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From: Agans, Autumn <agansa@fca.gov>
Cc: Agans, Autumn <agansa@fca.gov>
Sent: Wednesday, July 21, 2021 at 11:12:10 AM EDT
Subject: RE: New FOIA request received for Farm Credit Administration

This letter is in response to your Freedom of Information Act, 5 U.S.C. § 552 (FOIA), request to the Farm Credit Administration (FCA or Agency). You requested a copy of the Congressional Budget Justification (aka Proposed Budget) for the Farm Credit Administration for the years 2015 through 2022.

We conducted a thorough search of the Agency's records and located 8 documents responsive to your request, which are enclosed in their entirety.

There are no fees associated with this request.

For your information, Congress excluded three discrete categories of law enforcement and national security records from the requirements of FOIA. See 5 U.C.S. § 552(c) (2006 & Supp. IV (2010)). This response is limited to those records that are subject to the requirements of the FOIA. This is a standard notification that is given to all our requesters and should not be taken as an indication that excluded records do, or do not, exist.

I trust this information fully satisfies your request. If you need further assistance or would like to discuss any aspect of your request, please do not hesitate to contact me at 703.883.4082 or agansa@fca.gov. FCA's FOIA Public Liaison is also available for assistance at FOIAPublicLiaison@fca.gov.

Sincerely,

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Farm Credit Administration

Fiscal Year 2015 Proposed Budget and Performance Plan

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LIST OF ACRONYMS AND ABBREVIATIONS

ACA .... Agricultural Credit Association
CAMELS .... capital, assets, management, earnings, liquidity, and sensitivity
Dodd-Frank Act .... Dodd-Frank Wall Street Reform and Consumer Protection Act
Farm Credit Act .... Farm Credit Act of 1971, as amended
Farmer Mac .... Federal Agricultural Mortgage Corporation
FCA .... Farm Credit Administration
Leasing Corporation .... Farm Credit Leasing Services Corporation
FCS or System .... Farm Credit System
FCSBA .... FCS Building Association
FCSIC .... Farm Credit System Insurance Corporation
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)

INTRODUCTION

The Farm Credit Administration is an independent agency in the Executive branch of the U.S. Government. We are responsible for the regulation and examination of the banks, associations, and related entities that collectively constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

Initially 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 (Farm Credit Act). We promulgate regulations to implement the Act and examine System institutions for compliance with the Act and regulations, and with safe and sound banking practices. Our mission is to promote a safe, sound, and dependable source of credit and related services for agriculture and rural America.

This document presents and justifies our proposed budget for fiscal year 2015. It contains key information about our functions and program activities, along with an overview of the financial condition of the FCS and Farmer Mac, the entities we regulate. Also included is the fiscal year 2015 performance budget, which ties proposed expenditures to the goals and objectives in our strategic plan.

This document is organized into four sections as follows:

1. Part I contains our budget request. This section presents budget trends that we monitor annually.

2. Part II covers the functions, programs, and services we undertake to fulfill our public mission. It also provides information on actions we have taken to improve internal operations.

3. Part III discusses the System's financial condition and performance.

4. Part IV contains our FY 2015 performance budget, which provides a basis for measuring our overall effectiveness.

[1] Although Farmer Mac is an FCS institution under the Farm Credit Act (12 U.S.C. 2279aa-1(a)(2)), we discuss Farmer Mac separately from the other entities of the FCS in this document because of the secondary market authorities unique to Farmer Mac. Farmer Mac is not jointly and severally liable on debt issuances with other parts of the FCS.

Part I

FISCAL YEAR 2015 BUDGET (PROPOSED)

FISCAL YEAR 2015 BUDGET OVERVIEW

The FY 2015 proposed budget request, as shown in table 1, includes $65,100,000 in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture, Farm Credit System Insurance Corporation, and the National Consumer Cooperative Bank adds $500,000 to this amount, bringing the total proposed FCA budget request to $65,600,000.

TABLE 1. Farm Credit Administration FY 2015 Budget (Proposed)

Description	Amount Proposed	Percentage of Total Budget
Full-time-permanent personnel (FTP)	$39,438,321	60.1
Other than FTP	914,166	1.4
Other personnel compensation	407,902	0.6
Total personnel compensation	**$40,760,389**	**62.1**
Personnel benefits	13,865,685	21.1
Benefits for former personnel	25,000	0.0
Total compensation and benefits	**$54,651,074**	**83.2**
Travel and transportation of persons	3,714,786	5.7
Transportation of things	247,250	0.4
Rent, communications, and utilities	909,463	1.4
Printing and reproduction	243,650	0.4
Consulting and other services	3,786,728	5.8
Supplies and materials	720,263	1.1
Equipment	1,326,786	2.0
Total budget	**$65,600,000**	**100.0**

Note: Obligations for administrative expenses in FY 2015 are not to exceed the amount collected in assessments (current and prior year) from the FCS and Farmer Mac ($65,100,000). The total budget includes an additional $500,000 from anticipated reimbursable activity.

The FY 2015 proposed budget of $65,600,000 increased by $1,500,000 over the FY 2014 proposed budget of $64,100,000. By leveraging technology and continually emphasizing savings and efficiencies in operations, we have reduced costs for travel, telecommunications, and supplies. As a result, we are able to present a prudent, cost-effective budget.

The FY 2015 budget is necessary to maintain an effective examination program. This funding will allow us to manage the risk associated with the nation’s current financial environment. A robust examination program will help us identify any emerging risk early so that we can better protect the safety and soundness of the Farm Credit System.

In the FY 2015 proposed budget, the full-time-equivalent (FTE) staffing level increases by approximately three FTE positions over the FY 2014 proposed budget. The budget also anticipates increases in career-ladder promotions and salaries and benefits, as well as increases in funded leave.

The budget provides the resources needed to fulfill the objectives of the FCA Board Chair and CEO, which are as follows:

- To maintain strong examination and supervisory programs
- To establish the right level of regulatory capital for FCS institutions
- To ensure that the public purpose and mission-related responsibilities of the System are carried out appropriately

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. The budget also includes resources to hire contractors when we need technical specialists and technology upgrades.

The budget provides resources for developing regulations and policy positions that implement statutes, for promoting the safety and soundness of the FCS, and for supporting the System's mission as a dependable source of credit and related services for agriculture and rural America.

We are making a significant investment in our human capital initiative. This initiative emphasizes learning, expertise, and personal growth. It supports our results-oriented culture.

Knowledge management is a key component of our continuous learning strategy. As we foresee vacancies in critical fields, we ask our experienced employees to work with our newly hired employees to transfer critical knowledge and skills.

Our policies on training and employee development further enhance the transfer of knowledge. We will continue to emphasize training for precommissioned examiners and the need to capture the knowledge of employees who are eligible to retire.

In addition, the budget includes continued funding for the following multi-year projects:

<u>Risk Project</u>. The goals of the FCA Risk Project are to evaluate and acquire tools that enable us to (1) conduct risk and statistical analysis of the FCS and (2) enable users to create reports and dashboards based on the data available to FCA. This project will enhance our ability to perform our core mission of ensuring the safety and soundness of the FCS.

<u>EDGe Project</u>. The purpose of this multi-year project is to develop a fully redesigned examination program and documentation system. It focused initially on transitioning our examination documentation system to SharePoint. Having completed this phase of the project, we will now focus on building management reports and implementing tools for scheduling and enhancing work papers. This will enable management and supervisors to more efficiently and effectively evaluate System conditions and examination-related progress. The goals of this management reporting site will be to provide a tool for supervisors to monitor examination work, to automate monthly and quarterly reporting, and to produce real-time reports that can be viewed at any point throughout the examination cycle. This project further leverages technology investments to promote efficiencies, effectiveness, and retention of corporate knowledge while improving communication and coordination.

<u>Management Dashboard.</u> This project will provide key information for the effective management of our programs and activities. The dashboard will push this information to

decision makers and provide drill-down capability. This application will assist all programs and offices by providing timely, easy-to-access information related to an organization or program.

Consolidated Reporting System Call Reports. This project provides maintenance for the Call Reports, to ensure that they continue to provide an excellent electronic source of FCS financial data for the general public, FCS institutions, FCA management, financial analysts, and FCA examiners. We expect to make significant changes to the Call Reports every one to two years.

E-mail Archiving and Discovery. The major goals of the project are as follows:

- Ensure that our staff can effectively and efficiently locate documents and information to meet the business and operational needs of the Agency
- Ensure that we retain email in accordance with our recordkeeping requirements and ensure that it remains available to appropriate staff
- Ensure that our staff can effectively and efficiently locate and respond to legitimate requests for documents and can place email on a litigation hold if appropriate
- Facilitate disaster recovery efforts to restore email communication and to enhance productivity and system performance

Application Modernization. The purpose of this project is to ensure that applications can be accessed through a browser. This will make the applications accessible from Agency-issued mobile devices, including laptops, smartphones, and tablets.

Funding Approval SharePoint Site. The goal of this project is to maintain an efficient working environment for staff and members of management who are responsible for monitoring, analyzing, and processing information and data related to funding requests and approvals. This SharePoint site will facilitate interactive processing of funding requests.

Continuity of Operations Program. We will continue to develop our Continuity Program in FYs 2014 and 2015. We will ensure staff readiness by implementing a robust Test, Training, and Exercise Program. The program will focus on preparing for Eagle Horizon (EH) 2014 and 2015, which are multi-day, full-scale exercises organized by the Department of Homeland Security's Federal Emergency Management Agency. EH2014 will be internally and externally evaluated, and EH2015 will be internally evaluated.

Background

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. With increased risk in several institutions, we expect mergers and consolidations to continue. We expect the System's asset base to grow at only a moderate pace because of current global economic conditions. The System's growth will increase the average institution's asset base, which currently exceeds $1 billion.

Our budget request includes the resources necessary to ensure the safety and soundness of the System as it grows and changes. The budget strategy will enable us to leverage our most valuable investment—our people. The budget request enables us to continue to implement initiatives to streamline and improve operations and to enhance staff expertise to meet any challenges and opportunities that may arise. The budget request supports the Agency's Human Capital Plan by providing for an increase in the number of Office of Examination staff and by providing for the implementation of the Information Resources Management Plan.

FCA Program Areas

The Agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The Policy and Regulation Program

The budget provides resources for developing regulations and policy positions that implement applicable statutes, promote the safety and soundness of the FCS, and ensure that the System carries out its 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 the processing of information, the communication of Agency positions, and the administration of activities associated with the policy and regulation program. In total, policy and regulation activities account for $14.0 million, including 55.90 FTEs in the proposed FY 2015 budget (see table 31 on page 75).

The Safety and Soundness Program

Through our safety and soundness program, the budget provides resources to examine the safety and soundness of the FCS. 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. Initiatives include the development of risk topics, on-site examination presence, and a greater emphasis on loan review through the testing of credit reviews, internal audits, and internal controls.

A number of FCS institutions are requiring special supervision and enforcement actions. These actions are taken as a result of significant input from our staff and reflect the weaknesses in the nation's economy and credit markets, as well as a rapidly changing risk environment in agriculture.

In total, safety and soundness activities account for $50.4 million, including 246.20 FTEs in the proposed FY 2015 budget (see table 31 on page 75).

Office of Inspector General's FY 2015 Budget Request

Section 6(f)(1) of the Inspector General Act of 1978, as amended, (IG Act) requires an Inspector General (IG) to include specific information in the budget request the IG submits to the head of the department or designated Federal entity to which the IG reports. To fulfill the requirement of section 6(f)(2) of the IG Act, the FCA Board must in turn include this same information in the budget request that we submit to the President.

The information that the IG Act requires to be included is provided below:

- The aggregate budget request for the Office of Inspector General (OIG) is $1,271,538.
- The amount needed for OIG training is $18,590 (tuition).
- The amount needed to support the Council of the Inspectors General on Integrity and Efficiency is $1,000.

The FCA Board is submitting the IG's budget request as received from the IG.

BUDGET TRENDS

This budget supports the Agency's safety and soundness programs. It maintains and slightly grows our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. In addition, these resources keep the bar raised to the level set by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The FY 2015 budget is necessary to continue to fund the examination program, employee salary and benefit costs, and technology expenditures—all of which represent approximately 88 percent of FCA's total budget.

Our actual and budgeted spending levels are consistent with actual and budgeted FTE usage. Actual FTE usage has declined over the past three years because of challenges in hiring and unexpected attritions. However, FTE levels are expected to increase over the next two years to support the examination and oversight of the Farm Credit System. We must guard against risks related to program changes and weaknesses in both the agricultural and the general economy. Tables 2, 3, 4, and 5 provide information on our budget trends.

TABLE 2. FY 2015 Budget (Proposed) Compared with the FY 2014 Budget (Proposed)

	FY 2014 Proposed Budget	FY 2015 Proposed Budget	Increase (Decrease) from FY 2014 Budget
Full-time permanent (FTP)	$38,130,874	$39,438,321	$1,307,447
Other than FTP	1,165,473	914,166	(251,307)
Other personnel compensation	411,379	407,902	(3,477)
Total personnel compensation	**$39,707,726**	**$40,760,389**	**$1,052,663**
Personnel benefits	13,419,5766	13,865,685	446,109
Benefits for former personnel	25,000	25,000	0
Total compensation and benefits	**$53,152,302**	**$54,651,074**	**$1,498,772**
Travel and transportation of persons	3,779,930	3,714,786	(65,144)
Transportation of things	200,131	247,250	47,119
Rent, communications, and utilities	1,013,502	909,463	(104,039)
Printing and reproduction	242,075	243,650	1,575
Consulting and other services	3,500,974	3,786,728	285,754
Supplies and materials	745,035	720,263	(24,772)
Equipment	1,466,051	1,326,786	(139,265)
Total budget	**$64,100,000**	**$65,600,000**	**1,500,000**

Note: FCA's FY 2015 proposed budget request is $1.5 million more than the FY 2014 proposed budget request.

TABLE 3. FY 2014 Budget (Proposed) Compared with the FY 2014 Budget (Revised)			
	FY 2014 Proposed Budget	**FY 2014 Revised Budget**	**Increase (Decrease)**
Full-time permanent (FTP)	$38,130,874	$38,503,256	$372,382
Other than FTP	1,165,473	876,471	(289,002)
Other personnel compensation	411,379	407,246	(4,133)
Total personnel compensation	**$39,707,726**	**$39,786,973**	**$79,247**
Personnel benefits	13,419,576	13,103,813	(315,763)
Benefits for former personnel	25,000	25,000	0
Total compensation and benefits	**$53,152,302**	**$52,915,786**	**$(236,516)**
Travel and transportation of persons	3,779,930	3,552,281	(227,649)
Transportation of things	200,131	282,930	82,799
Rent, communications, and utilities	1,013,502	993,378	(20,124)
Printing and reproduction	242,075	257,150	15,075
Consulting and other services	3,500,974	3,640,024	139,050
Supplies and materials	745,035	727,895	(17,140)
Equipment	1,466,051	1,530,556	64,505
Total budget	**$64,100,000**	**$63,900,000**	**$(200,000)**
Note: FCA's FY 2014 revised budget decreased by $200,000 from the FY 2014 proposed budget.			

Our revised FY 2014 budget decreased approximately $200,000 from our proposed FY 2014 budget—primarily because of less reimbursable activity. However, our savings initiatives continue to help keep costs in line with the budgeted figures and absorb unexpected expenses.

The Office of Management and Budget (OMB) has issued guidance for agencies to reduce costs and increase efficiencies. We will continue to find ways to become more efficient, reduce costs, and leverage advances in technology. As the following examples show, we have made notable strides to reduce costs and implement cost-savings strategies:

- We have implemented and improved audio- and videoconferencing, which allows us to reduce and control travel costs.
- We have revised our Travel and Relocation Policy to encourage prudent travel practices.
- Our Chief Financial Officer now approves all conference expenses.
- We allow our staff to use penalty fares to take advantage of lower air fares.
- We have reduced travel to our field offices.
- We will continue to use virtual private network (VPN) and other technologies to reduce and control travel costs by enabling our examiners to complete certain examination activities remotely.

- The upgrade of the phone system to VoIP reduces telecommunications costs by leveraging our network to route calls.

- We use devices (such as laptops and smartphones) to keep travel costs down and maintain continuity of operations.

- We scrutinize the issuance of information technology devices (such as smartphones and tablets), ensuring that only employees who have a bona fide business need receive such devices.

- On a monthly basis, we review the usage of smartphone and other wireless devices to ensure the devices are being fully utilized and costs are being minimized.

- We continue to expand our use of technology to disseminate publications and reduce the amount of printing.

- We installed network copier printers with scanning capabilities to reduce hard copies, promote electronic filing, and reduce the number of printers.

- We increased the use of digital signatures to reduce the need for printing, signing, and maintaining hard copies of documents.

- We are "going green" by using online research to replace printouts and reducing the handouts we use in training.

- The EDGe Project continues to increase efficiency by integrating workflow.

- Our offices will continue to collaborate and share resources to maximize efficiency.

TABLE 4. FCA Obligations, FYs 2011–2015					
	FY 2011 Actual	**FY 2012 Actual**	**FY 2013 Actual**	**FY 2014 Revised Budget**	**FY 2015 Proposed Budget**
Full-time permanent (FTP)	$32,540,297	$33,038,449	$32,383,527	$38,503,256	$39,438,321
Other than FTP	919,631	1,065,144	935,605	876,471	914,166
Other personnel compensation	416,680	479,317	464,253	407,246	407,902
Total personnel compensation	**$33,876,608**	**$34,582,910**	**$33,783,385**	**$39,786,973**	**$40,760,389**
Personnel benefits	10,023,189	10,314,361	10,375,882	13,103,813	13,865,685
Former personnel benefits	22,711	5,852	13,815	25,000	25,000
Total compensation and benefits	**$43,922,508**	**$44,903,123**	**$44,173,082**	**$52,915,786**	**$54,651,074**
Travel and transportation of persons	3,266,038	3,010,853	2,640,213	3,552,281	3,714,786
Transportation of things	65,409	65,900	95,512	282,930	247,250
Rent, communications, and utilities	913,871	837,410	814,436	993,378	909,463
Printing and reproduction	138,140	152,038	164,273	257,150	243,650
Consulting and other services	3,277,466	2,693,640	2,662,125	3,640,024	3,786,728
Supplies and materials	562,863	550,612	530,941	727,895	720,263
Equipment	1,230,157	946,861	731,344	1,530,556	1,326,786
Insurance claims and indemnities	0	27,752	743	0	0
Interest and dividends	14	6	0	0	0
Total obligations	**$53,376,466**	**$53,188,195**	**$51,812,669**	**$63,900,000**	**$65,600,000**

Sources of FCA Revenue and Funding, FYs 2011–2015

We maintain a revolving fund primarily financed from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation, U.S. Department of Agriculture, and the National Consumer Cooperative Bank. Table 5 shows actual sources of revenue and funding for FYs 2011 to 2013 and projected sources of revenue and funding for FYs 2014 and 2015.

TABLE 5. Sources of FCA Revenue and Funding, FYs 2011–2015					
Source	**FY 2011 Actual**	**FY 2012 Actual**	**FY 2013 Actual**	**FY 2014 Revised Budget**	**FY 2015 Proposed Budget**
ASSESSMENTS					
Banks, associations, and related entities	$49,906,192	$51,849,999	$47,625,006	$47,625,000	TBD
Federal Agricultural Mortgage Corporation	2,200,000	2,250,000	2,375,000	2,375,000	TBD
Carryover funds[a]	6,900,000	5,900,000	11,000,000	13,300,000	TBD
Assessments available for obligation	**$59,006,192**	**$59,999,999**	**$61,000,006**	**$63,300,000**	**$65,100,000**[b]
REIMBURSEMENTS[c]					
National Consumer Cooperative Bank	302,286	100,951	287,087	174,073	57,679
Farm Credit System Insurance Corporation	425,032	391,955	462,013	287,800	329,635
U.S. Department of Agriculture	482,493	494,195	131,070	138,127	112,686
Other miscellaneous income	43,567	44,576	36,581	0	0
OTHER					
Interest income	560,206	464,685	377,344	---- [d]	---- [d]
Total	**$60,819,776**	**$61,496,361**	**$62,294,101**	**$63,900,000**	**$65,600,000**

[a] Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation. We will determine assessments and carryover amounts for FY 2015 in September of FY 2014.

[b] Our proposed obligation limit for FY 2015 is $65,100,000.

[c] From a budget standpoint, reimbursements for FYs 2014 and 2015 do not include indirect costs.

[d] As part of our interest reserve strategy, no funds are budgeted from interest earned.

Note: The revolving fund is financed by three sources: (1) assessments to System institutions and Farmer Mac, (2) income from reimbursable services that we provide to other Federal agencies and the National Consumer Cooperative Bank, and (3) interest earned from investments with the U.S. Treasury.

ASSESSMENTS

Farm Credit System

FCA's operating costs are financed by direct assessments to System institutions. FY 2014 assessment to System institutions did not increase from the FY 2013 amount of $50 million. The unchanged assessment is a result of savings passed on to the institutions. We achieved these savings by not granting pay raises to employees who are Senior Executive Equivalents, by reducing the costs of relocation, by using prudent travel practices, and by using technology to improve operational efficiencies. Table 6 provides information on FCA's assessments for FYs 2005 through 2014.

TABLE 6. FCS Assessments FYs 2005–2014

Fiscal Year	Assessment (in millions)
2005	$39.4
2006	$40.5
2007	$41.5
2008	$42.5
2009	$45.1
2010	$49.1
2011	$52.5
2012	$54.1
2013	$50.0
2014	$50.0

Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2014 is $2.38 million. As required by regulation, we will reconcile and adjust the assessment after the fiscal year-end to reflect the actual amount expended. Actual costs for FY 2012 were $2.38 million. The assessment for FY 2015 is not yet available because the Office of Secondary Market Oversight (OSMO) will not complete the FY 2014 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2014.

Table 7 shows assessments for fiscal years 2005 to 2014. These assessments include costs associated with increased examination and oversight activities. OSMO added staff in FY 2012 in response to Farmer Mac's significant growth since 2005 when OSMO's organizational structure last changed. Also, because of the increased emphasis on capital adequacy and stress testing among financial regulatory agencies, OSMO has added staff in 2014.

TABLE 7. Farmer Mac Assessments FYs 2005–2014

Fiscal Year	Assessment (in millions)
2005	$2.30
2006	$2.35
2007	$2.20
2008	$2.05
2009	$2.05
2010	$2.25
2011	$2.20
2012	$2.25
2013	$2.38
2014	$2.38

Note: Although it will not be set until September 2014, Farmer Mac's FY 2015 assessment is expected to be about $2.38 million, the same as the FY 2014 figure, although it could change.

Farm Credit Administration

FCS Borrower Costs

FCS borrowers incurred a net cost of approximately 1.9 basis points, or 1.9 cents for every $100 of assets held, to pay for FCA operations in FY 2013. Since FY 2004, the net cost to borrowers has decreased by 1.0 basis points.

FCS borrower costs are based on the relationship between the System's total assessments and assets held (not including Farmer Mac). The FCS held $252.9 billion in total assets as of September 30, 2013, up from $239.7 billion a year earlier. The strong growth of System assets in recent years, combined with controlled growth of the FCA budget, has yielded historically low regulatory costs to FCS borrowers. Table 8 shows the borrower cost trends since FY 2004.

TABLE 8. FCA's Net Cost to System Borrowers FYs 2004–2013

FY Ended September 30	Basis Points
2004	2.9
2005	2.6
2006	2.5
2007	2.2
2008	2.0
2009	2.0
2010	2.1
2011	2.2
2012	2.2
2013	1.9

Note: The net cost figure is the annual assessment (not including Farmer Mac) at the beginning of the fiscal year divided by total assets at the end of the fiscal year.

FCA Carryover Funds

FCA ended FY 2013 with carryover funds from previous years of approximately $27.5 million. Of this amount, $11.5 million is the Agency's interest reserve, which we hold for use in emergency situations and in accordance with our interest reserve strategy. Of the remaining $16 million, $13.3 million was transferred to fund the FY 2014 budget.

As an arm's-length regulator, we oversee institutions involved in two volatile industries—agriculture and finance. The reserve ensures that we can effectively and efficiently respond to unanticipated, material, one-time policy or safety and soundness issues arising within the System. The reserve strategy provides us with a proactive plan to respond to these issues without increasing assessments at a time that may be financially problematic for System institutions.

Table 9 presents a 10-year comparison of carryover funds at the end of each fiscal year. FCA projects to carry over approximately $14.4 million in FY 2014.

TABLE 9. FCA's Carryover Funds FYs 2004–2014

Fiscal Year	Carryover (in millions)
2005	$11.7
2006	$16.3
2007	$20.5
2008	$21.9
2009	$23.1
2010	$23.5
2011	$23.8
2012	$27.6*
2013	$27.5*
2014 Projected	$14.4*

*Includes earned interest and excludes unfilled customer orders.

Staffing

This budget request reflects our commitment to achieving our public mission while adhering to targeted spending levels. It provides the resources needed to support the Board's strategic vision and to invest in Agency programs for policy and regulation development, risk-based examination and supervision, and the proactive management of systemic risks.

The environment in which the FCS operates is dynamic and increasingly complex. The challenges in the nation's financial sector over the past few years were important considerations during our most recent strategic planning period. As a result, we have redirected staff resources in accordance with risk-based examination and supervisory principles in order to proactively manage systemic risk and to continually seek cost-effective methods to share Agency resources and leverage technology for greater efficiency. Projected staffing levels for FYs 2014–2015 will also rise because of staff increases in the examination program.

The composition of staff is also changing as tenured, experienced people retire and are replaced. Because of continuing retirements and ongoing changes in the technical skills that we require for certain jobs, we will continue to hire and train a number of employees over the next two years. The budget resources for FY 2015 reflect, in part, our commitment to invest in targeted recruiting and training programs for new employees and to maintain safety and soundness in the System.

Table 10 provides the total full-time-equivalent (FTE) levels by office for FYs 2011 through 2015, whereas table 11 breaks out our budget obligations by office for the same period.

TABLE 10. Total Full-Time-Equivalent (FTE) Levels by Office FYs 2011–2015

Organizational Unit	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Revised Budget	FY 2015 Proposed Budget
Board	9.8	9.3	9.4	10.3	10.3
Chief Operating Officer	2.0	2.0	2.0	2.0	2.0
Equal Employment Opportunity and Inclusion	-	1.0	.80	1.0	1.0
Congressional and Public Affairs	6.6	5.0	5.1	6.9	7.1
Examination	171.2	172.6	163.7	176.5	180.6
General Counsel	13.6	13.1	13.5	14.5	15.0
Management Services	49.9	50.4	48.1	55.0	55.0
Inspector General	4.6	4.6	4.0	4.8	4.8
Secondary Market Oversight	3.7	4.6	4.2	4.8	5.0
Regulatory Policy	25.0	25.0	22.6	26.9	27.2
Total	**286.4**	**287.6**	**273.4**	**302.7**	**308.0**
Change from previous year	**9.9**	**1.2**	**(14.2)**	**29.3**	**5.3**

TABLE 11. FCA Obligations by Office, FYs 2011–2015					
Organizational Unit	**FY 2011 Actual**	**FY 2012 Actual**	**FY 2013 Actual**	**FY 2014 Revised Budget**	**FY 2015 Proposed Budget**
Board	$1,990,459	$1,925,843	1,897,301	2,385,461	2,417,686
Chief Operating Officer	504,666	463,343	436,261	569,266	577,136
Equal Employment Opportunity and Inclusion	-	266,273	240,333	406,938	412,460
Congressional and Public Affairs	1,439,798	1,219,242	1,239,128	1,797,507	1,860,283
Examination	27,986,542	27,697,472	27,071,929	31,193,254	32,373,584
General Counsel	2,976,351	3,028,899	3,274,367	3,826,506	4,036,455
Management Services	11,668,502	11,696,424	11,145,146	15,169,370	15,121,158
Inspector General	1,066,934	1,096,153	947,775	1,338,210	1,357,103
Secondary Market Oversight*	966,341	1,074,135	1,038,118	1,362,548	1,434,848
Regulatory Policy	4,776,873	4,720,411	4,522,311	5,850,940	6,009,287
Total obligations	**$53,376,466**	**$53,188,195**	**51,812,669**	**63,900,000**	**65,600,000**

* Excludes costs of certain offices, such as Examination and General Counsel, which assist in the examination and supervisory activities of Farmer Mac.

Note: To realize efficiencies, our offices share resources to accomplish various tasks and activities. These shared resources are not reflected in the individual office obligations.

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 (Farm Credit Act). As an independent Agency within the Executive branch of the Federal Government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).[2]

The FCS is the oldest of the financial Government-sponsored enterprises (GSEs). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

The FCS had $194.2 billion in outstanding loans to agriculture and rural America as of September 30, 2013.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac's secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural lenders and intermediaries including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2013, the volume of loans either purchased or guaranteed by Farmer Mac totaled $13.8 billion.

FCA is also 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 contract with the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture to provide examination services.

[2] By statute, Farmer Mac is an institution of the Farm Credit System; however, in this document, we will use the terms "FCS" and "System" to refer to all the entities in the Farm Credit System except Farmer Mac and affiliates of Farmer Mac.

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 our Strategic Plan for FYs 2013–18, our mission is to ensure a safe, sound, and dependable source 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 also evaluate whether institutions are complying with laws and regulations, especially the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers. 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 operations are determined to be 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.[3]

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 System debt obligations.

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 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.

In the Strategic Plan for FYs 2013–18, the Board stressed its commitment to maintaining the safety and soundness of the System and Farmer Mac. The Board also expressed its commitment to ensuring that the System provide opportunities to young, beginning, and small farmers; increase diversity in its customer/owner base; and provide an adequate and flexible flow of funds into rural America. In addition, because the System's lending institutions are cooperatives, we will continue to advocate both strong governance and local control.

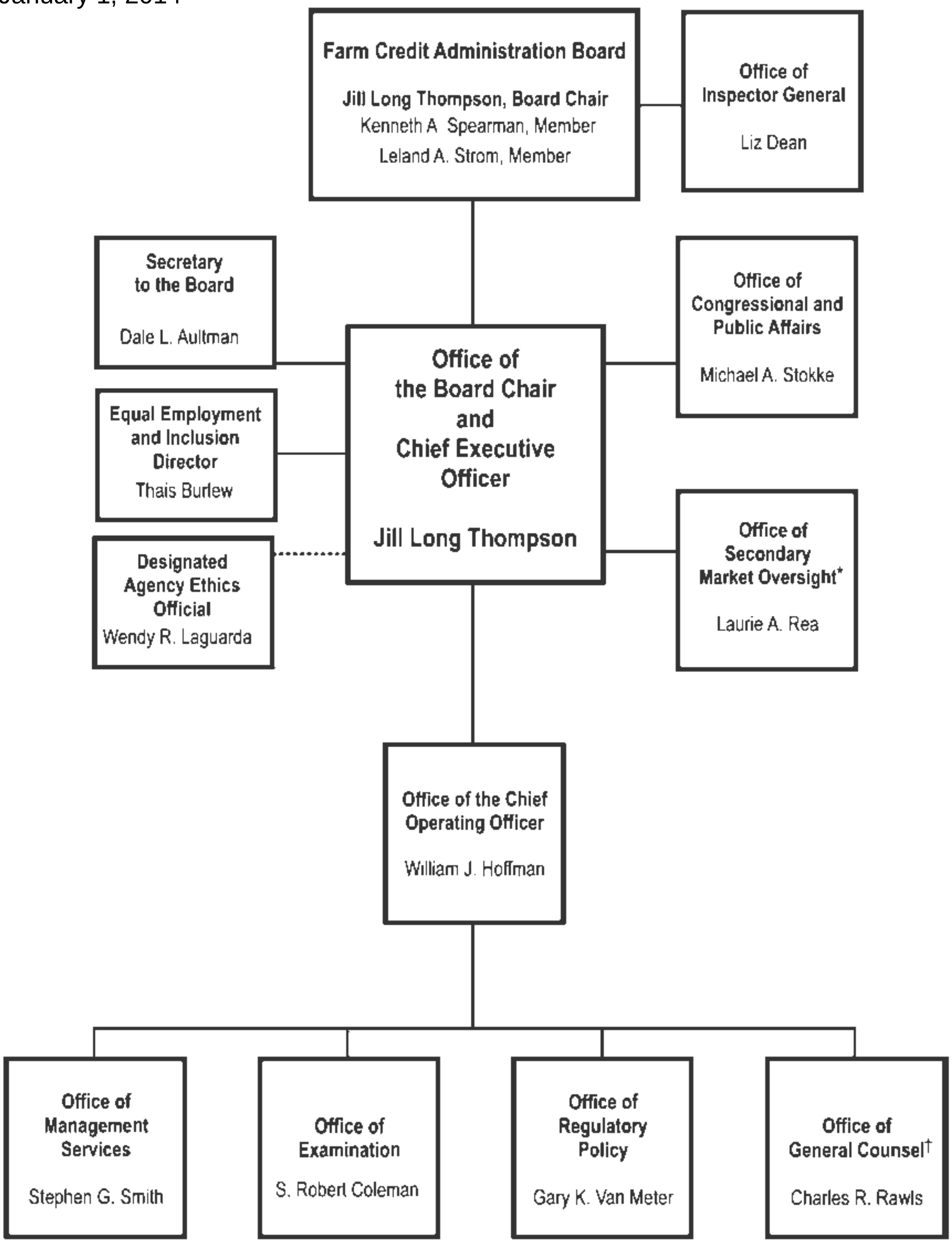
[3] Provisions in the Farm Credit Act regarding borrower rights do not apply to loans to cooperatives.

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. The budgetary information for each office is contained in table 10 on page 20. We have our headquarters and a field office in McLean, Virginia, with additional field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

FIGURE 1. FCA Organizational Chart

As of January 1, 2014



*Reports to the Board for policy and to the CEO for administration.
†Maintains a confidential advisory relationship with each of the Board members.

FCA INTERNAL OPERATIONS

FCA is firmly committed to the continuous development and support of its most valuable asset—its employees. This commitment is at the core of our five-year Human Capital Plan, which details activities that sustain a work environment in which we can accomplish our mission. The plan focuses on workforce planning and talent management, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of our Human Capital Plan is based on the Human Capital Standards for Success, a collaboration of the Office of Management and Budget, the Office of Personnel Management, and the U.S. Government Accountability Office.

Human Capital Management

Human capital strategies are linked to our strategic plan through clearly defined strategic initiatives and action plans. We continually monitor workforce trends and implement best practices. We also monitor the System's changing environment so that we can adjust our staffing levels and maintain requisite skill sets by hiring additional staff, providing employee training and development, and transitioning employees from staff positions that are no longer necessary. We review our workforce planning strategies annually; we last revised these strategies in September 2013. See table 12 for full-time-equivalent (FTE) staffing levels (rounded to the nearest whole number) from FYs 2005 through 2015.

TABLE 12. Full-Time-Equivalent Staffing Levels FYs 2005–2015

Fiscal Year	FTE Staffing Level
2005	271
2006	252
2007	253
2008	251
2009	261
2010	277
2011	286
2012	287
2013	273
2014	303 (authorized)
2015	308 (authorized)

Table 13 provides comparative statistics on the relationship between the number of managers and supervisors to other personnel for FYs 2005 to 2014.

TABLE 13. Ratio of Managers and Supervisors to Other Personnel FYs 2005–2014

Fiscal Year	Ratio
2005	1:8
2006	1:6
2007	1:6
2008	1:6
2009	1:6
2010	1:6
2011	1:6
2012	1:6
2013	1:6
2014	1:6

We perform workforce assessments annually to obtain information on critical staffing variables, such as the age and grade of employees. From this analysis, we develop five-year projections to determine and mitigate the impact of employee retirements and separations.

As of September 30, 2013, approximately 18 percent of our personnel were eligible to retire. This number will increase to an estimated 20 percent by the end of FY 2014. As a result of recent hiring, the number of employees who have been employed five years or fewer has risen substantially over the past three years and now constitutes a sizable portion of our workforce. This trend is likely to continue over the next three to five years. See table 14 for retirement eligibility projections at FCA.

TABLE 14. FCA Retirement Eligibility, FYs 2014–2018

Fiscal Year	Eligible Retirements
2014	60*
2015	12
2016	12
2017	11
2018	14

* This number includes 54 staff members who became eligible to retire prior to FY 2014.

Implementing the Human Capital Plan

As we face the retirement of a significant percentage of the FCA workforce, we are working hard to sustain a high level of institutional knowledge, job skills, and analytical expertise. In addition to succession planning and cross-training, we provide a variety of resources and programs for sharing knowledge across the organization. During FY 2013, these efforts were coordinated by the Human Capital Steering Committee to ensure maximum efficiency and effectiveness.

Our continuous learning strategy emphasizes leadership, competencies, and knowledge management. Succession planning is also an important element. By providing education, training, and other development opportunities, we seek to attract and retain bright, creative, and enthusiastic people. Identifying our human capital needs over the next five years, including the optimal size of our workforce and the appropriate skill sets of our employees, is one of our primary goals; assessments take place at all levels to accurately gauge human capital requirements. We use the results of these assessments to develop, enhance, and redirect training and development programs.

We coordinate training goals with the leadership skills and competencies that are integral to achieving our mission. The goals are comprehensive, developed at the office level and through individual development plans. By projecting short- and long-term goals over a two-year period, these plans help us manage employee training and development activities. We also use individual development plans for projecting budget needs for training resources, and we link them to FCA's Performance Management System. Supervisors and employees collaborate on ongoing and proposed training and development goals during mid-year and annual performance reviews.

Formal training programs support the needs of core occupational groups through a variety of methods, such as in-house training, vendor courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop computer with the technology to support e-learning initiatives. In addition, as a matter of policy, all employees have regular access to training on our computer systems.

We demonstrated our commitment to our training and knowledge transfer goals in FY 2013 by providing appropriate training to precommissioned examiners and capturing the knowledge of examiners who are eligible to retire. As more and more employees become eligible to retire, knowledge transfer becomes a greater concern. We have created an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key component of our continuous learning strategy. As vacancies in critical fields are projected, orientation plans seek to have newly hired employees work closely with experienced employees to transfer critical knowledge and skills. The transfer of knowledge is further enhanced through policies on training and employee development that are reviewed and updated regularly.

FCA's electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, are another component of knowledge management and best practices. These databases enable employees to communicate and share knowledge.

In addition to the databases, we have enhanced knowledge transfer and collaboration by establishing internal SharePoint sites. These sites provide resources for credit specialists, operations specialists, and recruiters, and they include workgroup sites for training, planning and reporting, and policy development. The sites also provide resources on contracting, technology, leadership development, and audit and internal controls. Through these sites, we can deliver information in real time to multiple audiences.

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. We endorse programs that promote equal employment opportunity (EEO), diversity, and inclusion, and we have an active EEO program.

Long-term rotational assignments enhance employee knowledge and expertise. Through an organized program that encourages offices and employees to participate in rotational assignments, employees gain a deeper understanding of the Agency's mission. Rotational assignments build teamwork and collaboration and enhance the motivation and productivity of our employees.

In early 2014, we will host a symposium to consider consolidation in the Farm Credit System and the effects consolidation may have—both positive and negative—on the System's safety and soundness and its ability to fulfill its mission.

FCA Compensation Program

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires Federal financial regulators to strive to achieve comparability in compensation and benefit programs. Section 1206 of FIRREA directs FCA and other Federal bank regulatory agencies to "seek to maintain comparability regarding compensation and benefits." These provisions enable these agencies to attract and retain qualified staff.

To comply with the FIRREA, we annually survey the other federal bank regulators and adjust our employees' compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under the FIRREA. For a general comparison, we also survey the private sector, the System banks, and the General Schedule agencies.

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 on the basis of a number of factors, including the compensation programs of other Federal bank regulators and available funding.

Consistent with the Federal pay freeze legislation and the Presidential Memorandum of December 2010, FCA did not increase the salaries of senior management and did not adjust the pay ranges or the locality-based pay rates for calendar years 2011 through 2013.

On Jan. 16, 2014, the FCA Board approved the FCA Compensation Program for 2014. The program includes pay-for-performance increases, with lower rate increases for executives. The Board also adjusted the Agency's locality rates to bring them in line with other regulatory agencies, and it established a locality rate for employees who are on permanent flexiplace.

External Contracting and Shared Services

Outsourcing

As the table below shows, we continue to outsource several functions. Our shared-service agreement with the Bureau of the Fiscal Service began in FY 2006. We also outsource our payroll services to USDA's National Finance Center, our Employee Assistance Program services to ComPsych, and our Flexible Spending Account Plan to Benefit Allocation Systems. In FY 2010, we began outsourcing our EEO counseling services through the U.S. Geological Survey. Outsourcing these services allowed us to manage our employee benefits and other Agency functions without additional personnel costs.

TABLE 15. Outsourcing, FY 2013

Contract	Purpose	Amount
Administrative Service Center (BFS)	To provide full-service accounting, eTravel, credit card, and platform procurement services	$713,933
National Finance Center (USDA)	To provide payroll services	$38,024
U.S. Geological Survey	To provide EEO counseling services	$14,000

Note: FCA's shared-service agreements during FY 2013 totaled $765,957.

Single Source and Competitive Consulting Service Contracts

Tables 16 and 17 provide a summary of our single-source and competitive consulting service contracts for FYs 2012 and 2013.

TABLE 16. Competitive Consulting Service (CCS) Contracts of More Than $25,000 and Single-Source (SS) Contracts, FY 2012		
Contract	**Purpose**	**Amount**
McGraw Hill/Standard & Poor's; 12-FCA-450-001 (SS)	To provide Standard & Poor's online rating service	$50,469
Personnel Decision Research Institute; 10-FCA-C-01 (SS)	To help develop the precommission test	$79,734
Centrec; 12-FCA-601-014 (SS)	To provide self-study training	$16,702
Gartner Group; 12-FCA-601-026 (SS)	To provide premier membership for FCA staff in the Gartner Executive Program	$48,740
Murphy Brothers; 12-FCA-601-009 (SS)	To provide taxi services	$9,955
D. Redden; 12-FCA-601-006 (SS)	To provide retirement counseling	$29,850
ComPsych; 12-FCA-601-012 (SS)	To provide employee assistance	$6,163
Sybase; 12-FCA-601-051 (SS)	To provide PowerBuilder maintenance	$9,416
Towers Watson; 12-FCA-601-055 (SS)	To provide compensation consulting	$4,000
iFar; 07-FCA-C-01, Option Year 5 (SS)	To provide consulting services to the Office of Secondary Market Oversight	$46,199
SoftChoice; 10-FCA-601-069 (SS)	To provide Microsoft Enterprise agreement	$135,189
Brown & Co.; 12-FCA-700-001 (CCS)	To provide financial audit review	$42,232
Informa Economics; 12-FCA-911-003 (SS)	To provide Informa Economics Policy Report subscription	$12,360
Bloomberg; 12-FCA-450-0021 (SS)	To provide Bloomberg Data license	$43,560
Financial Information Systems Inc.; 12-FCA-911-001 (SS)	To provide subscription renewal	$16,000
Modcomp; 12-FCA-601-058 (SS)	To manage electronic storage	$8,176
CRW Management Consultant; 12-FCA-601-068 (CCS)	To serve as a Human Resource Information System consultant	$41,800
Connie Harshaw; 12-FCA-103-002 (CCS)	To serve as a human resources consultant	$100,000
ESRI, Inc.; 12-FCA-601-069 (SS)	To serve as a Geographic Information System consultant	$43,361
Note: The Agency's SS and CCS contracts totaled $743,906 in FY 2012.		

TABLE 17. Competitive Consulting Service (CCS) Contracts of More Than $25,000 and Single-Source (SS) Contracts, FY 2013		
Contract	**Purpose**	**Amount**
Brown & Company; 13-FCA-700-001 (CCS)	To provide financial audit services	$35,744
R & R Consulting; 13-FCA-450-001 (CCS)	To assist with updating FCA's risk-based capital model	$55,000
Gartner Inc,; 13-FCA-601-024 (CCS)	To provide technology services	$48,740
PatchAdvisor, Inc.; 13-FCA-601-058 (SS)	To provide recommendations for major applications	$50,050
Personnel Decision Research Institute; 10-FCA-C-01 (SS)	To help develop the precommission test	$84,887
Personnel Decision Research Institute; 13-FCA-301-007 (SS)	To develop questionnaire for examiner position	$133,340
R. Bridge; 13-FCA-240-002 (SS)	To provide editorial services	$11,250
Personnel Decisions Research Institute;13-FCA-301-007 (SS)	To assist with commission test evaluation	$10,000
AgFirst FCB; 13-FCA-301-004 (SS)	To provide online training by Farm Credit University	$3,900
Expedite Video Conference Service; 13-FCA-301-006 (SS)	To maintain videoconference equipment	$23,387
Avitecture, Inc.; 13-FCA-601-001 (SS)	To maintain audiovisual equipment	$5,350
R. Half International Inc. ; 13-FCA-301-002 (SS)	To provide administrative support	$2,833
ComPsych Employee Assistant; 13-FCA-601-015 (SS)	To provide employee assistance	$6,163
Dave Redden; 13-FCA-601-017 (SS)	To provide retirement counseling	$29,850
Tower Watson Consulting; 13-FCA-601-027 (SS)	To perform compensation study	$19,260
Expedite Video Conference; 13-FCA-601-029 (SS)	To maintain IT equipment	$17,433
Accuvant Federal Solutions Inc.; 13-FCA-601-039 (SS)	To provide storage back-up for servers.	$29,691
Pathadvisor Inc; 13-FCA-601-040 (SS)	To assess network security	$24,000
World Wide Technology, Inc.;13-FCA-601-041 (SS)	To maintain hardware and software	$21,677
SAP Government Support; 13-FCA-601-043 (SS)	To provide PowerBuilder license	$9,720
R. Half International Inc; 13-FCA-601-045 (SS)	To provide administrative support	$3,023
Gartner, Inc.; 13-FCA-601-048 (SS)	To provide training for IT staff	$91,557
Towers Watson; 13-FCA-601-056 (SS)	To provide compensation consulting	$19,000
PathAdvisor Inc.; 13-FCA-601-058 (SS)	To accredit major applications	$50,050
Electronic Systems, Inc; 13-FCA-601-061 (SS)	To support network infrastructure	$6,000
SoftChoice Corp; 13-FCA-601-064 (SS)	To provide Microsoft Enterprise Agreement	$540,482
Traid Tech Partners, LLC; 13-FCA-601-072 (SS)	To set up hardware	$12,896
Iron Mountain; 13-FCA-601-003 (SS)	To store magnetic tape	$6,000
Murphy Brothers Inc; 13-FCA-601-005 (SS)	To provide transportation services.	$9,955
Sun Management; 13-FCA-601-034 (SS)	To provide email security application	$9,070
Teracai Corporation; 13-FCA-601-059 (SS)	To maintain information technology	$21,661
Note: The Agency's SS and CCS contracts totaled $1,391,969 in FY 2013.		

Other Functions and Activities

Reception and Representation Expenditures
FCA spent $947.28 on reception and representation expenses in FY 2013.

Foreign Travel Expenditures
During FY 2013, there were no foreign travel expenses.

Reimbursements
We perform various examination, training, and other services for Federal agencies, and we are reimbursed for this work. We are also reimbursed by the National Consumer Cooperative Bank (NCB) for examining the bank as mandated by 12 U.S.C. 3025. See table 18 for more information about our reimbursable activities.

TABLE 18: Reimbursements

Contracting Agency	Services Performed	Reimbursement Received
USDA	Examination, training, and other services	$131,070
Farm Credit System Insurance Corporation	Examination, training, and other services	$462,013
NCB	Examination services	$287,087

Leveraging FCA Technology

FCA's investment in communication technologies continues to pay off. We are now turning our focus to supporting examiners and analysts in acquiring the data and tools necessary to better analyze and oversee financial risks in the System. Our Office of Management Services supports this goal by opening up new streams of financial data and providing the tools that allow our employees to analyze and transform data into information they can use to better perform their duties.

We continually evaluate new technologies to find ways to make our operations more efficient, and we have greatly improved the ability of our staff to work and communicate regardless of their location. Our IT infrastructure provides dependable, efficient access to data about the institutions we regulate, automates the exchange of data and information, and provides tools through which our staff can monitor and assess financial data and risk. We stress IT security and maintaining the integrity of our information systems. Through our annual Information Resources Management Plan, we monitor and coordinate our IT investments.

We continually seek to provide IT services, data sources, and communication tools that complement current technology and increase connectivity for our mobile workforce. A number of Agency-wide IT projects improved our capabilities in FY 2013:

- The FCS Loans2 Database project provides a more accurate, reliable, and useful enterprise database for monitoring risk in the FCS. It replaced the Loan Account Reporting System database and the FCS Loans1 Database. The legacy data collection ended at the close of 2012. The FCS Loans2 Database enables us to analyze risk in the FCS and in individual FCS institutions. We have added more fields to the FCS Loans2 Database to capture loan participation data and improve identification of systemic risk.

- The new Voice-over-IP phone system simplifies calling, enhances communication, and reduces costs by routing calls over our network.

- Our adoption of softphone technology allows employees to use their laptops to make and receive calls as if they were in the office. This makes it easier for employees to telework, and it strengthens our ability to continue working during emergencies.

- We have updated our Call Reporting System to implement relevant data and new reporting requirements.

Several IT projects are planned for FY 2014 and continue through 2015:

- The Management Dashboard project will provide key information for the effective management of our programs and activities. The dashboard will push this information to decision makers and provide drill-down capability.

- Improvements to the FCS Loans2 Database will allow us to further leverage the loan portfolio data collected from FCS institutions. Information about the System's shared assets will facilitate macroanalysis of System characteristics and trends and enhance our oversight of the System. As part of the Risk Project, the analysis and modeling tools will use the FCS Loans2 data and other information to spot trends and risks within the Farm Credit System.

- Agency laptops, which are on a three-year replacement cycle, will be replaced in FY 2014. The laptop replacement project involves evaluating multiple laptops and tablets to find the models that best meet our business needs. New devices will allow faster and more reliable client computing services.

- The Application Modernization project aims to convert some of our custom applications to work in a browser. This will improve efficiency by providing access to these applications from any Agency-issued mobile device.

- The Enterprise Document and Guidance (EDGe) initiative will be the central hub for the Office of Examination's oversight and examination program and the Agency's institution-related documentation system. EDGe enhancements will focus on building management reports and implementing tools such as scheduling and enhanced work papers. This will allow our managers to more efficiently evaluate System conditions and examination progress.

- To support telework and reduce the need for employee travel, we will upgrade our videoconferencing capabilities to include desktop videoconferencing.

- To improve search capability and reduce processing time, we will further automate hardcopy forms that incorporate digital signatures.

Independent Auditing and Accountability

The Office of Inspector General contracted with the Department of the Treasury's Bureau of the Fiscal Service for Brown & Company CPAs, PLLC, to perform the FY 2013 audit of FCA's financial statements. On November 6, 2013, Brown & Co. issued an opinion letter relating to the audit of our financial statements for the fiscal years ended September 30, 2013 and 2012.

- First, Brown & Co. opined that the principal financial statements presented fairly, in all material respects, the financial position of FCA as of the fiscal years ended September 30, 2013 and 2012, in conformity with generally accepted accounting principles.

- Second, the auditor did not identify material weaknesses in internal control over financial reporting.

- Third, Brown & Co. did not identify reportable instances of statutory or regulatory noncompliance that could have a direct and material effect on the determination of financial statement amounts.

ENSURING SAFETY AND SOUNDNESS

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including the Federal Agricultural Mortgage Corporation.

The first section below, titled "The Farm Credit System," summarizes examination and supervisory activities performed for the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled "Other Entities."

Our examination and supervision responsibilities are carried out by staff located in five field offices. One field office is in the McLean, Virginia, headquarters; the other field offices are located in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2015.

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 must have loan portfolio and other data from System institutions, and section 5.9(4) of the Farm Credit Act gives us the authority to collect these data. Our regulations include the following reporting requirements:

- Each System institution must prepare and file quarterly reports of condition and performance with FCA in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information.

- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR 630.4.

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 for all System institutions. Recently we expanded loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder oversight.

Risk-Based Examination and Supervision

We design examination and supervision processes to address material risks and emerging issues on an individual-institution and Systemwide basis. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a Government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, guarding the safety and soundness of the System is more important and more challenging than ever. Annually, to help address these challenges, we identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The oversight and examination program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2014 include the following:

- Business planning and diversity and inclusion
- Underwriting in volatile times
- Board governance
- Standards of conduct

When our examiners identify unsafe and unsound practices within a System institution or find that an institution has failed to comply with 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 will use our enforcement powers to effect changes in an institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. However, in most cases, we achieve corrective action without the use of formal enforcement powers.

Measuring the Safety and Soundness of the System

We use our Financial Institution Rating System (FIRS) as a key method to assess the safety and soundness of each FCS institution. The FIRS provides a general framework, consisting of component and composite ratings, for evaluating and assimilating all significant financial, asset quality, and management factors. Similar to systems used by other Federal financial regulators, the FIRS evaluates six key component areas to properly assess the degree of risk in an institution. These key component areas are capital, assets, management, earnings, liquidity, and sensitivity (CAMELS).

On the basis of our CAMELS ratings, we assign an overall composite rating for the institution. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect and that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

Examiners supplement the FIRS with a risk assessment tool that focuses on identifying prospective risks. The tool assesses the following emerging risk areas: credit, interest rate, liquidity, operations, compliance, strategic, and reputation.

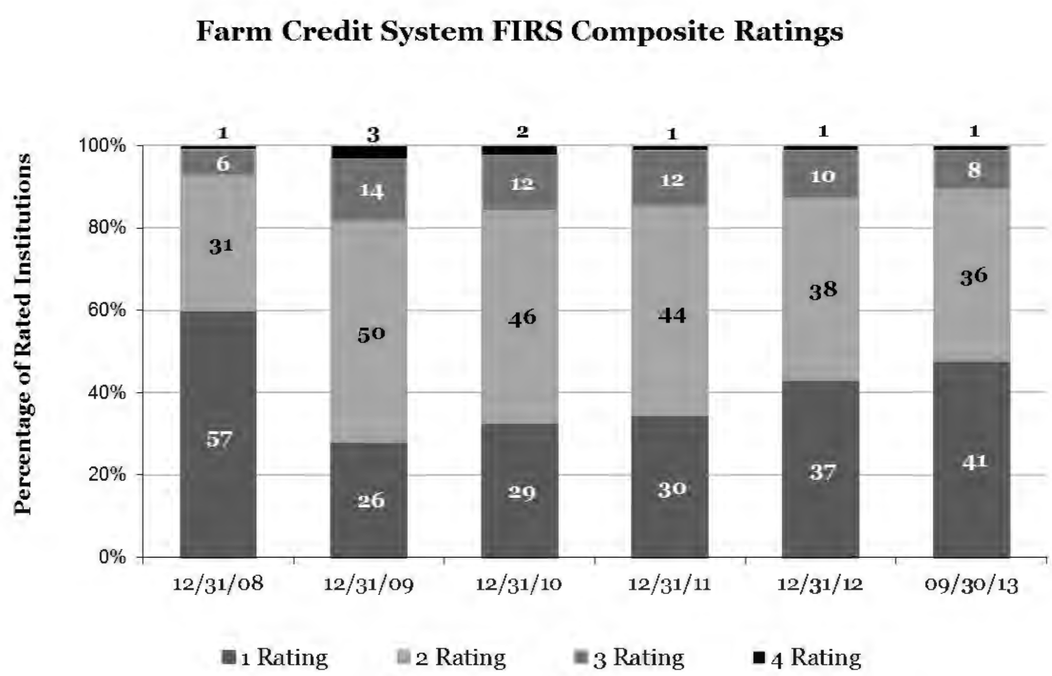
Recent Results

As the composite FIRS ratings over the past several years show, the System's condition and performance have remained satisfactory. Composite FIRS ratings are gradually improving; however, the FIRS ratings have yet to return to the pre-2008 levels. The following summarizes FIRS ratings for System banks and associations as of September 30, 2013:

- Forty-one institutions were rated 1.
- Thirty-six were rated 2.
- Eight were rated 3.
- One was rated 4.

See figure 2 for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

FIGURE 2



Source: FCA's FIRS Ratings Database.

Note: This chart reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers shown on the bars reflect the total number of institutions with a given rating; please refer to the y-axis to determine the percentage of institutions receiving a given rating.

Federal Agricultural Mortgage Corporation

Through our Office of Secondary Market Oversight (OSMO), we examine and supervise Farmer Mac to ensure both its safety and soundness and its mission achievement. OSMO performs annual CAMELS-based examinations—that is, examinations based on capital, assets, management, earnings, liquidity, and sensitivity. Throughout the year, OSMO oversees Farmer Mac's condition and compliance with regulations, and supervises its operations.

Statutory Authority

We regulate Farmer Mac through OSMO, which was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102-237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO constitute a separate office reporting to the FCA Board and that its activities, to the extent practicable, 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. In addition, Farmer Mac is 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 2013.

- Net income available to common shareholders was $68.9 million for the 12 months ended September 30, 2013, compared with $47.6 million during FY 2012.
- Core earnings, a non-GAAP measure of economic performance, totaled $56.0 million during FY 2011 compared with $50.6 million during FY 2012.
- Farmer Mac's core capital totaled $578.4 million at the end of FY 2013, compared with $508.5 million at the end of FY 2012. The minimum core capital requirement for Farmer Mac's on- and off-balance-sheet exposures is set in the statute and totaled $389.5 million at the end of FY 2013. Thus, Farmer Mac exceeded its minimum core capital requirement by approximately $190 million.
- At the end of FY 2013, Farmer Mac had $592 million in regulatory capital available to meet the $71 million minimum requirement established by FCA's Risk-Based Capital (RBC) Model.

Farmer Mac experienced growth in its program and nonprogram portfolios during FY 2013.

- Program activity increased approximately 10.6 percent and ended FY 2013 at $13.8 billion.
- Cash and nonprogram investments decreased approximately 10 percent and ended FY 2013 at $3.2 billion.

Credit quality remained stable and generally good. Nevertheless, underwriting standards were strengthened in 2012 to protect against potential stress in certain commodity sectors. Real estate owned was also relatively stable over FY 2013, finishing the year at $2.9 million, down approximately $573,000 from fiscal year-end 2012.

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 is sufficient for Farmer Mac 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 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 percent 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.[4]

The Farm Credit Act also requires the RBC Model to incorporate an interest rate risk stress scenario based on rising and falling 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 percent 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 of these third-party validations, Farmer Mac has been found to be operating the model appropriately.

We published a final rule in early 2011 to amend our RBC Model regulation to allow for revisions to the model, including a revision that would reflect loan activity involving rural utility cooperatives. An Advance Notice of Proposed Rulemaking was published in June 2011 to solicit public input on further revisions to the model. We are considering a revision to the software platform on which the model runs. Currently, the model uses a Microsoft Excel platform. A different platform could significantly streamline the processing of model runs as Farmer Mac's portfolio grows and its product mix broadens.

[4] Farmer Mac's express program activities were expanded in the Food, Conservation, and Energy Act of 2008 to include rural utilities.

Other Entities

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System.

- As mandated by 12 U.S.C. 3025, we examine the National Consumer Cooperative Bank, which owns a Federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans.

- From time to time, the U.S. Department of Agriculture contracts with us to provide examination services for specific USDA programs. We annually review the amount of resources dedicated to providing these services. Currently, the amount is limited.

- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, Government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC Board consists of the members of the FCA Board. Section 5.59(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 reduce costs.

DEVELOPING REGULATIONS AND POLICIES

FCA routinely issues regulations, Informational Memoranda, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend. We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

Regulatory and Policy Projects Active at End of FY 2013

The FCA Board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives to implement statutory changes or to address other regulatory issues. The FCA Board-approved agenda is part of the Federal Unified Agenda, which is published online at www.reginfo.gov. We are not obligated to act on our agenda items, and we may propose or issue regulations that have not been set forth in the Unified Agenda. 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.

The following list summarizes our current regulatory efforts and other guidance under consideration in FY 2014 and FY 2015.

Loans in Areas Having Special Flood Hazards: We plan to publish a final rule to amend our regulations on flood insurance to conform to the Biggert-Waters Flood Insurance Reform Act of 2012.

Regulatory Burden Notice of Intent: We plan to act on the public input we received on regulations that may duplicate other requirements, are not effective in achieving stated objectives, are not based on law, or impose burdens that are greater than the benefits received.

Margin and Capital Requirements for Noncleared Swaps: We plan to publish an interagency proposed rule and final rule that would establish margin and capital requirements for FCS institutions, including Farmer Mac, that engage in noncleared swaps and noncleared security-based swap transactions. The rulemaking would fulfill a requirement of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Investments and Eligibility: We plan to publish a proposed rule and a final rule to revise the bank and association investments and eligibility regulations. To comply with a provision of the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Capital—Basel III: We plan to publish a proposed rule and a final rule to revise sections of the capital rules to make them consistent with Basel III where appropriate.

Standards of Conduct: We plan to publish a proposed rule and a final rule to clarify and strengthen existing standards-of-conduct regulations applicable to directors, employees, and agents of System institutions.

Mergers of Banks and Associations: We plan to publish a proposed rule and final rule to amend our requirements for FCS bank and association mergers and consolidations.

Farmer Mac—Investment Eligibility: We plan to publish a proposed rule to change eligible investment asset classes. To comply with the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Institution Stockholder Voting Procedure: We plan to publish a proposed rule to clarify and enhance voting procedures related to nominating committees, the tabulation of votes, the use of teller committees, and the distribution and handling of ballots.

Farmer Mac—Risk-Based Capital Stress Test, Version 5.0: We plan to conduct a review to determine how to remove credit ratings data as inputs in the Risk-Based Capital Model. The Dodd-Frank Act requires agencies to remove references to credit ratings in their regulations and to substitute other creditworthiness standards.

Farmer Mac—Corporate Governance and Standards of Conduct: We completed our review of whether to clarify and strengthen Board governance regulations and to establish standards-of-conduct regulations. We plan to issue an advance notice of proposed rulemaking in early 2014.

Appraisal Regulations: We plan to begin a review to consider whether changes in appraisal regulations are necessary in light of changing credit and economic conditions.

Bank Review of Insider Loans: We plan to begin a review to consider whether the current regulations requiring bank review of association insider loans is appropriate for the System's current structure and whether the bank review ensures compliance with applicable standards of conduct regulations.

Crop Insurance Sales Compensation: We plan to begin a review to consider whether current limitations on compensation from crop insurance sales should be modified.

Eligibility Criteria for Outside Directors: We plan to begin a review to consider the eligibility criteria for outside directors, particularly in situations where a candidate for an outside director position owns an interest in an entity that borrows or holds stock in a System bank or association.

Removal of Stockholder-Elected Directors: We plan to begin a review to consider whether, and under what circumstances, a stockholder-elected director of a System bank or association can be removed by the bank's or association's board of directors.

Financing Farm-Related Service Businesses: We plan to complete our evaluation of the System's lending to farm-related service businesses to determine whether the regulations provide the appropriate framework for determining borrower eligibility and purposes of financing. Among the businesses to be considered are service providers within local food systems.

Amortization Limits—Agricultural Credit Associations and Production Credit Associations: We plan to complete our review of amortization limits for Agricultural Credit Associations and Production Credit Associations.

Bank/Association Lending Relationship: We plan to complete our review to evaluate the regulatory requirements of general financing agreements between banks and associations, and consider the need to enhance the bank authorities to address safety and soundness issues in affiliated associations.

Investments in Rural America: We plan to draft guidance that System institutions can use when they submit requests for investments similar to those made through the Investments in Rural America pilot program, which will be concluded in 2014. We will consider these requests on a case-by-case basis.

Regulatory and Policy Projects Completed in FY 2013 and Early FY 2014

Following is a list of projects we completed in FY 2013, along with a list of communications we recently issued to System institutions to clarify our rules.

Rural Community Investments and Investments in Rural America: We withdrew the proposed rule on System institutions' statutory and regulatory authority to make rural community investments. We also concluded the Investments in Rural America pilot programs effective December 31, 2014. System institutions may hold any authorized investments existing at that date until maturity.

Investment Management: We published a final rule to amend our regulations related to investment management that govern System banks and associations. The rule enhances internal controls over investments, strengthens interest rate risk management, revises divestiture procedures, and makes other changes to enhance the safety and soundness of banks and associations.

Farmer Mac—Investment Management: We published a final rule to amend our regulations related to investment management that govern Farmer Mac. The rule enhances internal controls over investments, adds a new permissible purpose for nonprogram investments, strengthens interest rate risk management, revises divestiture procedures, and makes other changes to enhance the safety and soundness of Farmer Mac.

Farmer Mac—Capital Planning: We published a proposed rule and final rule to amend our capital planning requirements to ensure that Farmer Mac's capital planning process and strategies are consistent with Basel III and include an annual capital stress test.

Farmer Mac—Liquidity Management: We published a final rule to revise regulations related to liquidity investment operations to provide guidance on policies, procedures and best practices. The rule also revised regulatory limits on liquidity risk.

Liquidity and Funding: We published a final rule to ensure that FCS funding and liquidity requirements are safe, sound, and appropriate. The rule revised regulations to ensure that the discounts applied to investments reflect marketability in volatile financial markets and under adverse economic conditions. To comply with the Dodd-Frank Act, it also removed references to credit ratings.

FCS Institutions' Investment in Unincorporated Business Entities: We published a final rule governing the parameters under which an FCS institution may organize or invest in limited liability companies, limited liability partnerships, and other unincorporated business entities.

Repeal of Part 610—Registration of Mortgage Loan Originators: We published an interim final rule, which later became a final rule, to repeal regulations at Part 610 that are duplicative of Consumer Financial Protection Bureau regulations that implement the Secure and Fair Enforcement for Mortgage Licensing Act. This act requires employees of certain financial institutions who take residential mortgage loan applications to register as loan originators with the Nationwide Mortgage Licensing System and Registry.

Generally Accepted Accounting Principles (GAAP) References and Other Conforming Amendments: We published a direct final rule to conform references in our regulations to U.S. generally accepted accounting principles of the Financial Accounting Standards Board Accounting Standards Codification.

Adjusting Civil Money Penalties for Inflation: We published a final rule to amend our regulations to reflect the mandatory change in civil money penalties required by the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996 and by the Biggert-Waters Flood Insurance Reform Act of 2012.

Reports of Accounts and Exposures: We published a proposed rule and a final rule that established FCA's minimum data needs for evaluating risk in FCS loan portfolios and described the authorities for data submissions and management.

Regulatory Burden Notice of Intent: We published a notice of intent that solicited public input on regulations that may duplicate other requirements, are not effective in achieving stated objectives, are not based on law, or impose burdens that are greater than the benefits received.

Loans in Areas Having Special Flood Hazards: We published a proposed rule to amend our regulations on flood insurance to conform to the Biggert-Waters Flood Insurance Reform Act of 2012.

Review Agency Lending Guidance: We completed a review to consider changes to policy guidance for providing credit and related services to all eligible creditworthy agricultural producers in an institution's chartered territory.

Review Agency Young, Beginning, and Small Farmer (YBS) Guidance: We completed a review to consider further policy guidance for YBS lending.

Farmer Mac—Operational and Business Planning—Diversity and Inclusion: We completed a review to consider amendments to require Farmer Mac to establish strategies in its business plan to promote the inclusion of all types of qualified loans and borrowers, including small and family farm loans, in its secondary market programs. This review also considers amendments to enhance diversity and inclusion in Farmer Mac's human capital planning.

Establishment and Implementation of a Shared-Asset Identifier: We issued a Bookletter (BL-065) to communicate to System institutions our critical need for timely, complete, and accurate information about the System's shared assets. The Bookletter described our expectations for each System institution and its board of directors to establish and implement an automated mechanism to consistently identify shared assets.

Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems: We issued a Bookletter (BL-066) to provide guidance on how System associations can meet the credit and related service needs of farmers who market their agricultural products through the local/regional food systems. The Bookletter explains that System associations have authority to finance local food farmers and certain farm-related businesses under existing statutes and regulations and under prior FCA guidance. It provides further guidance on how the regulations on System strategic business planning and senior officer compensation apply to financing local food farmers.

Submissions of Notices to FCA and Requests for FCA Approval of Unincorporated Business Entities: We issued an Informational Memorandum to provide guidance on the submission of required notices and approval requests by System institutions that would like to invest in or organize unincorporated business entities.

Interagency Statement on the Impact of Biggert-Waters Act: We issued an Informational Memorandum to notify System institutions that the force placement and civil money penalty provisions of the Act became effective upon enactment and that the private flood insurance and escrow provisions of the Act will not be effective until regulations are issued.

Compliance with the Consolidated and Further Continuing Appropriations Act, 2012 (Pub. L. No. 112-55): We issued an Informational Memorandum to clarify that the System's status as GSE of cooperative lending entities does not prevent a System institution from being considered a corporation for purposes of Pub. L. No. 112-55.

Loan Account Reporting System (LARS) and FCSLoans1 Data Collection: We issued an Informational Memorandum to notify System institutions that we were discontinuing the collection of the LARS and FCSLoans1 datasets and replacing them with the FCSLoans2 dataset.

Senior Officer Compensation Final Rule – Compliance Date Extension: We issued an Informational Memorandum to notify System institutions that we had extended the compliance date of the senior officer compensation rule.

Regulatory Risk-Weighting of Loans Covered by Farmer Mac's Long-Term Standby Purchase Commitment program: We issued an Informational Memorandum to reaffirm our position that loans, and portions of loans, held by System banks and associations should be assigned to the 20 percent risk category if they are covered by a Farmer Mac Long-Term Standby Purchase Commitment.

Clarification to FCA Regulation: We issued an Informational Memorandum to clarify that a System institution does not violate any FCA regulation by providing an applicant with the notice required by the Fair Credit Reporting Act when it denies credit on the basis of an individual's credit report.

Maximum Bank Director Compensation: We issued an Informational Memorandum to notify Farm Credit banks of the maximum allowable bank director compensation for 2013.

FCS Corporate Activity and Other Prior Approvals and Clearances

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

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

Corporate Activities in FY 2013 and Early FY 2014

During FY 2013, we approved a headquarters relocation and a name change for two ACAs affiliated with AgriBank, FCB.

Thus far in FY 2014, we canceled the charters of twelve associations—four ACAs and eight subsidiaries—as a result of four mergers. We also approved a name change.

- On January 1, 2014, four ACAs affiliated with CoBank, ACB, merged, resulting in two ACAs with subsidiaries.

- On January 1, 2014, four ACAs affiliated with the Farm Credit Bank of Texas merged, resulting in two ACAs with subsidiaries.

- On January 1, 2014, an ACA affiliated with AgriBank, FCB, changed its name.

Projected Mergers and FCS Institution Size

As of January 1, 2014, the System had 78 direct-lender associations and 4 banks. Seven service corporations and special-purpose entities (see pages 56 and 57) brought the total number of FCS institutions to 89 (including Farmer Mac). Because of mergers and consolidations, the number of FCS associations has declined by 55 percent since 2000, and the number of FCS banks has decreased by 43 percent.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decline. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also possess more complex management systems and offer a broader range of financial services to their borrowers.

Security Offerings During FY 2013

We reviewed and did not object to the following proposed offering circulars:

- A circular from CoBank, ACB, for issuing Series G noncumulative perpetual preferred stock
- A circular from AgriBank, FCB, for issuing Series A noncumulative perpetual preferred stock
- A circular from AgStar, ACA, for issuing Series A fixed-rate noncumulative perpetual preferred stock
- A circular from Farm Credit Bank of Texas for issuing Class B noncumulative perpetual preferred stock

We also reviewed and cleared two proposed offering circulars for issuing Class H cumulative preferred stock—one circular was prepared by HighPlains, ACA, and the other by Farm Credit West, ACA.

In addition, we authorized AgFirst Farm Credit Bank to use an existing offering circular for its Class B-2 noncumulative perpetual preferred stock until the end of 2013.

Funding Activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation,[5] the fiscal agent for the Farm Credit banks. In this way, funds flow from worldwide capital-market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with ready and efficient access to global resources. Systemwide debt securities are issued as discount notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all debt issuances.

For the 12 months ended September 30, 2013, the FCS issued $376 billion in Systemwide debt, which was almost identical to the same period ended September 30, 2012, but significantly less than the $420 billion issued during FY 2011. Systemwide debt issuance has declined since that period largely because of a decrease in the use of short-term discount notes. Because yields on longer-term debt instruments were similar to yields on short-term instruments, fewer issuances were needed.

The financial markets remain volatile, but investor demand for System debt remained favorable across the yield curve. Because of the combination of market volatility, historically low interest rates, and a further flattening of the yield curve, the System was able to exercise the options on substantial quantities of callable bonds to further reduce the cost of funds. However, for the final quarter of FY 2013, interest rates for newly issued debt instruments over 1 year in maturity increased significantly, and the calls of outstanding FCS debt almost ceased.

Investments in Rural America

In January 2005, we issued guidance that gave System institutions an opportunity to participate in pilot programs supporting investments in rural America (see FCA Informational Memorandum dated January 11, 2005, Investments in Rural America—Pilot Investment Programs).

The pilot programs are intended to provide FCS institutions greater flexibility to partner with Government agencies and other agricultural and rural lenders in fulfilling FCS mission objectives. In addition, through the programs, we gained a better understanding of the diverse financing needs of agriculture and rural communities and the ways FCS institution investments can help increase the availability of funds to these markets.

On November 14, 2013, the Farm Credit Administration Board voted to conclude, effective December 31, 2014, each pilot program approved after 2004 as part of the Investments in Rural America program. The Board's action permits each System institution that is participating in a

[5] See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation assists the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System's financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

pilot program to continue to hold its investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions.

Although we are concluding these pilot programs, we will consider investment requests on a case-by-case basis under the existing investment regulations. The information gathered and experience gained through the pilot programs will be useful when we evaluate future investment requests.

As of September 30, 2013, FCS institutions held approximately $1.3 billion in investments under approved pilot programs. These investments included $480 million in rural housing mortgage-backed securities. The rural housing loans backing these securities must be conforming first-lien residential mortgage loans originated by non-System lenders in “rural areas” (as defined by the Farm Security and Rural Investment Act of 2002) or eligible rural housing loans originated by System lenders under FCA regulations. This program helps provide additional liquidity for rural housing loans, resulting in more cost-effective credit to rural homeowners by providing economic incentives to lenders to create rural housing mortgage-backed securities for sale in the secondary market.

FCS institutions also held $754 million in rural development debt securities. The proceeds of these investments helped fund essential community facilities, such as critical-access hospitals and schools, and basic infrastructure needed for economic development. Under their pilot program authorities, FCS institutions also held $15 million in other investments primarily related to agriculture.

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, as well as related service organizations and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the financial Government-sponsored enterprises (GSEs). As of January 1, 2014, the System had four banks providing loan funds to

- 76 Agricultural Credit Association (ACA) parent organizations, each of which has two subsidiaries—a Production Credit Association (PCA) and a Federal Land Credit Association (FLCA), and
- 2 stand-alone FLCAs.

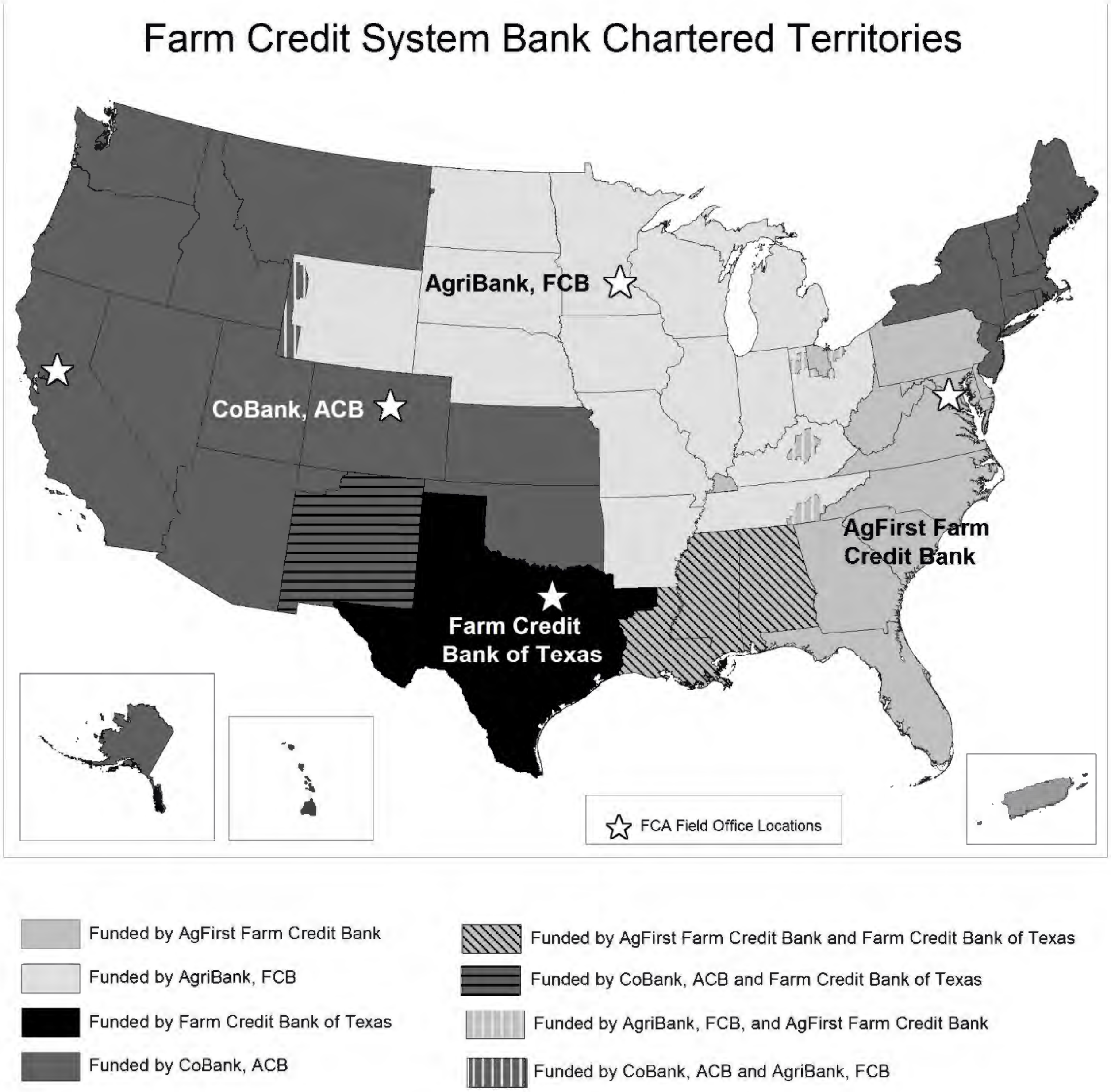
The map in figure 3 shows each bank's chartered territory.

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 the indebtedness to the funding bank under a General Financing Agreement. In addition, the parent company and its subsidiaries pledge their respective assets as security for each other's debts and obligations and share each other's capital.

The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are Federal Land Bank Associations that originate long-term agricultural mortgages and are exempt from Federal and State income taxes; ACAs and PCAs originate short- and intermediate-term operating loans and are not tax-exempt.

System institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling debt securities in the national and international money markets; these securities are subject to FCA's approval, but they are not guaranteed by the U.S. Government.

FIGURE 3



NOTE: CoBank, ACB, funds 27 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 15 associations; AgriBank, FCB, funds 17 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 82 banks and associations.

Additional System Entities and Service Corporations

In addition to the System's banks and associations, we are responsible for regulating and examining the Federal Agricultural Mortgage Corporation and the Federal Farm Credit Banks Funding Corporation. We also regulate and examine the five service corporations organized under section 4.25 of the Farm Credit Act[6]: AgVantis, Inc.; Farm Credit Leasing Services Corporation; Farm Credit Financial Partners, Inc.; the FCS Building Association (FCSBA); and Farm Credit Foundations.

Federal Agricultural Mortgage Corporation—Farmer Mac[7] 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 two core programs: Farmer Mac I and Farmer Mac II. Under the former, 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 the latter, 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.

Federal Farm Credit Banks Funding Corporation—The Funding Corporation is owned by System banks; it markets the debt securities that the banks sell 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 funding to process loans to farmers, ranchers, and agricultural cooperatives; debt issuances also provide the banks with funding for their other operations.

AgVantis, Inc.—AgVantis, Inc., provides technology-related and other support services to associations in the CoBank, ACB, district. It was chartered by FCA in 2001 and is owned by CoBank, ACB, and 17 of its affiliated associations.

Farm Credit Leasing Services Corporation—The Leasing Corporation, owned by CoBank, ACB, provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

[6] 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.

[7] Farmer Mac is established in law as a part 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 OSMO Director reports directly to the FCA Board on matters of policy.

Farm Credit Financial Partners, Inc.—Farm Credit Financial Partners, Inc., provides support services to CoBank, ACB; five associations affiliated with CoBank, ACB; one association affiliated with AgriBank, FCB; the Leasing Corporation; and two FCS-related entities.

FCS Building Association—FCSBA, 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, corporate tax and financial reporting services, and retirement workshops. It is owned by AgriBank, FCB, and each of the bank's 17 affiliated associations, as well as 24 associations and one service corporation (AgVantis, Inc.) affiliated with CoBank, ACB.

FCS Mission Fulfillment

The System fulfills its overall mission by lending to agriculture and rural America. Through changes in the law since the System's original authorization in 1916, System lending authorities have evolved. Today the System's lending activities 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

In addition to its lending programs, System institutions are participating (until December 31, 2014) in several mission-related pilot investment programs (referred to as Investments in Rural America) to strengthen their ability to provide an adequate and flexible flow of funds to agriculture and rural communities across the country. These pilot programs often involve partnerships or alliances with other agricultural lenders. Regardless of their scope, they all operate under conditions specified by FCA. (See page 51 for a description of the Investments in Rural America program.)

FINANCIAL CONDITION AND PERFORMANCE

In FY 2013, the overall condition and performance of the FCS remained safe and sound. As the drop in nonaccrual loan activity shows, asset quality continued to improve in FY 2013. All banks and associations continued to maintain capital ratios in excess of minimum regulatory requirements, and net income increased.

The decline in grain and soybean prices is expected to have a negative impact on crop producers, but these lower prices will generally be positive for producers and processors in the livestock, dairy, poultry, and ethanol industries. This shift in the commodity outlook could create shifts in the System's risk profile.

The System's loan portfolio continued to grow but at a reduced rate because demand for agricultural loans has decreased and competition for creditworthy loan assets has increased. For the 12 months ended September 30, 2013, gross loans increased by 4.7 percent, compared with an 8.7 percent gain during the previous 12-month period. During FY 2013, the gross loan volume of the AgriBank district increased by 9.4 percent; the Texas district's gross loan volume increased by 4.5 percent; CoBank district's gross loan volume rose 1.5 percent; and the AgFirst district's gross loan volume increased 1.3 percent.

Earnings

The FCS earned $3.5 billion in the first nine months of 2013, a 10.8 percent increase from the $3.16 billion earned in the same period in 2012. As table 19 shows, net income rose primarily because of an increase in net interest income and decreases in the provision for loan losses and the provision for income taxes. However, an increase in noninterest expense partially offset these gains.

TABLE 19: Net Income (Dollars in Millions)

	First 9 Months of 2012	First 9 Months of 2013	Dollar Change	Percent Change
Net interest income	$4,819	$4,981	$162*	3.4
- Provision for losses	188	9	(179)	(95.2)
= Net interest income after loss provision	$4,631	$4,972	341	7.4
+ Noninterest income	393	444	51	13.0
- Noninterest expense	1,665	1,749	84	5.0
= Pretax income	$3,359	$3,667	308	9.2
- Provision for income tax	201	168	(33)	(16.4)
= Net income	$3,158	$3,499	$341	10.8

Source: FCS Quarterly Information Statements.
*The change in the volume of interest income was $306 million, but changes in interest rates caused a loss of $144 million, resulting in total net change of $162 million.

An increase in average interest-earning assets, from $224.1 billion at September 30, 2012, to $238.3 billion a year later, primarily drove the increase in net interest income. However, the net interest margin declined 8 basis points because of a decrease in the net interest spread. The net interest spread declined 7 basis points to 2.65 percent from the same period one year ago. The net interest margin also decreased because of competitive pressures and an increase in the average loan volume in lower spread lines of business. The yield on interest-earning assets fell by an annualized rate of 22 basis points, while the yield on interest-bearing liabilities decreased by an annualized rate of 15 basis points. See table 20.

TABLE 20: Interest Margin in Annualized Percentages

	First 9 Months of 2012	First 9 Months of 2013	Change (bps)
Total interest-earning assets	**3.82**	**3.60**	**(22)**
Total loans	4.31	4.11	(20)
Investments and other assets	1.75	1.45	(30)
Total interest-bearing liabilities	**1.10**	**0.95**	**(15)**
Net interest spread	**2.72**	**2.65**	**(7)**
Impact of noninterest-bearing items	0.15	0.14	(1)
Net interest margin	**2.87**	**2.79**	**(8)**

Source: FCS Quarterly Information Statements.
bps = basis points

The System's net return measures remained satisfactory across all the districts during the first nine months of 2013. As table 21 shows, the return on average assets weakened in all the System districts except the AgFirst district, and the return on average capital decreased in all System districts.

TABLE 21: Profitability Across System Districts for First 9 Months of Year

		AgFirst	AgriBank	Texas	CoBank
Percentage return on average assets	2012	2.09	2.00	2.11	1.66
	2013	2.11	1.92	2.03	1.56
Percentage return on average capital	2012	14.06	12.65	13.12	13.02
	2013	13.87	12.00	12.40	11.82

Source: FCS Quarterly Information Statements.

Asset Growth

The System's loans and assets grew moderately during the year ended September 30, 2013. Strong demand for cropland in the Midwest helped spur the increase in assets and loans. However, lower commodity prices, coupled with lower levels of seasonal financing from farm supply and grain marketing cooperatives and farmers' and cooperatives' strong cash positions reduced agribusiness loans. FCS assets grew to $252.9 billion as of September 30, 2013, up $13.1 billion (5.5 percent) from September 30, 2012. Increases in loans by $8.8 billion (4.7 percent) and investments by $4.4 billion (10.3 percent), offset by a $484 million (19.5 percent) decline in cash, produced the moderate increase in total assets.

