**Farm Credit Administration**

# Fiscal Year 2024 Proposed Budget and Performance Plan

# Table of Contents

# List of Tables

## List of Figures

# 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 supervising the Farm Credit System (its banks, associations, and related entities) and 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 (12 U.S.C. 2001–2279cc). We issue 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 2024 (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 2024 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 2024
# Proposed Budget

# Fiscal Year 2024 Budget Overview

Our FY 2024 proposed budget request, as shown in table 1, includes $94.3 million in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the Farm Credit System Insurance Corporation and the National Consumer Cooperative Bank adds $410,000 to this amount, bringing our total proposed FCA budget request to $94.71 million.

**Table 1. FY 2024 proposed budget**

| Description | Amount proposed (in dollars) | Percentage of total budget |
|---|---|---|
| Full-time-permanent personnel (FTP) | $55,662,131 | 58.8% |
| Other than FTP | 510,910 | 0.5% |
| Other personnel compensation | 1,186,789 | 1.3% |
| **Total personnel compensation** | **$57,359,830** | **60.6%** |
| Personnel benefits | 24,847,045 | 26.2% |
| Benefits former personnel | 25,000 | 0.0% |
| **Total compensation and benefits** | **$82,231,875** | **86.8%** |
| Travel and transportation of persons | 3,329,904 | 3.5% |
| Transportation of things | 91,355 | 0.1% |
| Rent, communications, and utilities | 736,314 | 0.8% |
| Printing and reproduction | 166,124 | 0.2% |
| Consulting and other services | 6,318,160 | 6.7% |
| Supplies and materials | 1,616,508 | 1.7% |
| Equipment | 219,760 | 0.2% |
| **Total budget** | **$94,710,000** | **100.0%** |

The FY 2024 proposed budget of $94.71 million increased by $5.80 million over the FY 2023 revised budget of $88.91 million.

We continue to leverage technology and emphasize savings and efficiencies in operations to keep our costs reasonable. As a result, we 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 and Farmer Mac

The FY 2024 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 34.

In the FY 2024 proposed budget, the full-time-equivalent (FTE) staffing level reflects a slight increase compared to the FY 2023 budget. The FY 2024 budget anticipates increases in spending for salaries and benefits because of career-ladder promotions, benefit increases, career progressions, funded leave, relocations, travel, supplies, dedicated resources to address the risk posed by the ongoing COVID-19 pandemic and equipment life cycle replacements.

As an agency covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), 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 to continue the efforts begun in the previous year.

In FY 2022, we applied evidence-based solutions to help us better address our organizational challenges. With approximately 30% of our workforce eligible to retire within the next five years, we continue investing in programs that foster an engaged, results-oriented culture within the agency with an emphasis on professional and personal growth. These programs also emphasize the importance of technical expertise, collaboration, and performance excellence.

Knowledge management remains a key component of our continuous learning strategy. Job rotation has been an effective knowledge-sharing strategy. Through this process, we've been able to move employees from one position or team to another inside the agency. This has also allowed us to provide employees with more opportunities. We provide developmental opportunities for supervisors and managers to enhance their leadership skills. We continuously work to ensure we have the right people in the right places working on the right things in the right ways. We continue to enhance our onboarding experience for new hires to deepen organizational commitment and foster a sense of belonging early in their careers. We are updating our technical and non-technical training to leverage technology and improve our processes. Our budget supports our continued investment in our employees and maintains compensation and benefits comparable to the other FIRREA agencies.

Our emphasis on employee development, engagement and well-being contributed to our strong showing in the 2022 Federal Employee Viewpoint Survey. According to the 2022 survey results, the agency continues to make significant strides, as evidenced by our 10 highest scores:

1. My supervisor holds me accountable for achieving results. (97%)
2. Employees in my work unit contribute positively to my agency's performance. (96%)
3. Employees in my work unit meet the needs of our customers. (96%)
4. My supervisor supports my need to balance work and other life issues. (95%)
5. My supervisor treats me with respect. (94%)
6. Supervisors in my work unit support employee development. (94%)
7. I am held accountable for the quality of work I produce. (93%)
8. I know how my work relates to the agency's goals. (93%)
9. The people I work with cooperate to get the job done. (93%)
10. My organization is successful at accomplishing its mission. (93%)

We have emphasized acquiring resources to support data and analytics, and we have dedicated staff resources to improving the quality and usefulness of our agency data assets. We continue to focus on delivering analytical tools to enhance effectiveness and efficiency in virtually all aspects of agency activities, including objective decision-making agency operations.

Along with our investment in data and technology, we continue to invest in our technical human capital. The agency has hired new highly technical staff and invested in graduate-level education for current staff to ensure that our workforce is fully capable of using the analytical tools we have invested in. We expect this will continue to yield multiple benefits: more effective examination processes, better informed regulatory activity, improved risk identification, and more effective organization performance measures. Through these efforts, we continue to enhance service across the entire organization.

The FY 2024 budget is also necessary to meet our agency's IT needs for cybersecurity enhancements, data efficiencies, application development, and infrastructure maintenance. As the complexity of our IT networks and the needs for servers and equipment increase, so does the need for funding to address these ever-changing complexities. Our budget also helps us to continue to respond to the volume of new or updated IT-related federal mandates. These mandates are multiyear efforts that require resources to ensure compliance.

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 IRM strategic plan initiatives listed in table 2 are multiyear efforts that support our agency's primary program areas. By focusing on those strategic outcomes, we can direct our resources to the areas that will result in the highest value outcomes.

**Table 2. Information resource management plan initiatives**

| | Description |
|---|---|
| **Goal 1** | Ensure a sound financial system that provides a sustainable source of credit for agriculture and rural America. |
| **Goal 2** | Foster the long-term viability of the U.S. agricultural economy while supporting young, beginning, and small (YBS) farmers, ranchers, and aquatic producers. |

| Initiative | Goal 1 | Goal 2 | 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 |
| **FCA open data** | | | X |

* Distributed initiatives support multiple aspects of our operations and provide support across programs.

## 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

For purposes of our budget, the agency has two primary programs areas: policy and regulation and safety and soundness. All FCA office activities and related costs support these programs directly or indirectly. These primary program areas are crosscutting and support the goals in the agency strategic plan. While our agency strategic plan includes three stewardship objectives related to workforce, technology, and financial management, costs in support of these objectives are intrinsic to the two primary program areas and are not specifically associated with budgeted dollars.

### *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 $21.5 million, including 62.11 FTEs, in the proposed FY 2024 budget (see table 32 on page 82).

### *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 and focus areas, examining institutions on-site, and testing the institutions’ credit reviews, internal audits, and internal controls.

A small number of FCS institutions required heightened supervision as they address weaknesses or risks we have identified. Examiners work with FCS institutions to ensure that these and other risks are recognized and mitigated in a timely manner.

In total, safety and soundness activities account for $72.1 million, including 266.06 FTEs, in the proposed FY 2024 budget (see table 33 on page 83).

### *Office of Inspector General's FY 2024 budget request*

In accordance with 5 U.S.C. 406(g)(1), FCA's Office of Inspector General (OIG) has provided the agency with the following information:

- OIG's total budget request: $2,039,805
- OIG's training budget: $35,000
- OIG's support for the Council of the Inspectors General on Integrity and Efficiency: $9,869

By including this information in our budget request to the president, the FCA board has fulfilled the requirement in 5 U.S.C. 406(g)(2).

# Budget Trends

Over the past three years our annual budget requests increased on average by 5.41%. The most recent increase is 6.52%.

The FY 2024 increased budget will address the following goals:

- To cover salaries, benefits, and training associated with new hires
- To provide career ladder promotions
- To provide funded leave
- To provide career progression
- To provide funds for relocation of hard-to-fill positions
- To provide pay increases, which helps us maintain comparability in employee compensation and benefits with other bank regulators, as required by the Financial Institution Reform, Recovery, and Enforcement Act of 1989
- To provide dedicated resources to address the risk posed by the ongoing COVID-19 pandemic
- To support IT security enhancements, application development, data efficiencies, IT maintenance, and equipment life cycle replacement purchases

Costs have risen moderately over the past three years and are driven primarily by human capital initiatives and costs for consulting and other services (i.e., IT security, data analytics, examiner training, temporary gaps in staffing, etc.). We are investing in technology, data, and analytics to maintain effectiveness and drive efficiency across the agency. See table 3 for information on FCA budget trends.

**Table 3. FCA budgets, FYs 2022–2024**

| Budget categories | FY 2022 revised budget | FY 2023 revised budget | FY 2024 proposed budget |
|---|---|---|---|
| Full-time permanent (FTP) | **$50,531,517** | **$52,482,529** | **$55,662,131** |
| Other than FTP | 662,442 | 493,900 | 510,910 |
| Other personnel compensation | 446,427 | 1,076,335 | 1,186,789 |
| **Total personnel compensation** | **$51,640,386** | **$54,052,764** | **$57,359,830** |
| Personnel benefits | 21,967,711 | 23,643,191 | 24,847,045 |
| Benefits for former personnel | 12,500 | 25,000 | 25,000 |
| **Total compensation and benefits** | **$73,620,597** | **$77,720,955** | **$82,231,875** |
| Travel and transportation of persons | 3,263,437 | 3,170,441 | 3,329,904 |
| Transportation of things | 72,170 | 117,416 | 91,355 |
| Rent, communications, and utilities | 982,552 | 758,548 | 736,314 |
| Printing and reproduction | 149,944 | 165,548 | 166,124 |
| Consulting and other services | 4,407,009 | 5,306,543 | 6,318,160 |
| Supplies and materials | 1,314,641 | 1,529,289 | 1,616,508 |
| Equipment | 999,650 | 141,260 | 219,760 |
| **Total budget** | **$84,810,000** | **$88,910,000** | **$94,710,000** |

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 | Cost efficiencies by only purchasing items that meet agency business needs |
| Improved workflow and functionality through the Enterprise Documentation Guidance (EDGe) project | Improved efficiencies |
| Piloted virtual desktop review of loans to allow exam teams to conduct loan reviews from agency offices. | Better managed travel costs and improved efficiency |
| Increased reliance on FCS Loan Database to conduct analytics | Promotes focus on safety and soundness activities, builds effectiveness and operational efficiency |
| Ensured service provider costs were well-managed | Cost effectiveness |
| Expanded use of electronic communications (i.e., posting publications on agency website, establishing secure connections with business partners and stakeholders, use of email, etc.) | Reduced printing costs and support of environmental sustainability initiatives |
| Implemented and improved audio and video conferencing. Standardized equipment issued to staff. | Improved management of travel costs. Supports a mobile workforce, telecommuting initiatives, and maintains continuity of operations |
| Allowed use of penalty fares on travel and ongoing education of travelers concerning the most cost-effective fares (i.e., capacity-controlled fares) | Continue to realize improvement in travel cost management |
| Reviewed monthly smartphone and wireless device usage | Reduced costs by ensuring devices are being fully utilized |
| Expanded use of online research and electronic materials for training | Reduced printing costs and support of environmental sustainability initiatives |
| 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 National Consumer Cooperative Bank and the Farm Credit System Insurance Corporation. The reimbursable work for the U.S. Department of Agriculture ended in FY 2022. Table 5 shows budgeted sources of revenue and funding for FYs 2022 to 2024.

