

Office of Inspector General

FARM CREDIT SYSTEM
ANNUAL SURVEY

Fiscal Year 2004



October 2004

Memorandum

Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090



November 15, 2004

To: Thomas McKenzie, Chief Examiner
Office of Examination

From: Stephen G. Smith
Inspector General

Subject: Fiscal Year 2004 Farm Credit System Examination 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 2004. We sent 71 surveys and received 53 responses. The survey objectively measures the quality and consistency of the Agency's examination and enforcement functions. During this reporting period there were no enforcement actions.

Overall, Farm Credit institutions continued to provide favorable ratings. Further, the 75 percent response rate on the survey was a significant increase over last year's rate of 54 percent. Several individual examiners received particularly high praise in survey responses and may merit recognition. I will provide you this information in a separate communication.

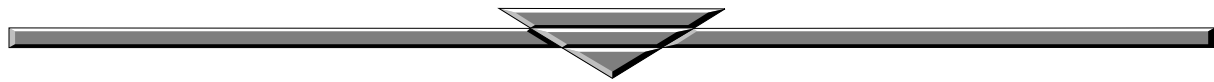
I believe the survey results are self-explanatory and therefore, I have not scheduled a briefing. However, I would be glad to do so at your request.

Attachment

Copy to: Nancy C. Pellett, Chairman and CEO
Douglas L. Flory, Board Member
Michael M. Reyna, Board Member
Keith H. Heffernan, Chief of Staff
Eric Howard, Audit Follow-up Official

Farm Credit System Survey Results for Fiscal Year 2004

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**FARM CREDIT SYSTEM SURVEY
ANNUAL SUMMARY AND ANALYSIS OF RESPONSES
FISCAL YEAR 2004**

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.

The Office of Inspector General (OIG) established this on-going survey of FCS institutions as the means to provide management with feedback on the quality and consistency of the Agency's examination and enforcement activities.

OBJECTIVES, SCOPE AND METHODOLOGY

The survey objective is to get feedback from FCS institutions that candidly assesses 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 I and II. A numeric breakdown of answers received is included as Appendix III.

The OIG e-mails the survey to the chairman of the board and the chief executive officer of each FCS institution after the FCA's Office of Examination (OE) presents its Report of Examination (ROE) to the institution board, 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 are asked to answer questions 1 through 12. The institutions can complete the survey online, mail a paper copy, or fax the survey directly to the OIG. The OIG is responsible for analyzing, summarizing and ensuring the confidentiality of the responses.

During FY 2004, OIG sent 71 surveys and received 53 responses—a 75 percent response rate. This is an increase of 21 percent from the last reporting period. We sent

1229 surveys since the beginning of this survey. We received a total of 871 replies—a 71 percent overall response rate.

ANALYSIS OF RESPONSES

Overall ratings for FY 2004 continue to be favorable. The survey asks respondents to rate each statement from 1 (completely agree) to 5 (completely disagree), thus the lower the number, the more favorable the result. The overall average rating for the eleven survey statements applicable to all institutions was 1.64. This is very similar to the results from FY 2002 and FY 2003.

Over 89 percent of the responses either agreed or completely agreed and slightly more than 10 percent indicated disagreement. This remains constant from FY 2003. The best individual average rating (1.25) 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 1.91 (which was still a favorable rating) was for question 7. Question 7 reads, “The examiner’s interpretation of the statutes, regulations, and other guidance was consistent with previous examinations.”

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; and examining field office.

SIZE OF INSTITUTION				
Total Assets (millions)	Number of Institutions Responding	Range of Average Rating FY 2004	Overall Average Rating FY 2004	Overall Average Rating FY 2003
Less than \$100	3	1.09 – 1.55	1.33	1.64
\$100 - \$199	9	1.00 – 3.09	1.88	1.68
\$200 - \$299	3	1.00 – 2.00	1.36	1.72
\$300 - \$399	5	1.09 – 2.50	1.57	1.45
\$400 - \$599	8	1.00 – 1.91	1.35	1.63
\$600 - \$799	8	1.09 – 3.00	1.76	1.63
\$800 and over	17	1.00 – 3.82	1.65	1.51

Observation: There is no significant correlation between size of institution and average ratings.

INSTITUTION TYPE				
Type of Institution	Number of Institutions Responding	Range of Average Rating FY 2004	Overall Average Rating FY 2004	Overall Average Rating FY 2003
FLCA	4	1.00 – 2.00	1.39	1.30
OTHER	2	1.36 – 1.55	1.45	1.47
ACA	43	1.00 – 3.82	1.64	1.63
FCB	4	1.27 – 2.09	1.68	1.48

Observations: The overall ratings by institution type were generally unchanged from last year. FLCA institutions gave the most favorable rating.