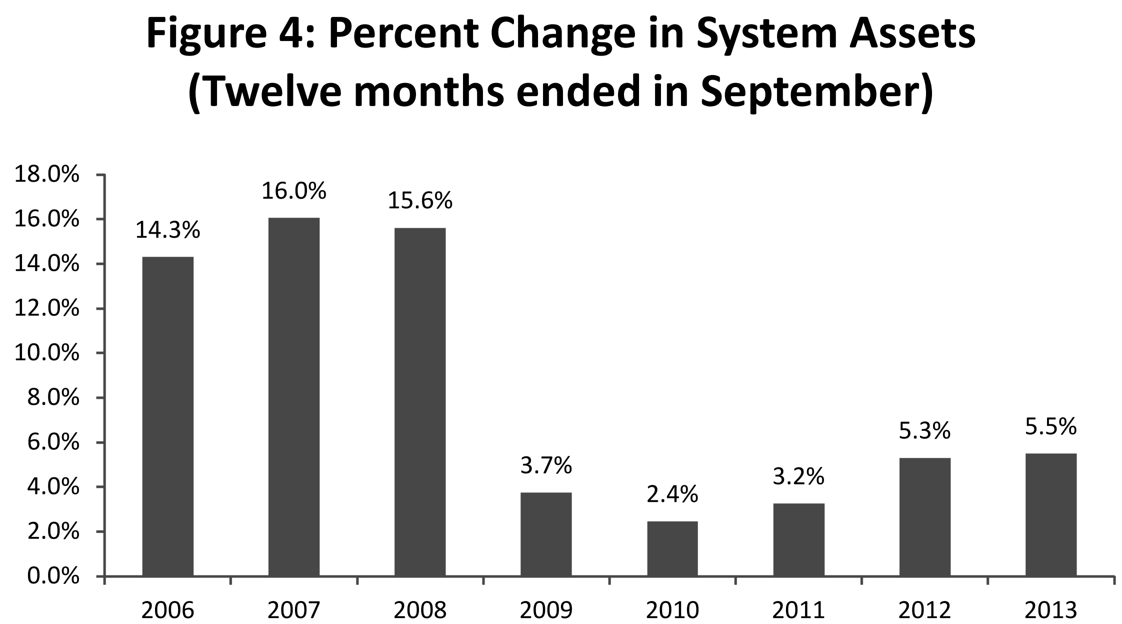
All System districts experienced loan growth for the year ended September 30, 2013. Loan volume in the AgriBank district grew by $6.9 billion, an increase of 9.4 percent over its loan volume a year earlier. Gross loan volume in the CoBank and Texas districts increased by $1.1 billion (1.4 percent) and $746 million (4.5 percent), respectively. The AgFirst district experienced the smallest increase; its gross loan volume increased by just $306 million (1.3 percent). See table 22.

TABLE 22: Gross Loan Growth by District and Systemwide (Dollars in Millions)

	September 30, 2012		September 30, 2013			
	Gross Loans	Percent Total	Gross Loans	Percent Total	Change in Dollars	Percent Change
AgFirst	$22,776	12.3	$23,082	11.9	306	1.3
AgriBank	73,114	39.4	80,015	41.2	6,901	9.4
Texas	16,588	8.9	17,334	8.9	746	4.5
CoBank	76,973	41.5	78,086	40.2	1,113	1.4
Intra-System Eliminations	(4,042)	(2.2)	(4,306)	(2.2)	(264)	NM*
Total for System	**$185,409**	**100**	**$194,211**	**100**	**$8,802**	**4.7**

* Not meaningful.
Source: FCS Quarterly Information Statements.

As noted in figure 4 below, the System's total assets increased slightly faster during the 12-month period ended September 30, 2013, than during the previous period but much slower than the 2006 to 2008 period.



Source: FCS Quarterly Information Statements.

Assets—Investments

The System's investments grew 10.3 percent during FY 2013. As table 23 shows, the System increased its holdings of money market instruments, U.S. Treasury securities, U.S. agency securities, and other asset-backed securities while reducing holdings of mortgage-backed securities and mission-related investments.

All segments of the investment portfolio available for sale experienced a decrease in yield during the most recent 12-month period, with U.S. Treasury securities available for sale experiencing the largest decline—from 0.93 percent to 0.59 percent. The yield on nonmission-related securities available for sale decreased from 1.56 percent to 1.31 percent.

All segments of the investment portfolio held to maturity except for other asset-backed securities decreased in yield during the most recent 12-month period, with money market instruments (held to maturity) experiencing the largest decline—from 5.97 percent to 5.82 percent. The yield on nonmission-related securities held to maturity decreased from 3.21 percent to 3.15 percent.

Ineligible investments held by the System declined from $1.7 billion at September 30, 2012 to $1.5 billion at September 30, 2013. Most ineligible investment securities that the System has on its books became ineligible as a result of the unfavorable market conditions caused by the financial crisis.

According to FCA's regulatory standards, certain investments must maintain the highest credit rating by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard & Poor's Ratings Services, or Fitch Ratings, to be eligible to be held by the System. In addition, certain investments may represent no more than a limited percentage of an institution's portfolio.

Under our former regulations, an investment can become ineligible even though it was an eligible investment when purchased. However, under the Investment Management final rule, which became effective on December 31, 2012, System institutions may now continue to hold, subject to certain conditions, investments that no longer satisfy eligibility criteria that they met when they were purchased. Previously the ineligible investment had to be divested within six months unless FCA approved a plan to hold the investments for a longer period of time.

Table 23: FCS Investments (Dollars in Millions)								
		September 30, 2012		September 30, 2013		Change		
						Amount		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
Available for sale (fair value)	Money market instruments	$3,057	0.40	$3,732	0.32	675	22.1	-8
	U.S. Treasury securities	5,219	0.93	8,772	0.59	3,553	68.1	-34
	U.S. agency securities	3,669	1.79	4,438	1.60	769	21.0	-19
	Mortgage-backed securities	25,495	1.80	24,970	1.66	(525)	(2.1)	-14
	Other asset-backed securities	1,122	1.50	1,495	1.23	373	33.2	-27
	Total	**$38,562**	**1.56**	**$43,407**	**1.31**	**$4,845**	**12.6**	**-25**
	Mission-related	**583**	**2.92**	**488**	**2.99**	**(95)**	**(16.3)**	**7**
Held to maturity (amortized cost)	Money market instruments	206	5.97	198	5.82	(8)	(3.9)	-15
	Mortgage-backed securities	2,787	3.14	2,497	3.03	(290)	(10.4)	-11
	Other asset-backed securities	331	2.07	252	2.26	(79)	(23.9)	19
	Total	**$3,324**	**3.21**	**$2,947**	**3.15**	**($377)**	**(11.3)**	**-6**

Source: FCS Quarterly Information Statement.
WAY = weighted average yield; bps = basis points

Loan Quality

Nonperforming assets declined from $3.179 billion (1.71 percent of total loans) on September 30, 2012, to $ 2.497 billion (1.28 percent of total loans) on September 30, 2013. The decline in nonperforming loans reflects improvements in the credit quality of loans to borrowers in certain agricultural sectors.

Improved growing and harvest conditions for the 2013 season have brought about a rebound in grain and oilseed supplies, which has significantly lowered prices. This has brought relief to producers of livestock, dairy, poultry, and biofuels (ethanol and biodiesel), who endured high grain and oilseed prices for the past three years. On the other hand, the lower prices will negatively affect grain and oilseed producers as their receipts decline relative to their cost of production.

The slow recovery of the general U.S. economy continues to negatively affect those producers who depend on off-farm employment to supplement their farm earnings. Credit quality has also deteriorated somewhat among communication customers during the first nine months of 2013. The sharp increase in crop prices through early 2013 has contributed to a significant rise in farmland prices, particularly in the Northern Plains and Corn Belt states, raising concerns that a drop in crop prices could trigger a drop in farmland values in 2014.

Net charge-offs were lower in the first nine months of 2013 than they were for the same period a year earlier. In the first nine months of 2013, the System had net charge-offs of $99 million compared with $169 million for the same period in 2012. Reflecting improvements in loan performance, the allowance for loan losses (ALL) decreased as a share of total loans and increased as a percentage of nonperforming loans and nonaccrual loans. See table 24.

TABLE 24: FCS Loan Quality

Loan Quality	September 30, 2012	September 30, 2013
Total nonperforming assets as percentage of total loans	1.71	1.28
Nonperforming assets as percentage of capital	8.25	5.98
Nonaccrual loans as percentage of total loans	1.36	0.99
ALL as percentage of total loans	0.69	0.64
ALL as percentage of nonperforming loans	45.0	55.3
ALL as percentage of nonaccrual loans	50.5	64.2

Source: FCS Quarterly Information Statements.
ALL = allowance for loan losses

Liabilities, Funding, and Liquidity

For the year ended September 30, 2013, the System's funding composition shifted slightly to more longer-term debt (due after one year) because of a generally rising yield curve for term debt. Further increases in longer-term yields are expected. Short-term debt securities (due within one year) made up 31.3 percent of total Systemwide liabilities compared with 32.9 percent a year earlier. Debt securities due within one year decreased by 0.16 percent while those due after one year increased by 6.7 percent. Overall liabilities increased by 4.9 percent. See table 25 below.

TABLE 25: Systemwide Debt
(Dollars in Millions)

	September 30, 2012	September 30, 2013	Change	
			Dollars	Percent
Systemwide discount notes due within 1 year	$13,398	$15,394	$1,996	14.9
Systemwide bonds, medium- term notes, and master notes due within 1 year	52,796	50,695	(2,101)	(4.0)
Total short-term liabilities	**$66,194**	**$66,089**	**($105)**	**(0.16)**
Systemwide bonds, medium- term notes, and master notes due after 1 year	126,291	134,799	8,508	6.7
Other liabilities	8,739	10,243	1,504	17.2
Total liabilities	**$201,224**	**$211,131**	**$9,907**	**4.9**

Source: FCS Quarterly Information Statements.

The System's liquidity position increased from 183 days as of September 30, 2012, to 202 days as of September 30, 2013, remaining significantly above the regulatory minimum.[8]

The duration gap,[9] which derives from the estimated durations of assets and liabilities, is a primary measure of asset-liability risk exposure. A positive duration gap (in which the duration of assets exceeds the duration of liabilities) exposes the System to rising interest rates because liabilities will reprice more quickly than assets. Conversely, a negative duration gap (in which the duration of liabilities exceeds the duration of assets) exposes the System to declining interest rates because assets will reprice more quickly than liabilities.

[8] The regulatory liquidity standard requires each FCS bank to maintain a minimum of 90 days of liquidity on a continuous basis. As a condition of its 2012 merger with U.S. AgBank, CoBank must maintain a 150-day liquidity minimum through December 31, 2014. The number of days of liquidity is calculated by comparing maturing Systemwide debt securities, as well as other bonds for which the bank is primarily liable, with the total amount of cash, investments, and other liquid assets maintained by that bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale. On June 10, 2013, FCA increased liquidity requirements for the System.

[9] Duration is the weighted average maturity of cash flows. It is a useful way to estimate the direction and size of changes in the value of a financial instrument when market interest rates change. Here, "duration gap" is the difference between the duration of assets and the duration of liabilities, measured in months. When the duration gap is small, changing market interest rates pose less interest rate risk than when the gap is large.

The duration gap for the FCS was a positive 1.4 months on September 30, 2013, compared with a positive 1.0 month a year earlier, reflecting a slight increase in interest rate risk in the funding of the System's lending operations. A duration gap of a positive three months to a negative three 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 of its capital position.

Capital

The System's total capital grew by 8.4 percent during FY 2013 to reach $41.7 billion. Most of the $3.2 billion increase in capital came from net income earned and retained (surplus), but an increase in preferred stock and restricted capital (Insurance Fund) also added to the total. See table 26 for changes in the capital components.

Surplus still accounts for the overwhelming majority of capital, at 83.2 percent as of September 30, 2013, compared with 82.2 percent as of September 30, 2012. While results were mixed for district banks and associations, the System's overall capital-to-assets ratio grew from 16.1 percent to 16.5 percent over this 12-month period, mostly because of relatively stable loan volume and earnings retained by System institutions.

TABLE 26: FCS Capital Composition
(Dollars in Millions)

	September 30, 2012	September 30, 2013	Change	
			Dollars	Percent
Preferred stock	$2,019	$2,378	$359	17.8
Capital stock and participation certificates	1,637	1,637	0	0.0
Additional paid-in capital	738	738	0	0.0
Restricted capital (Insurance Fund)	3,268	3,477	209	6.4
Accumulated other comprehensive income (loss)	(797)	(1,171)	(374)	46.9
Surplus	31,652	34,720	3,068	9.7
Total capital	**$38,517**	**$41,749**	**$3,232**	**8.4**

Source: FCS Quarterly Information Statements.

Table 27 shows that the banks are collectively capitalized well in excess of regulatory requirements. For associations, the range of permanent capital ratios rose from 12.1 to 34.8 percent as of September 30, 2012, to 13.2 to 36.1 percent as of September 30, 2013. At September 30, 2013, all System institutions complied with FCA capital standards.

TABLE 27: Regulatory Capital Ratios of FCS Banks

		AgFirst	AgriBank	Texas	CoBank
Permanent capital ratio	9/30/2012	22.6	20.9	18.1	16.1
	9/30/2013	22.9	21.4	20.8	17.3
	Change	0.3	0.5	2.7	1.2
Total surplus ratio	9/30/2012	22.5	17.4	15.3	15.2
	9/30/2013	22.9	17.9	16.7	16.3
	Change	0.4	0.5	1.4	1.1
Core surplus ratio	9/30/2012	18.9	10.3	9.5	9.2
	9/30/2013	20.1	10.7	9.9	11.0
	Change	1.2	0.4	0.4	1.8
Net collateral ratio	9/30/2012	107.7	106.2	108.5	107.1
	9/30/2013	108.0	106.2	110.8	107.9
	Change	0.3	0.0	2.3	0.8

Source: FCA Consolidated Reporting System.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Congress has mandated that the Farm Credit System serve the credit needs of young, beginning, and small (YBS) farmers and ranchers by directing System associations to set up YBS programs and by requiring the banks to issue annual reports on their associations' programs. To ensure that the System fulfills this responsibility, FCA issued a final rule in 2004 that

1. amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;

2. allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages associations to establish advisory committees composed of YBS farmers;

3. requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over its YBS program; and

4. requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

Our examiners review the policies and programs of the institutions to ensure that the institutions are complying with the YBS regulations.

We continue to review and consider regulatory options to support YBS programs in the FCS. In October 2012, we issued a Bookletter to the System that provides guidance on how associations can meet the credit and related services needs of farmers who market their agricultural products through local and regional food systems. Because of their age, farming experience, or the size of their operations, many local food farmers will qualify as YBS farmers under Section 4.19 of the Farm Credit Act, as well as under FCA regulation 12 CFR 614.4165. This guidance is intended to ensure that System institutions make full use of their authorities to assist YBS farmers to begin farming, to expand their operations, or to remain in agricultural or aquaculture production.

The information that follows shows YBS results for calendar year 2012. We are currently collecting information for 2013, and we expect this information to be available after March 2014. A summary of the System's YBS program results is also available on our website at www.fca.gov.

Tables 28 and 29 provide the YBS results for calendar year 2012. Loans to YBS producers include real estate loans and short- and intermediate-term loans. Please note that information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not an accurate measure of the System's YBS lending activity.

During calendar year 2012, the number of new loans (new loans and renewals) and the dollar volume of new loans increased for young, beginning, and small categories across the System when compared with 2011. Average loan sizes rose in 2012 because the increases in dollar volumes exceeded the increases in the number of new loans made. When compared with 2011, the dollar volume of new loans to beginning farmers increased 19.2 percent, followed by an 18.4

percent increase for young farmers and a 17.9 percent increase for small farmers. The volume of YBS loans outstanding increased for each of the three borrower categories, as it has since 2009. The following information summarizes lending activity for the three separate YBS categories.

Young—At the end of 2012, the System had 170,875 loans outstanding to young farmers, totaling $23.1 billion. A "young" farmer is defined as one who is 35 years old or younger when the loan is made. During 2012, 56,659 loans, totaling $8.8 billion, were made to young farmers. These loans represented 16.5 percent of all farm loans the System made during the year and 11.7 percent of the loan dollar volume.

Beginning—The System had 243,354 loans outstanding to beginning farmers, totaling $35.7 billion at year-end 2012. "Beginning" farmers are those with 10 or fewer years of farming experience. During 2012, 69,304 loans, totaling $11.5 billion, were made to beginning farmers. These loans represented 20.2 percent of all farm loans made and 15.2 percent of loan dollar volume.

Small—At the end of 2012, FCS institutions had 477,248 loans outstanding to small farmers, totaling $44.1 billion. "Small" farmers are defined as those with annual gross sales of less than $250,000. During 2012, 143,200 loans, totaling $13.2 billion, were made to small farmers. These loans represented 41.7 percent of all farm loans made and 17.4 percent of loan dollar volume.

TABLE 28. YBS Loans Outstanding (as of December 31, 2012)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	170,875	18.1	$23.1	11.4	$135,247
Beginning	243,354	25.8	$35.7	17.7	$146,834
Small	477,248	50.6	$44.1	21.8	$92,453

Note: YBS data for each category are reported separately and should not be added.
Source: FCA 2012 Annual Report on the Farm Credit System.

TABLE 29. YBS Loans Made during 2012 (as of December 31, 2012)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	56,659	16.5	$8.8	11.7	$156,014
Beginning	69,304	20.2	$11.5	15.2	$165,697
Small	143,200	41.7	$13.2	17.4	$92,161

Note: YBS data for each category are reported separately and should not be added.
Source: FCA 2012 Annual Report on the Farm Credit System.

To help YBS farmers qualify for credit in 2012, FCS associations offered differentiated loan underwriting standards, or made exceptions to their regular standards, for YBS borrowers. For example, some associations used higher loan-to-appraised-value ratios or lower debt repayment capacity standards for YBS borrowers. About a third of associations provided concessionary loan fees, and half of all FCS associations offered lower interest rate programs for YBS borrowers.

Most FCS associations use Government loan guarantee programs, primarily those of the USDA Farm Service Agency, to increase their service to YBS farmers. Use of these guarantees reduces credit risks to the lender while enabling associations to make loans to borrowers who would not otherwise meet underwriting standards.

Finally, associations employed a range of outreach measures to reach potential YBS farmers, such as sponsorship of local farmer markets and agricultural events. They also provided various training programs and services to YBS farmers; examples include programs to build leadership and financial management skills, and special conferences geared for young, beginning, or small farmers.

MARKET SHARE OF FARM DEBT

According to the U.S. Department of Agriculture's November 2013 forecast, total farm business debt will be $310.2 billion at the end of 2013, up 3.3 percent from a year earlier and up 15.6 percent since 2009. 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 market share of the $300.3 billion in farm business debt at the end of calendar year 2012 was 40.7 percent, up from 39.5 percent at the end of 2011.[10] Market share for commercial banks increased from 38.1 percent in 2011 to 39.6 percent in 2012. USDA estimates on the market shares of individual lender groups for year-end 2013 will not be available until August 2014.

In recent years, the FCS has increased its market penetration to the current figure of 40.7 percent. The market share estimates for commercial banks show that their share has also increased in recent years. Historically, except for the unusual 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 lending.

As the System's real estate lending grew, its share of farm business debt secured by farm real estate increased at year-end 2012 to 46.1 percent, up from 45.0 percent the previous year. Commercial bank lending grew at a faster pace during the year, boosting the share of farm real estate debt held by banks from 31.7 percent to 34.1 percent. The System has had the largest market share of farm business debt secured by farm real estate since 2001.

The System experienced slower growth in non-real-estate farm debt in 2012, yet its market share still rose from 32.3 percent at year-end 2011 to 33.4 percent. Commercial banks continue to lead the non-real-estate-secured farm debt market with a 47.0 percent market share at the end of 2012, up from a 46.5 percent share the previous year. Historically, commercial banks have had the greatest share of this debt segment.

[10] USDA's estimate of farm debt includes debt associated with the farming business and therefore excludes FCS lending associated with cooperatives, rural homes, rural utilities, marketing and processing operations, and other nonfarm-lending activities.

Part IV

PERFORMANCE BUDGET
FY 2015

PERFORMANCE BUDGET OVERVIEW

Our FY 2015 Performance Budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total Performance Budget (table 30) is $65.6 million and reflects a 2.66 percent increase from FY 2014.

TABLE 30. FCA Performance Budget, FYS 2013–2015

	FY 2013 Actual*	FY 2014 Revised	FY 2015 Proposed
Policy and regulation	$10,872,356	$13,787,655	$14,019,464
Safety and soundness	39,938,282	48,631,895	50,362,997
Reimbursable activities	1,002,031	1,480,450	1,217,539
Total	**$51,812,669**	**$63,900,000**	**$65,600,000**

* Rather than the approved budget amounts, actual expenditures for FY 2013 are provided for comparison purposes.

Policy and Regulation

Our Performance Budget includes $14.0 million for the policy and regulation program, a 1.68 percent increase from FY 2014. Most of the funds requested for policy and regulation in FY 2015 will support regulatory projects that were published in the Unified Agenda in the fall of 2013. Generally, we open about a dozen regulatory projects each year. Funds are also used to support other statutory and regulatory activities, including policy studies and market research; management of our Consolidated Reporting System; and approvals of corporate applications, System funding requests, and mission-related investment programs.

Safety and Soundness

The Performance Budget includes $50.4 million for the safety and soundness program, a 3.56 percent increase from FY 2014. This increase is necessary because of staff increases and a reallocation of examination resources from reimbursable activities to examination activities to meet System 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.[11] Examiners evaluate the overall condition and performance of these institutions and communicate the results to the 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 addition, FY 2014 budgeted monies will support development of examination guidance and systemic risk oversight of the System, including Farmer Mac.

[11] Section 5.19(a) of the Farm Credit Act requires FCA to examine Federal Land Bank Associations (FLBAs) at least once every three years; however, the two stand-alone FLBAs in the System are direct lenders and are examined at least once every 18 months.

Reimbursable Activities

The Performance Budget includes $1,217,539 for reimbursable activities. The reimbursable activities are summarized below and include indirect costs.

- **Farm Credit System Insurance Corporation (FCSIC)—**$802,688 for administrative support services to be provided under FCSIC contract. The administrative support services in FY 2015 include examination assistance, technology and information resources, human resources, communication and public affairs, and assistance in completing one premium audit.

- **National Consumer Cooperative Bank (NCB)—**$140,454 for examining NCB. FY 2015 activities involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) assessments.

- **USDA—**$274,397 for potential work completed under contract with USDA. The work in FY 2015 will involve supporting USDA in its performance of the Business and Community Program Assessment Review and a review of the Rural Business Investment Programs.

Table 31 summarizes the costs associated with our program activities, broken down by products and services.

TABLE 31. FY 2015 Budget (Proposed) and Full-Time Equivalents for Program Activities

	Products and Services	Budget Amount	FTEs
Program activity: Policy and regulation			
	Regulation and policy development	$12,597,101	50.35
	Statutory and regulatory approvals	1,422,363	5.55
Total for policy and regulation		**$14,019,464**	**55.90**
Program activity: Safety and soundness			
	Examination	$47,063,740	231.50
	Economic, financial, and risk analysis	1,945,343	7.99
	FCS data management	1,353,914	6.71
Total for safety and soundness		**$50,362,997**	**246.20**
Program activity: Reimbursable activities			
Total for reimbursable activities		**$1,217,539**	**5.92**
TOTAL		**$65,600,000**	**308.02**

DESIRED OUTCOMES FOR STRATEGIC GOALS

Our strategic goals and desired outcomes, which are detailed in table 32, help us measure whether we have achieved our public mission. The information that follows provides

- the strategies we use to accomplish the outcomes;
- the measures for each outcome, with targets that reflect our desired performance for FYs 2014 through 2015; and
- a historical summary of the costs of accomplishing the desired outcomes.

TABLE 32. Desired Outcomes for Strategic Goals

Strategic Goal	Desired Outcome
1. Ensure that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac.
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action

Policy and Regulation—We established the Policy and Regulation program to track the product and service costs of achieving a flexible regulatory environment. The products and services we provide to support this program are

- regulation and policy development, and
- statutory and regulatory approvals.

Safety and Soundness—We established the Safety and Soundness program to track the product and service costs of identifying risk and taking timely corrective action. The products and services we provide to support this program are

- examination;
- economic, financial, and risk analysis; and
- FCS data management.

Flexible Regulatory Environment

Strategies

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Develop regulatory capital rules within the FCA's regulatory framework for the System and Farmer Mac that are clearly defined, easily understood, and consistent with industry standards.

2. Within the framework of the Farm Credit Act, continuously update policies and regulations to provide an operating environment for the System and Farmer Mac that meets the changing needs of agriculture and rural America.

3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America, including the use of innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.

4. Encourage System institutions to evaluate their YBS programs to ensure that the programs also meet the credit and financial service needs of producers seeking to enter urban agriculture, to produce local foods, or to use direct-to-consumer marketing channels.

5. Encourage the System and Farmer Mac to find and develop both public and private partnerships and alliances with other financial service providers to address the changes in agriculture through new and existing programs.

6. Promote System business practices, including outreach activities to all creditworthy eligible potential customers, emphasizing minority and socially disadvantaged farmers and ranchers and minority-owned entities.

7. Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

8. Consistent with cooperative principles and the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their customers and rural America.

9. Encourage full participation of stakeholders in the development and review of regulatory proposals as appropriate.

Measuring the Achievements

Table 33 summarizes the results of our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac. We achieved or exceeded the goals we identified for FY 2013.

TABLE 33. Flexible Regulatory Environment Performance Measures and Achievements

Measure	FY 2013 (Actual) Target	FY 2013 (Actual) Result	FYs 2014–2015 Target
1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	≥90%	99%	≥90%
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes	Yes	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%	99%	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with the YBS regulations.	≥90%	100%	≥90%
5. Whether institutions meet the objectives of our mission-related regulations and whether institutions have made observable progress in meeting the objectives of any new mission-related regulations that have been in effect for at least one year.	Yes	Yes	Yes
6. Whether FCA reached out to nontraditional commenters to request input on GSE mission-related rulemaking actions.	Yes	Yes*	Yes

* We did not approve any proposed rules during the reporting period that were related to GSE mission.

Costs

Table 34 provides an assessment of our costs to achieve a flexible regulatory environment from FYs 2011 to 2013, as well as projections to achieve this desired outcome in FYs 2014 and 2015.

TABLE 34. Costs to Achieve a Flexible Regulatory Environment

	FY 2011 Actual Expenses	FY 2012 Actual Expenses	FY 2013 Actual Expenses	FY 2014 Budget (Revised)	FY 2015 Budget (Proposed)
Regulation and policy development	$10,496,206	$10,025,594	$9,922,089	$12,388,208	$12,597,101
Statutory and regulatory approvals	2,735,238	1,158,834	950,267	1,399,447	1,422,363
Total	**$13,231,444**	**$11,184,428**	**$10,872,356**	**$13,787,655**	**$14,019,464**

Note: We expect our costs to achieve a flexible regulatory environment will increase in FYs 2014 and 2015 because of staff seniority, additional hiring, salary and benefit increases, training, information technology costs, and the our regulatory initiatives.

Effective Risk Identification and Timely Corrective Action

Strategies

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Ensure that staff provides prompt and comprehensive information to the FCA Board and remains flexible and responsive to the Board's priorities so that the Board will be better able to make fully informed, arm's-length decisions.

2. Recruit and retain a diverse and highly skilled workforce to meet FCA's current and future risk analysis, examination, and oversight needs.

3. Continue proactive oversight of institution-specific and systemic risks.

4. Promote a vibrant program of Systemwide risk supervision that uses stress testing, research, and analysis to identify emerging systemic risks, and provides proactive examination direction and policy guidance for use internally and externally.

5. Use Agency supervisory and enforcement authorities effectively to remediate weakened institutions.

6. Promote the continued importance and improvement in the quality of System loan data for use by both the Agency and the System in risk management and business planning.

7. Develop regulatory guidance and examination procedures that keep pace with evolving strategies and new programs in meeting the changing needs of agriculture and rural America.

8. Continue to integrate standards of conduct rules and codes of ethical behavior into the organizational culture that are consistent with Government ethics guidelines, universally understood, and consistently applied.

Measuring the Achievements

Table 35 provides the results of our examinations and oversight efforts to effectively identify risk and take timely corrective action. We met or exceeded our goals as of the end of FY 2013 (September 30, 2013).

TABLE 35. Effective Risk Identification and Timely Corrective Action— Summary of Strategic Goal Measures and Achievements

Measure	FY 2013 (Actual)		FYs 2014–2015
	Target	Result	Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%	98%	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥ 80%	97%	≥ 80%
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, and net collateral ratio).	≥90%	100%	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes	Yes	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%	100%	100%
6. Percentage of FCS institutions providing FCA with consolidated loan data. (Target for 2013: ≥90 percent; target for 2014: 100 percent)	≥90%	100%	≥100%

Costs

Table 36 provides information on our costs to identify risk in the FCS and to take timely corrective action from FYs 2011 to 2013, as well as projections to do so in FYs 2014 and 2015.

TABLE 36. Costs to Identify Risk and Take Timely Corrective Action

	FY 2011 Actual Expenses	FY 2012 Actual Expenses	FY 2013 Actual Expenses	FY 2014 Budget (Revised)	FY 2015 Budget (Proposed)
Examination	$36,604,451	$37,825,824	$36,081,532	$45,323,175	$47,063,740
Economic, financial, and risk analysis	1,243,538	1,460,167	2,305,706	1,932,582	1,945,343
FCS data management	1,031,803	1,713,673	1,551,044	1,376,138	1,353,914
Total	**$38,879,792**	**$40,999,664**	**$39,938,282**	**$48,631,895**	**$50,362,997**

Note: FCA's costs to identify risk and take timely corrective action are projected to increase in FYs 2014 and 2015 because of additional hiring, salary and benefit increases, training, and information technology costs.

PERFORMANCE MEASUREMENT AND REPORTING

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2013 to 2018. We provide a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the Agency-level measures are linked to our strategic goals.

Our Chief Executive Officer, with assistance from our Chief Operating Officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The Chief Executive Officer monitors the Agency's progress and results relative to the Agency-level measures on a quarterly basis throughout each fiscal year. Periodic performance reports are provided to the FCA Board. The year-end performance report is incorporated in the FCA Performance and Accountability Report, which is submitted to the President and Congress.

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
703-883-4056 www.fca.gov
0214/100

Farm Credit Administration

Fiscal Year 2016 Proposed Budget and Performance Plan

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LIST OF ACRONYMS AND ABBREVIATIONS

ACA	Agricultural Credit Association
CAMELS	capital, assets, management, earnings, liquidity, and sensitivity
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Farm Credit Act	Farm Credit Act of 1971, as amended
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
Leasing Corporation	Farm Credit Leasing Services Corporation
FCS or System	Farm Credit System
FCSBA	FCS Building Association
FCSIC	Farm Credit System Insurance Corporation
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 the regulation and examination of the banks, associations, and related entities that collectively constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

Initially 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 (Farm Credit Act). We promulgate regulations to implement the Act and examine System institutions for compliance with the Act and regulations, and with safe and sound banking practices. Our mission is to promote a safe, sound, and dependable source of credit and related services for agriculture and rural America.

This document presents and justifies our proposed budget for fiscal year 2016. It contains key information about our functions and program activities, along with an overview of the financial condition of the FCS and Farmer Mac, the entities we regulate. Also included is the fiscal year 2016 performance budget, which ties proposed expenditures to the goals and objectives in our strategic plan.

This document is organized into four sections as follows:

1. Part I contains our budget request. This section presents budget trends that we monitor annually.

2. Part II covers the functions, programs, and services we undertake to fulfill our public mission. It also provides information on actions we have taken to improve internal operations.

3. Part III discusses the System's financial condition and performance.

4. Part IV contains our FY 2016 performance budget, which provides a basis for measuring our overall effectiveness.

[1] Although Farmer Mac is an FCS institution under the Farm Credit Act (12 U.S.C. 2279aa-1(a)(2)), we discuss Farmer Mac separately from the other entities of the FCS in this document because of the secondary market authorities unique to Farmer Mac. Farmer Mac is not jointly and severally liable on debt issuances with other parts of the FCS.

Part I

FISCAL YEAR 2016
PROPOSED BUDGET

FISCAL YEAR 2016 BUDGET OVERVIEW

The FY 2016 proposed budget request, as shown in table 1, includes $68,800,000 in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture, Farm Credit System Insurance Corporation, and the National Consumer Cooperative Bank adds $600,000 to this amount, bringing the total proposed FCA budget request to $69,400,000.

TABLE 1. Farm Credit Administration FY 2016 Proposed Budget

Description	Amount Proposed	Percentage of Total Budget
Full-time-permanent personnel (FTP)	$41,290,793	59.5
Other than FTP	1,176,544	1.7
Other personnel compensation	374,127	0.5
Total personnel compensation	**$42,841,464**	**61.7**
Personnel benefits	15,747,015	22.7
Benefits for former personnel	25,000	0.0
Total compensation and benefits	**$58,613,479**	**84.4**
Travel and transportation of persons	3,658,380	5.3
Transportation of things	217,250	0.3
Rent, communications, and utilities	823,308	1.2
Printing and reproduction	246,000	0.4
Consulting and other services	3,986,860	5.7
Supplies and materials	685,026	1.0
Equipment	1,169,697	1.7
Total budget	**$69,400,000**	**100.0**

Note: Obligations for administrative expenses in FY 2016 are not to exceed the amount collected in assessments (current and prior year) from the FCS and Farmer Mac ($68,800,000). The total budget includes an additional $600,000 from anticipated reimbursable activity.

The FY 2016 proposed budget of $69,400,000 increased by $3,800,000 over the FY 2015 revised budget of $65,600,000. By leveraging technology and continually emphasizing savings and efficiencies in operations, we have kept travel costs stable, and we have reduced costs for other contractual services and equipment. As a result, we are able to present a prudent, cost-effective budget.

The FY 2016 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.

The environment in which the FCS operates is dynamic and increasingly complex. The challenges in the nation’s financial sector over the past few years were important considerations during our most recent strategic planning period. As a result, we have redirected staff resources to proactively manage systemic risk and to continually seek ways to increase our effectiveness and efficiency. We are also adding staff to our examination program in FYs 2015–2106.

In the FY 2016 proposed budget, the full-time-equivalent (FTE) staffing level increases by approximately seven FTE positions over the FY 2015 revised budget. The FY 2016 budget also anticipates increases in career-ladder promotions, which will require an increase in spending for salaries and benefits. As an agency covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, we must strive to achieve comparability in compensation and benefit programs with other agencies covered under the act.

In addition, the FY 2016 proposed budget takes into account increases in funded leave, increased reimbursable work, and IT equipment replacements.

The FY 2015 congressional limitation required us to delay hiring additional staff during FY 2015. In FY 2016, however, we plan to hire for those additional positions. As a result, our costs for compensation and benefits will increase in FY 2016, and costs to support those additional employees, such as training, travel, relocation, and contractual support, will also increase.

The budget provides the resources needed to fulfill the objectives of the FCA Board Chair and CEO, which are as follows:

- To maintain strong examination and supervisory programs
- To establish the right level of regulatory capital for FCS institutions
- To ensure that the public purpose and mission-related responsibilities of the System are carried out appropriately

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.)

The budget provides resources for developing regulations and policy positions that implement statutes, for promoting the safety and soundness of the FCS, and for supporting the System's mission as a dependable source of credit and related services for agriculture and rural America.

We also continue to invest in our human capital initiative. During FY 2014, we hired a Learning Officer to support and lead our Human Capital Plan initiative. This initiative promotes learning, expertise, and personal growth among our employees. It is an important part of our strategy to retain our skilled workforce, and it supports our results-oriented culture.

Knowledge management is a key component of our continuous learning strategy. As we foresee vacancies in critical fields, we ask our experienced employees to work with our newly hired employees to transfer critical knowledge and skills.

Our policies on training and employee development further enhance the transfer of knowledge. We will continue to emphasize training for pre-commissioned examiners and the need to capture the knowledge of employees who are eligible to retire.

In addition, the budget includes continued funding for the following multi-year projects.

Agency Laptop Evaluation and Replacement. We generally replace our employees' laptops every three years, and we issue the new laptops to all staff at the same time. By adhering to this schedule, we ensure that the Agency has up-to-date technology and our employees have reliable, powerful computers. New laptops allow faster and more convenient computing services. When we upgrade our hardware, we also refresh and standardize the client software configuration.

Other Equipment Replacements. Many Agency machines and IT devices have reached the end of their lifecycles. In FY 2016, we will replace Agency network printers and copier/printer/scanner machines. Scheduled replacement of these units ensures updated printing and copying capabilities, reduces maintenance costs, and may increase energy efficiency. We will also research and purchase smartphones and associated data and voice services to replace aging devices. Newer devices typically offer additional security features and longer battery life. In addition to providing network connectivity for our mobile workforce, smartphones are an integral part of our continuity of operations and emergency response obligations. We will also replace our four-year-old servers with updated equipment. More powerful machines are critical in maintaining our IT infrastructure and supporting Agency data warehouse and risk analysis projects.

Risk Project. The goals of the FCA Risk Project are to evaluate and acquire tools that enable us to

- conduct risk and statistical analysis of the FCS; and
- enable users to create reports and dashboards for FCA's Structured Query Language data (which includes the following databases: FCS Loans, Consolidated Reporting System, Enterprise Documentation Guidance (EDGe), and Time Recording System).

We want to turn data into information and make the information quickly available to managers and staff so they can take appropriate action for the oversight of the FCS and management of FCA. This project will enhance our ability to perform our core mission of ensuring the safety and soundness of the FCS.

EDGe Project. The EDGe application focused initially on two goals: transitioning the Office of Examination's examination documentation system to SharePoint and, over a three-year period, developing a fully redesigned examination program and Agency documentation system.

We will now focus on the following goals: building management reports and implementing tools for scheduling and enhancing work papers. The EDGe Workgroup will capture key information repositories and import them into a management reporting site. This will enable OE management and supervisors to more efficiently and effectively evaluate System conditions and examination-related progress.

The goal of this management reporting site will be to provide a tool for supervisors to monitor examination work, to automate monthly and quarterly reporting processes, and to make reports available in real time so that they can be viewed at any point throughout the examination cycle. In addition, we plan to incorporate other OE tools into the EDGe environment.

This project promotes efficiency, effectiveness, and retention of corporate knowledge. It also allows us to leverage the Agency's technology investments and improves communications and coordination. The EDGe establishes a more centralized information repository for all examination and supervision activities. The EDGe becomes the central hub for the oversight and examination program and the Agency's institution-related documentation system.

Management Dashboard. This project will provide key information for the effective management of programs and activities. It will push information to users and allow them to drill down or look at more detailed information related to a key indicator. This application will benefit all programs and offices by providing timely, easy-to-access information.

CRS Call Reports. Every one or two years we make significant changes to maintain and improve our Call Report system. This system provides an electronic source of FCS financial data for the general public, FCS institutions, FCA management, financial analysts, and FCA examiners.

Application Modernization. The purpose of this project is to ensure that we can access our applications through a browser from most devices. To take full advantage of new Web-based technologies, we must migrate our legacy applications to the Web. When they are on the Web, we will no longer need the Microsoft Windows Operating System to access the applications, and we can use them from our mobile devices.

Farmer Mac Data Collection. This project will create an electronic system to collect, store, and use data from Farmer Mac. It will increase the efficiency and effectiveness of our examination and oversight of Farmer Mac, allowing us to conduct more work off site. It will also make the process of submitting data more efficient for Farmer Mac.

Telework Database. The purpose of this project is to streamline the approval process for flexi-place agreements, to reduce paper, and to retain records electronically. The database would allow employees to complete and sign FCA annual flexi-place forms electronically. It would also allow supervisors and the Agency Telework Coordinator to review and approve each form electronically. The project supports the Federal Government's telework initiatives and the Federal Government Paperwork Reduction Act.

Email Archiving and Discovery. The major goals of the project are as follows:

- Ensure that FCA staff can quickly and easily find the information they need to meet the business and operational needs of the Agency.
- Ensure that we retain email in accordance with Agency recordkeeping requirements and we make it available to appropriate staff.
- Ensure that our staff can effectively and efficiently respond to legitimate requests for documents and, if appropriate, can place email on litigation hold.
- Facilitate disaster-recovery efforts to restore email communication.
- Enhance productivity and system performance

Funding Approval SharePoint Site. The goal of this project is to provide an efficient, interactive working environment for those who are responsible for monitoring, analyzing, and processing funding requests and other approval requests.

Continuity of Operations Program. FCA will continue to enhance its test, training, and readiness program to provide staff with the knowledge and training they need to provide continuity of operations in an emergency.

Background

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. Because of increased risk in several institutions, we expect mergers and consolidations to continue; and because of challenges in the global economy, we expect the System's asset base to grow at only a moderate pace. Currently, the average institution's asset base exceeds $1 billion.

Our budget request includes the resources necessary to ensure the safety and soundness of the System as it grows and changes. The 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 any challenges and opportunities that may arise. The budget request supports our Human Capital Plan by allowing us to increase the number of examiners and to implement our Information Resources Management Plan.

FCA Program Areas

The Agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The Policy and Regulation Program

The budget provides resources for developing regulations and policy positions that implement statutes, promote the safety and soundness of the FCS, and ensure that the System carries out its mission. In addition, the budget provides for 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 the processing of information, the communication of Agency positions, and the administration of activities associated with the policy and regulation program. In total, policy and regulation activities account for approximately $15.0 million, including 58.09 FTEs in the proposed FY 2016 budget (see table 31 on page 75).

The Safety and Soundness Program

Through our safety and soundness program, the budget provides resources to examine the System for safety and soundness. These resources also ensure that FCS institutions comply with applicable laws and regulations. The budget continues to implement a risk-based approach to oversight and examination, which maximizes the effectiveness of examinations by allocating more examination resources to institutions with greater risk.

The budget also includes sufficient resources to ensure that the FCS properly identifies, manages, and controls risk. Initiatives include the development of risk topics, on-site examination presence, and a greater emphasis on loan review through the testing of credit reviews, internal audits, and internal controls.

Our budget also enables us to take special supervisory and enforcement actions when necessary. Weaknesses in the nation's economy and credit markets and volatility in agriculture have weakened some FCS institutions, requiring our examiners to take special action to address areas of concern.

In total, safety and soundness activities account for $52.9 million, including 238.45 FTEs in the proposed FY 2016 budget (see table 31 on page 75).

Office of Inspector General's FY 2016 Budget Request

Section 6(f)(1) of the Inspector General Act of 1978, as amended, (IG Act) requires an Inspector General (IG) to include specific information in the budget request the IG submits to the head of the department or designated Federal entity to which the IG reports. To fulfill the requirement of section 6(f)(2) of the IG Act, the FCA Board must in turn include this same information in the budget request that we submit to the President.

The information that the IG Act requires to be included is provided below:

- The aggregate budget request for the Office of Inspector General (OIG) is $1,514,785.
- The amount needed for OIG training is $22,100 (tuition).
- The amount needed to support the Council of the Inspectors General on Integrity and Efficiency is $4,100.

The FCA Board is submitting the IG's budget request as received from the IG.

BUDGET TRENDS

This budget supports the Agency's safety and soundness programs. It maintains and slightly grows our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. In addition, these resources keep the bar raised to the level set by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The FY 2016 budget is necessary to continue to fund the examination program, employee salary and benefit costs, and technology expenditures—all of which represent approximately 89 percent of FCA's total budget.

Our actual and budgeted spending levels are consistent with actual and budgeted FTE usage. Actual FTE usage has declined in past years because of challenges in hiring and unexpected attritions. FTE usage did increase in FY 2014 and is expected to increase over the next two years to support the examination and oversight of the Farm Credit System. We must guard against risks related to program changes and weaknesses in both the agricultural and the general economy. Tables 2, 3, and 4 provide information on our budget trends.

TABLE 2. FY 2016 Proposed Budget Compared with the FY 2015 Revised Budget

	FY 2015 Revised Budget	FY 2016 Proposed Budget	Increase (Decrease) from FY 2015 Budget
Full-time permanent (FTP)	$39,508,558	$41,290,793	$1,782,235
Other than FTP	1,120,627	1,176,544	55,917
Other personnel compensation	374,191	374,127	(64)
Total personnel compensation	**$41,003,376**	**$42,841,464**	**$1,838,088**
Personnel benefits	13,522,503	15,747,015	2,224,512
Benefits for former personnel	25,000	25,000	0
Total compensation and benefits	**$54,550,879**	**$58,613,479**	**$4,062,600**
Travel and transportation of persons	3,636,940	3,658,380	21,440
Transportation of things	238,250	217,250	(21,000)
Rent, communications, and utilities	813,753	823,308	9,555
Printing and reproduction	257,000	246,000	(11,000)
Consulting and other services	4,102,531	3,986,860	(115,671)
Supplies and materials	654,337	685,026	30,689
Equipment	1,346,310	1,169,697	(176,613)
Total budget	**$65,600,000***	**$69,400,000**	**$3,800,000**

Note: FCA's FY 2016 proposed budget request is $3.8 million more than the FY 2015 revised budget request.

*After the FCA Board approved the revised 2015 budget in September, Congress passed legislation capping our administrative expenses to be paid from assessments at $60.5 million. As a result of this cap, we will revise our spending in accordance with the statute.

The Office of Management and Budget (OMB) has issued guidance for agencies to reduce costs and increase efficiencies. We have taken the following actions to reduce costs:

- Implemented and improved audio- and videoconferencing, thereby controlling travel costs.
- Revised and issued the Travel and Relocation Policy to encourage prudent travel practices.
- Issued detailed guidance regarding conference costs, including a new policy that requires the Chief Financial Officer or the Chief Operating Officer to approve higher-cost conferences.
- Allowed employees to use penalty fares to take advantage of lower air fares.
- Reduced travel to the field offices.
- Increased reliance on the FCS Loans Database to help reduce travel costs.
- Installed network copier printers with scanning capabilities to reduce hard copies, promote electronic files, and reduce the number of printers.

In addition, we regularly use the following practices to keep our costs low:

- Use technology devices (such as laptops and smartphones) to keep travel costs down and maintain continuity of operations.
- Ensure that service provider costs are well managed.
- Scrutinize the issuance of information technology devices to ensure that only employees who have a bona fide business need receive the devices.
- Review, on a monthly basis, the usage of smartphones and other wireless devices to ensure the devices are being fully utilized and costs are being minimized.
- Use laptops as our standard platform for computer needs since most of our employees are examiners who travel frequently. The laptops also help us ensure continuity of operations. In addition, the use of laptops supports telecommuting initiatives during normal operating conditions and inclement weather. In FY 2014 we extended the lifecycle of our laptops by one year because of solid performance.
- Continue to expand our use of technology to disseminate publications (such as publishing documents on our website and distributing them by email) and to reduce the amount of printing where appropriate.
- Reduce printing by conducting research online and instituting a “Going Green” initiative for training materials.

- Continue to make our workflow more efficient and integrated by using the EDGe Project.
- Continue to collaborate and share resources across FCA offices to increase efficiency.

TABLE 3. FCA Budgets, FYs 2014–2016

	FY 2014 Revised Budget	FY 2015 Revised Budget	FY 2016 Proposed Budget
Full-time permanent (FTP)	$38,503,256	$39,508,558	$41,290,793
Other than FTP	876,471	1,120,627	1,176,544
Other personnel compensation	407,246	374,191	374,127
Total personnel compensation	**$39,786,973**	**$41,003,376**	**$42,841,464**
Personnel benefits	13,103,813	13,522,503	15,747,015
Former personnel benefits	25,000	25,000	25,000
Total compensation and benefits	**$52,915,786**	**$54,550,879**	**$58,613,479**
Travel and transportation of persons	3,552,281	3,636,940	3,658,380
Transportation of things	282,930	238,250	217,250
Rent, communications, and utilities	993,378	813,753	823,308
Printing and reproduction	257,150	257,000	246,000
Consulting and other services	3,640,024	4,102,531	3,986,860
Supplies and materials	727,895	654,337	685,026
Equipment	1,530,556	1,346,310	1,169,697
Total obligations	**$63,900,000**	**$65,600,000**	**$69,400,000**

Sources of FCA Revenue and Funding

We maintain a revolving fund financed primarily from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation, U.S. Department of Agriculture, and the National Consumer Cooperative Bank. Table 4 shows budgeted sources of revenue and funding for FYs 2014 to 2016.

TABLE 4. Budgeted Sources of FCA Revenue and Funding, FYs 2014–2016

Source	FY 2014 Revised Budget	FY 2015 Revised Budget	FY 2016 Proposed Budget
ASSESSMENTS			
Banks, associations, and related entities	$47,625,000	$52,100,000	TBD
Federal Agricultural Mortgage Corporation	2,375,000	2,400,000	TBD
Carryover funds[a]	13,300,000	10,600,000	TBD
Assessments available for obligation	**$63,300,000**	**$65,100,000**	**$68,800,000**[b]
REIMBURSEMENTS[c]			
National Consumer Cooperative Bank	174,073	69,762	195,113
Farm Credit System Insurance Corporation	287,800	366,929	367,097
U.S. Department of Agriculture	138,127	63,309	37,790
Interest income	---- [d]	---- [d]	---- [d]
Total	**$63,900,000**	**$65,600,000**	**$69,400,000**

[a] Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation. We will determine assessments and carryover amounts for FY 2016 in September of FY 2015.

[b] Our proposed obligation limit for FY 2016 is $68,800,000.

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

[d] No funds are budgeted from interest earned.

Note: The revolving fund is financed by three sources: (1) assessments to System institutions and Farmer Mac, (2) income from reimbursable services that we provide to other Federal agencies and the National Consumer Cooperative Bank, and (3) interest earned from investments with the U.S. Treasury.

FCA Reserve

The institutions we oversee are involved in two volatile industries—agriculture and finance. Volatility can produce financial stress for institutions, creating a need for heightened oversight and supervision. To ensure that we have the resources to provide the necessary supervision and oversight during periods of financial stress, we established a reserve. Congress granted approval for the reserve under section 5.15(a)(1)(B) of the Farm Credit Act, and the FCA Board established guidelines for it.

The reserve ensures that we can effectively and efficiently respond to unanticipated, material, one-time policy or safety and soundness issues arising within the System. The reserve strategy provides us with a proactive plan to respond to these issues without increasing assessments at a time that may be financially difficult for System institutions. At the end of FY 2014, we had approximately $11.8 million in our reserve.

ASSESSMENTS

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. As table 5 shows, assessments grew slowly and steadily until 2009 when financial stress began to affect many System institutions, creating a need for heightened oversight and supervision.

Assessments increased more rapidly through 2012 to cover the costs of the additional resources required for oversight and supervision. In 2013 and 2014, we were able to reduce assessments to System institutions by using carryover from prior-year assessments to help fund our operations.

The lower assessments, however, are not sustainable over the long term. To ensure the safety and soundness of the Farm Credit System, we had to increase our staffing levels. To cover the costs of these additional staff, we raised our assessments by $4.5 million in FY 2015, although this number would have been higher if we had not used carryover to offset the costs.

TABLE 5. FCS Assessments FYs 2006–2015

Fiscal Year	Assessment (in millions)
2006	$40.5
2007	$41.5
2008	$42.5
2009	$45.1
2010	$49.1
2011	$52.5
2012	$54.1
2013	$50.0
2014	$50.0
2015	$54.5

At the direction of Congress, we continue to reduce our carryover. As table 6 shows, we assessed the System $50.0 million in FY 2014. At the end of the year, we also had $1.5 million in reimbursable revenue and deobligations. During the year, we had obligations of $55.8 million. The difference between our obligations and our revenue was –$4.3 million, which allowed us to draw down our carryover amount to $11.7 million. Therefore, from FY 2013 to FY 2014, we reduced our assessment carryover by 27 percent.

Because we have had difficulty in hiring and retaining the staff we need each year, our assessment carryover has not declined as quickly as it otherwise would have. However, we anticipate more hiring in FY 2016. The Office of Examination, where we hire the majority of our entry-level staff, has made significant progress in reaching planned hiring numbers for FY 2016. Therefore, for FY 2016, we expect to have the number of associate examiners for which we have budgeted.

TABLE 6. FCA Funding, Obligations, and Assessment Carryover FYs 2013 and 2014		
	FY 2013	**FY 2014**
Current year assessments	$50.0	$50.0
Reimbursable revenue and deobligations	$1.3	$1.5
Total funding	**$51.3**	**$51.5**
Obligations	$51.8	$55.8
Total funding minus obligations	**($0.5)**	**($4.3)**
Assessment carryover from prior years	$16.5	$16.0
Carryover from assessments at end of fiscal year	**$16.0**	**$11.7**

FCS Borrower Costs

As table 7 shows, FCS borrowers incurred a net cost of approximately 1.8 basis points, or 1.8 cents for every $100 of assets held, to pay for FCA operations in FY 2014. Since FY 2005, the net cost to borrowers has decreased by 0.8 basis points.

FCS borrower costs are based on the relationship between the System's total assessments and assets held (not including Farmer Mac). The FCS held $271.3 billion in total assets as of September 30, 2014, up from $252.9 billion a year earlier.

Borrower costs have declined over the years for the following reasons:

- System assets have grown.
- FCA has used carryover to offset additional costs.
- FCA has taken various measures to reduce operating costs. (See pages 10 and 11 for details.)

TABLE 7. FCA's Net Cost to System Borrowers FYs 2005–2014	
FY Ended September 30	**Basis Points**
2005	2.6
2006	2.5
2007	2.2
2008	2.0
2009	2.0
2010	2.1
2011	2.2
2012	2.2
2013	1.9
2014	1.8
Note: The net cost figure is the annual assessment (not including Farmer Mac) at the beginning of the fiscal year divided by total assets at the end of the fiscal year.	

Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2015 is $2.40 million. As required by regulation, we will reconcile and adjust the assessment after the fiscal year-end to reflect the actual amount expended. Actual costs for FY 2014 were $2.29 million. The assessment for FY 2016 is not yet available because the Office of Secondary Market Oversight (OSMO) will not complete the FY 2016 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2015.

Table 8 shows assessments for fiscal years 2006 to 2015. These assessments include costs associated with increased examination and oversight activities. OSMO added staff in 2014 because of the increased emphasis on capital adequacy and stress testing among financial regulatory agencies.

TABLE 8. Farmer Mac Assessments FYs 2006–2015

Fiscal Year	Assessment (in millions)
2006	$2.35
2007	$2.20
2008	$2.05
2009	$2.05
2010	$2.25
2011	$2.20
2012	$2.25
2013	$2.38
2014	$2.38
2015	$2.40

Note: Although it will not be set until September 2015, Farmer Mac's FY 2016 assessment is expected to be about $2.40 million, the same as the FY 2015 figure.

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 (Farm Credit Act). As an independent Agency within the Executive branch of the Federal Government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).[2]

The FCS is the oldest of the financial Government-sponsored enterprises (GSEs). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

The FCS had $194.2 billion in outstanding loans to agriculture and rural America as of September 30, 2013.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac's secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural lenders and intermediaries including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2013, the volume of loans either purchased or guaranteed by Farmer Mac totaled $13.8 billion.

FCA is also 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 contract with the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture to provide examination services.

[2] By statute, Farmer Mac is an institution of the Farm Credit System; however, in this document, we will use the terms "FCS" and "System" to refer to all the entities in the Farm Credit System except Farmer Mac and affiliates of Farmer Mac.

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 our Strategic Plan for FYs 2013–18, our mission is to ensure a safe, sound, and dependable source 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 also evaluate whether institutions are complying with laws and regulations, especially the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers. 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 operations are determined to be 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.[3]

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 System debt obligations.

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.

In the Strategic Plan for FYs 2013–18, the Board stressed its commitment to maintaining the safety and soundness of the System and Farmer Mac. The Board also expressed its commitment to ensuring that the System provide opportunities to young, beginning, and small farmers; increase diversity in its customer/owner base; and provide an adequate and flexible flow of

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

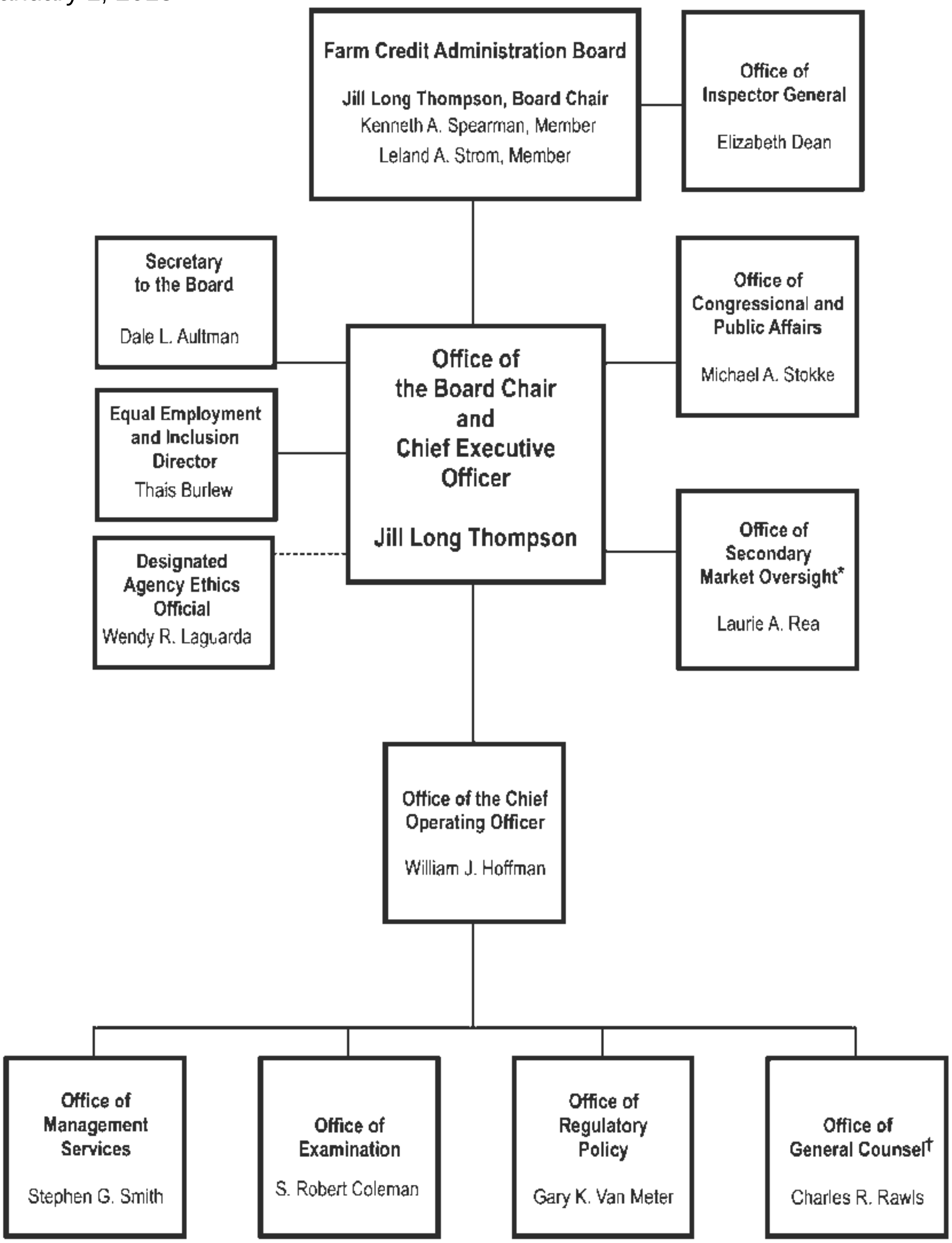
funds into rural America. In addition, because the System's lending institutions are cooperatives, we will continue to advocate for both strong governance and local control.

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 additional field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

FIGURE 1. FCA Organizational Chart

As of January 1, 2015



*Reports to the Board for policy and to the CEO for administration.
†Maintains a confidential advisory relationship with each of the Board members.

FCA INTERNAL OPERATIONS

FCA is firmly committed to the continuous development and support of its most valuable asset—its employees. This commitment is at the core of our five-year Human Capital Plan. The plan focuses on workforce planning and talent management, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of our Human Capital Plan is based on the Human Capital Standards for Success, a collaboration of the Office of Management and Budget, the Office of Personnel Management, and the U.S. Government Accountability Office.

Human Capital Management

Human capital strategies are linked to our strategic plan through clearly defined strategic initiatives and action plans. We continually monitor workforce trends and implement best practices. We also monitor the System's changing environment so that we can adjust our staffing levels and maintain requisite skill sets by hiring additional staff, providing employee training and development, and transitioning employees from staff positions that are no longer necessary. We review our workforce planning strategies annually; we last revised these strategies in September 2013. See table 9 for full-time-equivalent (FTE) staffing levels (rounded to the nearest whole number) from FYs 2006 through 2016.

TABLE 9. Full-Time-Equivalent Staffing Levels FYs 2006–2016

Fiscal Year	FTE Staffing Level
2006	252
2007	253
2008	251
2009	261
2010	277
2011	286
2012	287
2013	273
2014	278
2015	296 (authorized)
2016	303 (authorized)

Note: From FY 2006 to FY 2015, we have maintained a one-to-six ratio of managers and supervisors to other personnel.

We perform workforce assessments annually to obtain information on critical staffing variables, such as the age and grade of employees. From this analysis, we develop five-year projections to determine and mitigate the impact of employee retirements and separations.

As of September 30, 2014, approximately 19 percent of our personnel were eligible to retire. We estimate that this number will increase to 23 percent by the end of FY 2015. As a result of recent hiring, the number of employees who have been employed five years or fewer has risen substantially over the past three years and now constitutes a sizable portion of our workforce. This trend is likely to continue over the next three to five years. See table 10 for retirement eligibility projections at FCA.

TABLE 10. FCA Retirement Eligibility, FYs 2015–2019

Fiscal Year	Eligible Retirements
2015	66*
2016	9
2017	11
2018	8
2019	12

* This number includes 56 staff members who became eligible to retire prior to FY 2015.

Implementing the Human Capital Plan

Identifying our human capital needs over the next five years, including the optimal size of our workforce and the appropriate skill sets of our employees, is one of our primary goals; assessments take place at all levels to accurately gauge human capital requirements. We use the results of these assessments to develop, enhance, and redirect training and development programs.

As we face the retirement of a significant percentage of the FCA workforce, we are working hard to sustain a high level of institutional knowledge, job skills, and analytical expertise. In addition to succession planning and cross-training, we provide a variety of resources and programs for sharing knowledge across the organization.

To ensure maximum efficiency and effectiveness, the Human Capital Steering Committee coordinated these efforts in FY 2014. We also hired a Learning Officer in FY 2014 to more fully develop our training and knowledge retention strategies.

Our continuous learning strategy emphasizes leadership, competencies, and knowledge management. Succession planning is also an important element. By providing education, training, and other development opportunities, we seek to attract and retain bright, creative, and enthusiastic people.

We coordinate training goals with the leadership skills and competencies that are integral to achieving our mission. We establish training projection plans at the office level and the Agency level each year to help us manage employee training and development activities. These plans project budget needs for training and development; they are directly linked to FCA's Performance Management System. Supervisors and employees collaborate on training and development goals during mid-year and annual performance reviews.

Our Learning Officer will help us gauge our training needs and develop efficient and effective methods to acquire outside training and develop internal training courses and learning techniques.

Formal training programs support the needs of core occupational groups through a variety of methods, such as in-house training, vendor courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop computer with the technology to support e-learning initiatives. In addition, all employees have regular access to training on our computer systems.

We demonstrated our commitment to our training and knowledge transfer goals in FY 2014 by providing appropriate training to pre-commissioned examiners and capturing the knowledge of examiners who are eligible to retire. As more and more employees become eligible to retire, knowledge transfer becomes a greater concern. We have created an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key component of our continuous learning strategy. As vacancies in critical fields are projected, orientation plans seek to have newly hired employees work closely with experienced employees to transfer critical knowledge and skills. We regularly update our policies on training and employee development, and we use mentoring, details, and special projects to provide development opportunities.

FCA's electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, are another component of knowledge management and best practices. These databases enable employees to communicate and share knowledge.

We have also established internal SharePoint sites to enhance knowledge transfer and collaboration. All employees have access to most of the sites, including the sites containing resources on contracting, technology, leadership development, and audit and internal controls. Other sites are intended for the use of specific groups of employees, such as credit specialists, operations specialists, and recruiters. Still others are set up for workgroups on topics such as training, planning and reporting, and policy development. Through these sites, we can deliver information in real time to multiple audiences.

In addition, 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. We endorse programs that promote equal employment opportunity (EEO), diversity, and inclusion, and we have an active EEO program.

Long-term rotational assignments enhance employee knowledge and expertise. Through an organized program that encourages offices and employees to participate in rotational assignments, employees gain a deeper understanding of the Agency's mission. Rotational assignments build teamwork and collaboration and enhance the motivation and productivity of our employees.

FCA Compensation Program

Section 1206 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires Federal financial regulators to "seek to maintain comparability regarding compensation and benefits." This provision enables financial regulators to attract and retain qualified staff.

To comply with the FIRREA, we annually survey the other federal bank regulators and adjust our employees' compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under the FIRREA. For a general comparison, we also survey the private sector, the System banks, and the General Schedule agencies.

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 on the basis of a number of factors, including the compensation programs of other Federal bank regulators and available funding.

On January 16, 2015, the FCA Board approved the FCA Compensation Program for 2015. The program includes pay-for-performance increases based on a 1 percent pay matrix. With a couple of exceptions, the senior executive compensation was not increased. The locality rates were not changed from the prior year.

External Contracting and Shared Services

Outsourcing

As the table below shows, we continue to outsource several functions. Our shared-service agreement with the Bureau of the Fiscal Service began in FY 2006. We also outsource our payroll services to USDA's National Finance Center. In FY 2010, we began outsourcing our EEO counseling services through the U.S. Geological Survey. Outsourcing these services allowed us to manage our employee benefits and other Agency functions without additional personnel costs.

TABLE 11. Outsourcing, FY 2014

Contract	Purpose	Amount
Administrative Service Center (BFS)	To provide full-service accounting, eTravel, credit card, and platform procurement services	$590,557
National Finance Center (USDA)	To provide payroll services	$39.000
U.S. Geological Survey	To provide EEO counseling	$14,000

Note: FCA's shared-service agreements during FY 2014 totaled $643,557.

Single-Source and Competitive Consulting Service Contracts

Tables 12 and 13 provide a summary of our single-source and competitive consulting service contracts for FYs 2013 and 2014.

TABLE 12. Competitive Consulting Service (CCS) Contracts of More Than $25,000 and Single-Source (SS) Contracts, FY 2013		
Contract	**Purpose**	**Amount**
Brown & Company; 13-FCA-700-001 (CCS)	To provide financial audit services	$35,744
R & R Consulting; 13-FCA-450-001 (CCS)	To assist with updating FCA's risk-based capital model	$55,000
Gartner Inc,; 13-FCA-601-024 (CCS)	To provide technology services	$48,740
PatchAdvisor, Inc.; 13-FCA-601-058 (SS)	To provide recommendations for major applications	$50,050
Personnel Decision Research Institute; 10-FCA-C-01 (SS)	To help develop the pre-commission test	$84,887
Personnel Decision Research Institute; 13-FCA-301-007 (SS)	To develop questionnaire for examiner position	$133,340
Editorial Experts, Inc.; 13-FCA-240-003*	To provide editorial services	$78,987
R. Bridge; 13-FCA-240-002 (SS)	To provide editorial services	$11,250
Personnel Decisions Research Institute;13-FCA-301-007 (SS)	To assist with commission test evaluation	$10,000
AgFirst FCB; 13-FCA-301-004 (SS)	To provide online training by Farm Credit University	$3,900
Expedite Video Conference Service; 13-FCA-301-006 (SS)	To maintain videoconference equipment	$23,387
Avitecture, Inc.; 13-FCA-601-001 (SS)	To maintain audiovisual equipment	$5,350
R. Half International Inc. ; 13-FCA-301-002 (SS)	To provide administrative support	$2,833
ComPsych Employee Assistant; 13-FCA-601-015 (SS)	To provide employee assistance	$6,163
Dave Redden; 13-FCA-601-017 (SS)	To provide retirement counseling	$29,850
Tower Watson Consulting; 13-FCA-601-027 (SS)	To perform compensation study	$19,260
Expedite Video Conference; 13-FCA-601-029 (SS)	To maintain IT equipment	$17,433
Accuvant Federal Solutions Inc.; 13-FCA-601-039 (SS)	To provide storage back-up for servers.	$29,691
PatchAdvisor Inc; 13-FCA-601-040 (SS)	To assess network security	$24,000
World Wide Technology, Inc.;13-FCA-601-041 (SS)	To maintain hardware and software	$21,677
SAP Government Support; 13-FCA-601-043 (SS)	To provide PowerBuilder license	$9,720
R. Half International Inc; 13-FCA-601-045 (SS)	To provide administrative support	$3,023
Gartner, Inc.; 13-FCA-601-048 (SS)	To provide training for IT staff	$91,557
Towers Watson; 13-FCA-601-056 (SS)	To provide compensation consulting	$19,000
PatchAdvisor Inc.; 13-FCA-601-058 (SS)	To accredit major applications	$50,050
Electronic Systems, Inc; 13-FCA-601-061 (SS)	To support network infrastructure	$6,000
SoftChoice Corp; 13-FCA-601-064 (SS)	To provide Microsoft Enterprise Agreement	$540,482
Traid Tech Partners, LLC; 13-FCA-601-072 (SS)	To set up hardware	$12,896
Iron Mountain; 13-FCA-601-003 (SS)	To store magnetic tape	$6,000
Murphy Brothers Inc; 13-FCA-601-005 (SS)	To provide transportation services.	$9,955
Sun Management; 13-FCA-601-034 (SS)	To provide email security application	$9,070
Teracai Corporation; 13-FCA-601-059 (SS)	To maintain information technology	$21,661

Note: The Agency's SS and CCS contracts totaled $1,470,956 in FY 2013.

* This contract was inadvertently omitted from last year's report.

TABLE 13. Competitive Consulting Service (CCS) Contracts of More Than $25,000 and Single-Source (SS) Contracts, FY 2014		
Contract	**Purpose**	**Amount**
Editorial Experts, Inc.; 14-FCA-240-001 (SS)	To provide editorial services	$100,725
Personnel Decisions Research Institute; 14-FCA-301-002 (SS)	To conduct job analysis	$49,165
Centrec; 14-FCA-301-005 (SS)	To conduct self-study of on-line training	$16,882
R&R Consulting; 13-FCA-450-002 (CCS)	To help update FCA's capital module (Option year 1)	$100,000
C.B. Harris & Co.; 14-FCA-011 (CCS)	To scan documents for conversion	$60,775
SoftChoice Corporation; 13-FCA-601-064 (SS)	To provide Microsoft Enterprise Agreement	$180,161
Murphy Brothers; 14-FCA-601-013 (SS)	To provide taxi services	$10,995
Digital Office Products; 14-FCA-601-024 (SS)	To provide maintenance	$4,322
Avitecture; 14-FCA-601-028 (SS)	To provide maintenance	$13,990
Dave Redden; 14-FCA-601-033 (SS)	To provide retirement counseling	$38,982
International Business Machines; 14-FCA-601-037 (SS)	To provide consulting for Cognos and SPSS products	$14,736
International Business Machines; 14-FCA-601-042 (SS)	To report studio training and eLabs	$78,215
Happier, LLC; 14-FCA-601-040, 047, 050, 052, 069; 14-FCA-700-002 (SS)	To facilitate training programs	$71,070
Entrust, Inc.; 14-FCA-601-055 (SS)	To renew server certifications	$4,025
Teracai; 14-FCA-601-059 (SS)	To provide maintenance	$12,419
SoftChoice; 14-FCA-601-061 (SS)	To help with file sharing and security analysis	$5,500
Patch Advisor; 14-FCA-601-062 (SS)	To assess external network security	$25,000
Economic Systems; 14-FCA-601-063 (SS)	To provide services for Federal Human Resources (FHR) Navigator	$12,955
SAP National Security Services, Inc.; 14-FCA-601-066 (SS)	To renew software license/maintenance contract	$5,720
Gladis Communications, LLC; 14-FCA-067 (SS)	To facilitate training sessions	$6,500
Economic Systems, Inc.; 14-FCA-601-076 (SS)	To validate accuracy of service information on FHR Navigator retirement module	$19,900
ARX, Inc.; 14-FCA-601-084 (SS)	To cosign support and maintenance contract	$9,792
Towers Watson; 14-FCA-601-091 (SS)	To interpret the 2015 compensation survey of agencies covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989	$19,000
BI Technologies; 14-FCA-601-100 (CCS)	To provide Cognos consulting	$75,000
RDA Corporation; 14-FCA-601-101 (CCS)	To provide Cognos Data Warehouse Consulting	$60,953
Delta Research Associations; 14-FCA-601-102 (CCS)	To provide human resource support	$46,836
Gladis Communications, LLC; 14-FCA-601-105 (SS)	To facilitate follow-up on training	$9,000
Towers Watson; 14-FCA-601-107 (SS)	To provide services for job-leveling project	$72,000
Economic Systems, Inc.; 14-FCA-601-110 (SS)	To integrate FHR Navigator with the electronic Official Personnel Folder system	$9,850
Note: The Agency's SS and CCS contracts totaled $1,134,468 in FY 2014.		

Other Functions and Activities

Reception and Representation Expenditures

FCA spent $311.84 on reception and representation expenses in FY 2014.

Foreign Travel Expenditures

During FY 2014, there were no foreign travel expenses.

Reimbursements

We perform various examination, training, and other services for Federal agencies, and we are reimbursed for this work. We are also reimbursed by the National Consumer Cooperative Bank (NCB) for examining the bank as mandated by 12 U.S.C. 3025. See table 14 for information about the reimbursable activities we performed in FY 2014.

TABLE 14: Reimbursements

Contracting Agency	Services Performed	Reimbursement Received for FY 2014
USDA	Examination, training, and other services	$154,866
Farm Credit System Insurance Corporation	Examination, training, and other services	$397,290
NCB	Examination services	$295,592

Leveraging FCA Technology

FCA's investment in communication technologies continues to pay off. We are now turning our focus to supporting examiners and analysts in acquiring the data and tools necessary to better analyze and oversee financial risks in the System. Our Office of Management Services supports this goal by opening up new streams of financial data and providing the tools that allow our employees to analyze and transform data into information they can use to better perform their duties.

We continually evaluate new technologies to find ways to make our operations more efficient, and we have greatly improved the ability of our staff to work and communicate regardless of their location. Our IT infrastructure provides dependable, efficient access to data about the institutions we regulate, automates the exchange of data and information, and provides tools through which our staff can monitor and assess financial data and risk. We stress IT security and maintaining the integrity of our information systems. Through our annual Information Resources Management Plan, we monitor and coordinate our IT investments.

We continually seek to provide IT services, data sources, and communication tools that complement current technology and increase connectivity for our mobile workforce. A number of Agency-wide IT projects improved our capabilities in FY 2014:

- We migrated databases from Lotus Notes into updated applications, mostly in SharePoint. During this migration, we enhanced many systems to provide information in a more timely manner and to track work processes.

- We developed electronic signatures and forms to move the Agency from paper records to electronic files. Digital records are easier to access and search than paper records. Plus, we can have stronger internal controls over digital records, better records retention management, and greater confidence in their reliability. One example is the agency's property management system. Now we can electronically document annual property certifications and monitor the addition, deletion, or movement of accountable property.

- We updated the travel management system. The new system provides enhancements to the travel reservation and voucher process.

- We created a Lender Locator application on FCA's website to enable visitors to type in their addresses to find the System institutions that can serve them.

- We streamlined our external data portal that allows System institutions to submit data to us. We automated the routing of the information internally and increased the security of the portal by establishing self-service password resets and requiring passwords to be reset every six months.

- We upgraded and expanded the use of SharePoint, which allows staff to share information quickly and to coordinate on projects.

- We added more wireless access points in the conference rooms, allowing our staff to connect Agency laptops to the FCA network without running cables. In addition, approved vendors doing business with FCA can access the Internet through a guest network.

- We migrated the resource reservations system from Lotus Notes to Exchange to make it easier to reserve office space and equipment. Now staff members can reserve rooms and other resources when they send out a meeting invitation from Outlook.

- We continued to transition additional Internet traffic through Managed Trusted Internet Protocol Services (MTIPS). Routing traffic through an approved MTIPS provider is part of the government-wide Trusted Internet Connections mandate designed to increase the security of the Federal Government.

There are numerous, multi-year projects planned for FYs 2015 and 2016 that will further leverage technology to support our mission and achieve our strategic goals. These projects include the Risk Project, Laptop Evaluation and Replacement, EDGe Project, Management Dashboard, CRS Call Reports, Application Modernization, Farmer Mac Data Collection, Telework Database, Email Archiving and Discovery, Funding Approval SharePoint Site and Continuity of Operations Program. For a summary of each of these projects, please see pages 4 to 6.

Independent Auditing and Accountability

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2014 audit of FCA's financial statements. On November 13, 2014, Harper, Rains, Knight & Company issued an opinion letter relating to the audit of our financial statements for the fiscal year ended September 30, 2014.

- First, the auditor opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2014, in conformity with generally accepted accounting principles.

- Second, the auditor did not identify any deficiencies in internal control over financial reporting that would be considered material weaknesses.

- Third, the auditor did not identify any instances of noncompliance with selected provisions of laws and regulations or other reportable matters that could have a direct and material effect on the financial statements.

ENSURING SAFETY AND SOUNDNESS

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including the Federal Agricultural Mortgage Corporation.

The first section below, titled "The Farm Credit System," summarizes examination and supervisory activities performed for the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled "Other Entities."

Our examination and supervision responsibilities are carried out by staff located in five field offices. One field office is in the McLean, Virginia, headquarters; the other field offices are located in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2016.

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 must have loan portfolio and other data from System institutions, and section 5.9(4) of the Farm Credit Act gives us the authority to collect these data. Our regulations include the following reporting requirements:

- Each System institution must prepare and file quarterly reports of condition and performance with FCA in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information.

- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR 630.4.

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 for all System institutions. Recently we expanded loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder oversight.

Risk-Based Examination and Supervision

We design examination and supervision processes to address material risks and emerging issues on an individual-institution and Systemwide basis. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a Government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, guarding the safety and soundness of the System is more important and challenging than ever. Annually, to help address these challenges, we identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The oversight and examination program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2015 are as follows:

- Portfolio management in volatile times
- Allowance for loan loss in volatile times
- Large, complex, and shared assets
- Board governance and nominating committees

When our examiners identify unsafe and unsound practices within a System institution or find that an institution has failed to comply with 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 will use our enforcement powers to effect changes in an institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. However, in most cases, we achieve corrective action without the use of formal enforcement powers.

Measuring the Safety and Soundness of the System

We use our Financial Institution Rating System (FIRS) as a key method to assess the safety and soundness of each FCS institution. The FIRS provides a general framework, consisting of component and composite ratings, for evaluating and assimilating all significant financial, asset quality, and management factors. Similar to systems used by other Federal financial regulators, the FIRS evaluates six key component areas to properly assess the degree of risk in an institution. These key component areas are capital, assets, management, earnings, liquidity, and sensitivity (CAMELS).

On the basis of our CAMELS ratings, we assign an overall composite rating for the institution. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect and that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

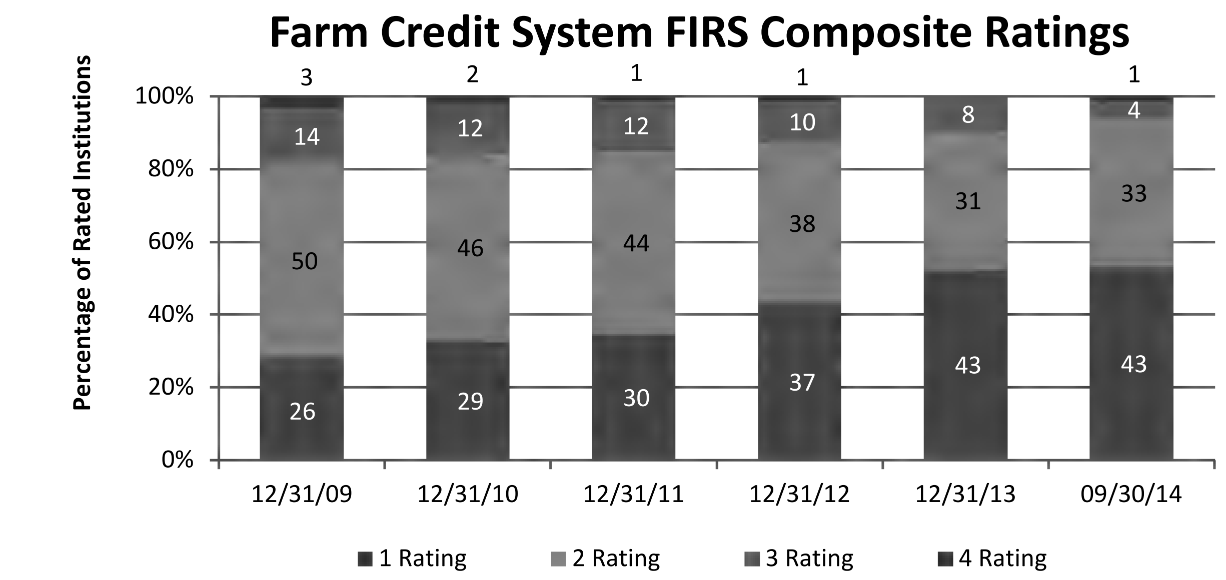
Recent Results

As the composite FIRS ratings over the past several years show, the System's condition and performance have remained satisfactory. Composite FIRS ratings are gradually improving; however, the FIRS ratings have yet to return to the pre-2008 levels. The following summarizes FIRS ratings for System banks and associations as of September 30, 2014:

- Forty-three institutions were rated 1.
- Thirty-three were rated 2.
- Four were rated 3.
- One was rated 4.

See figure 2 for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

FIGURE 2



Source: FCA's FIRS Ratings Database.

Source: FCA's FIRS Ratings Database.

Note: This chart reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers shown on the bars reflect the total number of institutions with a given rating; please refer to the y-axis to determine the percentage of institutions receiving a given rating.

Federal Agricultural Mortgage Corporation

Through our Office of Secondary Market Oversight (OSMO), we examine and supervise Farmer Mac to ensure both its safety and soundness and mission achievement. OSMO performs annual CAMELS-based examinations, which include examination of capital, assets, management, earnings, liquidity, and sensitivity. Throughout the year, OSMO oversees Farmer Mac's condition and compliance with regulations, and supervises its operations.

Statutory Authority

We regulate Farmer Mac through OSMO, which was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102-237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO be managed by a full-time director who reports to the FCA Board and that OSMO's activities, to the extent practicable, 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. In addition, Farmer Mac is 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 2014.

- Net income available to common shareholders was $45.1 million for the 12 months ended September 30, 2014, compared with $68.9 million during FY 2013.
- Core earnings, a non-GAAP measure of economic performance, totaled $58.8 million during FY 2014 compared with $51.2 million during FY 2013.
- Farmer Mac's core capital totaled $761.3 million at the end of FY 2014, compared with $578.4 million at the end of FY 2013. The minimum core capital requirement for Farmer Mac's on- and off-balance-sheet exposures is set in the statute and totaled $547.1 million at the end of FY 2014. Thus, Farmer Mac exceeded its minimum core capital requirement by approximately $214.2 million.
- At the end of FY 2014, Farmer Mac had $771.9 million in regulatory capital available to meet the $67.3 million minimum requirement established by FCA's Risk-Based Capital (RBC) Model.

Farmer Mac experienced growth in its program and nonprogram portfolios during FY 2014.

- Program activity increased approximately 1.6 percent and ended FY 2014 at $14.0 billion.
- Cash and nonprogram investments decreased approximately 17.2 percent and ended FY 2014 at $2.6 billion.

Credit quality remained stable and generally good. Real estate owned declined over FY 2014, finishing the year at $1.2 million, down approximately $1.7 million from fiscal year-end 2013.

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 is sufficient for Farmer Mac 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 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 percent 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.[4]

The Farm Credit Act also requires the RBC Model to incorporate an interest rate risk stress scenario based on rising and falling 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 percent 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 of these third-party validations, Farmer Mac has been found to be operating the model appropriately.

We published a final rule in early 2011 to amend our RBC Model regulation to allow for revisions to the model, including a revision that would reflect loan activity involving rural utility cooperatives. An Advance Notice of Proposed Rulemaking was published in June 2011 to solicit public input on further revisions to the model. We are considering a revision to the software platform on which the model runs. Currently, the model uses a Microsoft Excel platform. A different platform could significantly streamline the processing of model runs as Farmer Mac's portfolio grows and its product mix broadens.

[4] Farmer Mac's express program activities were expanded in the Food, Conservation, and Energy Act of 2008 to include rural utilities.

Other Entities

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System.

- As mandated by 12 U.S.C. 3025, we examine the National Consumer Cooperative Bank, which owns a Federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans.

- From time to time, the U.S. Department of Agriculture contracts with us to provide examination services for specific USDA programs. We annually review the amount of resources dedicated to providing these services. Currently, the amount is limited.

- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, Government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC Board consists of the members of the FCA Board. Section 5.59(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 reduce costs.

For more information about reimbursable activities in 2014, see table 14 on page 30 under "Other Functions and Activities."

DEVELOPING REGULATIONS AND POLICIES

FCA routinely issues regulations, Informational Memoranda, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend. We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

Regulatory and Policy Projects Active at End of FY 2014

The FCA Board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives. The FCA Board-approved agenda is part of the Federal Unified Agenda, which is published online at www.reginfo.gov. We are not obligated to act on our agenda items, and we may propose or issue regulations that have not been set forth in the Unified Agenda. 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.