**Table 5. Budgeted sources of FCA revenue and funding, FYs 2022–2024**

| Source | FY 2022 revised budget | FY 2023 revised budget | FY 2024 proposed budget |
|---|---|---|---|
| **Assessments** | | | |
| Banks, associations, and related entities | $79,450,000 | $81,975,000 | TBD |
| Federal Agricultural Mortgage Corporation | 3,250,000 | 3,325,000 | TBD |
| Carryover funds[a] | 1,500,000 | 3,200,000 | TBD |
| **Assessments available for obligation** | **$84,200,000** | **$88,500,000** | **$94,300,000** [b] |
| **Reimbursements**[c] | | | |
| National Consumer Cooperative Bank | 8,529 | 8,540 | 8,561 |
| Farm Credit System Insurance Corporation | 394,981 | 401,460 | 401,439 |
| U.S. Department of Agriculture | 206,490 | N/A | N/A |
| **Total** | **$84,810,000** | **$88,910,000** | **$94,710,000** |

Note: "TBD" stands for "to be determined."

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 2024 in September of FY 2023.

b. Each year Congress limits the dollar amount of assessments that we may use to pay for administrative expenses. For FY 2024, we propose a limit of $94.3 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 an agency 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 2022, the reserve totaled approximately $15.0 million.

# Assessments

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. Table 6 shows assessments for FYs 2014 through 2023. Assessments in 2014 and 2015 were particularly low because we used large amounts of carryover from prior-year assessments to help fund our operations. To fund the FY 2023 budget, we used $3.2 million of carryover and increased assessments by $2.6 million.

**Table 6. FCS assessments, FYs 2014–2023**

| Fiscal year | Assessment (in millions) |
|---|---|
| 2014 | $50.0 |
| 2015 | $51.5[a] |
| 2016 | $58.3 |
| 2017 | $66.8[b] |
| 2018 | $68.2[b] |
| 2019 | $72.7 |
| 2020 | $73.0[c] |
| 2021 | $76.3[d] |
| 2022 | $82.7 |
| 2023 | $85.3 |

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.

c. The original assessment was $76.0 million and was reduced by $3.0 million during the year primarily because of restricted business travel.

d. The original assessment was $79.8 million and was reduced by $3.5 million during the year primarily because of restricted business travel.

In FY 2022, we assessed the System $82.7 million and ended the year with $1.2 million in reimbursable revenue and deobligations (see table 7). During the year, we had obligations of $82.1 million. The difference between our obligations and funding was $1.8 million, which represents the increase to carryover.

**Table 7. FCA funding, obligations, and assessment carryover, FYs 2021 and 2022 (in millions)**

| Budget item | FY 2021 | FY 2022 |
|---|---|---|
| Current-year assessments | $76.3 | $82.7 |
| Reimbursable revenue and deobligations | 1.1 | 1.2 |
| **Total funding** | **$77.4** | **$83.9** |
| Obligations | 76.9 | 82.1 |
| **Total funding minus obligations** | **$0.5** | **$1.8** |
| Assessment carryover from prior years | 1.9 | 2.4 |
| **Carryover from assessments at end of fiscal year** | **$2.4** | **$4.2** |

## 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 $464.7 billion in total assets as of September 30, 2022, up from $410.6 billion a year earlier.

As table 8 shows, FCS borrowers incurred a net cost of approximately 1.7 basis points, or 1.7 cents for every $100 of assets held, to pay for FCA operations in FY 2022. Since FY 2013, the net cost to borrowers has averaged 1.9 basis points.

**Table 8. FCA's net cost to System borrowers, FYs 2013–2022**

| Fiscal year ended September 30 | Basis points |
|---|---|
| 2013 | 1.9 |
| 2014 | 1.8 |
| 2015 | 1.7 |
| 2016 | 1.8 |
| 2017 | 2.0 |
| 2018 | 2.0 |
| 2019 | 2.0 |
| 2020 | 1.8 |
| 2021 | 1.8 |
| 2022 | 1.7 |

## Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2023 is $3.33 million. The assessment for FY 2024 is not yet available because the Office of Secondary Market Oversight will not complete the FY 2024 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2023. Table 9 shows Farmer Mac assessments for fiscal years 2014 to 2023. 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 2014–2023**

| Fiscal year | Assessment (in millions) |
|---|---|
| 2014 | $2.38 |
| 2015 | $2.40 |
| 2016 | $2.45 |
| 2017 | $2.50 |
| 2018 | $2.50 |
| 2019 | $2.75 |
| 2020 | $2.90 |
| 2021 | $3.00 |
| 2022 | $3.25 |
| 2023 | $3.33 |

# 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 Farm Credit System (FCS or System) banks, associations, and related entities, 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.

The System consists primarily 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 $325.8 billion in outstanding loans to agriculture and rural America as of September 30, 2021.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States and an institution of the FCS, 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, 2021, Farmer Mac's outstanding program activity totaled $23.1 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.

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 2022–2026, 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 compliance with the congressional mandate requiring System associations 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.

## 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.

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

### Figure 1. FCA organizational chart as of January 2023

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

# FCA Internal Operations

The COVID-19 pandemic has accelerated employees' desire to feel that they're fulfilling their purpose. FCA has responded by developing fresh approaches for connecting with, motivating, and engaging staff. Ranked the sixth best place to work among small agencies in the federal government in 2021, we already have significant strengths on which to build, and we continue to promote and encourage practices that foster well-being, resiliency, creativity, innovation, and accountability.

## Human capital management

The agency's Strategic Plan reflects our commitment to maintaining a diverse and capable workforce. Strategic objectives address maintaining a skilled, motivated workforce; ensuring adequate succession planning and knowledge transfer; and promoting diversity, ethics, and engagement in our workforce. 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 2014 through 2024.

**Table 10. Full-time-equivalent staffing levels, FYs 2014–2024**

| Fiscal year | FTE staffing level |
|---|---|
| 2014 | 278 |
| 2015 | 277 |
| 2016 | 290 |
| 2017 | 296 |
| 2018 | 298 |
| 2019 | 308 |
| 2020 | 297 |
| 2021 | 314 |
| 2022 | 313 |
| 2023 | 331 (authorized) |
| 2024 | 332 (authorized) |

Note: From FYs 2014 to 2024, 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, 2022, almost 19.9% of our personnel were eligible to retire; we expect that number to increase substantially over the next few years. By FY 2027, approximately 31.7% of our workforce will be eligible to retire. See table 11 for retirement eligibility projections.

**Table 11. FCA retirement eligibility, FYs 2022–2027**

| 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 |
|---|---|---|---|
| 2022 | 5 | 64 | 19.9% |
| 2023 | 12 | 76 | 23.6% |
| 2024 | 10 | 86 | 26.7% |
| 2025 | 5 | 91 | 28.3% |
| 2026 | 3 | 94 | 28.0% |
| 2027 | 8 | 102 | 31.7% |

Note: This table assumes that staff eligible for retirement remain employed.

We continue to promote a safe and healthy workforce at every level of the organization. In the 2022 Federal Employee Viewpoint Survey, 94% of our employees reported that their supervisor supports their efforts to stay safe and healthy while working.

FCA's Emergency Response Team, composed of the FCA board and senior managers, continues to meet regularly and monitors COVID-19 case trends, local school status, and government status at the federal, state, and local levels for its McLean, Virginia, headquarters and four field offices in various parts of the United States.

In February 2022, we implemented our Return to Work Plan, which started with headquarters employees returning to the office under a hybrid model. In the months following, employees in the other field office locations returned to the workplace under a hybrid model as well. Our current operating model includes continuing to enable staff to telework, conducting contactless temperature checks at all office locations, ensuring that employees abide by masking protocols consistent with guidelines from the Centers for Disease Control and Prevention, and maintaining an updated air filtration system in our headquarters and four field offices.

### *Training*

FCA remains committed to developing and delivering world-class learning resources to ensure that our workforce can meet current and future performance needs. During FY 2021, the Office of Agency Services used strategies to enhance technical capabilities and performance management while the agency operated in a geographically dispersed hybrid work environment. Examples of these strategies include the following:

- Technical capabilities–Continued to partner with Virginia Tech's Department of Agriculture and Applied Economics to develop and deliver for-credit, graduate level courses and professional development certificates with an emphasis in agricultural business, financial risk management, and data analytics

- Performance management–Coordinated and delivered agencywide virtual learning sessions on effective performance management

Our emphasis on training has contributed to our strong showing in the rankings of the Best Places to Work in the Federal Government. In 2021 we were ranked sixth among small federal agencies. The rankings are based on the results of the annual Federal Employee Viewpoint Survey. Moving forward, FCA's Learning and Organizational Change Team plans to build on existing efforts to develop our workforce by instituting a more systemic and integrated set of learning solutions. Some examples planned include the following:

- Updating all learning, training, and education policies by modernizing and streamlining procedures to support a more mission-driven and results-oriented approach to meeting the needs of our workforce

- Revising the agency's leadership competency model to reflect a more contemporary framework that supports effective succession management

- Increasing the utility of the agency's eLearning platform by centralizing all required and discretionary learning resources

### *Examiner commissioning program*

Through our Commissioning Program, we are developing the next generation of diverse and highly skilled 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. Various professional development and certification programs are available to help our examiners hone their expertise.

### *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. 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 was subsequently amended to require the heads of FCA, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the National Credit Union Administration Board, the Federal Housing Finance Board, the Office of Financial Research, and the Bureau of Consumer Finance Protection to inform Congress and one another of their compensation and benefits and to "seek to maintain comparability regarding compensation and benefits."

To comply with FIRREA, we participate in a biennial survey of the other federal financial 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 FIRREA regulators and available funding.

The FCA board approved for the 2023 compensation program a 3% increase in our base salary range structures and a merit pay matrix with pay increases ranging from 0.8% to 34%, depending on each employee's performance rating and placement in the salary range for his or her grade. The board also approved increases to locality rates to align them with the locality rates of the Federal Deposit Insurance Corporation. Table 12 provides the revised 2022 locality rates for FCA locations.

