



*Farm Credit Administration
Strategic Plan*

Fiscal Years 2000-2005

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Mission

The Farm Credit Administration will promote a safe and sound, competitive Farm Credit System to finance agriculture and rural America as authorized by Congress.

LEGISLATIVE MANDATE

A healthy America requires a strong agriculture, and a strong agriculture requires a financially viable Farm Credit System (FCS or System). The Farm Credit Act of 1971, as amended (Farm Credit Act), states that Congress established the FCS because it believed that an effective credit delivery system dedicated to financing rural America would further the public interest. The FCS was established to:

- Ensure that an adequate supply of credit is available to all creditworthy producers and their cooperatives in both good times and bad.
- Provide reasonably priced credit to eligible borrowers by fostering and maintaining competitive markets in rural America.

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

FCA performs two basic functions to fulfill its mission:

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

Issuing Regulations and Implementing Public Policy: The FCA has statutory authority to establish regulations and policies and interpret the Farm Credit Act and other laws applicable to the FCS. We issue regulations and policy statements to ensure that the FCS complies with the law and operates in a safe and sound manner. While keeping the public and customers in mind, we place special emphasis on developing regulations using innovative customer-focused techniques. These include Direct Final Rulemaking, Negotiated Rulemaking, Streamlined Fast-track Rulemaking, Advanced Notice of Proposed Rulemaking, and other methods of gathering additional information from clients and customers. As the chartering authority for the FCS, we also review and take action

on corporate applications for mergers, consolidations, liquidation of System entities, and other corporate restructurings.

Identifying Risk and Taking Corrective Action: FCA has statutory authority to examine all FCS institutions, as well as the National Consumer Cooperative Bank, which is a non-System entity. As of September 1, 2000, the FCS was comprised of seven Farm Credit banks, 165 associations, the Federal Agricultural Mortgage Corporation (Farmer Mac), and six service organizations. We issue written examination reports that contain an evaluation of the overall condition and performance of these institutions. Our examination program is risk-based, concentrating resources on institutions with the greatest risk exposure. We continually identify, evaluate, and proactively address risks faced by the institutions we examine. If an institution violates statutes or regulations or operates in an unsafe or unsound manner, we have several supervisory options to bring about corrective action. We have authority to initiate an enforcement action against an FCS institution and its officers, directors, and employees. Enforcement actions include agreements, orders to cease and desist, civil money penalties, and orders of removal or prohibition. In addition to enforcement actions, we use a “special supervision” process that allows us to initiate proactive measures to correct problems before irreparable harm occurs in FCS institutions. This process is used in instances where the institution’s board and management are both willing and able to correct the problems that threaten the institution’s safety and soundness. The process allows the institution to correct identified weaknesses before more stringent enforcement actions by the Agency become necessary.

Agency personnel engage in a variety of activities that support these two basic functions. These include long-range planning and budgeting; providing pertinent information to the Administration, Congress, the FCS, and the public; legal counsel; economic and financial analyses; management of information and human resources and training; and administration of the performance, compensation, and benefits programs for FCA staff.

CONSTITUENCIES AND GUIDING PRINCIPLES

FCA’s constituencies are those who have an interest in, or are potentially affected by, Agency responsibilities and activities. These include the institutions we regulate and examine, individual borrowers/shareholders of the FCS, investors in System securities, the Farm Credit System Insurance Corporation, farmers and ranchers, the public, Congress, and the Administration.

Confidence in FCA promotes confidence in the FCS. Therefore, we must demonstrate sound and constructive rulemaking and supervision over the FCS. Through our actions, there must be no doubt that the FCA Board and management are effectively and efficiently carrying out the Agency’s mission.

In the furtherance of our mission, we will adhere to the following Guiding Principles:

- We will remain a fair and effective regulator that provides our constituencies with timely, accurate, and useful communications.