The following list summarizes our current regulatory efforts and other guidance under consideration in FY 2015 and FY 2016.

Loans in Areas Having Special Flood Hazards: We plan to publish a final rule to amend our regulations on flood insurance to conform to the Biggert-Waters Flood Insurance Reform Act of 2012.

Investment Eligibility: We plan to publish a final rule to revise the eligibility requirements for investments by System institutions. To comply with a provision of the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Capital—Basel III: We plan to publish a final rule to revise sections of the capital rules to make them consistent with Basel III where appropriate.

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

Mergers, Consolidations, and Charter Amendments: We plan to publish a final rule to amend regulations pertaining to mergers, consolidations, and charter amendments of System banks and associations.

Farmer Mac—Corporate Governance and Standards of Conduct: We plan to issue a notice of proposed rulemaking in early 2015 to clarify and strengthen Farmer Mac's board governance regulations and to establish standards-of-conduct regulations.

Farmer Mac—Investment Eligibility: We plan to publish a proposed rule and a final rule to change eligible investment asset classes. To comply with the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Farmer Mac—Risk-Based Capital Stress Test, Version 5.0: We plan to conduct a review to determine how to remove credit ratings data from the Risk-Based Capital Model. The Dodd-Frank Act requires agencies to remove references to credit ratings in their regulations and to substitute other creditworthiness standards.

Institution Stockholder Voting Procedure: We plan to publish a final rule to clarify and enhance voting procedures related to the tabulation of votes, the use of teller committees, and the handling of ballots.

Appraisal Regulations: We plan to complete our review to consider whether changes in appraisal regulations are necessary in light of changing credit and economic conditions.

Territorial Concurrence: We plan to conduct a review of current regulations requiring associations to notify each other and obtain concurrence when they extend loans in the chartered territories of other associations. The purpose of the review is to determine whether the regulations are appropriate for the System’s current structure, lending practices and operating environment, and whether the regulations support safety and soundness, operational efficiency, cooperative principles, and customer service.

Bank Review of Insider Loans: We plan to complete a review to consider whether current regulations requiring bank review of association insider loans are appropriate for the System’s current structure and whether the bank review ensures compliance with applicable standards-of-conduct regulations.

Crop Insurance Sales Compensation: We plan to complete a review to consider whether current limitations on compensation from crop insurance sales should be modified.

Eligibility Criteria for Directors: We plan to begin a review to consider the eligibility criteria for directors, particularly when a candidate for a director position owns an interest in an entity that borrows or holds stock in a System bank or association.

Removal of Stockholder-Elected Directors: We plan to begin a review to consider whether, and under what circumstances, a stockholder-elected director of a System bank or association can be removed by the bank’s or association’s board of directors.

Financing Farm-Related Service Businesses: We plan to complete our evaluation of the System’s lending to farm-related service businesses to determine whether our regulations provide the appropriate framework for determining borrower eligibility and purposes of financing. Among the businesses to be considered are service providers within local food systems.

Amortization Limits—Agricultural Credit Associations and Production Credit Associations: We plan to complete our review of amortization limits for Agricultural Credit Associations and Production Credit Associations.

Bank-Association Lending Relationship: We plan to complete our review to evaluate the regulatory requirements of general financing agreements between banks and associations. As part of this review, we will consider whether we should enhance the banks' authorities to address safety and soundness issues in affiliated associations.

Criminal Activity Referrals and Related Internal Controls: We plan to begin a review of our regulatory guidance on internal controls designed to prevent, identify, and monitor fraud and criminal activity. We will also review the processes for referring known or suspected criminal violations.

Director Election Nomination Procedures: We plan to begin a review of our regulations and guidance related to the director nomination process. As part of this review, we will consider the kind of information to which nominating committees should have access when considering potential nominees.

Attribution Rules: We plan to begin a review of the attribution rules that institutions must use when they determine whether loans to a borrower should be combined and attributed to a related borrower's outstanding loans. Attribution rules affect calculations for lending and leasing limits.

Regulatory and Policy Projects Completed in FY 2014 and Early FY 2015

Following is a list of projects we completed in FY 2014 and early FY 2015, along with a list of communications we issued to System institutions to clarify our rules.

Flood Insurance: We published a proposed rule to require System institutions to escrow premiums and fees for flood insurance for any loan secured by residential improved real estate or a mobile home.

Mergers, Consolidations, and Charter Amendments: We published a proposed rule to amend regulations pertaining to mergers, consolidations, and charter amendments of System banks and associations.

Pension Benefits Disclosure: We published a proposed rule to exclude certain employees and their compensation amounts from the compensation disclosure requirement for System institutions.

Institution Stockholder Voting Procedure: We published a proposed rule to clarify and enhance voting procedures related to the tabulation of votes, the use of teller committees, and the handling of ballots.

Margin and Capital Requirements for Noncleared Swaps: We published an interagency proposed rule that would establish margin and capital requirements for FCS institutions, including Farmer Mac, that engage in noncleared swaps and noncleared security-based swap transactions. The rulemaking would fulfill a requirement of the Dodd-Frank Act.

Regulatory Burden Final Notice: We published a Final Notice responding publicly to comments we received from the 2013 Regulatory Burden Solicitation.

Investment Eligibility: We published a proposed rule to revise the eligibility requirements for investments by System institutions.

Capital—Basel III: We published a proposed rule to revise sections of the capital rules to modernize them and make them consistent with Basel III where appropriate.

Repealing Nonbinding Advisory Votes: We published an interim final rule and a final rule to remove regulatory provisions on nonbinding advisory votes.

Farmer Mac—Corporate Governance and Standards of Conduct: We published an Advance Notice of Proposed Rulemaking requesting public input on possible regulatory changes addressing board governance and standards of conduct at Farmer Mac.

Rural Community Investments and Investments in Rural America: We withdrew the proposed rule on System institutions' statutory and regulatory authority to make rural community investments. We also concluded the Investments in Rural America pilot programs effective December 31, 2014. System institutions may hold any authorized investments outstanding at that date until maturity.

Farmer Mac—Liquidity Management: We published a final rule to provide guidance on policies, procedures, and best practices related to liquidity investment operations. The rule also revised regulatory limits on liquidity risk.

Reports of Accounts and Exposures: We published a final rule that established our minimum data requirements for evaluating risk in FCS loan portfolios.

Cybersecurity Framework and Other Recent Guidance: We issued an Informational Memorandum to System institutions outlining best practices and recent guidance for managing cybersecurity risk. All System institutions should be taking appropriate actions to monitor and manage cybersecurity threats and vulnerabilities.

Lending, Training, and Outreach Opportunities with the Farm Service Agency: We issued an Informational Memorandum to System institutions to provide information on lending, training, and outreach opportunities available through the U.S. Department of Agriculture's Farm Service Agency. These opportunities may benefit an institution when trying to reach a broader segment of the agricultural community.

Investment Requests: We issued an Informational Memorandum to provide guidance to System institutions on submitting approval requests for investment purchases. For example, any request must explain the purpose of the investment and any risks it poses to the institution.

Farm Credit System Operating Expenses: We issued an Informational Memorandum to System institutions to provide guidance on properly managing operating expenses to help ensure safe and sound performance of System institutions.

Increased Maximum Flood Insurance Coverage for Other Residential Buildings: We issued an Informational Memorandum to notify System institutions of the flood insurance coverage increase and to provide them a copy of the "Interagency Statement on Increased Maximum Flood Insurance Coverage for Other Residential Buildings."

Revised Guidelines on Submission of Proposals to Merge or Consolidate Farm Credit System Associations: We issued an Informational Memorandum to notify System institutions of revisions to our guidelines on the submission of proposals to merge or consolidate.

Social Media: Consumer Compliance Risk Management: We issued an Informational Memorandum to notify System institutions of our expectations regarding the supervisory guidance issued by the Federal Financial Institutions Examination Council, titled "Social Media: Consumer Compliance Risk Management Guidance."

Interagency Statement on the Impact of Biggert-Waters Act: We issued an Informational Memorandum to notify System institutions that the force placement and civil money penalty provisions of the Biggert-Waters Act became effective upon enactment and that the private flood insurance and escrow provisions of the Biggert-Waters Act will not be effective until regulations are issued.

Maximum Bank Director Compensation: We issued an Informational Memorandum to notify Farm Credit banks of the maximum allowable bank director compensation for 2014.

FCS Corporate Activity and Other Prior Approvals and Clearances

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

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

Corporate Activities in FY 2014 and Early FY 2015

During FY 2014, we canceled the charters of twelve associations—four ACAs and eight subsidiaries—as a result of four mergers. We also approved a name change.

- On January 1, 2014, four ACAs affiliated with CoBank, ACB, merged, resulting in two ACAs with subsidiaries.
- On January 1, 2014, four ACAs affiliated with the Farm Credit Bank of Texas merged, resulting in two ACAs with subsidiaries.
- On January 1, 2014, an ACA affiliated with AgriBank, FCB, changed its name.

Thus far in FY 2015, we canceled the charters of six associations—two ACAs and four subsidiaries—as a result of two mergers, and we approved one name change.

- On October 1, 2014, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with subsidiaries.
- On January 1, 2015, two ACAs affiliated with the Farm Credit Bank of Texas merged, resulting in an ACA with subsidiaries.
- On January 1, 2015, an ACA affiliated with CoBank, ACB, changed its name.

Projected Mergers and FCS Institution Size

As of January 1, 2015, the System had 76 direct-lender associations and 4 banks. Seven service corporations and special-purpose entities (see pages 51 and 52) brought the total number of FCS institutions to 87 (including Farmer Mac). Because of mergers and consolidations, the number of FCS associations has declined by 56 percent since 2000, and the number of FCS banks has decreased by 43 percent.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decline. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also possess more complex management systems and offer a broader range of financial services to their borrowers.

Security Offerings During FY 2014

We reviewed and did not object to the following proposed offering circulars for issuing Class H cumulative preferred stock:

- A circular from American Ag Credit, ACA
- A circular from Farm Credit of Southern Colorado, ACA

In addition, we authorized CoBank to use a Base Form Disclosure Document under specified terms (preclearance) to issue noncumulative perpetual preferred stock until the end of 2014.

Funding Activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation,[5] the fiscal agent for the Farm Credit banks. In this way, funds flow from worldwide capital-market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with ready and efficient access to global resources. Systemwide debt securities are issued as discount notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all debt issuances.

For the 12 months ended September 30, 2014, the FCS issued $346 billion in Systemwide debt, which was $30 billion less than the debt issued in FY 2013 and FY 2012. In general, Systemwide debt issuance declined as call opportunities for outstanding FCS debt instruments subsided when interest rates started to trend upward—the exception being debt instruments with maturities of one year and less. The decline in Systemwide issuance was tempered by the continued steady growth in overall FCS debt outstanding, which tallied $213.7 billion at the end of FY 2014.

The financial markets exhibited much greater stability, with intermittent volatility caused by geopolitical events. Regardless, investor demand for System debt remained favorable across the yield curve.

[5] See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation assists the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System's financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

Investments in Rural America

In January 2005, we issued guidance that gave System institutions an opportunity to participate in pilot programs supporting investments in rural America (see FCA Informational Memorandum dated January 11, 2005, Investments in Rural America—Pilot Investment Programs).

The pilot programs gave FCS institutions greater flexibility to partner with Government agencies and other agricultural and rural lenders in fulfilling FCS mission objectives. In addition, through the programs, we gained a better understanding of the diverse financing needs of agriculture and rural communities and the ways FCS institution investments can help increase the availability of funds to these markets.

On November 14, 2013, the Farm Credit Administration Board voted to conclude, effective December 31, 2014, each pilot program approved after 2004 as part of the Investments in Rural America program. The Board's action permits each System institution that is participating in a pilot program to continue to hold its investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions.

Although we have concluded these pilot programs, we will consider investment requests on a case-by-case basis under the existing investment regulations. The information gathered and experience gained through the pilot programs will be useful when we evaluate future investment requests.

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, as well as related service organizations and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the financial Government-sponsored enterprises (GSEs). As of January 1, 2015, the System had four banks providing loan funds to

- 74 Agricultural Credit Association (ACA) parent organizations, each of which has two subsidiaries—a Production Credit Association (PCA) and a Federal Land Credit Association (FLCA), and
- 2 stand-alone FLCAs.

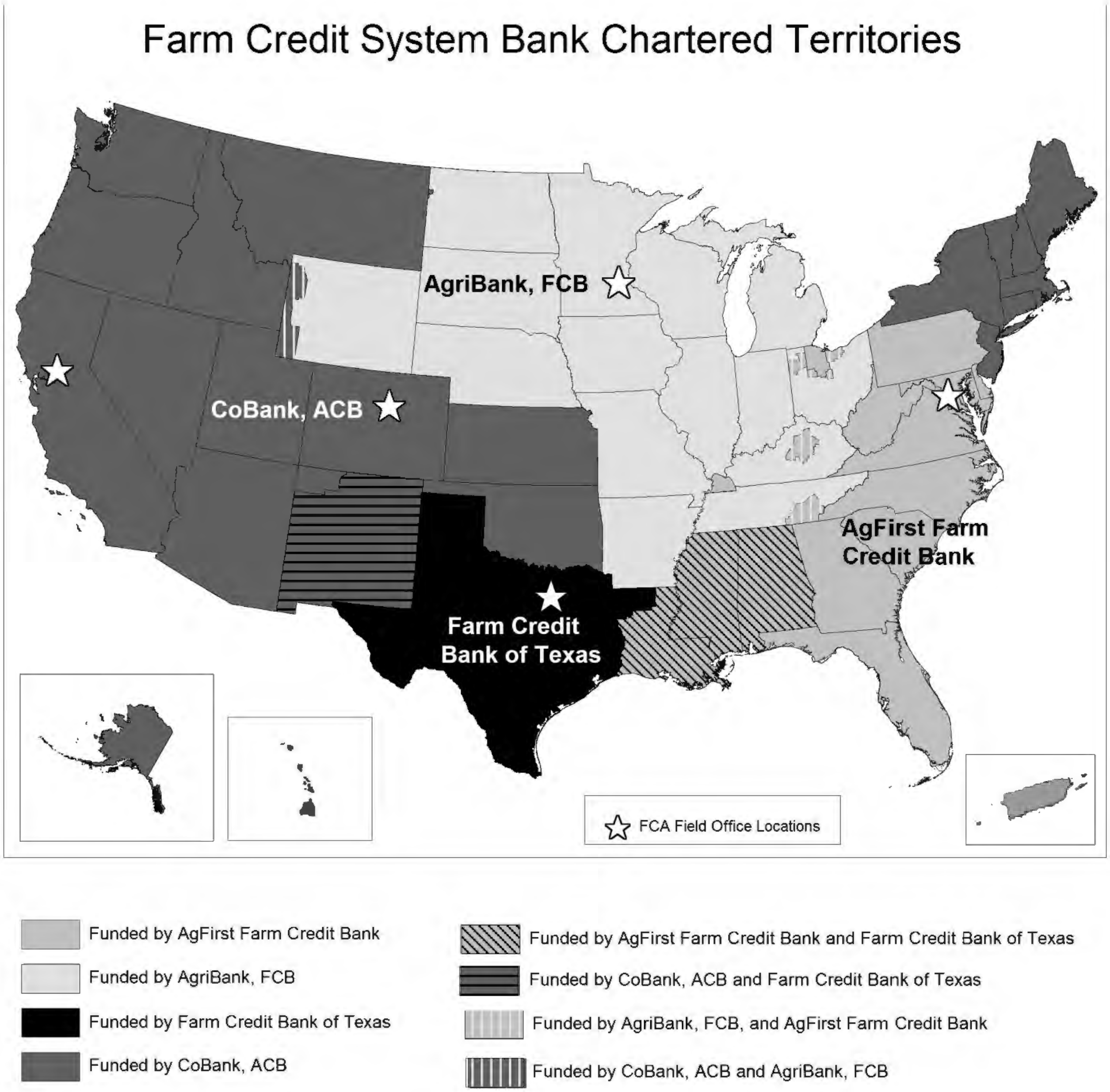
The map in figure 3 shows each bank's chartered territory.

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 the indebtedness to the funding bank under a General Financing Agreement. In addition, the parent company and its subsidiaries pledge their respective assets as security for each other's debts and obligations and share each other's capital.

The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are Federal Land Bank Associations that originate long-term agricultural mortgages and are exempt from Federal and State income taxes; ACAs and PCAs originate short- and intermediate-term operating loans and are not tax-exempt.

System institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling debt securities in the national and international money markets; these securities are subject to FCA's approval, but they are not guaranteed by the U.S. Government.

FIGURE 3



NOTE: CoBank, ACB, funds 26 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 17 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 80 banks and direct-lending associations.

Additional System Entities and Service Corporations

In addition to the System's banks and associations, we are responsible for regulating and examining the Federal Agricultural Mortgage Corporation and the Federal Farm Credit Banks Funding Corporation. We also regulate and examine the five service corporations organized under section 4.25 of the Farm Credit Act[6]: AgVantis, Inc.; Farm Credit Leasing Services Corporation; Farm Credit Financial Partners, Inc.; the FCS Building Association (FCSBA); and Farm Credit Foundations.

Federal Agricultural Mortgage Corporation—Farmer Mac[7] is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. In May 2008, the Food, Conservation, and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac conducts its business primarily through four core programs:

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

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

Federal Farm Credit Banks Funding Corporation—The Funding Corporation is owned by System banks; it sells debt securities on behalf of the banks to raise funds for loans and other purposes. System institutions obtain the majority of their funds through the sale of these securities in the Nation's capital markets. These securities, chiefly in the form of bonds and discount notes, are offered by the Funding Corporation through a nationwide group of securities dealers and dealer banks. The Funding Corporation's debt issuance programs provide the System banks with funds to lend to farmers, ranchers, and agricultural cooperatives; debt issuances also provide the banks with funding for their other operations.

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[6] 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.

[7] Farmer Mac is established in law as a part 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 OSMO Director reports directly to the FCA Board on matters of policy.

AgVantis, Inc.—AgVantis, Inc., provides technology-related and other support services to associations in the CoBank, ACB, district. It was chartered by FCA in 2001 and is owned by CoBank, ACB, and 16 of its affiliated associations.

Farm Credit Leasing Services Corporation—The Leasing Corporation, owned by CoBank, ACB, provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit Financial Partners, Inc.—Farm Credit Financial Partners, Inc., provides support services to CoBank, ACB; five associations affiliated with CoBank, ACB; one association affiliated with AgriBank, FCB; the Leasing Corporation; and two FCS-related entities.

FCS Building Association—FCSBA, 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 41 Farm Credit associations, one service corporation (AgVantis, Inc.), and one Farm Credit Bank (AgriBank, FCB).

FCS Mission Fulfillment

The System fulfills its overall mission by lending to agriculture and rural America. Through changes in the law since the System's original authorization in 1916, 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

In addition to its lending programs, System institutions participated (until December 31, 2014) in several mission-related pilot investment programs (referred to as Investments in Rural America). The programs allowed us to evaluate the ability of System institutions to provide a flexible flow of funds to agriculture and rural communities across the country. (See page 46 for a description of the Investments in Rural America program.)

FINANCIAL CONDITION AND PERFORMANCE

In FY 2014, the overall condition and performance of the FCS remained safe and sound. As the drop in nonaccrual loan activity shows, asset quality continued to improve in FY 2014. All banks and associations continued to maintain capital ratios in excess of minimum regulatory requirements, and net income increased.

The decline in grain and soybean prices is expected to have a negative impact on crop producers, but these lower prices will generally be positive for producers and processors in the livestock, dairy, poultry, and ethanol industries. This shift in the commodity outlook could create shifts in the System's risk profile.

The System's loan portfolio continued to grow because of continued demand for cropland and the overall demand for new loans. For the 12 months ended September 30, 2014, gross loans increased by 7.1 percent, compared with a 4.7 percent gain during the previous 12-month period.

Earnings

The FCS earned $3.6 billion in the first nine months of 2014, a 2.0 percent increase from the $3.5 billion earned in the same period in 2013. As table 15 shows, net income rose primarily because of an increase in net interest income and a decrease in the provision for loan losses. This was partially offset by an increase in the provision for income taxes and an increase in noninterest expense.

TABLE 15: Net Income (Dollars in Millions)

	First 9 Months of 2013	First 9 Months of 2014	Dollar Change	Percent Change
Net interest income	$4,981	$5,056	$75*	1.5
- Provision for losses	9	7	(2)	(22.2)
= Net interest income after loss provision	$4,972	$5,049	77	1.5
+ Noninterest income	444	489	45	10.1
- Noninterest expense	1,749	1,795	46	2.6
= Pretax income	$3,667	$3,743	76	2.1
- Provision for income tax	168	174	6	3.6
= Net income	$3,499	$3,569	$70	2.0

Source: FCS Quarterly Information Statements.
*The change in the volume of interest income was $327 million, but changes in interest rates caused a loss of $252 million, resulting in a total net change increase of $75 million in net interest income.

An increase in average interest-earning assets, from $238.3 billion at September 30, 2013, to $255.0 billion a year later, primarily drove the increase in net interest income. However, the net interest margin declined 15 basis points because of a decrease in the net interest spread. The net interest spread declined 15 basis points to 2.50 percent from the same period one year ago. The net interest margin also decreased because of competitive pressures and an increase in the average loan volume in lower-spread lines of business. The yield on interest-earning assets fell by an annualized rate of 14 basis points, while the yield on interest-bearing liabilities increased by an annualized rate of 1 basis point. See table 16.

TABLE 16: Interest Margin in Annualized Percentages

	First 9 Months of 2013	First 9 Months of 2014	Change (bps)
Total interest-earning assets	**3.60**	**3.46**	**(14)**
Total loans	4.11	3.98	(13)
Investments and other assets	1.45	1.33	(12)
Total interest-bearing liabilities	**0.95**	**0.96**	**1**
Net interest spread	**2.65**	**2.50**	**(15)**
Impact of noninterest-bearing items	0.14	0.14	(0)
Net interest margin	**2.79**	**2.64**	**(15)**

Source: FCS Quarterly Information Statements, pg. 12.
bps = basis points

The System's net return measures remained satisfactory across all the districts during the first nine months of 2014. As table 17 shows, the return on average assets and the return on average capital weakened in all System districts except the Texas district.

TABLE 17: Profitability Across System Districts for First 9 Months of Year

		AgFirst	AgriBank	Texas	CoBank
Percentage return on average assets	2013	2.11	1.92	2.03	1.56
	2014	1.97	1.83	2.11	1.46
Percentage return on average capital	2013	13.87	12.00	12.40	11.82
	2014	12.01	10.85	12.86	11.07

Source: FCS Quarterly Information Statements, pg. F-58.

Asset Growth

The System's loans and assets grew moderately during the year ended September 30, 2014. Strong demand for cropland in the Midwest helped spur the increase in assets and loans. The demand for new loans and increased lending to food and agribusiness companies also contributed to this growth.

FCS assets grew to $271.3 billion as of September 30, 2014, up $18.4 billion (7.3 percent) from September 30, 2013. Increases in loans by $13.8 billion (7.1 percent), investments by $4.2 billion (9.0 percent), and cash by $370 million (18.5 percent), produced the moderate increase in total assets.

All System districts experienced loan growth for the year ended September 30, 2014. Loan volume in the CoBank district grew by $6.3 billion, an increase of 8.0 percent over its loan volume a year earlier. Gross loan volume in the Texas and AgriBank districts increased by $1.4 billion (7.8 percent) and $5.2 billion (6.5 percent), respectively. The AgFirst district experienced the smallest increase; its gross loan volume increased by $1.0 billion (4.5 percent). See table 18.

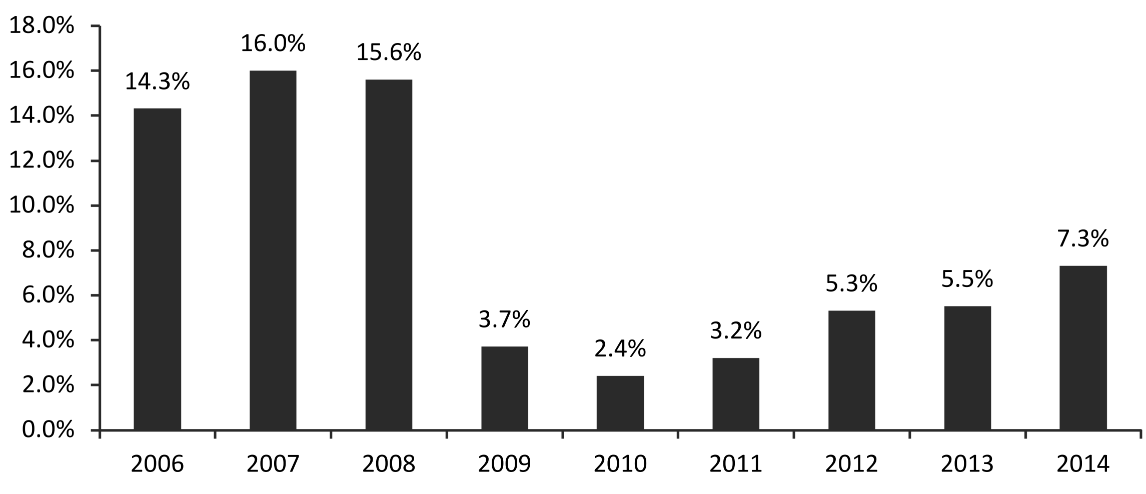
TABLE 18: Gross Loan Growth by District and Systemwide (Dollars in Millions)

	September 30, 2013		September 30, 2014			
	Gross Loans	Percent Total	Gross Loans	Percent Total	Change in Dollars	Percent Change
AgFirst	$23,082	11.9	$24,117	11.6	1,035	4.5
AgriBank	80,015	41.2	85,210	41.0	5,195	6.5
Texas	17,334	8.9	18,692	9.0	1,358	7.8
CoBank	78,086	40.2	84,350	40.5	6,264	8.0
Intra-System Eliminations	(4,306)	(2.2)	(4,318)	(2.1)	(12)	NM*
Total for System	**$194,211**	**100**	**$208,051**	**100**	**$13,840**	**7.1**

* Not meaningful.
Source: FCS Quarterly Information Statements, pg. F-54, 2014, and pg. F-52, 2013.

As noted in figure 4 below, the System's total assets increased slightly faster during the 12-month period ended September 30, 2014, than during the previous period but much slower than during the 2006 to 2008 period, the three years prior to the recession.

Figure 4: Percent Change in System Assets (Twelve months ended in September)



Source: FCS Quarterly Information Statements

Assets—Investments

The System's investments grew 9.0 percent during FY 2014. As table 19 shows, the System increased its holdings of money market instruments, U.S. Treasury securities, U.S. agency securities, and other asset-backed securities while reducing holdings of mortgage-backed securities and mission-related investments.

All segments of the investment portfolio available for sale experienced a decrease in yield during the most recent 12-month period except for U.S Treasury securities available for sale, which increased from 0.59 percent to 0.94 percent. The yield on total nonmission-related securities available for sale decreased from 1.31 percent to 1.24 percent.

All segments of the investment portfolio held to maturity except for other asset-backed securities decreased in yield during the most recent 12-month period, with money market instruments (held to maturity) experiencing the largest decline—from 5.82 percent to 5.75 percent. The yield for other asset-backed securities increased 12 basis points to 2.38 percent at September 30, 2014, from the previous year. The yield on total nonmission-related securities held to maturity increased slightly, from 3.15 percent to 3.16 percent.

Ineligible investments held by the System declined from $1.6 billion at September 30, 2013, to $1.2 billion at September 30, 2014. Most ineligible investment securities that the System has on its books became ineligible as a result of the unfavorable market conditions caused by the financial crisis.

According to FCA's regulatory standards, certain investments must maintain the highest credit rating by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard & Poor's Ratings Services, or Fitch Ratings, to be eligible to be held by the System. In addition, certain investments may represent no more than a limited percentage of an institution's portfolio.

Under our former regulations, an investment can become ineligible even though it was an eligible investment when purchased. However, under the Investment Management final rule, which became effective on December 31, 2012, System institutions may now continue to hold, subject to certain conditions, investments that no longer satisfy eligibility criteria that they met when they were purchased. Previously the ineligible investment had to be divested within six months unless FCA approved a plan to hold the investments for a longer period of time.

Table 19: FCS Investments
(Dollars in Millions)

		September 30, 2013		September 30, 2014		Change		
						Amount		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
Available for sale (fair value)	Money Market instruments	$3,732	0.32	$5,713	0.28	1,981	53.1	-4
	U.S. Treasury Securities	8,772	0.59	10,002	0.94	1,230	14.0	35
	U.S. agency securities	4,438	1.6	5,354	1.59	916	20.6	-1
	Mortgage-backed securities	24,970	1.66	24,908	1.52	(62)	(0.25)	-14
	Other asset-backed securities	1,495	1.23	2,040	1.07	545	36.5	-16
	Total	**$43,407**	**1.31**	**$48,017**	**1.24**	**4,610**	**10.6**	**-7**
	Mission-related	**488**	**2.99**	**416**	**3.05**	**(72)**	**(14.8)**	**6**
Held to maturity (amortized cost)	Money market instruments	198	5.82	191	5.75	(7)	(3.5)	-7
	Mortgage-backed securities	2,497	3.03	2,216	3.01	(281)	(11.3)	-2
	Other asset-backed securities	252	2.26	219	2.38	(33)	(13.1)	12
	Total	**$2,947**	**3.15**	**$2,626**	**3.16**	**(321)**	**(10.9)**	**1**

Source: FCS Quarterly Information Statement.

WAY = weighted average yield; bps = basis points

Loan Quality

Nonperforming assets declined from $2.497 billion (1.28 percent of total loans) on September 30, 2013, to $1.903 billion (0.91 percent of total loans) on September 30, 2014. The decline in nonperforming loans reflects improvements in the credit quality of loans (mainly real estate mortgage loans) to borrowers in certain agricultural sectors.

Favorable weather conditions for the 2014 season resulted in record-high grain and bean harvests, leading to significant reductions in crop prices. As a result, producers of livestock, dairy, poultry, and biofuels (ethanol and biodiesel), who endured high grain and oilseed prices for the past three years, should have lower costs and, therefore, higher profit margins. On the other hand, the lower crop prices will negatively affect grain and oilseed producers as their receipts decline relative to their cost of production.

The slow recovery of the general U.S. economy continues to negatively affect those producers who depend on off-farm employment to supplement their farm earnings. Furthermore, some farmers may experience additional stress as the Federal Reserve implements a less accommodative monetary policy and raises interest rates. With the decline in crop prices to near four-year lows, farmland values could also deteriorate, which would reduce equity positions for farmers and ranchers.

Net charge-offs were lower in the first nine months of 2014 than they were for the same period a year earlier. In the first nine months of 2014, the System had net charge-offs of $17 million compared with $99 million for the same period in 2013. Reflecting improvements in loan performance, the allowance for loan losses (ALL) decreased as a share of total loans and increased as a percentage of nonperforming loans and nonaccrual loans. See table 20.

TABLE 20: FCS Loan Quality

Loan Quality	September 30, 2013	September 30, 2014
Total nonperforming assets as percentage of total loans	1.28	0.91
Nonperforming assets as percentage of capital	5.98	4.15
Nonaccrual loans as percentage of total loans	0.99	0.68
ALL as percentage of total loans	0.64	0.57
ALL as percentage of nonperforming loans	55.3	67.1
ALL as percentage of nonaccrual loans	64.2	83.6

Source: FCS Quarterly Information Statements.
ALL = allowance for loan losses

Liabilities, Funding, and Liquidity

For the year ended September 30, 2014, the System's overall liabilities increased by 7 percent to $225.5 billion. Short-term debt securities (due within one year) made up 35.0 percent of total Systemwide liabilities compared with 31.3 percent a year earlier. Debt securities due within one year increased by 19 percent and those due after one year increased by 1 percent. See table 21 below.

TABLE 21: Systemwide Debt
(Dollars in Millions)

	September 30, 2013	September 30, 2014	Change	
			Dollars	Percent
Systemwide discount notes due within 1 year	$15,394	$ 21,583	$6,189	40
Systemwide bonds, medium-term notes, and master notes due within 1 year	50,695	57,296	6,601	13
Total short-term liabilities	**$66,089**	**$78,879**	**$12,790**	**19**
Systemwide bonds, medium-term notes, and master notes due after 1 year	134,799	135,473	674	1
Other liabilities	10,243	11,156	913	9
Total liabilities	**$211,131**	**$225,508**	**$14,377**	**7**

Source: FCS Quarterly Information Statements.

The System's liquidity position decreased from 202 days as of September 30, 2013, to 174 days as of September 30, 2014, but remained significantly above the regulatory minimum.[8]

The duration gap,[9] which derives from the estimated durations of assets and liabilities, is a concise and simple measure of interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. A positive duration gap (in which the duration of assets exceeds the duration of liabilities) exposes the System to rising interest rates. Conversely, a negative duration gap (in which the duration of liabilities exceeds the duration of assets) exposes the System to declining interest rates.

The duration gap for the FCS was a positive 3.2 months on September 30, 2014, compared with a positive 1.4 months a year earlier. The banks' duration gap grew in 2014 because of balance

[8] The regulatory liquidity standard requires each FCS bank to maintain a minimum of 90 days of liquidity on a continuous basis. (As a condition of its 2012 merger with U.S. AgBank, CoBank had to maintain a 130-day liquidity minimum through December 31, 2014.) The number of days of liquidity is calculated by comparing the principal portion of a given bank's maturing Systemwide debt securities, as well as its other borrowing, with the total amount of the bank's cash, cash equivalents, and investments. For the purpose of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale.

[9] Duration is the average maturity of cash flows, weighted by the present value of this cash flow. It is a useful way to estimate the direction and size of changes in the value of a financial instrument when market interest rates experience small changes. Here, "duration gap" is the difference between the duration of assets and the duration of liabilities, measured in months. When the duration gap is small, changing market interest rates pose less interest rate risk than when the gap is large.

sheet management strategies designed to take advantage of changing interest rates. A duration gap of a positive three months to a negative three 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 of its capital position.

Capital

The System's total capital grew by 10 percent during FY 2014 to reach $45.8 billion. Most of the $4.1 billion increase in capital came from net income earned and retained (surplus), but increases in preferred stock, capital stock and participation certificates, additional paid-in capital, and restricted capital (Insurance Fund) also added to the total. See table 22 for changes in the capital components.

Surplus still accounts for the overwhelming majority of capital, at 82.0 percent as of September 30, 2014, compared with 83.2 percent as of September 30, 2013. While results were mixed for district banks and associations, the System's overall capital-to-assets ratio grew from 16.5 percent to 16.9 percent over this 12-month period, mostly because of relatively stable loan volume and earnings retained by System institutions.

TABLE 22: FCS Capital Composition
(Dollars in Millions)

	September 30, 2013	September 30, 2014	Change	
			Dollars	Percent
Preferred stock	$2,378	$2,559	181	8
Capital stock and participation certificates	1,637	1,667	30	2
Additional paid-in capital	738	1,073	335	45
Restricted capital (Insurance Fund)	3,447	3,684	207	6
Accumulated other comprehensive income (loss)	(1,171)	(720)	(451)	39
Surplus	34,720	37,553	2,833	8
Total capital	**$41,749**	**$45,816**	**$4,067**	**10**

Source: FCS Quarterly Information Statements.

Table 23 shows that the banks are collectively capitalized well in excess of regulatory requirements. For associations, the range of permanent capital ratios rose from 13.2 percent to 36.1 percent as of September 30, 2013, to 13.5 percent to 35.9 percent as of September 30, 2014. At September 30, 2014, all System institutions complied with FCA capital standards.

TABLE 23: Regulatory Capital Ratios of FCS Banks					
		AgFirst	**AgriBank**	**Texas**	**CoBank**
Permanent capital ratio	9/30/2013	22.9	21.4	20.8	17.3
	9/30/2014	22.7	20.9	18.6	16.4
	Change	(0.2)	(0.5)	(2.2)	(0.9)
Total surplus ratio	9/30/2013	22.9	17.9	16.7	16.3
	9/30/2014	22.7	18.3	15.8	15.4
	Change	(0.2)	0.4	(0.9)	(0.9)
Core surplus ratio	9/30/2013	20.1	10.7	9.9	11.0
	9/30/2014	20.2	11.8	10.0	10.9
	Change	0.1	1.1	0.1	(0.1)
Net collateral ratio	9/30/2013	108.0	106.2	110.8	107.9
	9/30/2014	107.9	106.1	108.8	107.4
	Change	(0.1)	(0.1)	(2.0)	(0.5)
Source: FCA Consolidated Reporting System.					

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Congress has mandated that the Farm Credit System serve the credit needs of young, beginning, and small (YBS) farmers and ranchers by directing System associations to set up YBS programs and by requiring the banks to issue annual reports on their associations' programs. To ensure that the System fulfills this responsibility, FCA issued a final rule in 2004 that

1. amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;

2. allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages associations to establish advisory committees composed of YBS farmers;

3. requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over its YBS program; and

4. requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

Our examiners review the policies and programs of the institutions to ensure that the institutions are complying with the YBS regulations.

In addition, we continue to consider regulatory options to support YBS programs. In October 2012, we issued a Bookletter to the System that provides guidance on how associations can meet the credit and related services needs of farmers who market their agricultural products through local and regional food systems. Because of their age, farming experience, or the size of their operations, many local food farmers will qualify as YBS farmers under Section 4.19 of the Farm Credit Act, as well as under FCA regulation 12 CFR 614.4165.

In November 2014, we issued an Informational Memorandum to System institutions explaining how they can increase their outreach and service to YBS farmers by coordinating with USDA Farm Service Agency loan programs. The guidance we provide helps ensure that System institutions make full use of their authorities to assist YBS farmers to begin farming, to expand their operations, or to remain in agricultural or aquaculture production.

The information that follows shows YBS results for calendar year 2013. We are currently collecting information for 2014, and we expect this information to be available after April 2015. A summary of the System's YBS program results is also available on our website at www.fca.gov.

Tables 24 and 25 provide the YBS results for calendar year 2013. Loans to YBS producers include real estate loans and short- and intermediate-term loans. Please note that information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not an accurate measure of the System's YBS lending activity.

During calendar year 2013, the number of loans (new loans and renewals) that the Farm Credit System made to young and beginning farmers rose from 2012, while the number to small farmers fell slightly. The number of loans to young and beginning farmers increased by 2.3 percent and 5.0 percent, respectively, but fell by 0.5 percent to small farmers.

The dollar volume of new loans to each of the three YBS categories fell in 2013 from 2012 along with the decline in the System's overall volume of new farm loans made. Loan volume to small farmers decreased the most, representing a 13.3 percent drop from 2012. The dollar volume of loans to young and beginning farmers declined more modestly. The dollar volume to young farmers fell by 6.0 percent, and the dollar volume to beginning farmers fell by 4.2 percent from 2012 to 2013. The volume of YBS loans outstanding increased for each of the three borrower categories, as it has since 2009.

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

Young—At the end of 2013, the System had 175,583 loans outstanding to young farmers, totaling $23.8 billion. A "young" farmer is defined as one who is 35 years old or younger when the loan is made. During 2013, 57,854 loans, totaling $8.3 billion, were made to young farmers. These loans represented 16.3 percent of all farm loans the System made during the year and 11.0 percent of the loan dollar volume.

Beginning—The System had 253,272 loans outstanding to beginning farmers, totaling $37.0 billion at year-end 2013. "Beginning" farmers are those with 10 or fewer years of farming experience. During 2013, 72,662 loans, totaling $11.0 billion, were made to beginning farmers. These loans represented 20.5 percent of all farm loans made and 14.6 percent of loan dollar volume.

Small—At the end of 2013, FCS institutions had 484,745 loans outstanding to small farmers, totaling $44.9 billion. "Small" farmers are defined as those with annual gross sales of less than $250,000. During 2013, 142,357 loans, totaling $11.4 billion, were made to small farmers. These loans represented 40.1 percent of all farm loans made and 15.2 percent of loan dollar volume.

TABLE 24. YBS Loans Outstanding (as of December 31, 2013)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	175,583	17.8	$23.8	11.2	$135,478
Beginning	253,272	25.7	$37.0	17.3	$145,960
Small	484,745	49.3	$44.9	21.1	$92,613

Note: YBS data for each category are reported separately and should not be added.
Source: FCA 2013 Annual Report on the Farm Credit System.

TABLE 25. YBS Loans Made During 2013 (as of December 31, 2013)					
Type of Farmer	**Number of Loans**	**Percentage of Total Number of System Farm Loans**	**Dollar Volume of Loans in Billions**	**Percentage of Total Volume of System Farm Loans**	**Average Loan Size**
Young	57,854	16.3	$8.3	11.0	$143,360
Beginning	72,662	20.5	$11.0	14.6	$151,228
Small	142,357	40.1	$11.4	15.2	$80,310
Note: YBS data for each category are reported separately and should not be added. Source: FCA 2013 Annual Report on the Farm Credit System.					

To help YBS farmers qualify for credit in 2013, FCS associations offered differentiated loan underwriting standards for YBS borrowers or made exceptions to their regular standards. For example, some associations used higher loan-to-appraised-value ratios or lower debt repayment capacity standards for YBS borrowers. More than a third of associations provided concessionary loan fees, and more than half offered lower interest rate programs for YBS borrowers.

Many associations partnered with State and Federal programs to provide interest rate reductions, guarantees, or loan participations for YBS borrowers. About two-thirds of associations indicated they had used Government loan guarantee programs, primarily those of the USDA Farm Service Agency, to increase their service to YBS farmers. Using these guarantees reduces the risk associations face when lending to individuals who cannot otherwise meet underwriting standards.

In addition, FCS institutions are using various approaches and sources of information to improve their YBS performance and outreach. For example, in 2013, 41 percent of System associations used YBS advisory committees to provide input on YBS-related issues to their boards of directors.

Finally, associations employed a range of outreach measures to reach potential YBS farmers, such as sponsorship of local farmers markets and various agricultural events. They also provided training programs and services to YBS farmers, often in partnership with State or national young farmer groups or colleges of agriculture; examples include programs to build leadership and financial management skills, and special conferences geared for young, beginning, or small farmers. In addition, most FCS associations provide financial support for college scholarships or for FFA, 4-H, and other agricultural organizations.

MARKET SHARE OF FARM DEBT

According to the U.S. Department of Agriculture's November 2014 forecast, total farm business debt will be $317.7 billion at the end of 2014, up 3.1 percent from a year earlier and up 13.9 percent since 2010. 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 market share of the $308.2 billion in farm business debt at the end of calendar year 2013 was 42.5 percent, up from 40.7 percent at the end of 2012.[10] The market share for commercial banks increased from 39.6 percent in 2012 to 40.1 percent in 2013. USDA estimates on the market shares of individual lender groups for year-end 2014 will not be available until August 2015.

In recent years, the System's market share has been increasing. The market share estimates for commercial banks show that their share has also increased in recent years. Historically, except for the unusual 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 lending.

As the System's real estate lending grew, its share of farm business debt secured by farm real estate increased at year-end 2013 to 48.7 percent, up from 46.1 percent the previous year. Farm real estate lending by commercial banks grew at a slower pace during the year, with their share of farm real estate debt slipping from 34.1 percent to 33.9 percent. The System has had the largest market share of farm business debt secured by farm real estate since 2001.

The System experienced modest growth in non-real estate farm debt in 2013, yet its market share still rose from 33.4 percent at year-end 2012 to 33.9 percent. Commercial banks continue to lead the non-real-estate-secured farm debt market with a 48.5 percent market share at the end of 2013, up from a 47.0 percent share the previous year. Historically, commercial banks have had the greatest share of this debt segment.

[10] USDA's estimate of farm debt includes debt associated with the farming business and therefore excludes FCS lending associated with cooperatives, rural homes, rural utilities, marketing and processing operations, and other nonfarm-lending activities.

Part IV

PERFORMANCE BUDGET
FY 2016

PERFORMANCE BUDGET OVERVIEW

Our FY 2016 Performance Budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total Performance Budget (table 26) is $69.4 million and reflects a 5.79 percent increase from FY 2015.

TABLE 26. FCA Performance Budget, FYs 2014–2016

	FY 2014 Revised	FY 2015 Revised	FY 2016 Proposed
Policy and regulation	$13,787,655	$14,433,003	$14,968,083
Safety and soundness	48,631,895	49,911,992	52,921,209
Reimbursable activities[1]	1,480,450	1,255,005	1,510,708
Total	**$63,900,000**	**$65,600,000**[2]	**$69,400,000**

[1] In contrast to the reimbursement numbers in table 4, these totals include indirect costs.

[2] After the FCA Board approved the revised 2015 budget in September, Congress passed legislation capping our administrative expenses to be paid from assessments at $60.5 million. As a result of this cap, we will revise our spending in accordance with the statute.

Policy and Regulation

Our Performance Budget includes $15.0 million for the policy and regulation program, a 3.71 percent increase from FY 2015. Most of the funds requested for policy and regulation in FY 2016 will support regulatory projects that were published in the Unified Agenda in the fall of 2014. Generally, we open about a dozen regulatory projects each year. Funds are also used to support other statutory and regulatory activities, including policy studies and market research; management of our Consolidated Reporting System; and approvals of corporate applications, System funding requests, and mission-related investment programs.

Safety and Soundness

The Performance Budget includes $52.9 million for the safety and soundness program, a 6.03 percent increase from FY 2015. This increase is necessary because of staff increases and a reallocation of examination resources from reimbursable activities to examination activities to meet System 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.[11] Examiners evaluate the overall condition and performance of these institutions and communicate the results to the 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 addition, FY 2016 budgeted monies will support development of examination guidance and systemic risk oversight of the System, including Farmer Mac.

[11] Section 5.19(a) of the Farm Credit Act requires FCA to examine Federal Land Bank Associations (FLBAs) at least once every three years; however, the two stand-alone FLBAs in the System are direct lenders and are examined at least once every 18 months.

Reimbursable Activities

The Performance Budget includes $1,510,708 for reimbursable activities. The reimbursable activities are summarized below and include indirect costs.

- **Farm Credit System Insurance Corporation (FCSIC)—**$924,301 for administrative support services to be provided under FCSIC contract. The administrative support services in FY 2016 include support for examination, information technology, human resources, and communication and public affairs, as well as assistance in completing one premium audit.

- **National Consumer Cooperative Bank (NCB)—**$491,158 for examining NCB. FY 2016 activities involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) assessments.

- **USDA—**$95,249 for potential work completed under contract with USDA. The work in FY 2016 will involve supporting USDA in its performance of the Business and Community Program Assessment Review and a review of the Rural Business Investment Programs.

Table 27 summarizes the costs associated with our program activities, broken down by products and services.

TABLE 27. FY 2016 Proposed Budget and Full-Time Equivalents for Program Activities

	Products and Services	Budget Amount	FTEs
Program activity: Policy and regulation			
	Regulation and policy development	$13,478,360	51.11
	Statutory and regulatory approvals	1,489,723	6.98
Total for policy and regulation		**$14,968,083**	**58.09**
Program activity: Safety and soundness			
	Examination	$48,564,593	220.58
	Economic, financial, and risk analysis	2,790,579	11.36
	FCS data management	1,566,037	6.51
Total for safety and soundness		**$52,921,209**	**238.45**
Program activity: Reimbursable activities			
Total for reimbursable activities		**$1,510,708**	**6.05**
TOTAL		**$69,400,000**	**302.59**

DESIRED OUTCOMES FOR STRATEGIC GOALS

Our strategic goals and desired outcomes, which are detailed in table 28, help us measure whether we have achieved our public mission. The information that follows provides

- the strategies we use to accomplish the outcomes;
- the measures for each outcome, with targets that reflect our desired performance for FYs 2015 through 2016; and
- a historical summary of the costs of accomplishing the desired outcomes.

TABLE 28. Desired Outcomes for Strategic Goals

Strategic Goal	Desired Outcome
1. Ensure that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac.
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action

Policy and Regulation—We established the Policy and Regulation program to track the product and service costs of achieving a flexible regulatory environment. The products and services we provide to support this program are

- regulation and policy development, and
- statutory and regulatory approvals.

Safety and Soundness—We established the Safety and Soundness program to track the product and service costs of identifying risk and taking timely corrective action. The products and services we provide to support this program are

- examination;
- economic, financial, and risk analysis; and
- FCS data management.

Flexible Regulatory Environment

Strategies

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Develop regulatory capital rules within the FCA's regulatory framework for the System and Farmer Mac that are clearly defined, easily understood, and consistent with industry standards.

2. Within the framework of the Farm Credit Act, continuously update policies and regulations to provide an operating environment for the System and Farmer Mac that meets the changing needs of agriculture and rural America.

3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America, including the use of innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.

4. Encourage System institutions to evaluate their YBS programs to ensure that the programs also meet the credit and financial service needs of producers seeking to enter urban agriculture, to produce local foods, or to use direct-to-consumer marketing channels.

5. Encourage the System and Farmer Mac to find and develop both public and private partnerships and alliances with other financial service providers to address the changes in agriculture through new and existing programs.

6. Promote System business practices, including outreach activities to all creditworthy eligible potential customers, emphasizing minority and socially disadvantaged farmers and ranchers and minority-owned entities.

7. Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

8. Consistent with cooperative principles and the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their customers and rural America.

9. Encourage full participation of stakeholders in the development and review of regulatory proposals as appropriate.

Measuring the Achievements

Table 29 summarizes the results of our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac. We achieved or exceeded the goals we identified for FY 2014.

TABLE 29. Flexible Regulatory Environment—Performance Measures and Achievements

Measure	FY 2014 (Actual)		FYs 2015–2016
	Target	Result	Target
1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	≥90%	99%	≥90%
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes	Yes	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%	99%	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with the YBS regulations.	≥90%	100%	≥90%
5. Whether institutions meet the objectives of our mission-related regulations and whether institutions have made observable progress in meeting the objectives of any new mission-related regulations that have been in effect for at least one year.	Yes	Yes	Yes
6. Whether FCA reached out to nontraditional commenters to request input on GSE mission-related rulemaking actions.	Yes	Yes*	Yes

* We did not approve any proposed rules during the reporting period that were related to GSE mission.

Budgets

Table 30 provides the budgeted amounts we need to achieve a flexible regulatory environment from FYs 2014 to 2016.

TABLE 30. Budgets to Achieve a Flexible Regulatory Environment

	FY 2014 Revised	FY 2015 Revised	FY 2016 Proposed
Regulation and policy development	$12,388,208	$12,991,536	$13,478,360
Statutory and regulatory approvals	1,399,447	1,441,467	1,489,723
Total	**$13,787,655**	**$14,433,003**	**$14,968,083**

Note: We expect our budget to achieve a flexible regulatory environment will increase in FY 2016 because of staff seniority, additional hiring, salary and benefit increases, training, information technology costs, and our regulatory initiatives.

Effective Risk Identification and Timely Corrective Action

Strategies

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Ensure that staff provides prompt and comprehensive information to the FCA Board and remains flexible and responsive to the Board's priorities so that the Board will be better able to make fully informed, arm's-length decisions.

2. Recruit and retain a diverse and highly skilled workforce to meet FCA's current and future risk analysis, examination, and oversight needs.

3. Continue proactive oversight of institution-specific and systemic risks.

4. Promote a vibrant program of Systemwide risk supervision that uses stress testing, research, and analysis to identify emerging systemic risks, and provides proactive examination direction and policy guidance for use internally and externally.

5. Use Agency supervisory and enforcement authorities effectively to remediate weakened institutions.

6. Promote the continued importance and improvement in the quality of System loan data for use by both the Agency and the System in risk management and business planning.
7. Develop regulatory guidance and examination procedures that keep pace with evolving strategies and new programs in meeting the changing needs of agriculture and rural America.

8. Continue to integrate standards of conduct rules and codes of ethical behavior into the organizational culture that are consistent with Government ethics guidelines, universally understood, and consistently applied.

Measuring the Achievements

Table 31 provides the results of our examinations and oversight efforts to effectively identify risk and take timely corrective action. We met or exceeded our goals as of the end of FY 2014 (September 30, 2014).

TABLE 31. Effective Risk Identification and Timely Corrective Action—Performance Measures and Achievements

Measure	FY 2014 (Actual) Target	FY 2014 (Actual) Result	FYs 2015–2016 Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%	99%	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥ 80%	91%	≥ 80%
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, and net collateral ratio).	≥90%	100%	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes	Yes	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%	100%	100%
6. Percentage of FCS institutions providing FCA with consolidated loan data. (Target for 2014: ≥90 percent; target for 2015: 100 percent)	≥90%	100%	≥100%

Budgets

Table 32 provides the budgeted amounts we need to identify risk in the FCS and to take timely corrective action from FYs 2014 to 2016.

TABLE 32. Budgets to Identify Risk and Take Timely Corrective Action

	FY 2014 Revised	FY 2015 Revised	FY 2016 Proposed
Examination	$45,323,175	$45,740,951	$48,564,593
Economic, financial, and risk analysis	1,932,582	2,658,738	2,790,579
FCS data management	1,376,138	1,512,303	1,566,037
Total	**$48,631,895**	**$49,911,992**	**$52,921,209**

Note: FCA's budget to identify risk and take timely corrective action is projected to increase in FY 2016 because of additional hiring, salary and benefit increases, training, and information technology costs.

PERFORMANCE MEASUREMENT AND REPORTING

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2013 to 2018. We provide a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the Agency-level measures are linked to our strategic goals.

Our Chief Executive Officer, with assistance from our Chief Operating Officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The Chief Executive Officer monitors the Agency's progress and results relative to the Agency-level measures on a quarterly basis throughout each fiscal year. Periodic performance reports are provided to the FCA Board. The year-end performance report is incorporated in the FCA Performance and Accountability Report, which is submitted to the President and Congress.

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
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0215/100

Farm Credit Administration

Fiscal Year 2017 Proposed Budget and Performance Plan

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List of Acronyms and Abbreviations

ACA ....Agricultural Credit Association

CAMELS ....capital, assets, management, earnings, liquidity, and sensitivity

Dodd-Frank Act ....Dodd-Frank Wall Street Reform and Consumer Protection Act

Farm Credit Act.........................Farm Credit Act of 1971, as amended

Farmer Mac...............................Federal Agricultural Mortgage Corporation

FCA...Farm Credit Administration

Leasing Corporation ....Farm Credit Leasing Services Corporation

FCS or System ....Farm Credit System

FCSBA ....FCS Building Association

FCSIC ....Farm Credit System Insurance Corporation

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 the regulation and examination of the banks, associations, and related entities that collectively constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

Created by an executive order of the President in 1933, FCA now derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. We promulgate regulations to implement the act and examine System institutions for compliance with the act and regulations, and with safe and sound banking practices. Our mission is to promote a safe, sound, and dependable source of credit and related services for agriculture and rural America.

This document presents and justifies our proposed budget for fiscal year 2017. It discusses our functions and program activities and presents an overview of the financial condition of the FCS and Farmer Mac, the entities we regulate. Also included is the fiscal year 2017 performance budget, which ties proposed expenditures to the goals and objectives in our strategic plan. Please note: Because of formatting changes to make the document more readable and to meet requirements of Section 508, the FY 2017 report has more pages than the FY 2016 report, but the word count remains comparable.

This document is organized into four sections as follows:

1. Part I contains our budget request. This section presents budget trends that we monitor annually.
2. Part II covers the functions, programs, and services we undertake to fulfill our public mission. It also provides information on actions we have taken to improve internal operations.
3. Part III discusses the System's financial condition and performance.
4. Part IV contains our FY 2017 performance budget, which provides a basis for measuring our overall effectiveness.

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[1] Although Farmer Mac is an FCS institution under the Farm Credit Act (12 U.S.C. 2279aa-1(a)(2)), we discuss Farmer Mac separately from the other entities of the FCS in this document because of the secondary market authorities unique to Farmer Mac. Farmer Mac is not jointly and severally liable on debt issuances with other parts of the FCS.

Part I

Fiscal Year 2017

Proposed Budget

Fiscal Year 2017 Budget Overview

The FY 2017 proposed budget request, as shown in table 1, includes $69.8 million in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture, Farm Credit System Insurance Corporation, and the National Consumer Cooperative Bank adds $600,000 to this amount, bringing the total proposed FCA budget request to $70.4 million.

Table 1. Farm Credit Administration FY 2017 Proposed Budget

Description	Amount Proposed	Percentage of Total Budget
Full-time-permanent personnel (FTP)	$41,405,933	58.8
Other than FTP	1,081,701	1.6
Other personnel compensation	374,167	0.5
Total personnel compensation	**$42,861,801**	**60.9**
Personnel benefits	16,081,217	22.8
Benefits for former personnel	25,000	0.0
Total compensation and benefits	**$58,968,018**	**83.7**
Travel and transportation of persons	3,822,802	5.4
Transportation of things	166,400	0.2
Rent, communications, and utilities	885,890	1.3
Printing and reproduction	240,750	0.4
Consulting and other services	4,577,516	6.5
Supplies and materials	741,659	1.1
Equipment	996,965	1.4
Total budget	**$70,400,000**	**100.0**

Note: Of the amount collected in assessments from current and prior years, no more than $69.8 million may be used for administrative expenses in FY 2017. The total budget includes an additional $600,000 from anticipated reimbursable activity.

The FY 2017 proposed budget of $70.4 million increased by $1.0 million over the FY 2016 proposed budget of $69.4 million. Because we have leveraged technology and continually emphasized savings and efficiencies in operations, our costs have remained relatively stable. As a result, we are able to present a prudent, cost-effective budget.

The FY 2017 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.

The environment in which the FCS operates is dynamic and increasingly complex. The challenges in the nation's financial sector over the past few years were important considerations during our most recent strategic planning period. As a result, we have redirected staff resources to proactively manage systemic risk and to continually seek ways to increase our effectiveness and efficiency. We are also adding staff to our examination program in FYs 2016 and 2017 to address our current challenges.

In the FY 2017 proposed budget, the full-time-equivalent (FTE) staffing level increases by approximately five FTE positions over the FY 2016 proposed budget. The FY 2017 budget also anticipates increases in spending for salaries and benefits — both because of career-ladder promotions and the hiring of staff for the agency's newly created Office of Information Technology. As an agency covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, we must strive to achieve comparability in compensation and benefit programs with other agencies covered under the act.

In addition, the FY 2017 proposed budget takes into account increases in funded leave, training and travel needs of our newly hired examiners, IT security enhancements, IT maintenance, and replacements for network equipment.

The budget provides the resources needed to fulfill the objectives of the FCA Board Chairman and CEO, which are as follows:

- To maintain strong examination and supervisory programs
- To establish the right level of regulatory capital for FCS institutions
- To ensure that the public purpose and mission-related responsibilities of the System are carried out appropriately

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 39.)

The budget provides resources for developing regulations and policy positions that implement statutes, for promoting the safety and soundness of the FCS, and for supporting the System's mission as a dependable source of credit and related services for agriculture and rural America.

We also continue to invest in our human capital initiative. This initiative promotes learning, expertise, and personal growth among our employees. It is an important part of our strategy to retain our skilled workforce and to prepare employees for future leadership roles. It also supports our results-oriented culture.

Knowledge management is a key component of our continuous learning strategy. When we foresee vacancies in critical fields, we ask our experienced employees to work with our newly hired employees to transfer critical knowledge and skills.

Our policies on training and employee development further enhance the transfer of knowledge. We will continue to emphasize training for pre-commissioned examiners and the need to capture the knowledge of employees who are eligible to retire.

In addition, the budget includes continued funding for the following multi-year projects.

Risk Project. The goals of the FCA Risk Project are to evaluate and acquire tools that enable us to

- conduct risk and statistical analysis of the FCS; and
- enable users to create reports and dashboards for FCA's Structured Query Language data (which includes the following databases: FCS Loans, Consolidated Reporting System, Enterprise Documentation Guidance (EDGe), and Time Recording System).

We want to turn data into information and make the information quickly available to managers and staff so they can take appropriate action for the oversight of the FCS and management of FCA. This project will enhance our ability to perform our core mission of ensuring the safety and soundness of the FCS.

EDGe Project. The Enterprise Documentation and Guidance (EDGe) system is a custom FCA application that supports the day-to-day operations and product deliveries of the agency's examination program and documentation system. Ongoing enhancements to the system include providing robust data analysis capabilities, building management reports, implementing tools for improving scheduling, and enhancing work papers. Among quarterly version upgrades, we will specifically implement loan and compliance workpaper tools and integrate the analysis and reporting tool, which is being converted from Excel to Cognos under a different project in FY 2016.

CRS Call Reports. Every one or two years we make significant changes to maintain and improve our Call Report system. This system provides an electronic source of FCS financial data for the general public, FCS institutions, FCA management, financial analysts, and FCA examiners.

Records Management System. The objective of this project is to implement an electronic recordkeeping system that will allow us to meet the mandate of the Presidential Memorandum on Managing Government Records, which requires that agencies manage all permanent and temporary email records in an accessible electronic format by 2016, and manage all permanent electronic records in an electronic format by 2019.

Farmer Mac Data Collection. This project will create an electronic system to collect, store, and use data from Farmer Mac. It will increase the efficiency and effectiveness of our examination and oversight of Farmer Mac, allowing us to conduct more work off site. It will also make the process of submitting data more efficient for Farmer Mac.

Legislative Histories. The goal of this project is to scan and preserve old legislative documents. Completing this project will not only help us meet the government requirement to maintain old records, it will also assist with our legal and regulatory work.

Application Modernization. The purpose of this project is to ensure that we can access our applications through a browser from most devices. To take full advantage of new Web-based technologies, we must migrate our legacy applications to the Web. When they are on the Web, we will no longer need the Microsoft Windows Operating System to access the applications, and we can use them from our mobile devices.

Management Dashboard. This project will provide key information for the effective management of programs and activities. It will push information to users and allow them to drill down or look at more detailed information related to a key indicator. This application will benefit all programs and offices by providing timely, easy-to-access information.

Financial Data Warehouse. The goal of this project is to collect all the financial data elements needed to fully automate monthly and quarterly financial reports that currently require manual intervention. Data elements added will also allow for management dashboard reporting. This will improve the efficiency and effectiveness of financial reporting.

Direct Access Connectivity Project. This project will explore the feasibility of expanding the network infrastructure to accommodate Microsoft's Direct Access connectivity. Direct Access will allow agency laptops to automatically connect to the FCA network remotely through a secure Internet connection without the use of third-party VPN software. This technology will simplify the process of connecting to network resources.

UNINUM Project. The UNINUM Project will align CRS data with GAAP accounting conventions. The scope of this project extends beyond CRS and will need to be fully vetted with all FCA offices. The CRS Users Group will evaluate the scope of this project and report back to the Information Resources Management Operations Committee.

Continuity of Operations Program. FCA will continue to enhance its test, training, and readiness program to provide staff with the knowledge and training they need to provide continuity of operations in an emergency.

Background

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. Because of increased risk in several institutions, we expect mergers and consolidations to continue; and because of challenges in the global economy, we expect the System's asset base to grow at only a moderate pace. Currently, the average institution's asset base exceeds $1 billion.

Our budget request includes the resources necessary to ensure the safety and soundness of the System as it grows and changes. The 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 any challenges and opportunities that may arise. The budget request supports our Human Capital Plan by allowing us to increase the number of examiners and to implement our Information Resources Management Plan.

FCA Program Areas

The agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The Policy and Regulation Program

The budget provides resources for developing regulations and policy positions that implement statutes, promote the safety and soundness of the FCS, and ensure that the System carries out its mission. In addition, the budget provides for 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 the processing of information, the communication of agency positions, and the administration of activities associated with the policy and regulation program. In total, policy and regulation activities account for approximately $14.7 million, including 55.69 FTEs in the proposed FY 2017 budget (see table 26 on page 83).

The Safety and Soundness Program

Through our safety and soundness program, the budget provides resources to examine the System for safety and soundness. These resources also ensure that FCS institutions comply with applicable laws and regulations. The budget continues to implement a risk-based approach to oversight and examination, which maximizes the effectiveness of examinations by allocating more examination resources to institutions with greater risk.

The budget also includes sufficient resources to ensure that the FCS properly identifies, manages, and controls risk. Initiatives include the development of risk topics, on-site examination presence, and a greater emphasis on loan review through the testing of credit reviews, internal audits, and internal controls.

Our budget also enables us to take special supervisory and enforcement actions when necessary. Weaknesses in the nation's economy and credit markets and volatility in agriculture have weakened some FCS institutions, requiring our examiners to take special action to address areas of concern.

In total, safety and soundness activities account for $54.2 million, including 245.55 FTEs in the proposed FY 2017 budget (see table 26 on page 83).

Office of Inspector General's FY 2017 Budget Request

Section 6(f)(1) of the Inspector General Act of 1978, as amended, requires an Inspector General (IG) to include specific information in the budget request the IG submits to the head of the department or designated federal entity to which the IG reports. To fulfill the requirement of section 6(f)(2) of the IG Act, the FCA Board must in turn include this same information in the budget request that we submit to the President.

The information that the IG Act requires to be included is provided below:

- The aggregate budget request for the Office of Inspector General (OIG) is $1,504,411.
- The amount needed for OIG training is $20,450 (tuition).
- The amount needed to support the Council of the Inspectors General on Integrity and Efficiency is $4,100.

The FCA Board is submitting the IG's budget request as received from the IG.

Budget Trends

This budget supports the agency's safety and soundness programs. It maintains and slightly grows our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. The FY 2017 budget is necessary to continue to fund the examination program, employee salary and benefit costs, and technology expenditures — all of which represent approximately 89 percent of FCA's total budget.

We reduced our FY 2016 Proposed Budget by $3.2 million to comply with the limitation agreed upon by the Full Appropriations Committees of the House and Senate. We achieved this reduction in several ways:

- delaying hiring,
- reducing relocation expenses,
- utilizing the FCS Loans Database and EDGe,
- improving videoconferencing quality (which enabled us to reduce travel costs), and
- using controls and procedures to keep down expenses for employee travel and conference-related activities.

We were careful to identify cost savings that did not jeopardize our examination and supervisory responsibility to ensure the safety and soundness of the Farm Credit System. We were also cognizant of the need to continue to carry out our public purpose and mission-related responsibilities appropriately. Table 2 provides information on our budget trends.

Table 2. FY 2016 Proposed Budget Compared with the FY 2016 Revised Budget

	FY 2016 Proposed Budget	FY 2016 Revised Budget	Increase (Decrease) from FY 2016 Proposed Budget
Full-time permanent (FTP)	$41,290,793	$39,079,838	($2,210,955)
Other than FTP	1,176,544	1,152,534	(24,010)
Other personnel compensation	374,127	374,120	(7)
Total personnel compensation	$42,841,464	$40,606,492	($2,234,972)
Personnel benefits	15,747,015	14,954,516	(792,499)
Benefits for former personnel	25,000	25,000	0
Total compensation and benefits	$58,613,479	$55,586,008	($3,027,471)
Travel and transportation of persons	3,658,380	3,417,301	(241,079)
Transportation of things	217,250	170,150	(47,100)
Rent, communications, and utilities	823,308	821,175	(2,133)
Printing and reproduction	246,000	229,750	(16,250)
Consulting and other services	3,986,860	4,283,579	296,719
Supplies and materials	685,026	745,000	59,974
Equipment	1,169,697	947,037	(222,660)
Total budget	$69,400,000	$66,200,000	($3,200,000)

Note: A comparison of FCA's FY 2016 proposed budget request with the FY 2016 revised budget reflects a $3.2 million decrease.

The Office of Management and Budget (OMB) has issued guidance for agencies to reduce costs and increase efficiencies. We have taken the following actions to reduce costs:

- Implemented improved audio- and videoconferencing, thereby controlling travel costs.
- Revised and issued the Travel and Relocation Policy to encourage prudent travel practices.
- Issued detailed guidance regarding conference costs, including a policy that requires the Chief Financial Officer or the Chief Operating Officer to approve higher-cost conferences.
- Allowed employees to use penalty fares to take advantage of lower airfares.

- Reduced travel to the field offices.

- Increased reliance on the FCS Loans Database to help reduce travel costs.

- Installed network copier printers with scanning capabilities to reduce hard copies, promote electronic files, and reduce the number of printers.

- Implemented additional electronic workflow processes to enhance internal controls, reduce paper, and increase our use of electronic records.

In addition, we regularly use the following practices to keep our costs low:

- Use technology devices (such as laptops and smartphones) to keep travel costs down and maintain continuity of operations.

- Ensure that service provider costs are well managed.

- Scrutinize the issuance of information technology devices to ensure that only employees who have a bona fide business need receive the devices.

- Review, on a monthly basis, the usage of smartphones and other wireless devices to ensure the devices are being fully utilized and costs are being minimized.

- Use laptops as our standard platform for computer needs since most of our employees are examiners who travel frequently. The laptops also help us ensure continuity of operations. In addition, the use of laptops supports telecommuting initiatives during normal operating conditions and inclement weather.

- Continue to expand our use of technology to disseminate publications (such as publishing documents on our website and distributing them by email) in order to reduce the amount of printing, where appropriate.

- Reduce printing by conducting research online and instituting a “Going Green” initiative for training materials.

- Continue to make our workflow more efficient and integrated by using the EDGe Project.

- Continue to collaborate and share resources across FCA offices to increase efficiency.

- Implement IG recommendations as quickly as possible to realize efficiencies.

Table 3. FCA Budgets, FYs 2015 – 2017

	FY 2015 Revised Budget	FY 2016 Revised Budget	FY 2017 Proposed Budget
Full-time permanent (FTP)	$39,508,558	39,079,838	$41,405,933
Other than FTP	1,120,627	1,152,534	1,081,701
Other personnel compensation	374,191	374,120	374,167
Total personnel compensation	**$41,003,376**	**40,606,492**	**$42,861,801**
Personnel benefits	13,522,503	14,954,516	16,081,217
Former personnel benefits	25,000	25,000	25,000
Total compensation and benefits	**$54,550,879**	**55,586,008**	**$58,968,018**
Travel and transportation of persons	3,636,940	3,417,301	3,822,802
Transportation of things	238,250	170,150	166,400
Rent, communications, and utilities	813,753	821,175	885,890
Printing and reproduction	257,000	229,750	240,750
Consulting and other services	4,102,531	4,283,579	4,577,516
Supplies and materials	654,337	745,000	741,659
Equipment	1,346,310	947,037	996,965
Total obligations	**$65,600,000**	**$66,200,000**	**$70,400,000**

Sources of FCA Revenue and Funding

We maintain a revolving fund financed primarily from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation, U.S. Department of Agriculture, and the National Consumer Cooperative Bank. Table 4 shows budgeted sources of revenue and funding for FYs 2015 to 2017.

Table 4. Budgeted Sources of FCA Revenue and Funding, FYs 2015 – 2017

Source	FY 2015 Revised Budget	FY 2016 Revised Budget	FY 2017 Proposed Budget
ASSESSMENTS			
Banks, associations, and related entities[a]	$52,100,000	55,850,000	TBD
Federal Agricultural Mortgage Corporation	2,400,000	2,450,000	TBD
Carryover funds[b]	10,600,000	7,300,000	TBD
Assessments available for obligation	**$65,100,000**	**$65,600,000**	**$69,800,000**[c]
REIMBURSEMENTS[d]			
National Consumer Cooperative Bank	**69,762**	**98,798**	**99,178**
Farm Credit System Insurance Corporation	**366,929**	**411,324**	**433,769**
U.S. Department of Agriculture	**63,309**	**89,878**	**67,053**
Total	**$65,600,000**	**$66,200,000**	**$70,400,000**

a FY 2015 assessments were reduced by $3.0 million.

b Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation. The $7.3 million of carryover includes $4.4 million of assessment carryover. We will determine assessments and carryover amounts for FY 2017 in September of FY 2016.

c Our proposed obligation limit from assessments is $69.8 million for FY 2017.

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

Note: The revolving fund is financed by three sources: (1) assessments to System institutions and Farmer Mac, (2) income from reimbursable services that we provide to other federal agencies and the National Consumer Cooperative Bank, and (3) interest earned from investments with the U.S. Treasury.

FCA Reserve

The institutions we oversee are involved in two volatile industries — agriculture and finance. Volatility can produce financial stress for institutions, creating a need for heightened oversight and supervision. To ensure that we have the resources to provide the necessary supervision and oversight during periods of financial stress, we established a reserve. Congress granted approval for the reserve under section 5.15(a)(1)(B) of the Farm Credit Act, and the FCA Board established guidelines for it.

The reserve ensures that we can effectively and efficiently respond to unanticipated, material, one-time policy or safety and soundness issues arising within the System. The reserve strategy provides us with a proactive plan to respond to these issues without increasing assessments at a time that may be financially difficult for System institutions. At the end of FY 2015, we had approximately $12.1 million in our reserve.

Assessments

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. As table 5 shows, assessments grew slowly and steadily until 2009 when financial stress began to affect many System institutions, creating a need for heightened oversight and supervision.

Assessments increased more rapidly through 2012 to cover the costs of the additional resources required for oversight and supervision. In 2013 and 2014, we were able to reduce assessments to System institutions by using carryover from prior-year assessments to help fund our operations.

To fund the FY 2016 budget, we raised our assessments by $6.8 million; this number would have been higher if we had not used carryover to offset the costs.

Table 5. FCS Assessments, FYs 2007 – 2016

Fiscal Year	Assessment (in millions)
2007	$41.5
2008	$42.5
2009	$45.1
2010	$49.1
2011	$52.5
2012	$54.1
2013	$50.0
2014	$50.0
2015	$51.5*
2016	$58.3

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

At the direction of Congress, we continue to reduce our carryover. From FY 2013 to FY 2014, we reduced our carryover from assessments by 27 percent. As table 6 shows, we assessed the System $51.5 million in FY 2015. At the end of the year, we also had $1.5 million in reimbursable revenue and deobligations. During the year, we had obligations of $59.5 million. The difference between our obligations and our revenue was – $6.5 million, which allowed us to draw down our carryover amount to $5.2 million. Therefore, from FY 2014 to FY 2015, we reduced our assessment carryover by 56 percent.

We anticipate more hiring in FY 2017. The Office of Examination, where we hire the majority of our entry-level staff, has made significant progress in reaching planned hiring numbers for FY 2016. Therefore, for FYs 2016 and 2017, we expect to have the number of associate examiners for which we have budgeted.

Table 6. FCA Funding, Obligations, and Assessment Carryover, FYs 2014 and 2015 (Dollars in Millions)

	FY 2014	FY 2015
Current year assessments	$50.0	$51.5
Reimbursable revenue and deobligations	$1.5	$1.5
Total funding	**$51.5**	**$53.0**
Obligations	$55.8	$59.5
Total funding minus obligations	**($4.3)**	**($6.5)**
Assessment carryover from prior years	$16.0	$11.7
Carryover from assessments at end of fiscal year	**$11.7**	**$5.2**

FCS Borrower Costs

As table 7 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 2015. Since FY 2006, the net cost to borrowers has decreased by 0.8 basis points.

FCS borrower costs are based on the relationship between the System's total assessments and assets held (not including Farmer Mac). The FCS held $291.5 billion in total assets as of September 30, 2015, up from $271.3 billion a year earlier.

Borrower costs have declined over the years for the following reasons:

- System assets have grown.
- FCA has used carryover to offset additional costs.
- FCA has taken various measures to reduce operating costs. (See pages 11 and 12 for details.)

Table 7. FCA's Net Cost to System Borrowers, FYs 2006 – 2015

FY Ended September 30	Basis Points
2006	2.5
2007	2.2
2008	2.0
2009	2.0
2010	2.1
2011	2.2
2012	2.2
2013	1.9
2014	1.8
2015	1.7

Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2016 is $2.45 million. As required by regulation, we will reconcile and adjust the assessment after the fiscal year-end to reflect the actual amount expended. Actual costs for FY 2015 were $2.58 million. The assessment for FY 2017 is not yet available because the Office of Secondary Market Oversight (OSMO) will not complete the FY 2017 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2016.

Table 8 shows assessments for fiscal years 2007 to 2016. 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 8. Farmer Mac Assessments, FYs 2007 – 2016

Fiscal Year	Assessment (in millions)
2007	$2.20
2008	$2.05
2009	$2.05
2010	$2.25
2011	$2.20
2012	$2.25
2013	$2.38
2014	$2.38
2015	$2.40
2016	$2.45

Note: Although it will not be set until September 2016, Farmer Mac's FY 2017 assessment is expected to be about $2.45 million, the same as the FY 2016 assessment.

Part II

Farm Credit Administration

Profile of the Farm Credit Administration

The Farm Credit Administration was created through an executive order of President Franklin D. Roosevelt and currently derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. As an independent agency within the executive branch of the federal government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).[2]

The FCS is the oldest of the financial government-sponsored enterprises (GSEs). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

The FCS had $226.8 billion in outstanding loans to agriculture and rural America as of September 30, 2015.

[2] By statute, Farmer Mac is an institution of the Farm Credit System; however, in this document, we will use the terms “FCS” and “System” to refer to all the entities in the Farm Credit System except Farmer Mac and affiliates of Farmer Mac.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac's secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural lenders and intermediaries, including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2015, the volume of loans either purchased or guaranteed by Farmer Mac totaled $15.6 billion.

FCA is also 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 contract with the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture to provide examination services.

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 our Strategic Plan for FYs 2013 –2018, our mission is to ensure a safe, sound, and dependable source 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 also evaluate whether institutions are complying with laws and regulations, especially the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers. 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 operations are determined to be 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.[3]

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 System debt obligations.

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.

In the Strategic Plan for FYs 2013 – 2018, the Board stressed its commitment to maintaining the safety and soundness of the System and Farmer Mac. The Board also expressed its commitment to ensuring that the System provide opportunities to young, beginning, and small farmers; increase diversity in its customer-owner base; and provide an adequate and flexible flow of funds into rural America. In addition, because the System's lending institutions are cooperatives, we will continue to advocate for both strong governance and local control.

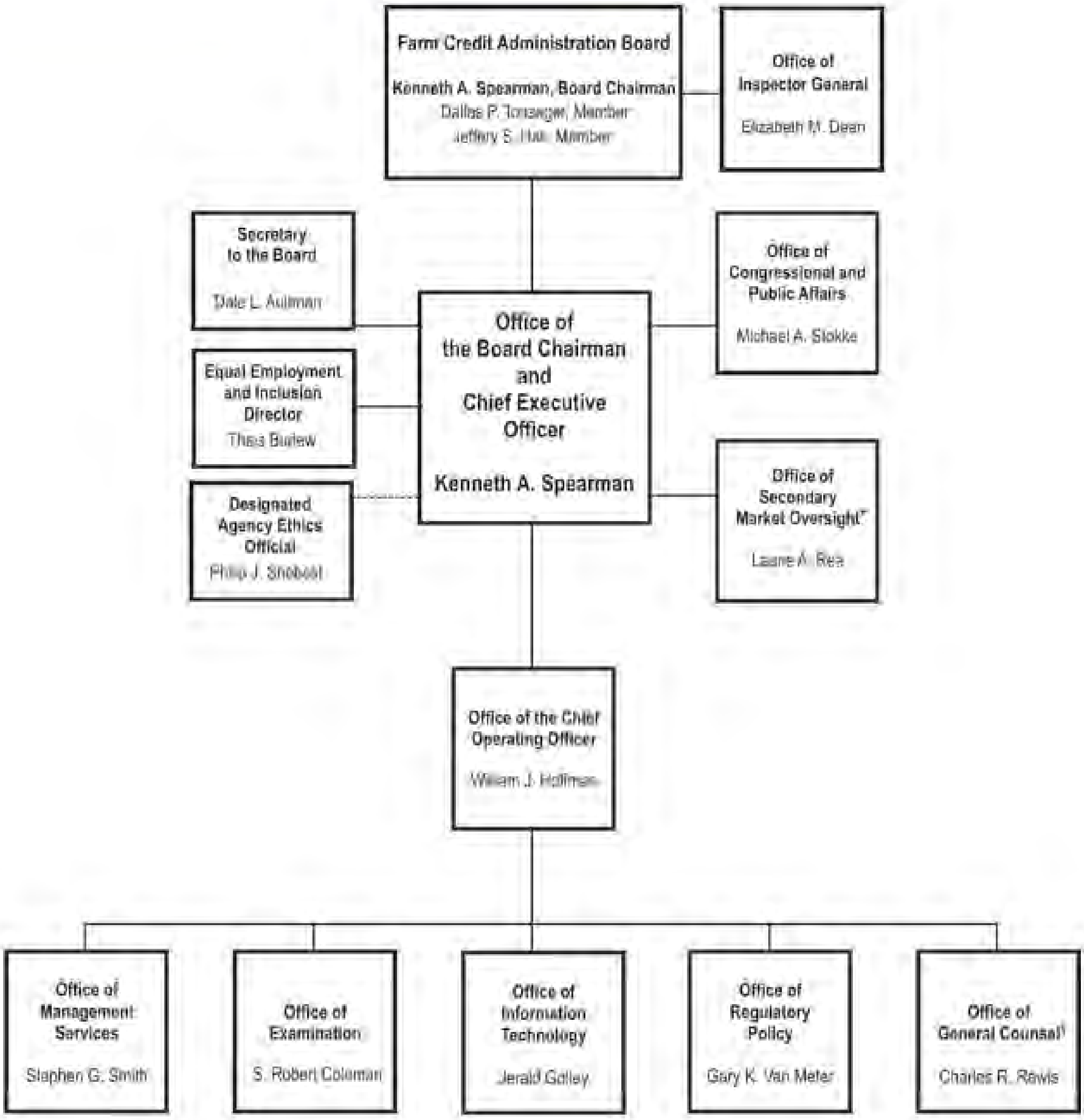
[3] Provisions in the Farm Credit Act regarding borrower rights do not apply to loans to cooperatives.

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 additional field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

Figure 1. FCA Organizational Chart

As of October 2015 (Note: For the text version of this chart, go to http://www.fca.gov/about/offices/orgchart_accessible.html.)



*Reports to the Board for policy and to the CEO for administration.
†Maintains a confidential advisory relationship with each of the Board members.

FCA Internal Operations

FCA is firmly committed to the continuous development and support of its most valuable asset — its employees. This commitment is at the core of our five-year Human Capital Plan. The plan focuses on workforce planning and talent management, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of our Human Capital Plan is based on the Human Capital Standards for Success, a collaboration of the Office of Management and Budget, the Office of Personnel Management, and the U.S. Government Accountability Office.

Human Capital Management

Human capital strategies are linked to our strategic plan through clearly defined strategic initiatives and action plans. We continually monitor workforce trends and implement best practices. We also monitor the System's changing environment so that we can adjust our staffing levels and maintain requisite skill sets by hiring additional staff, providing employee training and development, and transitioning employees from staff positions that are no longer necessary. We review our workforce planning strategies annually. See table 9 for full-time-equivalent (FTE) staffing levels (rounded to the nearest whole number) from FYs 2007 through 2017.

Table 9. Full-Time-Equivalent Staffing Levels

Fiscal Year	FTE Staffing Level
2007	253
2008	251
2009	261
2010	277
2011	286
2012	287
2013	273
2014	278
2015	277
2016	297 (authorized)
2017	307 (authorized)

Note: From FYs 2007 to FY 2017, we have maintained a one-to-six ratio of managers and supervisors to other personnel.

We perform workforce assessments annually to obtain information on critical staffing variables, such as the age and grade of employees. From this analysis, we develop five-year projections to determine and mitigate the impact of employee retirements and separations.

As of September 30, 2015, approximately 25 percent of our personnel were eligible to retire. We estimate that this number will increase to 27 percent by the end of FY 2016. As a result of recent hiring, the number of employees who have been employed five years or fewer has risen substantially over the past three years and now constitutes a sizable portion of our workforce. This trend is likely to continue over the next three to five years. See table 10 for retirement eligibility projections at FCA.

Table 10. FCA Retirement Eligibility, FYs 2016 – 2020

Fiscal Year	Eligible Retirements
2016	64*
2017	11
2018	7
2019	11
2020	15

* This number includes 55 staff members who became eligible to retire prior to FY 2016.

Implementing the Human Capital Plan

Identifying our human capital needs over the next five years, including the optimal size of our workforce and the appropriate skill sets of our employees, is one of our primary goals; assessments take place at all levels to accurately gauge human capital requirements. We use the results of these assessments to develop, enhance, and redirect training and development programs.

As we face the retirement of a significant percentage of the FCA workforce, we are working hard to sustain a high level of institutional knowledge, job skills, and analytical expertise. In addition to succession planning and cross-training, we provide a variety of resources and programs for sharing knowledge across the organization.

Our continuous learning strategy emphasizes leadership, competencies, and knowledge management. Succession planning is also an important element. By providing education, training, and other development opportunities, we seek to attract and retain bright, creative, and enthusiastic people.

We coordinate training goals with the leadership skills and competencies that are integral to achieving our mission. We establish training projection plans at the office level and the agency level each year to help us manage employee training and development activities. These plans project budget needs for training and development; they are directly linked to FCA's Performance Management System. Supervisors and employees collaborate on training and development goals.

By working closely with agency management and conducting staff surveys, our Learning Officer gauges our training needs and develops efficient and effective methods to acquire outside training and develop internal training courses and learning techniques. This training strategy helps prepare our workforce for emerging challenges and leadership succession.

Formal training programs support the needs of core occupational groups through a variety of methods, such as in-house training, vendor courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop computer with the technology to support e-learning initiatives. In addition, all employees have regular access to training on our computer systems.

We demonstrated our commitment to our training and knowledge transfer goals in FY 2015 by providing appropriate training to pre-commissioned examiners and capturing the knowledge of examiners who are eligible to retire. As more and more employees become eligible to retire, knowledge transfer becomes a greater concern. We have created an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key component of our continuous learning strategy. As vacancies in critical fields are projected, orientation plans seek to have newly hired employees work closely with experienced employees to transfer critical knowledge and skills. We regularly update our policies on training and employee development, and we use mentoring, details, and special projects to provide development opportunities.

FCA's electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, are another component of knowledge management and best practices. These databases enable employees to communicate and share knowledge.

We have also established internal SharePoint sites to enhance knowledge transfer and collaboration. All employees have access to most of the sites, including the sites containing resources on contracting, technology, leadership development, and audit and internal controls. Other sites are intended for the use of specific groups of employees, such as credit specialists, operations specialists, and recruiters. Still others are set up for workgroups on topics such as training, planning and reporting, and policy development. Through these sites, we can deliver information in real time to multiple audiences.