CAMELS RATINGS				
CAMELS Rating	Number of Institutions Responding	Range of Average Rating FY 2004	Overall Average Rating FY 2004	Overall Average Rating FY 2003
NO RATING	2	1.36 – 1.55	1.45	1.54
1	39	1.00 – 2.73	1.49	1.57
2	12	1.00 – 3.82	2.07	1.70

Observations: As in previous years, there appears to be a slight correlation between CAMELS ratings and survey results—the better the CAMELS rating, the better the overall survey rating. Institutions with no CAMELS rating showed a slight increase in their overall ratings. The overall average ratings in FY 2004 for institutions with CAMELS ratings of “1” was slightly more favorable than in FY 2003. Institutions surveyed with an overall CAMELS rating of “2” were less favorable than the previous year. No responses were received from institutions with a CAMELS rating of “3” or higher.

DISTRICT				
District	Number of Institutions Responding	Range of Average Rating FY 2004	Overall Average Rating FY 2004	Overall Average Rating FY 2003
Other	2	1.36 – 1.55	1.45	1.47
Texas	12	1.00 – 2.09	1.47	1.62
AgriBank	8	1.00 – 2.00	1.51	1.65
CoBank	3	1.09 – 2.18	1.58	2.07

(continued on next page)

DISTRICT <i>(continued)</i>				
District	Number of Institutions Responding	Range of Average Rating FY 2004	Overall Average Rating FY 2004	Overall Average Rating FY 2003
AgFirst	15	1.00 – 3.82	1.61	1.54
US AgBank	13	1.09 – 3.09	1.87	
Western				1.64
Wichita				1.33

Observations: Effective October 1, 2003, the Western Farm Credit Bank merged with and into the Farm Credit Bank of Wichita, to become U.S. AgBank FCB. U.S. AgBank institutions had the least favorable overall average ratings. CoBank institutions, which gave the least favorable ratings last fiscal year, had the most improved rating.

FIELD OFFICE				
Field Office	Number of Institutions Responding	Range of Average Rating FY 2004	Overall Average Rating FY 2004	Overall Average Rating FY 2003
Dallas	17	1.00 – 2.09	1.47	1.60
Bloomington	5	1.00 – 2.00	1.47	1.70
Special Examination and Supervision	1	1.55 – 1.55	1.55	*
McLean	17	1.00 – 3.82	1.61	1.64
Denver	10	1.00 – 1.82	1.70	1.42
Sacramento	3	1.09 – 3.00	2.27	1.61

Observations: The Bloomington field office had the most improved average rating over last year's results. The Sacramento field office had the most significant decline in ratings. Dallas and McLean field offices had slightly more favorable ratings, while Denver had a slightly less favorable rating. The Special Examination and Supervision Division (SESD) did not have any institutions responding in FY 2003, but rated a higher average (1.55) than the overall rating by field office (1.68).

COMMENTS BY RESPONDENTS

Many of the comments reflect the favorable ratings in the survey. There were many comments reflecting praise for properly identifying key risk areas, quality of work performed and the professionalism of the examiners. A complete set of survey comments is included as Appendix I and II. OIG inserted or removed text in brackets to clarify or keep anonymity among the responses.

The most common concerns were about the findings not being discussed prior to the report being issued. In addition, several institutions expressed concern about FCA's interpretation of the Scope of Lending regulations, and Young, Beginning and Small Farmers requirements. Finally, there were a few comments about timeliness of reports, disruptiveness of business, and FCA's staffing for the future.

**FARM CREDIT SYSTEM SURVEY
SUMMARY OF RESPONSES
For
FISCAL YEAR 2004**

<i>Question</i>	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
1. The Report of Examination identified and prioritized all significant risks facing the institution.	24	23	4	1	1	1.72

- Also recognized our FSA Guarantee (risk management) focus.
- Key risk areas were properly identified.
- Overall the priorities were adequate, however we felt there is too much emphasis put on the Young, Beginning and Small Farmer Program.
- Reduced format also helped us focus on key issues—we liked it.
- There was no emphasis on appropriate priority.
- Exam stressed earnings but failed to recognize that actual earnings were on track with the projected earnings submitted to FCA the previous year with our [district] application. One large charge-off caused a difference. Exam identified growth of the portfolio while credit quality deteriorated as a risk. None of the new loans were classified.
- Overstated risks associated with the [borrower's name] loan by requiring it to be transferred to non-accrual as a result of "attribution," when repayment from [corporation] was not in doubt.
- Overall a good detailed report.

