Farm Credit Administration

Fiscal Year 2021 Proposed Budget and Performance Plan

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List of Acronyms and Abbreviations

ACA	agricultural credit association
CAMELS	capital, assets, management, earnings, liquidity, and sensitivity
Farm Credit Act	Farm Credit Act of 1971, as amended
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
FCS or System	Farm Credit System
FCSIC	Farm Credit System Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FIRS	Financial Institution Rating System
FLCA	Federal Land Credit Association
FTE	full-time equivalent
FTP	full-time permanent
FY	fiscal year
Funding Corporation	Federal Farm Credit Banks Funding Corporation
GSE	government-sponsored enterprise
IT	information technology
NCB	National Consumer Cooperative Bank
OSMO	Office of Secondary Market Oversight
PCA	production credit association
RBC	risk-based capital
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 regulating and examining 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 we examine System institutions for compliance with the act and regulations, and with safe and sound banking practices. 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.

This document presents and justifies our proposed budget for fiscal year 2021 (Part I). It discusses our functions and program activities (Part II) and presents an overview of the financial condition of the FCS and Farmer Mac (Part III). Also included is the fiscal year 2021 performance budget, which ties proposed expenditures to the goals and objectives in our strategic plan (Part IV).

[1] Although Farmer Mac is an FCS institution under the Farm Credit Act (12 U.S.C. 2279aa-1(a)(2)), we often discuss Farmer Mac separately from the other entities of the FCS because of the secondary market authorities unique to Farmer Mac. Therefore, when we refer to FCS or System institutions without specifically including Farmer Mac, Farmer Mac should be considered excluded in that context. Farmer Mac is not jointly and severally liable on debt issuances with other parts of the System.

Part I

Fiscal Year 2021

Proposed Budget

Fiscal Year 2021 Budget Overview

Our FY 2021 proposed budget request, as shown in table 1, includes $80.4 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 $610,000 to this amount, bringing our total proposed FCA budget request to $81.01 million.

Table 1. Farm Credit Administration FY 2021 proposed budget

Description	Amount proposed	Percentage of total budget
Full-time-permanent personnel (FTP)	$47,929,664	59.2
Other than FTP	1,290,041	1.6
Other personnel compensation	419,031	0.5
Total personnel compensation	**$49,638,736**	**61.3**
Personnel benefits	20,419,093	25.2
Benefits for former personnel	25,000	0.0
Total compensation and benefits	**$ 70,082,829**	**86.5**
Travel and transportation of persons	3,256,988	4.0
Transportation of things	84,369	0.1
Rent, communications, and utilities	885,464	1.1
Printing and reproduction	128,280	0.1
Consulting and other services	4,935,140	6.1
Supplies and materials	1,099,230	1.4
Equipment	537,700	0.7
Total budget	**$ 81,010,000**	**100.0**

Note: Obligations for administrative expenses in FY 2021 are not to exceed the amount collected in assessments (current and prior year) from the FCS and Farmer Mac ($80,400,000). The total budget includes an additional $610,000 from anticipated reimbursable activity.

The FY 2021 proposed budget of $81.01 million increased by $3.38 million over the FY 2020 revised budget of $77.63 million. The FY 2020 revised budget includes additional funding for the increase in agency contributions for retirements.

We have leveraged technology and continually emphasized savings and efficiencies in operations to keep our costs reasonable. As a result, we are able to present a prudent, cost-effective budget.

The budget provides resources for three general purposes:

- To support the System's mission as a dependable source of credit and related services for agriculture and rural America
- To develop regulations and policy positions that implement statutes
- To promote the safety and soundness of the FCS

The FY 2021 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 and Farmer Mac. The environment in which the FCS operates is dynamic and increasingly complex.

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 31.

In the FY 2021 proposed budget, the full-time-equivalent (FTE) staffing level increases slightly. The FY 2021 budget anticipates increases in spending for salaries and benefits because of career-ladder promotions, benefit increases, career progressions, FTE increases, and funded leave.

As an agency covered by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989, we must also strive to achieve comparability in compensation and benefit programs with other agencies covered under the act. Therefore, the budget includes a significant investment in strategic and tactical human capital initiatives.

We undertook a strategic human capital planning initiative in FY 2020 to enhance evidence-based solutions that leverage our strengths and address our organizational challenges. With approximately 41% of our workforce eligible to retire within the next five years, we continue investing in programs to sustain an engaged, results-oriented agency culture. These programs emphasize the importance of technical expertise, collaboration, and performance excellence.

Knowledge transfer is particularly important to us. We provide developmental opportunities for supervisors and managers to enhance their leadership skills. We are working to ensure we have the right people in the right places working on the right things in the right ways. We are enhancing our onboarding experience for new hires to deepen organizational commitment and foster a sense of belonging early in their careers. We are continuously updating our technical training to leverage technology and improve our processes. Our budget supports our continued investment in our employees and maintains compensation comparability with the other FIRREA agencies.

The FY 2021 budget is also necessary to meet our agency's IT needs. The Office of Information Technology anticipates an increase in costs for cybersecurity enhancements, data efficiencies, application development, and infrastructure maintenance.

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 agencywide IT systems.

The chief information officer may reprioritize IRM initiatives 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

Initiative	Regulation and policy	Safety and soundness	Staff development	Distributed
Mission tools and approach		X		
Data management				X
Development operations/process automation				X
Technology platforms				X
Information security and compliance	X			
Office of Information Technology management			X	
Customer support				X

Budget approach

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. We expect mergers and consolidations to continue. Because of challenges in the global economy, we expect the System's asset base to grow at only a moderate pace. Currently, the average asset base of System associations 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 administering the agency's policy and regulation program. This 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 communication of the agency's position on issues, and training and development for staff. In total, policy and regulation activities account for approximately $17.0 million, including 56.44 FTEs, in the proposed FY 2021 budget (see table 28 on page 68).

The safety and soundness program

The budget provides resources for administering the agency's safety and soundness program. 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. Activities include developing risk topics, examining institutions on-site, and testing the institutions' credit reviews, internal audits, and internal controls.

A few FCS institutions require heightened supervision and enforcement actions to help them address weaknesses or risks we have identified. Currently, examiners are noting conditions that reflect the weaknesses in the agricultural economy and commodity markets. Examiners work with FCS institutions to ensure these and other risks are recognized and mitigated in a timely manner.

In total, safety and soundness activities account for $62.5 million, including 261.11 FTEs, in the proposed FY 2021 budget (see table 28 on page 68).

Office of Inspector General's FY 2021 budget request

In accordance with section 6(g)(1) of the Inspector General Act of 1978, as amended (IG Act), FCA's Office of Inspector General (OIG) has provided the agency with the following information:

- OIG's total budget request: $1,964,094
- OIG's training budget: $24,000
- OIG's support for the Council of the Inspectors General on Integrity and Efficiency: $5,900

By including this information in our budget request to the president, the FCA board has fulfilled the requirement in section 6(g)(2) of the IG Act.

Budget Trends

This budget supports the agency's policy and regulation program and its safety and soundness program. It maintains our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. The FY 2021 budget is necessary to continue to fund employee salary and benefit costs, which represent approximately 87% of our budget.

Over the past two years our annual budget requests increased on average by 3.7%. The most recent increase is 4.4%.

We will use the FY 2021 budget increase to meet the following goals:

- To cover salaries, benefits, and training associated with new hires
- To provide career ladder promotions
- To provide pay increases, which helps us maintain comparability in employee compensation with other bank regulators, as required by the Financial Institution Reform, Recovery, and Enforcement Act of 1981
- To support IT security enhancements, application development, data efficiencies, and IT maintenance and equipment.

Overall costs have remained relatively stable over the past three years. However, consulting and other services have fluctuated because of changes in expenses related to security, data analytics, and examiner training; because of temporary gaps in staffing; and because the CEO and COO have controlled growth in IT investments. See table 3 for information on FCA budget trends.

Table 3. FCA budgets, FYs 2019 – 2021

	FY 2019 revised budget	FY 2020 revised budget	FY 2021 proposed budget
Full-time permanent (FTP)	$45,425,619	$46,636,410	$47,929,664
Other than FTP	1,266,384	1,248,630	1,290,041
Other personnel compensation	410,429	404,760	419,031
Total personnel compensation	**$47,102,432**	**$48,289,800**	**$49,638,736**
Personnel benefits	17,706,144	19,532,246	20,419,093
Benefits for former personnel	25,000	25,000	25,000
Total compensation and benefits	**$64,833,576**	**$67,847,046**	**$70,082,829**
Travel and transportation of persons	3,163,144	3,259,722	3,256,988
Transportation of things	101,040	110,025	84,369
Rent, communications, and utilities	844,810	861,360	885,464
Printing and reproduction	183,252	138,150	128,280
Consulting and other services	4,784,633	3,912,903	4,935,140
Supplies and materials	884,145	1,018,094	1,099,230
Equipment	565,400	482,700	537,700
Total budget	**$75,360,000**	**$77,630,000**	**$81,010,000**

We continue our efforts to reduce costs, leverage technology, and increase efficiencies. In table 4, we list some of the more notable ways we've improved operations and increased efficiency.

