

October 28, 2002

To: Michael M. Reyna, Chairman and CEO  
Ann Jorgensen, Board Member  
Doug Flory, Board Member

From: Stephen G. Smith  
Inspector General

Subject: Fiscal Year 2002 Farm Credit System Survey

The Office of Inspector General is pleased to issue the results of its post examination survey of the Farm Credit institutions for fiscal year (FY) 2002. We sent 96 surveys and received 77 responses. The survey objectively measures the quality and consistency of the Agency's examination and enforcement functions.

Overall, Farm Credit institutions provided favorable ratings. The ratings were somewhat more favorable than the ratings in FY 2001. At the same time the 80 percent response rate on the survey was a significant jump over last year's rate of 56 percent.

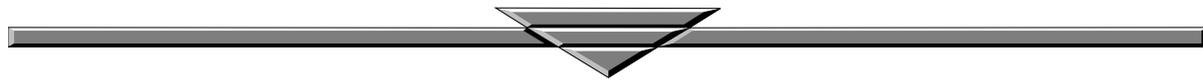
I believe the survey results are self-explanatory and therefore, I have not scheduled a briefing. However, I would be glad to do so at your request.

Attachment

Copy to: Jeanette Brinkley  
Roland Smith

*Farm Credit System*  
**SURVEY RESULTS**  
for  
**FISCAL YEAR 2002**

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**FARM CREDIT SYSTEM SURVEY  
ANNUAL SUMMARY AND ANALYSIS OF RESPONSES  
FISCAL YEAR 2002**

***BACKGROUND***

The Farm Credit Administration (FCA) is an independent Federal financial regulatory agency of the United States government with regulatory, examination, and supervisory responsibilities for the Farm Credit System (FCS) banks, associations, and related institutions that are chartered under the Farm Credit Act of 1971, as amended.

FCA's 2000-2005 Strategic Plan includes an objective to obtain measured feedback from FCS institutions on the quality and consistency of the Agency's examination and enforcement activities as a means to enhance improvement. The Office of Inspector General (OIG) established this on-going survey of FCS institutions as the means to achieve that objective.

***OBJECTIVES, SCOPE AND METHODOLOGY***

The survey objective is to get feedback from FCS institutions that candidly assess how well FCA is performing its examination and enforcement activities.

The survey instrument includes statements designed to rate and monitor Agency performance of examination and enforcement activities in the following specific areas:

- the effectiveness of FCA's communications with institutions;
- the reasonableness of Agency requests for data and information;
- the quality of examiners' decision making during the exam process;
- the quality of written examination reports;
- the professionalism of FCA examination staff; and
- examiners' responsiveness to the institutions' concerns throughout the examination process.

The questions along with the responses received throughout the fiscal year are included as Appendix 1 and 2. A numeric breakdown of answers received is included as Appendix 3.

The OIG sends the survey to the Chairman of the Board and the Chief Executive Officer of each FCS institution after the report is presented to the institution board by the FCA's Office of Examination (OE), or on issuance of the report if no board presentation is planned. We ask the board and management to jointly complete the survey and encourage narrative comments. All institutions answer questions 1 through 12. The completed survey is returned directly to the Inspector General, who is responsible for analyzing, summarizing and ensuring the confidentiality of the responses.

During FY 2002, 96 surveys were mailed and 77 responses were received – an 80 percent response rate. This is an improvement of 24 percent over the last reporting period. We have sent

1,057 surveys since the beginning of this survey process. A total of 763 replies have been received, a 72 percent overall response rate.

### ***ANALYSIS OF RESPONSES***

Overall ratings for FY 2002 continue to be favorable. Respondents are asked to rate each statement from 1 (completely agree) to 5 (completely disagree), thus the lower the number, the more favorable the result. The average rating for the eleven survey statements applicable to all institutions was 1.51. This is very similar to the results from FY 2001 and FY 2000.

There were 77 institutions responding to the 11 questions. Over 90 percent of the responses either agreed or completely agreed and less than 4 percent indicated disagreement. This remains constant from FY 2001. The best individual average rating (1.14) was received for question 8, which reads, “The examination team acted courteously and professionally.” Question 8 has received the best overall rating since the inception of the survey. The least favorable average rating of 1.78 in FY 2002, which was still a favorable rating, was for question 9. Question 9 reads, “The examiner’s recommendations for corrective actions were reasonable and consistent with FCA’s role as an arms length regulator.”

### ***CORRELATIONS***

As part of our analysis, we sorted the data to find out if there was any meaningful correlation between ratings given on the survey and the following attributes: size of the institution; institution type; CAMELS rating; FCS District; examining field office; and whether the institution was under an enforcement action.