**Table 12. FYs 2022 and 2023 locality rates**

| Locality | 2022 rate | 2023 rate |
|---|---|---|
| McLean | 30.76% | 32.11% |
| Bloomington | 20.27% | 22.37% |
| Denver | 22.65% | 24.75% |
| Dallas | 21.50% | 23.60% |
| Sacramento | 23.66% | 25.76% |
| Rest of the United States | 15.67% | 16.50% |

## External contracting and shared services–Procurement

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 2022**

| Contract | Services provided | Amount |
|---|---|---|
| Administrative Service Center (BFS) | Full-service accounting, e-Travel, credit card, and platform procurement services | $829,506 |
| National Finance Center (USDA) | Payroll services | $50,835 |
| Department of Interior | Personal security and credential services | $26,479 |
| Defense Counterintelligence Security Agency | Background investigation services | $90,000 |

Tables 14 and 15 provide a summary of our competitive consulting service contracts for FYs 2021 and 2022.

**Table 14. Competitive consulting service contracts of more than $25,000, FY 2021**

| Contract | Purpose | Amount |
|---|---|---|
| Second Pillar Consulting, LLC (17-FCA-450-005) | Financial risk evaluation and assessment for the Office of Secondary Market Oversight | $95,000 |
| Harper, Rains, Knight & Company P.A. (18-FCA-700-001) | Financial statement audit services | $55,432 |
| Wells Fargo and Company (19-FCA-641-004) | Retirement administration services | $56,000 |
| Williams Adley and Company DC - LLP (20-FCA-700-003) | FISMA evaluation services | $69,139 |
| Personnel Decisions Research Institutes, LLC (20-FCA-301-001) | Commission test and staff evaluation services | $66,247 |
| August Schell Enterprises, Inc. (20-FCA-651-006) | U.S. federal production support | $60,774 |

**Table 15. Competitive consulting service contracts of more than $25,000, FY 2022**

| Contract | Purpose | Amount |
|---|---|---|
| Second Pillar Consulting, LLC (17-FCA-450-005) | Financial risk evaluation and assessment for the Office of Secondary Market Oversight | $75,000 |
| August Schell Enterprises, Inc. (20-FCA-651-006) | U.S. federal production support | $60,774 |
| Harper, Rains, Knight & Company P.A. (18-FCA-700-001) | Financial statement audit services | $57,021 |
| Principal Financial Group, Inc. (21-FCA-641-018) | Retirement administration services | $88,240 |
| Williams Adley and Company DC - LLP (20-FCA-700-003) | FISMA evaluation services | $70,453 |
| Personnel Decisions Research Institutes, LLC (20-FCA-301-001) | Commission test and staff evaluation services | $67,248 |
| Guidehouse, Inc. (22-FCA-621-005) | Internal Controls Support Services | $214,109 |

## Other functions and activities

In FY 2022, we spent $218 on reception and representation expenses and had no foreign travel expenses.

## 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 (IRM) Strategic Plan.

The IRM Strategic Plan drives IT spending through the current fiscal year and beyond. In 2024, we will continue to improve FCA's records management, 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.

In 2022, we accomplished the following:

- Network and server management including continuing efforts to increase bandwidth while reducing Internet service costs
- Improved SharePoint performance
- Software upgrades
- Modernized several legacy business applications
- Data loading and support including modernization of applications to simplify data collection
- Continued to develop new, and to upgrade existing, applications to support FCA's examination procedures
- Continued the migration to cloud services
- Upgraded VOIP phone systems to support modern security protocols
- Incorporated additional features into the change control process to simplify documenting changes and enhance tracking
- Continued to strengthen our IT security program and our privacy program
- Continued to improve our records management program including receiving positive remarks on the NARA inspection

- Completed tech refresh of agency smartphones in conjunction with implementing additional security requirements

For more information about the ways we will use technology in FYs 2022 and 2023 to achieve our strategic goals, see table 2.

## Independent auditing and accountability

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2022 audit of FCA's financial statements. On November 8, 2022, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2022.

The auditors opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2022, 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 to ensure System institutions, including Farmer Mac, comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System.

The first section below, titled "The Farm Credit System," summarizes examination and supervisory activities performed on the banks, 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 2023.

## 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 reports of condition and performance with FCA each quarter in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance and portfolio quality and other relevant information.

- System banks and 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 the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to achieve and maintain minimum capital levels, to demonstrate 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. We also evaluate whether each institution's business model will ensure that it fulfills its public mission as a government-sponsored enterprise. In addition to overseeing and examining individual institutions, we identify and evaluate Systemwide emerging risks 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 evaluate areas of risk and identify focus areas to set examination priorities, identify potential regulatory issues, allocate resources, and monitor emerging risk exposures. The examination and supervision program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Focus areas for 2023 are

- Risk management practices in an uncertain environment,
- Standards of conduct,

- London Interbank Offered Rate phaseout,
- Current Expected Credit Loss Model implementation,
- Young, beginning, and small farmer and rancher programs, and
- Small, low-risk associations.

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 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 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 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.

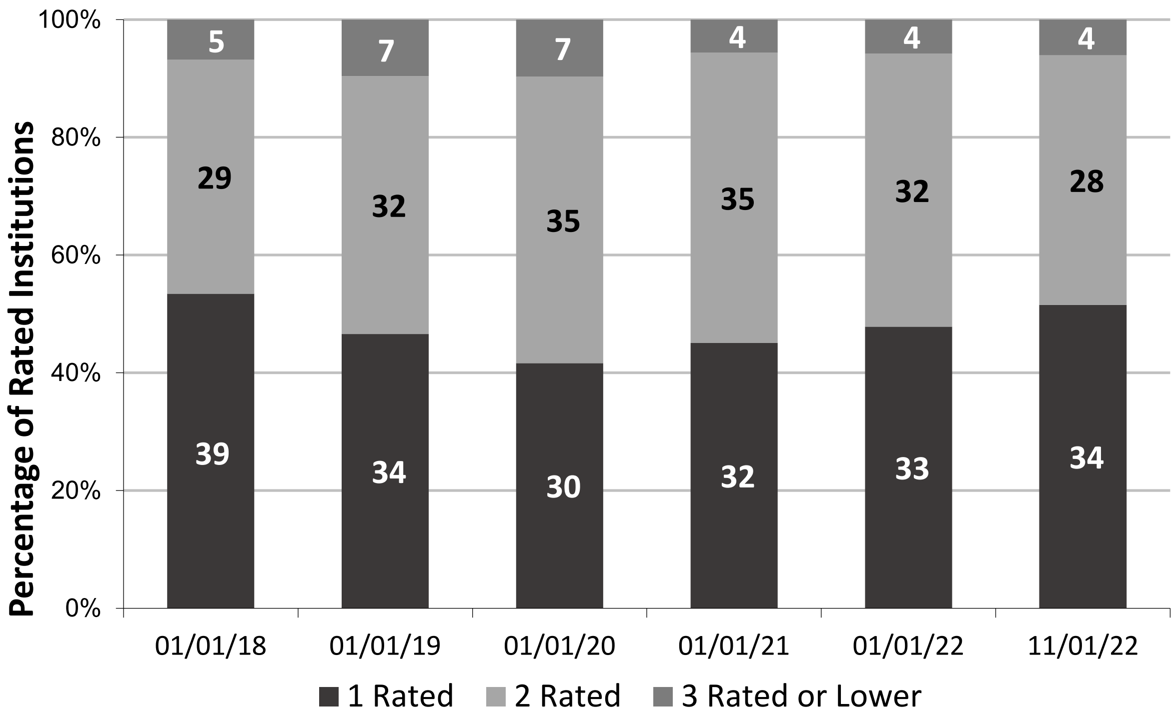
### *Recent results*

As the composite FIRS ratings show, the System's condition and performance have been sound over the past several years. The following summarizes FIRS ratings for System banks and associations as of November 1, 2022:

- Thirty-four institutions were rated 1.
- Twenty-eight were rated 2.
- Four were rated 3 or lower.

See figure 2 for information on FIRS rating trends. 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 actively reporting 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.

### Matching data table for figure 2

| FIRS Ratings | 01/01/18 | 01/01/19 | 01/01/20 | 01/01/21 | 01/01/22 | 11/01/22 |
|---|---|---|---|---|---|---|
| 1 rating | 39 | 34 | 30 | 32 | 33 | 34 |
| 2 rating | 29 | 32 | 35 | 35 | 32 | 28 |
| 3 rating or lower | 5 | 7 | 7 | 4 | 4 | 4 |
| **Total** | **73** | **73** | **72** | **71** | **69** | **66** |

## Federal Agricultural Mortgage Corporation

Through our Office of Secondary Market Oversight (OSMO), we provide for the examination, regulation, 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.By providing a secondary market for agricultural real estate and other loans, Farmer Mac has a very different role from the System's banks and direct-lending associations. Therefore, some of our examination processes for Farmer Mac differ from those for other System institutions. A Sept. 24, 2021, finding by the FCA Office of Inspector General recommended that we document the policies and procedures unique to Farmer Mac examination. In 2022, we developed guidance to address some aspects of the Farmer Mac examination process, and we are now developing guidance to address additional areas. We will also develop procedures to ensure that this guidance remains current.

### *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 2022 despite a modest increase in troubled loan volume.

- Net income available to common shareholders was $144.7 million for the 12 months ended September 30, 2022, compared with $107.1 million during FY 2021.

- Farmer Mac's statutory core capital totaled $1.3 billion at the end of FY 2022, compared with $1.2 billion at the end of FY 2021. The minimum statutory core capital requirement for Farmer Mac's on- and off-balance-sheet exposures totaled $781.7 million at the end of FY 2022. Thus, Farmer Mac exceeded its statutory minimum core capital requirement by approximately $513.9 million.

- At the end of FY 2022, Farmer Mac had $1.3 billion in regulatory capital (as defined in the Farm Credit Act) available to meet the $181.1 million minimum requirement established by FCA's Risk-Based Capital (RBC) Model.

- Program activity increased approximately 9.6%, ending FY 2022 at $25.3 billion. Farmer Mac had $4.4 billion in its liquidity portfolio as of the year-end.

Credit quality remained stable and generally good. Farmer Mac held no real estate owned as of fiscal year-end 2022, unchanged from fiscal year-end 2021. Total acceptable loan volume increased 30 basis points to 97.8% in FY 2022.

### *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 oversee the safety and soundness examinations of the National Consumer Cooperative Bank (NCB), which owns a federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans. Costs have been negligible because of our agreement with the Office of the Comptroller of the Currency. Through this agreement, we generally rely on their safety and soundness examinations to effectively and more efficiently carry out our statutory responsibilities with respect to NCB.