- We will continue to achieve a balance between costs imposed by the Agency and the benefits that accrue to our constituencies, but in no case will we compromise safety and soundness.
- We will continue to issue regulations that achieve safety and soundness while minimizing regulatory burden on System institutions.
- We will continue our commitment to improving efficiency, minimizing the cost burden on FCS borrowers, adding value in everything we do, and helping our customers meet the challenges and opportunities of the 21st century.
- We will continue to promote teamwork and a positive, productive, and family-friendly work environment.

Vision Statement and Strategic Goals and Objectives

VISION STATEMENT

FCA will ensure dependable credit for agriculture and rural America. As the premier regulator, the Agency will take its best people, best practices, and best products to new partners and expanded opportunities.

STRATEGIC GOALS AND OBJECTIVES

The FCA Board adopted a new vision statement during the past year which placed additional emphasis on building partnerships outside the Agency and exploring expanded opportunities related to enhanced credit for farmers, ranchers, and rural America. The FCA Board modified Goal 1 to reflect the increased importance of ensuring that FCS institutions meet their public mission and are able to serve the needs of an evolving customer base.

The Farm Credit System remains in a safe and sound financial condition, even though there has been deterioration in parts of the agricultural economy. However, given the dramatic changes occurring in the agricultural and financial sectors, we must continue to focus FCA's resources on ensuring sound, adequate, and constructive credit for agriculture and rural America. The FCA Board will continue to propose changes to deregulate the System and allow it to continue to meet the current and future credit needs of farmers, ranchers, and rural America.

Input that System institutions provided through public meetings and written communication has stressed the changing needs of their borrowers and the organizational structural changes necessary to meet their customers' demands. This information was used to make revisions in the Strategic Plan. We see the Strategic Plan as a living document and are constantly monitoring the outcomes to ensure that all FCA activities are closely tied to it.

Goal 1: Ensure the Farm Credit System fulfills its public mission to provide constructive, competitive and dependable credit and related services for agriculture and rural America.

- 1. Ensure System institutions fulfill their public mission by reaching out to all potential customers.*
- 2. Ensure quality customer service at lowest cost through healthy competition.*
- 3. Enable the System to serve evolving customer needs and compete in new agricultural and financial markets.*
- 4. Enable optimum utilization of Farmer Mac by the FCS and other agricultural and rural housing mortgage lenders for the benefit of agricultural producers and rural America.*

Goal 2: Supervise risk to ensure the safety and soundness of the Farm Credit System for the benefit of stakeholders.

1. *Enhance the value and effectiveness of risk-based examination, oversight, and correction of problems to ensure the safety and soundness of FCS institutions.*
2. *Develop regulatory guidance and examination procedures that address new ventures of System institutions, including such areas as E-Commerce activities.*
3. *Design examination programs to evaluate the progress by FCS institutions in fulfilling the System's public mission.*

Strategies to Achieve Goals and Objectives

The strategic goals reflect our focus for future action. We developed objectives for each goal to provide additional direction and guidance. Strategic initiatives further identify actions for the Agency during the next 5 years. Management assigns individuals and teams to accomplish the goals, objectives and initiatives. Office Directors link the Strategic Plan to shorter-term Operating and Performance Plans and their budget justifications supporting specific objectives and initiatives. Initiatives, all dynamic in nature, and the strategies to achieve them are adjusted to fit a changing environment.

Timely assignment of personnel, budgeting, and reporting are key ingredients of each initiative's success. We accomplish this through a formal planning, execution, and reporting calendar covering accountabilities for the plan under the direction of the Chief Executive Officer (CEO). The Agency's success is reported through the performance measures described in the section entitled *Relationship Between Strategic Goals and Objectives and the Annual Performance Goals*. Annually, we report to the public on these measures, our accomplishments and areas for improvement. An overview of our approach to achieve each goal and its objectives follows.

Goal 1: Ensure the Farm Credit System fulfills its public mission to provide constructive, competitive and dependable credit and related services for agriculture and rural America.

The System has a long history as a Government-Sponsored Enterprise (GSE) meeting its customer's needs. FCA continues to stress the public purpose and mission-related responsibilities of the FCS while ensuring constructive and dependable credit for agriculture and rural America. Challenges of financing agriculture in a safe and sound manner remain great with low commodity prices, increasing world competition, and continuing consolidation in agriculture. A few of the challenges facing the System are financing the needs of rural America, helping the next generation of farmers and ranchers, and improving producers' income through value-added agriculture. We will encourage the FCS to find and develop both public and private partnerships and alliances with other credit service providers to fulfill these strategies through new and existing programs.