#### **SIZE OF INSTITUTION**

<b>Total Assets</b>	<b>Number of Institutions Responding</b>	<b>Range of Average Rating FY 2002</b>	<b>Overall Average Rating FY 2002</b>	<b>Overall Average Rating FY 2001</b>
Less than \$100,000	6	1.00 – 2.82	1.47	1.38
\$100,000 - \$199,999	19	1.00 – 2.82	1.40	1.92
\$200,000 - \$299,999	5	1.09 – 2.18	1.69	1.40
\$300,000 - \$399,999	9	1.00 – 1.64	1.27	1.09
\$400,000 - \$599,999	9	1.00 – 2.73	1.85	1.59 <sup>1</sup>
\$600,000 - \$799,999	7	1.00 – 3.27	1.52	
\$800,000 and over	20	1.00 – 3.09	1.50	
Assets Not Reported	2	1.27 – 1.82	1.55	

<sup>1</sup> In FY 2001 – this category was identified as \$400,000 and over.

*Observations:* Due to the consolidation of several FCS institutions, this year we added two new categories to the above table. Additionally, the category of \$400,000 and over was changed to \$400,000 - \$599,999. This allows a more accurate breakout of the current total assets. Again this year, the best overall ratings were given by institutions with total assets from \$300,000 to \$399,999. However, the overall rating was slight less favorable (1.27) than last year (1.09).

## INSTITUTION TYPE

Type of Institution	Number of Institutions Responding	Range of Average Rating FY 2002	Overall Average Rating FY 2002	Overall Average Rating FY 2001
SERVICE CORPS	4	1.00 – 1.82	1.27	1.88
FCB	4	1.00 – 1.64	1.41	2.00
FLCA	14	1.00 – 2.82	1.45	1.44
ACA	47	1.00 – 3.27	1.54	1.63
PCA	8	1.00 – 2.82	1.55	1.71

*Observations:* The overall ratings by institution type were more favorable then last year with the exception of one category (FLCA), which remained constant. The Service Corporations and FCB's went from the lowest overall ratings last fiscal year to the most favorable this fiscal year. Due to consolidation, there are no FLBA responses.

## CAMELS RATINGS

No responses were received from institutions with a CAMELS rating of “3” or higher.

CAMELS Rating	Number of Institutions Responding	Range of Average Rating FY 2002	Overall Average Rating FY 2002	Overall Average Rating FY 2001
NO RATING	4	1.00 – 1.82	1.27	1.64
1	46	1.00 – 3.27	1.42	1.31
2	27	1.00 – 2.82	1.67	1.88

*Observations:* As in previous years, there appears to be a correlation between CAMELS ratings and survey results – the better the CAMELS rating, the better the overall survey rating. The overall average ratings in FY 2002 for institutions with CAMELS ratings of “1” was slightly less favorable then in FY 2001, and those receiving no rating were more favorable. The overall rating for institutions with a CAMELS rating of “2” was also more favorable over last fiscal year.

## DISTRICT

Responses were sorted by the entity with responsibility for the institution.

District	Number of Institutions Responding	Range of Average Rating FY 2002	Overall Average Rating FY 2002	Overall Average Rating FY 2001
Western	9	1.00 – 1.64	1.23	1.49
Texas	15	1.00 – 2.00	1.25	1.12
Service Corps	4	1.00 – 1.82	1.27	1.86
AgFirst	17	1.00 – 2.73	1.58	1.68
AgriBank	13	1.00 – 2.64	1.59	1.84
Wichita	14	1.00 – 3.27	1.64	1.42
CoBank	3	1.36 – 2.64	2.00	1.88
AgAmerica	2	1.09 – 3.09	2.09	1.86

*Observations:* Western district institutions gave the most favorable overall average ratings, an improvement from 1.49 last fiscal year. AgFirst, AgriBank and Service Corps all improved, while Texas, Wichita, AgAmerica and CoBank provided slightly less favorable ratings over last fiscal year. However, Texas still provided the second highest overall rating.

## FIELD OFFICE

Responses were sorted by the six OE examining offices.

Field Office	Number of Institutions Responding	Range of Average Rating FY 2002	Overall Average Rating FY 2002	Overall Average Rating FY 2001
Sacramento	8	1.00 – 1.46	1.18	1.69
SESD	4	1.00 – 1.82	1.27	1.86
Dallas	22	1.00 – 2.00	1.67	1.82
Bloomington	11	1.00 – 2.64	1.68	1.93
McLean	18	1.00 – 2.73	1.70	1.72
Denver	14	1.00 – 3.27	1.71	1.49

*Observations:* Ratings were more favorable for all except one field office this fiscal year over last fiscal year.