Table 4. FCA actions and resulting impact

Action	Resulting impact
Scrutinized issuance of information technology devices and specialized software	Provided cost efficiencies by only purchasing items that meet agency business needs
Improved the Enterprise Documentation Guidance (EDGe) system	Improved workflow and efficiencies
Piloted virtual desktop review of loans to allow exam teams to conduct loan reviews from agency offices	Reduced travel costs and improved efficiency
Increased reliance on FCS Loan Database to conduct analytics	Strengthened focus on safety and soundness activities, and increased effectiveness and operational efficiency
Ensured service provider costs were well managed	Increased cost effectiveness
Expanded use of electronic communications (e.g., made email more efficient by establishing secure connections with business partners and stakeholders)	Reduced printing costs and supported environmental sustainability initiatives
Implemented and improved audio- and videoconferencing and standardized the equipment issued to staff	Reduced travel costs, supported telecommuting initiatives, and maintained continuity of operations
Allowed use of penalty fares on travel and educated travelers about the most cost-effective fares (e.g., capacity-controlled fares)	Continued to improve travel cost management
Reviewed monthly smartphone and wireless device usage	Reduced costs by ensuring devices are being properly utilized
Expanded use of online research and electronic materials for training	Reduced printing costs and impact on environment
Continued collaboration and resource sharing across FCA offices	Improved efficiencies

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 5 shows budgeted sources of revenue and funding for FYs 2019 to 2021.

Table 5. Budgeted sources of FCA revenue and funding, FYs 2019 – 2021

Source	FY 2019 revised budget	FY 2020 revised budget	FY 2021 proposed budget
ASSESSMENTS			
Banks, associations, and related entities	$69,950,000	$73,100,000	TBD
Federal Agricultural Mortgage Corporation	2,750,000	2,900,000	TBD
Carryover funds[a]	1,900,000	1,000,000	TBD
Assessments available for obligation	**$74,600,000**	**$77,000,000**	**$80,400,000**[b]
REIMBURSEMENTS[c]			
National Consumer Cooperative Bank	117,033	120,210	61,272
Farm Credit System Insurance Corporation	412,800	345,059	347,078
U.S. Department of Agriculture	230,167	164,731	201,650
Total	**$75,360,000**	**$77,630,000**	**$81,010,000**

a. Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation. We will determine assessments and carryover amounts for FY 2021 in September of FY 2020.

b. Each year Congress limits the amount of assessments that we may use to pay for administrative expenses. For FY 2021, we propose a limit of $80.4 million.

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

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 2019, the reserve totaled $13.95 million.

Assessments

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. Table 6 shows assessments for FYs 2011 through 2020. 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 2020 budget, we used $1.0 million of carryover and increased assessments by $3.3 million.

Table 6. FCS assessments, FYs 2011 – 2020

Fiscal year	Assessment (in millions)
2011	$52.5
2012	$54.1
2013	$50.0
2014	$50.0
2015	$51.5[a]
2016	$58.3
2017	$66.8[b]
2018	$68.2[b]
2019	$72.7
2020	$76.0

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

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

In FY 2019, we assessed the System $72.7 million and ended the year with $1.3 million in reimbursable revenue and deobligations (see table 7). During the year, we had obligations of $74.7 million. The difference between our obligations and funding was −$0.7 million, which represents the decrease to carryover.

Table 7. FCA funding, obligations, and assessment carryover, FYs 2018 and 2019 (in millions)

	FY 2018	FY 2019
Current-year assessments	$68.2	$72.7
Reimbursable revenue and deobligations	$1.6	$1.3
Total funding	**$69.8**	**$74.0**
Obligations	$69.6	$74.7
Total funding minus obligations	**$0.2**	**−$0.70**
Assessment carryover from prior years	$1.7	$1.9
Carryover from assessments at end of fiscal year	**$1.9**	**$1.2**

FCS borrower costs

FCS borrower costs are based on the relationship between the System's total assessments and assets held (not including Farmer Mac). The FCS held $354.0 billion in total assets as of September 30, 2019, up from $335.0 billion a year earlier.

As table 8 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 2019. Since FY 2010, the net cost to borrowers has averaged approximately 2.0 basis points.

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 table 4 for details.)

Table 8. FCA's net cost to System borrowers, FYs 2010 – 2019

Fiscal year ended September 30	Basis points
2010	2.1
2011	2.2
2012	2.2
2013	1.9
2014	1.8
2015	1.7
2016	1.8
2017	2.0
2018	2.0
2019	2.0

Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2020 is $2.90 million. The assessment for FY 2021 is not yet available because the Office of Secondary Market Oversight will not complete the FY 2021 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2020.

Table 9 shows Farmer Mac assessments for fiscal years 2011 to 2020. 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 9. Farmer Mac assessments, FYs 2011 – 2020

Fiscal year	Assessment (in millions)
2011	$2.20
2012	$2.25
2013	$2.38
2014	$2.38
2015	$2.40
2016	$2.45
2017	$2.50
2018	$2.50
2019	$2.75
2020	$2.90

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 or System), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).

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 $276.1 billion in outstanding loans to agriculture and rural America as of September 30, 2019.

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 lenders and intermediaries, including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2019, Farmer Mac’s outstanding program activity totaled $20.9 billion.

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System. FCA is 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 provide examination services on behalf of the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture.

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 the FCA Strategic Plan for FYs 2018 – 2023, 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 evaluate whether institutions are complying with laws and regulations and are operating in a safe and sound manner. They also evaluate institutions' compliance with the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers and ranchers. 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 we determine that its operations are 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.[2]

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 debt obligations by System banks.

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

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 2020

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

FCA Internal Operations

FCA fosters an inclusive workplace. We have identified and adopted leading talent management practices to promote employee engagement. As a result of our efforts, we were ranked second on the 2019 list of Best Places to Work in the Federal Government among small agencies.

We have undertaken a strategic human capital planning initiative to focus the agency's talent strategies and investments for the next four years. The objective of the plan is to ensure that we are appropriately targeting human capital investments and meeting the professional development needs of our employees. We use the Office of Personnel Management's Human Capital Framework as a guide for strategic human capital planning; this ensures that our efforts are in line with the President's Management Agenda.

Human capital management

Human capital strategies are linked to our strategic plan through clearly defined strategic drivers and operational goals. We periodically assess external and internal workforce trends and integrate best practices. We also monitor the System's changing environment so that we can adjust staffing levels and maintain the necessary skill sets by hiring additional staff and by providing employee training and development. We review our workforce planning strategies annually. See table 10 for full-time-equivalent (FTE) staffing levels (rounded to the nearest whole number) from FYs 2011 through 2021.

Table 10. Full-time-equivalent staffing levels, FYs 2011 – 2021

Fiscal year	FTE staffing level
2011	286
2012	287
2013	273
2014	278
2015	277
2016	290
2017	296
2018	298
2019	308
2020	320 (authorized)
2021	322 (authorized)

Note: From FYs 2011 to 2021, the ratio of managers and supervisors to other personnel has ranged between one to five and one to six.

We annually review workforce demographic profiles to monitor changes, such as the age and grade of employees, and explore trends. From this analysis, we develop five-year projections to determine and mitigate the impact of employee retirements and separations.

As of September 30, 2019, almost 21% of our personnel were eligible to retire; we expect that number to increase substantially in the next few years. By FY 2025, approximately 41% of our workforce will be eligible to retire. See table 11 for retirement eligibility projections.

Table 11. FCA retirement eligibility, FYs 2019 – 2023

Fiscal year	Number of staff first eligible during the fiscal year	Number of staff eligible at fiscal year end	Percentage of staff eligible to retire at fiscal year end
2020	16	75	25.9%
2021	17	92	31.7%
2022	9	101	34.8%
2023	4	105	36.2%
2024	11	116	40.0%
2025	3	119	41.0%

Training

Our workforce assessments help us determine the optimal size of our workforce and the skill sets our employees need. We use the results of these assessments to develop, modernize, and refocus training and development programs. As we face the retirement eligibility of a significant percentage of the FCA workforce, we are working hard to sustain a high level of institutional knowledge, technical skills, and analytical expertise.

By providing education, training, and other development opportunities, we seek to attract and retain bright, motivated, and highly skilled 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 manage developmental 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 career development goals.

By working closely with agency management and conducting staff surveys, our Learning and Organizational Change Team gauges training needs and develops efficient and effective methods to acquire external training resources and to develop internal training courses and learning methods.

Formal training programs support the needs of core occupational groups through a variety of methods, such as in-house training, vendor-provided courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop with technology to support internal and vendor-provided e-learning.

We 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 new employees acquire the knowledge and skills they need. 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, also support our knowledge management goals. These databases enable employees to communicate and share knowledge.

We have 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 work groups on topics such as training, planning and reporting, and policy development.