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 resources dedicated to providing these services, and we have no current contracts.

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 considering 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 2022

The FCA board reviews its regulatory agenda semiannually 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.

**Young, beginning, and small (YBS) farmers and ranchers:** We continue to consider improvements to YBS data and strategic planning.

**Conservators and receivers:** We plan to issue a final rule that updates certain FCA regulations and provides clarification on the applicability of bridge bank requirements for System banks.

**Collateral evaluation:** We continue to consider updating collateral appraisals and valuations requirements to address changing credit and economic conditions.

**Cyber-risk management:** We plan to issue a final rule that revises our information technology regulations to address information security, multifactor authentication, and cybersecurity.

**Permanent capital deemed compliance:** We plan to issue a proposed rule that would revise the permanent capital ratio compliance requirements and would update capital language in certain regulatory provisions as appropriate.

**Annual independent audits and internal controls over financial reporting:** We plan to issue a proposed rule that would amend existing regulations concerning annual independent audits to include audits of internal controls over financial reporting for System institutions.

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

**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.

**Bank liquidity reserve:** We plan to issue a proposed rule to amend our liquidity regulations to more closely align with the Basel III liquidity framework and the approach of other federal bank regulatory agencies.

**Loan participations and territorial concurrence:** We plan to issue an advance notice of proposed rulemaking that would consider revising loan participation requirements as it relates to participating in loans outside of chartered territories.

**Similar entities:** We plan to issue an advance notice of proposed rulemaking that would consider clarifying what constitutes functional similarity in the conduct of activities performed by eligible borrowers and what constitutes a loan as it relates to similar entity lending.

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

## Regulatory and policy projects completed in FY 2022 and early FY 2023

Following is a list of projects we completed in FY 2022 and early FY 2023, along with a list of communications we issued to System institutions to clarify our rules.

**Implementation of the current expected credit losses methodology for allowances:** We issued a final rule that amended our regulations to address recent changes to credit loss allowance calculations and reporting required by U.S. generally accepted accounting principles (GAAP).

**Conservators and receivers:** We issued a proposed rule that would update certain FCA regulations and provide clarification on the applicability of bridge bank requirements for System banks.

**Cyber-risk management:** We issued a proposed rule that would update certain information technology regulations to require institutions to conduct cyber-risk assessments and implement other enhancements to their cyber-risk management programs.

**Regulatory burden:** We issued a notice and request for comment regarding outdated or burdensome FCA regulations.

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

**Tier 1/Tier 2 capital framework:** We issued a bookletter to System institutions to provide clarifications and guidance on the recent changes to the Tier 1/Tier 2 capital framework.

**Adequacy of System institutions' allowance for credit losses:** We issued a bookletter to System institutions to provide guidance and our expectations for implementing the revised GAAP allowance requirements.

**Accounting standards update on troubled debt restructuring:** We issued an informational memorandum to provide guidance on the disclosure of certain loan modifications for distressed borrowers per updated GAAP disclosure requirements.

**Farmer Mac capital framework:** We issued an advance notice of proposed rulemaking to solicit comments on potential opportunities to amend and strengthen the regulatory capital framework for Farmer Mac.

## 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 clearance and capital determination requests related to stock requirements and 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 2022 and early FY 2023*

On March 17, 2022, FCA approved the voluntary liquidation and loan portfolio sale of an agricultural credit association (ACA) affiliated with AgriBank.

On July 1, 2022, two ACAs affiliated with AgFirst merged.

On Nov. 1, 2022, two ACAs affiliated with CoBank merged.

On Jan. 1, 2023, two ACAs affiliated with AgFirst merged.

On Jan. 1, 2023, two ACAs affiliated with CoBank merged.

### *Projected mergers and FCS institution size*

As of Jan. 1, 2023, the System had 61 direct-lender associations and four banks. Eight service corporations and special-purpose entities (see pages 51 to 53) brings the total number of FCS institutions, including Farmer Mac, to 73. Due to mergers and consolidations, the number of FCS associations has decreased by 29% since 2010, and the number of FCS banks has decreased by 20%.

Merger and combination activity has increased over the past two years. Therefore, we estimate that 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.

### *Securities offerings by individual associations during FY 2022*

There were three preferred stock offerings in FY 2022: AgTexas Farm Credit Services issued $80 million; and CoBank, ACB, issued $425 million as well as another $400 million. There were no subordinated debt offerings in FY 2022.

### *Funding Corporation activity*

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation, the fiscal agent for the FCS banks. In this way, 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 Sept. 30, 2022, the FCS issued $420 billion in Systemwide debt, compared with $378 billion in FY 2021 and $426 billion in FY 2020. Systemwide debt issuances increased considerably in FY 2022 compared with FY 2021 primarily because of the large increase in loan demand as inflationary pressures impacted commodity prices. Call options exercised in FY 2022 were greatly reduced to total only $3.7 billion, compared with $42.5 billion in FY 2021. This reduction in callable activity was due to the substantial increase in overall interest rates combined with an atypical inverting of a majority of the FCS debt yield curve during FY 2022.

Interest rates for Systemwide debt, compared with rates for U.S. Treasuries of similar maturities remained favorable for maturities of five years and less. However, interest rates for longer-term maturities and callable debt issuances experienced significant premiums due to increased debt market volatility. Investor demand for FCS debt instruments remained strong, although market conditions were constraining at times for certain types of debt issuances, due in part to the System's long-standing solid financial performance. Systemwide debt outstanding increased to $378 billion at the end of FY 2022, an increase of $49 billion from the end of FY 2021. However, FCS debt outstanding decreased to 22.1% of the cumulative GSE debt outstanding at the end of FY 2022 compared with 22.7% at the end of FY 2021 because of outsized growth in other GSE debt outstanding, namely that of the Federal Home Loan Banks.

The financial markets continued to experience significant volatility because of the ongoing global pandemic and its effect on the global economy coupled with the onslaught of high inflation. The Federal Reserve, along with other central banks, began aggressive actions to reduce and remove very accommodative monetary policies to try to subdue global inflationary pressures. Those actions were taken in early 2022 in reaction to high uncertainty related to the global pandemic's potential detrimental impact on the global economy.

### *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 RBICs:

- 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 continued to review nonleveraged RBIC licensing applications and examined licensed, nonleveraged RBICs. The agreement expired at the end of fiscal year 2021.

Since 2012, FCA has reviewed 16 nonleveraged RBIC applications, of which nine were licensed by USDA at the time the agreement expired. FCA has completed 12 examinations of six licensed, nonleveraged RBICs.

# 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, the Federal Farm Credit Banks Funding Corporation, 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 government-sponsored enterprises (GSEs). As of Jan. 1, 2023, the System had four banks providing loan funds to

- 60 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.

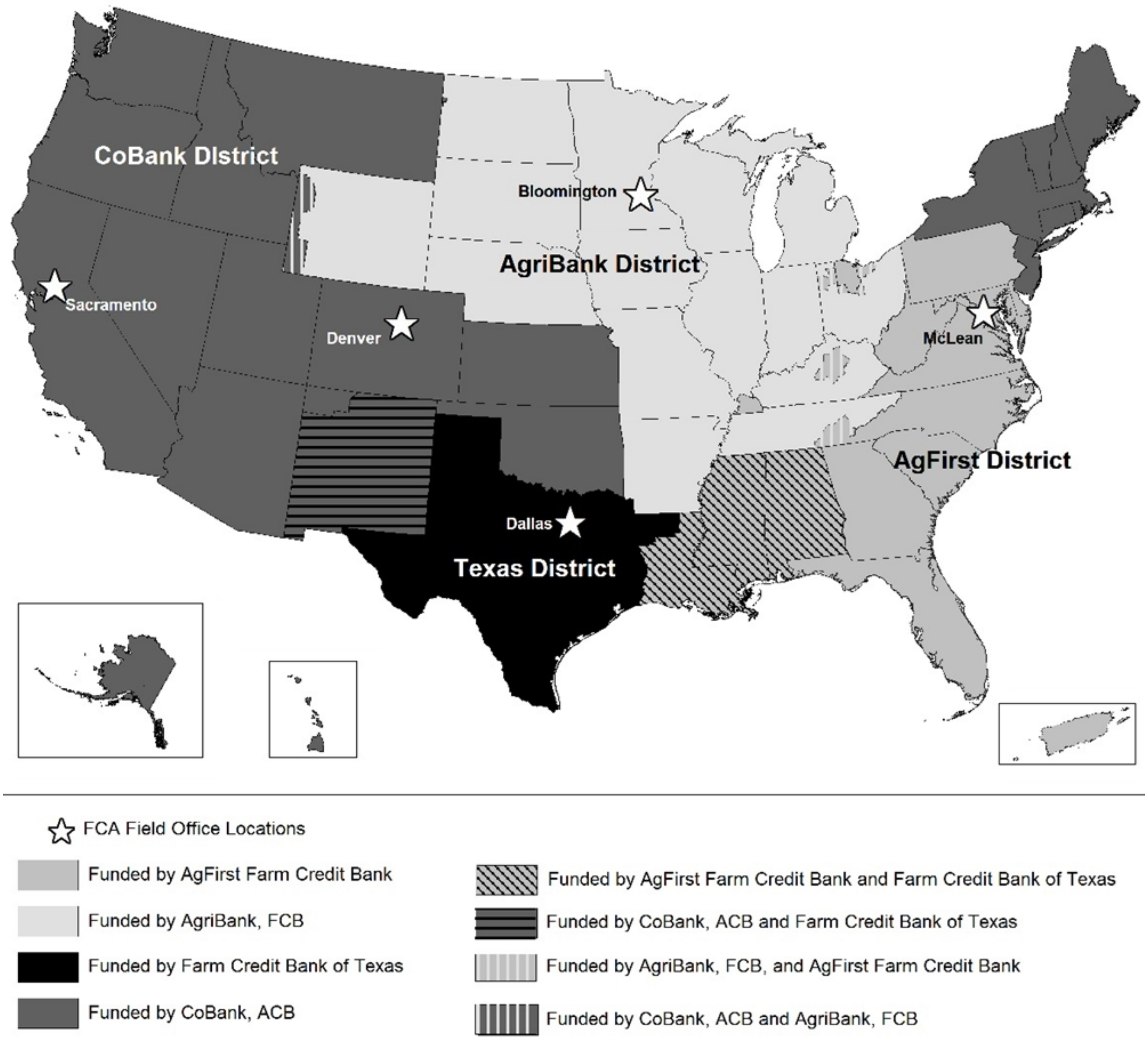
The map in figure 3 shows each bank's chartered territory.

