$101,071**	**($3,206)**	**(3.1%)**
Systemwide bonds, medium-term notes, and master notes due after one year	147,715	156,780	9,065	6.1%
Other liabilities	9,978	8,235	(1,743)	(17.5%)
Total liabilities	**$261,970**	**$266,086**	**$4,116**	**1.6%**

Source: FCS Quarterly Information Statements.

Liquidity risk management is necessary for the Farm Credit System to ensure its ability to meet its financial obligations. These obligations include the repayment of Systemwide debt securities as they mature, the ability to fund new and existing loans, and the ability to fund operations in a cost-effective manner. The System's liquidity position decreased slightly from 177 days as of September 30, 2016, to 172 days as of September 30, 2017. Each bank has maintained the three tiers of the liquidity reserve[8] and exceeded the regulatory minimum of 90 days of liquidity.[9]

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[8] The first tier of the liquidity reserve must consist of enough cash and cash-like instruments to cover each bank's financial obligations for 15 days. The second tier must contain enough cash and highly liquid instruments to cover a bank's obligations for the next 15 days, and the third tier of the liquidity reserve must contain enough cash and highly liquid instruments to cover a bank's obligations for the next 60 days.

[9] The regulatory liquidity standard requires each FCS bank to maintain a minimum of 90 days of liquidity on a continuous basis. The number of days of liquidity is calculated by comparing the principal portion of a given bank's

The aggregate duration gap for the FCS (the sum of the banks' duration gaps) was a positive 4.2 months compared with a positive 3.9 months a year earlier, which means the System's exposure to interest rate risk was up slightly as of September 30, 2017.[10] A duration gap of a positive six months to a negative six months generally indicates a small exposure to interest rate risk. An institution's overall exposure to interest rate risk is a function not only of its duration gap but also of the financial leverage of its capital position.

Capital

The System continued to build capital in 2017 through net income earned and retained, which was partially offset by cash distributions to stockholders. System capital amounted to $55.5 billion as of September 30, 2017, a 5.9 percent increase from a year earlier (refer to table 21). Most of the $3.1 billion increase in capital came from net income earned and retained, substantially offset by the re-characterization of retained earnings to additional paid-in-capital related to association mergers.

Retained earnings still account for the overwhelming majority of capital, at 78.5 percent as of September 30, 2017, down from 82.0 percent as of September 30, 2016. The System's overall capital-to-assets ratio increased from 16.7 percent to 17.3 percent over this 12-month period primarily because of earnings retained.

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maturing Systemwide debt securities, as well as its other borrowing, with the total amount of the bank's cash, cash equivalents, and investments. For the purpose of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale.

[10] The "duration gap" is the difference between the estimated duration of assets and the estimated duration of liabilities, measured in months. Duration is the weighted average maturity of cash flows, weighted by the present value of this cash flow. It is a useful way to estimate the direction and size of changes in the value of a financial instrument when market interest rates experience small changes. When the duration gap is small, changing market interest rates pose less interest rate risk than when the gap is large.

Table 21: FCS capital composition (dollars in millions)

	September 30, 2016	September 30, 2017	Change	
			Dollars	Percent
Preferred stock	$3,147	$3,085	($62)	(2.0%)
Capital stock and participation certificates	1,773	1,857	84	4.7%
Additional paid-in capital	1,385	3,642	2,257	163.0%
Restricted capital (Insurance Fund)	4,343	4,748	405	9.3%
Accumulated other comprehensive income (loss)	(1,226)	(1,390)	(164)	13.4%
Retained earnings	42,969	43,563	594	1.4%
Total capital	**$52,391**	**$55,505**	**$3,114**	**5.9%**

Source: FCS Quarterly Information Statements.

As of September 30, 2017, all System institutions complied with FCA's new regulatory minimum capital requirements:

- a common equity tier 1 capital (CET1) ratio of 4.5 percent of risk-adjusted assets,
- a tier 1 capital ratio of 6.0 percent of risk-adjusted assets,
- a total capital ratio of 8.0 percent of risk-adjusted assets,
- a tier 1 leverage ratio of 4.0 percent of total assets, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents, and
- a permanent capital ratio of at least 7.0 percent of risk-adjusted assets.