Examiner commissioning program

Through our examiner commissioning program, we are building the next generation of diverse and highly motivated examiners, ensuring they have the knowledge, skills, and talents necessary to accomplish the agency's mission. The program helps examiners develop their skills in FCA's primary areas of oversight — credit, finance, and operations as well as examination management.

We also invest in the development of our commissioned examiners through human capital planning, examiner career development, and specialty programs. The specialty programs enable examiners to gain technical expertise and encourage them to pursue professional development and certification.

Diversity and inclusion

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. Our recruiters regularly visit job fairs at universities with high minority enrollment, and we have several Special Emphasis Programs at the agency to raise awareness about diversity and inclusion in our workforce.

Also, in FY 2019, we commissioned a study with the Ivy Planning Group to assess FCA's fairness and inclusiveness. The study included a survey, document review, interviews, and focus groups. The agency commissioned a work group to develop appropriate responses to the 15 recommendations, and the director of the Office of Equal Employment Opportunity and Inclusion is leading implementation efforts.

As a result of our emphasis on diversity and inclusion, in 2019 the Partnership for Public Service ranked FCA number 1 among small federal agencies for support of diversity.

FCA compensation program

Section 5.11(c)(2)(A) of the Farm Credit Act was amended in 1989 by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). This provision authorizes the FCA chairman to set and adjust FCA employees' compensation without regard to the general pay schedule applicable to most federal agencies. The chairman may also provide additional pay and benefits to enable FCA to maintain comparability with other federal banking agencies as defined in FIRREA. Section 1206 of FIRREA requires the federal banking agencies to "seek to maintain comparability regarding compensation and benefits." The provision was intended to promote comparability in pay and benefits among the federal banking agencies and to avoid competition among the agencies for qualified staff.

To comply with FIRREA, we participate in a biennial 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 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.

The FCA board approved for the 2020 compensation program a 1% increase to the base salary range; a merit pay matrix with pay increases ranging from 0.39% to 3.1%, depending on each employee's performance rating and placement in the salary range for his or her grade; and increases to locality rates aligned with the Federal Deposit Insurance Corporation. Table 12 provides the revised 2020 locality rates for FCA locations.

Table 12. FYs 2019 and 2020 locality rates

Locality	2019 rate	2020 rate
McLean	27.16%	28.35%
Bloomington	18.67%	19.13%
Denver	19.77%	20.63%
Dallas	19.65%	20.35%
Sacramento	21.74%	22.29%
Rest of United States	14.31%	14.70%

The board also approved for 2020 a bonus pool for career senior executives. Those executives below the midpoint for their salary range received a percentage-based 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

As table 13 shows, we continue to outsource several functions. We have a shared-service agreement with the Bureau of the Fiscal Service (BFS). We also outsource our payroll function to USDA's National Finance Center and our personnel security and credentialing function to the Department of Interior's Business Center. Outsourcing these services allows us to manage employee benefits and other agency functions without additional personnel costs.

Table 13. Shared services, FY 2020

Contract	Services provided	Amount
Administrative Service Center (BFS)	Full-service accounting, e-Travel, credit card, and platform procurement services	$758,642
National Finance Center (USDA)	Payroll services	$44,034
Department of Interior	Personal security and credential services	$37,256
Defense Counterintelligence Security Agency	Background investigation services	$90,000

Tables 14 and 15 provide a summary of our competitive consulting service contracts for FYs 2018 and 2019.

Table 14. Competitive consulting service contracts of more than $25,000, FY 2018

Contract	Purpose	Amount
Dave Redden (18-FCA-641-002)	Retirement counseling services	$34,963
Personnel Decisions Research Institute (15-FCA-301-0014)	Commission test and staff evaluation services	$68,980
MetLife Long Term Disability (17-FCA-601-001)	Long-term disability services, employee assistance program	$120,439
Wells Fargo and Company (15-FCA-601-067)	Retirement administration services	$47,787
Minburn Technology (17-FCA-651-016)	Microsoft enterprise agreement	$195,206
Harper, Rains, Knight & Company (18-FCA-700-001)	Financial statement audit services	$50,938
Parker Tide Corporation (18-FCA-641-022)	Contract support services	$30,000
StratComm Inc. (18-FCA-651-048)	IT support services and web maintenance	$61,237
Carahsoft Technology (17-FCA-651-053)	IT data center management	$50,786
Edge Hosting LLC (18-FCA-651-033)	Installation of IT cloud, hosting maintenance services	$48,000

Note: To streamline our proposed budget report this year, we amended our contract tables to include only those contracts above $25,000.

Table 15. Competitive consulting service contracts of more than $25,000, FY 2019

Contract	Purpose	Amount
Discover Technologies (18-FCA-651-050)	K2 software	$24,496
Iron Bow Technology (19-FCA-651-060)	Cisco Webex room kit	$40,760
Second Pillar Consulting (17-FCA-450-005)	Financial risks evaluation and assessment for the Office of Secondary Market Oversight	$70,000
Human Resources Specialist (19-FCA-641-017)	HR support services	$120,000
August Schell Enterprises (19-FCA-651-037)	U.S. federal production support	$48,451
ServiceNow ITSM (17-FCA-651-074)	Configuration mobile application	$18,676
Harper, Rains, Knight & Company (18-FCA-700-001)	Financial statement audit services	$52,391
Wells Fargo Retirement (19-FCA-641-004)	Retirement administration services	$55,000
MetLife (19-FCA-641-005) CSS	Long-term disability services	$124,786
UPS Shipping Services (19-FCA-641-013)	Domestic mail services	$30,000
Splunk Enterprise (19-FCA-651-011)	Splunk Enterprise standard support	$16,513
Personnel Decisions Research Institute (15-FCA-301-001)	Commission test and staff evaluation services	$88,619
Stafford Consulting (19-FCA-641-026)	OAS administrative support services	$85,000
LinkVisum (19-FCA-641-028)	Human capital support services	$34,670
Totem Consulting (19-FCA-641-030)	Onboarding processing services	$27,500

Other functions and activities

In FY 2019, we spent $234 on reception and representation expenses, and we had no foreign travel expenditures.

Leveraging FCA technology

We have designed a flexible IT program at FCA that can adapt to changing technical and business needs. The Office of Information Technology 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 Strategic Plan.

The current plan drives IT spending through 2021 and beyond. In 2021, we will continue to improve FCA's data reporting, dashboard, and analysis capabilities and strengthen our cybersecurity. We will engage contractors when we need specialized expertise, and we will expand use of cloud services where appropriate.

Over the past year, we accomplished the following:

- Enhanced network access capabilities by expanding Wi-Fi services and increasing internet bandwidth.
- Created the Office of Data Analytics and Economics to facilitate an agencywide strategy for analytics. The office evaluates strategic risks to the System and agency using data, analytics, economic trends, and other risk factors. Its staff members serve as stewards for agency data and provide information to the board and management for objective, evidence-based decision-making across FCA.
- Continued to leverage the examination Advance Team to help FCA examiners work more effectively and efficiently when onsite. The team is composed of examiners and technologists. They work to resolve any potential connectivity issues or security concerns before an exam starts.
- Implemented Virtual Desktop Infrastructure to improve examination and analysis capabilities.
- Updated association examination tools and added new loan review capabilities.
- Automated branch office location updates to maintain accurate Lender Locator data on the fca.gov website.
- Improved technical architecture for data ingestion and extract, transform, and load (ETL) systems.

- Enhanced data analysis platforms, including improvements to FCA's Data Mart.
- Procured eDiscovery tools to help collect and produce legal documents.
- Continued to strengthen our IT security program and established a formal privacy program.
- Implemented dual-factor authentication for remote access.
- Added network-based protection for trusted access based on context.
- Completed cryptographic email protocols between FCA and all our regulated institutions to improve security.
- Continued to use commitment accounting to strengthen our internal controls and budget reconciliation process. We improved reporting and reconciliation tools and processes for coordination between the CFO and the Office of Information Technology.

For more information about the ways we will use technology in FYs 2020 and 2021 to achieve our strategic goals, 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 2019 audit of FCA's financial statements. On November 8, 2019, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2019.

The auditors opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2019, in conformity with generally accepted accounting principles. In addition, although the auditors did not express an opinion on the matter, they did not identify any deficiencies in internal control over financial reporting that would be considered material weaknesses.

The auditors also 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 Farmer Mac.

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 our headquarters in McLean, Virginia, and in four field offices — in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2020.

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 need loan portfolio and other data from System institutions. 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 part 630.

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 from 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 information.

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, ensuring the safety and soundness of the System is more important and challenging than ever. To address these challenges, we annually 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 2020 are as follows:

- Lending controls
- Internal audit
- Cybersecurity

When our examiners identify unsafe and unsound practices or conditions within a System institution or find that an institution has violated 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).

Based on 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.