## COMMENTS BY RESPONDENTS

Many of the comments reflect the favorable ratings in the survey. There were many comments reflecting praise for the quality of work performed and the professionalism of the examiners. A complete set of survey comments are included as Appendix I and II.

The most common concerns were expressed about the examination of Young, Beginning, and Small Farmer (YBS) programs. In addition, several institutions expressed concern about FCA's interpretation of scope of lending regulations. The following comment from one institution summarizes these concerns.

*Recognizing the important of fulfilling the public mission of the association, the examination seemed overly focused on YBS issues when considering the overall business and objectives of the association. The more restrictive interpretation of scope of lending regulations compared to previous examinations will serve to dampen the ability of the association to grow the portfolio from the local service area because of extensive non-agricultural influences.*

Finally, there were a few comments about timeliness of reports, consistency between reports and the exit conference, and a desire for more efficiency by making board presentations optional.

**FARM CREDIT SYSTEM SURVEY  
SUMMARY OF RESPONSES  
For  
FISCAL YEAR 2002**

	Completely <u>Agree</u>		3	Completely <u>Disagree</u>		<u>Average</u>
	1	2		4	5	
<b>1. The Report of Examination identified and prioritized all significant risks facing the institution.</b>	41	28	7	1	0	<b>1.58</b>

- *An issue surfaced this year, which has been reviewed for each of the last 15. In spite of being deemed fine each of those years the exam team required a review by the attorneys at FCA. Still no response from that review.*
- *Actually, the report identified risk that our association did not consider appropriate.*
- *The examination team did a very good job of reviewing the risk areas of the association.*
- *Maybe all risks evident from risk bearing, but there are risks from economic or disaster situations that are very difficult to project or resolve.*
- *Feedback on risk based capital ratios was accurate but did not consider ability and willingness of board and management to reduce exposure.*
- *The emphasis was on large loans, participations, and operational systems and reviewed the significant portion of association exposure.*
- *Key areas of risk were properly identified and evaluated.*
- *All CAMEL areas were thoroughly discussed.*
- *Review of the CAMELS factors was appropriate and carried out in an appropriate manner.*
- *The amount of time and energy spent on the YBS program was a significant misuse of valuable FCA and association staff time.*

	Completely Agree			Completely Disagree		<u>Average</u>
	1	2	3	4	5	
<b>2. The Report of Examination fairly presented management's response to issues discussed in the report.</b>	49	24	3	1	0	<b>1.43</b>

- *We worked through our problems.*
- *Most issues discussed on sight during the course of exam. (2)*
- *An open discussion occurred between the examination team and management and that relationship was identified in the report.*
- *No items addressed in the report required a formal management response, but the report properly identified management's practices and philosophy.*
- *Yes, management comments were noted in report. Correction activities suggested.*
- *Accurately reflected association management's input and responses.*
- *There were some minor differences in the report and management's response to issues in the report, but they were addressed during the presentation to the board. The primary difference was in the area of fee-based appraisals and YBS lending.*
- *Management received more than ample opportunity to respond.*
- *Under report sections covering Internal Controls and Standards of Conduct, the report indicated that management concurred with FCA's findings. While management was made aware of the findings, management did not agree completely with FCA's overall findings in these areas as indicated by the report.*
- *The FCA examiners effectively communicated with the association staff thereby understanding association views.*

	Completely Agree		Completely Disagree			<u>Average</u>
	1	2	3	4	5	
<b>3. The Report of Examination was factually correct and presented well supported and relevant conclusions about the condition and performance of the institution.</b>	42	23	9	3	0	<b>1.65</b>

- *We still consider our position to be correct concerning eligibility and classification of one large loan.*
  
- *The facts presented in the report were correct, however, certain of the comments on collateral appraisals in Appendix 3 are based upon opinions with which we disagree.*
- *Exception noted – no credit plan in place. There was an audit plan in place for 2001. (2)*
- *The report recognized existing concern areas in association operations and corrective plans by association management.*
- *The final report as presented to the board was accurate and complete. Minor errors in the draft report were appropriately corrected.*
- *Good discussion/need for YBS. No apparent errors.*
- *All major points were addressed and information was found to be correct and supported.*
- *Was accurate and well documented.*
- *Too much emphasis on peripheral issues versus financial, credit, and marketplace performance.*