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, ACAs make long-term agricultural mortgage loans and short- and intermediate-term operating loans. PCAs make short- and intermediate-term loans. FLCAs, which are organized as federal land bank associations, originate long-term agricultural mortgages. FLCAs are exempt from federal and state income taxes; ACAs and PCAs 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. The chartered territories of Farm Credit System banks as of January 1, 2023**




NOTE: CoBank, ACB, funds 17 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 12 associations; and AgFirst Farm Credit Bank funds 17 associations. The Farm Credit System contains a total of 65 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 six service corporations organized under section 4.25 of the Farm Credit Act:[3]

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

**Federal Agricultural Mortgage Corporation**–Farmer Mac[4] 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

[3] 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.

[4] 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.

- Rural Utilities
- Institutional Credit

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

**Federal Farm Credit Banks Funding Corporation:** The Funding Corporation is owned by System banks; it sells debt securities on behalf of the banks to raise funds for loans and other purposes. System institutions obtain the majority of their funds through the sale of these 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, agricultural cooperatives, rural homeowners, and rural utilities; 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 10 associations in the CoBank district.

**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.:** Owned by four agricultural credit associations, Farm Credit Financial Partners provides support services to three associations affiliated with CoBank and two associations affiliated with AgriBank.

**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 System entities (29 FCS associations, two service corporations, and one FCS bank).

**SunStream Business Services:** SunStream provides technology-related and other services to the bank and associations in the AgriBank district. Chartered by FCA in 2020, it is owned by the district bank, two district associations, and an ownership collaboration of eight district associations.

## 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 continued to be safe and financially sound, and was well-positioned to accomplish its mission of providing reliable credit and related services in support of agriculture and rural America. Through the first nine months of 2022, the System reported favorable financial results, including continued strong loan growth and increased earnings. System institutions remained strongly capitalized, with significant risk-bearing capacity. FCS banks maintained reliable access to debt capital markets and held liquidity positions well above the regulatory minimum.

The U.S economy in 2022 faced significant economic challenges including high inflation and sharply rising interest rates. Despite slowing economic growth, labor markets remained tight. Together these issues had wide-ranging implications for consumers, businesses, and agriculture. The U.S. housing market slowed sharply as the cost of borrowing increased. Of particular concern is the impact on economic growth of continued efforts to lower inflation. Labor markets and consumers' reaction to inflation and higher interest rates will be key drivers of the economy going into next year.

The farm economy remained resilient despite volatile market conditions, rising costs, supply chain disruptions, and labor-availability issues. For agricultural producers, cost increases extended beyond higher labor and interest costs and included major increases for energy, transportation, fertilizer, chemicals, and feed. Still, 2022 net farm income is forecast at $160.5 billion, up 13.8% from 2021 and significantly above its 20-year average.

Profit margins continued to be favorable for most crop and livestock sectors. Strong demand and modest production increases helped support higher prices, but rising input costs limited profit gains. The livestock and dairy sectors, in particular, felt the impact of higher feed costs. Drought in the Western U.S. also created major challenges for producers in affected areas, especially in the cattle sector.

Note: All financial data in this section are as of September 30, 2022, unless noted otherwise.

## Earnings

The FCS earned $5.449 billion in the first nine months of 2022, a 4.8% increase from the $5.201 billion earned in the same period last year. As table 16 shows, net income increased in 2022 mainly because of higher net interest income partially offset by higher noninterest expense.

**Table 16. Net income (dollars in millions)**

| System net income | First 9 months of 2021 | First 9 months of 2022 | Dollar change | Percent change |
|---|---|---|---|---|
| Net interest income | $7,260 | $7,836 | $576 | 7.9% |
| − Provision (reversal) for loan losses | (142) | (9) | 133 | (93.7%) |
| **= Net interest income after loss provision (reversal)** | **$7,402** | **$7,845** | **$443** | **6.0%** |
| + Noninterest income | 571 | 636 | 65 | 11.4% |
| − Noninterest expense | 2,632 | 2,880 | 248 | 9.4% |
| = Pretax income | $5,341 | $5,601 | $260 | 4.9% |
| − Provision for income tax | 140 | 152 | 12 | 8.6% |
| **= Net income** | **$5,201** | **$5,449** | **$248** | **4.8%** |

Source: Third Quarter 2022 Quarterly Information Statement of the Farm Credit System, p. F-3

The increase in net interest income was primarily due to higher average interest-earning assets, which increased to $437.2 billion for the nine months ended September 30, 2022, from $393.3 billion a year earlier. Net interest margin was 2.39%, down 7 basis points from the same period a year ago (table 17). Net interest spread decreased 12 basis points. This change was driven by a 43-basis-point increase in the annualized rate on interest-bearing liabilities, which was partially offset by a 31-basis-point increase in the rate on total interest-earning assets.

**Table 17. Interest margin in annualized percentages**

| Net interest margin | First 9 months of 2021 | First 9 months of 2022 | Change (bps) |
|---|---|---|---|
| Total interest-earning assets | 3.17 | 3.48 | 31 |
| Total loans | 3.61 | 3.91 | 30 |
| Investments and other assets | 1.14 | 1.55 | 41 |
| Total interest-bearing liabilities | 0.84 | 1.27 | 43 |
| Net interest spread | 2.33 | 2.21 | (12) |
| Impact of noninterest-bearing items | 0.13 | 0.18 | 5 |
| Net interest margin | 2.46 | 2.39 | (7) |

Source: Third Quarter 2022 Quarterly Information Statement of the Farm Credit System, p.15; bps = basis points.

As table 18 shows, all districts reported a decrease in the return on average assets. For return on average capital, AgFirst and AgriBank districts reported a decrease and Texas and CoBank districts reported an increase from the prior year.

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

| Profitability ratios | | AgFirst | AgriBank | Texas | CoBank |
|---|---|---|---|---|---|
| Percentage return on average assets | 2021 | 1.90 | 1.63 | 1.72 | 1.53 |
| | 2022 | 1.60 | 1.54 | 1.58 | 1.43 |
| Percentage return on average capital | 2021 | 11.08 | 9.41 | 11.77 | 11.30 |
| | 2022 | 10.39 | 9.35 | 12.21 | 11.78 |

Source: Third Quarter 2022 Quarterly Information Statement of the Farm Credit System, p. F-56.

Note: The financial ratios are for the district bank and affiliated associations combined.

## System growth

The System reported strong year-over-year growth. FCS assets were up $54.1 billion or 13.2% to $464.7 billion. Much of the increase was the result of growth in the System's loan portfolio, which grew by $35.9 billion or 11.0%.

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, primarily in the processing and marketing segment, accounted for much of the growth, increasing 7.5% and 22.4%, respectively.

All System districts reported higher loan portfolio balances. The Texas district reported the largest percentage increase in volume, with loan balances growing 14.0% year over year. Provided in table 19 are the gross loan volume and the percentage change in volume for System districts.

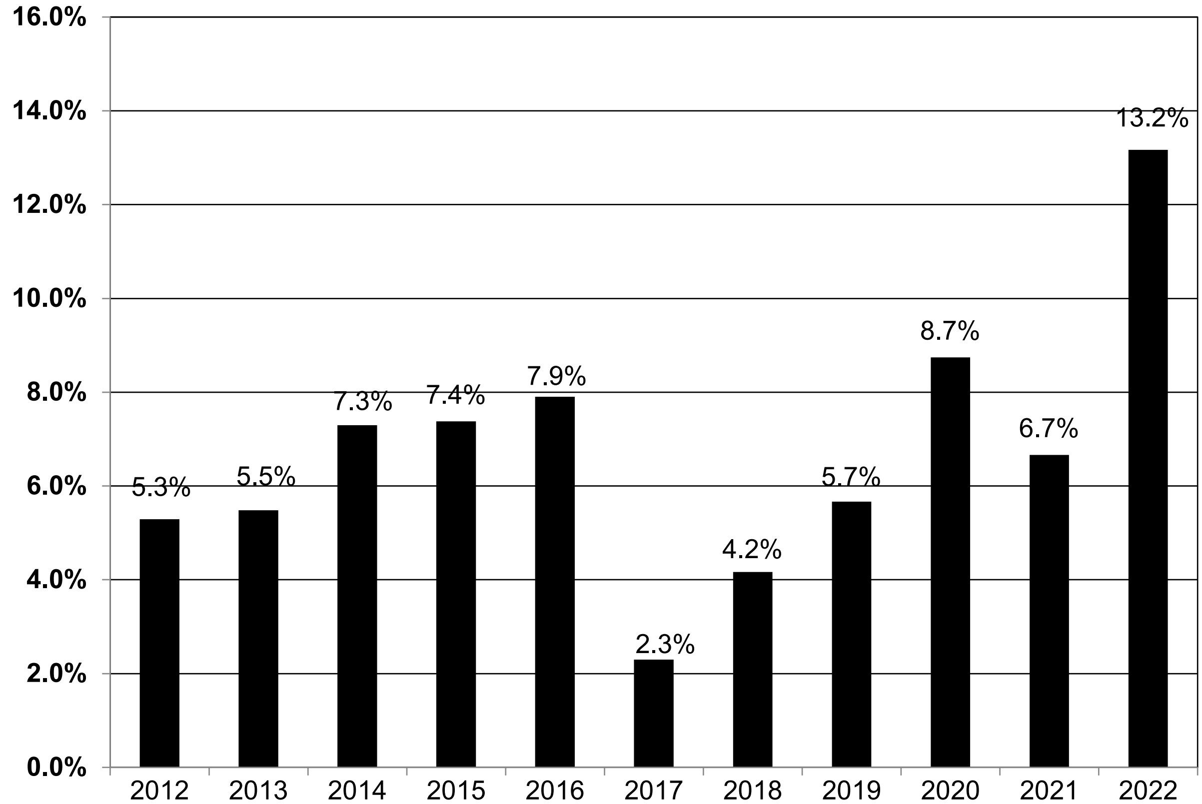
**Table 19. Gross loan growth by district and Systemwide (dollars in millions)**

| District | September 30, 2021 | | September 30, 2022 | | Change in dollars | Percent change |
|---|---|---|---|---|---|---|
| | Gross loans | Percent total | Gross loans | Percent total | | |
| AgFirst | $33,815 | 10.4 | $37,493 | 10.4 | $3,678 | 10.9 |
| AgriBank | 134,313 | 41.2 | 147,849 | 40.9 | 13,536 | 10.1 |
| Texas | 31,577 | 9.7 | 35,999 | 9.9 | 4,422 | 14.0 |
| CoBank | 131,455 | 40.4 | 146,371 | 40.5 | 14,916 | 11.3 |
| Insurance Fund and Intra-System Eliminations | (5,376) | (1.7) | (6,033) | -1.7 | (657) | 12.2 |
| **Total for System** | **$325,784** | **100.0** | **$361,679** | **100.0** | **$35,895** | **11.0** |

Source: Third Quarter 2021 Quarterly Information Statement of the Farm Credit System, p. F-51; and Third Quarter 2022 Quarterly Information Statement of the Farm Credit System, p. F-52.