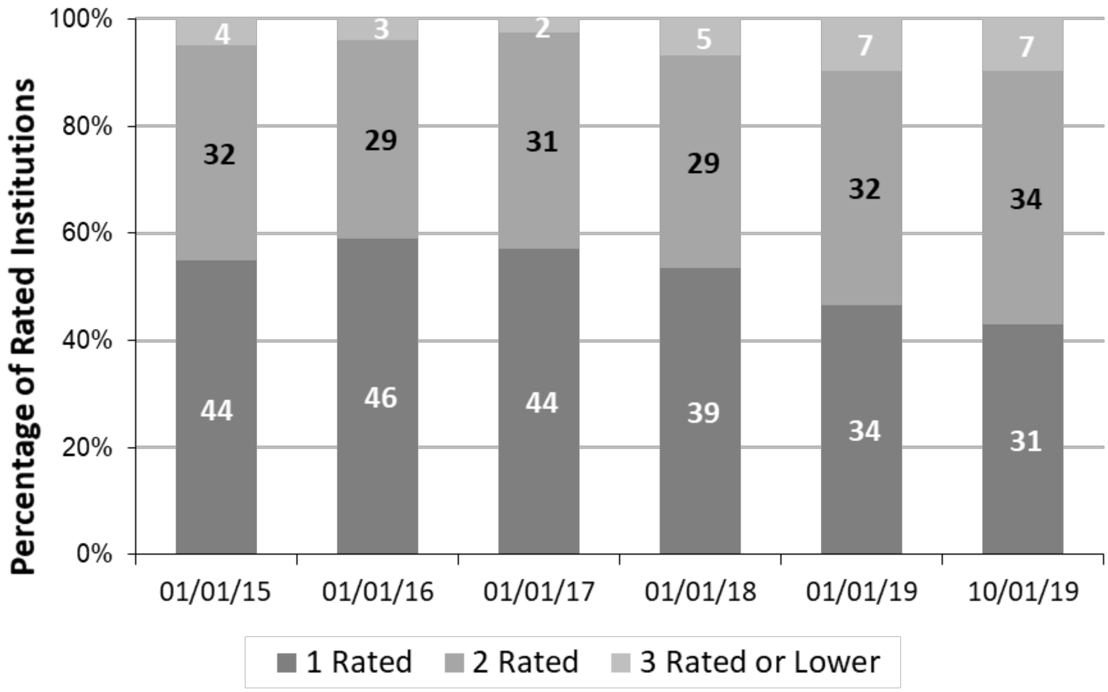
Recent results

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, 2019:

- Thirty-one institutions were rated 1.
- Thirty-four were rated 2.
- Seven were rated 3 or lower.

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 only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers in the bars indicate the number of institutions by FIRS rating.

Table data for figure 2

		01/01/15	01/01/16	01/01/17	01/01/18	01/01/19	10/01/19
Total	1 rating	44	46	44	39	34	31
	2 rating	32	29	31	29	32	34
	3 rating or lower	4	3	2	5	7	7
	Total	80	78	77	73	73	72

Federal Agricultural Mortgage Corporation

Through our Office of Secondary Market Oversight (OSMO), we provide for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. OSMO performs annual CAMELS-based examinations, which include examination of capital, assets, management, earnings, liquidity, and sensitivity.

Statutory authority

OSMO was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102 – 237), which amended section 8.11 of the Farm Credit Act. OSMO is required to be managed by a full-time director who reports to the FCA board, and OSMO's activities, to the extent practicable, must 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 2019 despite a modest increase in troubled loan volume.

- Net income available to common shareholders was $84.1 million for the 12 months ended September 30, 2019, compared with $92.0 million during FY 2018.
- Farmer Mac's statutory core capital totaled $793.3 million at the end of FY 2019, compared with $713.6 million at the end of FY 2018. The minimum statutory core capital requirement for Farmer Mac's on- and off-balance-sheet exposures totaled $608.4 million at the end of FY 2019. Thus, Farmer Mac exceeded its statutory minimum core capital requirement by approximately $184.8 million.
- At the end of FY 2019, Farmer Mac had $803.1 million in regulatory capital (as defined in the Farm Credit Act) available to meet the $135.9 million minimum requirement established by FCA's Risk-Based Capital Model.
- Program activity increased approximately 7.1% and ended FY 2019 at $20.9 billion. Farmer Mac had $3.2 billion in its liquidity portfolio as of September 30, 2019.

Credit quality remained stable and generally good. Real estate owned increased over FY 2019, finishing the year at $1.8 million, up approximately $1.6 million from fiscal year-end 2018. Total acceptable loan volume decreased 1.5 percentage points to 91.7% in FY 2019.

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 and rural utility loans 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% 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.

The Farm Credit Act also requires the RBC Model to incorporate an interest rate risk stress scenario based on prescribed changes in 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% 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.

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(a)(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 2019

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 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, but we are not obligated to act on our agenda items. The following list summarizes the topics for which we are considering regulatory action.

Standards of conduct: We plan to publish a final rule to clarify and strengthen regulations related to the standards of conduct of directors, employees, and agents of System institutions.

Eligibility criteria for outside directors: We plan to publish a final rule regarding the eligibility criteria for outside directors. 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.

Investment eligibility: We plan to publish a final rule that will amend FCA regulations to include certain obligations unconditionally guaranteed by the United States Department of Agriculture as eligible investments for associations.

Criteria to reinstate nonaccrual loans: We plan to publish a final rule regarding criteria for reinstating nonaccrual loans and reducing the compliance burden on System institutions.

Implementation of the current expected credit losses methodology for allowances: We plan to publish a final rule that will amend our regulations to address recent changes to U.S. generally accepted accounting principles.

Margin and capital requirements for covered swap entities: We plan to publish a final rule to amend the margin and capital requirements for covered swap entities.

Amortization limits for agricultural credit associations and production credit associations: We plan to issue a proposed rule to clarify or change the amortization limits for agricultural credit associations and production credit associations.

Appraisal regulations: We plan to issue a proposed rule to consider whether changes in appraisal regulations are necessary in light of changing credit and economic conditions.

Borrower rights: We plan to issue a proposed rule to clarify disclosure and servicing requirements related to borrower rights.

Flood insurance interagency questions and answers: We plan to issue a notice with request for comment on the revised questions and answers guidance that the federal financial regulatory agencies provide regarding flood insurance.

Limitations on bank director compensation: We plan to issue a proposed rule that would revise FCA regulations on compensation of bank directors to comply with the Agriculture Improvement Act of 2018.

Revisions to regulatory tier 1/tier 2 capital: We plan to issue a proposed rule to make technical and minor substantive corrections and clarifications to our regulations governing tier 1/tier 2 regulatory capital.

Young, beginning, and small (YBS) farmers and ranchers: We plan to follow up on the advance notice of proposed rulemaking that we issued in 2019 and develop guidance to System institutions that will improve data accuracy and reporting of YBS performance.

Cooperative principles: We plan to conduct a review of cooperative principles and practices at System institutions.

Regulatory and policy projects completed in FY 2019 and early FY 2020

Following is a list of projects we completed in FY 2019 and early FY 2020, along with a list of communications we issued to System institutions to clarify our rules.

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

Regulatory burden: We published a final notice of intent to address the comments we received regarding the removal or revision of outdated, unnecessary, or burdensome regulations.

Margin and capital requirements for covered swap entities: We published an interim final rule to amend the margin and capital requirements for covered swap entities.

Investment eligibility: We issued a proposed rule that would amend FCA regulations to include certain obligations unconditionally guaranteed by the United States Department of Agriculture as eligible investments for associations.

Criteria to reinstate nonaccrual loans: We issued a proposed rule regarding criteria for reinstating nonaccrual loans and reducing the compliance burden on System institutions.

District financial reporting: We issued a proposed rule to amend regulations governing the presentation of association financial information within a Farm Credit bank's annual report to shareholders.

Implementation of the current expected credit losses methodology for allowances: We issued a proposed rule that will amend our regulations to address recent changes to U.S. generally accepted accounting principles.

Young, beginning, and small (YBS) farmers and ranchers: We issued an advance notice of proposed rulemaking regarding possible changes to FCA regulations and guidance on the System's service to YBS farmers and ranchers, including the System's reporting on its YBS service.

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 Improvements Act of 2015.

Interest rate risk management guidance for Farmer Mac: We issued a bookletter to provide guidance on interest rate risk management to Farmer Mac.

Maximum bank director compensation: We issued an informational memorandum to notify Farm Credit System banks that the maximum allowable bank director compensation will no longer be calculated because of a provision in the Agriculture Improvement Act of 2018. However, we will continue to review System bank director compensation to ensure that pay levels do not adversely affect the safety and soundness of the System.

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

Corporate activities in FY 2019 and early FY 2020

On July 1, 2019, an agricultural credit association (ACA) affiliated with CoBank combined its operations with another ACA affiliated with CoBank, resulting in an ACA with two subsidiaries. Thus far in FY 2020, we have not received any corporate approval requests.

Projected mergers and FCS institution size

As of January 1, 2020, the System had 68 direct-lender associations and 4 banks. Seven service corporations and special-purpose entities (see pages 47 and 48) brought the total number of FCS institutions, including Farmer Mac, to 79. Because of mergers and consolidations, the number of FCS associations has decreased by 63% since 2000, and the number of FCS banks has decreased by 43%.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decrease. 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 2019

There were no preferred stock or subordinated debt offerings by FCS banks and associations during FY 2019.