Several of the more important initiatives to satisfy the objectives supporting this goal are to:

- Emphasize regulatory and supervisory activities related to young, beginning, and small farmers.
- Encourage the System to use guarantee programs and work with Federal and state agencies that offer such programs to streamline processes.
- Direct FCS institutions to include a discussion in annual reports of how their institutions are meeting their public mission.

- Facilitate cross-title charter changes and operating subsidiaries for FCS institutions.
- Enable the System to restructure itself to best serve its customers.
- Encourage FCS institutions to make efficient use of capital and balance safety and soundness in fulfilling their public mission.
- Revisit the regulatory definitions of full-time and part-time farmers to reflect current realities (redefine customer).
- Reduce regulatory burden, focusing especially on those issues that will reduce costs for the System.
- Continue to be responsive to FCS institutions on their customers' needs and market forces facing System institutions.

Goal 2: Supervise risk to ensure the safety and soundness of the Farm Credit System for the benefit of stakeholders.

FCA's examination and supervisory programs have been recognized for their high quality and effective results. This goal and its objectives focus on preserving the integrity of FCA's examination and supervisory programs by making improvements to address changing risks in System institutions. FCA will retain a well-trained, professional, experienced examination staff to maintain a strong safety/soundness perspective. We will stay abreast of changing market needs and customer forces.

Several of the more important initiatives to satisfy the objectives supporting this goal are to:

- Ensure FCS institutions establish and maintain underwriting standards commensurate to institution risk-bearing capacity and in accordance with sound lending practices.
- Ensure national charters are implemented with sound business planning while focusing FCS institutions on their obligation to make credit services available locally.
- Examine FCS loan programs to evaluate outreach efforts, including lending to young, beginning, and small farmers.
- Enhance the FCA Early Warning System (EWS) to identify existing and prospective risk in FCS institutions.

- Implement loan portfolio modeling capabilities into the EWS to enable the FCA to stress institution portfolios, financial conditions, and performance for the various risks emerging in their operating environments.
- Develop a process to study and evaluate the characteristics of risk and borrower profiles in the System.
- Adopt a risk-based capital regulation to ensure that Farmer Mac has sufficient capital to endure a worst-case credit and interest rate risk scenario.
- Seek alliances with regulators of other GSEs and other non bank lenders and/or guarantors of credit to commercial lenders for staff enrichment opportunities, cost reduction to the FCS, and to create other efficiencies. (Small Business Administration, Federal Home Loan Banks, Office of Federal Housing Enterprise Oversight, etc.)

Relationship Between Strategic Goals and Objectives and the Annual Performance Goals

The Strategic Plan was updated and revised in Fiscal Year (FY) 2000 to reflect the FCA Board's priorities. While the mission was unchanged, our vision statement and the way we will accomplish the mission were revised. These revisions will better serve our public during this period of rapid change in agriculture and the financial services industry. From FCA's mission, our two strategic goals continue to provide long-term direction to our employees. The results achieved by the Agency through the goals, objectives, and initiatives identified in the Strategic Plan are reported through an integrated performance measurement system. This system is based on two desired outcomes, or results, for the Agency's operations, which are closely linked to the Agency's strategic goals. Agency-level performance measures have been developed for each outcome. The 11 performance measures identified below are influenced by the initiatives associated with each goal. Many measures are also indirectly linked to initiatives in the goals and are influenced by this relationship as well. For instance, a regulation or policy-related initiative in Goal 1 will often relate to the safety and soundness of the FCS, which would affect measures listed under Goal 2.

In addition to the Agency-level measures, each FCA operating unit is developing performance measures for its functional responsibilities. These measures will be linked to the Agency-level measures and will be included in the staff's individual performance standards as appropriate. By linking the Agency's goals to performance measures and then linking those measures to staff performance standards, every employee in the Agency will be working toward achieving FCA's goals, objectives, and initiatives.