As noted in figure 4 below, the System's total assets increased by 13.2% during the 12-month period, up from 6.7% for the same period a year ago.

**Figure 4. Year-over-year percent change in System assets, September 2012–2022**




Source: Quarterly Information Statements of the Farm Credit System.

**Matching data table for figure 4**

| Year | Year-over-year percent change in System assets |
|---|---|
| 2012 | 5.3 |
| 2013 | 5.5 |
| 2014 | 7.3 |
| 2015 | 7.4 |
| 2016 | 7.9 |
| 2017 | 2.3 |
| 2018 | 4.2 |
| 2019 | 5.7 |
| 2020 | 8.7 |
| 2021 | 6.7 |
| 2022 | 13.2 |

## Assets–Investments

The System's investments totaled $73.3 billion, up 4.1% from a year earlier. As shown in table 20, investments available for sale totaled $70.8 billion. Investments held to maturity were $2.6 billion, including $1.5 billion for mortgage-backed securities.

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

During the most recent 12-month period, the weighted average yield on investments available for sale increased from 1.09% to 2.20%, with yields increasing on all available-for-sale segments. For investments held to maturity, the yield decreased from 2.06% to 1.87% mainly because of a decrease in the yield for mortgage-backed securities.

Ineligible investments held by the System totaled $545 million at fair value, up from $454 million a year ago.

**Table 20. FCS investments (dollars in millions)**

| Investment classification | | September 30, 2021 | | September 30, 2022 | | Change | | |
|---|---|---|---|---|---|---|---|---|
| | | Amount | WAY (%) | Amount | WAY (%) | Dollars | Percent | WAY (bps) |
| Available for sale (fair value) | Money market instruments | $4,704 | 0.55 | $9,722 | 3.27 | $5,018 | 106.7 | 272 |
| | U.S. Treasury securities | 26,676 | 0.96 | 22,171 | 1.61 | (4,505) | (16.9) | 65 |
| | U.S. agency securities | 2,386 | 1.97 | 1,739 | 2.60 | (647) | (27.1) | 63 |
| | Mortgage-backed securities | 29,866 | 1.12 | 31,212 | 2.22 | 1,346 | 4.5 | 110 |
| | Asset-backed securities | 3,623 | 1.88 | 4,235 | 2.53 | 612 | 16.9 | 65 |
| | Other securities | 1,094 | 1.11 | 1,673 | 2.16 | 579 | 52.9 | 105 |
| | **Total** | **$68,349** | **1.09** | **$70,752** | **2.20** | **$2,403** | **3.5** | **111** |
| Held-to-maturity (amortized cost) | Mortgage-backed securities | $1,357 | 2.57 | $1,548 | 2.09 | $191 | 14.1 | (48) |
| | Asset-backed securities | 695 | 0.78 | 985 | 1.36 | 290 | 41.7 | 58 |
| | Other securities | 47 | 6.24 | 38 | 6.28 | (9) | (19.1) | 4 |
| | **Total** | **$2,099** | **2.06** | **$2,571** | **1.87** | **$472** | **22.5** | **(19)** |
| **Total** | **All FCS investments** | **$70,448** | **1.12** | **$73,323** | **2.19** | **$2,875** | **4.1** | **107** |

Source: Third Quarter 2021 Quarterly Information Statement of the Farm Credit System, pp. F-9–11; and Third Quarter 2022 Quarterly Information Statement of the Farm Credit System, pp. F-10–12.

WAY = weighted average yield; bps = basis points.

## Loan quality

System loans continued to perform well in 2022 and portfolio credit risk remained low. As of September 30, System nonperforming assets totaled $1.803 billion or 0.51% of total loans and other property owned, as compared with $1.784 billion or 0.55% a year earlier.

In the first nine months of 2022, the System reported net loan charge-offs of $16 million compared with net loan recoveries of $4 million for the same period a year ago. The allowance for loan losses decreased to $1.540 billion in the first nine months of 2022, down 6.8% from the same period in 2021. See table 21 for additional information about the allowance for loan losses and other loan quality measures.

Although portfolio loan quality is strong, stress is elevated for producers in certain sectors and geographic regions. Significant increases in feed costs, energy, transportation, crop inputs and labor limited profits for some producers in 2022. 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, 2021 | September 30, 2022 | Change in percentage points |
|---|---|---|---|
| Nonperforming assets as percentage of total loans and other property owned | 0.55% | 0.51% | (0.04) |
| Nonperforming assets as percentage of capital | 2.57% | 2.64% | 0.07 |
| Nonaccrual loans as percentage of total loans | 0.41% | 0.36% | (0.05) |
| ALL as percentage of total loans | 0.51% | 0.43% | (0.08) |
| ALL as percentage of nonperforming assets | 92.7% | 84.2% | (8.50) |
| ALL as percentage of nonaccrual loans | 123.4% | 119.3% | (4.10) |

Source: Third Quarter 2021 Quarterly Information Statement of the Farm Credit System, p. 21 and 24; and Third Quarter 2022 Quarterly Information Statement of the Farm Credit System, pp. 21 and 24.

ALL = allowance for loan losses.

## Liabilities, funding, and liquidity

The System's total liabilities increased by 15.9% to $395.3 billion. See table 22 below. Short-term debt securities (due within one year) increased 13.9% to $137.0 billion. Systemwide debt securities due after one year increased 15.1% to $240.1 billion. Short-term debt securities represented 34.7% of the total Systemwide liabilities, down from 35.3% a year earlier.

**Table 22. Systemwide debt (dollars in millions)**

| System debt by maturity | September 30, 2021 | September 30, 2022 | Change | |
|---|---|---|---|---|
| | | | Dollars | Percent |
| Systemwide discount notes due within one year | $18,790 | $26,529 | $7,739 | 41.2 |
| Systemwide bonds, medium-term notes, and master notes due within one year | 101,545 | 110,520 | 8,975 | 8.8 |
| Total short-term liabilities | $120,335 | $137,049 | $16,714 | 13.9 |
| Systemwide bonds, medium-term notes, and master notes due after one year | 208,673 | 240,105 | 31,432 | 15.1 |
| Other liabilities | 12,083 | 18,102 | 6,019 | 49.8 |
| **Total liabilities** | **$341,091** | **$395,256** | **$54,165** | **15.9** |

Source: Third Quarter 2021 Quarterly Information Statement of the Farm Credit System, p. F-2; and Third Quarter 2022 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 Bank's aggregate liquidity position decreased slightly to 172 days from 174 days a year earlier. Each bank met the three tiers of the liquidity reserve requirements and exceeded the regulatory minimum of 90 days of liquidity.[5]

The aggregate duration gap for the FCS (the sum of the banks' duration gaps) was a positive 3.4 months compared with a positive 3.9 months a year earlier. A duration gap of a positive six months to a negative six months generally indicates a small exposure to interest rate risk. An institution's overall exposure to interest rate risk is a function not only of its duration gap but also of the financial leverage inherent in the institution's capital structure.

[5] 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.

## Capital

System capital levels remained steady in 2022, with total capital amounting to $69.5 billion, compared with $69.4 billion a year earlier (see table 23). Retained earnings as a percentage of total capital increased to 83.2%, compared with 79.6% a year ago. The System's overall capital-to-assets ratio declined to 14.9% from 16.9% a year ago. The change was mainly due to two factors in combination. First, asset growth outpaced capital growth. Second, there was an increase in accumulated other comprehensive loss, resulting from the impact of higher interest rates on the fair value of fixed-rate securities.

**Table 23. FCS capital composition (dollars in millions)**

| System capital | September 30, 2021 | September 30, 2022 | Change | |
|---|---|---|---|---|
| | | | Dollars | Percent |
| Preferred stock | $3,531 | $3,816 | $285 | 8.1 |
| Capital stock and participation certificates | 2,049 | 2,119 | 70 | 3.4 |
| Additional paid-in capital | 3,785 | 4,533 | 748 | 19.8 |
| Restricted capital (Insurance Fund) | 5,833 | 6,483 | 650 | 11.1 |
| Accumulated other comprehensive income (loss) | (1,051) | (5,299) | (4,248) | 404.2 |
| Retained earnings | 55,351 | 57,744 | 2,393 | 4.3 |
| **Total capital** | **$69,498** | **$69,396** | **($102)** | **(0.1)** |

Source: Data from the Third Quarter 2021 Quarterly Information Statement of the Farm Credit System, p. F-2; and Third Quarter 2022 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 capital regulations. In addition, FCA regulations treat earnings that have been allocated to members as equities, not retained earnings. Unallocated retained earnings make up most of the System's retained earnings category.

All System institutions were in compliance 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 includes a capital cushion (capital conservation buffer) of 2.5% above the CET1 ratio, tier 1 capital ratio, and total capital ratio requirements. The 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**

| Regulatory capital ratios | | AgFirst | AgriBank | Texas | CoBank |
|---|---|---|---|---|---|
| Common equity tier 1 | 9/30/2021 | 18.5 | 17.0 | 9.5 | 12.9 |
| | 9/30/2022 | 15.4 | 16.5 | 8.7 | 12.0 |
| Tier 1 capital | 9/30/2021 | 18.7 | 17.6 | 15.3 | 14.8 |
| | 9/30/2022 | 15.4 | 17.1 | 13.6 | 14.0 |
| Tier 1 leverage | 9/30/2021 | 6.7 | 5.3 | 6.5 | 7.6 |
| | 9/30/2022 | 6.0 | 5.1 | 5.9 | 7.0 |
| Permanent capital ratio | 9/30/2021 | 18.7 | 17.6 | 15.3 | 14.9 |
| | 9/30/2022 | 15.4 | 17.1 | 13.6 | 14.1 |
| **Total capital** | **9/30/2021** | **18.9** | **17.7** | **15.4** | **15.8** |
| | **9/30/2022** | **15.5** | **17.1** | **13.7** | **14.9** |
| | **Change** | **(3.4)** | **(0.6)** | **(1.7)** | **(0.9)** |

Source: Data from the Third Quarter 2021 Quarterly Information Statement of the Farm Credit System, p. F-46; the Third Quarter 2022 Quarterly Information Statement of the Farm Credit System, p. F-47; and the Third Quarter 2021 and 2022 Quarterly Shareholder reports for FCS banks.