Funding activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation,[3] the fiscal agent for the FCS banks. Through this conduit, funds flow from worldwide capital market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with efficient access to global resources. Systemwide debt securities are issued as discount 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, 2019, the FCS issued $355 billion in Systemwide debt, compared with $304 billion in FY 2018, and $296 billion in FY 2017. The sizeable increase in issuance during FY 2019 was due mainly to FCS debt being called back and reissued under more favorable interest rates. Investor demand for FCS debt instruments remained strong as a result of the System's continued favorable financial performance and the congressionally mandated reduction in the overall debt outstanding of two other government-sponsored enterprises. FCS debt outstanding increased to $282 billion at the end of FY 2019, an increase of $13 billion from the end of FY 2018.

The financial markets were somewhat volatile in response to global trade and growth concerns and the Federal Reserve's change to an expansionary monetary policy stance during the last quarter of FY 2019. These factors contributed to a large increase in call options being exercised by the FCS, as well as others, on its outstanding callable debt. Interest rates for System debt when compared with U.S. Treasuries of similar maturities remained favorable and in demand by investors.

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 performed the following services for USDA regarding nonleveraged rural business investment companies:

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[3] 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 helps 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.

- Provided technical advice regarding regulatory and program requirements
- Reviewed nonleveraged RBIC licensing applications for RBICs in which System institutions would hold at least 10% in total ownership, and advised USDA as to whether to approve the applications
- Examined 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 to 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% 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, along with 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, 2020, the System had four banks providing loan funds to

- 67 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.

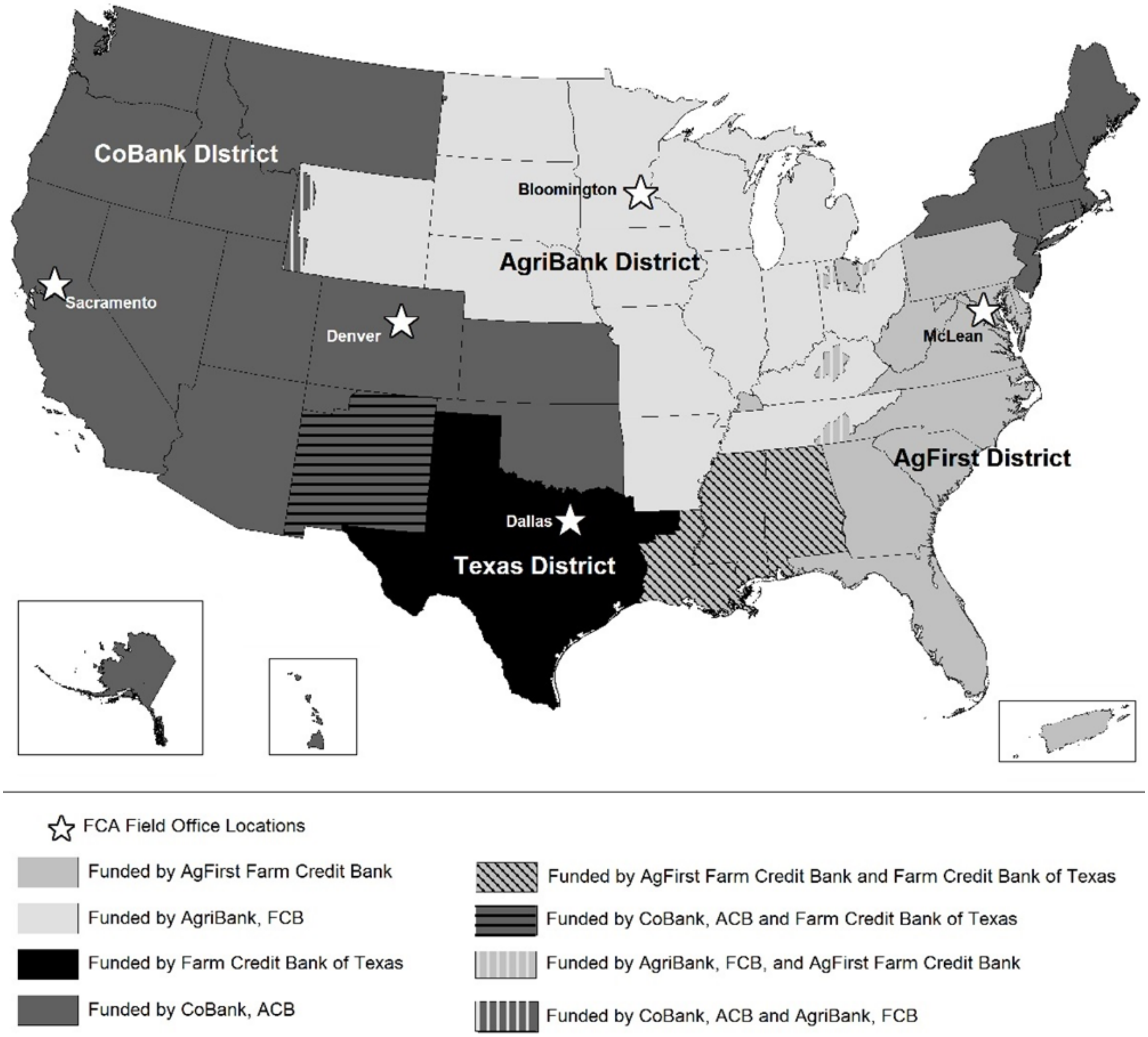
The map in figure 3 shows each bank's chartered territory.

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 their 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, 2020



NOTE: CoBank, ACB, funds 21 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 72 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:[4]

- AgVantis, Inc.
- Farm Credit Leasing Services Corporation
- Farm Credit Financial Partners, Inc.
- FCS Building Association
- Farm Credit Foundations

Federal Agricultural Mortgage Corporation — Farmer Mac[5] 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

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[4] 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.

[5] Farmer Mac is established in law as a federal instrumentality 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.

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 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 11 of its affiliated associations.

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 five associations and provides support services to six associations. Four of the associations are affiliated with CoBank and two associations are affiliated with AgriBank, FCB.

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 32 FCS associations, one service corporation (AgVantis), and one FCS bank (AgriBank).

FCS mission fulfillment

The System fulfills its overall mission by lending to agriculture and rural America. Through the System's original authorization in the Federal Farm Loan Act of 1916 and subsequent revisions to the law, 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 FCS continues to be fundamentally safe and sound, and it remains well positioned to respond to the credit needs of U.S. agriculture. For FY 2019, the System reported strong financial results, including steady earnings, higher capital levels, and manageable portfolio credit risk. FCS banks had reliable access to debt capital markets and maintained liquidity levels well above the 90-day regulatory minimum.

It's been a difficult year for U.S. farmers and ranchers. Trade uncertainties, large commodity supplies, and weather extremes suppressed farm prices and producer returns for key commodities. Several years of declining producer cash flows have depleted working capital and elevated borrowing needs. Although crop insurance indemnities, farm programs, and Market Facilitation Program payments have provided some financial protection, the level of support varies by region and commodity.

With large global supplies, crop prices are expected to remain low in 2020. This situation will limit attractive price opportunities for U.S. farmers. Livestock and dairy returns are likely to be positive in the near-term, but trade risks remain elevated. High-cost producers and those with significant leverage will continue to face significant financial pressure.

Note: All financial data in this section are as of September 30, 2019, unless noted otherwise.

Earnings

The FCS earned $4.06 billion in the first nine months of 2019, a 1.1% increase from the $4.0 billion earned in the same period last year. As table 16 shows, the net income increased because of higher net interest income and lower provisions for losses income, partially offset by lower noninterest income, higher noninterest expenses, and higher income tax provisions.

Table 16. Net income (dollars in millions)

	First 9 Months of 2018	First 9 Months of 2019	Dollar Change	Percent Change
Net interest income	$5,947	$6,150	$203	3.4
− Provision for losses	146	95	(51)	(34.9)
= Net interest income after loss provision	$5,801	$6,055	$254	4.4
+ Noninterest income	527	494	(33)	(6.3)
− Noninterest expense	2,220	2,363	143	6.4
= Pretax income	$4,108	$4,186	$78	1.9
− Provision for income tax	96	131	35	36.5
= Net income	$4,012	$4,055	$43	1.1

Source: Third Quarter 2019 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 $339.7 billion, from $323.1 billion a year earlier. Net interest margin was 2.41%, down 4 basis points from the same period a year ago (table 17). Net interest spread declined 11 basis points. This change was driven by a 43-basis-point increase in the annualized rate on interest-bearing liabilities partially offset by a 32-basis-point increase in the rate on total interest-earning assets.