<i>Question</i>	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
2. The Report of Examination fairly presented management's response to issues discussed in the report.	28	21	1	2	1	1.62

- One key finding and concern was not fully addressed prior to the issuance of the report.
- Management's practices and philosophy were fairly represented.
- Included up-to-date as of close out comments—very good.
- As stated above (Question 1, Comment 6), management pointed out the earnings projection and the fact that new loans were not classified, but exam still failed to recognize.

- Misrepresented management's response regarding employee turnover and familiarity with recent changes made in the fiscal/operations area.
- There were no issues which required management response.

<i>Question</i>	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
3. The Report of Examination was factually correct and presented well-supported and relevant conclusions about the condition and performance of the institution.	29	20	1	3	0	1.58

- We disagree with the key findings and concerns mentioned in #2 above (Question 2 Comment 1).
- The report and board presentation were accurate and complete.
- To the point, no embellishments either way and limited editorializing.
- We agree with the overall examination findings. We still choose to disagree over what is the appropriate level of capital.
- Examiners remained focused on key issues.
- The report and board presentation were accurate and complete.
- The capital analysis was done effective 06-30-03 and had not reflected the improvement in CAR since that date. The facts were correct, 6-30-03 data is our highest loan volume period and as a result reflects a lower CAR ratio that time of year.
- See previous comments (Question 2 Comment 5).
- Overstated (by implication) that "turnover" had led to deficiencies cited in the exam report. Misrepresented turnover as 25%, but failed to clarify that it included planned downsizing and that it was for an 19-month period (not annualized).

<i>Question</i>	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
4. The Report of Examination was clearly written, concise, and understandable.	32	18	1	0	1	1.46

- The report was appropriately brief and concise.
- Appreciated by board and management.
- Report was redundant and too verbose. The Agency must improve the report writing and insure emphasis on significant issues. Because you include minor and insignificant matters the board members lose confidence in your judgment. The FCA creates a serious safety/soundness condition by not limiting comments on what is truly relevant.
- The report was appropriately brief and concise.

NOTE: One institution did not respond to question #4.

Question	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
5. The Report of Examination was received in a timely manner and, therefore, the issues in the Report of Examination were still relevant.	32	18	2	1	0	1.47

- It was perhaps prepared too quickly, before key findings were discussed with management, should have taken more time to discuss with management prior to issuing report.
- The report was presented prior to schedule, and the schedule was properly coordinated.
- The FCA staff in [field office] did an excellent job in getting the report compiled and issued to accommodate our Board schedule.
- We wish [the] report could be received at an earlier time prior to board meeting.
- The presentation to the board of directors was also completed in a timely fashion.
- Don't agree that the issues of the exam were relevant in the first place.
- Was not examiner's fault it's a "2" instead of a "1" our report was written timely, but we didn't have a scheduled board meeting until [a month later].

Question	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
6. The examiners conveyed consistent messages and tone throughout the examination process (i.e., in the exit conference, Report of Examination, and board presentation).	26	21	2	4	0	1.70

- At times, the “reviewers in training” would respond in one manner, then after having their responses reviewed by their “supervisor of training,” the response would be changed or responded to in a different manner.
- A different message was conveyed in the written report compared with what was conveyed during the close-out with management.
- Examiners used concise and consistent communications throughout the process.
- EIC was judicious about discussing all findings at the exit conference and communicated any changes before the examination report was issued.
- Mostly agree. The tone tends to change to slightly more negative during the presentation of the report when the Senior Examiner is involved. We had good exchange and understanding from the examination team.
- Examiners were concise and straight forward in their assessments.

- The exit conference didn't occur until two weeks after the exam. The report was written much more harsh than the exit conference. The board presentation was less severe than the exam was written.
- Did not discuss turnover as an issue during the onsite review or during the exit conference. Never discussed "downsizing" that eliminated 5 positions in the first quarter 2003 until it was addressed in the Board letter. A phone call was received by the CEO some three weeks after the exit conference (1 day before the Board letter was mailed) to inform him that this was now an issue.

<i>Question</i>	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
7. The examiners' interpretation of the statutes, regulations, and other guidance was consistent with previous examinations.	21	22	5	4	1	1.91

- Significant difference in interpretation of the "scope and eligibility" issues when compared to previous examinations.
- Treatment of charge-offs is inconsistent with prior exams.
- Emphasis on open access of loan system increased this examination. Prior examinations had not raised this as a concern.
- The staff has definitely improved in this area.
- Previous exams we were told to look at the FCA chairman's statements and make sure we were providing credit to rural America-we got challenged once and everyone came down on us as the agency turned in another direction. Exam was just following the agency each time, but the agency flip flopped under political pressure.
- Emphasis on YBS issues has increased significantly in recent examinations. As a wholesale bank, we believe this is primarily a retail issue.
- There were some scope of lending interpretations that were more conservative than we had experienced in the past, but they did not constitute significant areas of disagreement in the final exam results.
- Previous exams had different interpretations of eligibility issues. Previous exams were not as harsh on credit admin. issues such as due diligence on participations purchased.
- Application of non-accrual rules changed once again. Also, recovery costs calculation was changed from prior recommendations.
- Always some areas where changes occur.