	Completely Agree			Completely Disagree		<u>Average</u>
	1	2	3	4	5	
<b>4. The Report of Examination was clearly written, concise, and understandable.</b>	50	23	3	0	0	<b>1.38</b>
<ul style="list-style-type: none"> <li>▪ <i>The verbal and written reports were easy to understand. We appreciate the willingness of FCA to conduct the report to the Board by conference call.</i></li> <li>▪ <i>Covered all areas. Well documented and supported.</i></li> <li>▪ <i>Well written and consistent with what had been communicated earlier.</i></li> <li>▪ <i>Was too wordy. (2)</i></li> <li>▪ <i>The report was presented in a concise and helpful manner. All points were easily understood.</i></li> <li>▪ <i>Very professional.</i></li> <li>▪ <i>Report was very well written.</i></li> <li>▪ <i>Well done.</i></li> </ul>						

	Completely Agree			Completely Disagree		<u>Average</u>
	1	2	3	4	5	
<b>5. The Report of Examination was received in a timely manner and, therefore, the issues in the Report of Examination were still relevant.</b>	54	20	2	0	0	<b>1.32</b>

- *There was a time lag where we were trying to move quickly to resolve some problems, and it seemed difficult to get a timely answer from the examiners.*
- *The last 3 years have been faster than in times past.*
- *Compliments go to the examination team for a timely report to meet our association Board Meeting timeline.*
- *The report was delivered in a timely manner and the scheduling of the presentation was appropriate.*
- *There appeared to be some delay in getting the final report published and delivered to the association. The report was not received until a few days prior to the scheduled meeting with the board.*

	Completely Agree		Completely Disagree		<u>Average</u>	
	1	2	3	4		5
<b>6. The examiners conveyed consistent messages and tone throughout the examination process (i.e., in the exit conference, Report of Examination, and board presentation).</b>	53	15	3	4	2	<b>1.53</b>
<ul style="list-style-type: none"> <li>▪ <i>There seemed to be some inconsistency between the Field Office Director (who seemed to be willing to consider various options) and the other examiners.</i></li> <li>▪ <i>One of the best we have had in this area.</i></li> <li>▪ <i>Consistent throughout.</i></li> <li>▪ <i>Yes, however, more emphasis placed on YBS in board presentation than in report and closeout.</i></li> <li>▪ <i>Consistent message communicated</i></li> <li>▪ <i>Issues were raised (YBS, Appraisal Review) in the final report that were not mentioned at the exit meeting. However, the EIC did apprise the CEO of these issues by phone before the written report was issued.</i></li>   <li>▪ <i>There were some differences in the reported information in the exit conference and the final report. This caused some concern with our executive committee, who attended the exit conference and then gave a preliminary report to the board. The primary area was centered on the attention devoted to the subject of YBS lending. The attention seemed to be more process oriented rather than results.</i></li> <li>▪ <i>Generally AOK – consistency on YBS, i.e. function and reporting appeared to be an issue.</i></li> <li>▪ <i>Do very well as to not coming across as too authoritative.</i></li> <li>▪ <i>The basis or source of change in the interpretation of scope of lending regulations was not consistent among examiners on-site. The lack of leadership in providing consistency in interpretation of regulation goes all the way to senior management at the agency. Examples: scope of lending, part-time farmers and loan syndications.</i></li> <li>▪ <i>Management and board felt the Report of Examination carried a far more negative tone than the findings presented in the exit conference. The presentation of the Report of Examination to the full board was more consistent with the exit conference and with management and the audit committee.</i></li> <li>▪ <i>Well done. The FCA examiners demonstrated good communication skill and were consistent in both message and tone.</i></li> <li>▪ <i>Did not advise that compliance would be unsatisfactory.</i></li> </ul>						

	Completely Agree		Completely Disagree		<u>Average</u>	
	1	2	3	4		5
<b>7. The examiners' interpretation of the statutes, regulations, and other guidance was consistent with previous examinations.</b>	48	18	3	5	3	<b>1.66</b>

- *We had a similar investment that was not mentioned in the previous exam.*
- *The examiners' interpretation of the statutes, regulations, and other guidance was consistent with previous examinations; however, we disagree with the FCA's interpretation of the risk-based capital statute.*
- *Yes, but we have had this team from years past. There are moderate degrees of variation between teams depending on experience and personal emphasis.*
- *Consistent*
- *No issues arose related to regulation interpretations.*
- *Some variance, but fairly consistent overall.*
- *There were no disagreements in this area.*
- *Generally AOK – Interpretation of eligibility and type of farming seems to be interpreted differently then in previous years.*
- *Excellent guidance and examination/scope materials have been received between on-site visits to aid.*
- *The examination results relative to compliance with scope of lending regulations are not consistent with the previous examination. The inconsistent findings are exacerbated by the very similar nature of the loans reviewed in each examination. Examiners readily admit that they have been instructed to interpret regulations more conservatively than in the past.*
- *It was felt that the bar was raised considerably regarding guidance compared to previous examinations.*
- *Scope of financing (12 CFR 613.3005) was addressed on a more conservative basis than in the previous examination.*
- *The focus on YBS was more intense and detailed as a result of GAO. It is unclear whether the extra emphasis will have a material impact as our board and Association already has an extensive emphasis on YBS.*
- *Exam raised issues, especially in area of scope of financing, which had not been raised previously, even though our practices have not changed. Exam looked for opportunities to restrict rather than expand services to marketplace.*
- *Comments regarding scope appeared to be different than during previous exams.*