Table 17. Interest margin in annualized percentages

	First 9 Months of 2018	First 9 Months of 2019	Change (bps)
Total interest-earning assets	4.14	4.46	32
Total loans	4.59	4.91	32
Investments and other assets	2.19	2.52	33
Total interest-bearing liabilities	2.01	2.44	43
Net interest spread	2.13	2.02	(11)
Impact of noninterest-bearing items	0.32	0.39	7
Net interest margin	2.45	2.41	(4)

Source: Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p.13.

bps = basis points

As table 18 shows, all districts reported a decrease in the return on average assets and the return on average capital as compared to the prior year.

Table 18. Profitability across System districts for the first nine months of year

		AgFirst	AgriBank	Texas	CoBank
Percentage return on average assets	2018	1.59	1.72	1.63	1.55
	2019	1.41	1.68	1.48	1.39
Percentage return on average capital	2018	9.29	9.25	11.04	11.72
	2019	8.17	9.05	10.03	10.22

Source: Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-54

Note: The financial ratios are for the combined banks and associations.

System growth

The System reported moderate year-over-year growth. FCS assets were up $19.0 billion or 5.7% to $354.0 billion. Much of the increase was the result of growth in the System's loan portfolio, which grew by $12.5 billion or 4.7%.

For the year, balances for all major loan categories (real estate mortgage, production and intermediate-term, agribusiness, and rural infrastructure) were up. Real estate mortgage and agribusiness lending accounted for much of the growth, increasing 4.8% and 7.2%, respectively.

All System districts reported higher loan portfolio balances. The AgriBank district reported the largest percentage increase in volume, with loan balances growing 5.7% year over year. Provided in table 19 are the gross loan volume and the percentage change in volume for System districts.

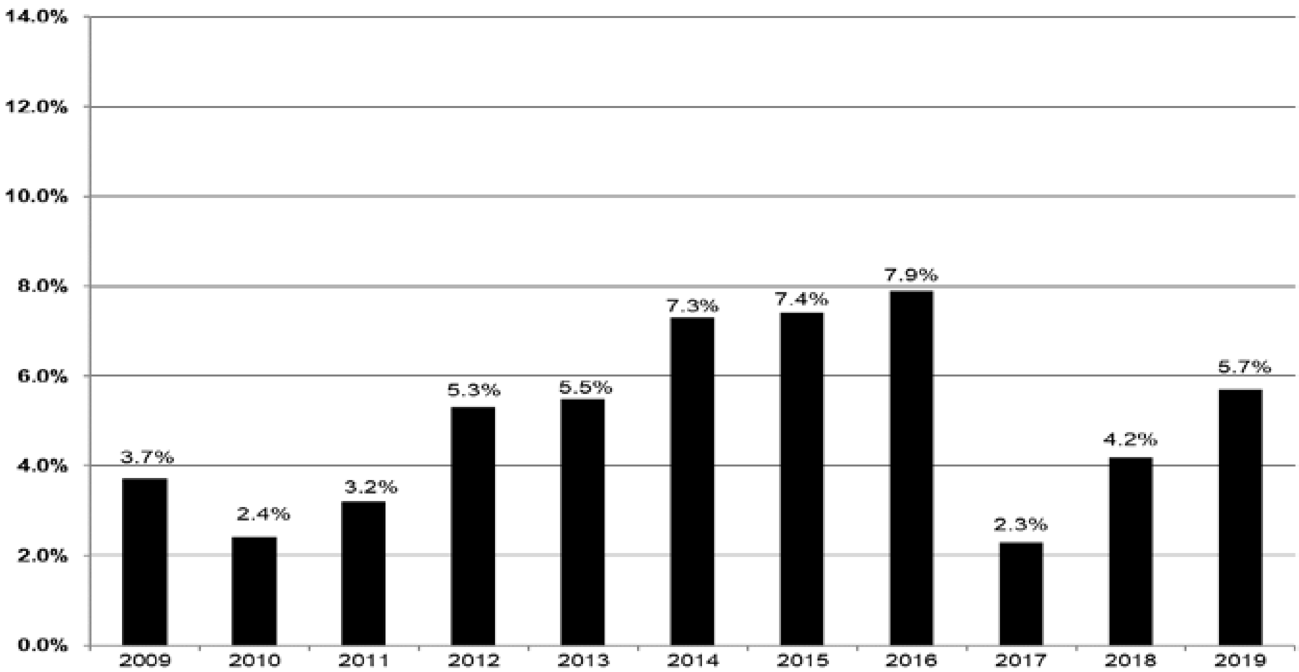
Table 19. Gross loan growth by district and Systemwide (dollars in millions)

	September 30, 2018		September 30, 2019			
	Gross Loans	Percent Total	Gross Loans	Percent Total	Change in Dollars	Percent Change
AgFirst	$29,299	11.1	$30,449	11.0	$1,150	3.9
AgriBank	105,916	40.2	111,938	40.6	6,022	5.7
Texas	24,722	9.4	25,946	9.4	1,224	5.0
CoBank	108,929	41.3	113,037	40.9	4,108	3.8
Insurance Fund and Intra-System Eliminations	(5,247)	(2.0)	(5,258)	(1.9)	(11)	0.2
Total for System	**$263,619**	**100.0**	**276,112**	**100.0**	**$12,493**	**4.7**

Source: Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, p. F-53; and Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-50.

As noted in figure 4 below, the System's total assets increased by 5.7% during the 12-month period, up from 4.2% for the same period a year ago.

Figure 4: Year-over-year percent change in System assets, September 2009 – 2019



Source: Quarterly Information Statements of the Farm Credit System.

Table data for figure 4

Year	Year-over-year percent change in System assets
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
2018	4.2
2019	5.7

Assets — Investments

The System's investments totaled $61.4 billion, up 3.9% from a year earlier. As shown in table 20, investments available for sale totaled $59.6 billion. Investments held to maturity were $1.8 billion, including $1.3 billion for mortgage-backed securities.

The System increased its holdings of money market instruments, U.S. Treasury securities, U.S. agency securities, other asset-backed securities, and other investments while reducing holdings of mortgage-backed securities and other securities.

During the most recent 12-month period, the yield on investments available for sale increased from 2.25% to 2.40%, with yields increasing on all available-for-sale segments except for other investments. For investments held to maturity, the yield increased from 3.63% to 3.91% mainly because of an increase in the yield for mortgage-backed securities.

Ineligible investments held by the System totaled $0.4 billion at fair value, up from $0.2 billion a year ago.

Table 20. FCS investments (dollars in millions)

		September 30, 2018		September 30, 2019		Change		
						Amount		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
Available for sale (fair value)	Money market instruments	$6,610	2.37	$6,875	2.47	$265	4.0	10
	U.S. Treasury securities	17,072	1.87	18,767	2.08	1,695	9.9	21
	U.S. agency securities	2,561	2.21	2,943	2.38	382	14.9	17
	Mortgage-backed securities	26,969	2.43	26,601	2.53	(368)	(1.4)	10
	Other asset-backed securities	2,673	2.53	3,959	2.78	1,286	48.1	25
	Other investments	257	3.24	449	3.15	192	74.7	(9)
	Total	**$56,142**	**2.25**	**$59,594**	**2.40**	**$3,452**	**6.1**	**15**
Held-to-maturity (amortized cost)	Mortgage-backed securities	$2,522	3.63	$1,302	4.06	($1,220)	(48.4)	43
	Asset-backed securities	365	3.03	457	3.13	92	25.2	10
	Other securities	91	5.89	75	5.98	(16)	(17.6)	9
	Total	**$2,978**	**3.63**	**$1,834**	**3.91**	**($1,144)**	**(38.4)**	**28**
Total	**All FCS investments**	**$59,120**	**2.32**	**$61,428**	**2.44**	**$2,308**	**3.9**	**12**

Source: Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, pp. F-10 – 12; and Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, pp. F-11 – 13.

WAY = weighted average yield; bps = basis points

Loan quality

Credit stress in the System's loan portfolio remained elevated in 2019, but loan quality measures were largely unchanged compared to 2018. Credit risk in the System's loan portfolio continues to be relatively low compared to the last 10 years and well within the System's risk-bearing capacity. Nonperforming assets totaled $2.549 billion or 0.92% of total loans and other property owned, as compared to $2.439 billion or 0.92% a year earlier.

In the first nine months of 2019, net charge-offs for the System decreased to $31 million from $53 million for the same period a year ago. Annualized net charge-offs equaled just 0.02% of average loans outstanding, down from 0.03% for the same period in 2018. The allowance for loan losses increased to $1.750 billion in the first nine months of 2019, up 4.0% from the same period in 2018. See table 21 for additional information about the allowance for loan losses and other loan quality measures.

Additional deterioration in portfolio loan quality is likely in 2020. Projected continued low prices and weak margins will put added pressure on farm balance sheets and repayment capacity for crop producers. Livestock and dairy returns are likely to be positive in the near-term, but trade risks remain elevated. High-cost producers and those with significant leverage will be the most vulnerable to financial stress.