<i>Question</i>	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
8. The examination team acted courteously and professionally.	44	7	0	2	0	1.25

- Issuing the report prior to discussing key findings and concerns with management is very unprofessional.
- [Examiner], the EIC, was very professional and did a great job.
- Excellent.
- The exam team was very professional in its approach.
- The exam team was very courteous and respectful.
- Very professional team.
- [Examiner] always conducts himself in a professional and courteous fashion.
- The exam team, led by [examiner], was professional, courteous, and cooperative in all respects.
- Capital markets staff as brought in from [field office]. Dialog was productive.
- Certain members of the team were belittling to certain credit officers.

Question	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
9. The examiner's recommendations for corrective actions were reasonable and consistent with FCA's role as an arm's length regulator.	23	22	6	2	0	1.75

- The recommendations and how they were conveyed are inconsistent with promoting the mission of the system.
- Some recommendations did not consider the benefit to business when it was not a safety and soundness issue.
- Did a better job this time moving away from getting involved in management—good to see the move back toward regulation. Agency through their examiners is still too deep into the details of YBS given the regulations and statute.
- Except for the petty insignificant observations.
- Examination generally focuses on safety and soundness issues. (YBS is an exception.)
- YBS recommendations could be viewed as somewhat subjective and beyond the FCA role as an arms length regulator. However, the reviewers were acting within parameters established by FCA headquarters.
- Comments concerning loan officer incentive programs were out of the realm of safety and soundness. Criticism of a program that has worked without problems for over 10 years was not needed. Criticism of the assoc. pricing policy was not warranted.
- Okay, except for e-commerce expectations (i.e. fire extinguishers, server security, etc.)
- I question the need to strengthen the YBS analysis as recommended. YBS analysis should be tailored to the circumstances of the association, not a national "cookie cutter" approach. We are small (6 counties), highly visible, and have obviously good market penetration when comparing results to the 1997 Census of Agriculture. Although we

agreed to strengthen the analysis, there is nothing to be gained by it to improve upon what is already happening.

- No recommendations made. Suggestions to improve were reasonable.
- There were no recommendations for corrective action.

Question	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
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.	28	18	4	3	0	1.66

- The request to review out of two sites [site 1 and site 2] caused interference for the [site 1] office and inconvenience for the administrative staff. Also, the FCA "reviewers in training" were based out of the [site 1] office, resulting in extra work for the administrative staff. The "trainees" should have been located in the administrative office location [site 2]. There was a "break" between the review weeks due to some FCA training and/or meetings that needed to occur. This delay resulted in a longer than normal and "disjointed" review process.
- Might have been beneficial if they had interacted more. Might have avoided misunderstandings.
- Examiners should not visit branch offices due to disruption of branch activities.
- I feel they worked well with management at the busy time of renewals.
- The exam team is experienced and professional. Industry practices were used to obtain information.
- They were very conscientious about our time and prior commitments and they did little to disrupt our day-to-day operations.
- Limited as best they could—still takes a lot more time than it should on our part.
- They did this very well and we appreciate it.
- They were conscientious about their requests from staff.
- The exam team is experienced and professional. Industry practices were used to obtain information.
- Generally, very good. However, some of the information that is included in request letter prior to review is already furnished as an ongoing matter. We recognize the difficulty in preparing for a review but it would be nice to eliminate more redundancy.
- This was a limited scope exam due to a pending merger, and it was the least intrusive exam that I've ever been involved in. We were able to operate without any undue interference from the exam team.

- Examiners did not get the list of loans to be examined until late in the week immediately prior to the examination. Difficult to get numerous branches coordinated to get files to central location on such short notice.
- It expedited the on site review and was very helpful that copies of certain information was requested before the on site examination began. Likewise, it was very helpful that we received a list of items to have available before the examiners arrived.

Question	Completely Agree		Completely Disagree			Average
	1	2	3	4	5	
11. The board and management believe the findings of the examination will assist (or have assisted) the institution in correcting identified weaknesses.	18	26	5	2	1	1.88

- The primary findings serve to interrupt and distract from our primary mission.
- The examination did not reveal any unknown weaknesses or problems.
- The board and management work hard to identify any problems or issues well in advance of them becoming safety or soundness issues, but always value the input and observations of the exam team.
- We view the examination process as a learning opportunity and we will implement corrective actions that will improve our organization.
- The findings were generally helpful, with the finding regarding loan database accuracy somewhat less helpful.
- We had essentially a clean exam report that reiterated the information that the management team had been providing to our Board.
- Issues were already identified by management.
- As mentioned earlier, a large charge-off on a participation loan (due to fraud) resulted in reduced earnings. The association was on track with original earnings projections prior to this event. The board and management was aware of earnings shortfall prior to the exam.
- There were no identified weaknesses.