The new regulatory capital framework also establishes a capital cushion (capital conservation buffer) of 2.5 percent above the CET1 ratio, tier 1 capital ratio, and total capital ratio requirements. A leverage capital buffer of 1.0 percent above the tier 1 leverage ratio requirements was also established. If capital ratios fall below these buffer thresholds, capital distributions and certain discretionary compensation payments are restricted or prohibited without prior FCA approval. Included in the regulations is a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. Table 22 shows that all banks are capitalized in excess of regulatory requirements.

For associations, the CET1 and tier 1 capital ratios ranged from 12.5 percent to 38.5 percent, the total capital ratio ranged from 13.3 percent to 39.4 percent, the tier 1 leverage ratio ranged from 11.0 percent to 33.7 percent, and the URE and URE equivalents leverage ratio ranged from 7.9 percent to 34.4 percent.

Table 22: Regulatory capital ratios of FCS banks

		AgFirst	AgriBank	Texas	CoBank
Common equity tier 1	9/30/2017	21.1	18.3	10.4	11.8
Tier 1 capital	9/30/2017	21.6	19.2	16.5	14.1
Total capital	9/30/2017	21.7	19.2	16.6	15.4
Tier 1 leverage	9/30/2017	7.5	5.7	7.3	7.3
URE and URE equivalents leverage	9/30/2017	6.6	3.2	3.0	3.0
Permanent capital ratio	9/30/2016	20.9	20.4	17.1	15.6
	9/30/2017	21.6	19.2	16.5	14.4
	Change	0.7	−1.2	−0.6	−1.2

Source: FCA Consolidated Reporting System.

Note: Effective January 1, 2017, new regulatory capital requirements for System banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with common equity tier 1, tier 1 capital, and total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a tier 1 leverage ratio and a URE and URE equivalents leverage ratio.

Young, Beginning, and Small Farmers and Ranchers

Congress has mandated that the Farm Credit System serve the credit and related service needs of young, beginning, and small (YBS) farmers and ranchers by directing System associations to set up YBS programs and by requiring the banks to issue annual reports on their associations' programs. To ensure that the System fulfills this responsibility, FCA issued a final rule in 2004 that

- amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;
- allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages associations to establish advisory committees composed of YBS farmers;
- requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over its YBS program; and
- requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

Our examiners review the policies and programs of the institutions to ensure that the institutions are complying with the YBS regulations.

In addition, we continue to consider regulatory options to support YBS programs. In August 2007, we issued a bookletter that interprets the phrase "sound and constructive credit" for a subset of part-time YBS farmers. In October 2012, we issued a bookletter to the System that provides guidance on how associations can meet the credit and related services needs of farmers who market their agricultural products through local and regional food systems. Because of their age, farming experience, or the size of their operations, many local food farmers will qualify as YBS farmers under section 4.19 of the Farm Credit Act, as well as under FCA regulation 12 CFR 614.4165.

In November 2014, we issued an informational memorandum to System institutions explaining how they can increase their outreach and service to YBS farmers by coordinating with USDA Farm Service Agency loan programs. The guidance we provide helps ensure that System institutions make full use of their authorities to help YBS farmers begin farming, expand their operations, and remain in agricultural or aquaculture production.

The information that follows shows YBS results for calendar year 2016. We are currently collecting information for 2017, and we expect this information to be available after May 2018. A summary of the System's YBS program results is also available on our website at www.fca.gov.

Tables 23 and 24 provide the YBS results for calendar year 2016. Loans to YBS producers include real estate loans and short- and intermediate-term loans. The information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not an accurate measure of the System's YBS lending activity.