Table 21. FCS loan quality

Loan quality	September 30, 2018	September 30, 2019	Change in percentage points
Nonperforming assets as percentage of total loans and other property owned	0.92%	0.92%	0.00
Nonperforming assets as percentage of capital	4.19%	4.09%	(0.10)
Nonaccrual loans as percentage of total loans	0.76%	0.74%	(0.02)
ALL as percentage of total loans	0.64%	0.63%	(0.01)
ALL as percentage of nonperforming assets	69.0%	68.7%	(0.30)
ALL as percentage of nonaccrual loans	83.6%	85.4%	1.80

Source: Quarterly Information Statements of the Farm Credit System.

ALL = allowance for loan losses.

Liabilities, funding, and liquidity

The System's total liabilities increased by 5.4% to $291.6 billion. See table 22 below. Short-term debt securities (due within one year) increased 7.6% to $110.7 billion. Systemwide debt securities due after one year increased 3.9% to $172.1 billion. Short-term debt securities represented 38.0% of the total Systemwide liabilities, up from 37.2% a year earlier.

Table 22. Systemwide debt (dollars in millions)

	September 30, 2018	September 30, 2019	Change	
			Dollars	Percent
Systemwide discount notes due within one year	$19,054	$17,738	($1,316)	(6.9%)
Systemwide bonds, medium-term notes, and master notes due within one year	83,825	93,007	9,182	11.0%
Total short-term liabilities	**$102,879**	**$110,745**	**$7,866**	**7.6%**
Systemwide bonds, medium-term notes, and master notes due after one year	$165,583	$172,116	6,533	3.9%
Other liabilities	8,309	8,757	448	5.4%
Total liabilities	**$276,771**	**$291,618**	**$14,847**	**5.4%**

Source: Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, p. F-2; and Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-2.

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 increased slightly to 177 days from 171 a year earlier. Each bank has maintained the three tiers of the liquidity reserve and exceeded the regulatory minimum of 90 days of liquidity.[6]

The aggregate duration gap for the FCS (the sum of the banks' duration gaps) was a positive 2.6 months compared with a positive 4.3 months a year earlier, which means the System's exposure to interest rate risk was lower this year. A duration gap of a positive six months to a negative six

[6]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.

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 inherent in the institution's capital structure.

Capital

The System continued to build capital in 2019. According to the System's combined financial statements, capital totaled $62.4 billion, a 7.1% increase from a year earlier (see table 23). The increase in capital was driven by an increase in net income earned and retained, partially offset by cash distributions to stockholders. Retained earnings as a percentage of total capital declined to 79.1% from 80.1% a year ago. The System's overall capital-to-assets ratio increased to 17.6% from 17.4% a year ago.

Table 23. FCS capital composition (dollars in millions)

	September 30, 2018	September 30, 2019	Change	
			Dollars	Percent
Preferred stock	$3,177	$3,168	($9)	(-0.3%)
Capital stock and participation certificates	1,919	1,985	66	3.4%
Additional paid-in capital	3,712	3,738	26	0.7%
Restricted capital (Insurance Fund)	4,881	5,122	241	4.9%
Accumulated other comprehensive income (loss)	(2,132)	(1,005)	1,127	-52.9%
Retained earnings	46,660	49,350	2,690	5.8%
Total capital	**$58,217**	**$62,358**	**4,141**	**7.1%**

Source: Data from the Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, p. F-2; and Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-2.

Note: FCA does not include the Insurance Fund as a capital component in its regulatory capital regulations. In addition, FCA regulations treat earnings that have been allocated to members as equities, not retained earnings. Unallocated retained earnings make up a majority of the System's retained earnings category.

All System institutions were complying with FCA's regulatory minimum capital requirements:

- Common equity tier 1 capital (CET1) ratio of 4.5% of risk-adjusted assets
- Tier 1 capital ratio of 6.0% of risk-adjusted assets
- Total capital ratio of 8.0% of risk-adjusted assets
- Tier 1 leverage ratio of 4.0% of total assets, of which at least 1.5% must consist of unallocated retained earnings (URE) and URE equivalents

- Permanent capital ratio of at least 7.0% of risk-adjusted assets.

The regulatory capital framework, which was implemented January 1, 2017, includes the three-year phase-in of a capital cushion (capital conservation buffer) of 2.5% above the CET1 ratio, tier 1 capital ratio, and total capital ratio requirements. The new regulations also require a leverage capital buffer of 1.0% above the tier 1 leverage ratio requirements. If capital ratios fall below these buffer thresholds, FCA must approve capital distributions and certain discretionary compensation payments before the distributions are made. Table 24 shows that all banks exceeded all minimum capital regulatory requirements.

Table 24. Regulatory capital ratios of FCS banks

		AgFirst	AgriBank	Texas	CoBank
Common equity tier 1	9/30/2018	20.9	18.1	10.1	12.6
	9/30/2019	18.6	17.3	9.8	12.9
Tier 1 capital	9/30/2018	21.4	19.0	16.7	14.9
	9/30/2019	19.0	18.0	16.0	15.1
Tier 1 leverage	9/30/2018	7.4	5.5	7.4	7.7
	9/30/2019	7.0	5.5	7.2	7.6
Permanent capital ratio	9/30/2018	21.4	19.0	16.6	15.0
	9/30/2019	19.0	18.0	16.1	15.2
Total capital	9/30/2018	21.5	19.0	16.7	15.9
	9/30/2019	19.1	18.1	16.2	16.1
	Change	(2.4)	(0.9)	(0.5)	0.2

Source: Data from the Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, p. F-48; the Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-45; and the Third Quarter 2018 and 2019 Quarterly Shareholder Reports for FCS banks.

System associations also exceeded all minimum requirements. The System reported capital levels as follows:

- CET1 capital ratio: 12.1% to 38.3%
- Tier 1 capital ratio: 12.1% to 38.3%
- Tier 1 leverage ratio: 10.4% to 35.7%
- Total capital ratio: 13.5% to 39.5%

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.

In addition, FCA regulations require association business plans to include a marketing plan and strategies with specific outreach toward diversity and inclusion within each market segment. Operational and strategic business plans must include the goals and targets for the association's YBS lending. System institutions must also coordinate with other government and private sources of credit in implementing their YBS programs.

We continue to consider regulatory options and provide guidance to support YBS programs. 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. Also, a June 2016 informational memorandum providing guidelines for merger proposals called for System institutions to describe how any proposed merger would affect service to YBS customers.

FCA's oversight and examination activities monitor each institution's assessment of its performance and market penetration in the YBS area. Current reporting practices and guidance involve technology, data, and standards developed primarily in the 1990s. To provide a more accurate picture of System service to YBS producers, we issued an advance notice of public rulemaking on the topic in February 2019. The purpose of this notice was to solicit public input on how we might achieve the following:

- Improve the accuracy, transparency, and process by which we ensure that YBS farmer data are properly collected and reported by the FCS
- Clarify the definitions of terms related to the collection, reporting, and identification of YBS farmer data
- Ensure the definitions of YBS farmers and related terms remain relevant and reflective of the evolving agricultural economy
- Evaluate the effectiveness of each FCS institution's YBS program to achieve its mission of serving YBS farmers

The 90-day comment period on the public notice closed in May 2019. We're now in the process of reviewing the input we received and developing additional guidance to enhance the reporting, definitions, evaluation, and service related to YBS farmers and ranchers. FCA is committed to a long-term strategy to improve and modernize these efforts. In 2020, we plan to provide the System updated guidance regarding the YBS mission.

The information that follows shows YBS results for calendar year 2018. We are currently collecting information for 2019, and we expect this information to be available after August 2020. A summary of the System's YBS program results is also available on our website at www.fca.gov.

The YBS totals listed in tables 25 and 26 provide the YBS results for calendar year 2018 and include loans, advancements, commitments, and participation interests to farmers, ranchers, and aquatic producers. The totals exclude rural home loans made under section 613.3030 of FCA regulations, loans to cooperatives, and activities of the Farm Credit Leasing Services Corporation. 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.

The System's overall new loan dollar volume increased by 12.2% in 2018. New loan dollar volume to young farmers increased by 7.6%, to beginning farmers by 7.1%, and to small farmers by 6.8%.

For total System loans, the number of new loans made in 2018 declined by 21.4% compared with 2017. The number of loans to young farmers declined by 17.7%, to beginning farmers by 15.5%, and to small farmers by 16.1%.

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

Young — In 2018, the System reported making 46,680 loans to young farmers — that is, to those who are 35 years old or younger. The volume of total new loans to young farmers amounted to $9.8 billion. The loans to young farmers in 2018 represented 18.1% of all loans the System made during the year and 11.4% of the dollar volume of loans made. At the end of 2018, the System reported 177,132 loans outstanding to young farmers, totaling $30.9 billion.

Beginning — In 2018, the System reported making 62,323 loans to beginning farmers — that is, to those who have been farming for 10 years or less. The volume of total new loans to beginning farmers amounted to $13.3 billion in 2018. The loans made to beginning farmers in 2018 represented 24.2% of all System loans made during the year and 15.6% of the dollar volume of loans made. At the end of 2018, the System reported 268,444 loans outstanding to beginning farmers, totaling $47.1 billion.