	Completely Agree		Completely Disagree			<u>Average</u>
	1	2	3	4	5	
<b>8. The examination team acted courteously and professionally.</b>	69	6	1	1	0	<b>1.14</b>

- *After the initial confrontation, everyone cooled down and we got along much better.*
- *Very courteous and professional.*
- *Due to 9/11 the exam time on site was reduced by 1 week with much of the staff working from McLean.*
- *Very good.*
- *Excellent to work with.*
- *The examination team was very professional. It appeared to be one of the most experienced teams we have had in a number of years.*
- *Very professional and understanding of normal workload of staff during examination.*
- *Were very cooperative and well prepared for the exam.*
- *We received feedback from some lending staff that individual examiners talked “down” to loan officers in questioning lending practices on some loans. This is particularly disturbing to hear from a seasoned and respected loan officer.*
- *The team was very courteous and professional.*
- *Interaction between the FCA team and Association staff was courteous, professional, and constructive.*

	Completely Agree		3	4	Completely Disagree		Average
	1	2			5		
<b>9. The examiners' recommendations for corrective actions were reasonable and consistent with FCA's role as an arm's length regulator.</b>	38	24	10	4	1	1.78	
<ul style="list-style-type: none"> <li>▪ <i>You continue to meddle in board and management's responsibilities.</i></li> <li>▪ <i>Initially, we felt the recommendations were completely unreasonable. After considerable negotiations and mutual effort to find common ground, we finally solved the problem.</i></li> <li>▪ <i>Continued emphasis on young, beginning and small farmers is at odds with expectation of higher credit quality. One large loan where classification was not changed in a timely manner was over emphasized. (2)</i></li> <li>▪ <i>Within the range of planned Association actions.</i></li> <li>▪ <i>The report was focused on safety and soundness issues. No corrective actions were identified.</i></li> <li>▪ <i>Priority focused on merger of three Associations from last year to this year made some comparisons difficult.</i></li> <li>▪ <i>Recommendations made border on micro managing, considering the overall strength &amp; performance of the association. Further, these were characterized as "recommendations", but with a response required within 60 days, it is obvious they were actually "requirements".</i></li> <li>▪ <i>All of the recommendations can be addressed in the normal course of business. Those items that were not already addressed in our business plan will be reviewed during our next planning cycle. Several of the suggestions are easily implemented and will be. Some of the issues addressed appear to be focused at the business management level rather than safety and soundness issues, but will be considered by management and the board. There were also various ad hoc reports requested during the examination that it would have been helpful if they had been included in the pre-exam information request.</i></li> <li>▪ <i>Helpful as well. Corrective actions were well thought out and demonstrated knowledge of issues and practices.</i></li> <li>▪ <i>The interpretation of reasonableness of examiner recommendations is not unlike the spectrum of interpreting and applying FCA regulations. FCA's focus and recommendations in the YBS area in our opinion have crossed over the role of an arms-length regulator.</i></li> <li>▪ <i>All recommendations for the corrective actions were reasonable except for some related to our business plan concerning goal establishment.</i></li> <li>▪ <i>True in some areas. In others will needlessly interfere with ability to serve customers.</i></li> <li>▪ <i>YBS requirements and suggestions appear to go beyond required regulations. However, we understand why emphasis is placed on this area of operation.</i></li> <li>▪ <i>Young, Beginning and Small Farmer criteria and reporting seems to be lodged between pleasing Congress, all the while not having true regulatory authority for Young, Beginning and Small Farmers.</i></li> </ul>							

	Completely Agree		Completely Disagree			<u>Average</u>
	1	2	3	4	5	
<b>10. The examiners conducted examination and monitoring activities without undue interference with the operation of the institution, including the extent of information requested during these activities.</b>	51	22	1	2	0	<b>1.39</b>