In 2016, the pace of new lending to YBS farmers remained similar to 2015 levels. In terms of dollar volume, the pace of YBS lending slightly exceeded the pace of overall farm lending by Farm Credit System institutions. In terms of loan numbers, the pace of YBS lending lagged slightly behind the pace of overall farm lending.[11]

From 2015 to 2016, the dollar volume of new loans made to small farmers rose 3.3 percent, while the dollar volume of new loans to young and beginning farmers declined by 1.9 percent and 0.3 percent, respectively. However, since the dollar volume of the Farm Credit System's overall farm lending declined by 5.4 percent in 2016, the proportion of the System's dollar volume going to every YBS category increased slightly.

On the other hand, all three YBS categories experienced slight declines in the number of loans made in 2016. The number of loans to young farmers declined by 0.2 percent, to beginning farmers by 0.6 percent, and to small farmers by 0.2 percent. By contrast, the System's overall number of new farm loans grew by 0.5 percent.

For loans outstanding, the dollar volume increased in all three categories. Loan volume to young farmers increased by 2.6 percent, to beginning farmers by 3.2 percent, and to small farmers by 2.1 percent. The System's overall farm loan volume grew by 2.8 percent.

The number of YBS loans outstanding presented mixed results. The number of loans outstanding to young farmers grew by 1.2 percent and to beginning farmers by 1.5 percent, while

[11] Loans and commitments to YBS farmers include real estate mortgages, production and intermediate-term loans, loans to processing and marketing operations, and leases. These loan types are what we call "farm lending" in this analysis; they are a subset of total Farm Credit System lending. These loans and commitments do not include rural home loans, cooperative loans, and leases made by the Leasing Corporation.

the System's overall number of farm loans grew by only 0.1 percent. However, the number of loans outstanding to small farmers decreased by 0.1 percent.

The following information summarizes lending activity for the three separate YBS categories.

Young — The System made 62,000 loans, totaling $9.2 billion, to young farmers (those who are 35 years old or younger) in 2016. The loans made to young farmers in 2016 represented 17.0 percent of all farm loans made during the year and 11.7 percent of the dollar volume of loans made. At the end of 2016, the System had 190,995 loans outstanding to young farmers, totaling $27.8 billion.

Beginning — The System made 79,166 loans, totaling $12.7 billion, to beginning farmers (those who have been farming for 10 years or less) in 2016. The loans made to beginning farmers in 2016 represented 21.7 percent of all farm loans made during the year and 16.0 percent of the dollar volume of loans made. At the end of 2016, the System had 279,019 loans outstanding totaling $42.8 billion to beginning farmers.

Small — FCS institutions made 149,691 loans, totaling $12.2 billion, to small farmers (those with gross annual sales of less than $250,000) in 2016. The loans made in 2016 to farmers in this category represented 41.1 percent of all farm loans made during the year and 15.4 percent of the dollar volume of all farm loans made. At the end of 2016, the System had 501,874 loans outstanding totaling $47.7 billion to small farmers.

Table 23. YBS loans made during 2016 (as of December 31, 2016)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	62,000	17.0%	$9.2	11.7%	$149,143
Beginning	79,166	21.7%	$12.7	16.0%	$160,514
Small	149,691	41.1%	$12.2	15.4%	$81,545

Source: FCA 2016 Annual Report on the Farm Credit System.

Table 24. YBS loans outstanding (as of December 31, 2016)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	190,995	18.3%	$27.8	11.0%	$145,471
Beginning	279,019	26.7%	$42.8	17.0%	$153,457
Small	501,874	48.1%	$47.7	18.9%	$95,042

Source: FCA 2016 Annual Report on the Farm Credit System.

To help YBS farmers qualify for credit in 2016, FCS associations offered customized or YBS specific loan underwriting standards or made exceptions to their regular standards. For example, some associations used higher loan-to-appraised-value ratios or lower debt repayment capacity standards for YBS borrowers. More than a third of associations provided concessionary loan fees, and more than half offered lower interest rate programs for YBS borrowers.

Many associations partnered with state and federal programs to provide interest rate reductions, guarantees, or loan participations for YBS borrowers. About 70 percent of associations indicated they had used government loan guarantee programs, primarily those of the USDA Farm Service Agency, to increase their service to YBS farmers. This percentage was little changed from 2015. These guarantees reduce the risk associations face when lending to individuals who cannot otherwise meet underwriting standards.