In addition, 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. We endorse programs that promote equal employment opportunity (EEO), diversity, and inclusion, and we have an active EEO program.

Long-term rotational assignments enhance employee knowledge and expertise. Through an organized program that encourages offices and employees to participate in rotational assignments, employees gain a deeper understanding of the agency's mission. Rotational assignments build teamwork and collaboration and enhance the motivation and productivity of our employees.

FCA Compensation Program

Section 1206 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires federal financial regulators to "seek to maintain comparability regarding compensation and benefits." This provision enables financial regulators to attract and retain qualified staff.

To comply with the FIRREA, we annually survey the other federal bank regulators and adjust our employees' compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under the FIRREA. For a general comparison, we also survey the private sector, the System banks, and the General Schedule agencies.

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 on the basis of a number of factors, including the compensation programs of other federal bank regulators and available funding.

On December 23, 2015, the FCA Board approved the agency's Compensation Program for 2016. The program includes pay-for-performance increases based on a 2 percent pay matrix and an increase in the locality rates. These changes enable us to keep our compensation comparable with that of other FIRREA agencies.

We did not increase the salary ranges for FY 2016, and we only increased senior executive salaries for those executives in the lower quintiles of the agency's pay ranges. Also, career senior executives did not receive locality adjustments. They did share a bonus pool.

External Contracting and Shared Services

Outsourcing

As the table below shows, we continue to outsource several functions. Our shared-service agreement with the Bureau of the Fiscal Service began in FY 2006. We also outsource our payroll services to USDA's National Finance Center. In FY 2010, we began outsourcing our EEO counseling services through the U.S. Geological Survey. Outsourcing these services allowed us to manage our employee benefits and other agency functions without additional personnel costs.

Table 11. Outsourcing, FY 2015

Contract	Purpose	Amount
Administrative Service Center (BFS)	To provide full-service accounting, e-Travel, credit card, and platform procurement services	$618,127
National Finance Center (USDA)	To provide payroll services	$45,000
U.S. Geological Survey	To provide EEO counseling	$7,000

Note: FCA's shared-service agreements during FY 2015 totaled $670,127.

Single-Source and Competitive Consulting Service Contracts

Tables 12 and 13 provide a summary of our single-source and competitive consulting service contracts for FYs 2014 and 2015.

Table 12. Competitive Consulting Service (CCS) Contracts of More Than $25,000 and Single-Source (SS) Contracts, FY 2014

Contract	Purpose	Amount
Editorial Experts, Inc.; 14-FCA-240-001 (SS)	To provide editorial services	$100,725
Personnel Decisions Research Institute; 14-FCA-301-002 (SS)	To conduct job analysis	$49,165
Centrec; 14-FCA-301-005 (SS)	To conduct self-study of online training	$16,882
R&R Consulting; 13-FCA-450-002 (CCS)	To help update FCA's capital module (Option year 1)	$100,000
C.B. Harris & Co.; 14-FCA-011 (CCS)	To scan documents for conversion	$60,775
SoftChoice Corporation; 13-FCA-601-064 (SS)	To provide Microsoft Enterprise Agreement	$180,161
Murphy Brothers; 14-FCA-601-013 (SS)	To provide taxi services	$10,995
Digital Office Products; 14-FCA-601-024 (SS)	To provide maintenance	$4,322
Avitecture; 14-FCA-601-028 (SS)	To provide maintenance	$13,990
Dave Redden; 14-FCA-601-033 (SS)	To provide retirement counseling	$38,982
International Business Machines; 14-FCA-601-037 (SS)	To provide consulting for Cognos and SPSS products	$14,736
International Business Machines; 14-FCA-601-042 (SS)	To report studio training and eLabs	$78,215
Happier, LLC; 14-FCA-601-040, 047, 050, 052, 069; 14-FCA-700-002 (SS)	To facilitate training programs	$71,070
Entrust, Inc.; 14-FCA-601-055 (SS)	To renew server certifications	$4,025
Teracai; 14-FCA-601-059 (SS)	To provide maintenance	$12,419
SoftChoice; 14-FCA-601-061 (SS)	To help with file sharing and security analysis	$5,500
Patch Advisor; 14-FCA-601-062 (SS)	To assess external network security	$25,000
Economic Systems; 14-FCA-601-063 (SS)	To provide services for Federal Human Resources (FHR) Navigator	$12,955
SAP National Security Services, Inc.; 14-FCA-601-066 (SS)	To renew software license/maintenance contract	$5,720
Gladis Communications, LLC; 14-FCA-067 (SS)	To facilitate training sessions	$6,500

Contract	Purpose	Amount
Economic Systems, Inc.; 14-FCA-601-076 (SS)	To validate accuracy of service information on FHR Navigator retirement module	$19,900
ARX, Inc.; 14-FCA-601-084 (SS)	To cosign support and maintenance contract	$9,792
Towers Watson; 14-FCA-601-091 (SS)	To interpret the 2015 compensation survey of agencies covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989	$19,000
BI Technologies; 14-FCA-601-100 (CCS)	To provide Cognos consulting	$75,000
RDA Corporation; 14-FCA-601-101 (CCS)	To provide Cognos Data Warehouse Consulting	$60,953
Delta Research Associations; 14-FCA-601-102 (CCS)	To provide human resource support	$46,836
Gladis Communications, LLC; 14-FCA-601-105 (SS)	To facilitate follow-up on training	$9,000
Towers Watson; 14-FCA-601-107 (SS)	To provide services for job-leveling project	$72,000
Economic Systems, Inc.; 14-FCA-601-110 (SS)	To integrate FHR Navigator with the electronic Official Personnel Folder system	$9,850

Note: The agency's SS and CCS contracts totaled $1,134,468 in FY 2014.

Table 13. Competitive Consulting Service (CCS) Contracts of More Than $25,000 and Single-Source (SS) Contracts, FY 2015

Contract	Purpose	Amount
LRP Publications;15-FCA-113001 (SS)	To provide No Fear Act training	$4,350
Art of Resolutions, LLC 15-FCA-113-002 (SS)	To provide EEO and Inclusion services	$8,000
Robert Half International, Inc.; 15-FCA-240-002 (SS)	To provide temporary administrative services	$39,096
Claire W. Haverstock; 15-FCA-240-003 (SS)	To provide temporary writer/editor services	$59,400
Reddish &Associates; 15-FCA-240-009 (SS)	To provide editing services	$3,500
Jo Ann Kissal; 15-FCA-240-010 (SS)	To provide temporary administrative services	$59,904
CETRA Inc.; 15-FCA-240-011 (SS)	To provide Spanish translation	$3,374
BJ Chagon Corp; 15-FCA-240-012 (SS)	To provide 508 certification training	$25,000
Site Improve Inc.; 15-FCA-240-013 (SS)	To provide website maintenance services	$6,537
PDRI Inc.; 15-FCA-301-001 / Exercise Option Year 1	To provide job evaluations and assist with administration of the commissioning test	$122,296
ABG An Adayana Company; 15-FCA-301-003 (SS)	To update e-Learning classes	$47,150
Global Financial Markets Institute; 15-FCA-301-007 (SS)	To provide training on Capital Stress Testing	$5,500
Digital Management Inc.; 15-FCA-450-001	To assist with SQL database development	$148,770
Emergency Power Services Inc.; 15-FCA-601-002 (SS)	To provide IT maintenance	$3,050
Murphy Brothers; 15-FCA-601-003 (SS)	To provide taxi services	$10,500
Digital Office Inc.; 15-FCA-601-010 (SS)	To provide maintenance for Toshiba 652 copier	$4,375
Digital Office Inc.; 15-FCA-601-011 (SS)	To provide maintenance for Toshiba 853 copier	$3,208
N2Shape Inc.; 15-FCA-601-016 (SS)	To provide yoga classes	$4,600
David Redden; 15-FCA-601-017 (SS)	To provide retirement counseling	$24,750

Contract	Purpose	Amount
Iron Bow Tech; 15-FCA-601-020 (SS)	To provide phone systems & software license	$30,236
Auto-Fidelity Communications Corp.; 15-FCA-601-025 (SS)	To provide A/V parts	$4,092
Northern Virginia Temp Inc.; 15-FCA-601-026 (SS)	To provide mail clerk services	$13,736
Teracai Corp.; 15-FCA-601-031(SS)	To upgrade voice application	$7,700
Federal Employment Law Training Group LLC.; 15-FCA-601-032 (SS)	To provide on-site legislative training	$12,950
All Points Logistics; 15-FCA-601-035 (SS)	To provide Barracuda Hardware	$14,901
Callister Nebeker & McCullough; 15-FCA-601-038 (SS)	To review 401K plan for employees	$4,000
ECity Market Inc. 15-FCA-601-043 (SS)	To provide “Project Management” training	$20,000
SAP National Security Services Inc.;15-FCA-601-055 (SS)	To provide software license and maintenance	$9,746
Towers Watson Inc.; 15-FCA-601-056 (SS)	To assist with compensation survey	$19,000
Patch Advisor Inc.;15-FCA-601-059 (SS)	To provide network security assessment	$33,000
InfoReliance Corporation 15-FCA-601-060	To assist with migration of Microsoft Office to the cloud	$140,000
Patch Advisor Inc.;15-FCA-601-063 (SS)	To review IT systems	$90,000
Gartner Inc.;15-FCA-601-066 (SS)	To provide IT research and advisory services	$62,680
Wells Fargo 401K;15-FCA-601-067 (SS)	To administer 401K Plan	$9,289
TrueNorth, LLC; 15-FCA-601-068	To provide consulting service for the design and development of data warehouse solution	$136,000
ARX Inc.; 15-FCA-601-070 (SS)	To provide Cosign support and maintenance	$9,792
Day 1 Solutions; 15-FCA-601-073 (SS)	To provide a Alta Vault Appliance System	$86,551
Teraci Corporation; 15-FCA-601-077 (SS)	To provide Cisco maintenance support	$20,815

Contract	Purpose	Amount
Executive Info System; 15-FCA-601-078 (SS)	To provide SAS Maintenance	$3,056
Computer Security Solutions LLC.; 15-FCA-601-086 (SS)	To provide Splunk Enterprise License	$17,703
Environmental System Research Institute Inc.; 15-FCA-911-002 (SS)	To provide server maintenance	$17,019

Note: The agency's SS and CCS contracts totaled $1,345,626 in FY 2015.

Other Functions and Activities

Reception and Representation Expenditures

FCA spent $583.66 on reception and representation expenses in FY 2015.

Foreign Travel Expenditures

During FY 2015, there were no foreign travel expenses.

Leveraging FCA Technology

In the beginning of fiscal year 2016, FCA reorganized to establish an Office of Information Technology and to hire a chief information officer (CIO) whose exclusive responsibility is to lead the new office. We made this change to further leverage our investments in communication, database, and security technologies.

The new office focuses on improving project management procedures and reporting, enhancing FCA data processing and dashboards, tightening our security posture, and cultivating better technology support for examination and other mission areas.

Through our annual Information Resources Management Plan, we monitor and coordinate our IT investments. We continually seek to provide IT services, data sources, and communication tools that complement current technology and increase connectivity for our mobile workforce. A number of agency-wide IT projects improved our capabilities in FY 2015:

- We improved the EDGe application through a series of quarterly version upgrades and added five significant reports: Audit Procedure Roll-up, Reviewer Notes Sent by Examiner, Topic Conclusions – Institution, Procedure Results – by Topic, and Topic Conclusions – Portfolio.

- We procured new laptops for all employees and new iPhones for employees who require them; the new equipment will be rolled-out to employees in FY 2016. The new laptops will ensure the agency has up-to-date technology and our employees have reliable, powerful computers. With the new laptops, we will upgrade from the Windows 7 to the Windows 10 operating system.

- We began migrating our email support services to a FedRamp-certified government cloud. As a first step, we completed the upgrade of our on-premises email environment to Exchange 2013. By moving email to the cloud, we will improve IT flexibility and responsiveness, and minimize cost.

- We coordinated with the Call Report System (CRS) Working Group to implement a series of changes to the data to collect information about liquidity — adding 13 new variables to existing schedules and creating two new schedules. We also updated CRS data to include more geographic and relevant contact information.

- We improved security of FCA and FCSIC employees' identity by removing or encrypting personally identifiable information from our SQL databases.

- We successfully upgraded both our internal and external SharePoint production environments from SharePoint 2010 to SharePoint 2013. The new version dramatically improved the search capability in SharePoint.

- We planned and completed the moves for Bloomington, Dallas, and Denver field offices. We coordinated with the office directors, staff, and vendors and moved network equipment, data services, conferencing technology, and phone system.

- We began implementing a continuous monitoring security program. The program stems from a government-wide initiative to enhance the security of federal agencies by requiring continuous monitoring of security controls rather than examining controls once in a three-year period. In conjunction with the continuous monitoring program, we partnered with the Department of Homeland Security to take advantage of the tools and services it offers through its Continuous Diagnostics and Mitigation program.

- We completed the transition of additional Internet traffic through Managed Trusted Internet Protocol Services (MTIPS). Routing traffic through an approved MTIPS provider is part of the government-wide Trusted Internet Connections mandate designed to increase the security of the federal government.

- We created a telework database to streamline the approval process for flexi-place agreements, to reduce paper, and to retain records electronically. The database allows employees to complete and sign FCA annual flexi-place forms electronically. It allows supervisors and the Agency Telework Coordinator to review and approve each form electronically. The project supports FCA's Continuity of Operations Program, the federal government's telework initiatives, and the Federal Government Paperwork Reduction Act.

There are numerous, multi-year projects planned for FYs 2016 and 2017 that will further leverage technology to support our mission and achieve our strategic goals. For a summary of these projects, please see pages 5 to 7.

Independent Auditing and Accountability

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2015 audit of FCA's financial statements. On November 6, 2015, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2015.

- First, the auditor opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2015, in conformity with generally accepted accounting principles.

- Second, the auditor did not identify any deficiencies in internal control over financial reporting that would be considered material weaknesses.

- Third, the auditor did not identify any instances of noncompliance with selected provisions of laws and regulations or other reportable matters that could have a direct and material effect on the financial statements.

Ensuring Safety and Soundness

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including the Federal Agricultural Mortgage Corporation.

The first section below, titled "The Farm Credit System," summarizes examination and supervisory activities performed on the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled "Other Entities."

Our examination and supervision responsibilities are carried out by staff located in five field offices. One field office is in the McLean, Virginia, headquarters; the other field offices are located in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2017.

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 must have loan portfolio and other data from System institutions, and section 5.9(4) of the Farm Credit Act gives us the authority to collect these data. Our regulations include the following reporting requirements:

- Each System institution must prepare and file quarterly reports of condition and performance with FCA in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information.

- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR 630.4.

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 for all System institutions. Recently we expanded loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to have minimum capital levels, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder oversight.

Risk-Based Examination and Supervision

We design examination and supervision processes to address material risks and emerging issues on an individual-institution and Systemwide basis. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, guarding the safety and soundness of the System is more important and challenging than ever. Annually, to help address these challenges, we identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The oversight and examination program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2016 are as follows:

- Internal controls and operations risks
- Intensifying credit risk

When our examiners identify unsafe and unsound practices within a System institution or find that an institution has failed to comply with 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 will use our enforcement powers to effect changes in an institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. However, in most cases, we achieve corrective action without the use of formal enforcement powers.

Measuring the Safety and Soundness of the System

We use our Financial Institution Rating System (FIRS) as a key method to assess the safety and soundness of each FCS institution. The FIRS provides a general framework, consisting of component and composite ratings, for evaluating and assimilating all significant financial, asset quality, and management factors. Similar to systems used by other federal financial regulators, the FIRS evaluates six key component areas to properly assess the degree of risk in an institution. These key component areas are capital, assets, management, earnings, liquidity, and sensitivity (CAMELS).

On the basis of our CAMELS ratings, we assign an overall composite rating for the institution. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect and that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

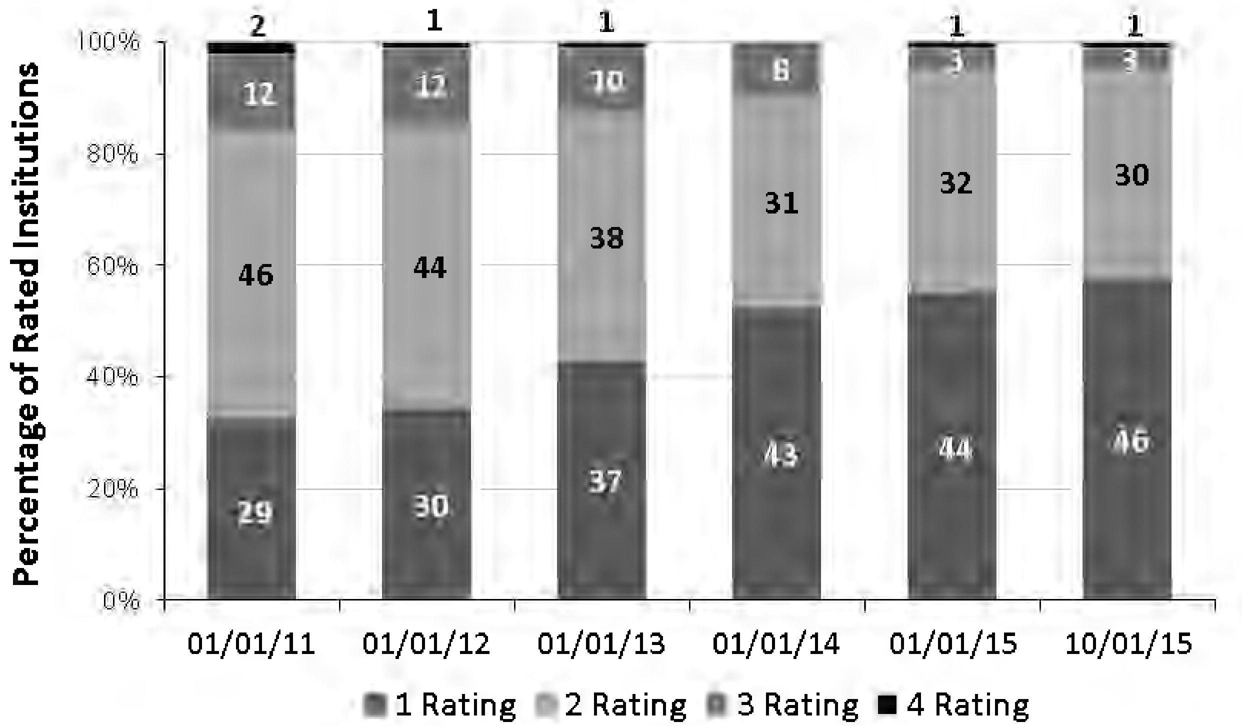
Recent Results

As the composite FIRS ratings over the past several years show, the System's condition and performance have remained satisfactory. Composite FIRS ratings are gradually improving; however, the FIRS ratings have yet to return to the pre-2008 levels. The following summarizes FIRS ratings for System banks and associations as of October 1, 2015:

- Forty-six institutions were rated 1.
- Thirty were rated 2.
- Three were rated 3.
- One was rated 4.

See figure 2 for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

Figure 2. Farm Credit System Financial Institution Rating System (FIRS) Composite Ratings



Source: FCA's FIRS Ratings Database.

Note: This chart reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers shown on the bars reflect the total number of institutions with a given rating; please refer to the y-axis to determine the percentage of institutions receiving a given rating.

Table Data for Figure 2

	Rating	01/01/11	01/01/12	01/01/13	01/01/14	01/01/15	10/01/15
Total	1	29	30	37	43	44	46
	2	46	44	38	31	32	30
	3	12	12	10	8	3	3
	4	2	1	1	–	1	1

Federal Agricultural Mortgage Corporation

Through our Office of Secondary Market Oversight (OSMO), we examine and supervise Farmer Mac to ensure both its safety and soundness and mission achievement. OSMO performs annual CAMELS-based examinations, which include examination of capital, assets, management, earnings, liquidity, and sensitivity. Throughout the year, OSMO oversees Farmer Mac's condition and compliance with regulations, and supervises its operations.

Statutory Authority

We regulate Farmer Mac through OSMO, which was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102 – 237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO be managed by a full-time director who reports to the FCA Board and that OSMO's activities, to the extent practicable, 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. In addition, Farmer Mac is 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 2015.

- Net income available to common shareholders was $38.0 million for the 12 months ended September 30, 2015, compared with $45.1 million during FY 2014.
- Core earnings, a non-GAAP measure of economic performance, totaled $43.4 million during FY 2015 compared with $58.8 million during FY 2014.
- Farmer Mac's core capital totaled $558.2 million at the end of FY 2015, compared with $761.3 million at the end of FY 2014. The minimum core capital requirement for Farmer Mac's on- and off-balance-sheet exposures is set in the statute and totaled $442.8 million at the end of FY 2015. Thus, Farmer Mac exceeded its minimum core capital requirement by approximately $115.4 million.
- At the end of FY 2015, Farmer Mac had $568.4 million in regulatory capital available to meet the $75.5 million minimum requirement established by FCA's Risk-Based Capital (RBC) Model.

Farmer Mac experienced growth in its program and nonprogram portfolios during FY 2015.

- Program activity increased approximately 7.9 percent and ended FY 2015 at $15.1 billion.
- Cash and nonprogram investments decreased approximately 16.4 percent and ended FY 2015 at $3.5 billion.

Credit quality remained stable and generally good. Real estate owned increased over FY 2015, finishing the year at $1.4 million, up approximately $0.2 million from fiscal year-end 2014.

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 is sufficient for Farmer Mac 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 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 percent 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.[4]

The Farm Credit Act also requires the RBC Model to incorporate an interest rate risk stress scenario based on rising and falling 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 percent of the sum of the credit loss and interest rate risk components of the RBC Model.

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[4] Farmer Mac's express program activities were expanded in the Food, Conservation, and Energy Act of 2008 to include rural utilities.

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 of these third-party validations, Farmer Mac has been found to be operating the model appropriately.

We published a final rule in early 2011 to amend our RBC Model regulation to allow for revisions to the model, including a revision that would reflect loan activity involving rural utility cooperatives. An Advance Notice of Proposed Rulemaking was published in June 2011 to solicit public input on further revisions to the model. We are considering a revision to the software platform on which the model runs. Currently, the model uses a Microsoft Excel platform. A different platform could significantly streamline the processing of model runs as Farmer Mac's portfolio grows and its product mix broadens.

Other Entities

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System.

- As mandated by 12 U.S.C. 3025, we examine the National Consumer Cooperative Bank, which owns a federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans.

- From time to time, the U.S. Department of Agriculture contracts with us to provide examination services for specific USDA programs. We annually review the amount of resources dedicated to providing these services. Currently, the amount is limited.

- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC Board consists of the members of the FCA Board. Section 5.59(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 reduce costs.

Developing Regulations and Policies

FCA routinely issues regulations, Informational Memoranda, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend. We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

Regulatory and Policy Projects Active at End of FY 2015

The FCA Board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives. The FCA Board-approved agenda is part of the federal Unified Agenda, which is published online at www.reginfo.gov. We are not obligated to act on our agenda items, and we may propose or issue regulations that have not been set forth in the Unified Agenda. 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.

The following list summarizes our current regulatory efforts and other guidance under consideration in FY 2016 and FY 2017.

Investment Eligibility: We plan to publish a final rule to revise the eligibility requirements for investments by System institutions. To comply with a provision of the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Capital — Basel III: We plan to publish a final rule to revise sections of the capital rules to make them consistent with Basel III where appropriate.

Standards of Conduct: We plan to reissue a notice of proposed rulemaking to clarify and strengthen regulations related to the standards of conduct of directors, employees, and agents of System institutions.

Private Flood Insurance: We plan to issue a notice of proposed rulemaking to amend our regulations on private flood insurance to conform to the Biggert-Waters Flood Insurance Reform Act of 2012.

Amortization Limits — Agricultural Credit Associations and Production Credit Associations: We plan to issue a notice of proposed rulemaking to clarify or change the amortization limits for Agricultural Credit Associations and Production Credit Associations.

Farmer Mac — Corporate Governance and Standards of Conduct: We plan to publish a final rule to clarify and strengthen Farmer Mac's board governance regulations and to establish standards-of-conduct regulations. The proposed rule addresses director independence, risk governance, and the director nomination process. We are currently evaluating the 77 comments received and working through possible modifications for the final rule.

Farmer Mac — Investment Eligibility: We plan to publish a proposed rule and a final rule to change eligible investment asset classes. To comply with the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Bank Review of Insider Loans: We are reviewing whether current regulations requiring bank review of association insider loans are appropriate for the System's current structure and whether the bank review ensures compliance with applicable standards-of-conduct regulations.

Appraisal Regulations: We plan to complete our review to consider whether changes in appraisal regulations are necessary in light of changing credit and economic conditions.

Territorial Concurrence: We plan to complete our review of current regulations requiring associations to notify each other and obtain concurrence when they extend loans in the chartered territories of other associations. The purpose of the review is to determine whether the regulations are appropriate for the System's current structure, lending practices and operating environment, and whether the regulations support safety and soundness, operational efficiency, cooperative principles, and customer service.

Eligibility Criteria for Directors: We plan to complete our review of the eligibility criteria for directors, particularly when a candidate for a director position owns an interest in an entity that borrows or holds stock in a System bank or association.

Removal of Stockholder-Elected Directors: We plan to complete our review of whether, and under what circumstances, a stockholder-elected director of a System bank or association can be removed by the bank's or association's board of directors.

Financing Farm-Related Service Businesses: We plan to complete our evaluation of the System's lending to farm-related service businesses to determine whether our regulations provide the appropriate framework for determining borrower eligibility and purposes of financing. Among the businesses to be considered are service providers within local food systems.

Criminal Activity Referrals and Related Internal Controls: We plan to complete our review of our regulatory guidance on internal controls designed to prevent, identify, and monitor fraud and criminal activity. We will also review the processes for referring known or suspected criminal violations.

Highly Compensated Employees Disclosures: We plan to conduct a review of our regulations that define highly compensated employees. The purpose of the review would be to consider amendments that simplify the definition in order to provide consistent and quality disclosure information to shareholders.

Criteria to Reinstate Nonaccrual Loans: We plan to conduct a review of our regulatory criteria for reinstating nonaccrual loans.

Director Election Nomination Procedures: We plan to begin a review of our regulations and guidance related to the director nomination process. As part of this review, we will consider the kind of information to which nominating committees should have access when considering potential nominees.

Attribution Rules: We plan to begin a review of the attribution rules that institutions must use when they determine whether loans to a borrower should be combined and attributed to a related borrower's outstanding loans. Attribution rules affect calculations for lending and leasing limits.

Lending and Loan Servicing Controls: We plan to begin a review of our regulations to determine if revised or additional regulatory guidance is needed for internal or other controls over the System's lending functions. These functions would include the loan application, loan origination, loan servicing, and portfolio administration functions.

Basel III Liquidity Requirements: We plan to begin a review to consider aligning liquidity requirements with the Federal Banking Regulatory Authorities and adopting a Basel III liquidity regime. As part of this review, we will consider whether the liquidity coverage ratio and the net stable funding ratio are applicable for System banks.

Regulatory and Policy Projects Completed in FY 2015 and Early FY 2016

Following is a list of projects we completed in FY 2015 and early FY 2016, along with a list of communications we issued to System institutions to clarify our rules.

Loans in Areas Having Special Flood Hazards: We published a final rule to amend our regulations on flood insurance to conform to the Biggert-Waters Flood Insurance Reform Act of 2012.

Mergers, Consolidations, and Charter Amendments: We published a final rule to amend regulations pertaining to mergers, consolidations, and charter amendments of System banks and associations.

Pension Benefits Disclosure: We published a final rule to exclude certain employees and their compensation amounts from the compensation disclosure requirement for System institutions.

Institution Stockholder Voting Procedure: We published a final rule to clarify and enhance voting procedures related to the tabulation of votes, the use of teller committees, and the handling of ballots.

Margin and Capital Requirements for Noncleared Swaps: We published an interagency final rule to establish margin and capital requirements for FCS institutions, including Farmer Mac, that engage in noncleared swaps and noncleared security-based swap transactions. The rulemaking would fulfill a requirement of the Dodd-Frank Act.

Capital — Basel III: We extended the comment period on the proposed rule to revise sections of the capital rules to modernize them and make them consistent with Basel III where appropriate.

Farmer Mac — Corporate Governance and Standards of Conduct: We published a Notice of Proposed Rulemaking to clarify and strengthen Farmer Mac's board governance regulations and to establish standards-of-conduct regulations.

Bank-Association Lending Relationship: We completed our review to evaluate the regulatory requirements of general financing agreements between banks and associations. As part of this review, we considered whether we should enhance the banks' authorities to address safety and soundness issues in affiliated associations.

Crop Insurance Sales Compensation: We completed a review to consider whether current limitations on compensation from crop insurance sales should be modified.

Compliance with Section 4.38 of the Farm Credit Act — Affirmative Action: We issued an Informational Memorandum to System institutions to clarify section 4.38 of the Farm Credit Act of 1971, as amended. This section requires System institutions with more than 20 employees to “establish and maintain an affirmative action program plan that applies the affirmative action standards otherwise applied to contractors of the federal government.”

Cybersecurity Assessment and Expectations for System Institutions: We issued an Informational Memorandum to System institutions to ensure that they are aware of recent guidance concerning cybersecurity risks, as well as our expectations related to cybersecurity.

Whistleblower Programs: We issued an Informational Memorandum to System institutions to provide guidance on whistleblower programs and their importance in an effective internal control program.

Safety and Soundness of the Farm Credit System: We issued an Informational Memorandum to System institutions to reiterate that our foremost priority is maintaining the safety and soundness of the System and that a key component of this priority is ensuring System institutions have effective internal controls.

Portfolio Management in Volatile Times: We issued an Informational Memorandum to System institutions to discuss recent emerging risks in agriculture and to identify the areas we will be examining to determine how FCS institutions are responding to the volatile environment.

Cybersecurity Framework and Other Recent Guidance: We issued an Informational Memorandum to System institutions outlining best practices and recent guidance for managing cybersecurity risk. All System institutions should be taking appropriate actions to monitor and manage cybersecurity threats and vulnerabilities.

Lending, Training, and Outreach Opportunities with the Farm Service Agency: We issued an Informational Memorandum to System institutions to provide information on lending, training, and outreach opportunities available through the U.S. Department of Agriculture’s Farm Service Agency. These opportunities may benefit an institution when trying to reach a broader segment of the agricultural community.

Maximum Bank Director Compensation: We issued an Informational Memorandum to notify Farm Credit banks of the maximum allowable bank director compensation for 2015.

FCS Corporate Activity and Other Prior Approvals and Clearances

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

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

Corporate Activities in FY 2015 and Early FY 2016

During FY 2015, we canceled the charters of six associations — two ACAs and four subsidiaries — as a result of two mergers. We also approved a name change.

- On October 1, 2014, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with subsidiaries.
- On January 1, 2015, two ACAs affiliated with the Farm Credit Bank of Texas merged, resulting in an ACA with subsidiaries.
- On January 1, 2015, an ACA affiliated with CoBank, ACB, changed its name.

Thus far in FY 2016, we canceled the charters of three associations — one ACA and two subsidiaries — as a result of a merger.

- On November 1, 2015, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with five subsidiaries.
- On January 1, 2016, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with subsidiaries.

Projected Mergers and FCS Institution Size

As of January 1, 2016, the System had 74 direct-lender associations and 4 banks. Seven service corporations and special-purpose entities (see pages 59 and 60) brought the total number of FCS institutions to 85 (including Farmer Mac). Because of mergers and consolidations, the number of FCS associations has declined by 56 percent since 2000, and the number of FCS banks has decreased by 43 percent.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decline. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also possess more complex management systems and offer a broader range of financial services to their borrowers.

Security Offerings During FY 2015

We reviewed and did not object to the proposed offering circular from CoBank, ACB, for issuing fixed-to-floating Series H noncumulative perpetual preferred stock.

Previously, we had authorized CoBank, ACB, to use a Base Form Disclosure Document under specified terms (preclearance) to issue noncumulative perpetual preferred stock until the end of 2014.

Funding Activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation,[5] the fiscal agent for the Farm Credit banks. In this way, funds flow from worldwide capital-market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with ready and efficient access to global resources. Systemwide debt securities are issued as discount notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all debt issuances.

For the 12 months ended September 30, 2015, the FCS issued $286 billion in Systemwide debt, which was $60 billion less than the debt issued in FY 2014 and $90 billion less than the debt issued in FY 2013. Although investor demand for outstanding FCS debt instruments has been strong for several years, it has waned as interest rates have trended upward; the exception is debt instruments with maturities of one year or less, for which demand continues to be strong. Yet, despite the substantial decline in Systemwide issuance, FCS debt outstanding increased to $231.3 billion at the end of FY 2015.

[5] See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation assists the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System's financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

The financial markets exhibited general stability, with a few episodes of volatility caused by major geopolitical events. Regardless, investor demand for System debt remained favorable across the yield curve.

Investments in Rural America

In January 2005, we issued guidance that gave System institutions an opportunity to participate in pilot programs supporting investments in rural America.

The pilot programs gave FCS institutions greater flexibility to partner with government agencies and other agricultural and rural lenders in fulfilling FCS mission objectives. In addition, through the programs, we gained a better understanding of the diverse financing needs of agriculture and rural communities and the ways FCS institution investments can help increase the availability of funds to these markets.

The FCA Board later voted to conclude the pilot programs, effective December 31, 2014. The Board's action permits each System institution that participated in a pilot program to continue to hold its investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions.

Although we have concluded these pilot programs, we now consider investment requests on a case-by-case basis under the existing investment regulations.

Rural Business Investment Company

The 2002 Farm Bill created the Rural Business Investment Companies (RBIC) program for leveraged RBICs and gave the Secretary of Agriculture the authority to license and examine them. The 2008 Farm Bill modified the RBIC 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 perform the following services for the nonleveraged RBIC program:

- Provide technical advice regarding regulatory and program requirements
- Receive and review nonleveraged RBIC licensing applications and advise USDA as to whether to approve the applications
- Examine licensed nonleveraged RBICs

The agreement calls for us to review and provide recommendations for five RBIC applications over a five-year timeframe. We agreed to expend no more than 2,080 hours, or one full-time-equivalent staff position, to complete the RBIC assignments per fiscal year.

Part III

Farm Credit System

Profile of the Farm Credit System

The Farm Credit System consists of a network of borrower-owned cooperative financial institutions, as well as related service organizations and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the financial government-sponsored enterprises (GSEs). As of January 1, 2016, the System had four banks providing loan funds to

- 72 Agricultural Credit Association (ACA) parent organizations, each of which has two subsidiaries — a Production Credit Association (PCA) and a Federal Land Credit Association (FLCA), and
- 2 stand-alone FLCAs.

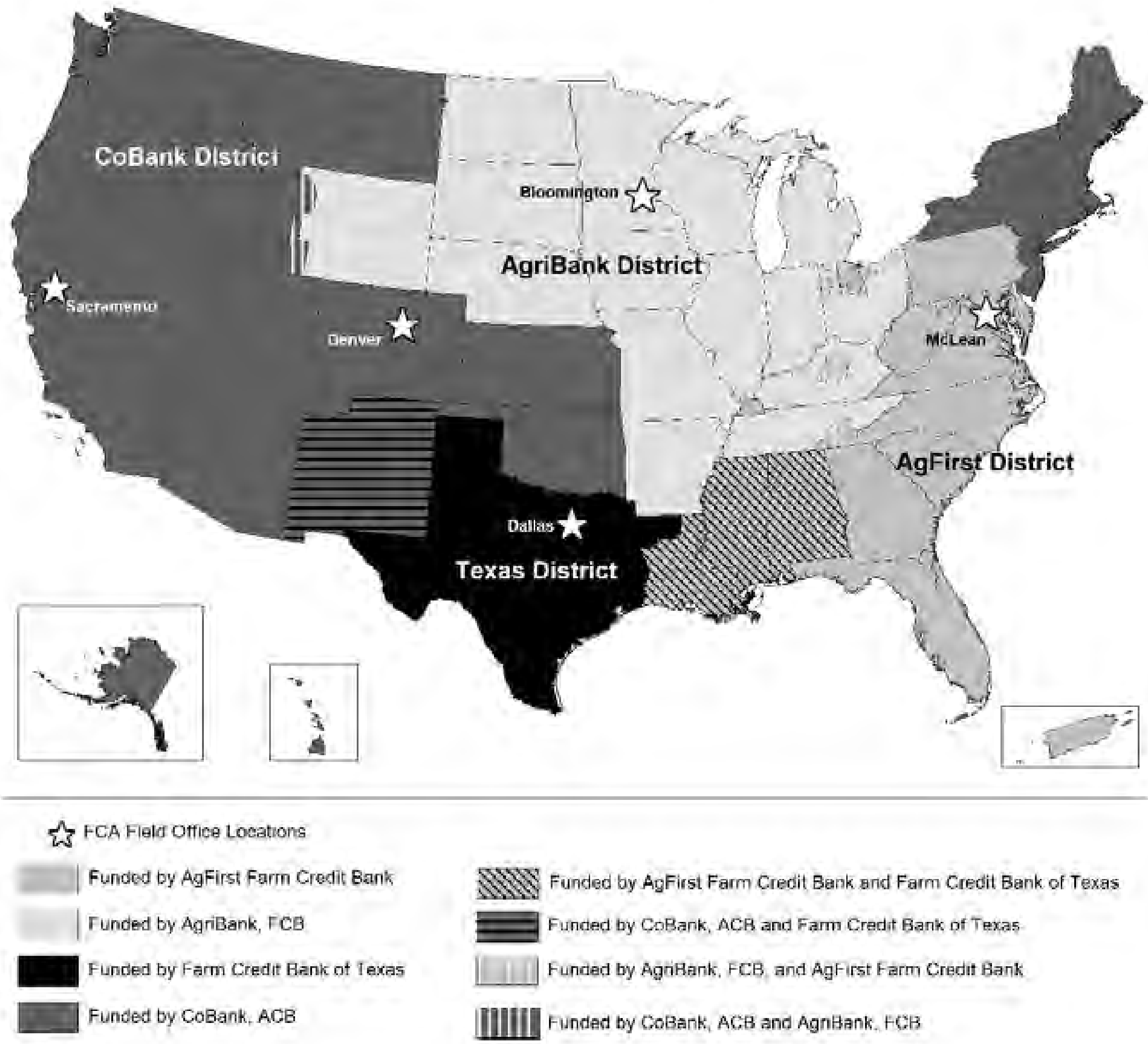
The map in figure 3 shows each bank's chartered territory.

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 the indebtedness to the funding bank under a General Financing Agreement. In addition, the parent company and its subsidiaries pledge their respective assets as security for each other's debts and obligations and share each other's capital.

The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are Federal Land Bank Associations that originate long-term agricultural mortgages and are exempt from federal and state income taxes; ACAs and PCAs originate short- and intermediate-term operating loans and are not tax-exempt.

System institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling debt securities in the national and international money markets; these securities are subject to FCA's approval, but they are not guaranteed by the U.S. government.

Figure 3. Farm Credit System Bank Chartered Territories



NOTE: CoBank, ACB, funds 24 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 17 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 78 banks and direct-lending associations.

Additional System Entities and Service Corporations

In addition to the System's banks and associations, we are responsible for regulating and examining the Federal Agricultural Mortgage Corporation and the Federal Farm Credit Banks Funding Corporation. We also regulate and examine the five service corporations organized under section 4.25 of the Farm Credit Act[6]: AgVantis, Inc.; Farm Credit Leasing Services Corporation; Farm Credit Financial Partners, Inc.; the FCS Building Association (FCSBA); and Farm Credit Foundations.

Federal Agricultural Mortgage Corporation — Farmer Mac[7] is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. In May 2008, the Food, Conservation, and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac conducts its business primarily through four core programs:

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

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[6] 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.

[7] Farmer Mac is established in law as a part 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 OSMO Director reports directly to the FCA Board on matters of policy.

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, and agricultural cooperatives; debt issuances also provide the banks with funding for their other operations.

AgVantis, Inc. — AgVantis, Inc., provides technology-related and other support services to associations in the CoBank, ACB, district. It was chartered by FCA in 2001 and is owned by CoBank, ACB, and 16 of its affiliated associations.

Farm Credit Leasing Services Corporation — The Leasing Corporation, owned by CoBank, ACB, provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit Financial Partners, Inc. — Farm Credit Financial Partners, Inc., provides support services to CoBank, ACB; five associations affiliated with CoBank, ACB; one association affiliated with AgriBank, FCB; the Leasing Corporation; and two FCS-related entities.

FCS Building Association — FCSBA, 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 41 Farm Credit associations, one service corporation (AgVantis, Inc.), and one Farm Credit Bank (AgriBank, FCB).

FCS Mission Fulfillment

The System fulfills its overall mission by lending to agriculture and rural America. Through changes in the law since the System's original authorization in 1916, 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

In addition to its lending programs, System institutions participated (until December 31, 2014) in several mission-related pilot investment programs (referred to as Investments in Rural America). The programs allowed us to evaluate the ability of System institutions to provide a flexible flow of funds to agriculture and rural communities across the country. (See page 53 for a description of the Investments in Rural America program.)

Financial Condition and Performance

In FY 2015, the overall condition and performance of the FCS remained safe and sound, and the System is well positioned to withstand the challenges facing U.S. agriculture during the current cyclical downturn. Supporting the overall condition of the FCS is moderate loan growth, adequate capital, and reliable access to debt capital markets. As of September 30, 2015, the System's liquidity position equaled 183 days, significantly above the 90-day regulatory minimum required for each FCS bank.

Margins for many grain and soybean producers in 2015 remained low or negative for the third consecutive year. For livestock producers, lower crop prices translated into lower feed costs, but profitability has been adversely affected by lower livestock product prices, particularly for the hog, dairy, and broiler sectors.

The System's loan portfolio continued to grow because of continued demand for cropland and the overall demand for new loans. For the 12 months ended September 30, 2015, gross loans increased by 9.0 percent. Real estate mortgage lending was up 7.2 percent as demand for cropland continued in 2015.

Earnings

The FCS earned $3.48 billion in the first nine months of 2015, a 2.5 percent decrease from the $3.57 billion earned in the same period in 2014. As table 14 shows, net interest income rose 3.2 percent but not enough to offset higher noninterest expenses and provisions for loan losses.

Table 14: Net Income (Dollars in Millions)

	First 9 Months of 2014	First 9 Months of 2015	Dollar Change	Percent Change
Net interest income	$5,056	$5,217	$161	3.2
− Provision for losses	7	87	$80	1,142.9
= Net interest income after loss provision	$5,049	$5,130	$81	1.6
+ Noninterest income	489	463	($26)	(5.3)
− Noninterest expense	1,795	1,945	$150	8.4
= Pretax income	$3,743	$3,648	($95)	(2.5)
− Provision for income tax	174	167	($7)	(4.0)
= Net income	$3,569	$3,481	($88)	(2.5)

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, p. F-3.

An increase in average interest-earning assets, from $255.0 billion at September 30, 2014, to $271.4 billion a year later, primarily drove the increase in net interest income. However, the net interest margin declined 8 basis points from the previous year; this decline was caused by a 9-basis-point decline in the net interest spread to 2.41 percent, offset by a 1-basis-point increase in noninterest-bearing items. The decline in the net interest spread was largely driven by competitive pressures, changing product mix into lower-spread lines of business, and an increase in debt costs. The yield on interest-earning assets fell by an annualized rate of 5 basis points, while the yield on interest-bearing liabilities increased by an annualized rate of 4 basis points. See table 15.

Table 15: Interest Margin in Annualized Percentages

	First 9 Months of 2014	First 9 Months of 2015	Change (bps)
Total interest-earning assets	**3.46**	**3.41**	**(5)**
Total loans	3.98	3.92	(6)
Investments and other assets	1.33	1.30	(3)
Total interest-bearing liabilities	**0.96**	**1.00**	**4**
Net interest spread	**2.50**	**2.41**	**(9)**
Impact of noninterest-bearing items	0.14	0.15	1
Net interest margin	**2.64**	**2.56**	**(8)**

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, p. 12.
bps = basis points

As table 16 shows, the return on average assets and the return on average capital declined in all System districts during the first nine months of 2015. However, the System's net return measures remained satisfactory across all the districts.

Table 16: Profitability Across System Districts for First 9 Months of Year

		AgFirst	AgriBank	Texas	CoBank
Percentage return on average assets	2014	1.97	1.83	2.11	1.46
	2015	1.67	1.63	1.70	1.44
Percentage return on average capital	2014	12.01	10.85	12.86	11.07
	2015	10.50	9.53	10.83	10.57

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, p. F-57.

Asset Growth

The System's loans and assets grew moderately during the year ended September 30, 2015. FCS assets grew to $291.5 billion as of September 30, 2015, up $20.1 billion (7.4 percent) from September 30, 2014. Increases in loans by $18.8 billion (9.0 percent), cash by $788 million (33.2 percent), and investments by $333 million (0.7 percent) produced the moderate increase in total assets.

The dollar volume to major loan categories increased. Real estate mortgage lending increased because of the continued demand for cropland in 2015. The dollar volume also increased for production and intermediate term lending and agribusiness lending.

All System districts experienced loan growth for the year ended September 30, 2015. Loan volume in the CoBank district grew by $9.4 billion, an increase of 11.2 percent over its loan volume a year earlier. Gross loan volume in the Texas and AgriBank districts increased by $1.8 billion (9.8 percent) and $6.5 billion (7.6 percent), respectively. The AgFirst district experienced the smallest increase; its gross loan volume increased by $1.3 billion (5.5 percent). See table 17.

Table 17: Gross Loan Growth by District and Systemwide (Dollars in Millions)

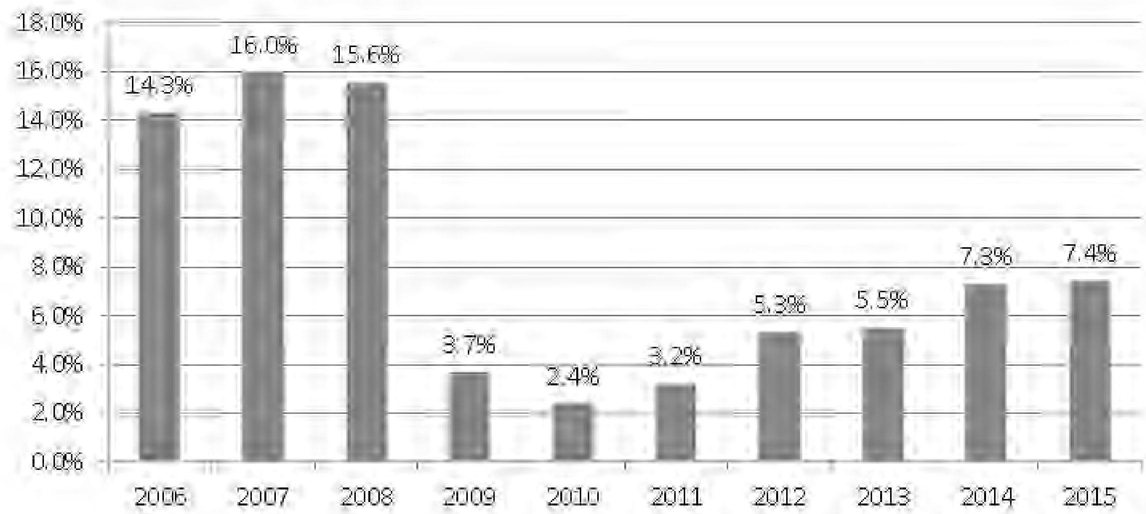
	September 30, 2014		September 30, 2015		Change in Dollars	Percent Change
	Gross Loans	Percent Total	Gross Loans	Percent Total		
AgFirst	$24,117	11.6	$25,452	11.2	1,335	5.5
AgriBank	85,210	41.0	91,662	40.4	6,452	7.6
Texas	18,692	9.0	20,527	9.0	1,835	9.8
CoBank	84,350	40.5	93,775	41.3	9,425	11.2
Intra-System Eliminations	(4,318)	(2.1)	(4,572)	(2.0)	(254)	NM*
Total for System	**$208,051**	**100**	**$226,844**	**100**	**$18,793**	**9.0**

* Not meaningful.

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, p. F-53; and Third Quarter 2014 Quarterly Information Statement of the Farm Credit System, p. F-54.

As noted in figure 4 below, the System's total assets increased by 7.4 percent during the 12-month period ended September 30, 2015. This was a slightly greater increase than the System experienced during the previous 12-month period, but it was significantly lower than during the 2006 to 2008 period, the three years prior to the recession.

Figure 4: Percent Change in System Assets, September 2006 to September 2015



Source: FCS Quarterly Information Statements.

Table Data for Figure 4

Year	Percent Change in System Assets
2006	14.3
2007	16.0
2008	15.6
2009	3.7
2010	2.4
2011	3.2
2012	5.3
2013	5.5
2014	7.3
2015	7.4

Assets — Investments

As of September 30, 2015, the System's investments totaled $51.4 billion, up 0.7 percent from a year earlier. As shown in table 18, investments available for sale totaled $48.9 billion, including $0.3 billion for mission-related investments. Investments held to maturity were $2.5 billion, including $1.9 billion for mission-related mortgage-backed securities. The System increased its holdings of U.S. agency securities and other asset-backed securities while reducing holdings of money market instruments and U.S. Treasury securities.

During the most recent 12-month period, the yield on investments available for sale increased from 1.25 percent to 1.31 percent. Yield increases for money market instruments and U.S. treasuries more than offset declines in yields for the other segments. For investments held to maturity, the yield increased from 3.16 percent to 3.21 percent. An increase in yield for mission-related mortgage-backed securities more than offset yield declines for the other segments.

Ineligible investments held by the System declined from $1.2 billion at September 30, 2014, to $0.9 billion at September 30, 2015. Most ineligible investment securities that the System has on its books became ineligible as a result of the unfavorable market conditions caused by the financial crisis.

According to our regulations, to be eligible to be held by the System, the vast majority of investments must maintain the highest credit rating by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard & Poor's Ratings Services, or Fitch Ratings. In addition, certain investments are not allowed to make up more than a limited percentage of an institution's portfolio.

Under our former regulations, an investment can become ineligible even though it was an eligible investment when purchased. However, under the Investment Management final rule, which became effective on December 31, 2012, System institutions may now continue to hold, subject to certain conditions, investments that no longer satisfy eligibility criteria that they met when they were purchased. Previously the ineligible investment had to be divested within six months unless FCA approved a plan to hold the investments for a longer period of time.

Table 18: FCS Investments (Dollars in Millions)

		September 30, 2014		September 30, 2015		Change		
						Amount		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
Available for sale (fair value)	Money Market instruments	$5,713	0.28	$4,803	0.43	−910	(15.9)	15
	U.S. Treasury securities	10,002	0.94	9,775	1.20	−227	(2.3)	26
	U.S. agency securities	5,354	1.59	6,256	1.44	902	16.8	−15
	Mortgage-backed securities	24,908	1.52	25,107	1.50	199	0.80	−2
	Other asset-backed securities	2,040	1.07	2,655	1.02	615	30.1	−5
	Mission-related investments	416	3.05	332	2.58	−84	−20.2	−47
	Total	**$48,433**	**1.25**	**$48,928**	**1.31**	**495**	**1.0**	**5.5**
Held to maturity (amortized cost)	Mission-related mortgage-backed securities	2,216	3.01	1,912	3.20	−304	−13.7	19
	Asset-backed securities	219	2.38	360	1.97	141	64.4	−41
	Other securities	191	5.75	192	5.63	1	0.5	−12
	Total	**$2,626**	**3.16**	**$2,464**	**3.21**	**−162**	**−6.2**	**5**

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, pp. F-9 and F-11; and Third Quarter 2014 Quarterly Information Statement of the Farm Credit System, pp. F-9 and F-11.

WAY = weighted average yield; bps = basis points

Loan Quality

Despite wet weather and lost acreage in the planting season, growing conditions in key grain- and oilseed-producing states were favorable in the summer of 2015. Both because of the good harvest and large beginning stocks, crop supplies were at a record high. As a result, crop prices were the lowest since the 2009 growing season. The lower crop prices have pushed major grain and oilseed producers’ margins to breakeven or slightly below breakeven levels, resulting in sharply lower farm income.

In contrast, lower grain and oilseed prices are welcome news for producers of livestock, dairy, poultry, and biofuels (ethanol and biodiesel); these producers are also experiencing reduced prices for their commodities because of sluggish global demand. The slowdown in the economies of many key export destinations for U.S. agricultural products combined with the strong U.S. dollar is negatively affecting U.S. exports, contributing to the buildup of inventories and putting downward pressure on commodity prices.

Furthermore, farmers seeking loans in 2016 may experience additional stress because the Federal Reserve is expected to continue gradually raising the Federal Funds target rate, which in turn will raise borrowing costs for real estate, equipment, and other production inputs. On December 16, 2015, the Federal Reserve made its first increase since 2006, raising its key policy rate by 25 basis points to a range of 0.25 to 0.50 percent. In announcing its decision to raise the rate, the Federal Reserve cited improving labor market conditions and expectations that inflation would eventually increase to the Fed’s 2 percent goal.

Another source of stress for some farmers and ranchers is the decline in collateral values. Because of the drop in crop prices, farmland values have deteriorated in some key producing regions.

During fiscal year 2015, the System’s nonperforming assets declined from $1.903 billion (0.91 percent of total loans) on September 30, 2014, to $1.826 billion (0.80 percent of total loans) a year later. The decline in nonperforming loans reflects improvements in the credit quality of real estate mortgage loans as well as production and intermediate-term loans. The improvement of credit quality in these loans offset some deterioration in the credit quality of agribusiness loans and communication loans.

In the first nine months of 2015, net charge-offs for the System were nearly double ($33 million) what they had been for the same period a year earlier ($17 million). Total net charge-offs went up mostly because of the increase in net charge-offs for production and intermediate term loans. The allowance for loan losses (ALL) decreased slightly as a share of total loans and increased as a percentage of nonperforming loans and nonaccrual loans. See table 19.

Table 19: FCS Loan Quality

Loan Quality	September 30, 2014	September 30, 2015
Total nonperforming assets as percentage of total loans	0.91	0.80
Nonperforming assets as percentage of capital	4.15	3.74
Nonaccrual loans as percentage of total loans	0.68	0.62
ALL as percentage of total loans	0.57	0.55
ALL as percentage of nonperforming loans	67.1	72.3
ALL as percentage of nonaccrual loans	83.6	89.1

Source: FCS Quarterly Information Statements.

ALL = allowance for loan losses

Liabilities, Funding, and Liquidity

For the year ended September 30, 2015, the System's overall liabilities increased by 7.6 percent to $242.6 billion. Short-term debt securities (due within one year) increased 7.2 percent to $84.5 billion, while debt securities due after one year increased 8.4 percent to $146.8 billion. See table 20 below. Short-term debt securities represented 34.8 percent of the total Systemwide liabilities at September 30, 2015, slightly less than the 35.0 percent a year earlier.

Table 20: Systemwide Debt (Dollars in Millions)

	September 30, 2014	September 30, 2015	Change	
			Dollars	Percent
Systemwide discount notes due within 1 year	$ 21,583	$ 23,130	$1,547	7.2
Systemwide bonds, medium-term notes, and master notes due within 1 year	57,296	61,394	4,098	7.2
Total short-term liabilities	**$78,879**	**$84,524**	**$5,645**	**7.2**
Systemwide bonds, medium-term notes, and master notes due after 1 year	135,473	146,810	11,337	8.4
Other liabilities	11,156	11,249	93	0.8
Total liabilities	**$225,508**	**$242,583**	**$17,075**	**7.6**

Source: FCS Quarterly Information Statements.

The System's liquidity position increased from 174 days as of September 30, 2014, to 183 days as of September 30, 2015. Each bank has maintained the three tiers of the liquidity reserve and exceeded the regulatory minimum of 90 days of liquidity.[8]

[8] The regulatory liquidity standard requires each FCS bank to maintain a minimum of 90 days of liquidity on a continuous basis. The number of days of liquidity is calculated by comparing the principal portion of a given bank's maturing Systemwide debt securities, as well as its other borrowing, with the total amount of the bank's cash, cash equivalents, and investments. For the purpose of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale.

The duration gap,[9] which derives from the estimated durations of assets and liabilities, is a concise and simple measure of interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. A positive duration gap (in which the duration of assets exceeds the duration of liabilities) exposes the System to rising interest rates. Conversely, a negative duration gap (in which the duration of liabilities exceeds the duration of assets) exposes the System to declining interest rates. In general, an institution with a small duration gap has less exposure to interest rate risk than an institution with a large duration gap.

The aggregate duration gap for the FCS (the sum of the banks' duration gaps) was a positive 4.6 months on September 30, 2015, compared with a positive 3.2 months a year earlier. The banks' duration gap grew in 2015 because of balance sheet management strategies designed to take advantage of changing interest rates. 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 of its capital position

Capital

The System's total capital grew by 6.7 percent during FY 2015 to reach $48.9 billion. Most of the $3.1 billion increase in capital came from surplus (or net income earned and retained), but increases in preferred stock, capital stock and participation certificates, additional paid-in capital, and restricted capital (Insurance Fund) also added to the total. See table 21 for changes in the capital components.

[9] Duration is the average maturity of cash flows, weighted by the present value of this cash flow. It is a useful way to estimate the direction and size of changes in the value of a financial instrument when market interest rates experience small changes. Here, "duration gap" is the difference between the duration of assets and the duration of liabilities, measured in months. When the duration gap is small, changing market interest rates pose less interest rate risk than when the gap is large.

Surplus still accounts for the overwhelming majority of capital, at 82.5 percent as of September 30, 2015, up slightly from 82.0 percent as of September 30, 2014. While results were mixed for district banks and associations, the System's overall capital-to-assets ratio declined slightly, from 16.9 percent to 16.8 percent over this 12-month period. This decline occurred because earnings retained by System institutions slowed relative to asset growth, reflecting a decline in net income. The decline in net income was the result of several factors: an increase in noninterest expense, an increase in the provision for loan losses, and a decrease in noninterest income.

Table 21: FCS Capital Composition

	September 30, 2014	September 30, 2015	Change	
			Dollars	Percent
Preferred stock	$2,559	$2,783	224	8.8
Capital stock and participation certificates	1,667	1,714	47	2.8
Additional paid-in capital	1,073	1,183	110	10.3
Restricted capital (Insurance Fund)	3,684	3,964	280	7.6
Accumulated other comprehensive income (loss)	(720)	(1,108)	(388)	53.9
Surplus	37,553	40,342	2,789	7.4
Total capital	**$45,816**	**$48,878**	**3,062**	**6.7**

Source: FCS Quarterly Information Statements.

As of September 30, 2015, all System institutions complied with FCA capital standards: a permanent capital ratio and a total surplus ratio of at least 7 percent of risk-adjusted assets, and a core surplus ratio of at least 3.5 percent of risk-adjusted assets. All banks are required to maintain a net collateral ratio of at least 103 percent of total liabilities. However, because they have subordinated debt outstanding, three banks (CoBank, AgriBank, and the Farm Credit Bank of Texas) must maintain a minimum net collateral ratio of 104 percent. While most banks showed slight deterioration in their respective capital ratios as of September 30, 2015, from the year before, table 22 shows that the banks are capitalized well in excess of regulatory requirements.

For associations, permanent capital ratios declined slightly on the low end of the range — from 13.5 percent as of September 30, 2014, to 13.3 percent as of September 30, 2015, and they rose slightly on the high end of the range — from 35.9 percent to 36.1 percent.

Table 22: Regulatory Capital Ratios of FCS Banks

		AgFirst	AgriBank	Texas	CoBank
Permanent capital ratio	9/30/2014	22.7	20.9	18.6	16.4
	9/30/2015	21.4	20.9	17.7	15.6
	Change	(1.3)	(0.0)	(0.9)	(0.8)
Total surplus ratio	9/30/2014	22.7	18.3	15.8	15.4
	9/30/2015	21.4	18.1	15.3	14.6
	Change	(1.3)	(0.2)	(0.5)	(0.8)
Core surplus ratio	9/30/2014	20.2	11.8	10.0	10.9
	9/30/2015	19.1	12.2	9.8	10.7
	Change	(1.1)	0.4	(0.2)	(0.2)
Net collateral ratio	9/30/2014	107.9	106.1	108.8	107.4
	9/30/2015	107.8	105.9	108.1	107.2
	Change	(0.1)	(0.2)	(0.7)	(0.2)

Source: FCA Consolidated Reporting System.

Young, Beginning, and Small Farmers and Ranchers

Congress has mandated that the Farm Credit System serve the credit needs of young, beginning, and small (YBS) farmers and ranchers by directing System associations to set up YBS programs and by requiring the banks to issue annual reports on their associations' programs. To ensure that the System fulfills this responsibility, FCA issued a final rule in 2004 that

- amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;
- allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages associations to establish advisory committees composed of YBS farmers;
- requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over its YBS program; and
- requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

Our examiners review the policies and programs of the institutions to ensure that the institutions are complying with the YBS regulations.

In addition, we continue to consider regulatory options to support YBS programs. In October 2012, we issued a Bookletter to the System that provides guidance on how associations can meet the credit and related services needs of farmers who market their agricultural products through local and regional food systems. Because of their age, farming experience, or the size of their operations, many local food farmers will qualify as YBS farmers under Section 4.19 of the Farm Credit Act, as well as under FCA regulation 12 CFR 614.4165.

In November 2014, we issued an Informational Memorandum to System institutions explaining how they can increase their outreach and service to YBS farmers by coordinating with USDA Farm Service Agency loan programs. The guidance we provide helps ensure that System institutions make full use of their authorities to assist YBS farmers to begin farming, to expand their operations, or to remain in agricultural or aquaculture production.

The information that follows shows YBS results for calendar year 2014. We are currently collecting information for 2015, and we expect this information to be available after April 2016. A summary of the System's YBS program results is also available on our website at www.fca.gov.

Tables 23 and 24 provide the YBS results for calendar year 2014. Loans to YBS producers include real estate loans and short- and intermediate-term loans. Please note that information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not an accurate measure of the System's YBS lending activity.

In 2014, the pace of new lending to YBS farmers exceeded the pace of overall Farm Credit System lending to farmers. The number of loans made in 2014 to young and beginning farmers increased by 2.0 percent and 1.8 percent, respectively, from 2013, while overall the number of farm loans made by the System fell 1.8 percent. Although the number of loans the System made to small farmers declined, it declined by only 1.4 percent, which is less than the rate by which total farm loans fell. Therefore, the share of total System farm loans made to all three YBS categories rose from that of 2013.

From 2013 to 2014, the dollar volume of new loans made to young and beginning categories rose by 5.0 percent and 3.2 percent, respectively. The System's overall volume of new farm loans grew by 1.8 percent. Therefore, the share of total System farm loan volume made to these YBS categories rose from that of 2013. Loan volume to small farmers decreased by 5.2 percent from 2013.

Because of a decline in repayments, the number and dollar volume of loans outstanding increased in all three YBS categories in 2014 from the prior year. The number of loans outstanding increased by 4.0 percent to beginning farmers, 3.5 percent to young farmers, and 1.2 percent to small farmers. The dollar volume outstanding increased by 7.4 percent to young farmers, 5.5 percent to beginning farmers, and 1.7 percent to small farmers.

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

Young — In 2014, the System made 59,145 loans to young farmers — that is, to those who are 35 years old or younger. The volume of total new loans to young farmers amounted to $8.7 billion. The loans made to young farmers in 2014 represented 16.9 percent of all farm loans made during the year and 11.3 percent of the dollar volume of loans made. At the end of 2014, the System had 181,736 loans outstanding totaling $25.5 billion to young farmers.

Beginning — The System made 74,099 loans to beginning farmers — that is, to those who have been farming for 10 years or less. The volume of total new loans to beginning farmers amounted to $11.4 billion in 2014. The loans made to beginning farmers in 2014 represented 21.2 percent of all farm loans made during the year and 14.8 percent of the dollar volume of loans made. At the end of 2014, the System had 263,277 loans outstanding totaling $39.0 billion to beginning farmers.

Small — FCS institutions made 140,608 loans, totaling $10.7 billion, to small farmers (those with gross annual sales of less than $250,000) in 2014. The loans made in 2014 to farmers in this category represented 40.2 percent of all farm loans made during the year and 13.9 percent of the dollar volume of all farm loans made. At the end of 2014, the System had 490,425 loans outstanding totaling $45.7 billion to small farmers.

Table 23. YBS Loans Outstanding (as of December 31, 2014)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	181,736	17.9	$25.5	11.2	$140,542
Beginning	263,277	26.0	$39.0	17.1	$148,079
Small	490,425	48.4	$45.7	20.0	$93,129

Source: FCA 2014 Annual Report on the Farm Credit System

Note: YBS data for each category are reported separately and should not be added.

Table 24. YBS Loans Made During 2014 (as of December 31, 2014)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	59,154	16.9	$8.7	11.3	$147,587
Beginning	74,099	21.2	$11.4	14.8	$153,280
Small	140,608	40.2	$10.7	13.9	$76,359

Source: FCA 2014 Annual Report on the Farm Credit System.

Note: YBS data for each category are reported separately and should not be added.

To help YBS farmers qualify for credit in 2014, FCS associations offered differentiated loan underwriting standards for YBS borrowers or made exceptions to their regular standards. For example, some associations used higher loan-to-appraised-value ratios or lower debt repayment capacity standards for YBS borrowers. More than a third of associations provided concessionary loan fees, and more than half offered lower interest rate programs for YBS borrowers.

Many associations partnered with state and federal programs to provide interest rate reductions, guarantees, or loan participations for YBS borrowers. About three-quarters of associations indicated they had used government loan guarantee programs, primarily those of the USDA Farm Service Agency, to increase their service to YBS farmers. This was up from two-thirds of associations in 2013. These guarantees reduce the risk associations face when lending to individuals who cannot otherwise meet underwriting standards.

In addition, FCS institutions are using various approaches and sources of information to improve their YBS performance and outreach. For example, more System associations in 2014 (43 percent) used YBS advisory committees to provide input on YBS-related issues to their boards of directors. To further improve performance, most FCS institutions have YBS training for their staff at least annually and in 2014 more associations linked their manager and lending staff performance evaluations to their YBS performance criteria.

Finally, associations employed a range of outreach measures to reach potential YBS farmers, such as sponsorship of local farmers markets and various agricultural events. They also provided training programs and services to YBS farmers, often in partnership with state or national young farmer groups or colleges of agriculture; examples include programs to build leadership and financial management skills, and special conferences geared to young, beginning, or small farmers. In addition, most FCS associations provide financial support for college scholarships or for FFA, 4-H, and other agricultural organizations.

Market Share of Farm Debt

According to the U.S. Department of Agriculture's November 2015 forecast, total farm business debt will be $367.4 billion at the end of 2015, up 6.3 percent from a year earlier and up 25.0 percent since 2011. 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 $345.7 billion farm business debt market was 39.6 percent at the end of calendar year 2014, down from 41.0 percent at the end of 2013.[10] The market share for commercial banks also decreased — from 42.1 percent in 2013 to 41.7 percent in 2014. USDA estimates on the market shares of individual lender groups for year-end 2015 will not be available until August 2016.

Historically, except for the unusual 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 lending.

Despite modest growth in the System's real estate lending, its share of farm business debt secured by farm real estate decreased at year-end 2014 to 45.2 percent from 46.1 percent the previous year. Farm real estate lending by commercial banks grew at a faster pace during the year, with their share of farm real estate debt holding at 37.3 percent. The System has had the largest market share of farm business debt secured by farm real estate since 2001.

The System also experienced modest growth in non–real-estate farm debt in 2014, yet its market share still declined from 33.8 percent at year-end 2013 to 33.2 percent at year-end 2014. Commercial banks continue to lead the non–real-estate-secured farm debt market with a 47.5 percent market share at the end of 2014. Historically, commercial banks have had the greatest share of this debt segment.

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[10] USDA's estimate of farm debt includes debt associated with the farming business and therefore excludes FCS lending associated with cooperatives, rural homes, rural utilities, marketing and processing operations, and other nonfarm-lending activities.

Part IV

Performance Budget

FY 2017

Performance Budget Overview

Our FY 2017 Performance Budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total Performance Budget (table 25) is $70.4 million and reflects a 6.34 percent increase from FY 2016.

Table 25. FCA Performance Budget, FYs 2015 – 2017

	FY 2015 Revised	FY 2016 Revised	FY 2017 Proposed
Policy and regulation	$14,433,003	$14,140,400	$14,671,159
Safety and soundness	49,911,992	50,558,847	54,197,733
Reimbursable activities*	1,255,005	1,500,753	1,531,108
Total	**$65,600,000**	**$66,200,000**	**$70,400,000**

* In contrast to the reimbursement numbers in table 4, these totals include indirect costs.

Policy and Regulation

Our Performance Budget includes $14.7 million for the policy and regulation program, a 3.75 percent increase from FY 2016. Most of the funds requested for policy and regulation in FY 2017 will support regulatory projects that were published in the Unified Agenda in the fall of 2015. Generally, we open about a dozen regulatory projects each year. Funds are also used to support other statutory and regulatory activities, including policy studies and market research; management of our Consolidated Reporting System; and approvals of corporate applications, System funding requests, and mission-related investment programs.

Safety and Soundness

The Performance Budget includes $54.2 million for the safety and soundness program, a 7.20 percent increase from FY 2016. This increase is necessary because of staff increases and a reallocation of examination resources from reimbursable activities to examination activities to meet System 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.[11] Examiners evaluate the overall condition and performance of these institutions and communicate the results to the 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 addition, FY 2017 budgeted monies will support development of examination guidance and systemic risk oversight of the System, including Farmer Mac.

Reimbursable Activities

The Performance Budget includes $1,531,108 for reimbursable activities. The reimbursable activities are summarized below and include indirect costs.

- **Farm Credit System Insurance Corporation (FCSIC) —** $1,107,224 for administrative support services to be provided under FCSIC contract. The administrative support services in FY 2017 include support for examination, information technology, human resources, and communication and public affairs, as well as assistance in completing one premium audit.
- **National Consumer Cooperative Bank (NCB) —** $252,975 for examining NCB. FY 2017 activities involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) assessments.
- **USDA —** $170,909 for potential work completed under contract with USDA. The work in FY 2017 will involve supporting USDA in its review of the Rural Business Investment Programs.

Table 26 summarizes the costs associated with our program activities, broken down by products and services.

[11] Section 5.19(a) of the Farm Credit Act requires FCA to examine Federal Land Bank Associations (FLBAs) at least once every three years; however, the two stand-alone FLBAs in the System are direct lenders and are examined at least once every 18 months.

Table 26. FY 2017 Proposed Budget and Full-Time Equivalents for Program Activities

Program activity	Products and Services	Budget Amount	FTEs
Policy and regulation	Regulation and policy development	$13,077,327	49.61
	Statutory and regulatory approvals	1,593,832	6.08
	Total for policy and regulation	**$14,671,159**	**55.69**
Safety and soundness	Examination	$50,055,610	228.15
	Economic, financial, and risk analysis	2,349,673	8.38
	FCS data management	1,792,450	9.02
	Total for safety and soundness	**$54,197,733**	**245.55**
Reimbursable activities	**Total for reimbursable activities**	**$1,531,108**	**6.06**
All program activities	**Total**	**$70,400,000**	**307.30**

Desired Outcomes for Strategic Goals

Our strategic goals and desired outcomes, which are detailed in table 27, help us measure whether we have achieved our public mission. The information that follows provides

- the strategies we use to accomplish the outcomes;
- the measures for each outcome, with targets that reflect our desired performance for FYs 2016 through 2017; and
- a historical summary of the costs of accomplishing the desired outcomes.

Table 27. Desired Outcomes for Strategic Goals

Strategic Goal	Desired Outcome
1. Ensure that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac.
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action

Policy and Regulation — We established the Policy and Regulation program to track the product and service costs of achieving a flexible regulatory environment. The products and services we provide to support this program are

- regulation and policy development, and
- statutory and regulatory approvals.

Safety and Soundness — We established the Safety and Soundness program to track the product and service costs of identifying risk and taking timely corrective action. The products and services we provide to support this program are

- examination;
- economic, financial, and risk analysis; and
- FCS data management.

Flexible Regulatory Environment

Strategies

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Develop regulatory capital rules within the FCA's regulatory framework for the System and Farmer Mac that are clearly defined, easily understood, and consistent with industry standards.

2. Within the framework of the Farm Credit Act, continuously update policies and regulations to provide an operating environment for the System and Farmer Mac that meets the changing needs of agriculture and rural America.

3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America, including the use of innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.

4. Encourage System institutions to evaluate their YBS programs to ensure that the programs also meet the credit and financial service needs of producers seeking to enter urban agriculture, to produce local foods, or to use direct-to-consumer marketing channels.

5. Encourage the System and Farmer Mac to find and develop both public and private partnerships and alliances with other financial service providers to address the changes in agriculture through new and existing programs.

6. Promote System business practices, including outreach activities to all creditworthy eligible potential customers, emphasizing minority and socially disadvantaged farmers and ranchers and minority-owned entities.

7. Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

8. Consistent with cooperative principles and the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their customers and rural America.

9. Encourage full participation of stakeholders in the development and review of regulatory proposals as appropriate.

Measuring the Achievements

Table 28 summarizes the results of our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac. We achieved or exceeded the goals we identified for FY 2015.

Table 28. Flexible Regulatory Environment — Performance Measures and Achievements

Measure	FY 2015 (Actual)		FYs 2016 – 2017
	Target	Result	Target
1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	≥90%	99%	≥90%
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes	Yes	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%	98%	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with the YBS regulations.	≥90%	100%	≥90%
5. Whether institutions meet the objectives of our mission-related regulations and whether institutions have made observable progress in meeting the objectives of any new mission-related regulations that have been in effect for at least one year.	Yes	Yes	Yes
6. Whether FCA reached out to nontraditional commenters to request input on GSE mission-related rulemaking actions.	Yes	Yes*	Yes

* We did not approve any proposed rules during the reporting period that were related to GSE mission.

Budgets

Table 29 provides the budgeted amounts we need to achieve a flexible regulatory environment from FYs 2015 to 2017.

Table 29. Budgets to Achieve a Flexible Regulatory Environment

	FY 2015 Revised	FY 2016 Revised	FY 2017 Proposed
Regulation and policy development	$12,991,536	$12,580,161	$13,077,327
Statutory and regulatory approvals	1,441,467	1,560,239	1,593,832
Total	**$14,433,003**	**$14,140,400**	**$14,671,159**

Note: The resources required to achieve a flexible regulatory environment will increase in FY 2017 because of additional hiring, salary and benefit increases, training, information technology costs, and our regulatory initiatives.

Effective Risk Identification and Timely Corrective Action

Strategies

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Ensure that staff provides prompt and comprehensive information to the FCA Board and remains flexible and responsive to the Board's priorities so that the Board will be better able to make fully informed, arm's-length decisions.

2. Recruit and retain a diverse and highly skilled workforce to meet FCA's current and future risk analysis, examination, and oversight needs.

3. Continue proactive oversight of institution-specific and systemic risks.

4. Promote a vibrant program of Systemwide risk supervision that uses stress testing, research, and analysis to identify emerging systemic risks, and provides proactive examination direction and policy guidance for use internally and externally.

5. Use agency supervisory and enforcement authorities effectively to remediate weakened institutions.

6. Promote the continued importance and improvement in the quality of System loan data for use by both the agency and the System in risk management and business planning.

7. Develop regulatory guidance and examination procedures that keep pace with evolving strategies and new programs in meeting the changing needs of agriculture and rural America.

8. Continue to integrate standards of conduct rules and codes of ethical behavior into the organizational culture that are consistent with government ethics guidelines, universally understood, and consistently applied.

Measuring the Achievements

Table 30 provides the results of our examinations and oversight efforts to effectively identify risk and take timely corrective action. We achieved or exceeded our goals as of the end of FY 2015.

Table 30. Effective Risk Identification and Timely Corrective Action — Performance Measures and Achievements

Measure	FY 2015 (Actual)		FYs 2016 – 2017
	Target	Result	Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%	99.5%	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥80%	91%	≥80%
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, and net collateral ratio).	≥90%	100%	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes	Yes	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%	100%	100%
6. Percentage of FCS institutions providing FCA with consolidated loan data. (Target for 2014: ≥90 percent; target for 2015: 100 percent)	≥90%	100%	≥100%

Budgets

Table 31 provides the budgeted amounts we need to identify risk in the FCS and to take timely corrective action from FYs 2015 to 2017.

Table 31. Budgets to Identify Risk and Take Timely Corrective Action

	FY 2015 Revised	FY 2016 Revised	FY 2017 Proposed
Examination	$45,740,951	$46,434,836	$50,055,610
Economic, financial, and risk analysis	2,658,738	2,301,040	2,349,673
FCS data management	1,512,303	1,822,971	1,792,450
Total	**$49,911,992**	**$50,558,847**	**$54,197,733**

Note: The resources required to identify risk and take timely corrective action will increase in FY 2017 because of additional hiring, salary and benefit increases, training, and information technology costs.

Performance Measurement and Reporting

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2013 to 2018. In FY 2015, the FCA Board and executive staff began reviewing the current Strategic Plan. We plan to update our Strategic Plan to address current conditions and emerging issues that may cause our strategic initiatives to be revised.

Our performance measurement system provides a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the agency-level measures are linked to our strategic goals.

Our Chief Executive Officer, with assistance from our Chief Operating Officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The Chief Executive Officer monitors the agency's progress and results relative to the agency-level measures on a quarterly basis throughout each fiscal year. Periodic performance reports are provided to the FCA Board. The year-end 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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Farm Credit Administration

Fiscal Year 2018 Proposed Budget and Performance Plan

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List of Acronyms and Abbreviations

ACA ....Agricultural Credit Association
CAMELS ....capital, assets, management, earnings, liquidity, and sensitivity
Dodd-Frank Act ....Dodd-Frank Wall Street Reform and Consumer Protection Act
Farm Credit Act.......................Farm Credit Act of 1971, as amended
Farmer Mac.............................Federal Agricultural Mortgage Corporation
FCA...Farm Credit Administration
Leasing Corporation ....Farm Credit Leasing Services Corporation
FCS or System ....Farm Credit System
FCSBA ....FCS Building Association
FCSIC ....Farm Credit System Insurance Corporation
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 the regulation and examination of the banks, associations, and related entities that constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

Created by an executive order of the president in 1933, FCA now derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. We promulgate regulations to implement the act and examine System institutions for compliance with the act and regulations, and with safe and sound banking practices. Our mission is to ensure a safe, sound, and dependable source 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 2018. It discusses our functions and program activities and presents an overview of the financial condition of the FCS and Farmer Mac, the entities we regulate. Also included is the fiscal year 2018 performance budget, which ties proposed expenditures to the goals and objectives in our strategic plan.

This document is organized into four sections as follows:

1. Part I contains our budget request. This section presents budget trends that we monitor annually.
2. Part II covers the functions, programs, and services we undertake to fulfill our public mission. It also provides information on actions we have taken to improve internal operations.
3. Part III discusses the System's financial condition and performance.
4. Part IV contains our FY 2018 performance budget, which provides a basis for measuring our overall effectiveness.

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[1] Although Farmer Mac is an FCS institution under the Farm Credit Act (12 U.S.C. 2279aa-1(a)(2)), we discuss Farmer Mac separately from the other entities of the FCS in this document because of the secondary market authorities unique to Farmer Mac. Farmer Mac is not jointly and severally liable on debt issuances with other parts of the FCS.

Part I

Fiscal Year 2018

Proposed Budget

Fiscal Year 2018 Budget Overview

The FY 2018 proposed budget request, as shown in table 1, includes $72.6 million in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture, Farm Credit System Insurance Corporation, and the National Consumer Cooperative Bank adds $625,000 to this amount, bringing the total proposed FCA budget request to $73.225 million.

Table 1. Farm Credit Administration FY 2018 proposed budget

Description	Amount Proposed	Percentage of Total Budget
Full-time-permanent personnel (FTP)	$42,499,122	58.0
Other than FTP	1,171,516	1.6
Other personnel compensation	384,853	0.5
Total personnel compensation	**$44,055,491**	**60.1**
Personnel benefits	17,598,368	24.0
Benefits for former personnel	25,000	0.0
Total compensation and benefits	**$61,678,859**	**84.1**
Travel and transportation of persons	3,706,899	5.1
Transportation of things	247,308	0.4
Rent, communications, and utilities	759,461	1.0
Printing and reproduction	222,150	0.4
Consulting and other services	4,898,851	6.7
Supplies and materials	885,848	1.2
Equipment	825,624	1.1
Total budget	**$73,225,000**	**100.0**

Note: Of the amount collected in assessments from current and prior years, no more than $72.6 million may be used for administrative expenses in FY 2018. The total budget includes an additional $625,000 from anticipated reimbursable activity.

The FY 2018 proposed budget of $73.225 million increased by $2.825 million over the FY 2017 proposed budget of $70.4 million. Because we have leveraged technology and continually emphasized savings and efficiencies in operations, our costs have remained relatively stable. As a result, we are able to present a prudent, cost-effective budget.

The FY 2018 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.

The environment in which the FCS operates is dynamic and increasingly complex. The challenges in the nation's financial sector over the past few years were important considerations during our most recent strategic planning period. As a result, we have redirected staff resources to proactively manage systemic risk and to continually seek ways to increase our effectiveness and efficiency.

In the FY 2018 proposed budget, the full-time-equivalent (FTE) staffing level decreases by approximately four FTE positions from the staffing level in the FY 2017 proposed budget. However, the FY 2018 budget anticipates increases in spending for salaries and benefits because of career-ladder promotions, benefit increases, funded leave, and the hiring of staff for the agency's Office of Information Technology.

In addition, the Office of Information Technology anticipates an increase in costs for IT security enhancements, data efficiencies, IT maintenance, and equipment in the FCA field offices. The Office of Examination has submitted a travel budget that covers examiner training and costs associated with examination of institutions to ensure safety and soundness in accordance with the Farm Credit Act.

As an agency covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, we must also strive to achieve comparability in compensation and benefit programs with other agencies covered under the act.

The budget provides the resources needed to fulfill the following objectives of the FCA board chairman and CEO:

- To maintain strong examination and supervisory programs
- To establish the right level of regulatory capital for FCS institutions
- To ensure that the public purpose and mission-related responsibilities of the System are carried out appropriately

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 36.)

The budget provides resources for developing regulations and policy positions that implement statutes, for promoting the safety and soundness of the FCS, and for supporting the System's mission as a dependable source of credit and related services for agriculture and rural America.

We also continue to invest in our human capital initiative. This initiative promotes learning, expertise, and personal growth among our employees. It is an important part of our strategy to retain our skilled workforce and to prepare employees for future leadership roles. It also supports our results-oriented culture.

Knowledge management is a key component of our continuous learning strategy. When we foresee vacancies in critical fields, we ask our experienced employees to work with our newly hired employees to transfer critical knowledge and skills.

Our policies on training and employee development further enhance the transfer of knowledge. We will continue to emphasize training for pre-commissioned examiners and the need to capture the knowledge of employees who are eligible to retire.

As part of our overall Information Resources Management (IRM) program, we maintain a strong capital planning and investment control process. Our operating units may submit proposed projects for consideration. The Office of Information Technology discusses each project with management; defines the priority, urgency, and scope of the technology changes involved; and allocates resources to implement the project. The chief information officer (CIO) considers each project's cost, risk, anticipated return, and its alignment with and impact on FCA's enterprise architecture.

The CIO may reprioritize IRM initiatives at any time during the year to accommodate changing business needs. The following table shows current development, modernization, or enhancement projects and their links to FCA's strategic goals. These projects enhance our ability to perform essential functions.

The IRM Plan initiatives listed in table 2 are multiyear efforts that apply to numerous FCA projects. Rather than simply maintaining operations, these projects are designed to improve the agency's work processes.

Table 2. Information Resource Management Plan initiatives

Development, Modernization, or Enhancement (DME)	Regulation and Policy	Safety and Soundness	Staff Development	Distributed
Acquire data and improve quality and accessibility		X		
Automate forms and workflow processes				X
Develop reports or dashboards to systematize analysis		X		
Implement a human resource information system				X
Improve access to FCA network		X		
Improve interoffice communication and transparency			X	
Leverage geographic information system technology to support FCA mission		X		
Modernize FCA custom applications				X
Modify Consolidated Reporting System (CRS) data and analysis for new capital rule	X			

Background

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. Because of increased risk in several institutions, we expect mergers and consolidations to continue; and because of challenges in the global economy, we expect the System's asset base to grow at only a moderate pace. Currently, the average institution's asset base exceeds $1 billion.

Our budget request includes the resources necessary to ensure the safety and soundness of the System as it grows and changes. The budget strategy will enable us to leverage our most valuable investment — our people. It will enable us to continue to streamline and improve operations and to enhance staff expertise to meet challenges and opportunities that may arise. Our budget strategy will also support our IT needs, allowing us to acquire and maintain the infrastructure we need and to protect our data against the growing number of cyberthreats.

FCA program areas

The agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The policy and regulation program

The budget provides resources for developing regulations and policy positions that implement statutes, promote the safety and soundness of the FCS, and ensure that the System carries out its mission. In addition, the budget provides for 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 the processing of information, the communication of agency positions, and the administration of activities associated with the policy and regulation program. In total, policy and regulation activities account for approximately $15.0 million, including 54.60 FTEs in the proposed FY 2018 budget (see table 26 on page 83).

The safety and soundness program

The budget provides resources to examine the System for safety and soundness. These resources also ensure that FCS institutions comply with applicable laws and regulations. The budget continues to implement a risk-based approach to oversight and examination, which maximizes the effectiveness of examinations by allocating more examination resources to institutions with greater risk.

The budget also includes sufficient resources to ensure that the FCS properly identifies, manages, and controls risk. Our initiatives include developing risk topics, sending our examiners to work on-site at the institutions they are examining, and emphasizing loan review by testing the institutions' credit reviews, internal audits, and internal controls.