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

- CET1 capital ratio: 9.8% to 30.9%
- Tier 1 capital ratio: 11.4% to 30.9%
- Tier 1 leverage ratio: 10.1% to 29.8%
- Total capital ratio: 11.6% to 31.7%

# Young, Beginning, and Small Farmers and Ranchers

FCA supports the Farm Credit System's mission to serve young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products. As of year-end 2021, we defined young farmers as those who are 35 years old or younger, beginning farmers as those who have been farming for 10 years or less, and small farmers as those with less than $250,000 in annual sales. FCA is planning to change the definition of small farmers by increasing the annual sales threshold from $250,000 to $350,000. We are currently working with System institutions on implementing this change for future reporting periods.

The System's YBS mission is outlined in the Farm Credit Act, and we have adopted regulations to implement the YBS provisions of the act. The Farm Credit Act and FCA regulations stipulate that each FCS bank must have written policies that direct each of the associations it supervises to have the following:

- A program for furnishing sound and constructive credit and financially related services to YBS farmers
- A mission statement describing the program's objectives and specific means to achieve the objectives
- Annual quantitative targets for credit to YBS farmers
- Outreach efforts and annual qualitative goals for offering credit and related services that meet the needs of YBS farmers

An association's board oversight and reporting are key parts of every YBS program. Each association must report annually to its supervisory bank on the operations and achievements of its YBS program, and each bank must provide to FCA an annual summary of its district associations' reports. Each association also must establish an internal controls program to ensure that it provides credit in a safe and sound manner.

In addition, FCA regulations require association business plans to include a marketing plan and strategies with special emphasis on 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 associations must also coordinate with other government and private sources of credit in implementing their YBS programs. FCA's oversight and examination activities monitor each institution's assessment of its performance and market penetration in the YBS area.

In fall 2021, following the 2020 conference with USDA, the University of Nebraska–Lincoln and FCA facilitated a YBS farmer symposium. The event brought YBS borrowers together with government agencies and agricultural lenders to discuss ways to better serve the credit needs of YBS producers. The symposium gave the agency a chance to hear from many YBS producers and learn about the opportunities and challenges they face with their businesses.

Because of the success of the Nebraska event, the agency partnered with Colorado State University to hold a national event in March 2022: the National Forum on Serving YBS Farmers and Ranchers. This forum brought together leaders from CSU, USDA, the Farm Service Agency, the Farm Credit System, and FCA; agricultural industry stakeholders; and YBS producers to discuss matters of importance to the YBS community.

We continue to work with stakeholders to further improve financing opportunities for YBS farmers and ranchers.

## Results

The following information summarizes the quantitative information that System institutions provided for their YBS programs. (See tables 25 and 26.)

In 2021, the System made a total of 378,779 new loans, totaling $136.4 billion. The total number of outstanding loans at year-end 2021 was 963,530, amounting to $350.3 billion.

**Table 25: YBS loans made during 2021**

| YBS category | Number of loans | Percentage of total number of System loans | Dollar volume of loans in millions | Percentage of total dollar volume of System loans | Average loan size |
|---|---|---|---|---|---|
| Young | 67,647 | 17.9% | $14,946 | 11.0% | $220,941 |
| Beginning | 97,127 | 25.6% | $26,234 | 19.2% | $270,096 |
| Small | 167,729 | 44.3% | $25,627 | 18.8% | $152,790 |

**Table 26: YBS loans outstanding (as of December 31, 2021)**

| YBS category | Number of loans | Percentage of total number of System loans | Dollar volume of loans in millions | Percentage of total dollar volume of System loans | Average loan size |
|---|---|---|---|---|---|
| Young | 186,323 | 19.3% | $37,021 | 10.6% | $198,695 |
| Beginning | 297,289 | 30.9% | $64,665 | 18.5% | $217,516 |
| Small | 478,672 | 49.7% | $66,863 | 19.1% | $139,685 |

Sources: Annual Young, Beginning, and Small Farmer Reports submitted by each System lender through the FCS banks.

Note: The YBS totals listed in tables 25 and 26 include loans, advancements, commitments, and participation interests to farmers, ranchers, and aquatic producers. The totals exclude rural home loans made under FCA regulation 613.3030, loans to cooperatives, and the activities of the Farm Credit Leasing Services Corporation.

**Young**: The System reported making 67,647 new loans to young farmers in 2021, and the volume of these loans amounted to $14.9 billion. The new loans made to young farmers in 2021 represented 17.9% of all loans the System made during the year and 11.0% of the dollar volume of loans made. At the end of 2021, the System reported 186,323 loans outstanding to young farmers, totaling $37.0 billion.

**Beginning:** The System reported making 97,127 new loans to beginning farmers in 2021, and the volume of these loans amounted to $26.2 billion. The new loans made to beginning farmers in 2021 represented 25.6% of all System loans made during the year and 19.2% of the dollar volume of loans made. At the end of 2021, the System reported 297,289 loans outstanding to beginning farmers, totaling $64.7 billion.

**Small:** System institutions reported making 167,729 new loans to small farmers in 2021, totaling $25.6 billion. The new loans made to small farmers in 2021 represented 44.3% of all System loans made during the year and 18.8% of the dollar volume of loans made. At the end of 2021, the System reported 478,672 loans outstanding to small farmers, totaling $66.9 billion.

Please note: Because the YBS mission is focused on each borrower group separately, data are reported separately for each of the three YBS categories. Since some loans fit more than one category, adding the loans across categories does not produce an accurate measure of the System's YBS lending.

# Market Share of Farm Debt

According to the U.S. Department of Agriculture's December 2022 forecast, total farm debt is estimated to have topped $501 billion at the end of 2022, up 5.9% from a year earlier and up 34% since 2016. 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 $474 billion farm debt market at the end of calendar year 2021 was 45.3%, up from 44.4% at the end of 2020. The market share for commercial banks stood at 35.0% at the end of 2021, down from 36.3% at the end of 2020. The combined share of other lender groups increased by 0.4%.

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 2021, the share of farm debt secured by farm real estate was 48.8% for the System and 31.1% for commercial banks. At year-end 2021, the share of farm debt secured by collateral other than farm real estate was 37.8% for the System and 43.4% for commercial banks.

# Part IV

# Performance Budget

# FY 2024

# Performance Budget Overview

Our FY 2024 performance budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future agricultural credit needs while ensuring the safety and soundness of the FCS. FY 2024 will be our second year operating under our new strategic plan for FYs 2022 to 2026. Our two core program activities, which are essential to carrying out our agency's mission, remain unchanged. Our strategic goals encompass these core program activities:

- **Policy and regulation:** This program tracks the costs of achieving a regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

- **Safety and soundness:** This program tracks the product and service costs of identifying risks and mitigating those risks in a timely fashion.

For purposes of our performance budget, we established a third program activity for our reimbursable activities. We track these activities separately from the two agency mission program budgets for policy and regulation and safety and soundness.

The total performance budget for FY 2024 (see table 27) is $94.71 million and reflects a 6.5% increase from FY 2023.

**Table 27. FCA performance budget, FYs 2022–2024**

| Program areas | FY 2022 revised budget | FY 2023 revised budget | FY 2024 proposed budget |
|---|---|---|---|
| Policy and regulation | $19,064,643 | $20,815,174 | $21,510,692 |
| Safety and soundness | 64,167,022 | 66,997,656 | 72,068,763 |
| Reimbursable activities* | 1,578,335 | 1,097,170 | 1,130,545 |
| **Total** | **$84,810,000** | **$88,910,000** | **$94,710,000** |

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

## Policy and regulation

Our performance budget includes approximately $21.5 million for the policy and regulation program, a 3.3% increase from FY 2023. Most of the funds requested for policy and regulation in FY 2024 will support regulatory projects that were published in the Unified Agenda in the fall of 2022.

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 $72.1 million for the safety and soundness program, a 7.6% increase from FY 2023. 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 2024, budgeted monies will continue to support development of examination guidance and systemic risk oversight of System institutions and Farmer Mac.

## Reimbursable activities

During FY 2024, we expect to perform approximately $1.1 million in reimbursable work for the following organizations.

- Farm Credit System Insurance Corporation–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 oversee the NCB's safety and soundness examinations. Costs have been negligible due to our reliance on an agreement with the Office of the Comptroller of the Currency.

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

### Table 28. FY 2024 proposed budget and full-time equivalents for program activities

| Program activity | Products and services | Budget amount | FTEs |
|---|---|---|---|
| Policy and regulation | Regulation and policy development | $16,333,933 | 47.15 |
| | Statutory and regulatory approvals | 5,176,759 | 14.96 |
| | **Total for policy and regulation** | **$21,510,692** | **62.11** |
| Safety and soundness | Examination | $67,339,287 | 253.03 |
| | Economic, financial, and risk analysis | 3,328,569 | 8.98 |
| | FCS data management | 1,400,907 | 4.05 |
| | **Total for safety and soundness** | **$72,068,763** | **266.06** |
| Reimbursable activities | **Total for reimbursable activities** | **$1,130,545** | **3.75** |
| All program activities | **Total** | **$94,710,000** | **331.92** |

# Our Strategic Plan Framework

The strategic goals outlined in our FY 2022–2026 strategic plan provide an overarching framework for achieving our public mission. They are clear statements of what FCA wants to achieve to advance its mission and address relevant national problems, needs, challenges, and opportunities.

## Strategic Goal 1: Ensure a sound financial system that provides a sustainable source of credit for agriculture and rural America.

This strategic goal directly reinforces FCA's mission to ensure that Farm Credit 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 goal also addresses three focus areas for the current planning cycle:

- First, FCA will consider the challenges facing the System's small versus large associations when evaluating merger proposals and administering its examination and regulatory program.
- Second, FCA will evaluate the effectiveness of the contingency plans of System institutions and Farmer Mac in addressing the weather and other environmental threats to agriculture that have been identified through scenario testing.
- Third, FCA will assess the preparedness of System institutions and Farmer Mac for cybersecurity threats and events.

## Strategic Goal 2: Foster the long-term viability of the U.S. agricultural economy, while supporting young, beginning, and small (YBS) farmers, ranchers, and aquatic producers.

This strategic goal underscores the importance of continued agricultural production in the United States. FCA is committed to continue promoting the long-term viability of the U.S. agricultural economy and encouraging Farm Credit System institutions to support young, beginning, and small (YBS) farmers, ranchers, and aquatic producers.

The supporting strategic objectives for each strategic goal reflect the outcome or management impact the agency intends to achieve. Each objective is tracked through performance goals and other indicators. Table 29 is a matrix of the strategic objectives associated with each strategic goal.