NOTE: One institution did not respond to question #11.

**FARM CREDIT SYSTEM SURVEY
WRITTEN RESPONSES
For
FISCAL YEAR 2004**

<i>Question</i>
12a. What aspects of the examination did you find most beneficial?

- Validation of our findings.
- Continues to be the checking of our work by knowledgeable examiners.
- Having a third party verify that we are operating in a safe and sound manner.
- Confirmation of our YBS efforts. Affirmation of our efforts on “scope.”
- Ability to discuss issues with exam team as they had findings.
- I did not think any aspect was more beneficial. The examination itself is very beneficial. It keeps us on our toes. They try and find where we are weak, but as they found out, our management, are doing a very good job. The presentation to the full Board was the most beneficial aspect of the examination. The time spent with the full Board was very helpful in the understanding of the findings of the audit team. Communication between examiners and management was the most beneficial aspect of the examination. The aspect of the examination that I found most beneficial was that it confirmed our assessment. The aspect of the examination that I found most beneficial was the explanation of similar entity reporting. The in dept exam is of benefit to the Association and especially to the Board of Directors. It is an accurate and unbiased evaluation of the business. The information received was in most part, the quality of our Management team in meeting and responding to all aspects of our financial institution. Reported to Directors minor flaws which need correcting.
- Opportunity for open discussion with examination team members.
- Discussions with examiners, and explanations of the findings.
- Report in open discussions and executive session was excellent.
- Brief, concise report. Close-out discussion and final report were consistent.
- Interaction with the commissioned and experienced examiners. Their insight and suggestions were very beneficial. Good communication with the association board was evident in relaying results of examination.
- [Examiner] was our EIC and [examiner] was on site as well. They stuck to the big picture and when they identified what they felt was a weakness, they remained very matter of fact.
- Independent third party evaluation of our operations.

- The exam team was very timely in sharing their findings with and didn't hold them back to the end of the exam process.
- Excellent new report format. Very good Board presentation where examiners were very willing to answer all questions, regardless of the simplicity.
- Discussion with the examiners regarding clarification of borrower rights/distressed loan issues.
- The CAMELS approach provided the [district] Board and management with a different viewpoint than what is received from the outside auditor and the institution's internal audit.
- The specific narratives around the CAMEL.
- We utilize FCA exams as a positive tool for determination of areas of weakness. This team and exam process provided us with pertinent information and was helpful in these areas.
- All aspects of the exam will be beneficial.
- Discussion of key issues of importance to the regulator.
- Thirty percent of findings/recommendations were beneficial.
- Examiners comments and recommendations regarding audit and review committees.
- Brief, concise report. Close-out discussion and final report were consistent.
- All aspects of the exam will be beneficial.
- Recommendations concerning known best practices.
- Good interaction with review staff. Professional manner in which the review was conducted. Good chance to obtain new ideas.
- Discussions regarding loan participations.
- Good cooperative posture, executive session. Comparison to where we stand in the industry.
- Review and discussion of the credit function (loan underwriting standards, scope of financing, etc.) and internal controls.
- Interaction with the examiners on current topics of interest within the FC System.
- Prior to exam Agency communications on focus areas.
- Evaluation of Loan Assets. Evaluation of [institution] risk bearing capabilities. Comments on Board governance including emphasis on the internal audit process.
- Credit Administration examination is very helpful.
- General discussion about areas of the examination during the time the staff is here. It helps us understand some of regulation issues and reasons for them.
- Validation of our own internal controls.
- Efficiency of the on-site work.
- Dialog with capital markets group had understanding of role department plays and related activities.

- Some comments concerning credit administration weaknesses were beneficial.
- Discussion of findings regarding scope and eligibility. Discussion of findings regarding credit administration.
- The exam team was professional, attentive and efficient. The pre-exam dialogue and the detailed post-exam discussion of preliminary findings is very useful.
- Renewed focus in compliance area.
- Even though there were no identified weaknesses, the examination was very thorough and it was helpful to jointly consider and discuss the operation of the [institution] from the safety and soundness perspective of FCA.

<i>Question</i>

12b. What aspects of the examination did you find least beneficial?