Our budget also enables us to take special supervisory and enforcement actions when necessary. Weaknesses in the nation's economy and credit markets and volatility in agriculture have weakened some FCS institutions, requiring our examiners to take special action to address areas of concern.

In total, safety and soundness activities account for $56.6 million, including 244.10 FTEs in the proposed FY 2018 budget (see table 26 on page 83).

Office of Inspector General's FY 2018 budget request

Section 6(f)(1) of the Inspector General Act of 1978, as amended, requires an inspector general (IG) to include specific information in the budget request the IG submits to the head of the department or designated federal entity to which the IG reports. To fulfill the requirement of section 6(f)(2) of the IG Act, the FCA board must in turn include this same information in the budget request that we submit to the president.

The information that the IG Act requires to be included is provided below:

- The aggregate budget request for the Office of Inspector General (OIG) is $1,587,934.
- The amount needed for OIG training is $17,450 (tuition).
- The amount needed to support the Council of the Inspectors General on Integrity and Efficiency is $3,010.

The FCA board is submitting the IG's budget request as received from the IG.

Budget Trends

This budget supports the agency's safety and soundness programs. It maintains our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. The FY 2018 budget is necessary to continue to fund employee salary and benefit costs, and technology expenditures — all of which represent approximately 90 percent of FCA's total budget.

Over the past two years our budget requests increased on average by 5 percent. The most recent increase request is 4 percent. Most of the cost increases are for salaries and benefits — as would be expected since salaries and benefits represent approximately 84 percent of our budget. Travel costs also increased in FY 2018 over FY 2017, but it is important to note that the proposed travel budget in FY 2017 decreased by almost $700,000. Table 3 provides information on our budget trends.

Table 3. FCA budgets, FYs 2016 – 2018

	FY 2016 Revised Budget	FY 2017 Revised Budget	FY 2018 Proposed Budget
Full-time permanent (FTP)	39,079,838	$41,665,633	$42,499,122
Other than FTP	1,152,534	1,154,526	1,171,516
Other personnel compensation	374,120	386,867	384,853
Total personnel compensation	**$40,606,492**	**$43,207,026**	**$44,055,491**
Personnel benefits	14,954,516	16,702,576	17,598,368
Former personnel benefits	25,000	25,000	25,000
Total compensation and benefits	**$55,586,008**	**$59,934,602**	**$61,678,859**
Travel and transportation of persons	3,417,301	3,166,819	3,706,899
Transportation of things	170,150	220,758	247,308
Rent, communications, and utilities	821,175	763,652	759,461
Printing and reproduction	229,750	221,150	222,150
Consulting and other services	4,283,579	4,705,713	4,898,851
Supplies and materials	745,000	839,094	885,848
Equipment	947,037	548,212	825,624
Total obligations	**$66,200,000**	**$70,400,000**	**$73,225,000**

The Office of Management and Budget has issued guidance for agencies to reduce costs and increase efficiencies. We have taken the following actions to reduce costs:

- Implemented improved audio- and videoconferencing, thereby controlling travel costs.
- Revised and issued the Travel and Relocation Policy to encourage prudent travel practices.
- Issued detailed guidance regarding conference costs, including a policy that requires the chief financial officer or the chief operating officer to approve higher-cost conferences.
- Allowed employees to use penalty fares to take advantage of lower airfares.
- Reduced travel to the field offices.
- Increased reliance on the FCS Loans Database to help reduce travel costs.

- Installed network copier printers with scanning capabilities to reduce hard copies, promote electronic files, and reduce the number of printers for individual employees.

- Implemented additional electronic workflow processes to enhance internal controls, reduce paper, and increase our use of electronic records.

In addition, we regularly use the following practices to keep our costs low:

- Use technology devices (such as laptops and smartphones) to keep travel costs down and maintain continuity of operations.

- Ensure that service provider costs are well managed.

- Scrutinize the issuance of information technology devices to ensure that only employees who have a bona fide business need receive the devices.

- Review, on a monthly basis, the usage of smartphones and other wireless devices to ensure the devices are being fully utilized and costs are being minimized.

- Use laptops as our standard platform for computer needs since most of our employees are examiners who travel frequently. Laptops also help us ensure continuity of operations, and they expand opportunities for employees to telecommute — both during normal operating conditions and when facilities are inaccessible.

- Continue to expand our use of technology to disseminate publications (for example, by publishing documents on our website and distributing them by email) in order to reduce the amount of printing.

- Reduce printing by conducting research online and instituting a “Going Green” initiative for training materials.

- Continue to make our workflow more efficient and integrated by using the EDGe Project.

- Continue to collaborate and share resources across FCA offices to increase efficiency.

- Implement inspector general recommendations as quickly as possible to realize efficiencies.

Sources of FCA revenue and funding

We maintain a revolving fund financed primarily from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation, U.S. Department of Agriculture, and the National Consumer Cooperative Bank. Table 4 shows budgeted sources of revenue and funding for FYs 2016 to 2018.

Table 4. Budgeted sources of FCA revenue and funding, FYs 2016 – 2018

Source	FY 2016 Revised Budget	FY 2017 Revised Budget	FY 2018 Proposed Budget
ASSESSMENTS			
Banks, associations, and related entities	$55,850,000	67,350,000	TBD
Federal Agricultural Mortgage Corporation	2,450,000	2,450,000	TBD
Carryover funds[b]	7,300,000[a]	-	TBD
Assessments available for obligation	**$65,600,000**	**$69,800,000**[b]	**$72,600,000**[c]
REIMBURSEMENTS[d]			
National Consumer Cooperative Bank	**98,798**	**95,275**	**54,343**
Farm Credit System Insurance Corporation	**411,324**	**405,891**	**465,416**
U.S. Department of Agriculture	**89,878**	**98,834**	**105,241**
Total	**$66,200,000**	**$70,400,000**	**$73,225,000**

a Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation. The $7.3 million of carryover includes $4.4 million of assessment carryover.

b Our proposed obligation limit from assessments is $69.8 million for FY 2017.

c We will determine assessments and carryover amounts for FY 2018 in September of FY 2017.

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

Note: The revolving fund is financed by three sources: (1) assessments to System institutions and Farmer Mac, (2) income from reimbursable services that we provide to other federal agencies and the National Consumer Cooperative Bank, and (3) interest earned from investments with the U.S. Treasury.

FCA reserve

The institutions we oversee are involved in two volatile industries — agriculture and finance. Volatility can produce financial stress for institutions, creating a need for heightened oversight and supervision. To ensure that we have the resources to provide the necessary supervision and oversight during periods of financial stress, we established a reserve. Congress granted approval for the reserve under section 5.15(a)(1)(B) of the Farm Credit Act, and the FCA board established guidelines for it.

The reserve ensures that we can effectively and efficiently respond to safety and soundness issues arising within the System. It allows us to respond to these issues without increasing assessments at a time that may be financially difficult for System institutions. At the end of FY 2016, we had approximately $12.3 million in our reserve.

Assessments

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. Assessments grew slowly and steadily until 2009 when financial stress began to affect many System institutions, creating a need for heightened oversight and supervision.

Assessments increased more rapidly through 2012 to cover the costs of the additional resources required for oversight and supervision. Assessments in 2013 and 2014 were particularly low because we used carryover from prior-year assessments to help fund our operations.

To fund the FY 2016 budget, we raised our assessments by $6.8 million; this number would have been higher if we had not used carryover to offset the costs. The FY 2017 assessment does not include carryover.

Table 5. FCS assessments, FYs 2008 – 2017

Fiscal Year	Assessment (in millions)
2008	$42.5
2009	$45.1
2010	$49.1
2011	$52.5
2012	$54.1
2013	$50.0
2014	$50.0
2015	$51.5*
2016	$58.3
2017	$69.8**

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

** Because of the budget limitation in the continuing resolution, the assessment may be reduced in the fourth quarter, beginning June 30, 2017.

At the direction of Congress, we continue to reduce our carryover. As table 6 shows, we assessed the System $58.3 million in FY 2016. At the end of the year, we also had $1.5 million in reimbursable revenue and deobligations. During the year, we had obligations of $64.1 million. The difference between our obligations and our revenue was −$4.3 million, which allowed us to draw down our carryover amount to $0.9 million. Therefore, from FY 2015 to FY 2016, we reduced our assessment carryover by 83 percent.

Table 6. FCA funding, obligations, and assessment carryover, FYs 2015 and 2016 (dollars in millions)

	FY 2015	FY 2016
Current-year assessments	$51.5	$58.3
Reimbursable revenue and deobligations	$1.5	$1.5
Total funding	**$53.0**	**$59.8**
Obligations	$59.5	$64.1
Total funding minus obligations	**($6.5)**	**($4.3)**
Assessment carryover from prior years	$11.7	$5.2
Carryover from assessments at end of fiscal year	**$5.2**	**$0.9**

FCS borrower costs

As table 7 shows, FCS borrowers incurred a net cost of approximately 1.8 basis points, or 1.8 cents for every $100 of assets held, to pay for FCA operations in FY 2016. Since FY 2007, the net cost to borrowers has decreased by 0.4 basis points.

FCS borrower costs are based on the relationship between the System's total assessments and assets held (not including Farmer Mac). The FCS held $314.4 billion in total assets as of September 30, 2016, up from $291.3 billion a year earlier.

Borrower costs have declined over the years for the following reasons:

- System assets have grown.
- FCA has used carryover to offset additional costs.
- FCA has taken various measures to reduce operating costs. (See pages 10 and 11 for details.)

Table 7. FCA's net cost to System borrowers, FYs 2007 – 2016

FY Ended September 30	Basis Points
2007	2.2
2008	2.0
2009	2.0
2010	2.1
2011	2.2
2012	2.2
2013	1.9
2014	1.8
2015	1.7
2016	1.8

Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2017 is $2.50 million. As required by regulation, we will reconcile and adjust the assessment after the fiscal year-end to reflect the actual amount expended. Actual costs for FY 2016 were $2.38 million. The assessment for FY 2018 is not yet available because the Office of Secondary Market Oversight will not complete the FY 2018 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2017.

Table 8 shows assessments for fiscal years 2008 to 2017. 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 8. Farmer Mac assessments, FYs 2008 – 2017

Fiscal Year	Assessment (in millions)
2008	$2.05
2009	$2.05
2010	$2.25
2011	$2.20
2012	$2.25
2013	$2.38
2014	$2.38
2015	$2.40
2016	$2.45
2017	$2.50

Part II

Farm Credit Administration

Profile of the Farm Credit Administration

The Farm Credit Administration was created through an executive order of President Franklin D. Roosevelt and currently derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. As an independent agency within the executive branch of the federal government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).[2]

The FCS is the oldest of the financial government-sponsored enterprises (GSEs). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

The FCS had $242.1 billion in outstanding loans to agriculture and rural America as of September 30, 2016.

[2] By statute, Farmer Mac is an institution of the Farm Credit System; however, in this document, we will use the terms “FCS” and “System” to refer to all the entities in the Farm Credit System except Farmer Mac and affiliates of Farmer Mac.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac's secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural lenders and intermediaries, including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2016, the volume of loans either purchased or guaranteed by Farmer Mac totaled $17.2 billion.

FCA is also 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 contract with the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture to provide examination services.

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 our Strategic Plan for FYs 2016–2021, 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 also evaluate whether institutions are complying with laws and regulations, especially the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers. 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 operations are determined to be 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.[3]

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 System debt obligations.

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 additional field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

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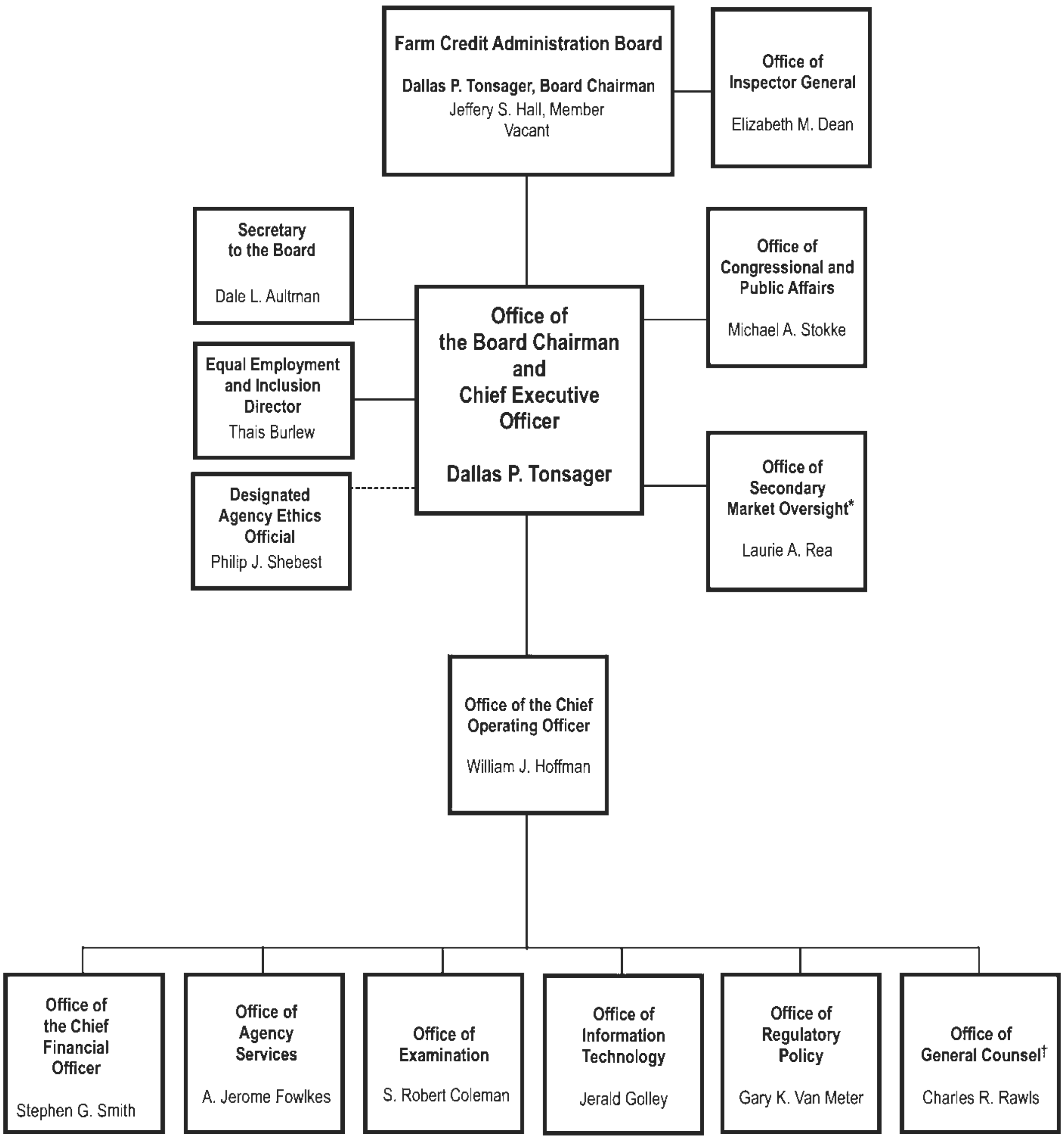
[3] Provisions in the Farm Credit Act regarding borrower rights do not apply to loans to cooperatives.

Figure 1. FCA organizational chart

As of March 28, 2017 (Note: For the text version of this chart, go to http://www.fca.gov/about/offices/orgchart_accessible.html.)



***Reports to the Board for policy and to the CEO for administration.**
†Maintains a confidential advisory relationship with each of the Board members.

FCA Internal Operations

FCA is firmly committed to the continuous development and support of its most valuable asset — its employees. This commitment is at the core of our five-year Human Capital Plan. The plan focuses on workforce planning and talent management, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of our Human Capital Plan is based on the Human Capital Standards for Success, a collaboration of the Office of Management and Budget, the Office of Personnel Management, and the U.S. Government Accountability Office.

Human capital management

Human capital strategies are linked to our strategic plan through clearly defined strategic initiatives and action plans. We continually monitor workforce trends and implement best practices. We also monitor the System's changing environment so that we can adjust our staffing levels and maintain requisite skill sets by hiring additional staff, providing employee training and development, and transitioning employees from staff positions that are no longer necessary. We review our workforce planning strategies annually. See table 9 for full-time-equivalent (FTE) staffing levels (rounded to the nearest whole number) from FYs 2008 through 2018.

Table 9. Full-time-equivalent staffing levels

Fiscal Year	FTE Staffing Level
2008	251
2009	261
2010	277
2011	286
2012	287
2013	273
2014	278
2015	277
2016	290
2017	310 (authorized)
2018	306 (authorized)

Note: From FYs 2008 to 2018, our ratio of managers and supervisors to other personnel has ranged between one to five, and one to six.

We perform workforce assessments annually to obtain information on critical staffing variables, such as the age and grade of employees. From this analysis, we develop five-year projections to determine and mitigate the impact of employee retirements and separations.

As of September 30, 2016, approximately 22 percent of our personnel were eligible to retire; we expect that number to remain relatively stable through the end of FY 2017. As a result of recent hiring, the number of employees who have been employed five years or fewer has risen substantially over the past two years and now constitutes a sizable portion of our workforce. This trend is likely to continue over the next three to five years. See table 10 for retirement eligibility projections at FCA.

Table 10. FCA retirement eligibility, FYs 2017 – 2021

Fiscal Year	Eligible Retirements
2017	72*
2018	7
2019	11
2020	15
2021	15

* This number includes 60 staff members who became eligible to retire prior to FY 2017.

Identifying our human capital needs over the next five years, including the optimal size of our workforce and the appropriate skill sets of our employees, is one of our primary goals. Assessments take place at all levels to accurately gauge human capital requirements. We use the results of these assessments to develop, enhance, and redirect training and development programs.

As we face the retirement of a significant percentage of the FCA workforce, we are working hard to sustain a high level of institutional knowledge, job skills, and analytical expertise. In addition to succession planning and cross-training, we provide a variety of resources and programs for sharing knowledge across the organization.

Our continuous learning strategy emphasizes leadership, competencies, and knowledge management. Succession planning is also an important element. By providing education, training, and other development opportunities, we seek to attract and retain bright, creative, and enthusiastic people.

We coordinate training goals with the leadership skills and competencies that are integral to achieving our mission. We establish training projection plans at the office level and the agency level each year to help us manage employee training and development activities. These plans project budget needs for training and development; they are directly linked to FCA's performance management system. Supervisors and employees collaborate on training and development goals.

By working closely with agency management and conducting staff surveys, our learning officer gauges our training needs and develops efficient and effective methods to acquire outside training and to develop internal training courses and learning techniques. This training strategy helps prepare our workforce for emerging challenges and leadership succession.

Formal training programs support the needs of core occupational groups through a variety of methods, such as in-house training, vendor courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop computer with the technology to support e-learning initiatives. In addition, all employees have regular access to training on our computer systems.

We demonstrated our commitment to our training and knowledge transfer goals in FY 2016 by providing appropriate training to pre-commissioned examiners and capturing the knowledge of examiners who are eligible to retire. As more and more employees become eligible to retire, knowledge transfer becomes a greater concern. We have created an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key component of our continuous learning strategy. As vacancies in critical fields are projected, orientation plans seek to have newly hired employees work closely with experienced employees to transfer critical knowledge and skills. We regularly update our policies on training and employee development, and we use mentoring, details, and special projects to provide development opportunities.

FCA’s electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, are another component of knowledge management and best practices. These databases enable employees to communicate and share knowledge.

We have also established internal SharePoint sites to enhance knowledge transfer and collaboration. All employees have access to most of the sites, including the sites containing resources on contracting, technology, leadership development, audit and internal controls, and plain writing. Other sites are intended for the use of specific groups of employees, such as credit specialists, operations specialists, and recruiters. Still others are set up for workgroups on topics such as training, planning and reporting, and policy development. Through these sites, we can deliver information in real time to multiple audiences.

In addition, 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. We have developed procedures to evaluate relevant recruiting data and have implemented a recruiting committee to identify opportunities to improve agency diversity and attract skilled talent. We also endorse programs that promote equal employment opportunity (EEO), diversity, and inclusion, and we have an active EEO program.

FCA compensation program

Section 1206 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires federal financial regulators to “seek to maintain comparability regarding compensation and benefits.” This provision enables financial regulators to attract and retain qualified staff.

To comply with the FIRREA, we participate in a biannual survey of the other federal bank regulators and adjust our employees’ compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under the FIRREA. For a general comparison, we also survey the private sector, the System banks, and the General Schedule agencies.

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 on the basis of a number of factors, including the compensation programs of other federal bank regulators and available funding.

On December 12, 2016, the FCA board approved the agency’s compensation program for 2017. The program includes pay-for-performance increases based on a 1.7 percent pay matrix. We did not increase the salary ranges for FY 2017, and we did not increase locality rates from the previous year. Career senior executives did not participate in the pay-for-performance salary matrix, but they did share in a bonus pool based on performance.

These changes kept FCA within the compensation range of other FIRREA agencies while taking into account budget constraints.

External contracting and shared services

Outsourcing

As the table below shows, we continue to outsource several functions. Our shared-service agreement with the Bureau of the Fiscal Service began in FY 2006. We also outsource our payroll services to USDA's National Finance Center. Outsourcing these services allowed us to manage our employee benefits and other agency functions without additional personnel costs.

Table 11. Shared Services, FY 2016

Contract	Purpose	Amount
Administrative Service Center (BFS)	To provide full-service accounting, e-Travel, credit card, and platform procurement services	$647,415
National Finance Center (USDA)	To provide payroll services	$45,000

Note: FCA's shared-service agreements during FY 2016 totaled $692,415.

Single-source and competitive consulting service contracts

Tables 12 and 13 provide a summary of our single-source and competitive consulting service contracts for FYs 2015 and 2016.

Table 12. Competitive consulting service (CCS) contracts of more than $25,000 and single-source (SS) contracts, FY 2015

Contract	Purpose	Amount
Art of Resolutions; 15-FCA-113-002 (SS)	To provide EEO and inclusion services	$8,000
Robert Half International; 15-FCA-240-002 (SS)	To provide temporary administrative services	$39,096
Claire W. Haverstock; 15-FCA-240-003 (SS)	To provide temporary writer/editor services	$59,400
Jo Ann Kissal; 15-FCA-240-010 (SS)	To provide temporary administrative services	$59,904
BJ Chagnon Corporation; 15-FCA-240-012 (SS)	To provide 508 certification training	$25,000
Siteimprove; 15-FCA-240-013 (SS)	To provide website maintenance services	$6,537
PDRI; 15-FCA-301-001 / Exercise option year 1 (CCS)	To provide job evaluations and assist with administration of the commissioning test	$125,375
ABG, an Adayana Company; 15-FCA-301-003 (SS)	To update e-learning classes	$47,150
Global Financial Markets Institute; 15-FCA-301-007 (SS)	To provide training on capital stress testing	$5,500
Digital Management Inc.; 15-FCA-450-001 (CCS)	To assist with SQL database development	$148,770
Murphy Brothers; 15-FCA-601-003 (SS)	To provide taxi services	$10,500
David Redden; 15-FCA-601-017 (SS)	To provide retirement counseling	$24,750
Northern Virginia Temporaries; 15-FCA-601-026 (SS)	To provide mail clerk services	$13,736
Teracai; 15-FCA-601-031 (SS)	To upgrade voice application	$7,700
Federal Employment Law Training Group; 15-FCA-601-032 (SS)	To provide on-site legislative training	$12,950
Callister Nebeker & McCullough; 15-FCA-601-038 (SS)	To provide legal review of employee benefit	$12,000
David Redden: New Life Retirement; 15-FCA-601-037 (CCS)	To provide retirement counseling and related services	$37,537
ECity Market; 15-FCA-601-043 (SS)	To provide project management training	$20,090

Contract	Purpose	Amount
Ad Specialties Unlimited; 15-FCA-601-052 (SS)	To provide length-of-service award plaques, etc.	$11,297
SAP National Security Services; 15-FCA-601-055 (SS)	To provide software license and maintenance	$9,746
Towers Watson; 15-FCA-601-056 (SS)	To assist with compensation survey	$19,000
PatchAdvisor; 15-FCA-601-059 (SS)	To provide network security assessment	$33,000
InfoReliance Corporation; 15-FCA-601-060 (CCS)	To help migrate Microsoft Office to the cloud	$140,000
PatchAdvisor; 15-FCA-601-063 (SS)	To review IT systems	$90,000
Gartner; 15-FCA-601-066 (SS)	To provide IT research and advisory services	$62,680
Wells Fargo; 15-FCA-601-067 (SS)	To administer benefit plan	$24,500
TrueNorth; 15-FCA-601-068 (CCS)	To provide consulting service for the design and development of a data warehouse solution	$136,000
ARX; 15-FCA-601-070 (SS)	To provide CoSign support and maintenance	$9,792
Day1 Solutions; 15-FCA-601-073 (SS)	To provide an AltaVault appliance system	$86,551
Teracai; 15-FCA-601-077 (SS)	To provide Cisco maintenance support	$20,815
Computer Security Solutions; 15-FCA-601-086 (SS)	To provide Splunk Enterprise license	$17,703
Environmental System Research Institute Inc.; 15-FCA-911-002 (SS)	To provide server maintenance	$17,019
Environmental Systems Research Institute; 15-FCA-911-003 (SS)	To provide IT support services	$11,027

Note: The agency's SS and CCS contracts totaled $1,353,125 in FY 2015. Also, this table no longer includes contracts of less than $5,000.

Table 13. Competitive consulting service (CCS) contracts of more than $25,000 and single-source (SS) contracts, FY 2016

Contract	Purpose	Amount
Art of Resolution; 16-FCA-113-001 (SS)	To provide EEO services	$14,000
Dorothy Salak; 16-FCA-240-007 (SS)	To provide editor/writer services	$12,150
Robert Half International; 16-FCA-240-006 (SS)	To provide administrative support services	$24,616
FedResults; 16-FCA-240-011 (SS)	To provide cloud communication software	$41,189
Farm Credit University; 16-FCA-301-004 (SS)	To provide an introduction for new FCA employees to agricultural lending and the Farm Credit System	$7,500
Centrec Consulting Group; 16-FCA-301-006 (SS)	To provide self-study course set	$17,852
Vertex Solutions Group; 16-FCA-301-007 (SS)	To provide e-learning services	$6,600
Second Pillar Consulting; 16-FCA-450-001 (SS)	To help the agency evaluate the capital adequacy of System institutions	$40,000
Delta Research Associates; 16-FCA-601-001 (SS)	To provide human resource support	$25,976
David Redden — New Life Retirement; 16-FCA-601-005 (SS)	To provide retirement counseling and related services	$69,240
David Redden; 16-FCA-601-009 (SS)	To provide human resource services	$10,000
Northern Virginia Temporaries; 16-FCA-601-011 (SS)	To provide temporary mail clerk services	$60,000
Murphy Brothers; 16-FCA-601-014 (SS)	To provide transportation services	$11,000
Focused Strategies; 16-FCA-601-022 (SS)	To provide negotiation skills training	$10,154
John E. Reid & Associates; 16-FCA-601-023 (SS)	To provide techniques for investigative interviewing	$10,950
Economic Systems Inc.; 16-FCA-601-028 (SS)	To provide human resource services	$14,995
TrueNorth; 16-FCA-651-003 (CCS)	To provide consulting service for the design and development of data warehouse solution	$174,000

Contract	Purpose	Amount
Triad Technology Partners; 16-FCA-651-008 (SS)	To install MobileIron services	$5,855
Barracuda Networks; 16-FCA-651-019 (SS)	To provide cloud storage service	$22,499
Audio Fidelity Communications; 16-FCA-651-014 (SS)	To provide IT support services	$40,314
Gartner; 16-FCA-651-023 (SS)	To provide IT services	$61,385
Day1 Solutions; 16-FCA-651-025 (CCS)	To provide IT services	$115,026
Entrust; 16-FCA-651-026 (SS)	To provide IT cloud services	$7,701
SAP National Security Services; 16-FCA-651-027 (SS)	To provide software license and services	$9,746
Barracuda Networks; 16-FCA-651-029 (SS)	To provide IT services	$9,023
Day1 Solutions; 16-FCA-651-030 (SS)	To provide IT storage service and support	$19,283
PatchAdvisor; 16-FCA-651-036 (SS)	To provide IT services	$33,000
PatchAdvisor; 16-FCA-651-041 (SS)	To provide IT services	$48,000
Ekahau; 16-FCA-651-047 (SS)	To provide software support	$6,303
Day1 Solutions; 16-FCA-651-048 (SS)	To provide IT support services	$37,630
Electronic Systems; 16-FCA-651-050 (SS)	To provide IT services	$10,400
Emergency Power Services; 16-FCA-651-052 (SS)	To provide IT services	$5,458
Teracai; 16-FCA-651-054 (SS)	To upgrade Cisco voice application services	$7,700
Learning Tree International; 16-FCA-651-063 (SS)	To provide training	$19,950
Dell Marketing; 16-FCA-651-067 (SS)	To provide Dell workstations	$13,520
Carahsoft Technology; 16-FCA-651-068 (SS)	To acquire training vouchers for Qlik Sense software	$6,220
Electronic Systems; 16-FCA-651-069 (SS)	To provide IT support services	$120,000

Contract	Purpose	Amount
Environmental Systems Research Institute; 16-FCA-911-001 (SS)	To provide IT maintenance support services	$51,072
Phase One Consulting Group; 16-FCA-651-037A (CCS)	To provide IT support services	$616,387

Note: The agency's SS and CCS contracts totaled $1,816,694 in FY 2016.

Other functions and activities

Reception and representation expenditures

FCA spent $2,040.25 on reception and representation expenses in FY 2016.

Foreign travel expenditures

For FY 2016 there was one international trip to China for one employee, a senior economist in our Office of Regulatory Policy. This trip was conducted under the Scientific Cooperation Exchange Program, which was established in 1978 by the U.S. Department of Agriculture under a cooperative agreement with China's Ministry of Agriculture. The program's objectives are to promote U.S. agricultural priorities, encourage long-term cooperation, create a positive atmosphere for trade, and enhance overall relationships between the United States and the People's Republic of China.

For this particular trip, the objectives were to learn about China's plans for farmer support policies in the next five years and potential impacts on U.S. agricultural markets, agricultural borrowers, and lenders; to explain U.S. experience in supporting farmers and current U.S. farm programs; and exchange views with Chinese colleagues on best practices for supporting farmers. The sponsoring program agency was USDA's Foreign Agricultural Service. The travel period was two weeks, beginning April 15, 2016, and ending April 28, 2016. The majority of the time was spent in Beijing visiting various ministry officials. Four days were spent traveling to the provinces of Shandong and Sichuan to visit ministry officials. Travel expenses were paid by USDA and China's Ministry of Agriculture except for incidental expenses of $388.25.

Leveraging FCA technology

In the beginning of FY 2016, FCA reorganized to establish an Office of Information Technology and to hire a chief information officer whose exclusive responsibility is to lead the new office. We made this change to further leverage our investments in communication, database, and security technologies.

The new office focuses on improving project management procedures and reporting, enhancing FCA data processing and dashboards, tightening our security posture, and cultivating better technology support for examination and other mission areas.

Through our annual Information Resources Management Plan, we monitor and coordinate our IT investments. We continually seek to provide IT services, data sources, and communication tools that complement current technology and increase connectivity for our mobile workforce. A number of agencywide IT projects improved our capabilities in FY 2016:

- We improved the EDGe application through a series of quarterly version upgrades and added five significant reports: Audit Procedure Roll-up, Reviewer Notes Sent by Examiner, Topic Conclusions – Institution, Procedure Results – by Topic, and Topic Conclusions – Portfolio.

- We procured new laptops for all employees and new iPhones for employees who require them; the new equipment was rolled out to employees in FY 2016. The new laptops will ensure that the agency has up-to-date technology and our employees have reliable, powerful computers. With the new laptops, we upgraded from the Windows 7 to the Windows 10 operating system.

- We began migrating our email support services to a FedRamp-certified government cloud. As a first step, we completed the upgrade of our on-premises email environment to Exchange 2013. By moving email to the cloud, we will improve IT flexibility and responsiveness, and minimize cost.

- We modified our Consolidated Reporting System (CRS) in order to collect information about the liquidity of System institutions. We added 13 new variables to existing Call Report schedules and created two new schedules. We also updated the CRS to include more geographic and contact information for System institutions.

- We improved the security of our employees' personal information by removing or encrypting personally identifiable information from our SQL databases.

- We successfully upgraded both our internal and external SharePoint production environments from SharePoint 2010 to SharePoint 2013. The new version dramatically improved the search capability in SharePoint.

- We began implementing a continuous monitoring security program. The program stems from a governmentwide initiative to enhance the security of federal agencies by requiring continuous monitoring of security controls rather than examining controls once in a three-year period. In conjunction with the continuous monitoring program, we partnered with the Department of Homeland Security to take advantage of the tools and services it offers through its Continuous Diagnostics and Mitigation Program.

- We continue to support the routing of internet traffic through Managed Trusted Internet Protocol Services (MTIPS). Routing traffic through an approved MTIPS provider is part of the governmentwide Trusted Internet Connections mandate designed to increase the security of the federal government.

- We created a telework database to streamline the approval process for flexiplace agreements, to reduce paper, and to retain records electronically. The database allows employees to complete and sign FCA annual flexiplace forms electronically. It allows supervisors and the agency telework coordinator to review and approve each form electronically. The project supports FCA's Continuity of Operations Program, the federal government's telework initiatives, and the Federal Government Paperwork Reduction Act.

There are numerous, multiyear projects planned for FYs 2017 and 2018 that will further leverage technology to support our mission and achieve our strategic goals. For a summary of these projects, please see table 2 on page 6.

Independent auditing and accountability

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2016 audit of FCA's financial statements. On November 14, 2016, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2016.

- First, the auditor opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2016, in conformity with generally accepted accounting principles.

- Second, the auditor did not identify any deficiencies in internal control over financial reporting that would be considered material weaknesses.

- Third, the auditor did not identify any instances of noncompliance with selected provisions of laws and regulations or other reportable matters that could have a direct and material effect on the financial statements.

Ensuring Safety and Soundness

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including the Federal Agricultural Mortgage Corporation.

The first section below, titled The Farm Credit System, summarizes examination and supervisory activities performed on the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled Other Entities.

Our examination and supervision responsibilities are carried out by staff located in five field offices. One field office is in the McLean, Virginia, headquarters; the other field offices are located in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2018.

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 must have loan portfolio and other data from System institutions, and section 5.9(4) of the Farm Credit Act gives us the authority to collect these data. Our regulations include the following reporting requirements:

- Each System institution must prepare and file quarterly reports of condition and performance with FCA in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information.

- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR 630.4.

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 for all System institutions. We have been expanding loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to have minimum capital levels, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder oversight.

Risk-based examination and supervision

We design examination and supervision processes to address material risks and emerging issues on an individual-institution and a Systemwide basis. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, guarding the safety and soundness of the System is more important and challenging than ever. Annually, to help address these challenges, we identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The oversight and examination program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2017 are as follows:

- Intensifying credit risk
- Implementing the new capital regulations
- Continuing focus on internal controls

When our examiners identify unsafe and unsound practices within a System institution or find that an institution has failed to comply with a law or regulation, we outline the corrective actions the institution must take in a Report of Examination or other form of communication. If necessary, we use our enforcement powers to bring about changes in an institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. However, in most cases, we achieve corrective action without the use of formal enforcement powers.

Measuring the safety and soundness of the System

We use our Financial Institution Rating System (FIRS) as a key method to assess the safety and soundness of each FCS institution. The FIRS provides a general framework, consisting of component and composite ratings, for evaluating and assimilating all significant financial, asset quality, and management factors. Similar to systems used by other federal financial regulators, the FIRS evaluates six key component areas to properly assess the degree of risk in an institution. These key component areas are capital, assets, management, earnings, liquidity, and sensitivity (CAMELS).

On the basis of our CAMELS ratings, we assign an overall composite rating for the institution. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect and that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

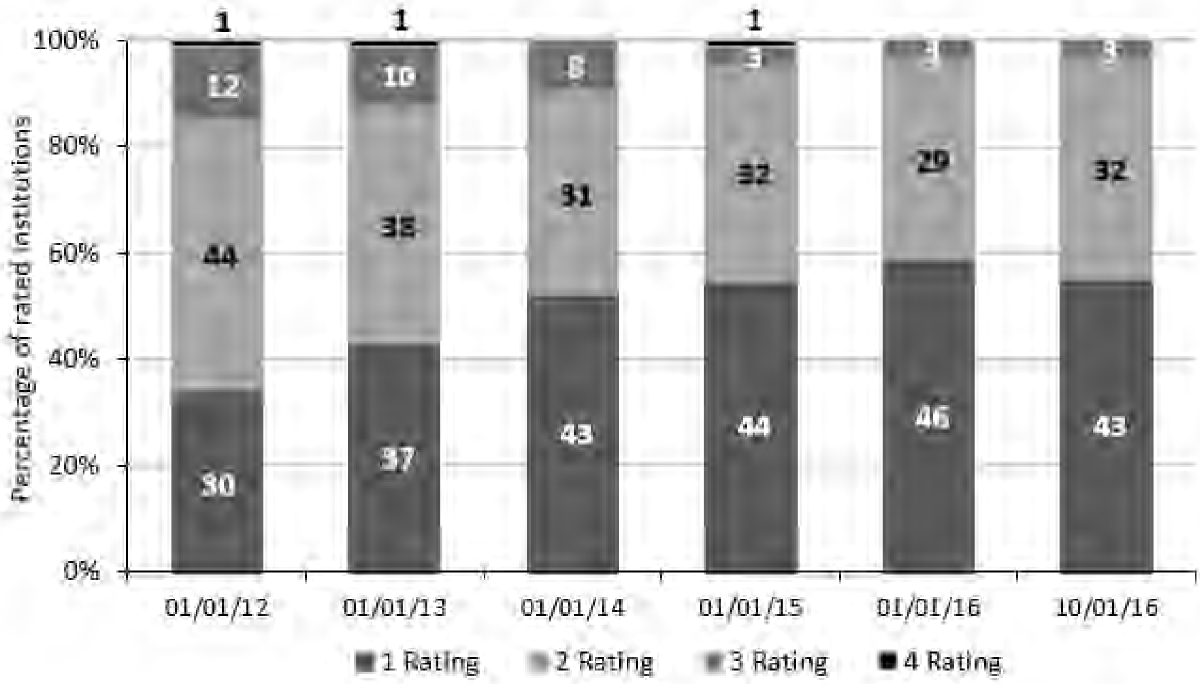
Recent results

As the composite FIRS ratings over the past several years show, the System's condition and performance have remained satisfactory. However, the FIRS ratings have yet to return to the pre-2008 levels. The following summarizes FIRS ratings for System banks and associations as of October 1, 2016:

- Forty-three institutions were rated 1.
- Thirty-two were rated 2.
- Three were rated 3.

See figure 2 for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

Figure 2. Farm Credit System Financial Institution Rating System (FIRS) composite ratings



Source: FCA's FIRS Ratings Database.

Note: This chart reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers shown on the bars reflect the total number of institutions with a given rating; please refer to the y-axis to determine the percentage of institutions receiving a given rating.

Table Data for Figure 2

	Rating	01/01/12	01/01/13	01/01/14	01/01/15	01/01/16	10/01/16
Total	1	30	37	43	44	46	43
	2	44	38	31	32	29	32
	3	12	10	8	3	3	3
	4	1	1	-	1	-	-

Federal Agricultural Mortgage Corporation

Through our Office of Secondary Market Oversight (OSMO), we examine and supervise Farmer Mac to ensure both its safety and soundness and its mission achievement. OSMO performs annual CAMELS-based examinations, which include examination of capital, assets, management, earnings, liquidity, and sensitivity. Throughout the year, OSMO oversees Farmer Mac's condition and compliance with regulations, and supervises its operations.

Statutory authority

We regulate Farmer Mac through OSMO, which was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102 – 237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO be managed by a full-time director who reports to the FCA board and that OSMO's activities, to the extent practicable, 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. In addition, Farmer Mac is 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 2016.

- Net income available to common shareholders was $53.7 million for the 12 months ended September 30, 2016, compared with $38.0 million during FY 2015.

- Core earnings, a non-GAAP measure of economic performance, totaled $52.9 million during FY 2015 compared with $43.4 million during FY 2015.

- Farmer Mac's core capital totaled $587.1 million at the end of FY 2016, compared with $558.2 million at the end of FY 2015. The minimum core capital requirement for Farmer Mac's on- and off-balance-sheet exposures is set in the statute and totaled $474.8 million at the end of FY 2016. Thus, Farmer Mac exceeded its minimum core capital requirement by approximately $112.4 million.

- At the end of FY 2016, Farmer Mac had $594.0 million in regulatory capital available to meet the $101.9 million minimum requirement established by FCA's Risk-Based Capital Model.

- Program activity increased approximately 10.4 percent and ended FY 2016 at $17.2 billion. Farmer Mac had $3.3 billion in its liquidity portfolio as of September 30, 2016.

Credit quality remained stable and generally good. Real estate owned increased over FY 2016, finishing the year at $1.5 million, up approximately $0.1 million from fiscal year-end 2015. Total acceptable loan volume decreased 0.9 percent to 94.6 percent in FY 2016.

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 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 percent 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.[4]

The Farm Credit Act also requires the RBC Model to incorporate an interest rate risk stress scenario based on rising and falling 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 percent of the sum of the credit loss and interest rate risk components of the RBC Model.

[4] Farmer Mac's express program activities were expanded in the Food, Conservation, and Energy Act of 2008 to include rural utilities.

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 of these third-party validations, Farmer Mac has been found to be operating the model appropriately.

We published a final rule in early 2011 to amend our RBC Model regulation to allow for revisions to the model, including a revision that would reflect loan activity involving rural utility cooperatives. An advance notice of proposed rulemaking was published in June 2011 to solicit public input on further revisions to the model. We are considering a revision to the software platform on which the model runs. Currently, the model uses a Microsoft Excel platform. As Farmer Mac's portfolio grows and its product mix broadens, we will need a different platform to streamline model runs.

Other entities

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System.

- As mandated by 12 U.S.C. 3025, we examine the National Consumer Cooperative Bank, which owns a federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans.

- From time to time, the U.S. Department of Agriculture contracts with us to provide examination services for specific USDA programs. We annually review the amount of resources dedicated to providing these services. Currently, the amount is limited.

- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC board consists of the members of the FCA board. Section 5.59(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 Memoranda, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend.

We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

Regulatory and policy projects active at end of FY 2016

The FCA board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives. The FCA board-approved agenda is part of the federal Unified Agenda, which is published online at www.reginfo.gov. We are not obligated to act on our agenda items. 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.

The following list summarizes the topics for which we are considering regulatory action and other guidance.

Investment Eligibility: We plan to publish a final rule to revise the eligibility requirements for investments by System institutions. To comply with the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Farmer Mac — Investment Eligibility: We plan to publish a final rule to change eligible investment asset classes. To comply with the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Standards of Conduct: We plan to reissue a notice of proposed rulemaking to clarify and strengthen regulations related to the standards of conduct of directors, employees, and agents of System institutions.

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

Amortization Limits — Agricultural Credit Associations and Production Credit Associations: We plan to issue a notice of proposed rulemaking to clarify or change the amortization limits for Agricultural Credit Associations and Production Credit Associations.

Regulatory Burden: We plan to issue a notice with request for comment to solicit comments for the removal or revision of outdated, unnecessary, or burdensome regulations.

Borrower Rights: We plan to issue a notice of proposed rulemaking to clarify disclosure and servicing requirements related to borrower rights.

Revision of Permanent Capital Deductions: We plan to issue a notice of proposed rulemaking to consider whether to align the deductions used for permanent capital with those used for tier 1/tier 2 capital.

Criteria to Reinstate Nonaccrual Loans: We plan to issue a notice of proposed rulemaking regarding criteria for reinstating nonaccrual loans and reducing the compliance burden on System institutions.

Appraisal Regulations: We plan to complete our review and issue a notice of proposed rulemaking to consider whether changes in appraisal regulations are necessary in light of changing credit and economic conditions.

Territorial Concurrence: We plan to complete our review of current regulations requiring associations to notify each other and obtain concurrence when they extend loans in the chartered territories of other associations. The purpose of the review is to determine whether the regulations are appropriate for the System's current structure, lending practices, and operating environment, and whether the regulations support safety and soundness, operational efficiency, cooperative principles, and customer service.

Eligibility Criteria for Outside Directors: We plan to issue a notice of proposed rulemaking regarding the eligibility criteria for outside directors. In particular, this rulemaking will address the eligibility of a candidate for an outside director position if the candidate owns an interest in an entity that borrows from, or holds stock in, a System bank or association.

Removal of Stockholder-Elected Directors: We plan to complete our review of whether, and under what circumstances, a stockholder-elected director of a System bank or association can be removed by the bank's or association's board of directors.

Financing Farm-Related Service Businesses: We plan to complete our evaluation of the System's lending to farm-related service businesses to determine whether our regulations provide the appropriate framework for determining borrower eligibility and purposes of financing. Among the businesses to be considered are service providers within local food systems.

Criminal Activity Referrals and Related Internal Controls: We plan to complete our review of our regulatory guidance on internal controls designed to prevent, identify, and monitor fraud and criminal activity. We will also review the processes for referring known or suspected criminal violations.

Director Election Nomination Procedures: We plan to complete our review of regulations and guidance related to the director nomination process. As part of this review, we will consider the kind of information to which nominating committees should have access when considering potential nominees.

Basel III Liquidity Requirements: We plan to complete our review to consider aligning liquidity requirements with those of other federal bank regulators and to consider adopting a Basel III liquidity regime. As part of this review, we will consider whether the liquidity coverage ratio and the net stable funding ratio are applicable to System banks. We also plan to complete a review to see if these requirements apply to Farmer Mac.

Stress Tests: We plan to complete our review to consider whether to stipulate the stress test methodology to be used by System banks and associations. We will consider setting requirements for identifying and quantifying risk in loan portfolios for effective strategic and capital planning processes, assumptions for stress tests, and the reporting of stress test results.

Cybersecurity: We plan to complete our review of regulations concerning information security, multifactor authentication, and cybersecurity. We also plan to complete a similar review of the Farmer Mac regulations.

Similar-Entity Authorities: We plan to complete our review to consider whether revised or additional guidance is needed to clarify the authorities of System banks and associations to participate in similar-entity loans.

High-Volatility Commercial Real Estate: We plan to begin a review to consider whether the 150 percent risk weight on high-volatility commercial real estate is appropriate for the System and to determine its applicability to agriculture lending.

Rural Utility/Cooperative Risk Weighting: We plan to begin a review to consider whether the risk weights assigned to certain electric or water cooperatives are still appropriate or need to be updated to comply with the new tier 1/tier 2 capital regulations.

Responsibilities of Associations to Provide Information to District Bank: We plan to begin a review to consider what responsibilities each System association has to provide information to its district bank, including information the bank deems necessary for completing bank and System financial reports in a timely and accurate manner.

Regulatory and policy projects completed in FY 2016 and early FY 2017

Following is a list of projects we completed in FY 2016 and early FY 2017, along with a list of communications we issued to System institutions to clarify our rules.

Capital — Basel III: We published a final rule to revise sections of the capital rules to modernize them and make them consistent with Basel III where appropriate.

Freedom of Information Act: We published a final rule to amend our regulations to reflect updates to the Freedom of Information Act (FOIA) as required by the FOIA Improvement Act of 2016.

Margin and Capital Requirements for Non-cleared Swaps: We published an interagency final rule to establish margin and capital requirements for FCS institutions, including Farmer Mac, that engage in non-cleared swaps and non-cleared security-based swap transactions. The rulemaking would fulfill a requirement of the Dodd-Frank Act.

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 Improvement Act of 2015.

Farmer Mac — Corporate Governance and Standards of Conduct: We published a final rule to clarify and strengthen Farmer Mac's board governance regulations and to establish standards-of-conduct regulations.

Farmer Mac — Investment Eligibility: We published a notice of proposed rulemaking to change eligible investment asset classes. To comply with the Dodd-Frank Act, this rule also removed references to credit ratings in the regulations and substituted an appropriate standard of creditworthiness.

Private Flood Insurance: We published a notice of proposed rulemaking to amend our regulations on private flood insurance to conform to the Biggert-Waters Flood Insurance Reform Act of 2012.

Highly Compensated Employees Disclosures: We completed a review of our regulations that define what it means to be a "highly compensated employee." The purpose of the review was to consider amendments that simplify the definition in order to provide consistent and quality disclosure information to shareholders.

Criteria to Reinstate Nonaccrual Loans: We completed a review of our regulatory criteria for reinstating nonaccrual loans.

Bank Review of Insider Loans: We completed our review of whether current regulations requiring bank review of association insider loans are appropriate for the System's current structure and whether the bank review ensures compliance with applicable standards-of-conduct regulations.

Lending and Loan Servicing Controls: We completed our review of our regulations to determine if revised or additional regulatory guidance is needed for internal or other controls over the System's lending functions. These functions include the loan application, loan origination, loan servicing, and portfolio administration functions.

Eligibility Criteria for Outside Directors: We completed our review of the eligibility criteria for outside directors. In particular, we considered the eligibility of a candidate for an outside director position when the candidate owns an interest in an entity that borrows from, or holds stock in, a System bank or association.

Tier 1/Tier 2 Capital Framework Guidance: We issued a bookletter to provide additional guidance for implementation of the tier 1/tier 2 capital framework final rule, which became effective on January 1, 2017.

Lending to Similar Entities: We issued a bookletter to provide guidance to System institutions that purchase participations in loans originated by non-System lenders to qualified similar-entity borrowers.

Implementation of the Tier 1/Tier 2 Capital Framework: We issued an informational memorandum to convey our expectations on how to effectively implement the new tier 1/tier 2 capital regulations that became effective on January 1, 2017.

Collateral Evaluation Policies and Procedures: We issued an informational memorandum to provide guidance on how collateral evaluation policies and procedures should address the valuation of personal and intangible property that is taken as security for a loan.

Submission of Proposals to Merge or Consolidate: We issued an informational memorandum to revise and consolidate existing guidance documents on merger requests. Most of the revisions updated guidance to reflect the 2015 rulemaking on mergers. The revisions also improved clarity, updated terminology, and consolidated similar provisions.

Servicing Loans to Borrowers in Distressed Industries: We issued an informational memorandum as follow-up to an earlier memorandum titled Portfolio Management in Volatile Times. This memorandum provides guidance on servicing loans to borrowers in industries that are under widespread stress.

Limited Suspension of Enforcement Actions Relating to Private Flood Insurance: We issued an informational memorandum to clarify the rules regarding the mandatory purchase requirement for designated loans pending the issuance of final regulations implementing the private flood insurance provision of the Biggert-Waters Flood Insurance Reform Act of 2012.

Compliance with Section 4.38 of the Farm Credit Act — Affirmative Action: We issued an Informational Memorandum to System institutions to clarify section 4.38 of the Farm Credit Act of 1971, as amended. This section requires System institutions with more than 20 employees to “establish and maintain an affirmative action program plan that applies the affirmative action standards otherwise applied to contractors of the federal government.”

Maximum Bank Director Compensation: We issued an Informational Memorandum to notify Farm Credit banks of the maximum allowable bank director compensation for 2016 and 2017.

FCS corporate activity and other prior approvals and clearances

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

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

Corporate activities in FY 2016 and early FY 2017

During FY 2016, we canceled the charters of three associations — one ACA and two subsidiaries — as a result of a merger. We also approved a headquarters relocation.

- On November 1, 2015, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with five subsidiaries.
- On January 1, 2016, two ACAs affiliated with CoBank merged, resulting in an ACA with two subsidiaries.
- On August 1, 2016, an ACA affiliated with the Farm Credit Bank of Texas relocated its headquarters.

Thus far in FY 2017, we have canceled the charters of three associations — one ACA and two subsidiaries — as a result of a merger.

- On January 1, 2017, two ACAs affiliated with CoBank merged, resulting in an ACA with two subsidiaries.

Projected mergers and FCS institution size

As of January 1, 2017, the System had 73 direct-lender associations and 4 banks. Seven service corporations and special-purpose entities (see pages 57 and 58) brought the total number of FCS institutions to 84 (including Farmer Mac). Because of mergers and consolidations, the number of FCS associations has declined by 56 percent since 2000, and the number of FCS banks has decreased by 43 percent.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decline. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also possess more complex management systems and offer a broader range of financial services to their borrowers.

Security offerings during FY 2016

We authorized CoBank, ACB, in March 2016, to use a base form disclosure document under specified terms (preclearance) to issue noncumulative perpetual preferred stock until the end of 2016.

We reviewed and did not object to the proposed offering circular from CoBank, ACB, for issuing fixed-to-floating Series I noncumulative perpetual preferred stock.

Funding activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation[5], the fiscal agent for the Farm Credit banks. Through this conduit, funds flow from worldwide capital-market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with ready and efficient access to global resources. Systemwide debt securities are issued as discount notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all debt issuances.

For the 12 months ended September 30, 2016, the FCS issued $321 billion in Systemwide debt, compared with $286 billion in FY 2015 and $346 billion in FY 2014. Investor demand for FCS debt instruments continued to be strong, bolstered by the FCS's financial performance in conjunction with a shrinking level of overall GSE debt issuance. FCS debt outstanding increased to $252 billion at the end of FY 2016, an increase of just under $21 billion from the end of FY 2015.

The financial markets exhibited general stability, with limited episodes of volatility caused by major geopolitical events and domestic economic concerns. Regardless, investor demand for System debt remained favorable across the yield curve.

Rural business investment company

The 2002 Farm Bill created the Rural Business Investment Companies (RBIC) program for leveraged RBICs and gave the Secretary of Agriculture the authority to license and examine them. The 2008 Farm Bill modified the RBIC 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 perform the following services for the nonleveraged RBIC program:

- Provide technical advice regarding regulatory and program requirements
- Receive and review nonleveraged RBIC licensing applications for RBICs in which System institutions would hold at least 10 percent in total ownership and advise USDA as to whether to approve the applications
- Examine licensed nonleveraged RBICs

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[5] See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation assists the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System's financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

The 2012 agreement was replaced with a new five-year agreement in 2017, under which we will continue to review RBIC licensing applications and examine licensed nonleveraged RBICs. The agreement calls for us to review and provide recommendations for seven RBIC applications over a five-year timeframe. We agreed to expend no more than 1,800 hours, or 90 percent of one full-time-equivalent staff position, to complete the RBIC assignments during a fiscal year.

Part III

Farm Credit System

Profile of the Farm Credit System

The Farm Credit System consists of a network of borrower-owned cooperative financial institutions, as well as related service organizations and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the financial government-sponsored enterprises (GSEs). As of January 1, 2017, the System had four banks providing loan funds to

- 71 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
- 2 stand-alone FLCAs.

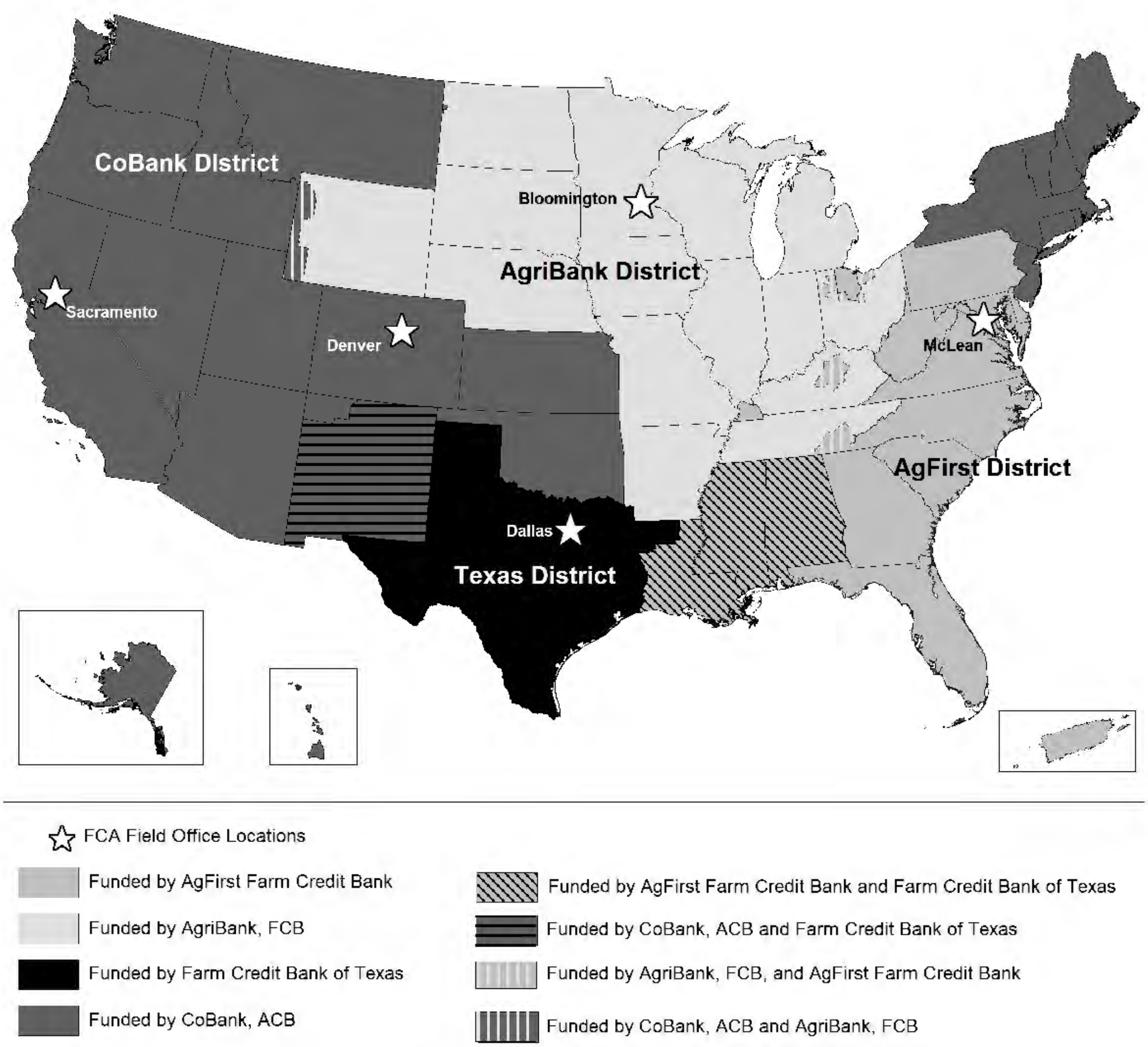
The map in figure 3 shows each bank's chartered territory.

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 the indebtedness to the funding bank under a general financing agreement. In addition, the parent company and its subsidiaries pledge their respective assets as security for each other's debts and obligations and share each other's capital.

The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are Federal Land Bank Associations that originate long-term agricultural mortgages and are exempt from federal and state income taxes; ACAs and PCAs originate short- and intermediate-term operating loans and are not tax-exempt.

System institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling debt securities in the national and international money markets; these securities are subject to FCA's approval, but they are not guaranteed by the U.S. government.

Figure 3. Farm Credit System bank chartered territories as of January 1, 2017



NOTE: CoBank, ACB, funds 23 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 17 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 77 banks and direct-lending associations.

Additional System entities and service corporations

In addition to the System's banks and associations, we are responsible for regulating and examining the Federal Agricultural Mortgage Corporation and the Federal Farm Credit Banks Funding Corporation. We also regulate and examine the five service corporations organized under section 4.25 of the Farm Credit Act[6]: AgVantis, Inc.; Farm Credit Leasing Services Corporation; Farm Credit Financial Partners, Inc.; the FCS Building Association (FCSBA); and Farm Credit Foundations.

Federal Agricultural Mortgage Corporation — Farmer Mac[7] is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. In May 2008, the Food, Conservation, and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac conducts its business primarily through four core programs:

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

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

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[6] 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.

[7] Farmer Mac is established in law as a part 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.

Federal Farm Credit Banks Funding Corporation — The Funding Corporation is owned by System banks; it sells debt securities on behalf of the banks to raise funds for loans and other purposes. System institutions obtain the majority of their funds through the sale of these securities in the nation's capital markets. These securities, chiefly in the form of bonds and discount notes, are offered by the Funding Corporation through a nationwide group of securities dealers and dealer banks. The Funding Corporation's debt issuance programs provide the System banks with funds to lend to farmers, ranchers, and agricultural cooperatives; debt issuances also provide the banks with funding for their other operations.

AgVantis, Inc. — AgVantis provides technology-related and other support services to associations in the CoBank, ACB, district. It was chartered by FCA in 2001 and is owned by CoBank and 13 of its affiliated associations.

Farm Credit Leasing Services Corporation — The Leasing Corporation, owned by CoBank provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit Financial Partners, Inc. — Farm Credit Financial Partners is owned by and provides support services to CoBank; three associations affiliated with CoBank; and one association affiliated with AgriBank, FCB. It is also a major alliance partner with CoBank and provides services to another association affiliated with the bank.

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 39 Farm Credit associations, one service corporation (AgVantis), and one Farm Credit Bank (AgriBank).

FCS mission fulfillment

The System fulfills its overall mission by lending to agriculture and rural America. Through changes in the law since the System's original authorization in 1916, 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

In FY 2016, the overall condition and performance of the FCS remained safe and sound, and the System is well positioned to withstand the challenges facing U.S. agriculture during the current cyclical downturn. Supporting the overall condition of the FCS is moderate loan growth, adequate capital, and reliable access to debt capital markets. As of September 30, 2016, the System's liquidity position equaled 177 days, significantly above the 90-day regulatory minimum required for each FCS bank.

Margins for many grain and soybean producers in 2016 remained low or negative for at least the third consecutive year. For livestock producers, feed costs were favorable, but profits declined because of lower livestock product prices. Cash receipts were down in 2016 for cattle and calves, hogs, dairy, and broilers.

The System's loan portfolio continued to grow, with gross loans increasing by 6.7 percent for the 12 months ended September 30, 2016. Real estate mortgage lending, the largest category, was up 9.2 percent because of continued demand for cropland in 2016.

Earnings

The FCS earned $3.59 billion in the first nine months of 2016, a 3.1 percent increase from the $3.48 billion earned in the same period in 2015. As table 14 shows, net interest income rose 5.9 percent, which was more than enough to offset higher provisions for loan losses and noninterest expenses.

Table 14: Net income (dollars in millions)

	First 9 Months of 2015	First 9 Months of 2016	Dollar Change	Percent Change
Net interest income	$5,217	$5,524	$307	5.9
− Provision for losses	87	218	$131	150.6
= Net interest income after loss provision	$5,130	$5,306	$176	3.4
+ Noninterest income	463	448	($15)	(3.2)
− Noninterest expense	1,945	2,029	$84	4.3
= Pretax income	$3,648	$3,725	$77	2.1
− Provision for income tax	167	136	($31)	(18.6)
= Net income	$3,481	$3,589	$108	3.1

Source: Third Quarter 2016 Quarterly Information Statement of the Farm Credit System, p. F-3.

An increase in average interest-earning assets, from $271.4 billion at September 30, 2015, to $297.8 billion a year later, primarily drove the increase in net interest income. However, the net interest margin declined 9 basis points from the previous year; this decline was caused by a 12-basis-point decline in the net interest spread to 2.29 percent, offset by a 3-basis-point increase in noninterest-bearing items (table 15). The decline in the net interest spread was largely driven by competitive pressures and an increase in debt costs. The yield on interest-earning assets increased by an annualized rate of 5 basis points, while the yield on interest-bearing liabilities increased by an annualized rate of 17 basis points.

Table 15: Interest margin in annualized percentages

	First 9 Months of 2015	First 9 Months of 2016	Change (bps)
Total interest-earning assets	**3.41**	**3.46**	**5**
Total loans	3.92	3.96	4
Investments and other assets	1.30	1.43	13
Total interest-bearing liabilities	**1.00**	**1.17**	**17**
Net interest spread	**2.41**	**2.29**	**(12)**
Impact of noninterest-bearing items	0.15	0.18	3
Net interest margin	**2.56**	**2.47**	**(9)**

Source: Third Quarter 2016 Quarterly Information Statement of the Farm Credit System, p. 12.

bps = basis points

As table 16 shows, the return on average assets and the return on average capital declined in all System districts during the first nine months of 2016. However, the System's net return measures remained satisfactory across all the districts.

Table 16: Profitability across System districts for first nine months of year*

		AgFirst	AgriBank	Texas	CoBank
Percentage return on average assets	2015	1.67	1.63	1.70	1.44
	2016	1.53	1.53	1.53	1.32
Percentage return on average capital	2015	10.50	9.53	10.83	10.57
	2016	9.31	8.94	10.20	10.05

Source: Third Quarter 2016 Quarterly Information Statement of the Farm Credit System, p. F-58

* The financial ratios are for the combined banks and associations.

Asset growth

The System's loans and assets grew moderately during the year ended September 30, 2016. FCS assets grew to $314.4 billion as of September 30, 2016, up $23.0 billion (7.9 percent) from September 30, 2015. The increase was driven primarily by gains in loans, which were up $15.3 billion (6.7 percent), and by gains in investments, which were up $7.1 billion (13.9 percent).

The dollar volume of major loan categories increased, particularly for real estate mortgage, agribusiness, and rural infrastructure loans. Real estate mortgage lending increased because of the continued demand for cropland in 2016. Compared with a year earlier, the dollar volume increased fractionally for production and intermediate term lending. Volume increased for agribusiness lending, with increases in loans for processing and marketing offsetting declines to cooperatives and farm-related businesses.

All System districts experienced loan growth for the year ended September 30, 2016. Loan volume in the CoBank district grew by $6.3 billion, an increase of 6.7 percent over its loan volume a year earlier, followed closely by the AgriBank district with an increase of $6.1 billion or 6.6 percent. Gross loan volume in the AgFirst and Texas districts increased by $1.7 billion (6.8 percent), and $1.6 billion (7.8 percent), respectively. See table 17.

Table 17: Gross loan growth by district and Systemwide (dollars in millions)

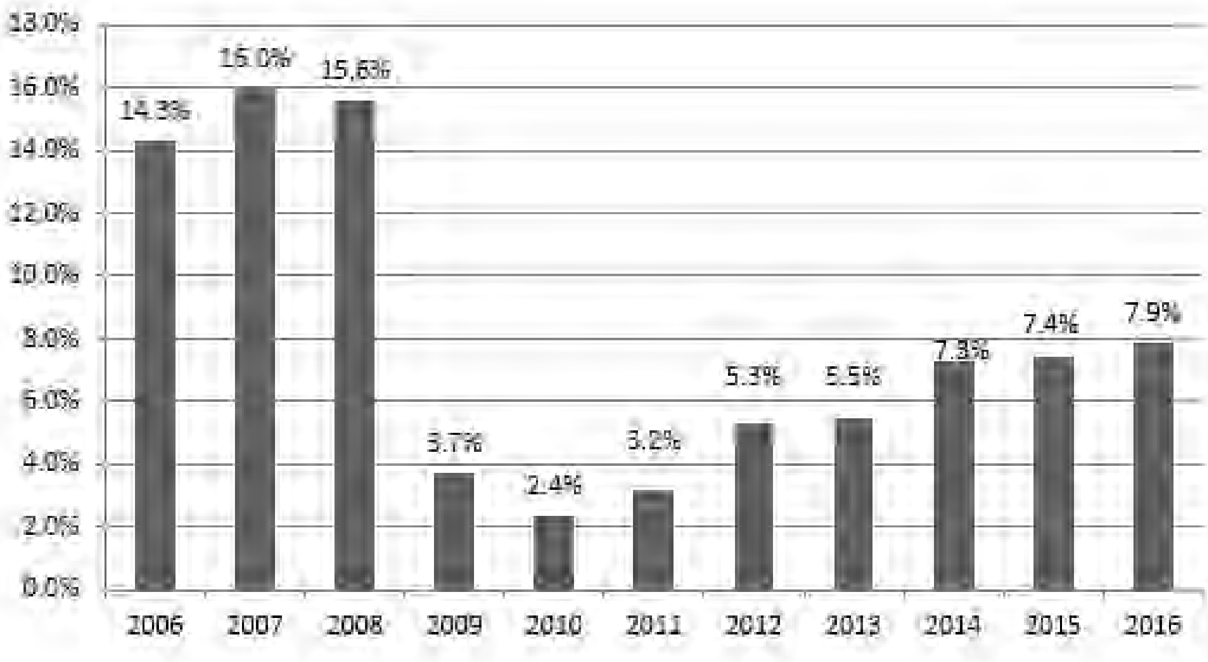
	September 30, 2015		September 30, 2016		Change in Dollars	Percent Change
	Gross Loans	Percent Total	Gross Loans	Percent Total		
AgFirst	$25,452	11.2	$27,185	11.2	1,733	6.8
AgriBank	91,662	40.4	97,746	40.4	6,084	6.6
Texas	20,527	9.0	22,121	9.1	1,594	7.8
CoBank	93,775	41.3	100,047	41.3	6,272	6.7
Insurance Fund and Intra-System Eliminations	(4,572)	(2.0)	(4,975)	(2.1)	(403)	NM*
Total for System	**$226,844**	**100**	**$242,124**	**100**	**$15,280**	**6.7**

* Not meaningful.

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, p. F-53; and Third Quarter 2016 Quarterly Information Statement of the Farm Credit System, p. F-54.

As noted in figure 4 below, the System's total assets increased by 7.9 percent during the 12-month period ended September 30, 2016. This was a slightly greater increase than the System experienced during the previous 12-month period, but it was significantly lower than during the 2006 to 2008 period, the three years prior to the Great Recession.

Figure 4: Percent change in System assets, September 2006 to September 2016



Source: FCS Quarterly Information Statements.

Table Data for Figure 4

Year	Percent Change in System Assets
2006	14.3
2007	16.0
2008	15.6
2009	3.7
2010	2.4
2011	3.2
2012	5.3
2013	5.5
2014	7.3
2015	7.4
2016	7.9

Assets — Investments

As of September 30, 2016, the System's investments totaled $58.5 billion, up 13.8 percent from a year earlier. As shown in table 18, investments available for sale totaled $55.9 billion, including $0.4 billion for mission-related investments. Investments held to maturity were $2.6 billion, including $2.0 billion for mission-related mortgage-backed securities. The System increased its holdings of money market instruments, U.S. Treasury securities, and mortgage-backed securities while reducing holdings of U.S. agency securities and other asset-backed securities.

During the most recent 12-month period, the yield on investments available for sale increased from 1.31 percent to 1.38 percent. Yield decreases for U.S. treasuries were more than offset by increasing yields for the other segments. For investments held to maturity, the yield decreased from 3.21 percent to 3.09 percent. A decrease in yield for mission-related mortgage-backed securities more than offset yield increases for the other segments.

Ineligible investments held by the System declined from $0.9 billion at September 30, 2015, to $0.5 billion at September 30, 2016. The decrease in ineligible investments was primarily due to the sale of ineligible investments during 2016.

Table 18: FCS investments (dollars in millions)

		September 30, 2015		September 30, 2016		Change		
						Amount		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
Available for sale (fair value)	Money market instruments	$4,803	0.43	$5,696	0.90	$893	18.6	47
	U.S. Treasury securities	9,775	1.20	16,150	1.15	6,375	65.2	-5
	U.S. agency securities	6,256	1.44	5,565	1.59	-691	-11.0	15
	Mortgage-backed securities	25,107	1.50	25,559	1.60	452	1.80	10
	Other asset-backed securities	2,655	1.02	2,595	1.20	-60	-2.3	18
	Mission-related investments	332	2.58	384	2.77	52	15.7	19
	Total	**48,928**	**1.31**	**55,949**	**1.38**	**7,021**	**14.3**	**7.0**
Held-to-maturity mission-related and other investments (amortized cost)	Mortgage-backed securities	1,912	3.20	2,044	3.07	132	6.9	-13
	Asset-backed securities	360	1.97	373	2.11	13	3.6	14
	Other securities	192	5.63	145	5.96	-47	-24.5	33
	Total	**2,464**	**3.21**	**2,562**	**3.09**	**98**	**4.0**	**-12**

Source: Third Quarter 2016 Quarterly Information Statement of the Farm Credit System, pp. F-9–12; and Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, pp. F-9–11.

WAY = weighted average yield; bps = basis points

Loan quality

Favorable growing conditions in key grain and oilseed-producing states resulted in record yields for the primary crops. With record harvests and large beginning stocks, crop supplies remain at burdensome levels. As a result, crop prices were depressed in 2016 relative to several years ago. In many cases the lower crop prices have pushed major grain and oilseed producers' margins to breakeven or below breakeven levels, resulting in sharply lower farm income and a reduced ability to service debt.

In contrast, low grain and oilseed prices are welcome news for producers of livestock, dairy, poultry, and biofuels (ethanol and biodiesel) because these lower prices reduce their cost of production. However, these producers are also experiencing weak prices for their commodities because of large supplies, sluggish global demand, and a strong U.S. dollar, which can make U.S. farm products less competitive on the world market. USDA estimates that 2016 net cash farm income fell again in 2016, down 15 percent from a year earlier and off 31 percent from 2014's level.

Furthermore, farmers seeking loans in 2017 may experience additional stress because of higher interest rates. On December 14, 2016, the Federal Reserve raised its key policy rate by 25 basis points to a range of 0.50 to 0.75 percent. In announcing its decision to raise the rate, the Federal Reserve indicated that improving economic and labor market conditions could lead to further rate increases in 2017. Higher interest rates will raise borrowing costs for farmers for real estate, equipment, and other production inputs, putting more downward pressure on profit margins.

Another source of stress for some farmers and ranchers is the decline in the collateral values of their land and equipment. Because of the drop in crop prices, farmland values deteriorated again in some key producing regions in 2016 and many predict declines will continue in 2017.

During fiscal year 2016, the System's nonperforming assets increased from $1.826 billion (0.80 percent of total loans) at September 30, 2015, to $2.056 billion (0.85 percent of total loans) at September 30, 2016. The increase in nonperforming loans reflects a decrease in the credit quality of real estate mortgage loans, production and intermediate-term loans, and lease receivables. The decline of credit quality in these loans is partially offset by improvement in the credit quality of agribusiness loans and communication loans.

In the first nine months of 2016, net charge-offs for the System declined to $20 million from $33 million for the same period one year ago. Net charge-offs for the first nine months of 2016 equaled just 0.01 percent of average loans outstanding, down from 0.02 percent for the comparable period in 2015. The allowance for loan losses (ALL) increased to $1.457 billion in the first nine months of 2016, up 17 percent from the same period of 2015. Its share of total loans, nonperforming loans, and nonaccrual loans rose slightly from 2015 to 2016. See table 19.

Table 19: FCS loan quality

Loan Quality	September 30, 2015	September 30, 2016	Change in Percentage Points
Nonperforming assets as percentage of total loans and other property owned	0.80%	0.85%	0.05
Nonperforming assets as percentage of capital	3.74%	3.92%	0.18
Nonaccrual loans as percentage of total loans	0.62%	0.65%	0.03
ALL as percentage of total loans	0.55%	0.60%	0.05
ALL as percentage of nonperforming loans	72.3%	73.8%	1.5
ALL as percentage of nonaccrual loans	89.1%	92.6%	3.5

Source: FCS Quarterly Information Statements.

ALL = allowance for loan losses.

Liabilities, funding, and liquidity

For the year ended September 30, 2016, the System's total liabilities increased by 8.0 percent to $262.0 billion. See table 20 below. Short-term debt securities (due within one year) increased 23.4 percent to $104.3 billion, while debt securities due after one year increased 0.6 percent to $147.8 billion. Short-term debt securities represented 39.8 percent of the total Systemwide liabilities at September 30, 2016, up from 34.8 percent a year earlier.

Table 20: Systemwide debt (dollars in millions)

	September 30, 2015	September 30, 2016	Change	
			Dollars	Percent
Systemwide discount notes due within one year	$ 23,130	$ 32,911	$9,781	42.3%
Systemwide bonds, medium-term notes, and master notes due within one year	61,394	71,366	$9,972	16.2%
Total short-term liabilities	**$ 84,524**	**$ 104,277**	**$19,753**	**23.4%**
Systemwide bonds, medium-term notes, and master notes due after one year	146,810	147,715	$905	0.6%
Other liabilities	11,249	9,978	($1,271)	(11.3%)
Total liabilities	**$ 242,583**	**$ 261,970**	**$19,387**	**8.0%**

Source: FCS Quarterly Information Statements.

Liquidity risk management is necessary for the Farm Credit System to ensure its ability to meet its financial obligations. These obligations include the repayment of Systemwide debt securities as they mature, the ability to fund new and existing loans, and the ability to fund operations in a cost-effective manner. The System's liquidity position decreased from 183 days as of September 30, 2015, to 177 days as of September 30, 2016. Each bank has maintained the three tiers of the liquidity reserve[8] and exceeded the regulatory minimum of 90 days of liquidity.[9]

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[8] 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.

[9] The regulatory liquidity standard requires each FCS bank to maintain a minimum of 90 days of liquidity on a continuous basis. The number of days of liquidity is calculated by comparing the principal portion of a given bank's maturing Systemwide debt securities, as well as its other borrowing, with the total amount of the bank's cash, cash equivalents, and investments. For the purpose of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale.

The aggregate duration gap for the FCS (the sum of the banks' duration gaps) was a positive 3.9 months on September 30, 2016, compared with a positive 4.6 months a year earlier, which means the System's exposure to interest rate risk declined during FY 2016.[10] The banks' duration gap declined because of balance-sheet management strategies designed to take advantage of changing interest rates. 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 of its capital position.

Capital

The System continued to build capital in 2016 through net income earned and retained, which was partially offset by cash distributions to stockholders. System capital amounted to $52.4 billion as of September 30, 2016, a 7.2 percent increase from a year earlier. See table 21. Most of the $3.5 billion increase in capital came from surplus (or net income earned and retained), followed by increases in the restricted capital of the Insurance Fund, preferred stock, and additional paid-in capital.

Surplus still accounts for the overwhelming majority of capital, at 82.0 percent as of September 30, 2016, down slightly from 82.5 percent as of September 30, 2015. While results were mixed for district banks and associations, the System's overall capital-to-assets ratio declined slightly, from 16.8 percent to 16.7 percent over this 12-month period. This decline occurred because earnings retained by System institutions slowed relative to asset growth. The net income growth was hampered by increases in noninterest expense, an increase in the provision for loan losses, and a decrease in noninterest income.

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[10] The "duration gap" is the difference between the duration of assets and the duration of liabilities, measured in months. Duration is the average maturity of cash flows, weighted by the present value of this cash flow. It is a useful way to estimate the direction and size of changes in the value of a financial instrument when market interest rates experience small changes. When the duration gap is small, changing market interest rates pose less interest rate risk than when the gap is large.

Table 21: FCS capital composition (dollars in millions)

	September 30, 2015	September 30, 2016	Change	
			Dollars	Percent
Preferred stock	$ 2,783	$ 3,147	$364	13.1%
Capital stock and participation certificates	1,714	1,773	$59	3.4%
Additional paid-in capital	1,183	1,385	$202	17.1%
Restricted capital (Insurance Fund)	3,964	4,343	$379	9.6%
Accumulated other comprehensive income (loss)	(1,108)	(1,226)	($118)	10.6%
Surplus	40,342	42,969	$2,627	6.5%
Total capital	**$ 48,878**	**$ 52,391**	**$3,513**	**7.2%**

Source: FCS Quarterly Information Statements.

As of September 30, 2016, all System institutions complied with FCA capital standards: a permanent capital ratio and a total surplus ratio of at least 7 percent of risk-adjusted assets, and a core surplus ratio of at least 3.5 percent of risk-adjusted assets. All banks are required to maintain a net collateral ratio of at least 103 percent of total liabilities.

If a bank has subordinated debt outstanding, FCA can require it to maintain a higher net collateral ratio. Because CoBank had subordinated debt outstanding at September 30, 2016, it must maintain a minimum net collateral ratio of 104 percent. This contrasts with a year earlier when three banks (AgriBank, CoBank, and the Farm Credit Bank of Texas) were required to maintain the higher net collateral ratio.

While most banks showed slight deterioration in their respective capital ratios as of September 30, 2016, from the year before, table 22 shows that the banks are capitalized well in excess of regulatory requirements.

The range of permanent capital ratios at associations rose slightly at the low end — from 12.9 percent as of September 30, 2015, to 13.3 percent a year later. They declined slightly on the high end of the range — from 36.2 percent to 36.1 percent.

Table 22: Regulatory capital ratios of FCS banks

		AgFirst	AgriBank	Texas	CoBank
Permanent capital ratio	9/30/2015	21.4	20.9	17.7	15.6
	9/30/2016	20.9	20.4	17.1	15.6
	Change	-0.5	-0.5	-0.6	0.0
Total surplus ratio	9/30/2015	21.4	18.1	15.3	14.6
	9/30/2016	20.8	17.1	14.7	14.6
	Change	-0.6	-1.0	-0.6	0.0
Core surplus ratio	9/30/2015	19.1	12.2	9.8	10.7
	9/30/2016	18.7	12.4	9.6	11.1
	Change	-0.4	0.2	-0.2	0.4
Net collateral ratio	9/30/2015	107.8	105.9	108.1	107.2
	9/30/2016	107.2	105.5	107.6	107.0
	Change	-0.6	-0.4	-0.5	-0.2

Source: FCA Consolidated Reporting System.

Young, Beginning, and Small Farmers and Ranchers

Congress has mandated that the Farm Credit System serve the credit needs of young, beginning, and small (YBS) farmers and ranchers by directing System associations to set up YBS programs and by requiring the banks to issue annual reports on their associations' programs. To ensure that the System fulfills this responsibility, FCA issued a final rule in 2004 that

- amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;
- allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages associations to establish advisory committees composed of YBS farmers;
- requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over its YBS program; and
- requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

Our examiners review the policies and programs of the institutions to ensure that the institutions are complying with the YBS regulations.

In addition, we continue to consider regulatory options to support YBS programs. In October 2012, we issued a bookletter to the System that provides guidance on how associations can meet the credit and related services needs of farmers who market their agricultural products through local and regional food systems. Because of their age, farming experience, or the size of their operations, many local food farmers will qualify as YBS farmers under section 4.19 of the Farm Credit Act, as well as under FCA regulation 12 CFR 614.4165.

In November 2014, we issued an informational memorandum to System institutions explaining how they can increase their outreach and service to YBS farmers by coordinating with USDA Farm Service Agency loan programs. The guidance we provide helps ensure that System institutions make full use of their authorities to help YBS farmers begin farming, expand their operations, and remain in agricultural or aquaculture production.

The information that follows shows YBS results for calendar year 2015. We are currently collecting information for 2016, and we expect this information to be available after April 2017. A summary of the System's YBS program results is also available on our website at www.fca.gov.

Tables 23 and 24 provide the YBS results for calendar year 2015. Loans to YBS producers include real estate loans and short- and intermediate-term loans. Please note that information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not an accurate measure of the System's YBS lending activity.

In 2015, the pace of new lending to YBS farmers equaled or exceeded the pace of overall Farm Credit System lending to farmers. The number of loans made in 2015 to young, beginning, and small farmers increased by 5.1 percent, 7.5 percent, and 6.7 percent, respectively, from 2014. Since the total number of farm loans made by the System was up by only 3.7 percent, the share of total System farm loans made to all three YBS categories rose from that of 2014.

From 2014 to 2015, the dollar volume of new loans made to young, beginning, and small categories rose by 8.0 percent, 12.2 percent, and 10.0 percent, respectively. By comparison, the System's overall volume of new farm loans grew by 8.8 percent. Therefore, the share of total System farm loan volume made to beginning and small categories rose from that of 2014.

Because of a decline in repayments, the number and dollar volume of loans outstanding increased in all three YBS categories in 2015 from the prior year. The number of loans outstanding increased by 3.8 percent to young farmers, 4.4 percent to beginning farmers, and 2.4 percent to small farmers. The dollar volume outstanding increased by 6.0 percent to young farmers, 6.4 percent to beginning farmers, and 2.2 percent to small farmers

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

Young — In 2015, the System made 62,143 loans to young farmers — that is, to those who are 35 years old or younger. The volume of total new loans to young farmers amounted to $9.4 billion. The loans made to young farmers in 2015 represented 17.2 percent of all farm loans made during the year and 11.3 percent of the dollar volume of loans made. At the end of 2015, the System had 188,696 loans outstanding to young farmers, totaling $27.1 billion.

Beginning — The System made 79,642 loans to beginning farmers — that is, to those who have been farming for 10 years or less. The volume of total new loans to beginning farmers amounted to $12.7 billion in 2015. The loans made to beginning farmers in 2015 represented 22.0 percent of all farm loans made during the year and 15.2 percent of the dollar volume of loans made. At the end of 2015, the System had 274,942 loans outstanding totaling $41.5 billion to beginning farmers.

Small — FCS institutions made 150,022 loans, totaling $11.8 billion, to small farmers (those with gross annual sales of less than $250,000) in 2015. The loans made in 2015 to farmers in this category represented 41.4 percent of all farm loans made during the year and 14.1 percent of the dollar volume of all farm loans made. At the end of 2015, the System had 502,398 loans outstanding totaling $46.7 billion to small farmers.

Table 23. YBS loans made during 2015 (as of December 31, 2015)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	62,143	17.2	$9.4	11.3	$151,749
Beginning	79,642	22.0	$12.7	15.2	$159,938
Small	150,022	41.4	$11.8	14.1	$78,754

Source: FCA 2015 Annual Report on the Farm Credit System.

Note: YBS data for each category are reported separately and should not be added.

Table 24. YBS loans outstanding (as of December 31, 2015)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	188,696	18.1	$27.1	11.0	$143,458
Beginning	274,942	26.4	$41.5	16.9	$150,844
Small	502,398	48.2	$46.7	19.0	$93,012

Source: FCA 2015 Annual Report on the Farm Credit System

Note: YBS data for each category are reported separately and should not be added.

To help YBS farmers qualify for credit in 2015, FCS associations offered differentiated loan underwriting standards for YBS borrowers or made exceptions to their regular standards. For example, some associations used higher loan-to-appraised-value ratios or lower debt repayment capacity standards for YBS borrowers. More than a third of associations provided concessionary loan fees, and more than half offered lower interest rate programs for YBS borrowers.