The Agency's performance measures are a balanced set of measures. That is, while achieving the desired outcome or goal is important, consideration must be given to the cost (inputs) and the accuracy and integrity of the products (outputs such as examination reports, regulations, etc.) used to achieve the outcome. Otherwise, the desired result may be obtained, but in a cost-prohibitive or, possibly, inappropriate manner. This balanced set of measures allows management to assess the totality of the Agency's operations and provides information to guide future strategic decisions.

The measures, along with the accompanying performance goals, are included in our Annual Performance Plan for FY 2001 and 2002. The following list shows the linkage between the Agency's goals and outcomes and highlights the measures developed to monitor FCA's performance.

We continuously seek ways to improve our performance measures. During the coming months, we will be focusing on measures for Goal 1. Specifically, we want to develop improved "outcome" measurement criteria so we can better evaluate the FCS's accomplishment of its congressionally-mandated public mission. Meanwhile, we are testing survey questions to help us

determine whether our regulations and policies are appropriate and the degree of acceptance they have with our primary customers. This testing will be done under measure 3 of Goal 1.

Goal 1: Ensure the Farm Credit System fulfills its public mission to provide constructive, competitive, and dependable credit and related services for agriculture and rural America.

Desired Outcome: Effective Regulation and Public Policy

Performance Measures to Be Employed:

1. The total number of regulation projects completed compared to the number of regulation projects in the Board-approved annual Regulatory Performance Plan (RPP).
2. Percentage of regulations completed that utilize “special” customer service focus or features.¹
3. Customer acceptance survey of recently adopted FCA regulations and policies through the average of ratings (1 to 5, with 1 being the highest rating) received on the following questions:
 - Did our rulemaking and policy activities recognize market forces and encourage innovation for System institutions?
 - Did we adequately involve the public to seek its perspective regarding our rulemaking activities?
 - Did our rulemaking and policy activities implement the Farm Credit Act without imposing unnecessary burden?

Goal 2: Supervise risk to ensure the safety and soundness of the Farm Credit System for the benefit of stakeholders.

Desired Outcome: Effective Risk Identification and Corrective Action

Performance Measures to Be Employed:

1. The number of direct-lender institutions with adversely classified assets to risk funds less than 100 percent divided by the total number of direct-lender institutions.
2. The total assets of direct-lender institutions with adversely classified assets to risk funds less than 100 percent divided by the total assets of direct-lender institutions.
3. The number of direct-lender institutions with adversely classified assets to risk funds greater than 100 percent with corrective action plans that mitigate the excessive risk.

¹ "Special" customer service focus or features include the following rulemaking techniques: Advance Notice of Proposed Rulemaking (ANPRM); Fast-Track or Streamlined Regulation Development Procedures; Direct Final Rulemaking; Reproposal or Resolicitation of Public Comments; Comment Period Extension; Question and Answer Format; and Information Meetings with Constituents.

4. The total assets of direct-lender institutions complying with all capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio) divided by the total assets of direct-lender institutions.
5. The 3-year average return on average assets (ROAA) of FCS institutions.
6. The 3-year average return on equity (ROE) of FCS institutions.
7. The percentage of examinations of FCS institutions meeting statutory examination frequency requirements.
8. Customer acceptance of FCA's examination and supervisory programs through the average of the ratings (1 to 5, with 1 being the highest rating) received on the following survey questions:
 - The board and management believe the findings of the examination will assist (or have assisted) the institution in correcting identified weaknesses.
 - The board and management believe the actions required by the enforcement document will assist (or have assisted) the institution in correcting identified weaknesses.

Key External Factors Affecting Achievement of Strategic Goals and Objectives

The Farm Credit Administration's Strategic Plan is based on an environmental assessment. Strategies to achieve goals and objectives rely, in part, on predictions and probabilities of the outcomes of certain events. These depend on a variety of factors, some of which are beyond the control of the Agency. Success will depend on the Agency's ability to control those factors that are within its power and to wisely manage around those that are not.