In addition, FCS institutions are using various approaches and sources of information to improve their YBS performance and outreach. Many System associations continued to use YBS advisory committees to provide input on credit and related services to best serve the needs of YBS farmers in their territories. The percentage of all associations using advisory committees went up from 40 percent in 2015 to 50 percent in 2016. Advisory committees are composed of a variety of stakeholders, both internal and external. In 2016, advisory committees provided valuable input that improved outreach efforts and services for YBS farmers; for example, some committees recommended additional loan programs and more educational efforts.

To further improve performance, most FCS institutions have YBS training for their staff at least annually. In addition, associations continue to link YBS performance criteria to the performance evaluations of management and lending staff.

Finally, associations employed a range of outreach measures to reach potential YBS farmers. Associations foster early relationships by partnering with state or national young farmer groups, colleges, land-grant extension offices, state or national leadership programs, local chapters of 4-H and national FFA, Ag in the Classroom, and other agricultural organizations.

System institutions offer opportunities to educate existing and potential YBS borrowers. In 2016, they developed or maintained comprehensive educational or outreach programs, sponsored seminars delivered by third parties, and sponsored local organizations that deliver education and training. Associations provide these opportunities by using the expertise of their own staff, by coordinating with other associations, and by partnering with district banks.

YBS educational programs and trainings cover production and risk management, business management and record keeping, succession and estate planning, leadership development, and business startup. Also included in these outreach, training, and educational activities are local and regional YBS food producers and supporters of local food systems, as well as producers who are veterans and members of minority groups.

Market Share of Farm Debt

According to the U.S. Department of Agriculture's November 2017 forecast, total farm business debt is estimated to top $385 billion at the end of 2017, up 2.9 percent from a year earlier and up 29.5 percent since 2012. Commercial banks and the Farm Credit System are the primary suppliers of credit to farmers; other providers include life insurance companies, USDA programs, Farmer Mac, individuals, and merchants and dealers.

The System's share of the $374.2 billion farm business debt market at the end of calendar year 2016 was 40.9 percent, up from 40.6 percent at the end of 2015. The market share for commercial banks decreased — from 42.7 percent in 2015 to 42.1 percent in 2016. USDA estimates of the market shares of individual lender groups for year-end 2017 will not be available until August 2018.

Historically, except for the high credit stress period of the 1980s and various market adjustments in the 1990s, FCS institutions have typically held the largest share of the farm real estate debt market, while commercial banks have held the largest share of non–real-estate farm lending.

While there was substantial growth in the System's real estate lending in 2016, its share of farm business debt secured by farm real estate declined at year-end 2016 to 45.9 percent from 46.3 percent the previous year. The share of total farm real estate lending held by commercial banks also declined in 2016, from 37.9 percent at year-end 2015 to 37.4 percent at the end of 2016. The System has had the largest market share of farm business debt secured by farm real estate since 2001.

The System experienced more modest growth in non–real-estate farm debt in 2016, but its estimated market share rose from 32.6 percent at year-end 2015 to 33.3 percent at year-end 2016. Commercial banks continue to lead the non–real-estate-secured farm debt market with their market share holding steady in 2016 at 49.4 percent. Historically, commercial banks have had the greatest share of this debt segment.

Part IV

Performance Budget

Fiscal Year 2019

Performance Budget Overview

Our FY 2019 performance budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total performance budget (table 25) is $75.28 million and reflects a 2.8 percent increase from FY 2018.

Table 25. FCA performance budget, FYs 2017 – 2019

	FY 2017 Revised	FY 2018 Revised	FY 2019 Proposed
Policy and regulation	$14,686,881	$16,407,026	$16,473,803
Safety and soundness	54,166,033	55,313,531	57,088,858
Reimbursable activities*	1,547,086	1,479,443	1,717,339
Total	**$70,400,000**	**$73,200,000**	**$75,280,000**

* In contrast to the reimbursement numbers in table 4, these totals include indirect costs.