Many associations partnered with state and federal programs to provide interest rate reductions, guarantees, or loan participations for YBS borrowers. About 70 percent of associations indicated they had used government loan guarantee programs, primarily those of the USDA Farm Service Agency, to increase their service to YBS farmers. This was down slightly from the 75 percent of associations in 2014. These guarantees reduce the risk associations face when lending to individuals who cannot otherwise meet underwriting standards.

In addition, FCS institutions are using various approaches and sources of information to improve their YBS performance and outreach. For example, System associations in 2015 (40 percent) continued to use YBS advisory committees to provide input on YBS-related issues to their boards of directors. These advisory committees' input improved outreach efforts and services for YBS farmers, including additional loan programs and more educational efforts. To further improve performance, most FCS institutions have YBS training for their staff at least annually, and in 2015 more associations linked the performance evaluations of their managers and lending staff to their YBS performance criteria.

Finally, associations employed a range of outreach measures to reach potential YBS farmers. Associations foster early relationships by partnering with state or national young farmer groups, colleges, land-grant extension offices, state or national leadership programs, local chapters of 4-H and national FFA, Ag in the Classroom, and other agricultural organizations.

System institutions offer many opportunities to educate existing and potential YBS borrowers. In addition to the knowledge and advice provided by their own staff, they identify educational opportunities offered by local organizations. They also sponsor seminars and coordinate with other System institutions to provide educational opportunities.

YBS educational programs and trainings cover production and risk management, business management and record keeping, succession and estate planning, leadership development, and business startup. Also included in these outreach, training, and educational activities are local and regional YBS food producers and supporters of local food systems, as well as producers who are veterans and members of minority groups.

Market Share of Farm Debt

According to the U.S. Department of Agriculture's November 2016 forecast, total farm business debt is an estimated $375.4 billion at the end of 2016, up 5.2 percent from a year earlier and up 27.5 percent since 2011. 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 $356.7 billion farm business debt market at the end of calendar year 2015 was 40.6 percent, up from 39.6 percent at the end of 2014.[11] The market share for commercial banks also increased — from 41.7 percent in 2014 to 42.7 percent in 2015. USDA estimates of the market shares of individual lender groups for year-end 2016 will not be available until August 2017.

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 lending.

With substantial growth in the System's real estate lending in 2015, its share of farm business debt secured by farm real estate rose at year-end 2015 to 46.3 percent from 45.1 percent the previous year. The share of total farm real estate lending held by commercial banks also grew in 2015, increasing from 37.2 percent at year-end 2014 to 37.9 percent at the end of 2015. The System has had the largest market share of farm business debt secured by farm real estate since 2001.

The System experienced more modest growth in non–real-estate farm debt in 2015, with its market share increasing from 32.3 percent at year-end 2014 to 32.6 percent at year-end 2015. Commercial banks continue to lead the non–real-estate-secured farm debt market with their market share rising from 47.7 percent at year-end 2014 to 49.5 percent at year-end 2015. Historically, commercial banks have had the greatest share of this debt segment.

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[11] USDA's estimate of farm debt includes debt associated with the farming business and therefore excludes FCS lending associated with cooperatives, rural homes, rural utilities, marketing and processing operations, and other nonfarm-lending activities.

Part IV

Performance Budget

FY 2018

Performance Budget Overview

Our FY 2018 performance budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total performance budget (table 25) is $73.225 million and reflects a 4.01 percent increase from FY 2017.

Table 25. FCA performance budget, FYs 2016 – 2018

	FY 2016 Revised	FY 2017 Revised	FY 2018 Proposed
Policy and regulation	$14,140,400	$14,686,881	$15,012,073
Safety and soundness	50,558,847	54,166,033	56,622,322
Reimbursable activities*	1,500,753	1,547,086	1,590,605
Total	**$66,200,000**	**$70,400,000**	**$73,225,000**

* In contrast to the reimbursement numbers in table 4, these totals include indirect costs.

Policy and regulation

Our performance budget includes $15.0 million for the policy and regulation program, a 2.21 percent increase from FY 2017. Most of the funds requested for policy and regulation in FY 2018 will support regulatory projects that were published in the Unified Agenda in the fall of 2015. Generally, we open about a dozen regulatory projects each year. Funds are also used to support other statutory and regulatory activities, including policy studies and market research; management of our Consolidated Reporting System; and approvals of corporate applications, System funding requests, and mission-related investment programs.

Safety and soundness

The performance budget includes $56.6 million for the safety and soundness program, a 4.53 percent increase from FY 2017. This increase is necessary because we have reallocated examination resources from reimbursable activities to examination activities in order to meet System 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 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 addition, FY 2018 budgeted monies will support development of examination guidance and systemic risk oversight of the System, including Farmer Mac.

Reimbursable activities

The performance budget includes $1,590,605 for reimbursable activities. The reimbursable activities are summarized below and include indirect costs.

- **Farm Credit System Insurance Corporation (FCSIC) —**$1,184,474 for administrative support services to be provided under FCSIC contract. The administrative support services in FY 2018 include support for examination, information technology, human resources, and communication and public affairs, as well as assistance in completing one premium audit.

- **National Consumer Cooperative Bank (NCB) —** $138,299 for examining NCB. FY 2018 activities involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) assessments.

- **USDA —** $267,832 for potential work completed under contract with USDA. The work in FY 2018 will involve supporting USDA in its review of the Rural Business Investment Programs.

Table 26 summarizes the costs associated with our program activities, broken down by products and services.

Table 26. FY 2018 proposed budget and full-time equivalents for program activities

Program Activity	Products and Services	Budget Amount	FTEs
Policy and regulation	Regulation and policy development	$14,115,122	51.27
	Statutory and regulatory approvals	896,951	3.33
	Total for policy and regulation	**$15,012,073**	**54.60**
Safety and soundness	Examination	$51,058,918	225.38
	Economic, financial, and risk analysis	3,498,506	11.68
	FCS data management	2,064,898	7.04
	Total for safety and soundness	**$56,622,322**	**244.10**
Reimbursable activities	**Total for reimbursable activities**	**$1,590,605**	**7.00**
All program activities	**Total**	**$73,225,000**	**305.70**

Desired Outcomes for Strategic Goals

Our strategic goals and desired outcomes, which are detailed in table 27, help us measure whether we have achieved our public mission. The information that follows provides

- the strategies we use to accomplish the outcomes;
- the measures for each outcome, with targets that reflect our desired performance for FYs 2017 through 2018; and
- a historical summary of the costs of accomplishing the desired outcomes.

Please note that during FY 2016 we updated our strategic plan. The new plan, which covers FY 2016 to FY 2021, contains an additional goal, as well as some revisions to the strategies and performance measures.

Table 27. Desired outcomes for strategic goals

Strategic Goal	Desired Outcome
1. Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action
3. Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.	A high-performing, diverse workforce that supports the mission of the agency

Policy and Regulation — We established the Policy and Regulation program to track the product and service costs of achieving a flexible regulatory environment. The products and services we provide to support this program are

- regulation and policy development, and
- statutory and regulatory approvals.

Safety and Soundness — We established the Safety and Soundness program to track the product and service costs of identifying risk and taking timely corrective action. The products and services we provide to support this program are

- examination;
- economic, financial, and risk analysis; and
- FCS data management.

High-performing, diverse workforce — Our third goal focuses on human capital. We recognize that to achieve our first two goals we must have a well-trained, motivated, and diverse workforce, and we must ensure that we have an effective plan for leadership succession.

Flexible regulatory environment

Strategies

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.

2. Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.

3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America. This includes innovative programs for serving the credit and related service needs of YBS farmers, ranchers, and producers and harvesters of aquatic products.

4. Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.

5. Encourage diversity on the boards and in the workforce of System institutions.

6. Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.

7. Encourage System institutions to be conscious of the reputation risk associated with their lending and investment decisions.

8. Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

9. Encourage full participation of stakeholders in the development and review of regulatory and policy proposals as appropriate.

Measuring the achievements

Table 28 shows the measures we will use to evaluate our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac in FYs 2017 and 2018.

Table 28. Flexible regulatory environment — Performance measures and achievements

Measure	FYs 2017 – 2018
	Target
1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion.	≥90%
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations.	≥90%
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date.	Yes
6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (This measure considers all of the pre-rulemaking projects and proposed rules that were listed as completed on FCA's Unified Agenda Abstracts for the reporting period.)	Yes

Budgets

Table 29 provides the budgeted amounts we need to achieve a flexible regulatory environment from FYs 2016 to 2018.

Table 29. Budgets to achieve a flexible regulatory environment

	FY 2016 Revised	FY 2017 Revised	FY 2018 Proposed
Regulation and policy development	$12,580,161	$13,803,832	$14,115,122
Statutory and regulatory approvals	1,560,239	883,049	896,951
Total	**$14,140,400**	**$14,686,881**	**$15,012,073**

Note: The resources required to achieve a flexible regulatory environment will increase slightly in FY 2018 because of salary and benefit increases, travel, training, information technology costs, and our regulatory initiatives.

Effective risk identification and timely corrective action

Strategies

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Seek early FCA Board input on policy and regulatory issues. Ensure that the Board has timely and comprehensive information to be fully informed and able to respond appropriately.

2. Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.

3. Continue proactive oversight of institution-specific and systemic risks.

4. Effectively remediate weakened institutions.

5. Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.

6. Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.

Measuring the achievements

Table 30 shows the measures we will use to evaluate our efforts to effectively identify risk and take timely corrective action in FYs 2017 and 2018.

Table 30. Effective risk identification and timely corrective action — Performance measures and achievements

Measure	FYs 2017 – 2018 Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥80%
3. Percentage of institutions complying with regulatory capital ratio requirements.	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.	Yes

Budgets

Table 31 provides the budgeted amounts we need to identify risk in the FCS and to take timely corrective action from FYs 2016 to 2018.

Table 31. Budgets to identify risk and take timely corrective action

	FY 2016 Revised	FY 2017 Revised	FY 2018 Proposed
Examination	$46,434,836	$48,801,700	$51,058,918
Economic, financial, and risk analysis	2,301,040	3,383,771	3,498,506
FCS data management	1,822,971	1,980,562	2,064,898
Total	**$50,558,847**	**$54,166,033**	**$56,622,322**

Note: The resources required to identify risk and take timely corrective action will increase in FY 2018 because of salary and benefit increases, travel, training, and information technology costs.

High-performing, diverse workforce

Strategies

For goal 3, we are using the following strategies to maintain a high-performing, diverse workforce.

1. Maintain a highly skilled, motivated, and diverse workforce to meet FCA's current and future regulatory development, risk analysis, examination, and supervision needs.

2. Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.

3. Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm's length regulator.

4. Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms and promotes strong ethical behavior.

Measuring the achievements

Table 32 shows the measures we will use to evaluate our efforts to maintain a high-performing, diverse workforce in FYs 2017 and 2018.

Table 32. High-performing and diverse workforce — Performance measures and achievements

Measure	FYs 2017 – 2018 Target
1. Whether we have increased the diversity of qualified applicants for all job announcements.	Yes
2. Whether we have maintained or improved our score from last year in the Annual Federal Employee Viewpoint Survey.	Yes

Performance Measurement and Reporting

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2016 to 2021. Our performance measurement system provides a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the agency-level measures are linked to our strategic goals.

Our chief executive officer, with assistance from our chief operating officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The chief executive officer monitors the agency's progress and results relative to the agency-level measures on a quarterly basis throughout each fiscal year. Periodic performance reports are provided to the FCA board. The year-end performance report is incorporated in the FCA Performance and Accountability Report, which is submitted to the president and Congress.

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
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McLean, VA 22102-5090
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0517/100

Farm Credit Administration

Fiscal Year 2019 Proposed Budget and Performance Plan

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List of Acronyms and Abbreviations

ACA .... Agricultural credit association
ACB .... Agricultural credit bank
CAMELS .... capital, assets, management, earnings, liquidity, and sensitivity
CCS................................. competitive consulting service
Dodd-Frank Act .... Dodd-Frank Wall Street Reform and Consumer Protection Act
EEO .... Equal employment opportunity
Farm Credit Act.............. Farm Credit Act of 1971, as amended
FCB................................. Farm credit bank
Farmer Mac.................... Federal Agricultural Mortgage Corporation
FCA................................. Farm Credit Administration
FCS or System .... Farm Credit System
FCSIC .... Farm Credit System Insurance Corporation
FIRS .... Financial Institution Rating System
FLCA .... Federal Land Credit Association
FTE................................. full-time equivalent
FTP................................. full-time permanent
Funding Corporation ..... Federal Farm Credit Banks Funding Corporation
FY .... fiscal year
GSE .... government-sponsored enterprise
IRM .... information resources management
IT.................................... information technology
NCB .... National Consumer Cooperative Bank
OSMO............................. Office of Secondary Market Oversight
PCA .... Production Credit Association
RBC .... risk-based capital
RBICs .... Rural business investment companies
SS .... single-source
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 the regulation and examination of the banks, associations, and related entities that constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

Created by an executive order of the president in 1933, FCA now derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. We promulgate regulations to implement the act and examine System institutions for compliance with the act and regulations, and with safe and sound banking practices. Our mission is to ensure a safe, sound, and dependable source 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 2019. It discusses our functions and program activities and presents an overview of the financial condition of the FCS and Farmer Mac, the entities we regulate. Also included is the fiscal year 2019 performance budget, which ties proposed expenditures to the goals and objectives in our strategic plan.

This document is organized into four sections as follows:

1. Part I contains our budget request. This section presents budget trends that we monitor annually.

2. Part II covers the functions, programs, and services we undertake to fulfill our public mission. It also provides information on actions we have taken to improve internal operations.

3. Part III discusses the System's financial condition and performance.

4. Part IV contains our FY 2019 performance budget, which provides a basis for measuring our overall effectiveness.

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[1] Although Farmer Mac is an FCS institution under the Farm Credit Act (12 U.S.C. 2279aa-1(a)(2)), we discuss Farmer Mac separately from the other entities of the FCS in this document because of the secondary market authorities unique to Farmer Mac. Farmer Mac is not jointly and severally liable on debt issuances with other parts of the FCS.

Part I

Fiscal Year 2019

Proposed Budget

Fiscal Year 2019 Budget Overview

The FY 2019 proposed budget request, as shown in table 1, includes $74.6 million in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture, Farm Credit System Insurance Corporation, and the National Consumer Cooperative Bank adds $680,000 to this amount, bringing the total proposed FCA budget request to $75.28 million.

Table 1. Farm Credit Administration FY 2019 proposed budget

Description	Amount Proposed	Percentage of Total Budget
Full-time-permanent personnel (FTP)	$44,093,178	58.6
Other than FTP	1,188,249	1.6
Other personnel compensation	412,597	0.5
Total personnel compensation	**$45,694,024**	**60.7**
Personnel benefits	17,706,820	23.6
Benefits for former personnel	25,000	0.0
Total compensation and benefits	**$63,425,844**	**84.3**
Travel and transportation of persons	3,453,024	4.5
Transportation of things	156,058	0.2
Rent, communications, and utilities	793,742	1.1
Printing and reproduction	210,702	0.3
Consulting and other services	5,135,301	6.8
Supplies and materials	997,978	1.3
Equipment	1,107,351	1.5
Total budget	**$75,280,000**	**100.0**

Note: Of the amount collected in assessments from current and prior years, no more than $74.6 million may be used for administrative expenses in FY 2019. The total budget includes an additional $680,000 from anticipated reimbursable activity.

The FY 2019 proposed budget of $75.28 million increased by $2.05 million over the FY 2018 proposed budget of $73.23 million. Because we have leveraged technology and continually emphasized savings and efficiencies in operations, our costs have remained relatively stable. As a result, we are able to present a prudent, cost-effective budget.

The FY 2019 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.

The environment in which the FCS operates is dynamic and increasingly complex. The challenges in the nation's financial sector over the past few years were important considerations during our most recent strategic planning period. As a result, we have redirected staff resources to proactively manage systemic risk and to continually seek ways to increase our effectiveness and efficiency.

In the FY 2019 proposed budget, the full-time-equivalent (FTE) staffing level increases slightly. The FY 2019 budget anticipates increases in spending for salaries and benefits because of career-ladder promotions, benefit increases, career progression, on-line training, and funded leave.

In addition, the Office of Information Technology anticipates an increase in costs for IT security enhancements, data efficiencies, IT maintenance, and equipment life cycle replacement for mobile devices and laptops. The Office of Examination has submitted a travel budget that covers examiner training and costs associated with examination of institutions to ensure safety and soundness in accordance with the Farm Credit Act.

As an agency covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, we must also strive to achieve comparability in compensation and benefit programs with other agencies covered under the act.

The budget provides the resources needed to fulfill the following objectives of the FCA board chairman and CEO:

- To maintain strong examination and supervisory programs
- To establish the right level of regulatory capital for FCS institutions
- To ensure that the public purpose and mission-related responsibilities of the System are carried out appropriately

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 36.

The budget provides resources for developing regulations and policy positions that implement statutes, for promoting the safety and soundness of the FCS, and for supporting the System's mission as a dependable source of credit and related services for agriculture and rural America.

The budget includes a significant investment in our Strategic Human Capital initiatives. With about 42 percent of our workforce eligible to retire within the next five years, we continue investing in development of programs designed to create and sustain an engaged, results-oriented culture within the agency that emphasizes the importance of learning, expertise, and personal growth.

Thus, knowledge management remains a key component of our continuous learning strategy. When we project vacancies in critical fields, we arrange to have newly hired employees work closely with experienced employees whenever possible so that the new hires can quickly acquire the knowledge and skills they need. Our policies on training and employee development further enhance the transfer of knowledge.

We will continue to emphasize training for pre-commissioned examiners and the need to capture the knowledge of employees who are eligible to retire.

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 enterprise architecture.

The CIO may reprioritize IRM initiatives at any time during the year to accommodate changing business needs. The following table shows current development, modernization, or enhancement projects and their links to FCA’s strategic goals. These projects enhance our ability to perform essential functions.

The IRM Plan initiatives listed in table 2 are multiyear efforts that apply to numerous FCA projects. Rather than simply maintaining operations, these projects are designed to improve the agency’s work processes.

Table 2. Information Resource Management Plan initiatives

Development, Modernization, or Enhancement (DME)	Regulation and Policy	Safety and Soundness	Staff Development	Distributed
Acquire data and improve quality and accessibility		X		
Automate forms and workflow processes				X
Develop reports or dashboards to systematize analysis		X		
Implement a human resource information system				X
Improve access to FCA network				X
Improve interoffice communication and transparency			X	
Leverage geographic information system technology to support FCA mission				X
Modernize FCA custom applications				X
Improve examination approach and tools		X		

Background

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. Because of increased risk in several institutions, we expect mergers and consolidations to continue; and because of challenges in the global economy, we expect the System's asset base to grow at only a moderate pace. Currently, the average institution's asset base exceeds $1 billion.

Our budget strategy will enable us to leverage our most valuable investment — our people. It will enable us to continue to streamline and improve operations and to enhance staff expertise to meet challenges and opportunities that may arise. Our budget strategy will also support our IT needs, allowing us to acquire and maintain the infrastructure we need and to protect our data against the growing number of cyberthreats.

FCA program areas

The agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The policy and regulation program

The budget provides resources for developing regulations and policy solutions for mission and compliance issues facing the System. Our policy and regulation 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 the processing of information, the communication of the agency’s position on issues, training and development, and the administration of activities associated with the policy and regulation program. In total, policy and regulation activities account for approximately $16.5 million, including 56.04 FTEs, in the proposed FY 2019 budget (see table 26 on page 81).

The safety and soundness program

The budget provides resources to examine the System for safety and soundness. 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. Initiatives include the development of risk topics, on-site examination presence, and a greater emphasis on loan review through the testing of credit reviews, internal audits, and internal controls.

A few FCS institutions require special supervision and enforcement actions to assist them in addressing identified weaknesses or risks. These actions are taken as a result of significant input from our staff. Currently, examiners are noting conditions that reflect the weaknesses in the agricultural economy and commodity markets, as well as a rapidly changing risk environment in agriculture. Examiners work with FCS institutions to ensure these and other risks are recognized and mitigated in a timely manner. The budget provides the resources necessary to maintain relevant regulations related to the safety and soundness of the FCS.

In total, safety and soundness activities account for $57.1 million, including 241.64 FTEs, in the proposed FY 2019 budget (see table 26 on page 81).

Office of Inspector General's FY 2019 budget request

Section 6(f)(1) of the Inspector General Act of 1978, as amended, requires an inspector general (IG) to include specific information in the budget request the IG submits to the head of the department or designated federal entity to which the IG reports. To fulfill the requirement of section 6(f)(2) of the IG Act, the FCA board must in turn include this same information in the budget request that we submit to the president.

The information that the IG Act requires to be included is provided below:

- The aggregate budget request for the Office of Inspector General (OIG) is $1,612,727.
- The amount needed for OIG training is $17,755 (tuition).
- The amount needed to support the Council of the Inspectors General on Integrity and Efficiency is $3,545.

The FCA board is submitting the IG's budget request as received from the IG.

Budget Trends

This budget supports the agency's safety and soundness programs. It maintains our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. The FY 2019 budget is necessary to continue to fund employee salary and benefit costs, and technology expenditures — all of which represent approximately 90 percent of FCA's total budget.

Over the past two years our budget requests increased on average by 3 percent. The most recent increase request is 3 percent. Most of the cost increases are for salaries and benefits — as would be expected since salaries and benefits represent approximately 84 percent of our budget. Overall costs have remained relatively stable over the past three years with equipment increasing because of the life cycle replacement. Table 3 provides information on our budget trends.

Table 3. FCA budgets, FYs 2017 – 2019

	FY 2017 Revised Budget	FY 2018 Revised Budget	FY 2019 Proposed Budget
Full-time permanent (FTP)	41,665,633	43,303,006	44,093,178
Other than FTP	1,154,526	1,162,345	1,188,249
Other personnel compensation	386,867	407,519	412,597
Total personnel compensation	**$43,207,026**	**$44,872,870**	**$45,694,024**
Personnel benefits	16,702,576	17,121,045	17,706,820
Benefits for former personnel	25,000	25,000	25,000
Total compensation and benefits	**$59,934,602**	**$62,018,915**	**$63,425,844**
Travel and transportation of persons	3,166,819	3,716,239	3,453,024
Transportation of things	220,758	235,108	156,058
Rent, communications, and utilities	763,652	784,161	793,742
Printing and reproduction	221,150	202,690	210,702
Consulting and other services	4,705,713	4,976,552	5,135,301
Supplies and materials	839,094	756,535	997,978
Equipment	548,212	509,800	1,107,351
Total budget	**$70,400,000**	**$73,200,000**	**$75,280,000**

The Office of Management and Budget has issued guidance for agencies to reduce costs and increase efficiencies. We have taken the following actions to reduce costs:

- Implemented improved audio- and videoconferencing, thereby controlling travel costs
- Revised the Travel and Relocation Policy to encourage prudent travel practices
- Allowed employees to use penalty fares to take advantage of lower airfares
- Reduced travel to the field offices
- Increased reliance on the FCS Loans Database to help reduce travel costs
- Installed network copier printers with scanning capabilities to reduce hard copies, promote electronic files, and reduce the number of printers for individual employees
- Implemented additional electronic workflow processes to enhance internal controls, reduce paper, and increase our use of electronic records

In addition, we regularly use the following practices to keep our costs low:

- Use technology devices (such as laptops and smartphones) to keep travel costs down and maintain continuity of operations
- Ensure that service provider costs are well managed
- Make sure that we issue information technology devices only to employees who have a bona fide business need for them
- Review the usage of smartphones and other wireless devices every month to ensure they are being fully utilized and costs are being minimized
- Reduce the amount of printing by expanding our use of technology to disseminate publications (for example, by publishing documents on our website and distributing them by email)
- Reduce printing by instituting a “Going Green” initiative for training materials
- Use the EDGe Project to continue to make our workflow more efficient and integrated
- Increase efficiency by collaborating and sharing resources across FCA offices

- Increase efficiency by implementing inspector general recommendations as quickly as possible

Sources of FCA revenue and funding

We maintain a revolving fund financed primarily from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation, U.S. Department of Agriculture, and the National Consumer Cooperative Bank. Table 4 shows budgeted sources of revenue and funding for FYs 2017 to 2019.

Table 4. Budgeted sources of FCA revenue and funding, FYs 2017 – 2019

Source	FY 2017 Revised Budget	FY 2018 Revised Budget	FY 2019 Proposed Budget
ASSESSMENTS			
Banks, associations, and related entities	67,350,000	68,700,000	TBD
Federal Agricultural Mortgage Corporation	2,450,000	2,500,000	TBD
Carryover funds [a]	-	1,400,000	TBD
Assessments available for obligation	**$69,800,000**	**$72,600,000**	**$74,600,000**[b]
REIMBURSEMENTS[c]			
National Consumer Cooperative Bank	**95,275**	**68,346**	**121,020**
Farm Credit System Insurance Corporation	**405,891**	**358,013**	**363,904**
U.S. Department of Agriculture	**98,834**	**173,641**	**195,076**
Total	**$70,400,000**	**$73,200,000**	**$75,280,000**

a Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation.

b Our proposed obligation limit from assessments is $74.6 million for FY 2019.

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

d We will determine assessments and carryover amounts for FY 2019 in September of FY 2018.

FCA reserve

The institutions we oversee are involved in two volatile industries — agriculture and finance. Volatility can produce financial stress for institutions, creating a need for heightened oversight and supervision. To ensure that we have the resources to provide the necessary supervision and oversight during periods of financial stress, we established a reserve. Congress granted approval for the reserve under section 5.15(a)(1)(B) of the Farm Credit Act, and the FCA board established guidelines for it.

The reserve ensures that we can effectively and efficiently respond to safety and soundness issues arising within the System. It allows us to respond to these issues without increasing assessments at a time that may be financially difficult for System institutions. At the end of FY 2017, we had approximately $12.6 million in our reserve.

Assessments

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. As table 5 shows, assessments in 2013 and 2014 were particularly low because we used carryover from prior-year assessments to help fund our operations. To fund the FY 2018 budget, we used $1.4 million of carryover and increased our assessments by $4.4 million.

Table 5. FCS assessments, FYs 2009 – 2018

Fiscal Year	Assessment (in millions)
2009	$45.1
2010	$49.1
2011	$52.5
2012	$54.1
2013	$50.0
2014	$50.0
2015	$51.5*
2016	$58.3
2017	$66.8**
2018	$71.2

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

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

As table 6 shows, in FY 2017 we assessed the System $66.8 million and at the end of the year, we also had $1.6 million in reimbursable revenue and deobligations. During the year, we had obligations of $67.6 million. The difference between our obligations and our revenue was $.8 million which represents the increase to carryover.

Table 6. FCA funding, obligations, and assessment carryover, FYs 2016 and 2017 (dollars in millions)

	FY 2016	FY 2017
Current-year assessments	$58.3	$66.8
Reimbursable revenue and deobligations	$1.5	$1.6
Total funding	**$59.8**	**$68.4**
Obligations	$64.1	$67.6
Total funding minus obligations	**($4.3)**	**$0.8**
Assessment carryover from prior years	$5.2	$0.9
Carryover from assessments at end of fiscal year	**$0.9**	**$1.7**

FCS borrower costs

As table 7 shows, FCS borrowers incurred a net cost of approximately 2.0 basis points, or 2.0 cents for every $100 of assets held, to pay for FCA operations in FY 2017. Since FY 2008, the net cost to borrowers has averaged approximately 2.0 basis points.

FCS borrower costs are based on the relationship between the System's total assessments and assets held (not including Farmer Mac). The FCS held $321.6 billion in total assets as of September 30, 2017, up from $314.4 billion a year earlier.

Borrower costs have declined over the years for the following reasons:

- System assets have grown.
- FCA has used carryover to offset additional costs.
- FCA has taken various measures to reduce operating costs. (See pages 10 and 11 for details.)

Table 7. FCA's net cost to System borrowers, FYs 2008 – 2017

FY Ended September 30	Basis Points
2008	2.0
2009	2.0
2010	2.1
2011	2.2
2012	2.2
2013	1.9
2014	1.8
2015	1.7
2016	1.8
2017	2.0

Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2018 is $2.50 million. As required by regulation, we will reconcile and adjust the assessment after the fiscal year-end to reflect the actual amount expended. Actual costs for FY 2017 were $2.48 million. The assessment for FY 2019 is not yet available because the Office of Secondary Market Oversight will not complete the FY 2019 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2018.

Table 8 shows Farmer Mac assessments for fiscal years 2009 to 2018. 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 8. Farmer Mac assessments, FYs 2009 – 2018

Fiscal Year	Assessment (in millions)
2009	$2.05
2010	$2.25
2011	$2.20
2012	$2.25
2013	$2.38
2014	$2.38
2015	$2.40
2016	$2.45
2017	$2.50
2018	$2.50

Part II

Farm Credit Administration

Profile of the Farm Credit Administration

The Farm Credit Administration was created through an executive order of President Franklin D. Roosevelt and currently derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. As an independent agency within the executive branch of the federal government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).[2]

The FCS is the oldest of the financial government-sponsored enterprises (GSEs). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

The FCS had $251.2 billion in outstanding loans to agriculture and rural America as of September 30, 2017.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac's secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural

[2] By statute, Farmer Mac is an institution of the Farm Credit System; however, in this document, we will use the terms "FCS" and "System" to refer to all the entities in the Farm Credit System except Farmer Mac and affiliates of Farmer Mac.

lenders and intermediaries, including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2017, the volume of loans either purchased or guaranteed by Farmer Mac totaled $18.6 billion.

FCA is also 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 contract with the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture to provide examination services.

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 our Strategic Plan for FYs 2016 – 2021, 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 also evaluate whether institutions are complying with laws and regulations, especially the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers. 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 operations are determined to be 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.[3]

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

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 System debt obligations.

FCA board and governing philosophy

Our policy and regulations are established by a full-time, three-person board whose members are appointed by the president of the United States with the advice and consent of the Senate. They serve staggered six-year terms and may not be reappointed to succeed themselves after serving a full term or more than three years of a previous member's unexpired term. A board member may serve after expiration of his or her term until a successor has been appointed and qualified. The president designates one member as chairman of the board; this member serves as chairman until the end of his or her term. The board chairman also serves as the agency's chief executive officer.

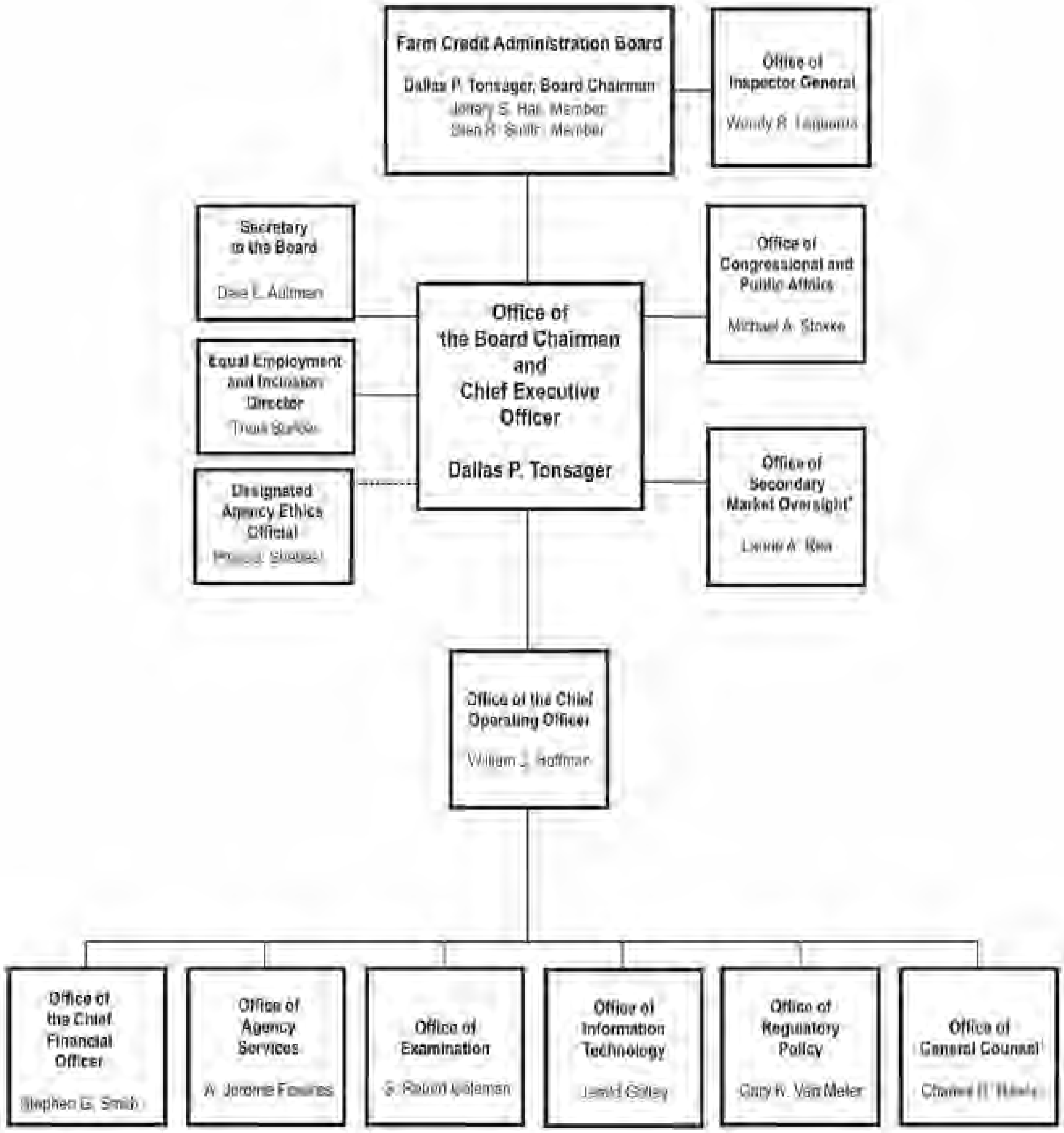
The FCA board approves charters of FCS institutions, oversees the agency's supervision and examination of those institutions, and issues enforcement actions. The governing philosophy of the FCA board is grounded in the Farm Credit Act. The board believes that the principles on which the System was founded are just as important today as they were in the early decades of the 20th century.

FCA organizational structure

Figure 1 presents our organizational structure and shows how the offices provide strategic support to the FCA board and ensure that our mission and goals are performed effectively and efficiently. We have our headquarters in McLean, Virginia, with field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

Figure 1. FCA organizational chart as of January 2018

For the text version of this chart, go to www.fca.gov/about/offices/orgchart_accessible.html.



*Reports to the Board for policy and to the CEO for administration.
†Maintains a confidential advisory relationship with each of the Board members.

FCA Internal Operations

FCA is firmly committed to the continuous development and support of its greatest asset — its employees. This commitment is at the core of our agency's five-year strategic plan. The plan focuses on workforce planning and talent management, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of our strategic human capital initiatives is based on the Human Capital Standards for Success, a collaboration of the Office of Management and Budget, the Office of Personnel Management, and the U.S. Government Accountability Office.

Human capital management

Human capital strategies are linked to our strategic plan through clearly defined strategic initiatives and action plans. We continually monitor workforce trends and implement best practices. We also monitor the System's changing environment so that we can adjust our staffing levels and maintain requisite skill sets by hiring additional staff, providing employee training and development, and transitioning employees from staff positions that are no longer necessary. We review our workforce planning strategies annually. See table 9 for full-time-equivalent (FTE) staffing levels (rounded to the nearest whole number) from FYs 2009 through 2019.

Table 9. Full-time-equivalent staffing levels, FYs 2009 – 2019

Fiscal Year	FTE Staffing Level
2009	261
2010	277
2011	286
2012	287
2013	273
2014	278
2015	277
2016	290
2017	296
2018	307 (authorized)
2019	306 (authorized)

Note: From FYs 2009 to 2019, our ratio of managers and supervisors to other personnel has ranged between one to five, and one to six.

We perform workforce assessments annually to obtain information on critical staffing variables, such as the age and grade of employees. From this analysis, we develop five-year projections to determine and mitigate the impact of employee retirements and separations.

As of September 30, 2017, approximately 20 percent of our personnel were eligible to retire; we expect that number to remain relatively stable through the end of FY 2018. See table 10 for retirement eligibility projections at FCA.

Table 10. FCA retirement eligibility, FYs 2017 – 2021

At Fiscal Year End	Eligible Retirements	Cumulative Eligible
2017	58	58
2018	7	65
2019	11	76
2020	16	92
2021	19	111

Identifying our human capital needs over the next five years, including the optimal size of our workforce and the appropriate skill sets of our employees, is one of our primary goals. Assessments take place at all levels to accurately gauge human capital requirements. We use the results of these assessments to develop, enhance, and redirect training and development programs.

As we face the retirement of a significant percentage of the FCA workforce, we are working hard to sustain a high level of institutional knowledge, job skills, and analytical expertise. In addition to succession planning and cross-training, we provide a variety of resources and programs for sharing knowledge across the organization.

Our continuous learning strategy emphasizes leadership, competencies, and knowledge management. Succession planning is also an important element. By providing education, training, and other development opportunities, we seek to attract and retain bright, creative, and enthusiastic people.

We coordinate training goals with the leadership skills and competencies that are integral to achieving our mission. We establish training projection plans at the office level and the agency level each year to help us manage employee training and development activities. These plans project budget needs for training and development; they are directly linked to FCA's performance management system. Supervisors and employees collaborate on training and development goals.

By working closely with agency management and conducting staff surveys, our learning officer gauges our training needs and develops efficient and effective methods to acquire outside training and to develop internal training courses and learning techniques. This training strategy helps prepare our workforce for emerging challenges and leadership succession.

Formal training programs support the needs of core occupational groups through a variety of methods, such as in-house training, vendor courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop computer with the technology to support e-learning initiatives. In addition, all employees have regular access to training on our computer systems.

We demonstrated our commitment to our training and knowledge transfer goals in FY 2017 by providing training to pre-commissioned examiners and capturing the knowledge of examiners who are eligible to retire. We also conducted agencywide supervisory training in March, shortly before the Office of Personnel Management issued recommendations to do so. As more and more employees become eligible to retire, knowledge transfer becomes a greater concern. We have created an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key part of our continuous learning strategy. When we hire new employees in critical fields, we require them to work closely with experienced employees to ensure the transfer of critical knowledge and skills. We regularly update our policies on training and employee development, and we use details and special projects to provide development opportunities.

FCA’s electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, are another component of knowledge management and best practices. These databases enable employees to communicate and share knowledge.

We have also established internal SharePoint sites to enhance knowledge transfer and collaboration. All employees have access to most of the sites, including the sites containing resources on contracting, technology, leadership development, audit and internal controls, and plain writing. Other sites are intended for the use of specific groups of employees, such as credit specialists, operations specialists, and recruiters. Still others are set up for workgroups on topics such as training, planning and reporting, and policy development. Through these sites, we can deliver information in real time to multiple audiences.

In addition, 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. We have developed procedures to evaluate relevant recruiting data and have implemented a recruiting committee to identify opportunities to improve agency diversity and attract skilled talent. We also endorse programs that promote equal employment opportunity (EEO), diversity, and inclusion, and we have an active EEO program.

FCA compensation program

Section 1206 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires federal financial regulators to “seek to maintain comparability regarding compensation and benefits.” This provision enables financial regulators to attract and retain qualified staff.

To comply with the FIRREA, we participate in a biannual survey of the other federal bank regulators and adjust our employees’ compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under the FIRREA.

We use a pay-for-performance program to adjust each employee’s salary according to his or her performance rating and salary range position. We make salary adjustments each calendar year based on several factors, including the compensation programs of other federal bank regulators and available funding.

On December 19, 2017, the FCA board approved the agency’s compensation program for 2018. The program includes pay-for-performance increases based on a 1.6 percent pay matrix. We increased salary ranges by 1.5 percent for FY 2018. We did not increase locality rates from the previous year. Career senior executives received a percentage increase equal to the average increase for all employees. Those below the midpoint for their salary range received a pay increase; those above the midpoint received a bonus.

These changes were consistent with the compensation adjustments of other FIRREA agencies.

External contracting and shared services

Outsourcing

As table 11 shows, we continue to outsource several functions. We have a shared-service agreement with the Bureau of the Fiscal Service. We also outsource our payroll services to USDA’s National Finance Center. Outsourcing these services allows us to manage our employee benefits and other agency functions without additional personnel costs.

Table 11. Shared services, FY 2017

Contract	Purpose	Amount
Administrative Service Center (Bureau of the Fiscal Service)	To provide full-service accounting, e-travel, credit card, and platform procurement services	$680,767
National Finance Center (USDA)	To provide payroll services	$45,000

Note: FCA's shared-service agreements during FY 2017 totaled $725,767.

Single-source and competitive consulting service contracts

Tables 12 and 13 provide a summary of our single-source and competitive consulting service contracts for FYs 2016 and 2017.

Table 12. Competitive consulting service (CCS) contracts of more than $25,000 and single-source (SS) contracts, FY 2016

Contract	Purpose	Amount
Art of Resolution LLC; 16-FCA-113-001 (SS)	To provide EEO services	$14,000
Dorothy Salak; 16-FCA-240-007 (SS)	To provide editor/writer services	$12,150
Robert Half Inc.;16-FCA-240-006 (SS)	To provide administrative support services	$24,616
FedResults; 16-FCA-240-011 (SS)	To provide cloud communication software	$41,189
AGFIRST Farm Credit Bank; 16-FCA-301-004 (SS)	To provide examination training	$7,500
Centrec Consulting Group, LLC; 16-FCA-301-006 (SS)	To provide self-study course set	$17,852
Vertex Solutions Group LLC; 16-FCA-301-007 (SS)	To provide eLearning services	$6,600
Second Pillar Consulting Inc.; 16-FCA-450-001 (SS)	To provide technical expertise to the Agency’s evaluation of capital adequacy with Farm Credit Institutions	$40,000
Delta Research Association Inc.; 16-FCA-601-001 (SS)	To provide human resource support	$25,976
David Redden-New Life Retirement; 16-FCA-601-005 (SS)	To provide retirement counseling and related services	$69,240
Digital Office Products;16-FCA-601-006 (SS)	To provide maintenance for Toshiba	$4,594
David Redden;16-FCA-601-009 (SS)	To provide human resource services	$10,000
Northern Virginia Temporaries Inc. ;16-FCA-601-011 (SS)	To provide temporary mail clerk services	$60,000
Murphy Brothers Inc.;16-FCA-601-014 (SS)	To provide transportation services	$11,000
Focused Strategies Inc. ;16-FCA-601-022 (SS)	To provide negotiation skills training	$10,154

Contract	Purpose	Amount
John Reid and Associates Inc. ;16-FCA-601-023 (SS)	To provide techniques for investigative interviewing	$10,950
Economic Systems Inc.; 16-FCA-601-028 (SS)	To provide human resource services	$14,995
TrueNorth LLC; 16-FCA-651-003	To provide consulting service for the design and development of data warehouse solution	$174,000
Traid Technology Partners LLC; 16-FCA-651-008 (SS)	To install MobileIron services	$5,855
Barracuda Cloud Storage Service; 16-FCA-651-019 (SS)	To provide cloud storage service	$22,499
Audio Fidelity Communications Corp; 16-FCA-651-014 (SS)	To provide IT support services	$40,314
Gartner, Inc.;16-FCA-651-023 (SS)	To provide IT services	$61,385
Day 1 Solutions; 16-FCA-651-025	To provide IT services	$115,026
Entrust Inc; 16-FCA-651-026 (SS)	To provide IT cloud services	$7,701
SAP National Security Service, Inc. ;16-FCA-651-027 (SS)	To provide software license and services	$9,746
Barracuda Networks Inc.; 16-FCA-651-029 (SS)	To provide IT services	$9,023
Day 1 Solutions; 16-FCA-651-030 (SS)	To provide IT storage service and support	$19,283
Patch Advisor Inc.; 16-FCA-651-036(SS)	To provide IT services	$33,000
Patch Advisor, Inc.; 16-FCA-651-041 (SS)	To provide IT services	$48,000
Ekahau Inc.; 16-FCA-651-047 (SS)	To provide software support	$6,303
Day 1 Solutions Inc.; 16-FCA-651-048 (SS)	To provide IT support services	$37,630
Electronic Systems Inc.; 16-FCA-651-050 (SS)	To provide IT services	$10,400

Contract	Purpose	Amount
Emergency Power Services Inc.; 16-FCA-651-052 (SS)	To provide IT services	$5,458
Teracai Corporation; 16-FCA-651-054 (SS)	To upgrade Cisco Voice Application services	$7,700
Learning Tree Inc.; 16-FCA-651-063 (SS)	To provide training	$19,950
Dell Marketing, L.P.; 16-FCA-651-067 (SS)	To provide Dell workstations	$13,520
Carahsoft Technology; 16-FCA-651-068 (SS)	To acquire training vouchers for Qlik Sense software	$6,220
Electronic Systems Inc.;16-FCA-651-069 (SS)	To provide IT support services	$120,000
Environmental System Research Institute; 16-FCA-911-001	To provide IT maintenance support services	$51,072
Phase One Consulting Group LLC; 16-FCA-651-037A	To provide various IT support services	$616,387

Note: The agency's SS and CCS contracts totaled $1,821,288 in FY 2016.

Table 13. Competitive consulting service (CCS) contracts of more than $25,000 and single-source (SS) contracts, FY 2017

Contract	Purpose	Amount
Ivy Planning Group LLC; 17-FCA-113-002 (CCS)	To conduct diversity and inclusion study	$76,241
Second Pillar Consulting; 17-FCA-450-005 (SS)	To provide critical and objective advise as needed with monitoring Farmer Mac	$150,000
Extron Electronics; 17-FCA-651-077 (SS)	To provide IT equipment	$9,267
Iron Bow Technologies; 17-FCA-651-078 (SS)	To provide IT services	$22,982
Norseman Defense Technologies; 17-FCA-651-075 (SS)	To provide IT services	$61,493
Microsemi Frequency and Time Corporation;17-FCA-651-069 (SS)	To provide IT services	$7,546
Skillsoft Corporation; 17-FCA-641-028 (SS)	To provide IT learning solutions	$23,214
Secure Government Technologies; 17-FCA-651-066 (SS)	To provide IT services	$12,497
Modcomp; 17-FCA-651-067 (SS)	To provide IT services	$5,215
Qlik Sense Site Tokens; 17-FCA-651-020 (SS)	To provide Qlik Sense site tokens	$6,750
Iron Bow Consulting; 17-FCA-651-065 (SS)	To provide IT services	$30,000
Iron Bow Technologies;17-FCA-651-057 (SS)	To provide IT services	$28,739
Discover Technologies; 17-FCA-651-044 (SS)	To provide IT services	$24,496
JBH Video Production Services; 17-FCA-240-009 (SS)	To provide video production services	$17,000
BJ Chagnon Corp; 17-FCA-240-016 (SS)	To provide 508 Training	$9,955

Contract	Purpose	Amount
N2Shape; 17-FCA-641-006 (SS)	To support the agency's wellness program	$5,060
Ad Specialist Unlimited; 17-FCA-641-025 (SS)	To provide length of service awards	$10,116
Varidesk Pro;17-FCA-301-003 (SS)	To provide portable desks	$8,167
Deloitte Consulting, LLP; 17-FCA-651-081	To provide IT services	$9,641
Learning Tree International; 17-FCA-651-042 (SS)	To provide Learning Tree training vouchers	$19,950
John Martin Discover Technologies; 17-FCA-651-040 (SS)	To provide IT services	$5,821
Tower Watson; 17-FCA-641-022 (SS)	To conduct compensation survey	$17,000
EconSys; 17-FCA-641-020 (SS)	To provide human resource services	$15,766
Adobe Acrobat Professional; 17-FCA-651-037 (SS)	To provide Adobe renewal upgrade	$40,156
PowerBuilder Enterprise Software; 17-FCA-651-033 (SS)	To provide IT services	$9,746
Planet Depos; 17-FCA-501-007 (SS)	To provide legal services	$5,793
Entrust Inc; 17-FCA-651-028 (SS)	To provide IT services	$7,701
Partnership of Public Services; 17-FCA-641-018 (SS)	To provide employment engagement training	$6,619
Federal Employment Law Training Group; 17-FCA-641-017 (SS)	To provide employee training	$6,975
Carasoft Technology Corporation; 17-FCA-651-020 (SS)	To provide IT training	$55,588
Michelle Coles; 17-FCA-450-004 (SS)	To provide temporary administrative support	$23,400
Retina Beyond Light License; 17-FCA-651-015 (SS)	To provide a license agreement	$10,399
Office Team; 17-FCA-641-015 (SS)	To provide mail operation support	$35,200

Contract	Purpose	Amount
Digital Office Copier; 17-FCA-641-011 (SS)	To provide a color copier	$5,283
Murphy Brothers; 17-FCA-641-009 (SS)	To provide transportation services	$12,000
Four Point Technology; 17-FCA-651-002 (SS)	To provide IT maintenance services	$4,499
Temporary Writer-Editor; 17-FCA-240-001 (SS)	To provide writer-editor services	$31,500
Art of Resolution; 17-FCA-113-001 (SS)	To provide EEO services	$20,000
Info-Tech Research Group; 17-FCA-651-021 (SS)	To provide IT services	$24,000

Note: The agency's SS and CCS contracts totaled $875,775 in FY 2017.

Other functions and activities

Reception and representation expenditures

FCA spent $186.94 on reception and representation expenses in FY 2017.

Foreign travel expenditures

During FY 2017 there were no foreign travel expenses.

Leveraging FCA technology

We have designed a flexible IT program at FCA so that we can adapt to changing needs. Our IT staff 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 current plan drives our IT spending through 2019 and beyond. In 2019, we will continue improve FCA's data reporting, dashboard, and analysis capabilities and strengthen our cybersecurity hygiene. We will hire contractors when we need special expertise, and we will expand our use of cloud services where feasible. And we will build on the accomplishments we made towards the IRM Strategic Plan initiatives in FY 2017. Over the past year, we accomplished the following:

- Expanded our use of cloud services and improved disaster recovery capabilities by moving the FCSIC.gov website to a cloud hosting provider. In 2018, we intend to modernize the FCA.gov website and move it to a cloud hosting provider also. By hosting the sites externally, we reduce the amount of support that our staff must provide.

- Purchased ServiceNow, a cloud-based application, to improve our customer service delivery.

- Created the "Advance Team" to help FCA staff examine institutions more effectively and efficiently. The team is composed of examiners and technologists. They work to resolve any potential connectivity issues or security concerns before an exam starts.

- Upgraded our network equipment to improve performance, enhance security, and increase storage capacity.

- Updated the Consolidated Reporting System (CRS) to meet the reporting requirements of the new capital regulation. The changes to the tables, reports, and other components of the system represent the most significant changes to CRS in over a decade.

- Strengthened IT security. We formalized a vulnerability management program, a change control process, and a phishing awareness campaign. We changed the email transmission protocol between FCA and certain Farm Credit System institutions to fortify security. We also finalized the routing of our network traffic through the Department of Homeland Security's mandatory program to monitor email and domain name services.

- Purchased a business process management tool to develop key workflows in support of the agency's business functions.

- Established multiple blanket purchase agreements for system development and data support contract services to improve FCA's data reporting, dashboard, and analysis capabilities.

- Switched to commitment accounting to strengthen our internal controls and budget reconciliation process.

- Completed several enhancements to the Enterprise Documentation and Guidance (EDGe) system. We rebuilt the Loan Workpaper application from a disparate set of Microsoft Access databases to a single, modern web application that integrates with the EDGe applications. We also transitioned the Financial Institutions Rating System to a modern web application that provides real-time feedback, incorporates built-in workflow, and incorporates advanced auditing and search capabilities.

- Adapted the FCS Data Portal to allow institutions to use it to submit additional document types.

- Improved communication and transparency. We added links to useful resources and dynamic organizational charts to the SharePoint sites of most of the business units. We developed a new FCA Careers page on www.fca.gov to provide a central location for information about careers at FCA.

- Streamlined business processes to improve efficiency. We transitioned the criminal referral form from hard copy to an electronic fillable form. We also developed a module that significantly simplified the process of billing Farm Credit System institutions for their assessments.

There are numerous projects for each IRM initiative planned for FY 2018 and FY 2019 that will further use technology to support our mission and achieve our strategic goals. For a listing of these initiatives, please see table 2 on page 6.

Independent auditing and accountability

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2017 audit of FCA's financial statements. On November 8, 2017, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2017.

- First, the auditor opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2017, in conformity with generally accepted accounting principles.

- Second, the auditor did not identify any deficiencies in internal control over financial reporting that would be considered material weaknesses.

- Third, the auditor did not identify any instances of noncompliance with selected provisions of laws and regulations or other reportable matters that could have a direct and material effect on the financial statements.

Ensuring Safety and Soundness

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including the Federal Agricultural Mortgage Corporation.

The first section below, titled The Farm Credit System, summarizes examination and supervisory activities performed on the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled Other Entities.

Our examination and supervision responsibilities are carried out by staff located in five field offices. One field office is in the McLean, Virginia, headquarters; the other field offices are in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2019.

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 must have loan portfolio and other data from System institutions, and section 5.9(4) of the Farm Credit Act gives us the authority to collect these data. Our regulations include the following reporting requirements:

- Each System institution must prepare and file quarterly reports of condition and performance with FCA in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information.
- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR 630.4.

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 for all System institutions. We have been expanding loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to have minimum capital levels, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder oversight.

Risk-based examination and supervision

We design examination and supervision processes to address material risks and emerging issues at the institution level and Systemwide. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, guarding the safety and soundness of the System is more important and challenging than ever. Annually, to help address these challenges, we identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The oversight and examination program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2018 are as follows:

- Portfolio Risk — Weathering the Storm
- Internal Controls Over Financial Reporting

When our examiners identify unsafe and unsound practices within a System institution or find that an institution has failed to comply with a law or regulation, we outline the corrective actions the institution must take in a Report of Examination or other form of communication. If necessary, we use our enforcement powers to bring about changes in an institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. However, in most cases, we achieve corrective action without the use of formal enforcement powers.

Measuring the safety and soundness of the System

We use our Financial Institution Rating System (FIRS) as a key method to assess the safety and soundness of each FCS institution. The FIRS provides a general framework, consisting of component and composite ratings, for evaluating and assimilating all significant financial, asset quality, and management factors. Similar to systems used by other federal financial regulators, the FIRS evaluates six key component areas to properly assess the degree of risk in an institution. These key component areas are capital, assets, management, earnings, liquidity, and sensitivity (CAMELS).

On the basis of our CAMELS ratings, we assign an overall composite rating for the institution. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect and that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

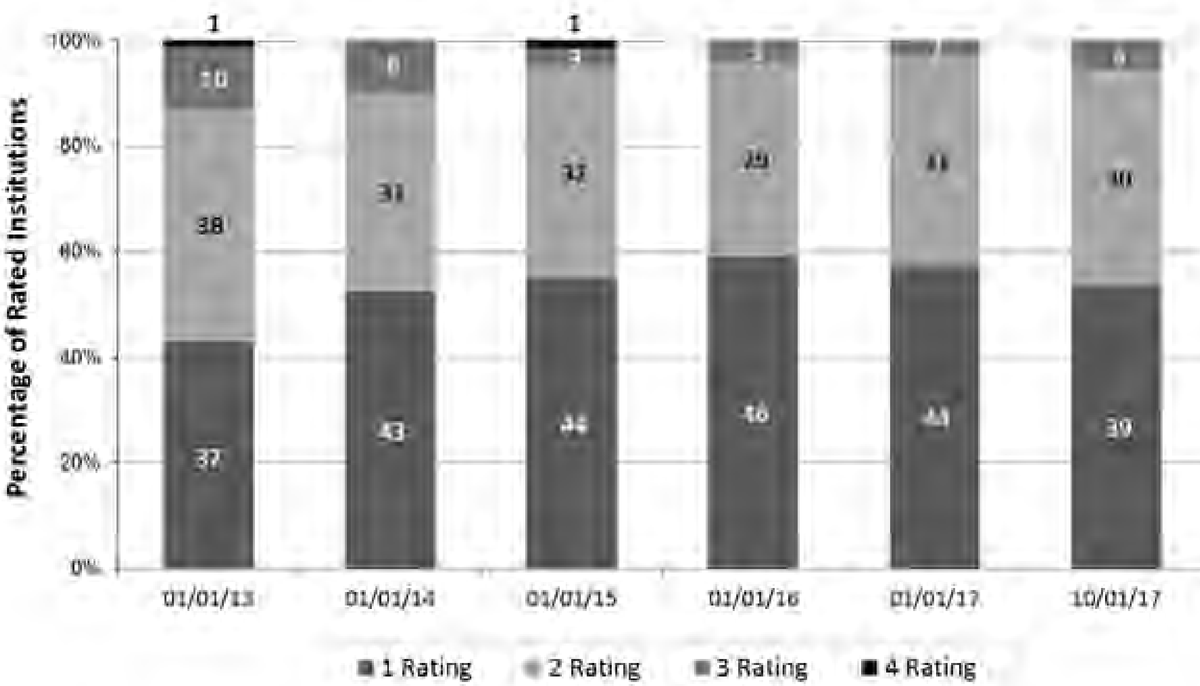
Recent results

As the composite FIRS ratings over the past several years show, the System's condition and performance have remained satisfactory. The following summarizes FIRS ratings for System banks and associations as of October 1, 2017:

- Thirty-nine institutions were rated 1.
- Thirty were rated 2.
- Four were rated 3.

See figure 2 for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

Figure 2. Farm Credit System Financial Institution Rating System (FIRS) composite ratings



Source: FCA's FIRS Ratings Database.

Note: This chart reflects ratings for the System's banks and direct-lending associations only; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers shown on the bars reflect the total number of institutions with a given rating; please refer to the y-axis to determine the percentage of institutions receiving a given rating.

Table data for figure 2

	Rating	01/01/13	01/01/14	01/01/15	01/01/16	01/01/17	10/01/17
Total	1	37	43	44	46	44	39
	2	38	31	32	29	31	30
	3	10	8	3	3	2	4
	4	1	-	1	-	-	-
	Total	86	82	80	78	77	73

Federal Agricultural Mortgage Corporation

Through our Office of Secondary Market Oversight (OSMO), we examine and supervise Farmer Mac to ensure both its safety and soundness and the achievement of its mission. OSMO performs annual CAMELS-based examinations, which include examination of capital, assets, management, earnings, liquidity, and sensitivity. Throughout the year, OSMO oversees Farmer Mac's condition and compliance with regulations and supervises its operations.

Statutory authority

We regulate Farmer Mac through OSMO, which was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102 – 237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO be managed by a full-time director who reports to the FCA board and that OSMO's activities, to the extent practicable, 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 2017 despite a modest increase in troubled loan volume.

- Net income available to common shareholders was $80.1 million for the 12 months ended September 30, 2017, compared with $53.7 million during FY 2016.

- Core earnings, a financial performance measure that does not rely on generally accepted accounting principles, totaled $62.5 million during FY 2017, compared with $52.9 million during FY 2016.

- Farmer Mac's core capital totaled $653.4 million at the end of FY 2017, compared with $587.1 million at the end of FY 2016. The minimum core capital requirement for Farmer Mac's on- and off-balance-sheet exposures is set in the statute and totaled $515.7 million at the end of FY 2017. Thus, Farmer Mac exceeded its minimum core capital requirement by approximately $137.6 million.

- At the end of FY 2017, Farmer Mac had $661.9 million in regulatory capital available to meet the $244.6 million minimum requirement established by FCA's Risk-Based Capital Model.

- Program activity increased approximately 8.1 percent and ended FY 2017 at $18.6 billion. Farmer Mac had $2.6 billion in its liquidity portfolio as of September 30, 2017.

Credit quality remained stable and generally good. Real estate owned decreased over FY 2017, finishing the year at $1.1 million, down approximately $0.4 million from fiscal year-end 2016. Total acceptable loan volume decreased 0.8 percent to 93.8 percent in FY 2017.

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 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 percent 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.[4]

The Farm Credit Act also requires the RBC Model to incorporate an interest rate risk stress scenario based on rising and falling 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 percent 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.

We published a final rule in early 2011 to amend our RBC Model regulation to allow for revisions to the model, including a revision that would reflect loan activity involving rural utility cooperatives. An advance notice of proposed rulemaking was published in June 2011 to solicit public input on further revisions to the model. We are considering a revision to the software platform on which the model runs. Currently, the model uses a Microsoft Excel platform. As Farmer Mac's portfolio grows and its product mix broadens, we will need a different platform to streamline model runs.

[4] Farmer Mac's express program activities were expanded in the Food, Conservation, and Energy Act of 2008 to include rural utilities.

Other entities

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System.

- As mandated by 12 U.S.C. 3025, we examine the National Consumer Cooperative Bank, which owns a federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans.

- From time to time, the U.S. Department of Agriculture contracts with us to provide examination services for specific USDA programs. We annually review the amount of resources dedicated to providing these services. Currently, the amount is limited.

- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC board consists of the members of the FCA board. Section 5.59(5) of the Farm Credit Act provides that, to the extent practicable, FCSIC must use FCA personnel and resources to minimize duplication of effort and to reduce costs.

Developing Regulations and Policies

FCA routinely issues regulations, informational memorandums, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend.

We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

Regulatory and policy projects active at end of FY 2017

The FCA board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives. The FCA board-approved agenda is part of the federal Unified Agenda, which is published online at www.reginfo.gov. We are not obligated to act on our agenda items. 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.

The following list summarizes the topics for which we are considering regulatory action and other guidance.

Investment Eligibility: We plan to publish a final rule to revise the eligibility requirements for investments by System institutions. To comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Farmer Mac — Investment Eligibility: We plan to publish a final rule to change eligible investment asset classes and limits on exposure to individual issuers. To comply with the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

Standards of Conduct: We plan to reissue a notice of proposed rulemaking to clarify and strengthen regulations related to the standards of conduct of directors, employees, and agents of System institutions.

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

Amortization Limits — Agricultural Credit Associations and Production Credit Associations: We plan to issue a notice of proposed rulemaking to clarify or change the amortization limits for Agricultural Credit Associations and Production Credit Associations.

Regulatory Burden: We plan to issue a final notice to address the comments we received regarding the removal or revision of outdated, unnecessary, or burdensome regulations.

Borrower Rights: We plan to issue a notice of proposed rulemaking to clarify disclosure and servicing requirements related to borrower rights.

Revision of Permanent Capital Deductions: We plan to issue a notice of proposed rulemaking to consider whether to align the deductions used for permanent capital with those used for tier 1/tier 2 capital.

Criteria to Reinstate Nonaccrual Loans: We plan to issue a notice of proposed rulemaking regarding criteria for reinstating nonaccrual loans and reducing the compliance burden on System institutions.

Eligibility Criteria for Outside Directors: We plan to issue a notice of proposed rulemaking regarding the eligibility criteria for outside directors. In particular, this rulemaking will address the eligibility of a candidate for an outside director position if the candidate owns an interest in an entity that borrows from, or holds stock in, a System bank or association.

Financing Farm-Related Service Businesses: We plan to complete our evaluation of the System's lending to farm-related service businesses to determine whether our regulations provide the appropriate framework for determining borrower eligibility and purposes of financing. Among the businesses to be considered are service providers within local food systems.

Basel III Liquidity Requirements: We plan to complete our review to consider aligning liquidity requirements with those of other federal bank regulators and to consider adopting a Basel III liquidity regime. As part of this review, we will consider whether the liquidity coverage ratio and the net stable funding ratio are applicable to System banks.

Farmer Mac Basel III Liquidity Requirements: We completed our review to consider aligning Farmer Mac's regulatory liquidity requirements with those of other federal bank regulators under a Basel III-type liquidity regime. We plan to issue an advance notice of proposed rulemaking on this topic to solicit public input on the concepts generally and their applicability to a secondary market GSE.

Regulatory and policy projects completed in FY 2017 and early FY 2018

Following is a list of projects we completed in FY 2017 and early FY 2018, along with a list of communications we issued to System institutions to clarify our rules.

Removal of Regulatory Capital Conditions Previously Imposed on Third-Party Capital: We issued a final rule to remove conditions and limitations on third-party capital issuances that are now addressed in the tier 1/tier 2 capital framework of the new capital rule.

Technical Amendments to Eliminate Obsolete References: We published a direct final rule that eliminated obsolete, unnecessary, and confusing references in the regulations related to the assessment and apportionment of administrative expense.

Regulatory Burden: We issued a notice with request for comment to solicit comments for the removal or revision of outdated, unnecessary, or burdensome 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 Improvement Act of 2015.

Farmer Mac — Investment Eligibility: We published a notice of proposed rulemaking to change eligible investment asset classes. To comply with the Dodd-Frank Act, this rule also removed references to credit ratings in the regulations and substituted an appropriate standard of creditworthiness.

Appraisal Regulations: We completed our review to consider whether changes in appraisal regulations are necessary in light of changing credit and economic conditions.

Territorial Concurrence: We completed our review of current regulations requiring associations to notify each other and obtain concurrence when they extend loans in the chartered territories of other associations. The purpose of the review was to determine whether the regulations are appropriate for the System's current structure, lending practices, and operating environment, and whether the regulations support safety and soundness, operational efficiency, cooperative principles, and customer service.

Removal of Stockholder-Elected Directors: We completed our review of whether, and under what circumstances, a stockholder-elected director of a System bank or association can be removed by the bank's or association's board of directors.

Criminal Activity Referrals and Related Internal Controls: We completed our review of our regulatory guidance on internal controls designed to prevent, identify, and monitor fraud and criminal activity. We also reviewed the processes for referring known or suspected criminal violations.

Director Election Nomination Procedures: We completed our review of regulations and guidance related to the director nomination process. As part of the review, we considered the kind of information to which nominating committees should have access when considering potential nominees.

Reporting Security Incidents and Business Continuity Events to FCA: We issued an informational memorandum to provide further guidance on reporting security incidents and business continuity events to the Farm Credit Administration.

Maximum Bank Director Compensation: We issued an informational memorandum to notify Farm Credit banks of the maximum allowable bank director compensation for 2017.

FCS corporate activity and other prior approvals and clearances

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

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

Corporate activities in FY 2017 and early FY 2018

During FY 2017, we canceled the charters of 12 associations — 4 ACAs and 8 subsidiaries — as a result of three separate mergers.

- On January 1, 2017, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with two subsidiaries.
- On July 1, 2017, two ACAs affiliated with AgriBank, FCB, merged, resulting in an ACA with two subsidiaries.
- Also, on July 1, 2017, three ACAs affiliated with AgriBank merged, resulting in an ACA with two subsidiaries.

Thus far in FY 2018, we have canceled the charter of one association — an FLCA — as a result of a merger. We also approved a name change.

- On October 1, 2017, an FLCA and an ACA affiliated with CoBank merged, resulting in an ACA with two subsidiaries.
- On January 1, 2018, an ACA affiliated with AgriBank changed its name.

Projected mergers and FCS institution size

As of January 1, 2018, the System had 69 direct-lender associations and 4 banks. Seven service corporations and special-purpose entities (see pages 54 to 56) brought the total number of FCS institutions to 80 (including Farmer Mac). Because of mergers and consolidations, the number of FCS associations has declined by 63 percent since 2000, and the number of FCS banks has decreased by 43 percent.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decline. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also have more complex management systems and offer a broader range of financial services to their borrowers.

Security offerings during FY 2017

We reviewed and did not object to the proposed offering circular from AgTexas Farm Credit Services for issuing series A fixed-to-floating cumulative perpetual preferred stock.

Funding activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation[5], the fiscal agent for the Farm Credit banks. Through this conduit, funds flow from worldwide capital-market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with ready and efficient access to global resources. Systemwide debt securities are issued as discount

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[5] See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation assists the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System's financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all debt issuances.

For the 12 months ended September 30, 2017, the FCS issued $296 billion in Systemwide debt, compared with $321 billion in FY 2016 and $286 billion in FY 2015. Investor demand for FCS debt instruments continued to be strong given the System's favorable financial performance and the minor change in the level of issuance of overall debt by government-sponsored enterprises. FCS debt outstanding increased to $258 billion at the end of FY 2017, an increase of just $6 billion from the end of FY 2016.

The financial markets exhibited overall stability, and investor demand for System debt remained favorable across the yield curve.

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 perform the following services for nonleveraged rural business investment companies:

- Provide technical advice regarding regulatory and program requirements
- Receive and review nonleveraged RBIC licensing applications for RBICs in which System institutions would hold at least 10 percent in total ownership and advise USDA as to whether to approve the applications
- Examine licensed nonleveraged RBICs

The 2012 agreement was replaced with a new five-year agreement in 2017, under which we will continue to review nonleveraged RBIC licensing applications and examine licensed nonleveraged RBICs. The agreement calls for us to review and provide recommendations for seven RBIC applications over a five-year timeframe. We agreed to expend no more than 1,800 hours, or 90 percent of one full-time-equivalent staff position, to complete the RBIC assignments during a fiscal year.

Part III

Farm Credit System

Profile of the Farm Credit System

The Farm Credit System consists of a network of borrower-owned cooperative financial institutions, as well as related service organizations and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the financial government-sponsored enterprises (GSEs). As of January 1, 2018, the System had four banks providing loan funds to

- 68 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.

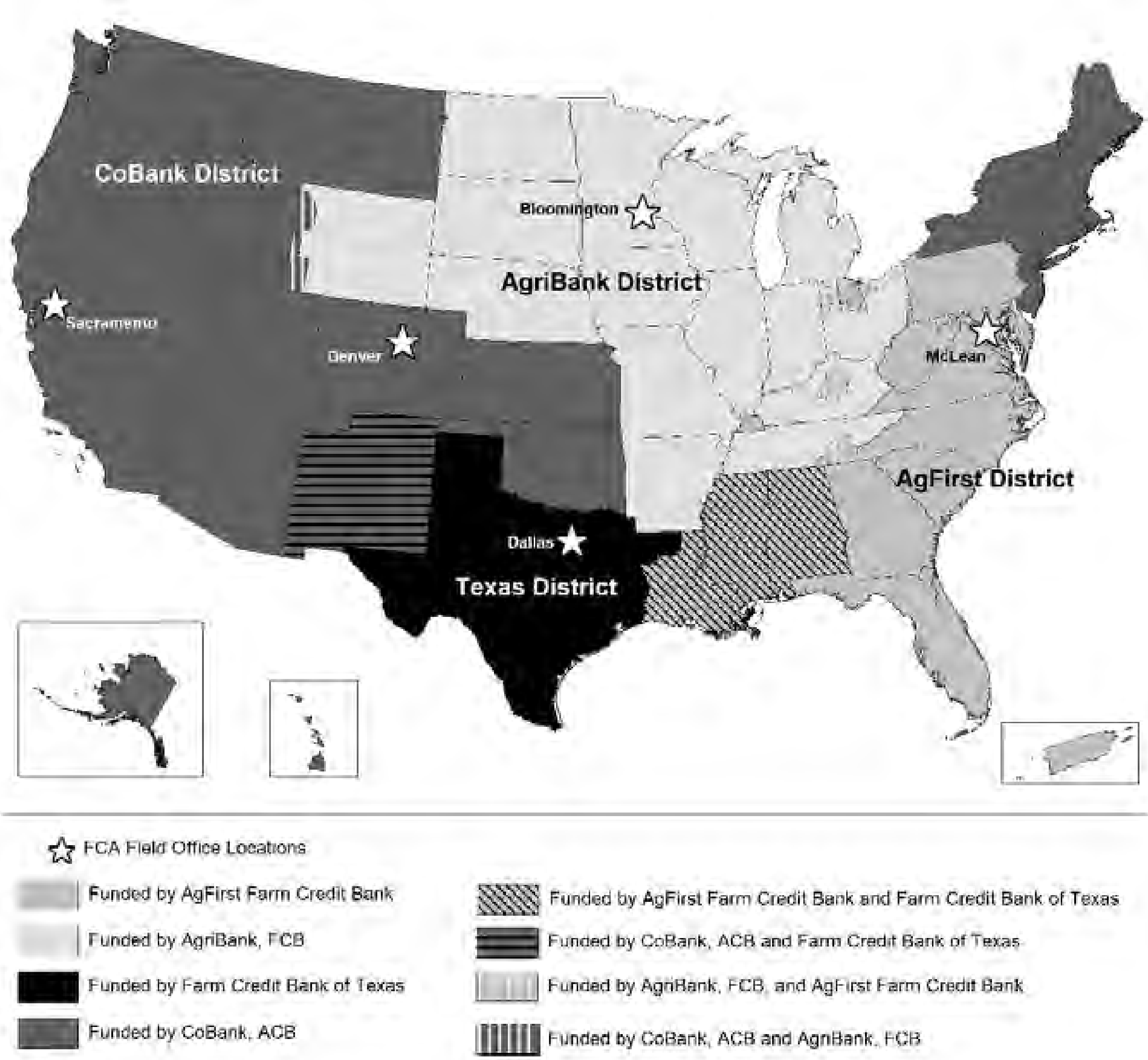
The map in figure 3 shows each bank's chartered territory.

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 the indebtedness to the funding bank under a general financing agreement. In addition, the parent company and its subsidiaries pledge their respective assets as security for each other's debts and obligations and share each other's capital.

The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are Federal Land Bank Associations that originate long-term agricultural mortgages and are exempt from federal and state income taxes; ACAs and PCAs originate short- and intermediate-term operating loans and are not tax-exempt.

System institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling debt securities in the national and international money markets; these securities are subject to FCA's approval, but they are not guaranteed by the U.S. government.

Figure 3. Farm Credit System bank chartered territories as of January 1, 2018



NOTE: CoBank, ACB, funds 22 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 14 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 73 banks and direct-lending associations.

Additional System entities and service corporations

In addition to the System's banks and associations, we are responsible for regulating and examining the Federal Agricultural Mortgage Corporation and the Federal Farm Credit Banks Funding Corporation. We also regulate and examine the five service corporations organized under section 4.25 of the Farm Credit Act[6]: AgVantis, Inc.; Farm Credit Leasing Services Corporation; Farm Credit Financial Partners, Inc.; the FCS Building Association; and Farm Credit Foundations.

Federal Agricultural Mortgage Corporation — Farmer Mac[7] is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. In May 2008, the Food, Conservation, and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac conducts its business primarily through four core programs:

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

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

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[6] 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.

[7] Farmer Mac is established in law as a part 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.

securities in the nation's capital markets. These securities, chiefly in the form of bonds and discount notes, are offered by the Funding Corporation through a nationwide group of securities dealers and dealer banks. The Funding Corporation's debt issuance programs provide the System banks with funds to lend to farmers, ranchers, and agricultural cooperatives; debt issuances also provide the banks with funding for their other operations.

AgVantis, Inc. — AgVantis provides technology-related and other support services to associations in the CoBank, ACB, district. It was chartered by FCA in 2001 and is owned by CoBank and 12 of its affiliated associations. In 2018, one association plans to leave AgVantis and obtain its services from Farm Credit Financial Partners, Inc.

Farm Credit Leasing Services Corporation — The Leasing Corporation, owned by CoBank provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit Financial Partners, Inc. — Farm Credit Financial Partners is owned by, and provides support services to, three associations affiliated with CoBank and one association affiliated with AgriBank, FCB. It is also a major alliance partner with two associations to provide services to them. In 2018, one association plans to join as an owner, while another association plans to become a Partner Services Program customer. Lastly, one association plans to leave and affiliate with another service provider.

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 39 Farm Credit associations, one service corporation (AgVantis), and one Farm Credit Bank (AgriBank).

FCS mission fulfillment

The System fulfills its overall mission by lending to agriculture and rural America. Through changes in the law since the System's original authorization in 1916, 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 overall condition and performance of the FCS remains safe and sound, and the System continues to be well positioned to withstand the challenges facing U.S. agriculture. For FY 2017, the System reported strong financial results, with stable earnings, strong capital levels, relatively low portfolio credit risk, and reliable access to debt capital markets. As of September 30, 2017, the System's liquidity position equaled 172 days, significantly above the 90-day regulatory minimum required for each FCS bank.

For many cash grain producers, margins were at or below breakeven levels in 2017 with high global production and abundant ending stocks keeping corn and soybean prices low. For livestock producers, cash receipts were up due to strong demand and continued favorable feed costs.

The System's loan portfolio grew at a modest pace in 2017, with gross loans increasing by 3.7 percent for the 12 months ended September 30, 2017. Real estate mortgage lending, the largest category, was up 4.0 percent because of continued demand for cropland in 2017.

Earnings

The FCS earned $3.72 billion in the first nine months of 2017, a 3.5 percent increase from the $3.59 billion earned in the same period in 2016. As table 14 shows, net interest income rose 4.1 percent, which was partially offset by higher noninterest expenses, which were up 5.3 percent.

Table 14: Net income (dollars in millions)

	First 9 Months of 2016	First 9 Months of 2017	Dollar Change	Percent Change
Net interest income	$5,524	$5,752	$228	4.1
− Provision for losses	218	188	(30)	(13.8)
= Net interest income after loss provision	$5,306	$5,564	$258	4.9
+ Noninterest income	448	430	(18)	(4.0)
− Noninterest expense	2,029	2,136	107	5.3
= Pretax income	$3,725	$3,858	$133	3.6
− Provision for income tax	136	142	6	4.4
= Net income	$3,589	$3,716	$127	3.5

Source: Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, p. F-3.

The increase in net interest income was due primarily to higher average interest-earning assets, which increased to $310.2 billion at September 30, 2017, from $297.8 billion at September 30, 2016. Net interest margin for the nine months ended September 30, 2017, was unchanged at 2.47 percent as from the same period a year ago (table 15). Net interest spread declined 5 basis points for the first nine months of 2017. Although the yield on earning assets increased by an annualized rate of 24 basis points, it was completely offset by a 29-basis-point increase in the annualized rate on interest-bearing liabilities.

Table 15: Interest margin in annualized percentages

	First 9 Months of 2016	First 9 Months of 2017	Change (bps)
Total interest-earning assets	**3.46**	**3.70**	**24**
Total loans	3.96	4.18	22
Investments and other assets	1.43	1.70	27
Total interest-bearing liabilities	**1.17**	**1.46**	**29**
Net interest spread	**2.29**	**2.24**	**(5)**
Impact of noninterest-bearing items	0.18	0.23	5
Net interest margin	**2.47**	**2.47**	**0**

Source: Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, p. 14.

bps = basis points

As table 16 shows, there was little change in the return on average assets across System districts for the first nine months of 2017 compared with 2016. Although most System districts reported a decline in the return on average capital during the first nine months of 2017, the System's net return measures remained satisfactory across all the districts.

Table 16: Profitability across System districts for first nine months of year*

		AgFirst	AgriBank	Texas	CoBank
Percentage return on average assets	2016	1.53	1.53	1.53	1.32
	2017	1.54	1.54	1.52	1.33
Percentage return on average capital	2016	9.31	8.94	10.20	10.05
	2017	9.19	8.49	10.13	10.15

Source: Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, p. F-58

* The financial ratios are for the combined banks and associations.

Asset growth

System growth slowed during the year ended September 30, 2017. In total, FCS assets were up $7.2 billion or 2.3 percent to $321.6 billion. The increase was driven by gains in loans, which were up $9.0 billion or 3.7 percent.

Growth in all major loan categories (real estate mortgage, production and intermediate, agribusiness, and rural infrastructure) was relatively modest, with percentage increases ranging from 3.3 percent for rural infrastructure to 4.0 percent for real estate mortgage.

All System districts experienced loan growth for the year ended September 30, 2017. The CoBank district reported the largest increase in volume, with loan balances growing by $4.2 billion, an increase of 4.2 percent year over year. Provided in table 17 is the volume and percentage change in gross loan volume for all System districts from September 30, 2017, compared with September 30, 2016.

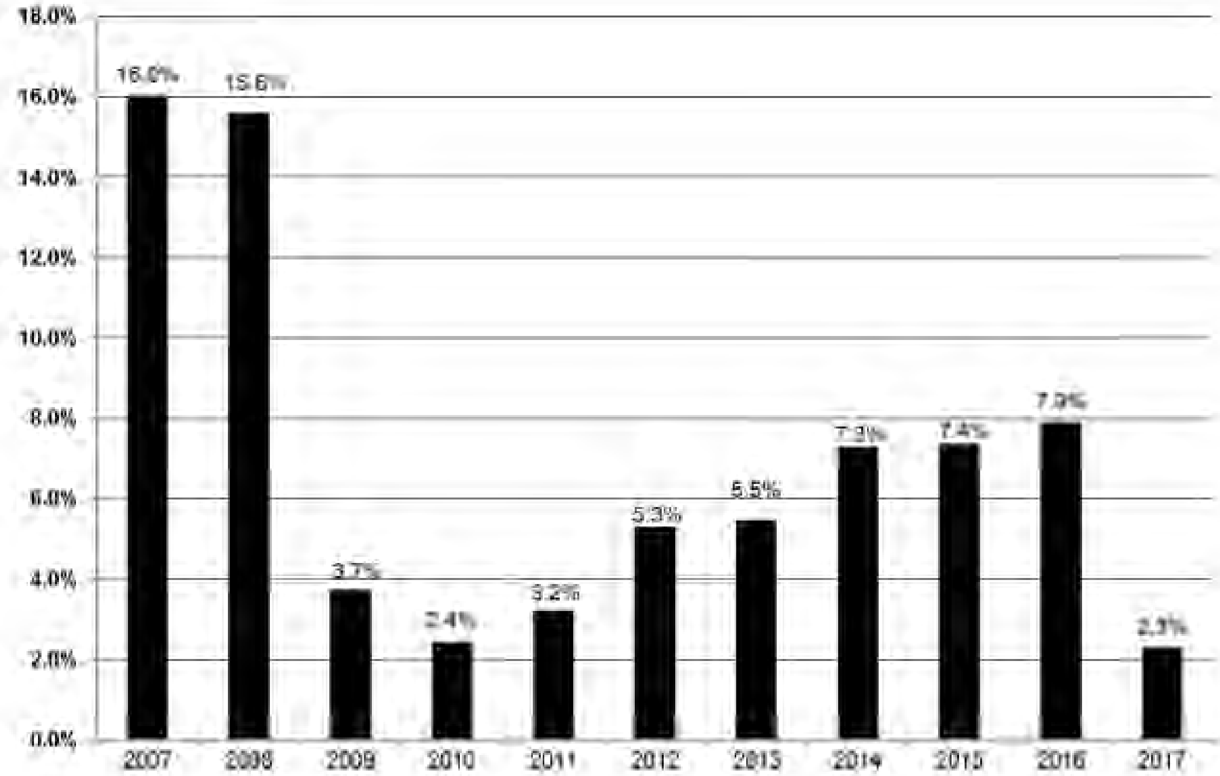
Table 17: Gross loan growth by district and Systemwide (dollars in millions)

	September 30, 2016		September 30, 2017		Change in Dollars	Percent Change
	Gross Loans	Percent Total	Gross Loans	Percent Total		
AgFirst	$27,185	11.2	$28,214	11.2	$1,029	3.8
AgriBank	97,746	40.4	100,692	40.1	2,946	3.0
Texas	22,121	9.1	23,237	9.3	1,116	5.0
CoBank	100,047	41.3	104,262	41.5	4,215	4.2
Insurance Fund and Intra-System Eliminations	(4,975)	(2.0)	(5,243)	(2.1)	(268)	5.4
Total for System	**$242,124**	**100.0**	**$251,162**	**100.0**	**$9,038**	**3.7**

Source: Third Quarter 2016 Quarterly Information Statement of the Farm Credit System, p. F-54; and Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, p. F-54.

As noted in figure 4 below, the System's total assets increased by 2.3 percent during the 12-month period ended September 30, 2017. This was the lowest percentage increase in the past 10 years and notably lower than the previous 3-year period.

Figure 4: Percent change in System assets, September 2007 to September 2017



Source: FCS Quarterly Information Statements.

Table data for figure 4

Year	Percent Change in System Assets
2007	16.0
2008	15.6
2009	3.7
2010	2.4
2011	3.2
2012	5.3
2013	5.5
2014	7.3
2015	7.4
2016	7.9
2017	2.3

Assets — Investments

As of September 30, 2017, the System's investments totaled $58.1 billion, down 0.7 percent from a year earlier. As shown in table 18, investments available for sale totaled $55.4 billion, including $0.3 billion for mission-related investments. Investments held to maturity were $2.7 billion, including $2.2 billion for mission-related mortgage-backed securities. The System increased its holdings of money market instruments, U.S. Treasury securities, and mortgage-backed securities while reducing holdings of U.S. agency securities and other asset-backed securities.

During the most recent 12-month period, the yield on investments available for sale increased from 1.39 percent to 1.78 percent with yields increasing on all available-for-sale segments. For investments held to maturity, the yield increased from 3.09 percent to 3.33 percent mainly because of an increase in the yield for mission-related mortgage-backed securities.

Ineligible investments held by the System at September 30, 2017, equaled $0.5 billion at fair value, unchanged from the prior year.

Table 18: FCS investments (dollars in millions)

		September 30, 2016		September 30, 2017		Change		
						Amount		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
Available for sale (fair value)	Money market instruments	$5,696	0.90	$5,921	1.40	$225	4.0	50
	U.S. Treasury securities	16,150	1.15	16,265	1.48	115	0.7	33
	U.S. agency securities	5,565	1.59	3,718	2.03	(1,847)	(33.2)	44
	Mortgage-backed securities	25,559	1.60	27,140	2.00	1,581	6.2	40
	Other asset-backed securities	2,595	1.20	2,020	1.68	(575)	(22.2)	48
	Mission-related investments	384	2.77	332	3.14	(52)	(13.5)	37
	Total	**$55,949**	**1.39**	**$55,396**	**1.78**	**($553)**	**(1.0)**	**39**
Held-to-maturity mission-related and other investments (amortized cost)	Mortgage-backed securities	2,044	3.07	$2,249	3.32	205	10.0	25
	Asset-backed securities	373	2.11	336	2.57	(37)	(9.9)	46
	Other securities	145	5.96	108	5.93	(37)	(25.5)	−3
	Total	**$2,562**	**3.09**	**$2,693**	**3.33**	**$131**	**5.1**	**24**

Source: Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, pp. F-10–12; and Third Quarter 2016 Quarterly Information Statement of the Farm Credit System, pp. F-9–12.