- Continued criticism of capital levels based on standards issued by FCA which I believe are out of date.
- Reviewing out of two locations, the "break" between review weeks (this resulted in moving the loan files twice back and forth between offices), the changing interpretations of the regulations (scope and eligibility), and we do not receive specific loan level memos on the credits reviewed during the examination.
- The manner in which the report was issued with findings that were not previously discussed with management are completely at odds with normal professional standards of behavior. In effect, the association was blind-sided by key findings in the report.
- We do not feel it is necessary or cost effective for three senior officers to present the review findings to our board when there are no significant concerns.
- Requiring that the board of directors establish policy guidance for an initiative to move loan files from paper format to electronic format.
- The exam team was very large for our facility which was difficult for them. However, they conducted the exam with little or no disruption to our daily operations.
- Large number of noncommissioned examiners. Their lack of basic understanding of agriculture is very frustrating for association staff. Appears that FCA process for selecting employees is very lacking. One suggestion would be to follow what some districts utilize to hire good knowledgeable beginning employees. We are concerned that when large number of tenured knowledgeable FCA commissioned examiners retire, there will be a serious drop off in quality of personnel. This issue needs to be looked at!
- We were already aware of most of the weaknesses identified and had plans in place to address them.
- There is a lot of time and effort wasted on examining the Young, Beginning and Small Farmer program.
- Continued emphasis on YBS policies, procedures, and related issues. Recognizing the ongoing need to provide training experience for new examiners, the lack of knowledge of

agriculture of those present during the examination did not reflect positively to association staff, or present the level of expertise expected of the regulator.

- The issue around Part Time Farmers that flip flopped from the previous exam.
- The other 70% (see Question 12a Comment 22).
- Inability to clear up ambiguity between mission (YBS) and regs that prohibit attainment of mission (less than full time farmer).
- Still too much on issues that do not really related to safety and soundness. Examiners do not seem to lead the charge, but a constricting view towards new business opportunities is permeating through examination team.
- YBS requirements.
- YBS and the time devoted to review and discussion of YBS program and activities.
- It was all generally beneficial.
- Comment concerning the need for a different pricing policy, loan officer incentive policy and credit due diligence on participation loans. A.) E-commerce observations, B.) Speculation that “turnover” caused the credit administration deficiencies without any discussion with management as to “cause and effect,” C.) Inclusion of planned downsizing in turnover statistics to overstate the seriousness of the issue.
- YBS expectations for analysis of market penetration, performance, and part-time farmer demographics vs. district and national FCS groups somewhat ignores the reality of the market we serve which is atypical for most associations. We have 6 counties with a very small population base and are not located to major employment areas, which obviously creates fewer opportunities for off-farm employment and attracts fewer YBS people back to the farm.
- Anything that could be done to shorten the time between report date and delivery to the board would be helpful. While bullet format works well, need to be sure fuller discussion of issues is not neglected.
- YBS focus.

<i>Question</i>

24. If you have other comments about the report of examination or the examination process or experience, please enter them here.
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- FCA should reduce the length of the survey form. This survey form should be designed for electronic submission. [Note: OIG responded to this suggestion.]
- While we do accept the findings of most of the report a key finding and concern that was raised in the written report was not addressed with management prior to issuing the report. This is very unprofessional. Once the report was issued we insisted on high level involvement of FCA administration officials to deal with the concern.
- Our association is always concerned about a consistent interpretation of the regulations from year to year and from examiner to examiner. We also want to feel certain that we

operate under the same parameters as any other [F]CS institution. During the past two exams, we have felt this consistency. Very courteous and helpful.

- I thought the examiners were very thorough in the examination. The conclusions were fair and will help our Board to continue to monitor results where weakness was identified. To our Board, the FCA audit is a valuable tool in helping verify our reporting from management on the ongoing operations of the Association. We appreciate the working relationship with our examiners, their professional conduct and their ability to convey the findings in a very concise, understandable manner. [Examiner] did a good job of leading his team and making sure management understood any of their concerns or findings. Pleased with [examiner] and [examiner]'s willingness to work with us. FCA examiner, [examiner], was new to me but seemed very professional and qualified yet personable and easy to understand.
- Just an overall clear, concise summation.
- Adequate assessment and examination of association without undo interruption of operations or unnecessary reporting, and done so in a courteous and professional manner.
- Thorough exam by professional staff.
- Please read my answer to #12b (Comment 7).
- Very complete and detailed evaluation of our operations.
- As I stated earlier, we view the examination process as a means of improving our organization and we utilize the examination findings and recommendations from the exam team in improving our operating procedures.
- Very courteous and professional examination and examination team.
- Especially appreciated the FCA team's professionalism and willingness to listen and dialogue with the institution management and board.
- The process was disruptive but we know necessary. Suggest engagement of someone who can devise procedures to mitigate the level of disruption but not compromise your mission.
- Have observed a very high level of professionalism and integrity among examiners. Like the continued move toward electronic environment.
- This is my first year on the board and I found the report very informative.
- Look forward to more electronic communication and examination processes.
- Very professionally completed and delivered.