- *Probably.*
- *The last 3 years, interference has been very minimal-very cooperative to work within our schedule.*
- *As well as could be expected. Examinations take staff time regardless of best intentions. It was manageable.*
- *The experienced exam team was professional and followed industry practices in obtaining information.*
- *We believe better planning could have been used in scheduling meetings and obtaining information. There was a significant amount of overlap here.*
- *Very cordial.*
- *Very good team to work with – courteous and professional*
- *There were some instances where information had to be presented multiple times.*
- *As best could, never easy. Exam team very good at separating that what is important and that what is not significant (although mentionable).*
- *Most information was requested early enough for us to provide by the time they arrived.*
- *Staff had to complete what should be work papers, completed by the review team.*
- *Much of the examination information requested was redundant with information furnished to FCA on a regular basis, or readily available to FCA through direct access to the database. Communication was fragmented among senior management group. Comments many times reflected the examiner’s views and not necessarily the view of the Agency.*
- *Overall the FCA effort was very well done with minimum interference, particularly during the onsite period. The process could be refined by providing greater lead-time to provide information prior to the exam.*
- *Visiting branches causes undue interruption of branch operations.*

	Completely Agree		Completely Disagree		<u>Average</u>	
	1	2	3	4		5
<b>11. The board and management believe the findings of the examination will assist (or have assisted) the institution in correcting identified weaknesses.</b>	42	20	11	4	0	<b>1.70</b>

- *One of the weaknesses identified was due to inconclusive eligibility language in FCA statutes.*
- *Generally yes, however, certain of the recommendations reiterate managements' corrective actions in progress prior to the examination.*
- *We have already started the process to correct identified weaknesses.*
- *Always to some degree, but if management waits for FCA to identify critical areas, then resolution is usually not available or resolution is very slow to correct because the situation had too great of momentum.*
- *Concur with more board involvement in credit risk parameter development and monitoring. (2)*
- *The review confirmed the business model and direction chosen by the management and board.*
- *The board and management strive to identify problems or issues well before they become safety and soundness issues, but always value the observations and suggestions of the exam team.*
- *Positive for organization to have an outside view.*
- *We appreciate FCA's comments and take them seriously.*
- *We believe most of the suggestions were valid points to be considered. All suggestions will be considered. Many of the recommendations appear to be suggested ways of doing business rather than weakness in the association's business practices.*
- *Young, Beginning and Small Farmer coding is an example.*
- *Will enable focus on specific issues that ultimately benefit the ACA and its stockholders.*
- *Very limited recommendations and they were related to YBS.*
- *The findings in the scope of lending area and part-time farm area did not provide any assistance to the board and management. It did point out that the regulation is outdated and that the interpretation can be very broad or very narrow. The examination team was uncertain how they were to interpret the regulation. This complicates communication and direction to staff. The question becomes "What is the interpretation next year?"*
- *The exam findings, including requirements and recommendations, will assist the Association in correcting weaknesses and improving effectiveness.*
- *In some areas, this is true. In others, creates needless limitations on serving the market.*
- *Most weaknesses and compliance issues were discovered by internal reviewers and reported to FCA examiners.*

**12a. and 12b.** Written responses to these questions are included at Appendix II.

## WRITTEN RESPONSES to QUESTIONS 12a and 12b

### **QUESTION #12a: *What aspects of the examination did you find most beneficial?***

- Interaction with review team in discussing credit issues.
- Discussion in exit conference about loan participations was very constructive and helpful to the Director. More reasonable about capital requirements – Board perception. The board appreciates FCA feedback.
- An independent look at our credit process is always helpful.
- The comments on special mention paper was helpful.
- We have a clearer understanding of the regulations. I must comment on office director for his willingness to listen to our solutions and work with us to resolve the problem. Without his leadership I do not believe the problem would be solved.
- The examination process provides a valued third party assessment of Farmer Mac's business operations, policies and procedures. Feedback from the examination validates internal controls and safety and soundness while offering beneficial considerations from a regulatory viewpoint.
- Report was timely and succinct. (2)
- Experience and attitude of auditors. Pleasure to work with people who understand our business and our commodity enterprises.
- Because the current agricultural economy in the Northwest has been difficult the past couple of years, an independent view and assessment of the association's internal controls and timely identification of issues was very beneficial.
- Power point presentation and results.
- The examiners clearly focused on risk issues from a safety/soundness perspective in keeping with an arms-length regulatory approach. The examiners education is paying off. This was the most professional report we have been presented. We concur with the specific areas of risk identified.
- Internal controls.
- Validation of credit quality because of their experience. Views on FCA policies after seeing implementation in other associations. Verification of the association being within FCA regulations or clear remedies if in violation.
- Feedback on additional measures for credit risk. (2)
- Discussions with the examination team concerning risk management in all areas (phases) of operations.
- Clear, accurate results. Interaction with examination team. (very professional)
- The review of the larger loan originations and participations were helpful in identifying and confirming a staffing focus decision for our association.
- Brief, concise report. Conference call presentation greatly enhanced the efficiency of the presentation for all concerned.
- Appropriate weighting was given to differentiate between material and less material deficiencies. Effectiveness and professionalism of examination staff.
- Open dialogue with staff before, during, and after exam. Adjusting meeting with board from December to January. December meeting agenda was very full without FCA report being presented. Examiners moved date to the January 2002 meeting.
- In-depth professional unbiased assessment by a third party.