WAY = weighted average yield; bps = basis points

Loan quality

In its November forecast, USDA projects net cash farm income to increase $3.7 billion or 3.9 percent for 2017, breaking a streak of three consecutive down years. Although up moderately from 2016, net cash farm income is still down 28 percent from its peak in 2013.

Cash grain prices are expected to remain at the current low levels as record corn yields and high global soybean production will add to the existing plentiful ending stock inventories. Consequently, margins for many cash grain producers will remain at or below breakeven levels, further eroding farm balance sheets and repayment capacity.

In contrast, margins for dairy, poultry and most livestock sectors have been positive in 2017, helped by favorable pricing due to strong domestic and export demand, and continued low feed costs. Global competition, the strength of the U.S. dollar, and matching production increases to demand levels will be fundamental to producer profitability in 2018.

As anticipated, the Federal Reserve continued to raise its key policy rate in 2017. In response to improving economic and labor market conditions, the Federal Reserve increased the federal funds rate by 25 basis points 3 times, to a target range of 1.25 to 1.50 percent. Higher interest rates will mean borrowing costs for farmers for real estate, equipment, and other production inputs will increase, putting additional pressure on profit margins. The combination of low cash grain prices and rising interest rates also had a negative effect on farmland values as prices continued to soften in some key producing regions in 2017.

Credit quality in the System's loan portfolio remained steady in 2017. As of September 30, 2017, nonperforming assets equaled $2.099 billion (0.84 percent of total loans), essentially unchanged from $2.056 billion (0.85 percent of total loans) at September 30, 2016.

In the first nine months of 2017, net charge-offs for the System increased slightly to $21 million from $20 million for the same period one year ago. Net charge-offs for the first nine months of 2017 equaled just 0.01 percent of average loans outstanding, unchanged for the comparable period in 2016. The allowance for loan losses increased to $1.610 billion in the first nine months of 2017, up 11 percent from the same period of 2016. The allowance for loan losses as a percentage of total loans, nonperforming loans, and nonaccrual loans rose slightly from 2016 to 2017. See table 19.

Table 19: FCS loan quality

Loan Quality	September 30, 2016	September 30, 2017	Change in Percentage Points
Nonperforming assets as percentage of total loans and other property owned	0.85%	0.84%	−0.01
Nonperforming assets as percentage of capital	3.92%	3.78%	−0.14
Nonaccrual loans as percentage of total loans	0.65%	0.68%	0.03
ALL as percentage of total loans	0.60%	0.64%	0.04
ALL as percentage of nonperforming loans	73.80%	79.10%	5.30
ALL as percentage of nonaccrual loans	92.60%	94.70%	2.10

Source: FCS Quarterly Information Statements.

ALL = allowance for loan losses.

Liabilities, funding, and liquidity

For the year ended September 30, 2017, the System's total liabilities increased by 1.6 percent to $266.1 billion. See table 20 below. Short-term debt securities (due within one year) decreased 3.1 percent to $101.1 billion, while Systemwide debt securities due after one year increased 6.1 percent to $156.8 billion. Short-term debt securities represented 38.0 percent of the total Systemwide liabilities at September 30, 2017, down from 39.8 percent a year earlier.

Table 20: Systemwide debt (dollars in millions)

	September 30, 2016	September 30, 2017	Change	
			Dollars	Percent
Systemwide discount notes due within one year	$32,911	$25,430	($7,481)	(22.7%)
Systemwide bonds, medium-term notes, and master notes due within one year	71,366	75,641	4,275	6.0%
Total short-term liabilities	**$104,277**	**$101,071**	**($3,206)**	**(3.1%)**
Systemwide bonds, medium-term notes, and master notes due after one year	147,715	156,780	9,065	6.1%
Other liabilities	9,978	8,235	(1,743)	(17.5%)
Total liabilities	**$261,970**	**$266,086**	**$4,116**	**1.6%**

Source: FCS Quarterly Information Statements.

Liquidity risk management is necessary for the Farm Credit System to ensure its ability to meet its financial obligations. These obligations include the repayment of Systemwide debt securities as they mature, the ability to fund new and existing loans, and the ability to fund operations in a cost-effective manner. The System's liquidity position decreased slightly from 177 days as of September 30, 2016, to 172 days as of September 30, 2017. Each bank has maintained the three tiers of the liquidity reserve[8] and exceeded the regulatory minimum of 90 days of liquidity.[9]

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[8] 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.

[9] The regulatory liquidity standard requires each FCS bank to maintain a minimum of 90 days of liquidity on a continuous basis. The number of days of liquidity is calculated by comparing the principal portion of a given bank's

The aggregate duration gap for the FCS (the sum of the banks' duration gaps) was a positive 4.2 months compared with a positive 3.9 months a year earlier, which means the System's exposure to interest rate risk was up slightly as of September 30, 2017.[10] 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 of its capital position.

Capital

The System continued to build capital in 2017 through net income earned and retained, which was partially offset by cash distributions to stockholders. System capital amounted to $55.5 billion as of September 30, 2017, a 5.9 percent increase from a year earlier (refer to table 21). Most of the $3.1 billion increase in capital came from net income earned and retained, substantially offset by the re-characterization of retained earnings to additional paid-in-capital related to association mergers.

Retained earnings still account for the overwhelming majority of capital, at 78.5 percent as of September 30, 2017, down from 82.0 percent as of September 30, 2016. The System's overall capital-to-assets ratio increased from 16.7 percent to 17.3 percent over this 12-month period primarily because of earnings retained.

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maturing Systemwide debt securities, as well as its other borrowing, with the total amount of the bank's cash, cash equivalents, and investments. For the purpose of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale.

[10] The "duration gap" is the difference between the estimated duration of assets and the estimated duration of liabilities, measured in months. Duration is the weighted average maturity of cash flows, weighted by the present value of this cash flow. It is a useful way to estimate the direction and size of changes in the value of a financial instrument when market interest rates experience small changes. When the duration gap is small, changing market interest rates pose less interest rate risk than when the gap is large.

Table 21: FCS capital composition (dollars in millions)

	September 30, 2016	September 30, 2017	Change	
			Dollars	Percent
Preferred stock	$3,147	$3,085	($62)	(2.0%)
Capital stock and participation certificates	1,773	1,857	84	4.7%
Additional paid-in capital	1,385	3,642	2,257	163.0%
Restricted capital (Insurance Fund)	4,343	4,748	405	9.3%
Accumulated other comprehensive income (loss)	(1,226)	(1,390)	(164)	13.4%
Retained earnings	42,969	43,563	594	1.4%
Total capital	**$52,391**	**$55,505**	**$3,114**	**5.9%**

Source: FCS Quarterly Information Statements.

As of September 30, 2017, all System institutions complied with FCA's new regulatory minimum capital requirements:

- a common equity tier 1 capital (CET1) ratio of 4.5 percent of risk-adjusted assets,
- a tier 1 capital ratio of 6.0 percent of risk-adjusted assets,
- a total capital ratio of 8.0 percent of risk-adjusted assets,
- a tier 1 leverage ratio of 4.0 percent of total assets, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents, and
- a permanent capital ratio of at least 7.0 percent of risk-adjusted assets.

The new regulatory capital framework also establishes a capital cushion (capital conservation buffer) of 2.5 percent above the CET1 ratio, tier 1 capital ratio, and total capital ratio requirements. A leverage capital buffer of 1.0 percent above the tier 1 leverage ratio requirements was also established. If capital ratios fall below these buffer thresholds, capital distributions and certain discretionary compensation payments are restricted or prohibited without prior FCA approval. Included in the regulations is a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. Table 22 shows that all banks are capitalized in excess of regulatory requirements.

For associations, the CET1 and tier 1 capital ratios ranged from 12.5 percent to 38.5 percent, the total capital ratio ranged from 13.3 percent to 39.4 percent, the tier 1 leverage ratio ranged from 11.0 percent to 33.7 percent, and the URE and URE equivalents leverage ratio ranged from 7.9 percent to 34.4 percent.

Table 22: Regulatory capital ratios of FCS banks

		AgFirst	AgriBank	Texas	CoBank
Common equity tier 1	9/30/2017	21.1	18.3	10.4	11.8
Tier 1 capital	9/30/2017	21.6	19.2	16.5	14.1
Total capital	9/30/2017	21.7	19.2	16.6	15.4
Tier 1 leverage	9/30/2017	7.5	5.7	7.3	7.3
URE and URE equivalents leverage	9/30/2017	6.6	3.2	3.0	3.0
Permanent capital ratio	9/30/2016	20.9	20.4	17.1	15.6
	9/30/2017	21.6	19.2	16.5	14.4
	Change	0.7	−1.2	−0.6	−1.2

Source: FCA Consolidated Reporting System.

Note: Effective January 1, 2017, new regulatory capital requirements for System banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with common equity tier 1, tier 1 capital, and total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a tier 1 leverage ratio and a URE and URE equivalents leverage ratio.

Young, Beginning, and Small Farmers and Ranchers

Congress has mandated that the Farm Credit System serve the credit and related service needs of young, beginning, and small (YBS) farmers and ranchers by directing System associations to set up YBS programs and by requiring the banks to issue annual reports on their associations' programs. To ensure that the System fulfills this responsibility, FCA issued a final rule in 2004 that

- amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;
- allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages associations to establish advisory committees composed of YBS farmers;
- requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over its YBS program; and
- requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

Our examiners review the policies and programs of the institutions to ensure that the institutions are complying with the YBS regulations.

In addition, we continue to consider regulatory options to support YBS programs. In August 2007, we issued a bookletter that interprets the phrase "sound and constructive credit" for a subset of part-time YBS farmers. In October 2012, we issued a bookletter to the System that provides guidance on how associations can meet the credit and related services needs of farmers who market their agricultural products through local and regional food systems. Because of their age, farming experience, or the size of their operations, many local food farmers will qualify as YBS farmers under section 4.19 of the Farm Credit Act, as well as under FCA regulation 12 CFR 614.4165.

In November 2014, we issued an informational memorandum to System institutions explaining how they can increase their outreach and service to YBS farmers by coordinating with USDA Farm Service Agency loan programs. The guidance we provide helps ensure that System institutions make full use of their authorities to help YBS farmers begin farming, expand their operations, and remain in agricultural or aquaculture production.

The information that follows shows YBS results for calendar year 2016. We are currently collecting information for 2017, and we expect this information to be available after May 2018. A summary of the System's YBS program results is also available on our website at www.fca.gov.

Tables 23 and 24 provide the YBS results for calendar year 2016. Loans to YBS producers include real estate loans and short- and intermediate-term loans. The information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not an accurate measure of the System's YBS lending activity.

In 2016, the pace of new lending to YBS farmers remained similar to 2015 levels. In terms of dollar volume, the pace of YBS lending slightly exceeded the pace of overall farm lending by Farm Credit System institutions. In terms of loan numbers, the pace of YBS lending lagged slightly behind the pace of overall farm lending.[11]

From 2015 to 2016, the dollar volume of new loans made to small farmers rose 3.3 percent, while the dollar volume of new loans to young and beginning farmers declined by 1.9 percent and 0.3 percent, respectively. However, since the dollar volume of the Farm Credit System's overall farm lending declined by 5.4 percent in 2016, the proportion of the System's dollar volume going to every YBS category increased slightly.

On the other hand, all three YBS categories experienced slight declines in the number of loans made in 2016. The number of loans to young farmers declined by 0.2 percent, to beginning farmers by 0.6 percent, and to small farmers by 0.2 percent. By contrast, the System's overall number of new farm loans grew by 0.5 percent.

For loans outstanding, the dollar volume increased in all three categories. Loan volume to young farmers increased by 2.6 percent, to beginning farmers by 3.2 percent, and to small farmers by 2.1 percent. The System's overall farm loan volume grew by 2.8 percent.

The number of YBS loans outstanding presented mixed results. The number of loans outstanding to young farmers grew by 1.2 percent and to beginning farmers by 1.5 percent, while

[11] Loans and commitments to YBS farmers include real estate mortgages, production and intermediate-term loans, loans to processing and marketing operations, and leases. These loan types are what we call "farm lending" in this analysis; they are a subset of total Farm Credit System lending. These loans and commitments do not include rural home loans, cooperative loans, and leases made by the Leasing Corporation.

the System's overall number of farm loans grew by only 0.1 percent. However, the number of loans outstanding to small farmers decreased by 0.1 percent.

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

Young — The System made 62,000 loans, totaling $9.2 billion, to young farmers (those who are 35 years old or younger) in 2016. The loans made to young farmers in 2016 represented 17.0 percent of all farm loans made during the year and 11.7 percent of the dollar volume of loans made. At the end of 2016, the System had 190,995 loans outstanding to young farmers, totaling $27.8 billion.

Beginning — The System made 79,166 loans, totaling $12.7 billion, to beginning farmers (those who have been farming for 10 years or less) in 2016. The loans made to beginning farmers in 2016 represented 21.7 percent of all farm loans made during the year and 16.0 percent of the dollar volume of loans made. At the end of 2016, the System had 279,019 loans outstanding totaling $42.8 billion to beginning farmers.

Small — FCS institutions made 149,691 loans, totaling $12.2 billion, to small farmers (those with gross annual sales of less than $250,000) in 2016. The loans made in 2016 to farmers in this category represented 41.1 percent of all farm loans made during the year and 15.4 percent of the dollar volume of all farm loans made. At the end of 2016, the System had 501,874 loans outstanding totaling $47.7 billion to small farmers.

Table 23. YBS loans made during 2016 (as of December 31, 2016)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	62,000	17.0%	$9.2	11.7%	$149,143
Beginning	79,166	21.7%	$12.7	16.0%	$160,514
Small	149,691	41.1%	$12.2	15.4%	$81,545

Source: FCA 2016 Annual Report on the Farm Credit System.

Table 24. YBS loans outstanding (as of December 31, 2016)

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	190,995	18.3%	$27.8	11.0%	$145,471
Beginning	279,019	26.7%	$42.8	17.0%	$153,457
Small	501,874	48.1%	$47.7	18.9%	$95,042

Source: FCA 2016 Annual Report on the Farm Credit System.

To help YBS farmers qualify for credit in 2016, FCS associations offered customized or YBS specific loan underwriting standards or made exceptions to their regular standards. For example, some associations used higher loan-to-appraised-value ratios or lower debt repayment capacity standards for YBS borrowers. More than a third of associations provided concessionary loan fees, and more than half offered lower interest rate programs for YBS borrowers.

Many associations partnered with state and federal programs to provide interest rate reductions, guarantees, or loan participations for YBS borrowers. About 70 percent of associations indicated they had used government loan guarantee programs, primarily those of the USDA Farm Service Agency, to increase their service to YBS farmers. This percentage was little changed from 2015. These guarantees reduce the risk associations face when lending to individuals who cannot otherwise meet underwriting standards.

In addition, FCS institutions are using various approaches and sources of information to improve their YBS performance and outreach. Many System associations continued to use YBS advisory committees to provide input on credit and related services to best serve the needs of YBS farmers in their territories. The percentage of all associations using advisory committees went up from 40 percent in 2015 to 50 percent in 2016. Advisory committees are composed of a variety of stakeholders, both internal and external. In 2016, advisory committees provided valuable input that improved outreach efforts and services for YBS farmers; for example, some committees recommended additional loan programs and more educational efforts.

To further improve performance, most FCS institutions have YBS training for their staff at least annually. In addition, associations continue to link YBS performance criteria to the performance evaluations of management and lending staff.

Finally, associations employed a range of outreach measures to reach potential YBS farmers. Associations foster early relationships by partnering with state or national young farmer groups, colleges, land-grant extension offices, state or national leadership programs, local chapters of 4-H and national FFA, Ag in the Classroom, and other agricultural organizations.

System institutions offer opportunities to educate existing and potential YBS borrowers. In 2016, they developed or maintained comprehensive educational or outreach programs, sponsored seminars delivered by third parties, and sponsored local organizations that deliver education and training. Associations provide these opportunities by using the expertise of their own staff, by coordinating with other associations, and by partnering with district banks.

YBS educational programs and trainings cover production and risk management, business management and record keeping, succession and estate planning, leadership development, and business startup. Also included in these outreach, training, and educational activities are local and regional YBS food producers and supporters of local food systems, as well as producers who are veterans and members of minority groups.

Market Share of Farm Debt

According to the U.S. Department of Agriculture's November 2017 forecast, total farm business debt is estimated to top $385 billion at the end of 2017, up 2.9 percent from a year earlier and up 29.5 percent since 2012. 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 $374.2 billion farm business debt market at the end of calendar year 2016 was 40.9 percent, up from 40.6 percent at the end of 2015. The market share for commercial banks decreased — from 42.7 percent in 2015 to 42.1 percent in 2016. USDA estimates of the market shares of individual lender groups for year-end 2017 will not be available until August 2018.

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 lending.

While there was substantial growth in the System's real estate lending in 2016, its share of farm business debt secured by farm real estate declined at year-end 2016 to 45.9 percent from 46.3 percent the previous year. The share of total farm real estate lending held by commercial banks also declined in 2016, from 37.9 percent at year-end 2015 to 37.4 percent at the end of 2016. The System has had the largest market share of farm business debt secured by farm real estate since 2001.

The System experienced more modest growth in non–real-estate farm debt in 2016, but its estimated market share rose from 32.6 percent at year-end 2015 to 33.3 percent at year-end 2016. Commercial banks continue to lead the non–real-estate-secured farm debt market with their market share holding steady in 2016 at 49.4 percent. Historically, commercial banks have had the greatest share of this debt segment.

Part IV

Performance Budget

Fiscal Year 2019

Performance Budget Overview

Our FY 2019 performance budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total performance budget (table 25) is $75.28 million and reflects a 2.8 percent increase from FY 2018.

Table 25. FCA performance budget, FYs 2017 – 2019

	FY 2017 Revised	FY 2018 Revised	FY 2019 Proposed
Policy and regulation	$14,686,881	$16,407,026	$16,473,803
Safety and soundness	54,166,033	55,313,531	57,088,858
Reimbursable activities*	1,547,086	1,479,443	1,717,339
Total	**$70,400,000**	**$73,200,000**	**$75,280,000**

* In contrast to the reimbursement numbers in table 4, these totals include indirect costs.

Policy and regulation

Our performance budget includes approximately $16.5 million for the policy and regulation program, a 0.4 percent increase from FY 2018. Most of the funds requested for policy and regulation in FY 2019 will support regulatory projects that were published in the Unified Agenda in the fall of 2017. Generally, we open about a dozen regulatory projects each year. Funds are also used to support other statutory and regulatory activities, including policy studies and market research; management of our Consolidated Reporting System; and approvals of corporate applications, System funding requests, and mission-related investment programs.

Safety and soundness

The performance budget includes approximately $57.1 million for the safety and soundness program, a 3.2 percent increase from FY 2018. This increase is necessary because we have reallocated examination resources from reimbursable activities to examination activities to meet System 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 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 addition, FY 2019 budgeted monies will support development of examination guidance and systemic risk oversight of the System, including Farmer Mac.

Reimbursable activities

The performance budget includes $1,717,339 for reimbursable activities. The reimbursable activities are summarized below and include indirect costs.

- **Farm Credit System Insurance Corporation (FCSIC)** — $919,043 for administrative support services to be provided under FCSIC contract. The administrative support services in FY 2019 include support for examination, information technology, human resources, and communication and public affairs, as well as assistance in completing one premium audit.
- **National Consumer Cooperative Bank (NCB)** — $305,633 for examining NCB. FY 2019 activities involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) assessments.
- **USDA** — $492,663 for potential work completed under contract with USDA. The work in FY 2019 will involve supporting USDA in its review of the Rural Business Investment Programs.

Table 26 summarizes the costs associated with our program activities, broken down by products and services.

Table 26. FY 2019 proposed budget and full-time equivalents for program activities

Program Activity	Products and Services	Budget Amount	FTEs
Policy and regulation	Regulation and policy development	14,567,314	49.66
	Statutory and regulatory approvals	1,906,489	6.38
	Total for policy and regulation	**$16,473,803**	**56.04**
Safety and soundness	Examination	50,782,337	221.76
	Economic, financial, and risk analysis	4,102,203	12.71
	FCS data management	2,204,318	7.17
	Total for safety and soundness	**$57,088,858**	**241.64**
Reimbursable activities	**Total for reimbursable activities**	**$1,717,339**	**8.31**
All program activities	**Total**	**$75,280,000**	**305.99**

Desired Outcomes for Strategic Goals

Our strategic goals and desired outcomes, which are detailed in table 27, help us measure whether we have achieved our public mission. The information that follows provides

- the strategies we use to accomplish the outcomes;
- the measures for each outcome, with targets that reflect our desired performance for FYs 2018 through 2019; and
- a historical summary of the costs of accomplishing the desired outcomes.

Table 27. Desired outcomes for strategic goals

Strategic Goal	Desired Outcome
1. Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action
3. Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.	A high-performing, diverse workforce that supports the mission of the agency

Policy and Regulation — We established the Policy and Regulation program to track the product and service costs of achieving a flexible regulatory environment. The products and services we provide to support this program are

- regulation and policy development, and
- statutory and regulatory approvals.

Safety and Soundness — We established the Safety and Soundness program to track the product and service costs of identifying risk and taking timely corrective action. The products and services we provide to support this program are

- examination;
- economic, financial, and risk analysis; and
- FCS data management.

High-performing, diverse workforce — Our third goal focuses on human capital. We recognize that to achieve our first two goals we must have a well-trained, motivated, and diverse workforce, and we must ensure that we have an effective plan for leadership succession.

Flexible regulatory environment

Strategies

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.

2. Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.

3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America. This includes innovative programs for serving the credit and related service needs of YBS farmers, ranchers, and producers and harvesters of aquatic products.

4. Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.

5. Encourage diversity on the boards and in the workforce of System institutions.

6. Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.

7. Encourage System institutions to be conscious of the reputation risk associated with their lending and investment decisions.

8. Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

9. Encourage full participation of stakeholders in the development and review of regulatory and policy proposals as appropriate.

Measuring the achievements

Table 28 shows the measures we will use to evaluate our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac in FYs 2018 and 2019.

Table 28. Flexible regulatory environment — Performance measures and achievements

Measure	FYs 2018 – 2019 Target
1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion.	≥90%
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations.	≥90%
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date.	Yes
6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (This measure considers all of the pre-rulemaking projects and proposed rules that were listed as completed on FCA's Unified Agenda Abstracts for the reporting period.)	100%

Budgets

Table 29 provides the budgeted amounts we need to achieve a flexible regulatory environment from FYs 2017 to 2019.

Table 29. Budgets to achieve a flexible regulatory environment

	FY 2017 Revised	FY 2018 Revised	FY 2019 Proposed
Regulation and policy development	$13,803,832	14,580,491	$14,567,314
Statutory and regulatory approvals	883,049	1,826,535	1,906,489
Total	**$14,686,881**	**$16,407,026**	**$16,473,803**

Note: The resources required to achieve a flexible regulatory environment will increase slightly in FY 2019 because of salary and benefit increases, training, information technology costs, and our regulatory initiatives.

Effective risk identification and timely corrective action

Strategies

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Seek early FCA board input on policy and regulatory issues. Ensure that the board has timely and comprehensive information to be fully informed and able to respond appropriately.

2. Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.

3. Continue proactive oversight of institution-specific and systemic risks.

4. Effectively remediate weakened institutions.

5. Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.

6. Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.

Measuring the achievements

Table 30 shows the measures we will use to evaluate our efforts to effectively identify risk and take timely corrective action in FYs 2018 and 2019.

Table 30. Effective risk identification and timely corrective action — Performance measures and achievements

Measure	FYs 2018 – 2019 Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥80%
3. Percentage of institutions complying with regulatory capital ratio requirements.	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.	Yes

Budgets

Table 31 provides the budgeted amounts we need to identify risk in the FCS and to take timely corrective action from FYs 2017 to 2019.

Table 31. Budgets to identify risk and take timely corrective action

	FY 2017 Revised	FY 2018 Revised	FY 2019 Proposed
Examination	$48,801,700	$49,313,471	$50,782,337
Economic, financial, and risk analysis	3,383,771	3,896,434	4,102,203
FCS data management	1,980,562	2,103,626	2,204,318
Total	**$54,166,033**	**$55,313,531**	**$57,088,858**

Note: The resources required to identify risk and take timely corrective action will increase in FY 2019 because of salary and benefit increases, training, and information technology costs.

High-performing, diverse workforce

Strategies

For goal 3, we are using the following strategies to maintain a high-performing, diverse workforce.

1. Maintain a highly skilled, motivated, and diverse workforce to meet FCA's current and future regulatory development, risk analysis, examination, and supervision needs.

2. Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.

3. Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm's length regulator.

4. Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms, and promotes strong ethical behavior.

Measuring the achievements

Table 32 shows the measures we will use to evaluate our efforts to maintain a high-performing, diverse workforce in FYs 2018 and 2019.

Table 32. High-performing and diverse workforce — Performance measures and achievements

Measure	FYs 2018 – 2019 Target
1. Whether, as part of our recruiting efforts for entry-level examiners, 25 percent of our outreach efforts target potential applicants who have a disability or are members of a minority group.	Yes
2. Whether we have maintained or improved our score from the previous year in the Annual Federal Employee Viewpoint Survey.	Yes

Performance Measurement and Reporting

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2016 to 2021. Our performance measurement system provides a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the agency-level measures are linked to our strategic goals.

Our chief executive officer, with assistance from our chief operating officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The chief executive officer monitors the agency's progress and results relative to the agency-level measures on a quarterly basis throughout each fiscal year. Periodic performance reports are provided to the FCA board. The year-end performance report is incorporated in the FCA Performance and Accountability Report, which is submitted to the president and Congress.

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
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McLean, VA 22102-5090
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www.fca.gov
0218/100

Farm Credit Administration

Fiscal Year 2020 Proposed Budget and Performance Plan

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List of Acronyms and Abbreviations

ACA	Agricultural Credit Association
CAMELS	capital, assets, management, earnings, liquidity, and sensitivity
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Farm Credit Act	Farm Credit Act of 1971, as amended
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
Leasing Corporation	Farm Credit Leasing Services Corporation
FCS or System	Farm Credit System
FCSIC	Farm Credit System Insurance Corporation
FIRS	Financial Institution Rating System
FLCA	Federal Land Credit Association
FTE	full-time equivalent
FTP	full-time permanent
FY	fiscal year
Funding Corporation	Federal Farm Credit Banks Funding Corporation
GSE	Government-sponsored enterprise
IT	information technology
NCB	National Consumer Cooperative Bank
OSMO	Office of Secondary Market Oversight
PCA	Production Credit Association
RBC	risk-based capital
USDA	U.S. Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)

Preface

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and examining the banks, associations, and related entities that constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

Created by an executive order of the president in 1933, FCA now derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. We promulgate regulations to implement the act, and we examine System institutions for compliance with the act and regulations, and with safe and sound banking practices. Our mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

This document presents and justifies our proposed budget for fiscal year 2020. It discusses our functions and program activities and presents an overview of the financial condition of the FCS and Farmer Mac. Also included is the fiscal year 2020 performance budget, which ties proposed expenditures to the goals and objectives in our strategic plan.

This document is organized into four sections as follows:

1. Part I contains our budget request. This section presents budget trends that we monitor annually.

2. Part II covers the functions, programs, and services we undertake to fulfill our public mission. It also provides information on actions we have taken to improve internal operations.

3. Part III discusses the System's financial condition and performance.

4. Part IV contains our FY 2020 performance budget, which provides a basis for measuring our overall effectiveness.

[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. Farmer Mac is not jointly and severally liable on debt issuances with other parts of the System.

Part I

Fiscal Year 2020

Proposed Budget

Fiscal Year 2020 Budget Overview

The FY 2020 proposed budget request, as shown in table 1, includes $76.0 million in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture, Farm Credit System Insurance Corporation, and the National Consumer Cooperative Bank adds $690,000 to this amount, bringing the total proposed FCA budget request to $76.69 million.

Table 1. Farm Credit Administration FY 2020 proposed budget

Description	Amount proposed	Percentage of total budget
Full-time-permanent personnel (FTP)	46,421,703	60.5
Other than FTP	1,311,614	1.7
Other personnel compensation	409,900	0.5
Total personnel compensation	**$48,143,217**	**62.7**
Personnel benefits	18,411,202	24.1
Benefits for former personnel	25,000	0.0
Total compensation and benefits	**$66,579,419**	**86.8**
Travel and transportation of persons	3,168,370	4.0
Transportation of things	67,250	0.1
Rent, communications, and utilities	849,810	1.1
Printing and reproduction	183,262	0.2
Consulting and other services	4,104,983	5.5
Supplies and materials	976,986	1.3
Equipment	759,920	1.0
Total budget	**$76,690,000**	**100.0**

Note: Obligations for administrative expenses in FY 2016 are not to exceed the amount collected in assessments (current and prior year) from the FCS and Farmer Mac ($68,800,000). The total budget includes an additional $600,000 from anticipated reimbursable activity.

The FY 2020 proposed budget of $76.69 million increased by $1.41 million over the FY 2019 proposed budget of $75.28 million. Because we have leveraged technology and continually emphasized savings and efficiencies in operations, our costs have remained relatively stable. As a result, we are able to present a prudent, cost-effective budget.

The budget provides resources for three general purposes:

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

The FY 2020 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 challenges in the nation's financial sector over the past few years were important considerations during our most recent strategic planning period.

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 2020 proposed budget, the full-time-equivalent (FTE) staffing level increases slightly. The FY 2020 budget anticipates increases in spending for salaries and benefits because of career-ladder promotions, benefit increases, career progression, funded leave, and equipment.

As an agency covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, we must also strive to achieve comparability in compensation and benefit programs with other agencies covered under the act.

The budget includes a significant investment in our strategic human capital initiatives. With about 42 percent of our workforce eligible to retire within the next five years, we continue investing in the development of programs to create and sustain an engaged, results-oriented culture within the agency. These programs emphasize the importance of learning, expertise, and personal growth.

Thus, knowledge management remains a key component of our continuous learning strategy. When we anticipate vacancies in critical fields, we arrange to have newly hired employees work closely with experienced employees whenever possible so that the new hires can quickly acquire the knowledge and skills they need. Our policies on training and employee development further enhance the transfer of knowledge. We will continue to emphasize training for pre-commissioned examiners and the need to capture the knowledge of employees who are eligible to retire.

The FY 2020 budget is also necessary to meet our agency's IT needs. The Office of Information Technology anticipates an increase in costs for IT security enhancements, data efficiencies, IT maintenance, and equipment life cycle replacement for laptops.

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 at any time during the year to accommodate changing business needs. The following table shows current development, modernization, or enhancement projects and their links to FCA's strategic goals. These projects enhance our ability to perform essential functions.

The IRM plan initiatives listed in table 2 are multiyear efforts that apply to numerous FCA projects. Rather than simply maintaining operations, these projects are designed to improve the agency's work processes.

Table 2. Information resource management plan initiatives

Development, modernization, or enhancement (DME) projects	Regulation and policy	Safety and soundness	Distributed
Develop reports or dashboards to systematize analysis	X		
Improve access to FCA network		X	
Acquire data and improve quality and accessibility			X
Automate forms and workflow processes			X
Improve interoffice communication and transparency			X
Leverage geographic information system technology to support FCA mission	X		
Modernize FCA applications			X
Implement a human resource information system			X
Improve examination approach and tools			X
Migrate IT resources to cloud environments			X
Execute a plan for data use and analysis for the Office of Secondary Market Oversight		X	

Budget approach

We expect the FCS to continue to evolve in the coming years to meet the demands of an increasingly complex marketplace for agriculture and rural America. As FCS institutions grow and change, their operations become more complex. We expect mergers and consolidations to continue. Because of challenges in the global economy, we expect the System's asset base to grow at only a moderate pace. Currently, the average institution's asset base exceeds $1 billion.

Our budget strategy will enable us to leverage our most valuable investment — our people. It will enable us to continue to streamline and improve operations and to enhance staff expertise to meet challenges and opportunities that may arise. Our budget strategy will also support our IT needs, allowing us to acquire and maintain the infrastructure we need and to protect our data against the growing number of cyberthreats.

FCA program areas

The agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The policy and regulation program

The budget provides resources for administering the agency's policy and regulation program. This program involves developing regulations and policy positions that implement applicable statutes, promote the safety and soundness of the FCS, and support the System's mission as a dependable source of credit and related services for agriculture and rural America.

In addition, the budget provides for ongoing activities such as evaluating and recommending regulatory and funding approvals, managing merger and chartering activities, and providing strategic and systemic policy research and analyses of risks and other issues facing the System.

The budget also provides for support activities, including communication of the agency's position on issues, and training and development for staff. In total, policy and regulation activities account for approximately $16.8 million, including 58.14 FTEs, in the proposed FY 2020 budget (see table 26 on page 75).

The safety and soundness program

The budget provides resources for administering the agency's safety and soundness program. The budget resources provided through this program also ensure that FCS institutions comply with applicable laws and regulations and are financially positioned to meet the needs of agriculture and rural America.

The budget continues to implement the FCA board's philosophy of a risk-based approach to oversight and examination, which maximizes the effectiveness of examinations. Sufficient resources are included to ensure that the FCS properly identifies, manages, and controls risk. Examination resources are allocated to matters presenting the highest risk or potential risk to the System. Activities include developing risk topics, examining institutions on-site, and testing the institutions' credit reviews, internal audits, and internal controls.

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

In total, safety and soundness activities account for $58.2 million, including 252.38 FTEs, in the proposed FY 2020 budget (see table 26 on page 75).

Office of Inspector General’s FY 2020 budget request

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

- OIG’s total budget request: $1,742,065
- OIG’s training budget: $20,000
- OIG’s support for the Council of the Inspectors General on Integrity and Efficiency: $4,500

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

Budget Trends

This budget supports the agency's policy and regulation program and its safety and soundness program. It maintains our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. The FY 2020 budget is necessary to continue to fund employee salary and benefit costs, and technology expenditures — all of which represent approximately 89 percent of FCA's total budget.

Over the past two years our annual budget requests increased on average by 2.4 percent. The most recent increase request is 1.8 percent. Most of the cost increases are for salaries and benefits — as would be expected since salaries and benefits represent approximately 86.8 percent of our budget. Overall costs have remained relatively stable over the past three years, with equipment costs increasing because of planned life cycle replacement. Table 3 provides information on our budget trends.

Table 3. FCA budgets, FYs 2018 – 2020

	FY 2018 revised budget	FY 2019 revised budget	FY 2020 proposed budget
Full-time permanent (FTP)	43,303,006	45,425,618	46,421,703
Other than FTP	1,162,345	1,266,384	1,311,614
Other personnel compensation	407,519	410,429	409,900
Total personnel compensation	**$44,872,870**	**$47,102,432**	**$48,143,217**
Personnel benefits	17,121,045	17,706,820	18,411,202
Benefits for former personnel	25,000	25,000	25,000
Total compensation and benefits	**$62,018,915**	**$64,833,576**	**$66,579,419**
Travel and transportation of persons	3,716,239	3,163,144	3,168,370
Transportation of things	235,108	101,040	67,250
Rent, communications, and utilities	784,161	844,810	849,810
Printing and reproduction	202,690	183,252	183,262
Consulting and other services	4,976,552	4,784,633	4,104,983
Supplies and materials	756,535	884,145	976,986
Equipment	509,800	565,400	759,920
Total budget	**$73,200,000**	**$75,360,000**	**$76,690,000**

The Office of Management and Budget has issued guidance for agencies to reduce costs and increase efficiencies. We have taken the following actions to reduce costs:

- Implemented improved audio- and videoconferencing, thereby controlling travel costs
- Revised the travel and relocation policy to encourage prudent travel practices
- Allowed employees to use penalty fares to take advantage of lower airfares
- Reduced travel to the field offices
- Increased reliance on the FCS Loans Database to help reduce travel costs
- Installed network copier printers with scanning capabilities to reduce hard copies, promote electronic files, and reduce the number of printers for individual employees
- Implemented additional electronic workflow processes to enhance internal controls, reduce paper, and increase our use of electronic records

In addition, we regularly use the following practices to keep our costs low:

- Use technology devices (such as laptops and smartphones) to keep travel costs down and maintain continuity of operations
- Ensure that service provider costs are well managed
- Make sure that we issue information technology devices only to employees who have a bona fide business need for them
- Review the usage of smartphones and other wireless devices every month to ensure they are being fully utilized and costs are being minimized
- Reduce the amount of printing by expanding our use of technology to disseminate publications and training materials (for example, by publishing documents on our website and distributing them by email)
- Use the EDGe Project to make examination workflow more efficient and integrated
- Increase efficiency by collaborating and sharing resources across FCA offices
- Increase efficiency by implementing inspector general recommendations as quickly as possible

Sources of FCA revenue and funding

We maintain a revolving fund financed primarily from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation, U.S. Department of Agriculture, and the National Consumer Cooperative Bank. Table 4 shows budgeted sources of revenue and funding for FYs 2018 to 2020.

Table 4. Budgeted sources of FCA revenue and funding, FYs 2018 – 2020

Source	FY 2018 revised budget	FY 2019 revised budget	FY 2020 proposed budget
ASSESSMENTS			
Banks, associations, and related entities	68,700,000	69,950,000	TBD
Federal Agricultural Mortgage Corporation	2,500,000	2,750,000	TBD
Carryover funds[a]	1,400,000	1,900,000	TBD
Assessments available for obligation	**$72,600,000**	**$74,600,000**	**$76,000,000**[b]
REIMBURSEMENTS[c]			
National Consumer Cooperative Bank	68,346	117,033	117,660
Farm Credit System Insurance Corporation	358,013	412,800	367,361
U.S. Department of Agriculture	173,641	230,167	204,979
Total	**$73,200,000**	**$75,360,000**	**$76,690,000**

a. Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation. We will determine assessments and carryover amounts for FY 2020 in September of FY 2019.

b. Each year Congress limits the amount of assessments that we may use to pay for administrative expenses. For FY 2020, we propose a limit of $76 million.

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

FCA reserve

The institutions we oversee are involved in two volatile industries — agriculture and finance. Volatility can produce financial stress for institutions, creating a need for heightened oversight and supervision. To ensure that we have the resources to provide the necessary supervision and oversight during periods of financial stress, we established a reserve. Congress granted approval for the reserve under section 5.15(a)(1)(B) of the Farm Credit Act, and the FCA board established guidelines for it.

The reserve ensures that we can effectively and efficiently respond to safety and soundness issues arising within the System. It allows us to respond to these issues without increasing assessments at a time that may be financially difficult for System institutions. At the end of FY 2018, we had approximately $13.15 million in our reserve.

Assessments

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. As table 5 shows, assessments in 2013 and 2014 were particularly low because we used carryover from prior-year assessments to help fund our operations. To fund the FY 2019 budget, we used $1.9 million of carryover and increased our assessments by $4.5 million.

Table 5. FCS assessments, FYs 2010 – 2019

Fiscal year	Assessment (in millions)
2010	$49.1
2011	$52.5
2012	$54.1
2013	$50.0
2014	$50.0
2015	$51.5*
2016	$58.3
2017	$66.8**
2018	$68.2**
2019	$72.7

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

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

In FY 2018, we assessed the System $68.2 million and ended the year with $1.6 million in reimbursable revenue and deobligations (see table 6). During the year, we had obligations of $69.6 million. The difference between our obligations and our revenue was $0.2 million, which represents the increase to carryover.

Table 6. FCA funding, obligations, and assessment carryover, FYs 2017 and 2018 (in millions)

	FY 2017	FY 2018
Current-year assessments	$66.8	$68.2
Reimbursable revenue and deobligations	$1.6	$1.6
Total funding	**$68.4**	**$69.8**
Obligations	$67.6	$69.6
Total funding minus obligations	**$0.8**	**$0.2**
Assessment carryover from prior years	$0.9	$1.7
Carryover from assessments at end of fiscal year	**$1.7**	**$1.9**

FCS borrower costs

As table 7 shows, FCS borrowers incurred a net cost of approximately 2.0 basis points, or 2.0 cents for every $100 of assets held, to pay for FCA operations in FY 2018. Since FY 2009, the net cost to borrowers has averaged approximately 2.0 basis points.

FCS borrower costs are based on the relationship between the System's total assessments and assets held (not including Farmer Mac). The FCS held $335.0 billion in total assets as of September 30, 2018, up from $321.6 billion a year earlier.

Borrower costs have declined over the years for the following reasons:

- System assets have grown.
- FCA has used carryover to offset additional costs.
- FCA has taken various measures to reduce operating costs. (see pages 9 and 10 for details.)

Table 7. FCA's net cost to System borrowers, FYs 2009 – 2018

Fiscal year ended September 30	Basis points
2009	2.0
2010	2.1
2011	2.2
2012	2.2
2013	1.9
2014	1.8
2015	1.7
2016	1.8
2017	2.0
2018	2.0

Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2019 is $2.75 million. The assessment for FY 2020 is not yet available because the Office of Secondary Market Oversight will not complete the FY 2020 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2019.

Table 8 shows Farmer Mac assessments for fiscal years 2010 to 2019. 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 8. Farmer Mac assessments, FYs 2010 – 2019

Fiscal year	Assessment (in millions)
2010	$2.25
2011	$2.20
2012	$2.25
2013	$2.38
2014	$2.38
2015	$2.40
2016	$2.45
2017	$2.50
2018	$2.50
2019	$2.75

Part II

Farm Credit Administration

Profile of the Farm Credit Administration

The Farm Credit Administration was created through an executive order of President Franklin D. Roosevelt and currently derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. As an independent agency within the executive branch of the federal government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS or System), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).[2]

The FCS is the oldest of the financial government-sponsored enterprises (GSEs). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

The FCS had $263.6 billion in outstanding loans to agriculture and rural America as of September 30, 2018.

[2] By statute, Farmer Mac is an institution of the Farm Credit System; however, in this document, we will use the terms “FCS” and “System” to refer to all the entities in the Farm Credit System except Farmer Mac and affiliates of Farmer Mac.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac's secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural lenders and intermediaries, including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2018, the volume of loans either purchased or guaranteed by Farmer Mac totaled $19.5 billion.

FCA is also 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 contract with the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture to provide examination services.

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 our Strategic Plan for FYs 2018 – 2023, our mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. To fulfill this mission, we issue regulations and conduct examinations of FCS institutions and Farmer Mac to evaluate and oversee the safety and soundness of their activities.

Our examinations evaluate whether institutions are complying with laws and regulations and are operating in a safe and sound manner. They also evaluate institutions' compliance with the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers and ranchers. In addition, we research, develop, and adopt rules, regulations, and other guidelines that govern how institutions conduct their business and interact with customers.

If any System institution, including Farmer Mac, violates laws or regulations, or if we determine that its operations are unsafe or unsound, we may use our enforcement authority to ensure that the problem is corrected in a timely manner. We also ensure that the rights of certain borrowers are protected.[3]

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 System debt obligations.

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.

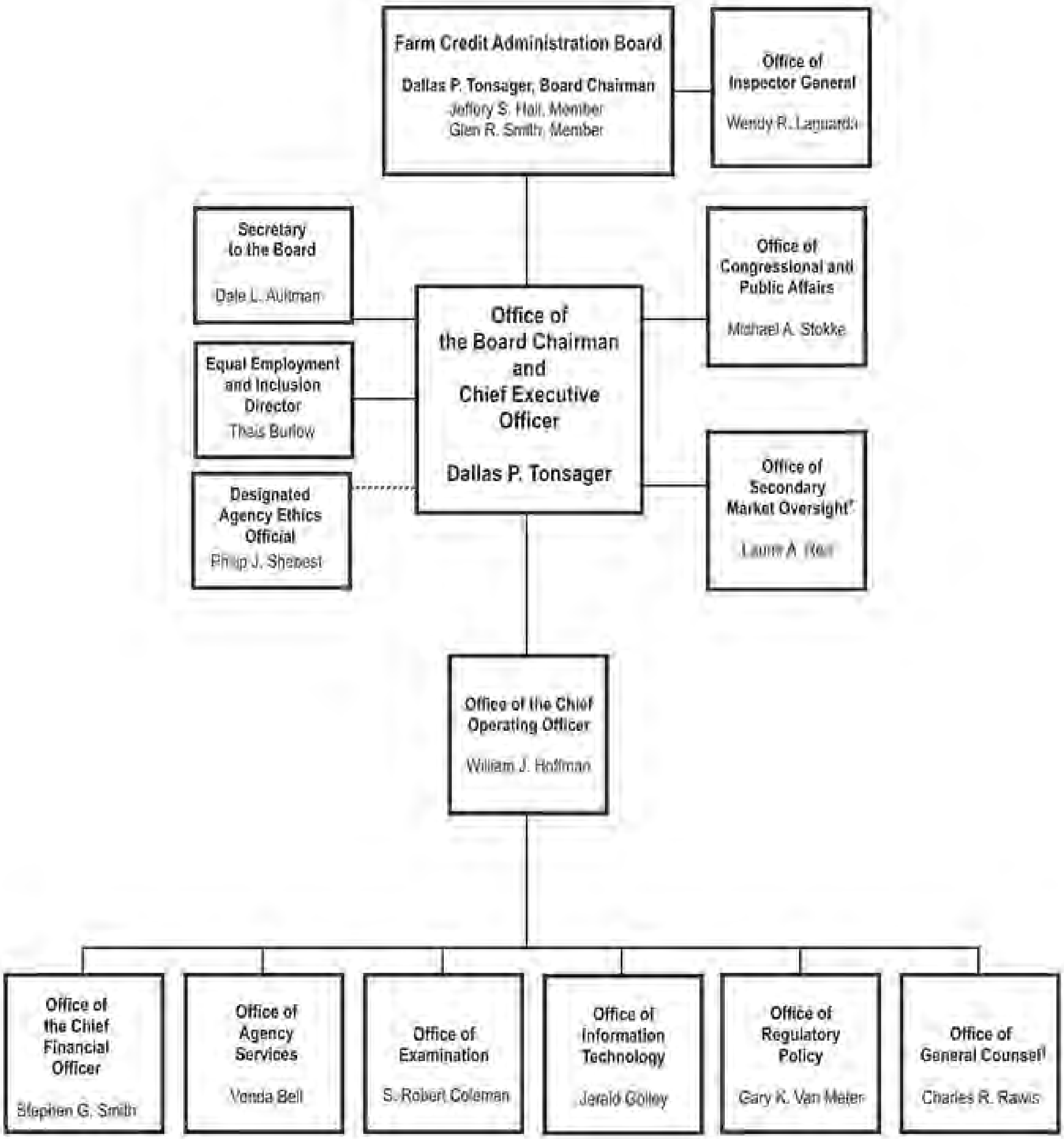
FCA organizational structure

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.

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

Figure 1. FCA organizational chart as of January 2019

For the text version of this chart, go to www.fca.gov/about/offices/orgchart_accessible.html.



FCA Internal Operations

FCA is firmly committed to the continuous development and support of its greatest asset — its employees. This commitment is at the core of our agency's five-year strategic plan. The plan focuses on workforce planning and talent management, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of our strategic human capital initiatives is based on the Human Capital Standards for Success, a collaboration of the Office of Management and Budget, the Office of Personnel Management, and the U.S. Government Accountability Office.

Human capital management

Human capital strategies are linked to our strategic plan through clearly defined strategic initiatives and action plans. We continually monitor workforce trends and implement best practices. We also monitor the System's changing environment so that we can adjust our staffing levels and maintain the necessary skill sets by hiring additional staff, providing employee training and development, and transitioning employees from staff positions that are no longer necessary. We review our workforce planning strategies annually. See table 9 for full-time-equivalent (FTE) staffing levels (rounded to the nearest whole number) from FYs 2010 through 2020.

Table 9. Full-time-equivalent staffing levels, FYs 2010 – 2020

Fiscal year	FTE staffing level
2010	277
2011	286
2012	287
2013	273
2014	278
2015	277
2016	290
2017	296
2018	298
2019	314 (authorized)
2020	317 (authorized)

Note: From FYs 2010 to 2020, our ratio of managers and supervisors to other personnel has ranged between one to five, and one to six.

We perform workforce assessments annually to obtain information on critical staffing variables, such as the age and grade of employees. From this analysis, we develop five-year projections to determine and mitigate the impact of employee retirements and separations.

As of September 30, 2018, approximately 20 percent of our personnel were eligible to retire; we expect that number to increase substantially in the next four years. See table 10 for retirement eligibility projections at FCA.

Table 10. FCA retirement eligibility, FYs 2018 – 2022

Fiscal year	Number of staff first eligible in the fiscal year	Number of staff eligible at fiscal year end
2018	9	61
2019	11	72
2020	16	88
2021	20	108
2022	8	116

Our workforce assessments help us determine the optimal size of our workforce and the appropriate skill sets of our employees. We use the results of these assessments to develop, modernize, and refocus training and development programs.

As we face the retirement eligibility of a significant percentage of the FCA workforce, we are working hard to sustain a high level of institutional knowledge, job skills, and analytical expertise. In addition to succession planning and cross-training, we provide a variety of resources and programs for sharing knowledge across the organization.

Our continuous learning strategy emphasizes leadership, competencies, and knowledge management. By providing education, training, and other development opportunities, we seek to attract and retain bright, creative, and enthusiastic people.

We coordinate training goals with the leadership skills and competencies that are integral to achieving our mission. We establish training projection plans at the office level and the agency level each year to help us manage employee training and development activities. These plans project budget needs for training and development; they are directly linked to FCA's performance management system. Supervisors and employees collaborate on training and development goals.

By working closely with agency management and conducting staff surveys, our learning office gauges training needs and develops efficient and effective methods to acquire external training vendors and to develop internal training courses and learning methods. This training strategy helps prepare our workforce for emerging challenges and leadership succession.

Formal training programs support the needs of core occupational groups through a variety of methods, such as in-house training, vendor-provided courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop computer with the technology to support e-learning initiatives. In addition, all employees have regular access to training on our computer systems.

We demonstrated our commitment to our training and knowledge transfer goals in FY 2018 when the Office of Examination sponsored a multiday in-house best practices conference and learning session. Also, our Office of Examination's Staff Development Division recently updated its learning and development guidance for pre-commissioned examiners to enhance knowledge transfer and talent development. The division is also tasked with capturing the knowledge of examiners who are eligible to retire. In FY 2018, we also conducted office-level team-based training and development programs.

As more and more employees become eligible to retire, knowledge transfer becomes a greater concern. We have created an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key part of our continuous learning strategy. When we hire new employees in critical fields, we require them to work closely with experienced employees to ensure the transfer of critical knowledge and skills. We regularly use details and special projects to provide development opportunities.

FCA's electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, also support our knowledge management goals. These databases enable employees to communicate and share knowledge.

We have also established internal SharePoint sites to enhance knowledge transfer and collaboration. All employees have access to most of the sites, including the sites containing resources on contracting, technology, leadership development, audit and internal controls, and plain writing. Other sites are intended for the use of specific groups of employees, such as credit specialists, operations specialists, and recruiters. Still others are set up for workgroups on topics such as training, planning and reporting, and policy development.

In addition, 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. We have developed procedures to evaluate recruiting data and have implemented a recruiting committee to identify opportunities to improve agency diversity and attract skilled talent. We also endorse programs that promote equal employment opportunity (EEO), and diversity and inclusion. We have an active EEO program.

FCA compensation program

Section 1206 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires federal financial regulators to “seek to maintain comparability regarding compensation and benefits.” This provision enables financial regulators to attract and retain qualified staff.

To comply with the FIRREA, we participate in a biennial survey of the other federal bank regulators and adjust our employees’ compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under the FIRREA.

We use a pay-for-performance program to adjust each employee’s salary according to his or her performance rating and salary range position. We make salary adjustments each calendar year based on several factors, including the compensation programs of other federal bank regulators and available funding.

FCA’s compensation program for 2019, which was approved by the FCA board, includes pay increases that range from 0.39 percent to 3.1 percent, depending on the employee’s performance rating and his or her pay grade quintile. Our salary ranges will remain at FY 2018 levels. We plan to increase our locality rates in January 2019. A bonus pool was established for career senior executives. Those below the midpoint for their salary range received a percentage-based pay increase; those above the midpoint received a bonus.

These changes were consistent with the compensation adjustments of other FIRREA agencies.

External contracting and shared services

Outsourcing

As table 11 shows, we continue to outsource several functions. We have a shared-service agreement with the Bureau of the Fiscal Service. We also outsource our payroll services to USDA’s National Finance Center. Outsourcing these services allows us to manage our employee benefits and other agency functions without additional personnel costs.

Table 11. Shared services, FY 2018

Contract	Services provided	Amount
Administrative Service Center (BFS)	Full-service accounting, e-Travel, credit card, and platform procurement	$697,911
National Finance Center (USDA)	Payroll services	$42,000

Note: FCA's shared-service agreements during FY 2018 totaled $739,911.

Single-source and competitive consulting service contracts

Tables 12 and 13 provide a summary of our single-source and competitive consulting service contracts for FYs 2017 and 2018.

Table 12. Competitive consulting service (CCS) contracts of more than $25,000 and single-source (SS) contracts, FY 2017

Contract	Goods or services provided	Amount
Ivy Planning Group; 17-FCA-113-002 (CCS)	Administration of diversity and inclusion study	$76,241
Second Pillar Consulting; 17-FCA-450-005 (SS)	Consulting services for monitoring Farmer Mac	$150,000
Extron Electronics; 17-FCA-651-077 (SS)	IT equipment	$9,267
Iron Bow Technologies; 17-FCA-651-078 (SS)	IT services	$22,982
Norseman Defense Technologies; 17-FCA-651-075 (SS)	IT services	$61,493
Microsemi Frequency and Time Corporation;17-FCA-651-069 (SS)	IT services	$7,546
Skillsoft Corporation; 17-FCA-641-028 (SS)	IT learning solutions	$23,214
Secure Government Technologies; 17-FCA-651-066 (SS)	IT services	$12,497
Modcomp; 17-FCA-651-067 (SS)	IT services	$5,215
Qlik Sense; 17-FCA-651-020 (SS)	Site tokens	$6,750
Iron Bow Consulting; 17-FCA-651-065 (SS)	IT services	$30,000
Iron Bow Technologies;17-FCA-651-057 (SS)	IT services	$28,739
Discover Technologies; 17-FCA-651-044 (SS)	IT services	$24,496
JBH Video Production Services; 17-FCA-240-009 (SS)	Video production services	$17,000
BJ Chagnon Corp; 17-FCA-240-016 (SS)	Section 508 training	$9,955

Contract	Goods or services provided	Amount
N2Shape; 17-FCA-641-006 (SS)	Support for the agency's wellness program	$5,060
Ad Specialties Unlimited; 17-FCA-641-025 (SS)	Length of service awards	$10,116
Varidesk Pro;17-FCA-301-003 (SS)	Portable desks	$8,167
Deloitte; 17-FCA-651-081 (CCS)	IT services	$9,641
Learning Tree International; 17-FCA-651-042 (SS)	Learning Tree training vouchers	$19,950
Discover Technologies; 17-FCA-651-040 (SS)	IT services	$5,821
Tower Watson; 17-FCA-641-022 (SS)	Administration of compensation survey	$17,000
EconSys; 17-FCA-641-020 (SS)	Human resource services	$15,766
Adobe Acrobat Professional; 17-FCA-651-037 (SS)	Adobe upgrade	$40,156
PowerBuilder Enterprise Software; 17-FCA-651-033 (SS)	IT services	$9,746
Planet Depos; 17-FCA-501-007 (SS)	Legal services	$5,793
Entrust; 17-FCA-651-028 (SS)	IT services	$7,701
Partnership for Public Service; 17-FCA-641-018 (SS)	Employment engagement training	$6,619
Federal Employment Law Training Group; 17-FCA-641-017 (SS)	Employee training	$6,975
Carahsoft; 17-FCA-651-020 (SS)	IT training	$55,588
Michelle Coles; 17-FCA-450-004 (SS)	Temporary administrative support	$23,400
Retina Beyond Light License; 17-FCA-651-015 (SS)	License agreement	$10,399
OfficeTeam; 17-FCA-641-015 (SS)	Support for mail operation	$35,200
Digital Office Products; 17-FCA-641-011 (SS)	Color copier	$5,283
Murphy Brothers; 17-FCA-641-009 (SS)	Transportation services	$12,000
Four Points Technology; 17-FCA-651-002 (SS)	IT maintenance services	$4,499
Temporary Writer-Editor; 17-FCA-240-001 (SS)	Writer-editor services	$31,500
Art of Resolution; 17-FCA-113-001 (SS)	EEO services	$20,000
Info-Tech Research Group; 17-FCA-651-021 (SS)	IT services	$24,000

Note: The agency's SS and CCS contracts totaled $875, 775 in FY 2017.

Table 13. Competitive consulting service (CCS) contracts of more than $25,000 and single-source (SS) contracts, FY 2018

Contract	Goods or services provided	Amount
Hewlett Packard Enterprise Company; 18-FCA-651-064 (CCS)	IT equipment	$81,342
StratComm; 18-FCA-651-048 (CCS)	IT services	$61,237
Electronic Systems; 16-FCA-651-069 (SS)	IT services	$30,000
Parker Tide; 18-FCA-641-022 (CCS)	Contract support services	$30,000
StorageHawk; 18-FCA-651-051 (CCS)	IT services	$27,692
Second Pillar Consulting; 17-FCA-450-005 (CCS)	Consulting services for monitoring Farmer Mac	$70,000
Carahsoft;17-FCA-651-053 (CCS)	IT services	$50,786
StratComm; 16-FCA-651-040 (CCS)	IT services	$30,000
Executive Information Systems; 18-FCA-651-041 (CCS)	IT services	$36,098
BDO USA; 18-FCA-301-006 (CCS)	Assessment of internal controls for the Office of Examination	$75,000
Edge Hosting; 18-FCA-651-033 (SS)	Cloud hosting services	$48,000
August Schell Enterprises; 18-FCA-651-029 (CCS)	IT services	$30,707
Personnel Decisions Research Institute; 15-FCA-301-001 (SS)	Staffing and job evaluation for the Office of Examination	$68,980
Xerox Corporation; 15-FCA-601-076 (CCS)	IT equipment	$60,000
Harper Rains Knight & Company P.A.; 18-FCA-700-001 (CCS)	Financial statement audit	$50,938
FCC Services Review, Audit and Appraisal Workgroup (RAAW) Conference; 18-FCA-301-008 (SS)	Conference registration fees	$33,450
Whitlock Audio Fidelity Communications Corporation; 18-FCA-651-014 (CCS)	IT equipment	$42,766
Protiviti Government Services; 18-FCA-641-011 (SS)	Support services for the mailroom	$41,600
New Life Retirement; 18-FCA-641-002 (SS)	Retirement counseling services	$34,963
Art of Resolution; 18-FCA-301-006 (SS)	EEO services	$25,000

Note: The agency's SS and CCS contracts totaled $928,559 in FY 2018.

Other functions and activities

Reception and representation expenditures

FCA spent $161.63 on reception and representation expenses in FY 2018.

Foreign travel expenditures

The FCA chairman and his executive assistant traveled to Ottawa, Canada, in February 2018 to attend the Farm Credit Canada Ag Day. The trip provided an opportunity to share information on conditions in the agricultural economy that may affect financial institutions. Total expenditures for this trip was $3,688.

Leveraging FCA technology

We have designed a flexible IT program at FCA so that we can adapt to changing technical and business needs. Our IT staff 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 current plan drives our IT spending through 2020 and beyond. In 2020, we will continue to improve FCA's data reporting, dashboard, and analysis capabilities and strengthen our cybersecurity. We will hire contractors when we need special expertise, and we will expand our use of cloud services where feasible. Over the past year, we accomplished the following:

- Modernized the FCA.gov website and moved it to a cloud hosting provider. By hosting the site externally, we reduce the amount of support that our staff must provide.
- Implemented ServiceNow, a cloud-based application, to improve IT support for our employees.
- Continued to leverage the examination "Advance Team" to help FCA examiners work more effectively and efficiently when onsite. The team is composed of examiners and technologists. They work to resolve any potential connectivity issues or security concerns before an exam starts.
- Replaced computer room equipment for better disaster recovery capability and to increase infrastructure stability.
- Continued to strengthen our IT security program. We also developed and implemented a risk management tool and added risk reviews to weekly security briefings.

- Replaced vulnerability scanner with a modern comprehensive toolset. The new tools have helped automate the vulnerability scanning process and have saved time in our security reviews. We are able to quickly and accurately identify, investigate, and prioritize vulnerabilities and misconfigurations and mitigate them within compliance timeframes.

- Implemented cryptographic email protocols between FCA and our regulated institutions to improve security.

- Extended multiple blanket purchase agreements for system development and data support contract services to improve FCA's data reporting, dashboard, and analysis capabilities.

- Continued to use commitment accounting to strengthen our internal controls and budget reconciliation process. We built several reports to improve financial transparency for IT expenses, and we enhanced reporting between the CFO and the Office of Information Technology for better reconciliation.

- Completed a data mart for storing loan data from the institutions we regulate and began integrating it with risk reporting tools. We implemented several business intelligence tools and have built numerous reports and dashboards.

- Implemented a new survey tool for analyzing data that institutions submit to us, including the data regarding young, beginning, and small farmer lending.

- Upgraded conference rooms with improved lighting, sound, and connectivity.

- Upgraded to the latest version of our database platform and implemented a replicated disaster recovery environment.

For more information about the ways we will use technology in FYs 2019 and 2020 to achieve our strategic goals, see table 2 on page 6.

Independent auditing and accountability

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2018 audit of FCA's financial statements. On November 13, 2018, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2018.

The auditors opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2018, in conformity with generally accepted accounting principles. In addition, although the auditors did not express an opinion on the matter, they did not identify any deficiencies in internal control over financial reporting that would be considered material weaknesses.

The auditors also did not identify any instances of noncompliance with selected provisions of laws and regulations or other reportable matters that could have a direct and material effect on the financial statements.

Ensuring Safety and Soundness

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including the Federal Agricultural Mortgage Corporation.

The first section below, titled The Farm Credit System, summarizes examination and supervisory activities performed on the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled Other Entities.

Our examination and supervision responsibilities are carried out by staff located in five field offices. One field office is in the McLean, Virginia, headquarters; the other field offices are in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2020.

The Farm Credit System

Statutory and regulatory requirements

The Farm Credit Act requires FCA to examine each FCS institution at least once every 18 months. We meet this requirement through a risk-based process of oversight and examination designed to maximize efficiency while addressing System risk effectively.

To monitor and evaluate the System's safety and soundness, we must have loan portfolio and other data from System institutions, and section 5.9(4) of the Farm Credit Act gives us the authority to collect these data. Our regulations include the following reporting requirements:

- Each System institution must prepare and file quarterly reports of condition and performance with FCA in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information.

- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR 630.4.

System institutions submit other data to us through our Consolidated Reporting System. Some of the submitted information is available to the public on our website (www.fca.gov). We also collect loan data from all System institutions. We have been expanding loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to have minimum capital levels, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder information.

Risk-based examination and supervision

We design examination and supervision processes to address material risks and emerging issues at the institution level and Systemwide. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, guarding the safety and soundness of the System is more important and challenging than ever. Annually, to help address these challenges, we identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The oversight and examination program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2019 are as follows:

- Portfolio risk
- Internal controls

When our examiners identify unsafe and unsound practices within a System institution or find that an institution has failed to comply with a law or regulation, we outline the corrective actions the institution must take in a Report of Examination or other form of communication. If necessary, we use our enforcement powers to bring about changes in an institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. However, in most cases, we achieve corrective action without the use of formal enforcement powers.

Measuring the safety and soundness of the System

We use our Financial Institution Rating System (FIRS) as a key method to assess the safety and soundness of each FCS institution. The FIRS provides a general framework, consisting of component and composite ratings, for evaluating and assimilating all significant financial, asset quality, and management factors. Similar to systems used by other federal financial regulators, the FIRS evaluates six key component areas to properly assess the degree of risk in an institution. These key component areas are capital, assets, management, earnings, liquidity, and sensitivity (CAMELS).

Based on our CAMELS ratings, we assign an overall composite rating for the institution. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect and that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

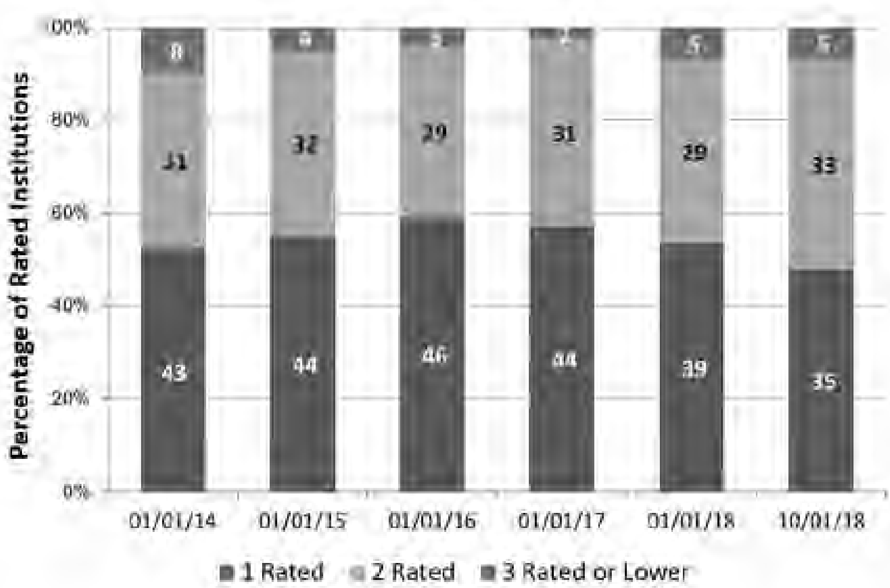
Recent results

As the composite FIRS ratings over the past several years show, the System's condition and performance have remained satisfactory. The following summarizes FIRS ratings for System banks and associations as of October 1, 2018:

- Thirty-five institutions were rated 1.
- Thirty-three were rated 2.
- Five were rated 3 or lower.

See figure 2 for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

Figure 2. Farm Credit System Financial Institution Rating System (FIRS) composite ratings



Source: FCA's FIRS Ratings Database.

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

Table data for figure 2

		01/01/14	01/01/15	01/01/16	01/01/17	01/01/18	10/01/18
Total	1 rating	43	44	46	44	39	35
	2 rating	31	32	29	31	29	33
	3 rating or lower	8	4	3	2	5	5
	Total	82	80	78	77	73	73

Federal Agricultural Mortgage Corporation

Through our Office of Secondary Market Oversight (OSMO), we examine and supervise Farmer Mac to ensure both its safety and soundness and the achievement of its mission. OSMO performs annual CAMELS-based examinations, which include examination of capital, assets, management, earnings, liquidity, and sensitivity. Throughout the year, OSMO oversees Farmer Mac's condition and compliance with regulations and supervises its operations.

Statutory authority

We regulate Farmer Mac through OSMO, which was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102 – 237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO be managed by a full-time director who reports to the FCA board and that OSMO's activities, to the extent practicable, 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 2018 despite a modest increase in troubled loan volume.

- Net income available to common shareholders was $92.0 million for the 12 months ended September 30, 2018, compared with $80.1 million during FY 2017.

- Core earnings, a financial performance measure that does not rely on generally accepted accounting principles, totaled $81.5 million during FY 2018, compared with $62.5 million during FY 2017.

- Farmer Mac's core capital totaled $713.6 million at the end of FY 2018, compared with $653.4 million at the end of FY 2017. The minimum core capital requirement for Farmer Mac's on- and off-balance-sheet exposures is set in the statute and totaled $539.8 million at the end of FY 2018. Thus, Farmer Mac exceeded its minimum core capital requirement by approximately $173.7 million.

- At the end of FY 2018, Farmer Mac had $722.6 million in regulatory capital available to meet the $102.4 million minimum requirement established by FCA's Risk-Based Capital Model.

- Program activity increased approximately 4.8 percent and ended FY 2018 at $19.5 billion. Farmer Mac had $2.7 billion in its liquidity portfolio as of September 30, 2018.

Credit quality remained stable and generally good. Real estate owned decreased over FY 2018, finishing the year at $128,000, down approximately $1.0 million from fiscal year-end 2017. Total acceptable loan volume decreased 0.6 percentage points to 93.2 percent in FY 2018.

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 percent 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.[4]

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 percent 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.

We published a final rule in early 2011 to amend our RBC Model regulation to allow for revisions to the model, including a revision that would reflect loan activity involving rural utility cooperatives. An advance notice of proposed rulemaking was published in June 2011 to solicit public input on further revisions to the model.

[4] Farmer Mac's express program activities were expanded in the Food, Conservation, and Energy Act of 2008 to include rural utilities.

Other entities

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System.

- As mandated by 12 U.S.C. 3025, we examine the National Consumer Cooperative Bank, which owns a federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans.

- From time to time, the U.S. Department of Agriculture contracts with us to provide examination services for specific USDA programs. We annually review the amount of resources dedicated to providing these services. Currently, the amount is limited.

- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC board consists of the members of the FCA board. Section 5.59(5) of the Farm Credit Act provides that, to the extent practicable, FCSIC must use FCA personnel and resources to minimize duplication of effort and to reduce costs.

Developing Regulations and Policies

FCA routinely issues regulations, informational memorandums, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend.

We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

Regulatory and policy projects active at end of FY 2018

The FCA board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives. The FCA board-approved agenda is part of the federal Unified Agenda, which is published online at www.reginfo.gov. We publish our Regulatory Projects Plan on our website to notify the public of our upcoming regulatory actions and to encourage the public to participate in the regulatory process, but we are not obligated to act on our agenda items.

The following list summarizes the topics for which we are considering regulatory action.

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

Eligibility criteria for outside directors: We plan to publish a final rule regarding the eligibility criteria for outside directors. This rulemaking will address the eligibility of a candidate for an outside director position if the candidate owns an interest in an entity that borrows from, or holds stock in, a System bank or association.

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

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

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

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

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

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

Revision to tier 1/tier 2 permanent capital: We plan to issue a proposed rule to amend the tier 1/tier 2 regulatory capital and related regulations by making technical and minor substantive corrections and clarifications.

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

Regulatory and policy projects completed in FY 2018 and early FY 2019

Following is a list of projects we completed in FY 2018 and early FY 2019, along with a list of communications we issued to System institutions to clarify our rules.

Investment eligibility: We published a final rule to revise the eligibility requirements for investments by System institutions. To comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act, this rule also removed references to credit ratings in the regulations and substituted an appropriate standard of creditworthiness.

Eligibility criteria for outside directors: We issued a proposed rule regarding the eligibility criteria for outside directors. This rule addressed the eligibility of a candidate for an outside director position if the candidate owns an interest in an entity that borrows from, or holds stock in, a System bank or association.

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

Margin and capital requirements for covered swap entities: We published a proposed and a final rule to amend the definition of "eligible master netting agreement" in the regulation governing margin and capital requirements for noncleared swaps.

Farmer Mac Basel III liquidity requirements: We completed our review to consider aligning Farmer Mac's regulatory liquidity requirements with those of other federal bank regulators under a Basel III-type liquidity regime.

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 Improvement Act of 2015.

Farmer Mac — investment eligibility: We published a final rule to change eligible investment asset classes for Farmer Mac. To comply with the Dodd-Frank Act, this rule also removed references to credit ratings in the regulations and substituted an appropriate standard of creditworthiness.

Appraisal regulations: We completed our review to consider whether changes in appraisal regulations are necessary in light of changing credit and economic conditions.

Guidance on Farm Credit bank and association nominating committees: We revised a bookletter that provides guidance on organizing the nominating committees of System institutions.

Strengthening lending and loan servicing controls: We issued a bookletter to provide further guidance regarding our expectations for System institutions to continuously assess their lending and loan servicing controls. These assessments help ensure that controls remain effective and comply with FCA regulations.

Revised capital treatment for certain rural water and wastewater facility exposures: We issued a bookletter to assign a 50 percent or a 75 percent risk weight to certain rural water and wastewater loans.

Regulatory capital treatment of certain centrally cleared derivative contracts: We issued an informational memorandum to provide guidance to System institutions regarding the regulatory capital treatment of certain centrally cleared derivative contracts. We issued this guidance in response to changes certain central counterparties made to their rulebooks and in response to guidance issued by the federal banking regulatory agencies.

Guidelines for requesting certificates of good standing, authenticity, and merger or consolidation: We issued an informational memorandum to provide updated guidance for requesting certificates of good standing, authenticity, and merger or consolidation for Farm Credit System institutions.

Planning for LIBOR phase-out: We issued an informational memorandum to provide guidance to System institutions on planning and preparing for the expected phase-out of the London Interbank Offered Rate.

Maximum bank director compensation: We issued an informational memorandum to notify Farm Credit System banks of the maximum allowable bank director compensation for 2018.

FCS corporate activity and other prior approvals and clearances

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

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

Corporate activities in FY 2018 and early FY 2019

On October 1, 2017, an FLCA and an ACA affiliated with CoBank merged, resulting in an ACA with two subsidiaries. Also, on January 1, 2018, an ACA affiliated with AgriBank changed its name. Thus far in FY 2019, we have not received any corporate approval requests.

Projected mergers and FCS institution size

As of January 1, 2019, the System had 69 direct-lender associations and 4 banks. Seven service corporations and special-purpose entities (see pages 51 to 52) brought the total number of FCS institutions to 80 (including Farmer Mac). Because of mergers and consolidations, the number of FCS associations has declined by 63 percent since 2000, and the number of FCS banks has decreased by 43 percent.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decline. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also have more complex management systems and offer a broader range of financial services to their borrowers.

Security offerings during FY 2018

We reviewed and did not object to the proposed offering circular from the Farm Credit Bank of Texas for issuing Class B perpetual noncumulative subordinated preferred stock, series 3.

Funding activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation[5], the fiscal agent for the FCS banks. Through this conduit, funds flow from worldwide capital market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with ready access to global resources. Systemwide debt securities are issued as discount notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all debt issuances.

For the 12 months ended September 30, 2018, the FCS issued $304 billion in Systemwide debt, compared with $296 billion in FY 2017, and $321 billion in FY 2016. Investor demand for FCS debt instruments remained strong as a result of the System's continued favorable financial performance and the congressionally mandated reduction in the overall debt outstanding of two other government-sponsored enterprises. FCS debt outstanding increased to $269 billion at the end of FY 2018, an increase of $11 billion from the end of FY 2017.

The financial markets were generally stable. Interest rates for System debt when compared to U.S. Treasuries of similar maturities remained favorable and in demand by investors.

Rural business investment companies

The 2002 Farm Bill created the Rural Business Investment Program for leveraged rural business investment companies (RBICs) and gave the secretary of agriculture the authority to license and examine them. The 2008 Farm Bill modified the program to allow for nonleveraged RBICs and to permit System institutions to form and invest in nonleveraged RBICs.

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[5] See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation helps the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System's financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

In 2012, we entered into an interagency agreement with USDA whereby we performed the following services for USDA regarding nonleveraged rural business investment companies:

- Provided technical advice regarding regulatory and program requirements
- Reviewed nonleveraged RBIC licensing applications for RBICs in which System institutions would hold at least 10 percent in total ownership, and advised USDA as to whether to approve the applications
- Examined licensed nonleveraged RBICs

The 2012 agreement was replaced with a new five-year agreement in 2017, under which we will continue to review nonleveraged RBIC licensing applications and to examine licensed nonleveraged RBICs. The agreement calls for us to review and provide recommendations for seven RBIC applications over a five-year timeframe. We agreed to expend no more than 1,800 hours, or 90 percent of one full-time-equivalent staff position, to complete the RBIC assignments during a fiscal year.

Part III

Farm Credit System

Profile of the Farm Credit System

The Farm Credit System consists of a network of borrower-owned cooperative financial institutions, as well as related service organizations and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the financial government-sponsored enterprises (GSEs). As of January 1, 2019, the System had four banks providing loan funds to

- 68 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.

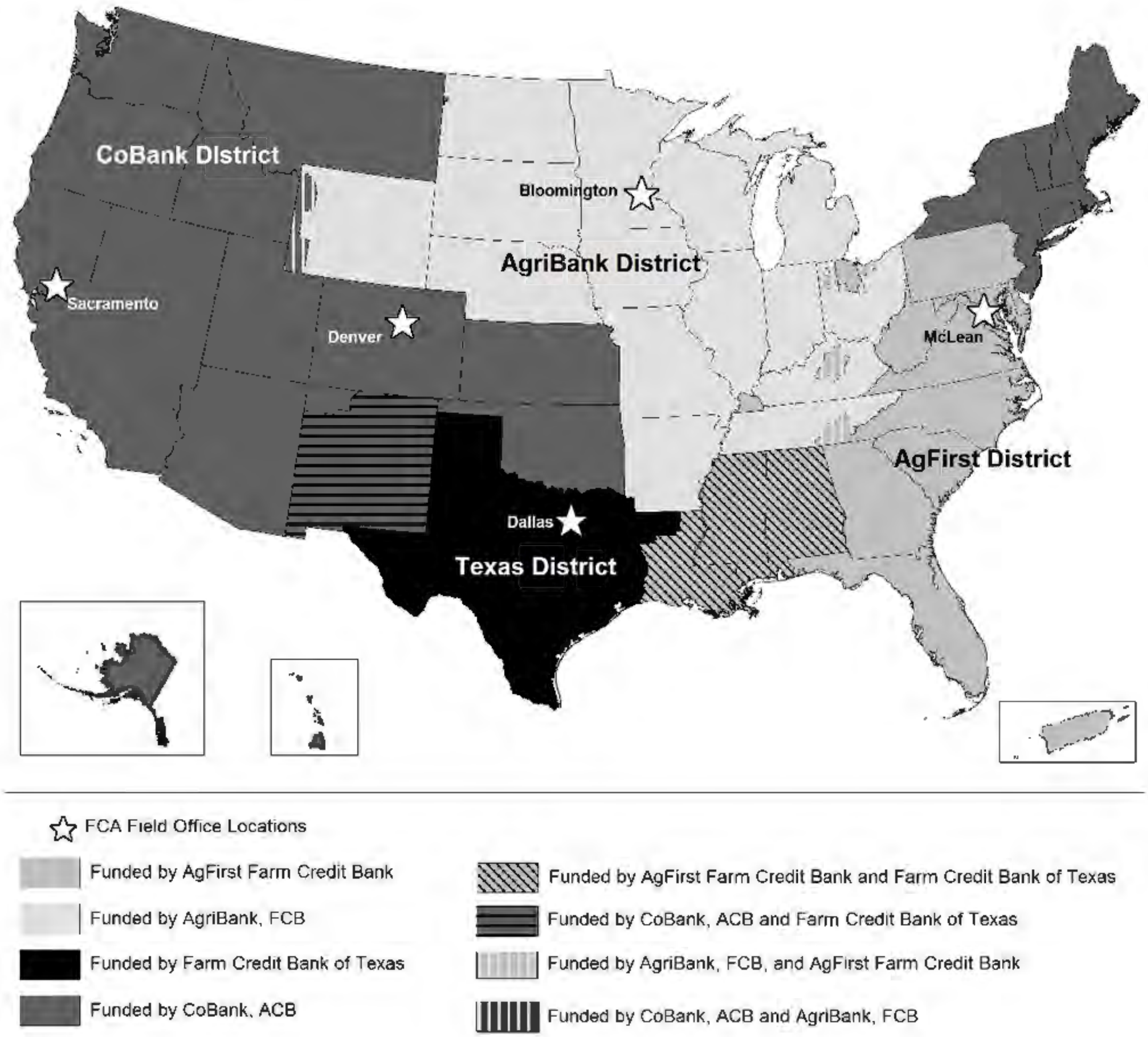
The map in figure 3 shows each bank's chartered territory.

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 the indebtedness to the funding bank under a general financing agreement. In addition, the parent company and its subsidiaries pledge their respective assets as security for each other's debts and obligations and share each other's capital.

The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are federal land bank associations that originate long-term agricultural mortgages and are exempt from federal and state income taxes; ACAs and PCAs originate short- and intermediate-term operating loans and are not tax-exempt.

System institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling debt securities in the national and international money markets; these securities are subject to FCA's approval, but they are not guaranteed by the U.S. government.

Figure 3. Farm Credit System bank chartered territories as of January 1, 2019



NOTE: CoBank, ACB, funds 22 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 14 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 73 banks and direct-lending associations.

Additional System entities and service corporations

In addition to the System's banks and associations, we are responsible for regulating and examining the Federal Agricultural Mortgage Corporation and the Federal Farm Credit Banks Funding Corporation. We also regulate and examine the five service corporations organized under section 4.25 of the Farm Credit Act[6]:

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

Federal Agricultural Mortgage Corporation — Farmer Mac[7] is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. In May 2008, the Food, Conservation, and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac conducts its business primarily through four core programs:

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

[6] 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.

[7] Farmer Mac is established in law as a part 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.

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, and agricultural cooperatives; debt issuances also provide the banks with funding for their other operations.

AgVantis, Inc. — AgVantis provides technology-related and other support services to associations in the CoBank, ACB, district. It was chartered by FCA in 2001 and is owned by CoBank and 11 of its affiliated associations.

Farm Credit Leasing Services Corporation — The Leasing Corporation, owned by CoBank, provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit Financial Partners, Inc. — Farm Credit Financial Partners is owned by, and provides support services to, four associations affiliated with CoBank and two associations affiliated with AgriBank, FCB.

FCS Building Association — The Building Association, which acquires, manages, and maintains facilities to house our headquarters and field office staff, was formed in 1981. It is owned by System banks and is subject to the oversight and direction of the FCA board.

Farm Credit Foundations — Farm Credit Foundations provides human resource services to its employer-owners, including payroll processing, benefits administration, centralized vendor management, workforce management and operations services, corporate tax and financial reporting services, and retirement workshops. It is owned by 34 FCS associations, one service corporation (AgVantis), and one FCS bank (AgriBank).

FCS mission fulfillment

The System fulfills its overall mission by lending to agriculture and rural America. Through changes in the law since the System's original authorization in 1916, System lending authorities have evolved to include the following:

- Long-term agricultural real estate loans and rural home loans
- Short- and intermediate-term agricultural loans
- Loans to producers and harvesters of aquatic products
- Loans to certain farmer-owned agricultural processing facilities and farm-related businesses
- Loans to farmer-owned agricultural cooperatives
- Loans that finance agricultural exports and imports
- Loans for rural utilities
- Limited portions of loans to entities that qualify under the System's similar-entity authority

Financial Condition and Performance

The FCS continues to be fundamentally safe and sound, and it remains well positioned to weather the challenges facing U.S. agriculture. For FY 2018, the System reported strong financial results, including record earnings, higher capital levels, and acceptable portfolio credit risk. FCS banks had reliable access to debt capital markets and maintained liquidity levels well above the 90-day regulatory minimum.

For many agricultural producers, 2018 was another challenging year. In its November 2018 forecast, USDA projects net cash farm income to decline 8.4 percent for the year. Generally, world economic conditions continued to support domestic and foreign demand for agricultural products; however, trade policy concerns, tariffs, strong global competition, demand uncertainties, and rising production expenses hurt profitability.

As anticipated, the Federal Reserve continued to raise its key policy rate in 2018 in response to strong economic and labor market conditions. Higher interest rates will cause borrowing costs for real estate, equipment, and other production inputs to increase, putting additional pressure on producers' cash flow and liquidity levels.

Balancing the supply of agricultural products with demand needs and controlling costs will be critical for producers in the coming year. For many major crops, price gains will be limited by global production levels and large existing world stocks. For livestock, poultry, and dairy producers, production is expected to align more closely with demand in 2019, which should moderate any price declines.

Earnings

The FCS earned $4.01 billion in the first nine months of 2018, an 8.0 percent increase from the $3.72 billion earned in the same period in 2017. As table 14 shows, the net income increased because of higher net interest income, lower provisions for losses, and higher noninterest income, partially offset by higher noninterest expenses.

Table 14: Net income (dollars in millions)

	First 9 Months of 2017	First 9 Months of 2018	Dollar Change	Percent Change
Net interest income	$5,752	$5,947	$195	3.4
− Provision for losses	188	146	(42)	(22.3)
= Net interest income after loss provision	$5,564	$5,801	$237	4.3
+ Noninterest income	430	527	97	22.6
− Noninterest expense	2,136	2,220	84	3.9
= Pretax income	$3,858	$4,108	$250	6.5
− Provision for income tax	142	96	(46)	(32.4)
= Net income	$3,716	$4,012	$296	8.0

Source: Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, p. F-3.

The increase in net interest income was due primarily to higher average interest-earning assets, which increased to $323.1 billion at September 30, 2018, from $310.2 billion at September 30, 2017. Net interest margin for the nine months ended September 30, 2018, was 2.45 percent, down 2 basis points from the same period a year ago (table 15). Net interest spread declined 11 basis points over the same period because a 55-basis-point increase in the annualized rate on interest-bearing liabilities completely offset a 44-basis-point increase in the rate on total interest-earning assets.

Table 15: Interest margin in annualized percentages

	First 9 Months of 2017	First 9 Months of 2018	Change (bps)
Total interest-earning assets	3.70	4.14	44
Total loans	4.18	4.60	42
Investments and other assets	1.70	2.21	51
Total interest-bearing liabilities	1.46	2.01	55
Net interest spread	2.24	2.13	(11)
Impact of noninterest-bearing items	0.23	0.32	9
Net interest margin	2.47	2.45	(2)

Source: Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, p.13.

bps = basis points

As table 16 shows, for the first nine months of 2018, all districts reported an increase in the return on average assets and the return on average capital as compared to the first nine months of 2017.

Table 16: Profitability across System districts for first nine months of year

		AgFirst	AgriBank	Texas	CoBank
Percentage return on average assets	2017	1.54	1.54	1.52	1.33
	2018	1.59	1.72	1.63	1.55
Percentage return on average capital	2017	9.19	8.49	10.13	10.15
	2018	9.29	9.25	11.04	11.72

Source: Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, p. F-57

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

System growth

The System reported modest year-over-year growth for the period ended September 30, 2018. FCS assets were up $13.4 billion or 4.2 percent to $335.0 billion. Much of the increase was the result of growth in the System's loan portfolio, which grew by $12.5 billion or 5.0 percent.