**Table 29. FY 2024 strategic goals and strategic objectives**

| Strategic goal | Strategic objectives |
|---|---|
| 1.Ensure a sound financial system that provides a sustainable source of credit for agriculture and rural America. | 1.1 Support a continued safe and sound System as a continued viable source of credit and related services for creditworthy and eligible borrowers.<br>1.2 Ensure the System makes available products and services to all creditworthy and eligible borrowers in a fair and impartial manner<br>1.3 Ensure Farmer Mac provides secondary market programs that increase the availability of credit and liquidity to agriculture, rural communities, and infrastructure.<br>1.4 Promote opportunities for stakeholder engagement when establishing and reviewing regulatory and policy proposals.<br>1.5 Promote System lending for, and investments in, rural infrastructure to foster vitality of rural communities.<br>1.6 Encourage board and workforce diversity at System institutions and Farmer Mac.<br>1.7 Ensure the System and Farmer Mac identify and implement safeguards to mitigate the potential impact of established and emerging risks. |
| 2. Foster long-term viability of the U.S. ag economy while supporting young, beginning, and small (YBS) farmers, ranchers, and aquatic producers. | 2.1 Promote access to YBS lending programs and financial services for eligible borrowers.<br>2.2 Encourage effective outreach by System institutions that promote the success of YBS farmers, ranchers, and aquatic producers. |

## Performance goals and measures

### *Measuring the achievements*

Tables 30 and 31 show the measures we will use to evaluate our efforts to carry out our mission in FY 2024.

**Table 30. Strategic Goal: Ensure a sound financial system that provides a sustainable source of credit for agriculture and rural America**

| Strategic objectives | Performance goals | Measures |
|---|---|---|
| **SO1.1**–Support a continued safe and sound System as a continued viable source of credit and related services for creditworthy and eligible borrowers. | SO1.1.1–Ensure policy and regulatory requirements address safety and soundness and their objectives.<br>SO1.1.2–Evaluate each merger or re-affiliation application for continued safety and soundness for the institution and the System and further the objectives of the Farm Credit Act.<br>SO1.1.3–Employ examination oversight activities to ensure the continued safety and soundness of individual institutions and the System. | SO1.1.a–Whether most objectives listed in the preamble of each final rule were met on the 2-year anniversary of the rule's effective or implementation date. (Target: Yes)<br>SO1.1.b–Percentage of System institutions where supervisory agreement requirements are at least substantially complied within 18 months of execution. (Target: >80%)<br>SO1.1.c–Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans. (Target: 100%)<br>SO1.1.d–Percentage of System assets with a 1 or 2 composite FIRS rating. (Target: >98%) |
| **SO1.2**–Ensure the System makes available products and services to all creditworthy and eligible borrowers in a fair and impartial manner. | SO1.2.1–Identify and eliminate unnecessary regulatory burdens and other barriers to the System's ability to serve the needs of all eligible borrowers.<br>SO1.2.2–Ensure lending programs continue to serve creditworthy and eligible to borrowers. | SO1.2.a–Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion. (Target: 100%)<br>SO1.2.b–Whether FCA solicits comments from the public and other interested parties on certain guidance and all regulations issued by the agency. (Target: Yes)<br>SO1.2.c–Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance. (Target: > 90%) |

| Strategic objectives | Performance goals | Measures |
|---|---|---|
| **SO1.3**–Ensure Farmer Mac provides secondary market programs that increase the availability of credit and liquidity to agriculture, rural communities, and infrastructure. | SO1.3.1–Develop and implement a dynamic examination, oversight, and risk-monitoring program that ensures the safety and soundness of Farmer Mac.<br>SO1.3.2–Emphasize Farmer Mac's public purpose and mission through the evaluation of Farmer Mac's mission achievement.<br>SO1.3.3–Assess regulatory and policy guidance for Farmer Mac as new risks emerge, with focus on capital and stress testing policies that promote long-term resiliency. | SO1.3.a–Whether the Office of Secondary Market Oversight (OSMO) effectively identifies emerging risks as part of the examination and oversight process. (Target: Yes)<br>SO1.3.b–Whether OSMO takes appropriate supervisory and corrective actions to effect change. (Target: Yes)<br>SO1.3.c–Whether OSMO evaluated if 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. (Target: Yes)<br>SO1.3.d–Whether OSMO evaluated Farmer Mac's progress toward achieving their mission to provide a source of long-term credit and liquidity for qualified loans. (Target: Yes)<br>SO1.3.e–Whether OSMO assessed the need for new or revised regulatory and policy guidance for Farmer Mac as new risks emerged. (Target: Yes) |
| **SO1.4**–Promote opportunities for stakeholder engagement when establishing and reviewing regulatory and policy proposals. | SO1.4.1–Continue communication with our stakeholders through meetings, briefings, and written communication. | SO1.4.a–Whether FCA requested input from persons outside of FCA for most pre-rulemaking projects and proposed rules. (Target: Yes) |
| **SO1.5**–Promote System lending for, and investments in, rural infrastructure to foster vitality of rural communities. | SO1.5.1–Reinforce the importance of Farm Credit System serving rural infrastructure needs. | SO1.5.a–Whether FCA mentions importance of rural infrastructure in congressional testimony and public communications. (Target: Yes)<br>SO1.5.b–Whether FCA evaluated System institution requests for compliance with agency regulations and guidance regarding investments in rural infrastructure. (Target: Yes) |

| Strategic objectives | Performance goals | Measures |
|---|---|---|
| **SO1.6**–Encourage board and workforce diversity at System institutions and Farmer Mac. | SO1.6.1–Identify policy and regulatory obstacles for board and workforce diversity.<br>SO1.6.2–Ensure System institutions' and Farmer Mac's human capital plans, as part of the annual business planning process, incorporate board and workforce diversity initiatives. | SO1.6.a–Whether FCA solicits comments from the public and other interested parties on guidance and regulations issued by the agency. (Target: Yes)<br>SO1.6.b–Percentage of System institutions and Farmer Mac with objectives for addressing board and workforce diversity within the annual business plan. (Target: 100%) |
| **SO1.7**–Ensure the System and Farmer Mac identify and implement safeguards to mitigate the potential impact of established and emerging risks. | SO1.7.1–Ensure System institutions and Farmer Mac incorporate contingency plans to address weather and other environmental threats to operations.<br>SO1.7.2–Ensure System institutions and Farmer Mac establish controls to address cybersecurity threats and events.<br>SO1.7.3–Enhance risk analysis and incorporate findings in policymaking and examination. | SO1.7.a–Percentage of System institutions and Farmer Mac with contingency plans to ensure continued capital adequacy, earnings capacity, and access to funding. (Target: 100%)<br>SO1.7.b–Percentage of System institutions and Farmer Mac addressing cybersecurity threats and controls in risk assessments and internal audit plans. (Target: 100%)<br>SO1.7.c–Whether FCA publishes a semiannual Unified Agenda that outlines the agency's planned regulatory actions. (Target: Yes) |

**Table 31. Strategic Goal: Foster the long-term viability of the U.S. agricultural economy while supporting young, beginning, and small (YBS) farmers, ranchers, and aquatic producers**

| Strategic objectives | Performance goals | Measures |
|---|---|---|
| **SO2.1**–Promote access to YBS lending programs and financial services for eligible borrowers. | SO2.1.1–Ensure lending programs continue to serve creditworthy and eligible YBS borrowers.<br>SO2.1.2–Identify best practices through enhanced YBS reporting.<br>SO2.1.3–Evaluate YBS regulations and guidance to support programming that meets the credit and financial services needs of eligible YBS borrowers.<br>SO2.1.4–Continue to enhance YBS data analysis to better evaluate and rate the effectiveness of System institution programs in serving YBS borrowers and to identify further opportunities for improving service to these borrowers. | SO2.1.a–Percentage of direct-lender institutions with YBS programs in compliance with YBS regulations. (Target: 100%)<br>SO2.1.b–Whether FCA publishes a semiannual Unified Agenda that outlines the agency's planned regulatory actions, including YBS, for the next 12 to 24 months. (Target: Yes)<br>SO2.1.c–Qualitative and quantitative improvements to YBS data quality. (Target: Yes) |
| **SO2.2**–Encourage effective outreach by System institutions that promote the success of YBS farmers, ranchers, and aquatic producers. | SO2.2.1–Promote outreach efforts and the sharing of best practices to promote the success of YBS farmers and ranchers and other agricultural producers by System institutions. | SO2.2.a–Percentage of System institutions identifying outreach efforts for YBS in the annual business plan. (Target: > 90%)<br>SO2.2.b–Whether FCA facilitates sharing of YBS effective practices among System institution decision makers. (Target: Yes) |

## Budgets

We track the associated costs of executing our strategic goals and objectives using two of the three program activities discussed earlier:

- Policy and regulation program: 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
- Safety and soundness program: 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

Tables 32 and 33 provide the budgeted amounts for FYs 2022 to 2024 in support of our mission and primary program areas.

### Table 32. Budgets to achieve policy and regulation program

| Budget item | FY 2022 revised budget | FY 2023 revised budget | FY 2024 proposed budget |
|---|---:|---:|---:|
| Regulation and policy development | $15,756,359 | $15,117,314 | $16,333,933 |
| Statutory and regulatory approvals | 3,308,284 | 5,697,860 | 5,176,759 |
| **Total** | **$19,064,643** | **$20,815,174** | **$21,510,692** |

**Table 33. Budgets to achieve safety and soundness program**

| Budget item | FY 2022 revised budget | FY 2023 revised budget | FY 2024 proposed budget |
|---|---|---|---|
| Examination | $59,254,653 | $62,614,825 | $67,339,287 |
| Economic, financial, and risk analysis | 4,718,612 | 3,075,497 | 3,328,569 |
| FCS data management | 193,757 | 1,307,334 | 1,400,907 |
| **Total** | **$64,167,022** | **$66,997,656** | **$72,068,763** |

## Stewardship Objectives

In addition to our strategic objectives listed above, we have three stewardship objectives that also support our core strategic goals. The costs associated with these stewardship objectives are built into the costs of carrying out our public mission and safety and soundness programs; therefore, we have not separately budgeted funds for achieving the stewardship objectives.

**Stewardship Objective 1:** Ensure a well-trained, engaged, and diverse staff working effectively in a safe, efficient, and modern workplace.

**Stewardship Objective 2:** Ensure data and technology assets are accessible, protected, and used effectively in a modern environment.

**Stewardship Objective 3:** Ensure sound management and oversight of agency financial resources to achieve strategic goals.

# Performance Measurement and Reporting

Our performance measurement system evaluates our progress in achieving the goals outlined in our Strategic Plan for FYs 2022 to 2026. The system provides a balanced view of our overall performance, considering 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 tracked at the program activity level and 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
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