In developing this Strategic Plan, FCA staff identified a number of external factors that could significantly affect achievement of strategic goals and objectives because they could alter our underlying planning assumptions. Congress has passed laws and is considering legislation on a number of issues that could fundamentally change the nature of banking and the competitive landscape of the FCS. The latter include Farm Bill proposals and issues of industry concentration. These would affect both the customers and suppliers of credit to the agricultural sector. Likewise, shocks to the general economy and local economies, as well as major weather disruptions, could have important effects on the performance of the Farm Credit System and the work of the Agency. The key external factors that could alter the achievement of our strategic goals and objectives are:

- How quickly regulations implementing the Gramm-Leach-Bliley Act are completed and the financial community adapts makes the timeframe and nature of a changed farm lending landscape unclear.
- The nature of a 2002 Farm Bill is unclear. A new Farm Bill could further sever ties to traditional program crops and target other objectives, such as conservation, environment, limited resource farmers, and rural community assistance programs. The approach adopted could further change traditional government farm income assistance by altering government payments to many FCS customers.
- Bilateral and multilateral trade agreements hold promise for reducing trade barriers among countries; missed opportunities could mean far fewer export opportunities, less trade, and fewer opportunities for agricultural lenders.
- A major stock market decline could seriously erode consumer confidence, lead to a recession, reduce business earnings, and increase loan losses for lenders.
- Continued increases in interest rates could further squeeze profit margins of the FCS and threaten the viability of some institutions. Furthermore, interest rate risk assumed by borrowers through variable or indexed loans could translate into higher credit risk as rising rates squeeze borrowers' profits.

- Public concerns over food safety and the environment could lead to increased regulation of genetically modified products, resulting in higher production and marketing costs for farmers and the forced exit of some supply and processing firms.
- Eliminating GSE status or altering the advantages of GSE status could seriously erode the System's competitive position in rural credit markets, increasing cost to farmers and ranchers.
- Rapid growth of the Internet could alter regulatory policy and examination techniques.
- Weather shock—droughts and floods—can cause wide swings in commodity production and prices that are largely beyond the control of farmers and governments. The health of the agricultural sector and its lenders, including the FCS, is closely tied to the earth's climate and its resources.

Program Evaluations

The Agency's planning process relies on various sources of information, both internal and external, in developing its strategic goals and objectives. Some examples are staff studies on systemic risk issues, outreach programs with System institutions, and government reports on the agricultural economy. Processes are in place to produce reliable performance and cost data to support those measures used to set Agency performance goals and evaluate results. Several office-specific procedures exist, and more will be developed as needs are identified. The Inspector General issued a report in March 2000 on the implementation of performance measures and identifies opportunities to refine or extend existing performance measures.

These systems and the integrity of the underlying information are evaluated through self-assessments, audits by the Agency's Inspector General and external parties, such as the General Accounting Office, and the annual independent audit of FCA's financial statements.

The Agency applies internal controls to monitor its operations. Findings from all these assessments are considered in developing the goals and objectives of the FCA Strategic Plan. Office of Management and Budget guidance provides the criteria for periodic self-assessments of the Agency's systems for internal controls, financial management, information resources management, and budget control. Any significant weaknesses identified through this process are also factored into the strategic planning process.

FCA's Inspector General routinely evaluates programs within the Agency and reports his findings to management. The Agency's audit follow-up program effectively monitors management's actions in correcting any findings included in these reports to ensure that timely decisions are made and constructive action is taken to resolve audit issues. The Inspector General's Semiannual Report to the Congress keeps the Congress informed and provides a vehicle to elevate any systemic issues or disagreements that the Inspector General may have with management.

FCA Board Approval

FCA management and policy making are vested in a three-member board. Members of Senior Management are charged by the CEO to carry out the Board's mandate and implement programs as provided for in the Farm Credit Act and this Strategic Plan.

The FCA Board is committed to working with our employees and with our constituents to make this an effective Strategic Plan.

Michael M. Reyna
Chairman and Chief Executive Officer

Ann Jorgensen, Member