- Report was concise and discussion with the board was direct and well managed.
- Observations on YBS – Participation loans.
- Willing to listen and consider our points of view. Add value by researching some regulatory items for us.
- The exam was conducted by senior experienced managers and examiners and they worked in a cooperative manner with others on the exam team as well as with the association staff. (2)
- The excellent communication from the EIC before, during and after the examination. The EIC's interest in thoroughly understanding the association's performance during the review period and the actions taken to address previously identified weaknesses. The acknowledgement of the actions taken to address previously identified weaknesses both verbally & in the report.
- Interaction between board, management and Agency staff.
- We look forward to our annual review. It gives board and management a third party look at its overall operation. It gives us the ability to improve our operations and continue to operate in a safe and sound manner.
- Interaction between board and auditors.
- Overall communications with the examination team on credit administration issues during the examination process were open and timely.
- Educating us thoroughly on YBS expectations.
- The attitude and willingness of the review team to discuss findings and topics in an open and professional manner. Also the ability of the review team to share a broad perspective and approach to identifying risk, formulating reports, and addressing CAMELS factors important to the safe and sound operation of the association.
- Examiners were very cooperative and easy to interact with. Very professional.
- Good constructive criticism.
- Discussion of "Best" practices observed elsewhere. Also as a board and management team who believe "what's worth doing is worth measuring" and "what gets measured gets done" we view examinations as just another part of the ongoing measuring process.
- Reaffirm that things were operating within regulations. A look from the outside.
- The narrative sections on management, asset quality liquidity, sensitivity, earning and capital.
- The examination results reaffirming that Board Direction and Control, Management Controls, Business Planning, and reliability of the ICR continue to be satisfactory are critical to the ongoing operations and integrity of the association.
- Examiners understanding of the association's loan service area, commodities, finance, etc. Also, good communication on association's business planning and capital management initiatives approved by the Board in 2001.
- The interchange with members of the examination team.
- Recommendations set forth in the examination report. Discussions involving the examiners and association staff.
- The opportunity to discuss with exam team current trends in agriculture lending.
- Identifying and highlighting weaknesses in management control systems.
- It was beneficial to have an opinion of our AICR and IOR programs and the FCA concurred with the program findings.
- It was focused per the scope set forth. Concise and well done. Assisted us in our operation.
- Numerous suggestions for improvement were made in a very constructive manner. While we were in compliance in most areas, the suggestions made will help us to improve various aspects of our operations.
- The discussion we had concerning small, beginning farmers. Examiners were cooperative and courteous to Board members. Meetings at all levels were productive.
- Close out session with Lead Examiner, Management and Board Chairman. FCA analysis of the association's risk position.

- Portfolio management.

***QUESTION #12b: What aspects of the examination did you find least beneficial?***

- The fact that the main problem area found was not even mentioned at the closeout of onsite examination.
- We found it disturbing on a large investment which we researched well and classified acceptable, that the examiners, instead of fully understanding the nature of the investment, immediately classed it as substandard. When we were invited to discuss the matter, the decision had already been made. The system also lost nearly \$10 million of good investment volume.
- None, we consider all aspects to be constructive.
- None. (3)
- With the cut-off and the time lag in completing the report often actions have been taken to correct deficiencies but there is no recognition of the improvement or corrective action. While we understand the importance of the review period it would be beneficial to verbally recognize actions that have already been taken and financial improvement when the report is presented to the board.
- This was an excellent audit – nothing to report.
- Cost.
- Believe a few visuals or overheads would have enhanced the presentation to the board of directors. (2)
- Young, Beginning and Small Farmer analysis. The US Census data being used as a benchmark for the number of YBS in a particular country is unreliable. A better resource for “Benchmarking” would improve this part of the review.
- The visit to the board is a great waste of money when the association has no material problems.
- Discussion on risk identification on individual loans. (2)
- Nothing really.
- Experience level of team decreased. Two interns and two examiners with less than one-year experience.
- The operational review findings while important in the overall successful operation of the association, are not as important to us as the lending review findings.
- It was difficult to answer concerns of the examiners without a clear understanding of the examination’s scope and objectives. We recommend establishing a “point person” on the bank’s end who could direct inquiries, funnel information, etc. This could also alleviate some of the problems with redundancy. Also, in some respects, the examination team appeared to move too deeply into management issues. Some members of the review team seem to struggle with an arms length regulator concept.
- Report presentation and conclusion relevance.
- No issues of concern.
- We feel strongly that the examination can only be beneficial.
- There was a focus on eligibility and scope issues that was elevated during the examination process.
- All was beneficial.
- The general examination process is effective and covers appropriate areas. We are pleased with the procedures and implementation. Meeting with the full board to present the report of examination should be optional at the request of the board after reviewing the report.
- The focus on YBS program is not helpful to us nor is it beneficial to YBS farmers.
- Asking for excessive reporting relative to YBSF program. Required paperwork will be very cost to the association.