Policy and regulation

Our performance budget includes approximately $16.5 million for the policy and regulation program, a 0.4 percent increase from FY 2018. Most of the funds requested for policy and regulation in FY 2019 will support regulatory projects that were published in the Unified Agenda in the fall of 2017. Generally, we open about a dozen regulatory projects each year. Funds are also used to support other statutory and regulatory activities, including policy studies and market research; management of our Consolidated Reporting System; and approvals of corporate applications, System funding requests, and mission-related investment programs.

Safety and soundness

The performance budget includes approximately $57.1 million for the safety and soundness program, a 3.2 percent increase from FY 2018. This increase is necessary because we have reallocated examination resources from reimbursable activities to examination activities to meet System needs.

By statute, we are required to examine each FCS institution at least once every 18 months except Farmer Mac, which we must examine at least once a year. Examiners evaluate the overall condition and performance of these institutions and communicate the results to the boards of directors and management through discussions and reports of examination. The Financial

Institution Rating System ratings are evaluated and assigned to individual institutions at least quarterly. In addition, FY 2019 budgeted monies will support development of examination guidance and systemic risk oversight of the System, including Farmer Mac.

Reimbursable activities

The performance budget includes $1,717,339 for reimbursable activities. The reimbursable activities are summarized below and include indirect costs.

- **Farm Credit System Insurance Corporation (FCSIC)** — $919,043 for administrative support services to be provided under FCSIC contract. The administrative support services in FY 2019 include support for examination, information technology, human resources, and communication and public affairs, as well as assistance in completing one premium audit.
- **National Consumer Cooperative Bank (NCB)** — $305,633 for examining NCB. FY 2019 activities involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) assessments.
- **USDA** — $492,663 for potential work completed under contract with USDA. The work in FY 2019 will involve supporting USDA in its review of the Rural Business Investment Programs.

Table 26 summarizes the costs associated with our program activities, broken down by products and services.

Table 26. FY 2019 proposed budget and full-time equivalents for program activities

Program Activity	Products and Services	Budget Amount	FTEs
Policy and regulation	Regulation and policy development	14,567,314	49.66
	Statutory and regulatory approvals	1,906,489	6.38
	Total for policy and regulation	**$16,473,803**	**56.04**
Safety and soundness	Examination	50,782,337	221.76
	Economic, financial, and risk analysis	4,102,203	12.71
	FCS data management	2,204,318	7.17
	Total for safety and soundness	**$57,088,858**	**241.64**
Reimbursable activities	**Total for reimbursable activities**	**$1,717,339**	**8.31**
All program activities	**Total**	**$75,280,000**	**305.99**

Desired Outcomes for Strategic Goals

Our strategic goals and desired outcomes, which are detailed in table 27, help us measure whether we have achieved our public mission. The information that follows provides

- the strategies we use to accomplish the outcomes;
- the measures for each outcome, with targets that reflect our desired performance for FYs 2018 through 2019; and
- a historical summary of the costs of accomplishing the desired outcomes.

Table 27. Desired outcomes for strategic goals

Strategic Goal	Desired Outcome
1. Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action
3. Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.	A high-performing, diverse workforce that supports the mission of the agency

Policy and Regulation — We established the Policy and Regulation program to track the product and service costs of achieving a flexible regulatory environment. The products and services we provide to support this program are

- regulation and policy development, and
- statutory and regulatory approvals.

Safety and Soundness — We established the Safety and Soundness program to track the product and service costs of identifying risk and taking timely corrective action. The products and services we provide to support this program are

- examination;
- economic, financial, and risk analysis; and
- FCS data management.

High-performing, diverse workforce — Our third goal focuses on human capital. We recognize that to achieve our first two goals we must have a well-trained, motivated, and diverse workforce, and we must ensure that we have an effective plan for leadership succession.

Flexible regulatory environment

Strategies

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.

2. Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.

3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America. This includes innovative programs for serving the credit and related service needs of YBS farmers, ranchers, and producers and harvesters of aquatic products.

4. Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.

5. Encourage diversity on the boards and in the workforce of System institutions.

6. Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.

7. Encourage System institutions to be conscious of the reputation risk associated with their lending and investment decisions.