Small — In 2018, System institutions reported making 114,817 loans, totaling $12.5 billion, to small farmers — that is, to those with gross annual sales of less than $250,000. The loans in 2018 to farmers in this category represented 44.6% of all loans made during the year and 14.6% of the dollar volume of loans made. At the end of 2018, the System reported 456,305 loans outstanding to small farmers, totaling $49.5 billion.

Table 25. YBS loans made during 2018 (as of December 31, 2018)

Type of farmer	Number of loans	Percentage of total number of System loans	Dollar volume of loans in billions	Percentage of total volume of System loans	Average loan size
Young	46,680	18.1%	$9,765	11.4%	$209,200
Beginning	62,323	24.2%	$13,327	15.6%	$213,839
Small	114,817	44.6%	$12,479	14.6%	$108,684

Source: FCA 2018 Annual Report on the Farm Credit System.

Table 26. YBS loans outstanding (as of December 31, 2018)

Type of farmer	Number of loans	Percentage of total number of System loans	Dollar volume of loans in billions	Percentage of total volume of System loans	Average loan size
Young	177,132	19.5%	$30,885	11.7%	$174,363
Beginning	268,444	29.5%	$47,100	17.9%	$175,455
Small	456,305	50.1%	$49,533	18.8%	$108,552

Source: FCA 2018 Annual Report on the Farm Credit System.

The decrease in the number of new and outstanding loans was primarily driven by the way System institutions have been tracking loan participations — which are loans that are shared by two or more institutions. Under the current approach and FCA's direction for reporting, an institution may count each participation interest as a separate loan for FCA's YBS reporting. Therefore, each institution participating in a multi-lender credit to an individual YBS farmer may count that credit in its YBS reporting. This leads to duplication when the YBS and non-YBS numbers are consolidated at the Systemwide level.

In 2018, a change in how certain credits are shared led to a reduction in reported loan numbers. FCA issued an advance notice of proposed rulemaking in February of 2019. This was the first step in a multi-year effort to improve and modernize YBS activities. FCA is actively working to update guidance, methodology, data collection, and evaluation of YBS activities.

In addition to collecting quantitative data about loans to YBS borrowers, System institutions are also required to provide qualitative data about their service to YBS borrowers. That includes reporting about the various strategies they use to serve the needs of YBS borrowers. FCA regulations require institutions to establish goals for offering "related" services to YBS farmers, as well as credit. To provide these services, institutions coordinate with other System institutions and government and private sources. Examples of services offered in 2018 include the following:

- Crop insurance
- Risk management seminars
- Financial document preparation
- Educational courses
- Farm management seminars
- Generational transfer workshops

Market Share of Farm Debt

According to the U.S. Department of Agriculture's November 2019 forecast, total farm debt is estimated to have topped $415 billion at the end of 2019, up 3.4% from a year earlier and up 32% since 2013. 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 $402 billion farm debt market at the end of calendar year 2018 was 41.4%, up from 40.5% at the end of 2017. The market share for commercial banks stood at 41.7% at the end of 2018, up from 41.4% at the end of 2017. The combined share of other lender groups declined by 1.1%.

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 debt. At year-end 2018, the share of farm debt secured by farm real estate was 46.0% for the System and 37.8% for commercial banks. At year-end 2018, the share of farm debt secured by collateral other than farm real estate was 34.2% for the System and 47.9% for commercial banks.

Part IV

Performance Budget

FY 2021

Performance Budget Overview

Our FY 2021 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 27) is $81.01 million and reflects a 4.4% increase from FY 2020.

Table 27. FCA performance budget, FYs 2019 – 2021

	FY 2019 Revised	FY 2020 Revised	FY 2021 Proposed
Policy and regulation	$16,375,810	$16,797,670	$16,981,959
Safety and soundness	57,168,059	59,301,572	62,516,601
Reimbursable activities*	1,816,131	1,530,758	1,511,440
Total	**$75,360,000**	**$77,630,000**	**$81,010,000**

Note: In contrast to the reimbursement numbers in table 5, these totals include indirect costs.

Policy and regulation

Our performance budget includes approximately $17 million for the policy and regulation program, a 1.1% increase from FY 2020. Most of the funds requested for policy and regulation in FY 2021 will support regulatory projects that were published in the Unified Agenda in the fall of 2019. We will also use these funds to support other statutory and regulatory activities, including policy studies and market research; management of our Consolidated Reporting System, which stores the financial information that System institutions submit to us; and approvals of corporate applications, System funding requests, and mission-related investment programs.

Safety and soundness

The performance budget includes approximately $62.5 million for the safety and soundness program, a 5.4% increase from FY 2020. This increase is necessary because we have reallocated resources from reimbursable activities to meet System examination 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 institutions' 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 FY 2021 budgeted monies will continue to support development of examination guidance and systemic risk oversight of System institutions and Farmer Mac.

Reimbursable activities

During FY 2021, we expect to perform approximately $1.5 million in reimbursable work for the following organizations.

- **Farm Credit System Insurance Corporation (FCSIC)** — We will provide services to support examination, information technology, human resources, and communication and public affairs. We will also help complete one premium audit.
- **National Consumer Cooperative Bank (NCB)** — We will conduct NCB's annual safety and soundness examination and perform interim monitoring and CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) assessments.
- **USDA** — We will support USDA in its review of the Rural Business Investment Programs.

Table 28 summarizes the costs associated with our program activities, broken down by products and services.

Table 28. FY 2021 proposed budget and full-time equivalents for program activities

Program activity	Products and services	Budget amount	FTEs
Policy and regulation	Regulation and policy development	$14,526,128	48.40
	Statutory and regulatory approvals	2,455,831	8.04
	Total for policy and regulation	**$16,981,959**	**56.44**
Safety and soundness	Examination	$57,870,979	247.64
	Economic, financial, and risk analysis	3,556,356	9.89
	FCS data management	1,089,266	3.58
	Total for safety and soundness	**$62,516,601**	**261.11**
Reimbursable activities	**Total for reimbursable activities**	**$1,511,440**	**4.71**
All program activities	**Total**	**$81,010,000**	**322.26**

Desired Outcomes for Strategic Goals

Our strategic goals and desired outcomes, which are detailed in table 29, help us measure whether we have achieved our public mission. The information that follows provides

- the strategies we use to accomplish the outcomes and
- the measures for each outcome, with targets that reflect our desired performance for FYs 2020 through 2021.

Table 29. 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

Goal 1: We established the policy and regulation program to track the costs of achieving a regulatory environment that enables the System and Farmer Mac to fulfill their public missions. We track costs associated with the following products and services:

- Regulation and policy development
- Statutory and regulatory approvals

Goal 2: We established the safety and soundness program to track the product and service costs of identifying risk and taking timely corrective action. We track costs associated with the following products and services:

- Examination
- Economic, financial, and risk analysis
- FCS data management

Goal 3: 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.

Goal 1

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 2020 and 2021.

Table 28. Goal 1 — Performance measures

Measure	FYs 2020 – 2021
	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 31 provides the budgeted amounts to achieve a flexible regulatory environment from FYs 2019 to 2021.

Table 31. Budgets to achieve goal 1

	FY 2019 revised	FY 2020 revised	FY 2021 proposed
Regulation and policy development	$14,382,640	$14,413,911	$14,526,128
Statutory and regulatory approvals	1,993,170	2,383,759	2,455,831
Total	**$16,375,810**	**$16,797,670**	**$16,981,959**

Goal 2

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 2020 and 2021.

Table 32. Goal 2 — Performance measures

Measure	FYs 2020 – 2021 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 33 provides the budgeted amounts we need to identify risk in the FCS and to take timely corrective action from FYs 2019 to 2021.

Table 33. Budgets to achieve goal 2

	FY 2019 revised	FY 2020 revised	FY 2021 proposed
Examination	$51,125,570	$54,965,298	$57,870,979
Economic, financial, and risk analysis	3,946,443	3,373,931	3,556,356
FCS data management	2,096,046	962,343	1,089,266
Total	**$57,168,059**	**$59,301,572**	**$62,516,601**

Goal 3

Strategies

For goal 3, we are using the following strategies to maintain a high-performing, diverse workforce that supports the mission of the agency. There is no specific budget for goal 3; all costs are part of the budgets for goals 1 and 2.

1. Maintain a highly skilled 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 34 shows the measures we will use to evaluate our efforts to maintain a high-performing, diverse workforce in FYs 2020 and 2021.

Table 34. Goal 3 — Performance measures

Measure	FYs 2020 – 2021 Target
1. Whether, as part of its recruiting efforts for entry-level examiners, FCA has ensured that at least 25% of its outreach efforts target applicants with a disability or who are members of a minority group.	Yes
2. Whether we have maintained or improved our score from last year in the annual employee satisfaction survey.	Yes

Performance Measurement and Reporting

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2018 to 2023. The 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. Periodic performance reports are provided to the FCA board. The annual 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
McLean, VA 22102-5090
703-883-4056
www.fca.gov
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