**RESULTS OF THE OIG SURVEY OF FARM CREDIT INSTITUTIONS
EXAMINED DURING FY 2004**

Questions Applicable To All Institutions

Question	Response										Total Answered	Average Response
	Completely Agree (1)		Agree (2)		Neither (3)		Disagree (4)		Completely Disagree (5)			
	Number	%	Number	%	Number	%	Number	%	Number	%		
Question 1	24	45.28	23	43.40	4	7.55	1	1.89	1	1.89	53	1.72
Question 2	28	52.83	21	39.62	1	1.89	2	3.77	1	1.89	53	1.62
Question 3	29	54.72	20	37.74	1	1.89	3	5.66	0	0.00	53	1.58
Question 4*	32	61.54	18	34.62	1	1.92	0	0.00	1	1.92	52	1.46
Question 5	32	60.38	18	33.96	2	3.77	1	1.89	0	0.00	53	1.47
Question 6	26	49.06	21	39.62	2	3.77	4	7.55	0	0.00	53	1.70
Question 7	21	39.62	22	41.51	5	9.43	4	7.55	1	1.89	53	1.91
Question 8	44	83.02	7	13.21	0	0.00	2	3.77	0	0.00	53	1.25
Question 9	23	43.40	22	41.51	6	11.32	2	3.77	0	0.00	53	1.75
Question 10	28	52.83	18	33.96	4	7.55	3	5.66	0	0.00	53	1.66
Question 11*	18	34.62	26	50.00	5	9.62	2	3.85	1	1.92	52	1.88
Total Responses	305	52.50	216	37.18	31	5.34	24	4.13	5	0.86	581	1.64