8. Promote public trust in FCA’s regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

9. Encourage full participation of stakeholders in the development and review of regulatory and policy proposals as appropriate.

Measuring the achievements

Table 28 shows the measures we will use to evaluate our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac in FYs 2018 and 2019.

Table 28. Flexible regulatory environment — Performance measures and achievements

Measure	FYs 2018 – 2019 Target
1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion.	≥90%
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations.	≥90%
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date.	Yes
6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (This measure considers all of the pre-rulemaking projects and proposed rules that were listed as completed on FCA's Unified Agenda Abstracts for the reporting period.)	100%

Budgets

Table 29 provides the budgeted amounts we need to achieve a flexible regulatory environment from FYs 2017 to 2019.

Table 29. Budgets to achieve a flexible regulatory environment

	FY 2017 Revised	FY 2018 Revised	FY 2019 Proposed
Regulation and policy development	$13,803,832	14,580,491	$14,567,314
Statutory and regulatory approvals	883,049	1,826,535	1,906,489
Total	**$14,686,881**	**$16,407,026**	**$16,473,803**

Note: The resources required to achieve a flexible regulatory environment will increase slightly in FY 2019 because of salary and benefit increases, training, information technology costs, and our regulatory initiatives.

Effective risk identification and timely corrective action

Strategies

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Seek early FCA board input on policy and regulatory issues. Ensure that the board has timely and comprehensive information to be fully informed and able to respond appropriately.

2. Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.

3. Continue proactive oversight of institution-specific and systemic risks.

4. Effectively remediate weakened institutions.

5. Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.

6. Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.

Measuring the achievements

Table 30 shows the measures we will use to evaluate our efforts to effectively identify risk and take timely corrective action in FYs 2018 and 2019.

Table 30. Effective risk identification and timely corrective action — Performance measures and achievements

Measure	FYs 2018 – 2019 Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥80%
3. Percentage of institutions complying with regulatory capital ratio requirements.	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.	Yes

Budgets

Table 31 provides the budgeted amounts we need to identify risk in the FCS and to take timely corrective action from FYs 2017 to 2019.

Table 31. Budgets to identify risk and take timely corrective action

	FY 2017 Revised	FY 2018 Revised	FY 2019 Proposed
Examination	$48,801,700	$49,313,471	$50,782,337
Economic, financial, and risk analysis	3,383,771	3,896,434	4,102,203
FCS data management	1,980,562	2,103,626	2,204,318
Total	**$54,166,033**	**$55,313,531**	**$57,088,858**

Note: The resources required to identify risk and take timely corrective action will increase in FY 2019 because of salary and benefit increases, training, and information technology costs.

High-performing, diverse workforce

Strategies

For goal 3, we are using the following strategies to maintain a high-performing, diverse workforce.

1. Maintain a highly skilled, motivated, and diverse workforce to meet FCA's current and future regulatory development, risk analysis, examination, and supervision needs.

2. Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.

3. Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm's length regulator.

4. Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms, and promotes strong ethical behavior.

Measuring the achievements

Table 32 shows the measures we will use to evaluate our efforts to maintain a high-performing, diverse workforce in FYs 2018 and 2019.

Table 32. High-performing and diverse workforce — Performance measures and achievements

Measure	FYs 2018 – 2019 Target
1. Whether, as part of our recruiting efforts for entry-level examiners, 25 percent of our outreach efforts target potential applicants who have a disability or are members of a minority group.	Yes
2. Whether we have maintained or improved our score from the previous year in the Annual Federal Employee Viewpoint Survey.	Yes

Performance Measurement and Reporting

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2016 to 2021. Our performance measurement system provides a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the agency-level measures are linked to our strategic goals.

Our chief executive officer, with assistance from our chief operating officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The chief executive officer monitors the agency's progress and results relative to the agency-level measures on a quarterly basis throughout each fiscal year. Periodic performance reports are provided to the FCA board. The year-end performance report is incorporated in the FCA Performance and Accountability Report, which is submitted to the president and Congress.

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
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www.fca.gov
0218/100