- Only as much as it interferes with the normal course of business. We are almost ready to have 100 percent of our work product filed electronically. In future, exam could increasingly be completed off site with only minimal on site visit.
- The YBS portion is understandably lengthy. If a common dependable database was available that identified the market would help greatly. The State census data is not reliable.
- Due to the association's high number and volume in YBS loans it is felt that too much emphasis was placed on this area of the review.
- Recognizing the importance of fulfilling the public mission of the association, the examination seemed overly focused on YBS issues when considering the overall business and objectives of the association. The more restrictive interpretation of scope of lending regulations compared to previous examinations will serve to dampen the ability of the association to grow the portfolio from the Local service Area because of extensive non-agricultural influences.
- Lack of recognition of those things going well in the association.
- Emphasis on YBS Farmers.
- Board is not certain the additional compliance regarding YBS will have any direct impact on actual YBS results as our board and association have consistently had good YBS program and emphasis.
- Challenges to lending, especially to rural house and consumer markets.
- Too much emphasis on YBS.
- Analysis of YBS data.
- In the area of YBS.
- Examiners visiting branches.

**Results of the OIG Survey of Farm Credit Institutions  
Examined During FY 2002**

**Questions Applicable to All Institutions**

Question:	Response										No Response Number	Average Response
	1		2		3		4		5			
	Number	Percent *	Number	Percent *	Number	Percent *	Number	Percent *	Number	Percent *		
Question 1	41	53.25%	28	36.36%	7	9.09%	1	1.30%	0	0.00%	0	1.58
Question 2	49	63.64%	24	31.17%	3	3.90%	1	1.30%	0	0.00%	0	1.43
Question 3	42	54.55%	23	29.87%	9	11.69%	3	3.90%	0	0.00%	0	1.65
Question 4	50	65.79%	23	30.26%	3	3.95%	0	0.00%	0	0.00%	1	1.38
Question 5	54	71.05%	20	26.32%	2	2.63%	0	0.00%	0	0.00%	1	1.32
Question 6	53	68.83%	15	19.48%	3	3.90%	4	5.19%	2	2.60%	0	1.53
Question 7	48	62.34%	18	23.38%	3	3.90%	5	6.49%	3	3.90%	0	1.66
Question 8	69	89.61%	6	7.79%	1	1.30%	1	1.30%	0	0.00%	0	1.14
Question 9	38	49.35%	24	31.17%	10	12.99%	4	5.19%	1	1.30%	0	1.78
Question 10	51	67.11%	22	28.95%	1	1.32%	2	2.63%	0	0.00%	1	1.39
Question 11	42	54.55%	20	25.97%	11	14.29%	4	5.19%	0	0.00%	0	1.70
Total Responses	537	63.63%	223	26.42%	53	6.28%	25	2.96%	6	0.71%	3	1.51

**Questions Applicable to Institutions Under Enforcement Actions**

There were no institutions under enforcement actions that responded to the survey this year.

**Total Number of Surveys Sent to Institutions:** 96  
**Total Number of Surveys Received From Institutions:** 77

**COMPARISON OF AVERAGE RATINGS  
for Fiscal Years 2000, 2001, and 2002**

<b>Question</b>	<b>FY 02 Annual Average of 77 Respondents</b>	<b>FY 01 Annual Average of 59 Respondents</b>	<b>FY 00 Annual Average of 79 Respondents</b>
#1	1.58	1.66	1.46
#2	1.43	1.58	1.39
#3	1.65	1.66	<b><i>1.56**</i></b>
#4	1.38	1.54	1.42
#5	1.32	1.53	1.42
#6	1.53	1.69	1.48
#7	1.66	1.71	1.53
#8	<b><i>1.14*</i></b>	<b><i>1.20*</i></b>	<b><i>1.15*</i></b>
#9	<b><i>1.78**</i></b>	1.78	<b><i>1.56**</i></b>
#10	1.39	1.53	1.41
#11	1.70	<b><i>1.82**</i></b>	1.48
<b>Average</b>	<b>1.51</b>	<b>1.61</b>	<b>1.44</b>

\* = best overall individual average

\*\* = worst overall individual average

Average of Responses to Questions 1-11 By Fiscal Year