Questions Applicable to Institutions Under Enforcement Actions

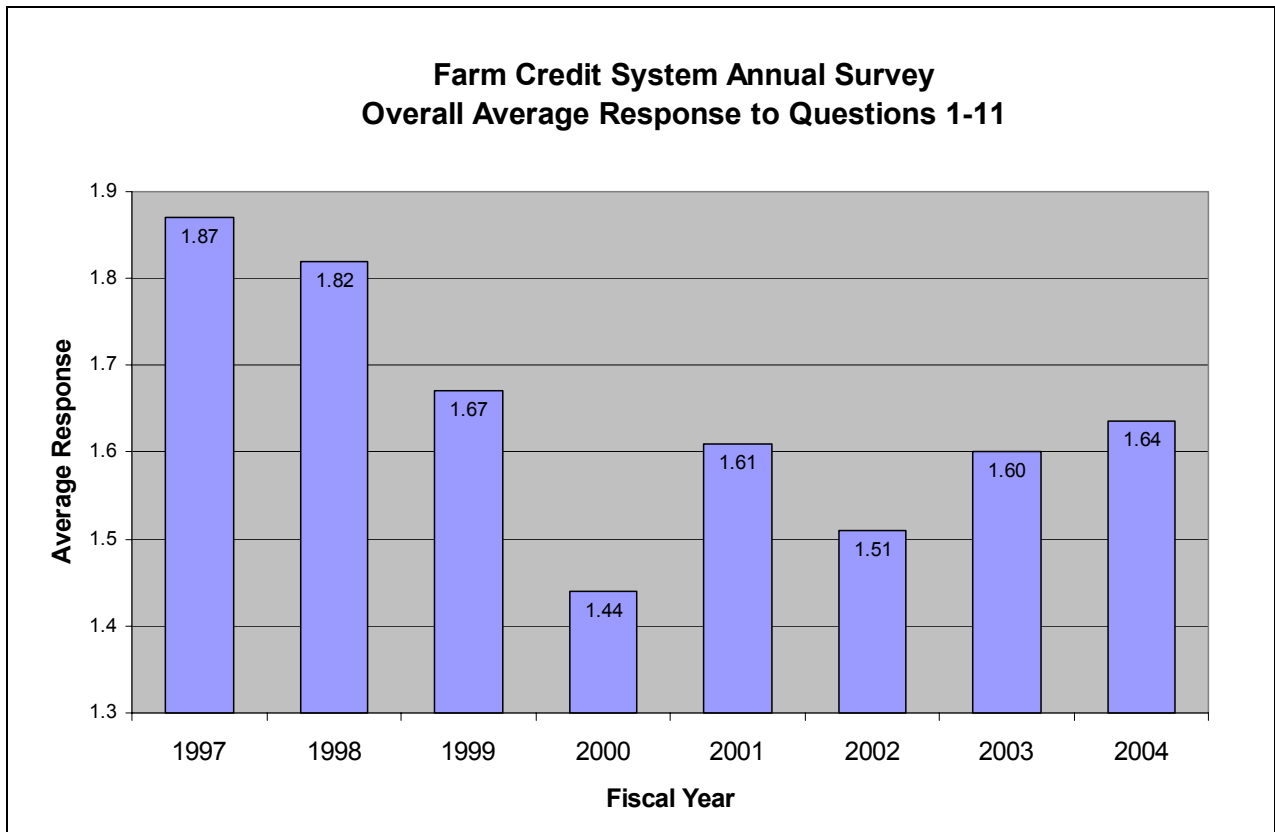
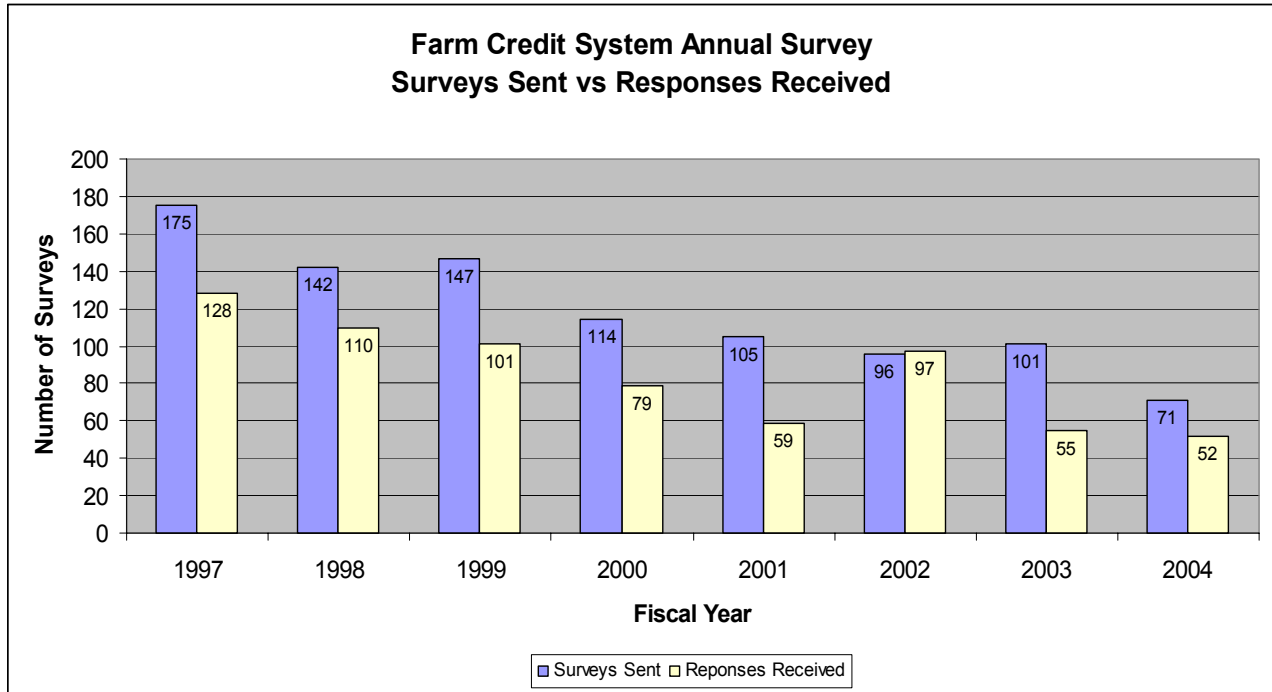
There were no institutions under enforcement actions that responded to the survey this year.

Total Number of Surveys Sent to Institutions: 71

Total Number of Surveys Received From Institutions: 53

COMPARISON OF AVERAGE RATINGS
Fiscal Years 2000, 2001, 2002, 2003 and 2004

Question	FY 04	FY 03	FY 02	FY 01	FY 00
1	1.72	1.75	1.58	1.66	1.46
2	1.62	1.55	1.43	1.58	1.39
3	1.58	1.63	1.65	1.66	1.56
4	1.46	1.46	1.38	1.54	1.42
5	1.47	1.41	1.32	1.53	1.42
6	1.70	1.56	1.53	1.69	1.48
7	1.91	1.90	1.66	1.71	1.53
8	1.25	1.19	1.14	1.20	1.15
9	1.75	1.76	1.78	1.78	1.56
10	1.66	1.62	1.39	1.53	1.41
11	1.88	1.88	1.70	1.82	1.48
Average	1.64	1.60	1.51	1.61	1.44



REPORT


Fraud ❖ Waste ❖ Abuse ❖ Mismanagement




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