For the year, balances for all major loan categories (real estate mortgage, production and intermediate-term, agribusiness, and rural infrastructure) were up. Real estate mortgage and agribusiness lending accounted for much of the growth, increasing 4.8 percent and 10.9 percent, respectively.

All System districts reported higher loan portfolio balances at September 30, 2018. The Texas district reported the largest percentage increase in volume, with loan balances growing 6.4 percent year over year. Provided in table 17 are the gross loan volume and the percentage change in volume for System districts for September 30, 2018, compared with September 30, 2017.

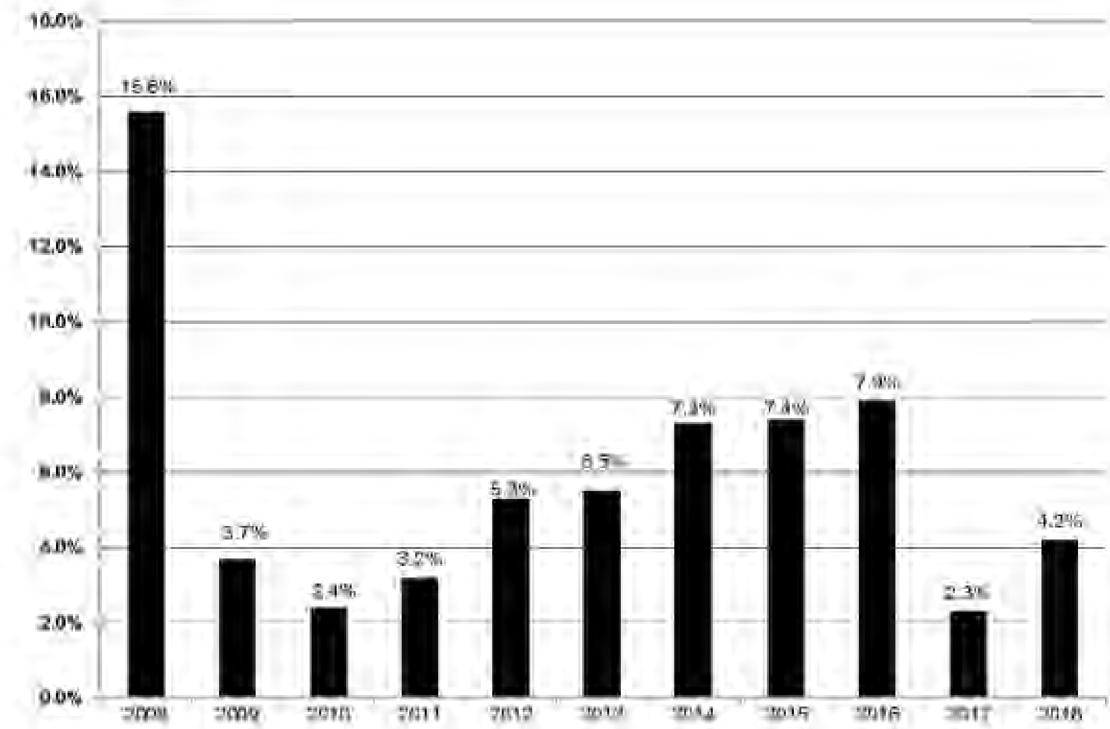
Table 17: Gross loan growth by district and Systemwide (dollars in millions)

	September 30, 2017		September 30, 2018		Change in Dollars	Percent Change
	Gross Loans	**Percent Total**	**Gross Loans**	**Percent Total**		
AgFirst	$28,214	11.2	$29,299	11.1	$1,085	3.8
AgriBank	100,692	40.1	105,916	40.2	5,224	5.2
Texas	23,237	9.3	24,722	9.4	1,485	6.4
CoBank	104,262	41.5	108,929	41.3	4,667	4.5
Insurance Fund and Intra-System Eliminations	(5,243)	(2.1)	(5,247)	(2.0)	(4)	0.1
Total for System	**$251,162**	**100.0**	**$263,619**	**100.0**	**$12,457**	**5.0**

Source: Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, p. F-54; and Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, p. F-53.

As noted in figure 4 below, the System's total assets increased by 4.2 percent during the 12-month period ended September 30, 2018. Although asset growth was higher this year than last year, System assets have been growing more modestly in recent years than they did between 2012 and 2016.

Figure 4: Year-over-year percent change in System assets, September 2008 – 2018



Source: Quarterly Information Statements of the Farm Credit System.

Table data for figure 4

Year	Year-over-year percent change in System assets
2008	15.6
2009	3.7
2010	2.4
2011	3.2
2012	5.3
2013	5.5
2014	7.3
2015	7.4
2016	7.9
2017	2.3
2018	4.2

Assets — Investments

As of September 30, 2018, the System's investments totaled $59.1 billion, up 1.8 percent from a year earlier. As shown in table 18, investments available for sale totaled $56.1 billion, including $0.3 billion for mission-related investments. Investments held to maturity were $3.0 billion, including $2.5 billion for mission-related mortgage-backed securities.

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

During the most recent 12-month period, the yield on investments available for sale increased from 1.78 percent to 2.25 percent, with yields increasing on all available-for-sale segments. For investments held to maturity, the yield increased from 3.32 percent to 3.63 percent mainly because of an increase in the yield for mission-related mortgage-backed securities.

Ineligible investments held by the System at September 30, 2018, equaled $0.2 billion at fair value, down from $0.5 billion a year ago.

Table 18: FCS investments (dollars in millions)

		September 30, 2017		September 30, 2018		Change		
						Amount		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
Available for sale (fair value)	Money market instruments	$5,921	1.40	$6,610	2.37	$689	11``.6	97
	U.S. Treasury securities	16,265	1.48	17,072	1.87	807	5.0	39
	U.S. agency securities	3,718	2.03	2,561	2.21	(1,157)	(31.1)	18
	Mortgage-backed securities	27,140	2.00	26,969	2.43	(171)	(0.6)	43
	Other asset-backed securities	2,020	1.68	2,673	2.53	653	32.3	85
	Mission-related investments	332	3.14	257	3.24	(75)	(22.6)	10
	Total	**$55,396**	**1.78**	**$56,142**	**2.25**	**$746**	**1.3**	**47**
Held-to-maturity mission-related and other investments (amortized cost)	Mortgage-backed securities	$2,249	3.32	$2,522	3.63	$273	12.1	31
	Asset-backed securities	336	2.57	365	3.03	29	8.6	46
	Other securities	108	5.93	91	5.89	(17)	(15.7)	(4)
	Total	**$2,693**	**3.33**	**$2,978**	**3.63**	**$285**	**10.6**	**30**

Source: Third Quarter 2018 Quarterly Information Statement of the Farm Credit System, pp. F-11 – 13; and Third Quarter 2017 Quarterly Information Statement of the Farm Credit System, pp. F-10 – 12.

WAY = weighted average yield; bps = basis points

Loan quality

Loan quality declined slightly over the past year, but credit risk in the System's loan portfolio continues to be comparatively low and well within the System's risk-bearing capacity. As of September 30, 2018, nonperforming assets equaled $2.439 billion or 0.92 percent of total loans and other property owned, as compared to $2.099 billion or 0.84 percent at September 30, 2017.

In the first nine months of 2018, net charge-offs for the System increased to $53 million from $21 million for the same period one year ago. Annualized net charge-offs equaled just 0.03 percent of average loans outstanding, up slightly from 0.01 percent for the same period in 2017. The allowance for loan losses increased to $1.682 billion in the first nine months of 2018, up 4.5 percent from the same period in 2017. See table 19 for additional information about the allowance for loan losses and other loan quality measures.

We anticipate some additional deterioration in portfolio loan quality in 2019. Margins will remain tight for many crop producers, putting added pressure on farm balance sheets and repayment capacity. For dairy, poultry, and most livestock sectors, aligning production levels with demand is critical. Controlling production expenses will continue to be critical for agricultural producers as input costs rise.

Table 19: FCS loan quality

Loan quality	September 30, 2017	September 30, 2018	Change in percentage points
Nonperforming assets as percentage of total loans and other property owned	0.84%	0.92%	0.08
Nonperforming assets as percentage of capital	3.78%	4.19%	0.41
Nonaccrual loans as percentage of total loans	0.68%	0.76%	0.08
ALL as percentage of total loans	0.64%	0.64%	0.00
ALL as percentage of nonperforming loans	79.10%	69.00%	(10.10)
ALL as percentage of nonaccrual loans	94.70%	83.60%	(11.10)

Source: Quarterly Information Statements of the Farm Credit System.

ALL = allowance for loan losses.

Liabilities, funding, and liquidity

For the year ended September 30, 2018, the System's total liabilities increased by 4.0 percent to $276.8 billion. See table 20 below. Short-term debt securities (due within one year) increased 1.8 percent to $102.9 billion, while Systemwide debt securities due after one year increased 5.6 percent to $165.6 billion. Short-term debt securities represented 37.2 percent of the total Systemwide liabilities at September 30, 2018, down from 38.0 percent a year earlier.

Table 20: Systemwide debt (dollars in millions)

	September 30, 2017	September 30, 2018	Change	
			Dollars	Percent
Systemwide discount notes due within one year	$25,430	$19,054	($6,376)	(25.1%)
Systemwide bonds, medium-term notes, and master notes due within one year	75,641	83,825	8,184	10.8%
Total short-term liabilities	**$101,071**	**$102,879**	**$1,808**	**1.8%**
Systemwide bonds, medium-term notes, and master notes due after one year	156,780	165,583	8,803	5.6%
Other liabilities	8,235	8,309	74	0.9%
Total liabilities	**$266,086**	**$276,771**	**$10,685**	**4.0%**

Source: Quarterly Information Statements of the Farm Credit System.

Liquidity risk management is necessary for the Farm Credit System to ensure its ability to meet its financial obligations. These obligations include the repayment of Systemwide debt securities as they mature, the ability to fund new and existing loans, and the ability to fund operations in a cost-effective manner. The System's liquidity position decreased slightly, from 172 days as of September 30, 2017, to 171 days as of September 30, 2018. Each bank has maintained the three tiers of the liquidity reserve[8] and exceeded the regulatory minimum of 90 days of liquidity.[9]

The aggregate duration gap for the FCS (the sum of the banks' duration gaps) was a positive 4.3 months compared with a positive 4.2 months a year earlier, which means the System's exposure to interest rate risk was marginally higher as of September 30, 2018.[10] 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 of its capital position.

Capital

The System continued to build capital in 2018. As of September 30, System capital was $58.2 billion, a 4.9 percent increase from a year earlier (see table 21). The increase in capital was driven by an increase in net income earned and retained, partially offset by cash distributions to stockholders. Retained earnings represent the vast majority of total capital, at 80.1 percent as of September 30, 2018, up from 78.5 percent a year ago. The System's overall capital-to-assets ratio increased to 17.4 percent from 17.3 percent as of September 30, 2017.

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[8] 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.

[9] The regulatory liquidity standard requires each FCS bank to maintain a minimum of 90 days of liquidity on a continuous basis. The number of days of liquidity is calculated by comparing the principal portion of a given bank's maturing Systemwide debt securities, as well as its other borrowing, with the total amount of the bank's cash, cash equivalents, and investments. For the purpose of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale.

[10] The "duration gap" is the difference between the estimated duration of assets and the estimated duration of liabilities, measured in months. Duration is the weighted average maturity of cash flows, weighted by the present value of this cash flow. It is a useful way to estimate the direction and size of changes in the value of a financial instrument when market interest rates experience small changes. When the duration gap is small, changing market interest rates pose less interest rate risk than when the gap is large.

Table 21: FCS capital composition (dollars in millions)

	September 30, 2017	September 30, 2018	Change	
			Dollars	Percent
Preferred stock	$3,085	$3,177	$92	3.0%
Capital stock and participation certificates	1,857	1,919	62	3.3%
Additional paid-in capital	3,642	3,712	70	1.9%
Restricted capital (Insurance Fund)	4,748	4,881	133	2.8%
Accumulated other comprehensive income (loss)	(1,390)	(2,132)	(742)	53.4%
Retained earnings	43,563	46,660	3,097	7.1%
Total capital	**$55,505**	**$58,217**	**$2,712**	**4.9%**

Source: Quarterly Information Statements of the Farm Credit System.

As of September 30, 2018, all System institutions complied with FCA's new regulatory minimum capital requirements:

- Common equity tier 1 capital (CET1) ratio of 4.5 percent of risk-adjusted assets
- Tier 1 capital ratio of 6.0 percent of risk-adjusted assets
- Total capital ratio of 8.0 percent of risk-adjusted assets
- Tier 1 leverage ratio of 4.0 percent of total assets, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents
- Permanent capital ratio of at least 7.0 percent of risk-adjusted assets.

The new regulatory capital framework includes the three-year phase-in of a capital cushion (capital conservation buffer) of 2.5 percent above the CET1 ratio, tier 1 capital ratio, and total capital ratio requirements. The new regulations also require a leverage capital buffer of 1.0 percent 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 they are made. Table 22 shows that all banks exceeded all minimum capital regulatory requirements.

Associations also exceeded all minimum requirements. Their capital levels ranged as follows:

- CET1 and tier 1 capital ratios: 12.1 percent to 38.0 percent
- Tier 1 leverage ratio: 10.8 percent to 34.2 percent
- URE and URE equivalents leverage ratio: 7.9 percent to 34.8 percent
- Total capital ratio: 13.5 percent to 39.2 percent

Table 22: Regulatory capital ratios of FCS banks

		AgFirst	AgriBank	Texas	CoBank
Common equity tier 1	9/30/2018	20.9	18.1	10.1	12.6
Tier 1 capital	9/30/2018	21.4	19.0	16.7	14.9
Tier 1 leverage	9/30/2018	7.4	5.5	7.4	7.7
URE and URE equivalents leverage	9/30/2018	6.4	3.1	2.9	3.3
Permanent capital ratio	9/30/2018	21.4	19.0	16.6	15.0
Total capital	9/30/2017	21.7	19.2	16.6	15.4
	9/30/2018	21.5	19.0	16.7	15.9
	Change	(0.2)	(0.2)	0.1	0.5

Source: FCA Consolidated Reporting System and Bank Third Quarter 2018 Quarterly Shareholder Reports.

Note: Effective January 1, 2017, new regulatory capital requirements for System banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with common equity tier 1, tier 1 capital, and total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a tier 1 leverage ratio and a URE and URE equivalents leverage ratio.

Young, Beginning, and Small Farmers and Ranchers

Congress has mandated that the Farm Credit System serve the credit and related service needs of young, beginning, and small (YBS) farmers and ranchers by directing System associations to set up YBS programs and by requiring the banks to issue annual reports on their associations' programs. To ensure that the System fulfills this responsibility, FCA issued a final rule in 2004 that

- amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;
- allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages associations to establish advisory committees composed of YBS farmers;
- requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over its YBS program; and
- requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

Our examiners review the policies and programs of the institutions to ensure that the institutions are complying with the YBS regulations.

In addition, we continue to consider regulatory options to support YBS programs. In August 2007, we issued a bookletter that interprets the phrase "sound and constructive credit" for a subset of part-time YBS farmers. In October 2012, we issued a bookletter to the System that provides guidance on how associations can meet the credit and related services needs of farmers who market their agricultural products through local and regional food systems. Because of their age, farming experience, or the size of their operations, many local food farmers will qualify as YBS farmers under section 4.19 of the Farm Credit Act, as well as under FCA regulation 12 CFR 614.4165.

In November 2014, we issued an informational memorandum to System institutions explaining how they can increase their outreach and service to YBS farmers by coordinating with USDA Farm Service Agency loan programs. The guidance we provide helps ensure that System institutions make full use of their authorities to help YBS farmers begin farming, expand their operations, and remain in agricultural or aquaculture production.

The information that follows shows YBS results for calendar year 2017. We are currently collecting information for 2018, and we expect this information to be available after June 2019. A summary of the System's YBS program results is also available on our website at www.fca.gov.

Tables 23 and 24 provide the YBS results for calendar year 2017. Loans to YBS producers include real estate loans and short- and intermediate-term loans. The information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not an accurate measure of the System's YBS lending activity.

Outstanding loans

From Dec. 31, 2016, to Dec. 31, 2017, dollar volume outstanding for total System loans grew by 3.1 percent. Loan dollar volume outstanding to young farmers grew by 4.8 percent, to beginning farmers by 5.3 percent, and to small farmers by 2.0 percent.

While the dollar volume of loans outstanding grew, the number of total System loans outstanding declined by 3.2 percent. The number of loans outstanding to young farmers declined by 1.9 percent but remained the same for beginning farmers, and the number of loans outstanding to small farmers declined by 2.3 percent.

New loans

The System's overall new loan dollar volume declined by 0.9 percent in 2017. New loan dollar volume to young farmers declined by 1.5 percent, to beginning farmers by 1.8 percent, and to small farmers by 4.2 percent.

For total System loans, the number of new loans made in 2017 dropped by 9.8 percent compared with 2016. The number of loans to young and small farmers dropped by 8.5 percent, and the number of new loans made to beginning farmers dropped by 6.8 percent.

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

Young — The System reported making 56,705 new loans to young farmers in 2017, and the volume of these loans amounted to $9.1 billion. The new loans made to young farmers in 2017 represented 17.3 percent of all loans the System made during the year and 11.8 percent of the dollar volume of loans made. At the end of 2017, the System re¬ported 187,156 loans outstanding to young farmers, totaling $29.1 billion.

Beginning — The System reported making 73,752 new loans to beginning farmers in 2017, and the volume of these loans amounted to $12.4 billion in 2017. The new loans made to beginning farmers in 2017 represented 22.5 percent of all System loans made during the year and 16.2 percent of the dollar volume of loans made. At the end of 2017, the System reported 279,027 loans outstanding to beginning farmers, totaling $45.1 billion.

Small — System institutions reported making 136,910 new loans to small farmers in 2017, totaling $11.7 billion. The new loans made to small farmers in 2017 represented 41.8 percent of all System loans made during the year and 15.2 percent of the dollar volume of loans made. At the end of 2017, the System reported 489,694 loans outstanding to small farmers, totaling $48.7 billion.

Table 23. YBS loans made during 2017 (as of December 31, 2017)

Type of farmer	Number of loans	Percentage of total number of System loans	Dollar volume of loans in billions	Percentage of total volume of System loans	Average loan size
Young	56,705	17.3%	$9.1	11.8%	$159,994
Beginning	73,752	22.5%	$12.4	16.2%	$168,738
Small	136, 910	41.8%	$11.7	15.2%	$85,367

Source: FCA 2017 Annual Report on the Farm Credit System.

Table 24. YBS loans outstanding (as of December 31, 2017)

Type of farmer	Number of loans	Percentage of total number of System loans	Dollar volume of loans in billions	Percentage of total volume of System loans	Average loan size
Young	187,156	18.6%	$29.1	11.2%	$155,513
Beginning	279,027	27.7%	$45.1	17.3%	$161,535
Small	489,694	48.7%	$48.7	18.7%	$99,385

Source: FCA 2017 Annual Report on the Farm Credit System.

In addition to collecting quantitative data, System institutions are required to provide qualitative data about their service to YBS borrowers. In 2017, institutions reported taking a number of measures to strengthen their service to these borrowers, such as

- creating new lending programs,
- enhancing the training they offer,
- bolstering outreach to farmers and ranchers who are not currently borrowing from the System, and
- continuing market studies to identify new customer needs and increase coordination with third parties.

Market Share of Farm Debt

According to the U.S. Department of Agriculture's November 2018 forecast, total farm debt is estimated to have topped $409 billion at the end of 2018, up 4.2 percent from a year earlier and up 30 percent since 2013. Commercial banks and the Farm Credit System are the primary suppliers of credit to farmers; other providers include life insurance companies, USDA programs, Farmer Mac, individuals, and merchants and dealers.

The System's share of the $393 billion farm debt market at the end of calendar year 2017 was 40.4 percent, down from 40.9 percent at the end of 2016. The market share for commercial banks stood at 41.2 percent at the end of 2017, down from 42.1 percent at the end of 2016. USDA estimates of the market shares of individual lender groups for year-end 2018 will not be available until August 2019.

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.

While there was modest growth in the System's farm real estate lending in 2017, its share of farm debt secured by farm real estate declined from 45.9 percent at year-end 2016 to 45.2 percent at year-end 2017. The commercial banks' share of total farm debt secured by farm real estate held steady at 37.3 percent in 2017.

The System also experienced modest growth in farm debt secured by collateral other than farm real estate although its estimated market share declined from 33.3 percent at year-end 2016 to 33.0 percent at year-end 2017. Commercial banks continue to lead the market for farm debt secured by collateral other than farm real estate, but their market share fell from 49.4 percent in 2016 to 47.3 percent in 2017.

Part IV

Performance Budget

FY 2020

Performance Budget Overview

Our FY 2020 performance budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total performance budget (table 25) is $76.69 million and reflects a 1.8 percent increase from FY 2019.

Table 25. FCA performance budget, FYs 2018 – 2020

	FY 2018 Revised	FY 2019 Revised	FY 2020 Proposed
Policy and regulation	$16,407,026	$16,375,810	$16,797,086
Safety and soundness	55,313,531	57,168,059	58,244,072
Reimbursable activities*	1,479,443	1,816,131	1,648,842
Total	**$73,200,000**	**$75,360,000**	**$76,690,000**

Note: In contrast to the reimbursement numbers in table 4, these totals include indirect costs.

Policy and regulation

Our performance budget includes approximately $16.8 million for the policy and regulation program, a 2.6 percent increase from FY 2019. Most of the funds requested for policy and regulation in FY 2020 will support regulatory projects that were published in the Unified Agenda in the fall of 2018. Funds are also used 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 $58.2 million for the safety and soundness program, a 1.9 percent increase from FY 2019. This increase is necessary because we have reallocated examination resources from reimbursable activities to examination activities to meet System 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 addition, FY 2019 budgeted monies will support development of examination guidance and systemic risk oversight of System institutions and Farmer Mac.

Reimbursable activities

The performance budget includes $1,648,842 for reimbursable activities. The reimbursable activities are summarized below and include indirect costs.

- **Farm Credit System Insurance Corporation (FCSIC)** — $864,663 for administrative support services to be provided under FCSIC contract. For FY 2020, these services include support for examination, information technology, human resources, and communication and public affairs, as well as assistance in completing one premium audit.

- **National Consumer Cooperative Bank (NCB)** — $282,766 for examining NCB. FY 2020 activities involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) assessments.

- **USDA** — $501,413 for potential work completed under contract with USDA. The work in FY 2020 will involve supporting USDA in its review of the Rural Business Investment Programs.

Table 26 summarizes the costs associated with our program activities, broken down by products and services.

Table 26. FY 2020 proposed budget and full-time equivalents for program activities

Program activity	Products and services	Budget amount	FTEs
Policy and regulation	Regulation and policy development	14,760,195	51.12
	Statutory and regulatory approvals	2,036,891	7.02
	Total for policy and regulation	**$16,797,086**	**58.14**
Safety and soundness	Examination	52,137,617	231.88
	Economic, financial, and risk analysis	4,018,401	13.29
	FCS data management	2,088,054	7.21
	Total for safety and soundness	**$58,244,072**	**252.38**
Reimbursable activities	**Total for reimbursable activities**	**$1,648,842**	**6.60**
All program activities	**Total**	**$76,690,000**	**317.12**

Desired Outcomes for Strategic Goals

Our strategic goals and desired outcomes, which are detailed in table 27, help us measure whether we have achieved our public mission. The information that follows provides

- the strategies we use to accomplish the outcomes;
- the measures for each outcome, with targets that reflect our desired performance for FYs 2019 through 2020; and
- a historical summary of the costs of accomplishing the desired outcomes.

Table 27. Desired outcomes for strategic goals

Strategic goal	Desired outcome
1. Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action
3. Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.	A high-performing, diverse workforce that supports the mission of the agency

Goal 1: We established the policy and regulation program to track the product and service costs of achieving a regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac. The products and services we provide to support this program are

- regulation and policy development, and
- statutory and regulatory approvals.

Goal 2: We established the safety and soundness program to track the product and service costs of identifying risk and taking timely corrective action. The products and services we provide to support this program are

- examination;
- economic, financial, and risk analysis; and
- FCS data management.

Goal 3: Our third goal focuses on human capital. We recognize that to achieve our first two goals we must have a well-trained, motivated, and diverse workforce, and we must ensure that we have an effective plan for leadership succession.

Goal 1

Strategies

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.

2. Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.

3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America. This includes innovative programs for serving the credit and related service needs of YBS farmers, ranchers, and producers and harvesters of aquatic products.

4. Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.

5. Encourage diversity on the boards and in the workforce of System institutions.

6. Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.

7. Encourage System institutions to be conscious of the reputation risk associated with their lending and investment decisions.

8. Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

9. Encourage full participation of stakeholders in the development and review of regulatory and policy proposals as appropriate.

Measuring the achievements

Table 28 shows the measures we will use to evaluate our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac in FYs 2019 and 2020.

Table 28. Goal 1 — Performance measures and achievements

Measure	FYs 2019 – 2020 Target
1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion.	≥90%
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations.	≥90%
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date.	Yes
6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (This measure considers all of the pre-rulemaking projects and proposed rules that were listed as completed on FCA's Unified Agenda Abstracts for the reporting period.)	100%

Budgets

Table 29 provides the budgeted amounts to achieve a flexible regulatory environment from FYs 2018 to 2020.

Table 29. Budgets to achieve goal 1

	FY 2018 revised	FY 2019 revised	FY 2020 proposed
Regulation and policy development	$14,580,491	14,382,640	$14,760,195
Statutory and regulatory approvals	1,826,535	1,993,170	2,036,891
Total	**$16,407,026**	**$16,375,810**	**$16,797,086**

Goal 2

Strategies

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Seek early FCA board input on policy and regulatory issues. Ensure that the board has timely and comprehensive information to be fully informed and able to respond appropriately.

2. Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.

3. Continue proactive oversight of institution-specific and systemic risks.

4. Effectively remediate weakened institutions.

5. Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.

6. Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.

Measuring the achievements

Table 30 shows the measures we will use to evaluate our efforts to effectively identify risk and take timely corrective action in FYs 2019 and 2020.

Table 30. Goal 2 — Performance measures and achievements

Measure	FYs 2019 – 2020 Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥80%
3. Percentage of institutions complying with regulatory capital ratio requirements.	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.	Yes

Budgets

Table 31 provides the budgeted amounts we need to identify risk in the FCS and to take timely corrective action from FYs 2018 to 2020.

Table 31. Budgets to achieve goal 2

	FY 2018 revised	FY 2019 revised	FY 2020 proposed
Examination	$49,313,471	$51,125,570	$52,137,617
Economic, financial, and risk analysis	3,896,434	3,946,443	4,018,401
FCS data management	2,103,626	2,096,046	2,088,054
Total	**$55,313,531**	**$57,168,059**	**$58,244,072**

Goal 3

Strategies

For goal 3, we are using the following strategies to maintain a high-performing, diverse workforce that supports the mission of the agency.

1. Maintain a highly skilled, motivated, and diverse workforce to meet FCA's current and future regulatory development, risk analysis, examination, and supervision needs.

2. Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.

3. Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm's length regulator.

4. Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms, and promotes strong ethical behavior.

Measuring the achievements

Table 32 shows the measures we will use to evaluate our efforts to maintain a high-performing, diverse workforce in FYs 2019 and 2020.

Table 32. Goal 3 — Performance measures and achievements

	FYs 2019 – 2020
Measure	**Target**
1. Whether, as part of our recruiting efforts for entry-level examiners, 25 percent of our outreach efforts target potential applicants who have a disability or are members of a minority group.	Yes
2. Whether we have maintained or improved our score from the previous year in the Annual Federal Employee Viewpoint Survey.	Yes

Performance Measurement and Reporting

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2018 to 2023. Our performance measurement system provides a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the agency-level measures are linked to our strategic goals.

Our chief executive officer, with assistance from our chief operating officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The chief executive officer monitors the agency's progress and results relative to the agency-level measures on a quarterly basis throughout each fiscal year. Periodic performance reports are provided to the FCA board. The annual performance report is incorporated in the FCA Performance and Accountability Report, which is submitted to the president and Congress.

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
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0219/100

Farm Credit Administration

Fiscal Year 2021 Proposed Budget and Performance Plan

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List of Acronyms and Abbreviations

ACA	agricultural credit association
CAMELS	capital, assets, management, earnings, liquidity, and sensitivity
Farm Credit Act	Farm Credit Act of 1971, as amended
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
FCS or System	Farm Credit System
FCSIC	Farm Credit System Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FIRS	Financial Institution Rating System
FLCA	Federal Land Credit Association
FTE	full-time equivalent
FTP	full-time permanent
FY	fiscal year
Funding Corporation	Federal Farm Credit Banks Funding Corporation
GSE	government-sponsored enterprise
IT	information technology
NCB	National Consumer Cooperative Bank
OSMO	Office of Secondary Market Oversight
PCA	production credit association
RBC	risk-based capital
USDA	U.S. Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)

Preface

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and examining the banks, associations, and related entities that constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

Created by an executive order of the president in 1933, FCA now derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. We promulgate regulations to implement the act, and we examine System institutions for compliance with the act and regulations, and with safe and sound banking practices. Our mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

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

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

Part I

Fiscal Year 2021
Proposed Budget

Fiscal Year 2021 Budget Overview

Our FY 2021 proposed budget request, as shown in table 1, includes $80.4 million in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture, Farm Credit System Insurance Corporation, and the National Consumer Cooperative Bank adds $610,000 to this amount, bringing our total proposed FCA budget request to $81.01 million.

Table 1. Farm Credit Administration FY 2021 proposed budget

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

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

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

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

The budget provides resources for three general purposes:

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

The FY 2021 budget is necessary to maintain an effective examination program. A robust examination program will help us identify any emerging risks early so that we can better protect the safety and soundness of the Farm Credit System and Farmer Mac. The environment in which the FCS operates is dynamic and increasingly complex.

The budget continues to implement the FCA board's philosophy on risk-based examination. We have included sufficient resources to ensure that risks are properly identified, managed, and controlled. These resources will enable us to send our examiners to the institutions we regulate to perform on-site testing of the institutions' credit reviews, internal audits, and internal controls. In addition, we will continue to invest in IT modeling applications to help us identify risk throughout the System. The budget also includes resources to hire contractors when we need technical specialists and technology upgrades. For more information about our risk-based examination and supervision, see page 31.

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

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

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

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

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

As part of our overall information resources management (IRM) program, we maintain a strong capital planning and investment control process. Our Office of Information Technology invites FCA operating units to submit proposals for information technology projects at any time. Our IT staff also holds partnership meetings throughout the year with staff from each operating unit to discuss the projects. These discussions define the priority, urgency, and scope of each project. The project review process considers cost, risk, anticipated return, and alignment with and impact on FCA's agencywide IT systems.

The chief information officer may reprioritize IRM initiatives during the year to accommodate changing business needs. The following table shows current development, modernization, or enhancement projects and their links to FCA's strategic goals. These projects enhance our ability to perform essential functions.

The IRM plan initiatives listed in table 2 are multiyear efforts that apply to numerous FCA projects. Rather than simply maintaining operations, these projects are designed to improve the agency's work processes.

Table 2. Information resource management plan initiatives

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

Budget approach

We expect the FCS to continue to evolve in the coming years to meet the demands of an increasingly complex marketplace for agriculture and rural America. As FCS institutions grow and change, their operations become more complex. We expect mergers and consolidations to continue. Because of challenges in the global economy, we expect the System's asset base to grow at only a moderate pace. Currently, the average asset base of System associations exceeds $1 billion.

Our budget strategy will enable us to leverage our most valuable investment — our people. It will enable us to continue to streamline and improve operations and to enhance staff expertise to meet challenges and opportunities that may arise. Our budget strategy will also support our IT needs, allowing us to acquire and maintain the infrastructure we need and to protect our data against the growing number of cyberthreats.

FCA program areas

The agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The policy and regulation program

The budget provides resources for administering the agency’s policy and regulation program. This program involves developing regulations and policy positions that implement applicable statutes, promote the safety and soundness of the FCS, and support the System's mission as a dependable source of credit and related services for agriculture and rural America.

In addition, the budget provides for ongoing activities such as evaluating and recommending regulatory and funding approvals, managing merger and chartering activities, and providing strategic and systemic policy research and analyses of risks and other issues facing the System.

The budget also provides for support activities, including communication of the agency’s position on issues, and training and development for staff. In total, policy and regulation activities account for approximately $17.0 million, including 56.44 FTEs, in the proposed FY 2021 budget (see table 28 on page 68).

The safety and soundness program

The budget provides resources for administering the agency’s safety and soundness program. The budget resources provided through this program also ensure that FCS institutions comply with applicable laws and regulations and are financially positioned to meet the needs of agriculture and rural America.

The budget continues to implement the FCA board’s philosophy of a risk-based approach to oversight and examination, which maximizes the effectiveness of examinations. Sufficient resources are included to ensure that the FCS properly identifies, manages, and controls risk. Examination resources are allocated to matters presenting the highest risk or potential risk to the System. Activities include developing risk topics, examining institutions on-site, and testing the institutions’ credit reviews, internal audits, and internal controls.

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

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

Office of Inspector General's FY 2021 budget request

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

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

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

Budget Trends

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

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

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

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

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

Table 3. FCA budgets, FYs 2019 – 2021

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

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

Table 4. FCA actions and resulting impact

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

Sources of FCA revenue and funding

We maintain a revolving fund financed primarily from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation, U.S. Department of Agriculture, and the National Consumer Cooperative Bank. Table 5 shows budgeted sources of revenue and funding for FYs 2019 to 2021.

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

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

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

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

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

FCA reserve

The institutions we oversee are involved in two volatile industries — agriculture and finance. Volatility can produce financial stress for institutions, creating a need for heightened oversight and supervision. To ensure that we have the resources to provide the necessary supervision and oversight during periods of financial stress, we established a reserve. Congress granted approval for the reserve under section 5.15(a)(1)(B) of the Farm Credit Act, and the FCA board established guidelines for it.

The reserve ensures that we can effectively and efficiently respond to safety and soundness issues arising within the System. It allows us to respond to these issues without increasing assessments at a time that may be financially difficult for System institutions. At the end of FY 2019, the reserve totaled $13.95 million.

Assessments

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. Table 6 shows assessments for FYs 2011 through 2020. Assessments in 2013 and 2014 were particularly low because we used carryover from prior-year assessments to help fund our operations. To fund the FY 2020 budget, we used $1.0 million of carryover and increased assessments by $3.3 million.

Table 6. FCS assessments, FYs 2011 – 2020

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

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

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

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

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

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

FCS borrower costs

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

As table 8 shows, FCS borrowers incurred a net cost of approximately 2.0 basis points, or 2.0 cents for every $100 of assets held, to pay for FCA operations in FY 2019. Since FY 2010, the net cost to borrowers has averaged approximately 2.0 basis points.

Borrower costs have declined over the years for the following reasons:

- System assets have grown.
- FCA has used carryover to offset additional costs.
- FCA has taken various measures to reduce operating costs. (See table 4 for details.)

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

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

Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

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

Table 9 shows Farmer Mac assessments for fiscal years 2011 to 2020. These assessments include costs associated with increased examination and oversight activities. We have increased these activities because, like other federal financial regulators, we are placing additional emphasis on capital adequacy and stress testing.

Table 9. Farmer Mac assessments, FYs 2011 – 2020

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

Part II

Farm Credit Administration

Profile of the Farm Credit Administration

The Farm Credit Administration was created through an executive order of President Franklin D. Roosevelt and currently derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. As an independent agency within the executive branch of the federal government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS or System), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).

The FCS is the oldest of the financial government-sponsored enterprises (GSEs). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

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

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac’s secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural lenders and intermediaries, including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2019, Farmer Mac’s outstanding program activity totaled $20.9 billion.

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System. FCA is required by the National Consumer Cooperative Bank Act of 1978, as amended, to examine and report on the condition of the National Consumer Cooperative Bank (NCB). Since the passage of this law, we have conducted safety and soundness examinations of NCB and issued reports of examination to NCB's board of directors. NCB is a federally chartered, privately owned banking corporation. It is not a federal instrumentality, and it is not part of the FCS. In addition, we provide examination services on behalf of the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture.

The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee the FCS, Farmer Mac, and FCA. Our operations are funded through assessments paid by the System institutions and by our reimbursable activities; we do not receive a federal appropriation.

Mission statement

As stated in the FCA Strategic Plan for FYs 2018 – 2023, our mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. To fulfill this mission, we issue regulations and conduct examinations of FCS institutions and Farmer Mac to evaluate and oversee the safety and soundness of their activities.

Our examinations evaluate whether institutions are complying with laws and regulations and are operating in a safe and sound manner. They also evaluate institutions' compliance with the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers and ranchers. In addition, we research, develop, and adopt rules, regulations, and other guidelines that govern how institutions conduct their business and interact with customers.

If any System institution, including Farmer Mac, violates laws or regulations, or if we determine that its operations are unsafe or unsound, we may use our enforcement authority to ensure that the problem is corrected in a timely manner. We also ensure that the rights of certain borrowers are protected.[2]

Other statutory duties require us to issue and amend FCS institution charters, to report to Congress on the System's and Farmer Mac's financial condition and performance, and to approve the issuance of debt obligations by System banks.

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

FCA board and governing philosophy

Our policy and regulations are established by a full-time, three-person board whose members are appointed by the president of the United States with the advice and consent of the Senate. They serve staggered six-year terms and may not be reappointed to succeed themselves after serving a full term or more than three years of a previous member's unexpired term. A board member may serve after expiration of his or her term until a successor has been appointed and qualified. The president designates one member as chairman of the board; this member serves as chairman until the end of his or her term. The board chairman also serves as the agency's chief executive officer.

The FCA board approves charters of FCS institutions, oversees the agency's supervision and examination of those institutions, and issues enforcement actions. The governing philosophy of the FCA board is grounded in the Farm Credit Act. The board believes that the principles on which the System was founded are just as important today as they were in the early decades of the 20th century.

FCA organizational structure

Figure 1 presents our organizational structure and shows how the offices provide strategic support to the FCA board and ensure that our mission and goals are performed effectively and efficiently. We have our headquarters in McLean, Virginia, with field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

Figure 1. FCA organizational chart as of January 2020

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

FCA Internal Operations

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

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

Human capital management

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

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

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

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

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

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

Table 11. FCA retirement eligibility, FYs 2019 – 2023

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

Training

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

By providing education, training, and other development opportunities, we seek to attract and retain bright, motivated, and highly skilled people. We coordinate training goals with the leadership skills and competencies that are integral to achieving our mission. We establish training projection plans at the office level and the agency level each year to help manage developmental activities. These plans project budget needs for training and development; they are directly linked to FCA's performance management system. Supervisors and employees collaborate on training and career development goals.

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

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

We created an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key part of our continuous learning strategy. When we hire new employees in critical fields, we require them to work closely with experienced employees to ensure the new employees acquire the knowledge and skills they need. We use details and special projects to provide development opportunities.

FCA's electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, also support our knowledge management goals. These databases enable employees to communicate and share knowledge.

We have established internal SharePoint sites to enhance knowledge transfer and collaboration. All employees have access to most of the sites, including the sites containing resources on contracting, technology, leadership development, audit and internal controls, and plain writing. Other sites are intended for the use of specific groups of employees, such as credit specialists, operations specialists, and recruiters. Still others are set up for work groups on topics such as training, planning and reporting, and policy development.

Examiner commissioning program

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

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

Diversity and inclusion

Because we recognize the value of diversity and inclusion to the agency, we work hard to attract and retain staff with varied backgrounds and skills. Our recruiters regularly visit job fairs at universities with high minority enrollment, and we have several Special Emphasis Programs at the agency to raise awareness about diversity and inclusion in our workforce.

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

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

FCA compensation program

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

To comply with FIRREA, we participate in a biennial survey of the other federal bank regulators and adjust our employees' compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under FIRREA.

We use a pay-for-performance program to adjust each employee's salary according to his or her performance rating and salary range position. We make salary adjustments each calendar year based on several factors, including the compensation programs of other federal bank regulators and available funding.

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

Table 12. FYs 2019 and 2020 locality rates

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

The board also approved for 2020 a bonus pool for career senior executives. Those executives below the midpoint for their salary range received a percentage-based pay increase; those above the midpoint received a bonus. These changes were consistent with the compensation adjustments of other FIRREA agencies.

External contracting and shared services

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

Table 13. Shared services, FY 2020

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

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

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

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

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

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

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

Other functions and activities

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

Leveraging FCA technology

We have designed a flexible IT program at FCA that can adapt to changing technical and business needs. The Office of Information Technology holds regular partnership meetings with staff from other business units to ensure that we monitor our IT investments closely and adjust our priorities as needed. Through these partnership meetings, we identify multiyear IT initiatives and include these in our annual Information Resources Management Strategic Plan.

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

Over the past year, we accomplished the following:

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

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

For more information about the ways we will use technology in FYs 2020 and 2021 to achieve our strategic goals, see table 2 on page 6.

Independent auditing and accountability

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2019 audit of FCA's financial statements. On November 8, 2019, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2019.

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

The auditors also did not identify any instances of noncompliance with selected provisions of laws and regulations or other reportable matters that could have a direct and material effect on the financial statements.

Ensuring Safety and Soundness

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including Farmer Mac.

The first section below, titled The Farm Credit System, summarizes examination and supervisory activities performed on the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled Other Entities.

Our examination and supervision responsibilities are carried out by staff located in our headquarters in McLean, Virginia, and in four field offices — in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2020.

The Farm Credit System

Statutory and regulatory requirements

The Farm Credit Act requires FCA to examine each FCS institution at least once every 18 months. We meet this requirement through a risk-based process of oversight and examination designed to maximize efficiency while addressing System risk effectively.

To monitor and evaluate the System's safety and soundness, we need loan portfolio and other data from System institutions. Our regulations include the following reporting requirements:

- Each System institution must prepare and file quarterly reports of condition and performance with FCA in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information.
- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR part 630.

System institutions submit other data to us through our Consolidated Reporting System. Some of the submitted information is available to the public on our website (www.fca.gov). We also collect loan data from all System institutions. We have been expanding loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to have minimum capital levels, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder information.

Risk-based examination and supervision

We design examination and supervision processes to address material risks and emerging issues at the institution level and Systemwide. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, ensuring the safety and soundness of the System is more important and challenging than ever. To address these challenges, we annually identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The oversight and examination program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2020 are as follows:

- Lending controls
- Internal audit
- Cybersecurity

When our examiners identify unsafe and unsound practices or conditions within a System institution or find that an institution has violated a law or regulation, we outline the corrective actions the institution must take in a Report of Examination or other form of communication. If necessary, we use our enforcement powers to bring about changes in an institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. However, in most cases, we achieve corrective action without the use of formal enforcement powers.

Measuring the safety and soundness of the System

We use our Financial Institution Rating System (FIRS) as a key method to assess the safety and soundness of each FCS institution. The FIRS provides a general framework, consisting of component and composite ratings, for evaluating and assimilating all significant financial, asset quality, and management factors. Similar to systems used by other federal financial regulators, the FIRS evaluates six key component areas to properly assess the degree of risk in an institution. These key component areas are capital, assets, management, earnings, liquidity, and sensitivity (CAMELS).

Based on our CAMELS ratings, we assign an overall composite rating for the institution. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect and that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

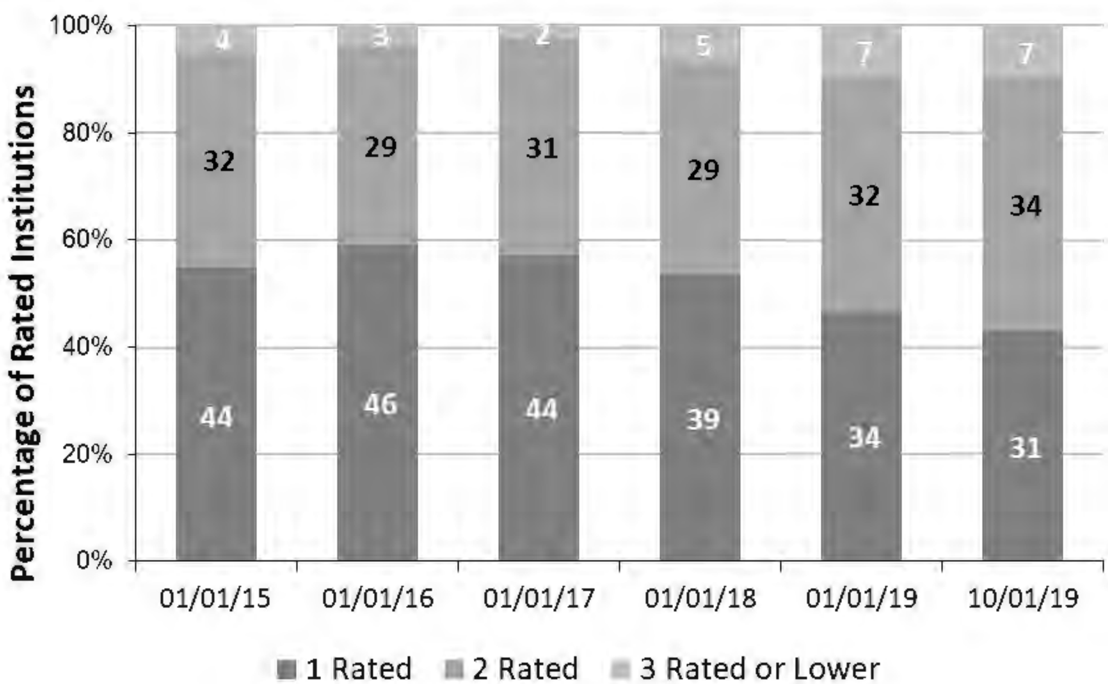
Recent results

As the composite FIRS ratings over the past several years show, the System's condition and performance have remained satisfactory. The following summarizes FIRS ratings for System banks and associations as of October 1, 2019:

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

See figure 2 for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

Figure 2. Farm Credit System Financial Institution Rating System (FIRS) composite ratings



Source: FCA's FIRS Ratings Database.

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

Table data for figure 2

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

Federal Agricultural Mortgage Corporation

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

Statutory authority

OSMO was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102 – 237), which amended section 8.11 of the Farm Credit Act. OSMO is required to be managed by a full-time director who reports to the FCA board, and OSMO's activities, to the extent practicable, must be carried out by individuals not responsible for supervising the banks and associations of the FCS.

Data reporting requirements

Farmer Mac is required to submit quarterly Call Reports to OSMO in addition to meeting several other periodic reporting requirements related to Farmer Mac's regulatory risk-based capital, mission, liquidity, and financial derivatives portfolio. Farmer Mac is also subject to the disclosure and reporting requirements of the Securities and Exchange Commission.

Financial condition and performance

Farmer Mac's financial condition and performance trends were generally positive in FY 2019 despite a modest increase in troubled loan volume.

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

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

Risk-Based Capital (RBC) Model

Section 8.32 of the Farm Credit Act requires the RBC Model to be used to determine the amount of regulatory capital that Farmer Mac needs to maintain positive capital during a 10-year period under certain credit risk and interest rate risk situations. The RBC Model must estimate credit losses on agricultural mortgages and rural utility loans owned or guaranteed by Farmer Mac.

The rate of loan default and severity of losses on agricultural mortgages must be reasonably related to the default rate and severity of losses experienced in contiguous areas of the United States; the contiguous areas considered must contain at least 5% of the total U.S. population that experienced the highest rate of default and severity of agricultural mortgage losses during the past two consecutive years or more. The rate of loan default and severity of losses on rural utility loans must be reasonably related to risks in electric and telephone facility loans.

The Farm Credit Act also requires the RBC Model to incorporate an interest rate risk stress scenario based on prescribed changes in interest rates on Treasury obligations of various terms. In addition, the Farm Credit Act requires Farmer Mac to maintain capital to protect against management and operational risks. This additional capital must amount to 30% of the sum of the credit loss and interest rate risk components of the RBC Model.

The output of the stress test depends on Farmer Mac's risk profile. High-risk loan assets or significant interest rate risk exposure causes the RBC Model to calculate a higher regulatory capital requirement. Conversely, if Farmer Mac maintains a low risk profile in both its loan portfolio and interest rate risk exposure, the stress test will calculate a low capital requirement. Our regulations require Farmer Mac to have its operation of the RBC Model validated by an independent third party at least every three years. In all these third-party validations, Farmer Mac has been found to be operating the model appropriately.

Other entities

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System.

- As mandated by 12 U.S.C. 3025, we examine the National Consumer Cooperative Bank, which owns a federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans.
- From time to time, the U.S. Department of Agriculture contracts with us to provide examination services for specific USDA programs. We annually review the amount of resources dedicated to providing these services. Currently, the amount is limited.
- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC board consists of the members of the FCA board. Section 5.59(a)(5) of the Farm Credit Act provides that, to the extent practicable, FCSIC must use FCA personnel and resources to minimize duplication of effort and to reduce costs.

Developing Regulations and Policies

FCA routinely issues regulations, informational memorandums, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend.

We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

Regulatory and policy projects active at end of FY 2019

The FCA board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives. The FCA board-approved agenda is part of the federal Unified Agenda, which is published online at www.reginfo.gov. We publish our Regulatory Projects Plan on our website to notify the public of our upcoming regulatory actions and to encourage the public to participate in the regulatory process, but we are not obligated to act on our agenda items. The following list summarizes the topics for which we are considering regulatory action.

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

Eligibility criteria for outside directors: We plan to publish a final rule regarding the eligibility criteria for outside directors. This rulemaking will address the eligibility of a candidate for an outside director position if the candidate owns an interest in an entity that borrows from, or holds stock in, a System bank or association.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FCS corporate activity and other prior approvals and clearances

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

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

Corporate activities in FY 2019 and early FY 2020

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

Projected mergers and FCS institution size

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

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decrease. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also have more complex management systems and offer a broader range of financial services to their borrowers.

Security offerings during FY 2019

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

Funding activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation,[3] the fiscal agent for the FCS banks. Through this conduit, funds flow from worldwide capital market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with efficient access to global resources. Systemwide debt securities are issued as discount notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all debt issuances.

For the 12 months ended September 30, 2019, the FCS issued $355 billion in Systemwide debt, compared with $304 billion in FY 2018, and $296 billion in FY 2017. The sizeable increase in issuance during FY 2019 was due mainly to FCS debt being called back and reissued under more favorable interest rates. Investor demand for FCS debt instruments remained strong as a result of the System's continued favorable financial performance and the congressionally mandated reduction in the overall debt outstanding of two other government-sponsored enterprises. FCS debt outstanding increased to $282 billion at the end of FY 2019, an increase of $13 billion from the end of FY 2018.

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

Rural business investment companies

The 2002 Farm Bill created the Rural Business Investment Program for leveraged rural business investment companies (RBICs) and gave the secretary of agriculture the authority to license and examine them. The 2008 Farm Bill modified the program to allow for nonleveraged RBICs and to permit System institutions to form and invest in nonleveraged RBICs.

In 2012, we entered into an interagency agreement with USDA whereby we performed the following services for USDA regarding nonleveraged rural business investment companies:

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[3] See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation helps the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System's financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

- Provided technical advice regarding regulatory and program requirements
- Reviewed nonleveraged RBIC licensing applications for RBICs in which System institutions would hold at least 10% in total ownership, and advised USDA as to whether to approve the applications
- Examined licensed nonleveraged RBICs

The 2012 agreement was replaced with a new five-year agreement in 2017, under which we will continue to review nonleveraged RBIC licensing applications and to examine licensed nonleveraged RBICs. The agreement calls for us to review and provide recommendations for seven RBIC applications over a five-year timeframe. We agreed to expend no more than 1,800 hours, or 90% of one full-time-equivalent staff position, to complete the RBIC assignments during a fiscal year.

Part III

Farm Credit System

Profile of the Farm Credit System

The Farm Credit System consists of a network of borrower-owned cooperative financial institutions, along with related service organizations, and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the financial government-sponsored enterprises (GSEs). As of January 1, 2020, the System had four banks providing loan funds to

- 67 agricultural credit association (ACA) parent organizations, each of which generally has two subsidiaries — a production credit association (PCA) and a federal land credit association (FLCA), and
- 1 stand-alone FLCA.

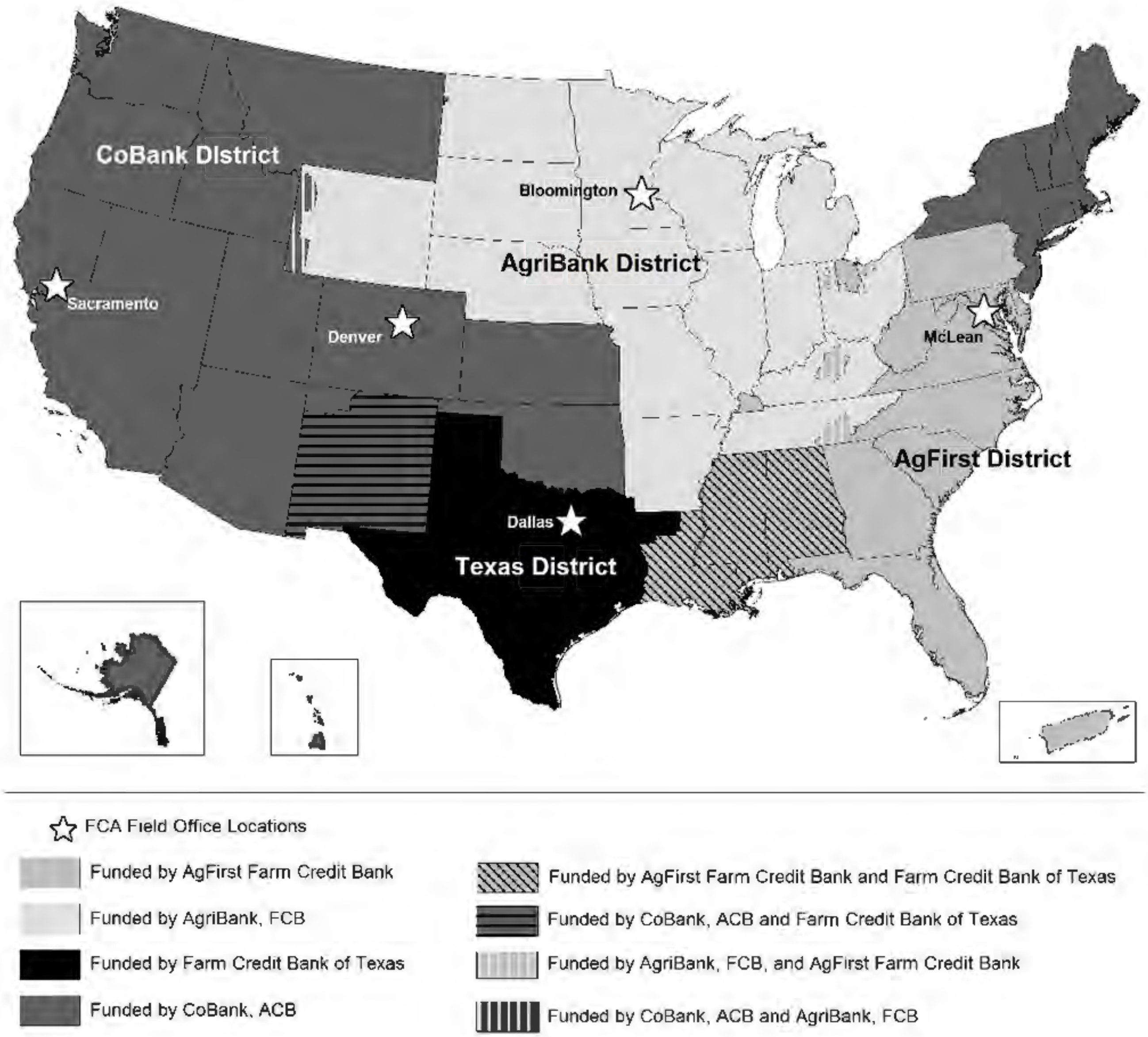
The map in figure 3 shows each bank's chartered territory.

Although legally separate, the ACA and its PCA and FLCA subsidiaries operate as an integrated lending business, with loans made through the subsidiaries appropriate to the authority of each subsidiary. The ACA, the PCA, and the FLCA are jointly and severally liable for the full amount of their indebtedness to the funding bank under a general financing agreement. In addition, the parent company and its subsidiaries pledge their respective assets as security for each other's debts and obligations and share each other's capital.

The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are federal land bank associations that originate long-term agricultural mortgages and are exempt from federal and state income taxes; ACAs and PCAs originate short- and intermediate-term operating loans and are not tax-exempt.

System institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling debt securities in the national and international money markets; these securities are subject to FCA's approval, but they are not guaranteed by the U.S. government.

Figure 3. Farm Credit System bank chartered territories as of January 1, 2020



NOTE: CoBank, ACB, funds 21 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 14 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 72 banks and direct-lending associations.

Additional System entities and service corporations

In addition to the System's banks and associations, we are responsible for regulating and examining the Federal Agricultural Mortgage Corporation and the Federal Farm Credit Banks Funding Corporation. We also regulate and examine the five service corporations organized under section 4.25 of the Farm Credit Act:[4]

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

Federal Agricultural Mortgage Corporation — Farmer Mac[5] is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. In May 2008, the Food, Conservation, and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac conducts its business primarily through four core programs:

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

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

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[4] Section 4.25 of the Farm Credit Act provides that one or more FCS banks or associations may organize a service corporation to perform functions and services on their behalf. These federally chartered service corporations are prohibited from extending credit or providing insurance services.

[5] Farmer Mac is established in law as a federal instrumentality of the FCS. However, Farmer Mac has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac's debt. Farmer Mac is organized as an investor-owned corporation, not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and FCS institutions. Nonvoting stock may be owned by any investor. Farmer Mac is regulated by FCA through the Office of Secondary Market Oversight. The director of this office reports directly to the FCA board on matters of policy.

Institutional Credit, Farmer Mac purchases bonds backed by eligible debt obligations of agricultural and rural utility lenders.

Federal Farm Credit Banks Funding Corporation — The Funding Corporation is owned by System banks; it sells debt securities on behalf of the banks to raise funds for loans and other purposes. System institutions obtain the majority of their funds through the sale of these securities in the nation's capital markets. These securities, chiefly in the form of bonds and discount notes, are offered by the Funding Corporation through a nationwide group of securities dealers and dealer banks. The Funding Corporation's debt issuance programs provide the System banks with funds to lend to farmers, ranchers, and agricultural cooperatives; debt issuances also provide the banks with funding for their other operations.

AgVantis, Inc. — AgVantis provides technology-related and other support services to associations in the CoBank, ACB, district. It was chartered by FCA in 2001 and is owned by CoBank and 11 of its affiliated associations.

Farm Credit Leasing Services Corporation — The Leasing Corporation, owned by CoBank, provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit Financial Partners, Inc. — Farm Credit Financial Partners is owned by five associations and provides support services to six associations. Four of the associations are affiliated with CoBank and two associations are affiliated with AgriBank, FCB.

FCS Building Association — The Building Association, which acquires, manages, and maintains facilities to house our headquarters and field office staff, was formed in 1981. It is owned by System banks and is subject to the oversight and direction of the FCA board.

Farm Credit Foundations — Farm Credit Foundations provides human resource services to its employer-owners, including payroll processing, benefits administration, centralized vendor management, workforce management and operations services, corporate tax and financial reporting services, and retirement workshops. It is owned by 32 FCS associations, one service corporation (AgVantis), and one FCS bank (AgriBank).

FCS mission fulfillment

The System fulfills its overall mission by lending to agriculture and rural America. Through the System's original authorization in the Federal Farm Loan Act of 1916 and subsequent revisions to the law, System lending authorities have evolved to include the following:

- Long-term agricultural real estate loans and rural home loans
- Short- and intermediate-term agricultural loans

- Loans to producers and harvesters of aquatic products
- Loans to certain farmer-owned agricultural processing facilities and farm-related businesses
- Loans to farmer-owned agricultural cooperatives
- Loans that finance agricultural exports and imports
- Loans for rural utilities
- Limited portions of loans to entities that qualify under the System's similar-entity authority

Financial Condition and Performance

The FCS continues to be fundamentally safe and sound, and it remains well positioned to respond to the credit needs of U.S. agriculture. For FY 2019, the System reported strong financial results, including steady earnings, higher capital levels, and manageable portfolio credit risk. FCS banks had reliable access to debt capital markets and maintained liquidity levels well above the 90-day regulatory minimum.

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

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

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

Earnings

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

Table 16. Net income (dollars in millions)

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

Source: Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-3.

The increase in net interest income was due primarily to higher average interest-earning assets, which increased to $339.7 billion, from $323.1 billion a year earlier. Net interest margin was 2.41%, down 4 basis points from the same period a year ago (table 17). Net interest spread declined 11 basis points. This change was driven by a 43-basis-point increase in the annualized rate on interest-bearing liabilities partially offset by a 32-basis-point increase in the rate on total interest-earning assets.

Table 17. Interest margin in annualized percentages

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

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

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

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

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

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

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

System growth

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

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

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

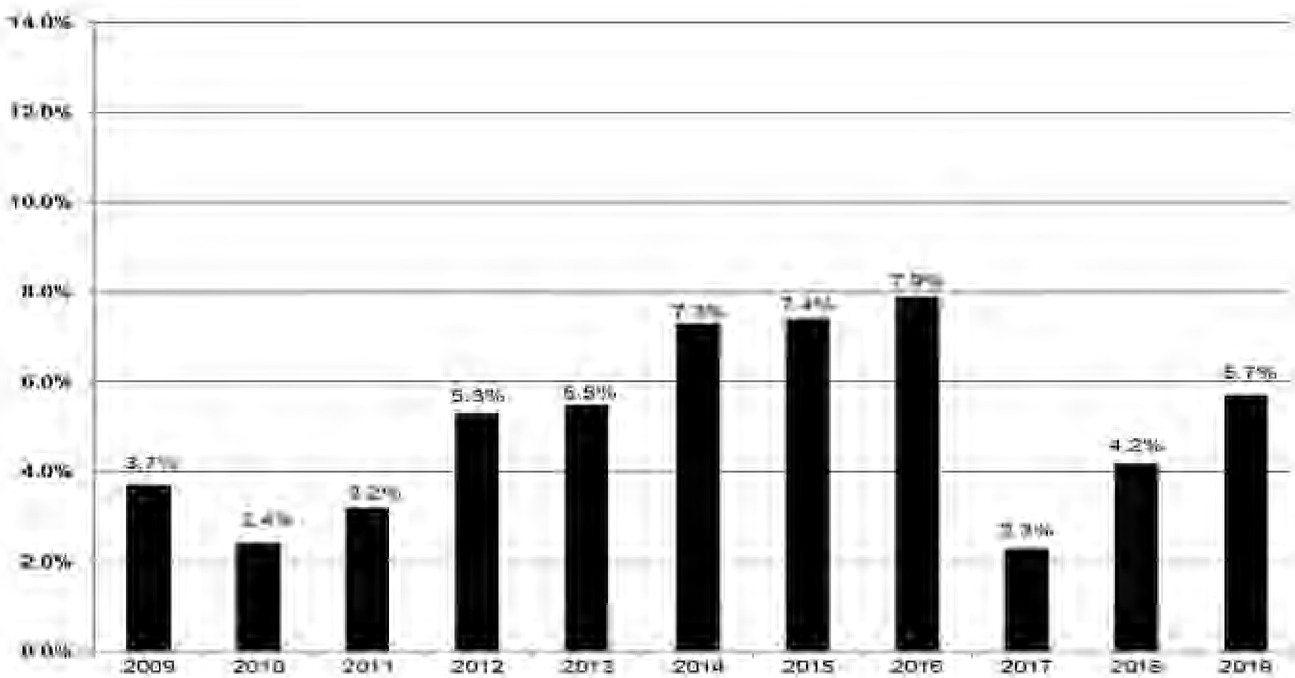
Table 19. Gross loan growth by district and Systemwide (dollars in millions)

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

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

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

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



Source: Quarterly Information Statements of the Farm Credit System.

Table data for figure 4

Year	Year-over-year percent change in System assets
2009	3.7
2010	2.4
2011	3.2
2012	5.3
2013	5.5
2014	7.3
2015	7.4
2016	7.9
2017	2.3
2018	4.2
2019	5.7

Assets — Investments

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

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

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

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

Table 20. FCS investments (dollars in millions)

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

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

WAY = weighted average yield; bps = basis points

Loan quality

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

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

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

Table 21. FCS loan quality

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

Source: Quarterly Information Statements of the Farm Credit System.

ALL = allowance for loan losses.

Liabilities, funding, and liquidity

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

Table 22. Systemwide debt (dollars in millions)

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

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

Liquidity risk management is necessary for the Farm Credit System to ensure its ability to meet its financial obligations. These obligations include the repayment of Systemwide debt securities as they mature, the ability to fund new and existing loans, and the ability to fund operations in a cost-effective manner. The System's liquidity position increased slightly to 177 days from 171 a year earlier. Each bank has maintained the three tiers of the liquidity reserve and exceeded the regulatory minimum of 90 days of liquidity.[6]

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

[6]The first tier of the liquidity reserve must consist of enough cash and cash-like instruments to cover each bank's financial obligations for 15 days. The second tier must contain enough cash and highly liquid instruments to cover a bank's obligations for the next 15 days, and the third tier of the liquidity reserve must contain enough cash and highly liquid instruments to cover a bank's obligations for the next 60 days.

months generally indicates a small exposure to interest rate risk. An institution's overall exposure to interest rate risk is a function not only of its duration gap but also of the financial leverage inherent in the institution's capital structure.

Capital

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

Table 23. FCS capital composition (dollars in millions)

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

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

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

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

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

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

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

Table 24. Regulatory capital ratios of FCS banks

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

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

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

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

Young, Beginning, and Small Farmers and Ranchers

Congress has mandated that the Farm Credit System serve the credit and related service needs of young, beginning, and small (YBS) farmers and ranchers by directing System associations to set up YBS programs and by requiring the banks to issue annual reports on their associations' programs. To ensure that the System fulfills this responsibility, FCA issued a final rule in 2004 that

- amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;
- allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages associations to establish advisory committees composed of YBS farmers;
- requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over its YBS program; and
- requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

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

We continue to consider regulatory options and provide guidance to support YBS programs. In November 2014, we issued an informational memorandum to System institutions explaining how they can increase their outreach and service to YBS farmers by coordinating with USDA Farm Service Agency loan programs. The guidance we provide helps ensure that System institutions make full use of their authorities to help YBS farmers. Also, a June 2016 informational memorandum providing guidelines for merger proposals called for System institutions to describe how any proposed merger would affect service to YBS customers.

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

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

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

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

The YBS totals listed in tables 25 and 26 provide the YBS results for calendar year 2018 and include loans, advancements, commitments, and participation interests to farmers, ranchers, and aquatic producers. The totals exclude rural home loans made under section 613.3030 of FCA regulations, loans to cooperatives, and activities of the Farm Credit Leasing Services Corporation. The information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not an accurate measure of the System's YBS lending activity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Market Share of Farm Debt

According to the U.S. Department of Agriculture's November 2019 forecast, total farm debt is estimated to have topped $415 billion at the end of 2019, up 3.4% from a year earlier and up 32% since 2013. Commercial banks and the Farm Credit System are the primary suppliers of credit to farmers; other providers include life insurance companies, USDA programs, Farmer Mac, individuals, and merchants and dealers.

The System's share of the $402 billion farm debt market at the end of calendar year 2018 was 41.4%, up from 40.5% at the end of 2017. The market share for commercial banks stood at 41.7% at the end of 2018, up from 41.4% at the end of 2017. The combined share of other lender groups declined by 1.1%.

Historically, except for the high credit stress period of the 1980s and various market adjustments in the 1990s, FCS institutions have typically held the largest share of the farm real estate debt market, while commercial banks have held the largest share of non-real estate farm debt. At year-end 2018, the share of farm debt secured by farm real estate was 46.0% for the System and 37.8% for commercial banks. At year-end 2018, the share of farm debt secured by collateral other than farm real estate was 34.2% for the System and 47.9% for commercial banks.

Part IV

Performance Budget

FY 2021

Performance Budget Overview

Our FY 2021 performance budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total performance budget (table 27) is $81.01 million and reflects a 4.4% increase from FY 2020.

Table 27. FCA performance budget, FYs 2019 – 2021

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

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

Policy and regulation

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

Safety and soundness

The performance budget includes approximately $62.5 million for the safety and soundness program, a 5.4% increase from FY 2020. This increase is necessary because we have reallocated resources from reimbursable activities to meet System examination needs.

By statute, we are required to examine each FCS institution at least once every 18 months except Farmer Mac, which we must examine at least once a year. Examiners evaluate the overall condition and performance of these institutions and communicate the results to the institutions' boards of directors and management through discussions and reports of examination. The Financial Institution Rating System ratings are evaluated and assigned to individual institutions at least quarterly. In FY 2021 budgeted monies will continue to support development of examination guidance and systemic risk oversight of System institutions and Farmer Mac.

Reimbursable activities

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

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

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

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

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

Desired Outcomes for Strategic Goals

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

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

Table 29. Desired outcomes for strategic goals

Strategic goal	Desired outcome
1. Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action
3. Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.	A high-performing, diverse workforce that supports the mission of the agency

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

- Regulation and policy development
- Statutory and regulatory approvals

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

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

Goal 3: Our third goal focuses on human capital. We recognize that to achieve our first two goals we must have a well-trained, motivated, and diverse workforce, and we must ensure that we have an effective plan for leadership succession.

Goal 1

Strategies

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.

2. Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.

3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America. This includes innovative programs for serving the credit and related service needs of YBS farmers, ranchers, and producers and harvesters of aquatic products.

4. Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.

5. Encourage diversity on the boards and in the workforce of System institutions.

6. Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.

7. Encourage System institutions to be conscious of the reputation risk associated with their lending and investment decisions.

8. Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

9. Encourage full participation of stakeholders in the development and review of regulatory and policy proposals as appropriate.

Measuring the achievements

Table 28 shows the measures we will use to evaluate our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac in FYs 2020 and 2021.

Table 28. Goal 1 — Performance measures

Measure	FYs 2020 – 2021 Target
1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion.	≥90%
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations.	≥90%
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date.	Yes
6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (This measure considers all of the pre-rulemaking projects and proposed rules that were listed as completed on FCA's Unified Agenda Abstracts for the reporting period.)	100%

Budgets

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

Table 31. Budgets to achieve goal 1

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

Goal 2

Strategies

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Seek early FCA board input on policy and regulatory issues. Ensure that the board has timely and comprehensive information to be fully informed and able to respond appropriately.
2. Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.
3. Continue proactive oversight of institution-specific and systemic risks.
4. Effectively remediate weakened institutions.
5. Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.
6. Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.

Measuring the achievements

Table 30 shows the measures we will use to evaluate our efforts to effectively identify risk and take timely corrective action in FYs 2020 and 2021.

Table 32. Goal 2 — Performance measures

Measure	FYs 2020 – 2021 Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥80%
3. Percentage of institutions complying with regulatory capital ratio requirements.	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.	Yes

Budgets

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

Table 33. Budgets to achieve goal 2

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

Goal 3

Strategies

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

1. Maintain a highly skilled and diverse workforce to meet FCA's current and future regulatory development, risk analysis, examination, and supervision needs.

2. Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.

3. Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm's length regulator.

4. Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms, and promotes strong ethical behavior.

Measuring the achievements

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

Table 34. Goal 3 — Performance measures

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

Performance Measurement and Reporting

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2018 to 2023. The system provides a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the agency-level measures are linked to our strategic goals.

Our chief executive officer, with assistance from our chief operating officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The chief executive officer monitors the agency's progress and results relative to the agency-level measures on a quarterly basis. Periodic performance reports are provided to the FCA board. The annual performance report is incorporated in the FCA Performance and Accountability Report, which is submitted to the president and Congress.

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
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McLean, VA 22102-5090
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0220/100

Farm Credit Administration

Fiscal Year 2022 Proposed Budget and Performance Plan

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List of Acronyms and Abbreviations

ACA ....agricultural credit association

CAMELS ....capital, assets, management, earnings, liquidity, and sensitivity

Farm Credit Act.........................Farm Credit Act of 1971, as amended

Farmer Mac...............................Federal Agricultural Mortgage Corporation

FCA...Farm Credit Administration

FCS or System ....Farm Credit System

FCSIC ....Farm Credit System Insurance Corporation

FIRREA.....................................Financial Institutions Reform, Recovery, and Enforcement Act

FIRS ....Financial Institution Rating System

FLCA ....Federal land credit association

FTE...full-time equivalent

FTP...full-time permanent

FY ....fiscal year

Funding Corporation ....Federal Farm Credit Banks Funding Corporation

GSE ....government-sponsored enterprise

IT..information technology

NCB..National Consumer Cooperative Bank

OSMO.......................................Office of Secondary Market Oversight

PCA ....production credit association

RBC ....risk-based capital

USDA ....U.S. Department of Agriculture

YBS...young, beginning, and small (farmers and ranchers)

Preface

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and examining the banks, associations, and related entities that constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

Created by an executive order of the president in 1933, FCA now derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. We promulgate regulations to implement the act, and we examine System institutions for compliance with the act and regulations, and with safe and sound banking practices. Our mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

This document presents and justifies our proposed budget for fiscal year 2022 (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 2022 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 2022

Proposed Budget

Fiscal Year 2022 Budget Overview

Our FY 2022 proposed budget, as shown in table 1, includes $84.2 million in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture and Farm Credit System Insurance Corporation adds $520,000 to this amount, bringing our total proposed FCA budget to $84.72 million.

Table 1. Farm Credit Administration FY 2022 proposed budget

Description	Amount proposed	Percentage of total budget
Full-time-permanent personnel (FTP)	$50,523,065	59.6
Other than FTP	502,784	0.6
Other personnel compensation	438,331	0.5
Total personnel compensation	**$51,464,180**	**60.7**
Personnel benefits	21,961,806	26.0
Total compensation and benefits	**$73,425,986**	**86.7**
Travel and transportation of persons	3,317,732	3.9
Transportation of things	65,346	0.1
Rent, communications, and utilities	966,292	1.1
Printing and reproduction	145,594	0.2
Consulting and other services	4,617,073	5.4
Supplies and materials	1,186,077	1.4
Equipment	995,900	1.2
Total budget	**$84,720,000**	**100.0**

Note: Obligations for administrative expenses in FY 2022 are not to exceed the amount collected in assessments (current and prior year) from the FCS and Farmer Mac ($84,200,000). The total budget includes an additional $520,000 from anticipated reimbursable activity.

The FY 2022 proposed budget of $84.72 million increased by $3.85 million over the FY 2021 revised budget of $80.87 million.

We have leveraged technology and continually emphasized 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

The FY 2022 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 System and Farmer Mac. The environment in which the FCS operates is dynamic and increasingly complex.

The budget continues to implement the FCA board's philosophy on risk-based examination. We have included sufficient resources to ensure that risks are properly identified, managed, and controlled. These resources will enable us to send our examiners to the institutions we regulate to perform on-site testing of the institutions' credit reviews, internal audits, and internal controls. In addition, we will continue to invest in IT modeling applications to help us identify risk throughout the System. The budget also includes resources to hire contractors when we need technical specialists and technology upgrades. For more information about our risk-based examination and supervision, see page 31.

In the FY 2022 proposed budget, the full-time-equivalent (FTE) staffing level increases slightly. The FY 2022 budget anticipates increases in spending for salaries and benefits because of career-ladder promotions, benefit increases, career progressions, FTE increases, funded leave, relocations, resources dedicated to addressing the risk posed by the COVID-19 pandemic, and equipment lifecycle replacements.

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

In FY 2020, we focused heavily on responding to COVID-19 and its implications for our workforce; this work continues in FY 2021. In addition, we are prioritizing our efforts to build critical skills and competencies and to optimize our current and future leadership bench. With approximately 36% of our workforce eligible to retire by FY 2025, we continue investing in programs to sustain an engaged, results-oriented agency culture.

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

We are also investing in resources to support data and analytics. We established an Office of Data Analytics and Economics in late 2019, which is led by our chief data officer. We created this office by transferring staff and funds from other agency offices. The new office is dedicated to working with System institutions to improve the quality of the data we receive from them. The office provides analytic tools to improve the agency's effectiveness and efficiency. At the same time, we're investing in graduate-level courses that will give employees the skills they need to use these tools. We expect this to provide several benefits: more effective examination processes, better-informed regulatory activity, improved risk identification, and effective organization performance measures.

The FY 2022 budget is also necessary to meet our agency's IT needs for cybersecurity enhancements, data efficiencies, application development, and infrastructure maintenance. As the complexities of our IT networks, servers, and equipment needs increase, so does the need for funding to address these complexities. Our budget also helps us to continue to respond to new or updated IT-related federal mandates, which often 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 following table shows current IT initiatives and their links to FCA's strategic goals. These initiatives enhance our ability to perform essential functions.

The IRM plan initiatives listed in table 2 are multiyear efforts that apply to numerous FCA projects. Rather than simply maintaining operations, these projects are designed to improve the agency's work processes.

Table 2. Information resource management plan initiatives

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

*Distributed means that the initiative supports all three of the agency's strategic goals (regulation and policy, safety and soundness, and staff development).

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.

To fulfill our mission and respond to the changing conditions in the FCS, our budget strategy will involve leveraging our most valuable investment — our people. It will enable us to continue to streamline and improve operations and to enhance staff expertise to meet challenges and opportunities that may arise. Our budget strategy will also support our IT needs, allowing us to acquire and maintain the infrastructure we need and to protect our data against the growing number of cyberthreats.

FCA program areas

The agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The policy and regulation program

The budget provides resources for administering the agency's policy and regulation program. This program involves developing regulations and policy positions that implement applicable statutes, promote the safety and soundness of the FCS, and support the System's mission as a dependable source of credit and related services for agriculture and rural America.

In addition, the budget provides for ongoing activities such as evaluating and recommending regulatory and funding approvals, managing merger and chartering activities, and providing strategic and systemic policy research and analyses of risks and other issues facing the System.

The budget also provides for support activities, including communication of the agency's position on issues, and training and development for staff. In total, policy and regulation activities account for approximately $18.7 million, including 58.31 FTEs, in the proposed FY 2022 budget (see table 28 on page 68).

The safety and soundness program

The budget provides resources for administering the agency's safety and soundness program. The budget resources provided through this program also ensure that FCS institutions comply with applicable laws and regulations and are financially positioned to meet the needs of agriculture and rural America.

The budget continues to implement the FCA board's philosophy of a risk-based approach to oversight and examination, which maximizes the effectiveness of examinations. It provides the resources needed to ensure that the FCS properly identifies, manages, and controls risk. We allocate our examination resources to matters presenting the highest risk or potential risk to the System. Our examiners identify annual "risk topics" — areas on which they focus during the examinations they conduct throughout the year. They examine institutions onsite and offsite. During these examinations, they test the institutions' credit reviews, internal audits, and internal controls.

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

In total, safety and soundness activities account for $64.8 million, including 267.09 FTEs, in the proposed FY 2022 budget (see table 28 on page 68).

Office of Inspector General's FY 2022 budget request

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

- OIG's total budget: $1,894,523
- OIG's training budget: $28,000
- OIG's support for the Council of the Inspectors General on Integrity and Efficiency: $6,796

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

Budget Trends

This budget supports the agency's policy and regulation program and its safety and soundness program. It maintains our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. The FY 2022 budget is necessary to continue to fund employee salary and benefit costs, which represent approximately 87% of our budget.

Over the past two years our annual budgets increased on average by 4.6%. The most recent increase is 4.8%.

We will use the FY 2022 budget increase to meet 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 offer relocation funding as an incentive when hiring individuals for hard-to-fill positions
- To provide pay increases, which help us maintain comparability in employee compensation with other bank regulators, as required by the Financial Institution Reform, Recovery, and Enforcement Act of 1981
- To provide resources to address the risk posed by the COVID-19 pandemic

- To support IT security enhancements, application development, data efficiencies, IT maintenance, and the purchase of new equipment when the lifecycles end on current equipment

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

Table 3. FCA budgets, FYs 2020 – 2022

Item	FY 2020 revised budget	FY 2021 revised budget	FY 2022 proposed budget
Full-time permanent (FTP)	$46,636,410	$48,416,288	$50,523,065
Other than FTP	1,248,630	525,453	502,784
Other personnel compensation	404,760	435,318	438,331
Total personnel compensation	**$48,289,800**	**$49,377,059**	**$51,464,180**
Personnel benefits	19,532,246	20,757,557	21,961,806
Benefits for former personnel	25,000	0	0
Total compensation and benefits	**$67,847,046**	**$70,134,616**	**$73,425,986**
Travel and transportation of persons	3,259,722	3,134,352	3,317,732
Transportation of things	110,025	52,669	65,346
Rent, communications, and utilities	861,360	946,046	966,292
Printing and reproduction	138,150	160,062	145,594
Consulting and other services	3,912,903	4,817,145	4,617,073
Supplies and materials	1,018,094	1,188,960	1,186,077
Equipment	482,700	436,150	995,900
Total budget	**$77,630,000**	**$80,870,000**	**$84,720,000**

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

Table 4. FCA actions and resulting impact

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

Sources of FCA revenue and funding

We maintain a revolving fund financed primarily from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture. Table 5 shows budgeted sources of revenue and funding for FYs 2020 to 2022.

Table 5. Budgeted sources of FCA revenue and funding, FYs 2020 – 2022

Source	FY 2020 revised budget	FY 2021 revised budget	FY 2022 proposed budget
ASSESSMENTS			
Banks, associations, and related entities	$73,100,000	$76,800,000	TBD
Federal Agricultural Mortgage Corporation	2,900,000	3,000,000	TBD
Carryover funds[a]	1,000,000	600,000	TBD
Assessments available for obligation	**$77,000,000**	**$80,400,000**	**$84,200,000**[b]
REIMBURSEMENTS[c]			
National Consumer Cooperative Bank	$120,210	$0	$0
Farm Credit System Insurance Corporation	345,059	350,627	357,115
U.S. Department of Agriculture	164,731	119,373	162,885
Total	**$77,630,000**	**$80,870,000**	**$84,720,000**

a. Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation. We will determine assessments and carryover amounts for FY 2022 in September of FY 2021.

b. Each year Congress limits the amount of assessments that we may use to pay for administrative expenses. For FY 2022, we propose a limit of $84.2 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 maintain a reserve as required under section 5.15(a)(1)(B) of the Farm Credit Act, and the FCA board has 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 2020, the reserve totaled $14.4 million.

Assessments

FCA's operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. Table 6 shows assessments for FYs 2012 through 2021. Assessments in 2013 and 2014 were unusually low because we used larger amounts of carryover from prior-year assessments to help fund our operations. To fund the FY 2021 budget, we used $0.6 million of carryover and increased assessments by $3.8 million.

Table 6. FCS assessments, FYs 2012 – 2021

Fiscal year	Assessment (in millions)
2012	$54.1
2013	$50.0
2014	$50.0
2015	$51.5[a]
2016	$58.3
2017	$66.8[b]
2018	$68.2[b]
2019	$72.7
2020	$73.0[c]
2021	$79.8

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.

In FY 2020, we assessed the System $73.0 million and ended the year with $1.2 million in reimbursable revenue and deobligations (see table 7). During the year, we had obligations of $73.5 million. The difference between our obligations and funding was $0.7 million, which represents the increase to carryover.

Table 7. FCA funding, obligations, and assessment carryover, FYs 2019 and 2020 (in millions)

	FY 2019	FY 2020
Current-year assessments	$72.7	$73.0
Reimbursable revenue and deobligations	$1.3	$1.2
Total funding	**$74.0**	**$74.2**
Obligations	$74.7	$73.5
Total funding minus obligations	**−$0.7**	**$0.7**
Assessment carryover from prior years	$1.9	$1.2
Carryover from assessments at end of fiscal year	**$1.2**	**$1.9**

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 $384.9 billion in total assets as of September 30, 2020, up from $354.0 billion a year earlier.

As table 8 shows, FCS borrowers incurred a net cost of approximately 1.8 basis points, or 1.8 cents for every $100 of assets held, to pay for FCA operations in FY 2020. Since FY 2012, the net cost to borrowers has averaged 1.9 basis points.

Borrower costs have declined over the years for the following reasons:

- System assets have grown.
- FCA has used carryover to offset additional costs.
- FCA has taken various measures to reduce operating costs. (See table 4 for details.)

Table 8. FCA's net cost to System borrowers, FYs 2012 – 2021

Fiscal year ended September 30	Basis points
2012	2.2
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	1.9

Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2021 is $3.0 million. The assessment for FY 2022 is not yet available because the Office of Secondary Market Oversight will not complete the FY 2022 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2021.

Table 9 shows Farmer Mac assessments for fiscal years 2012 to 2021. 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 2012 – 2021

Fiscal year	Assessment (in millions)
2012	$2.25
2013	$2.38
2014	$2.38
2015	$2.40
2016	$2.45
2017	$2.50
2018	$2.50
2019	$2.75
2020	$2.90
2021	$3.00

Part II

Farm Credit Administration

Profile of the Farm Credit Administration

The Farm Credit Administration was created through an executive order of President Franklin D. Roosevelt and currently derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. As an independent agency within the executive branch of the federal government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS or System), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).

The FCS is the nation's oldest government-sponsored enterprise (GSE). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

The FCS had $301.6 billion in outstanding loans to agriculture and rural America as of September 30, 2020.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac's secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural lenders and intermediaries, including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2020, Farmer Mac's outstanding program activity totaled $22.0 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.[2] In addition, we provide examination services on behalf of the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture.

The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee the FCS, Farmer Mac, and FCA. Our operations are funded through assessments paid by the System institutions and by our reimbursable activities; we do not receive a federal appropriation.

Mission statement

As stated in the FCA Strategic Plan for FYs 2018 – 2023, our mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. To fulfill this mission, we issue regulations and conduct examinations of FCS institutions and Farmer Mac to evaluate and oversee the safety and soundness of their activities.

Our examinations evaluate whether institutions are complying with laws and regulations and are operating in a safe and sound manner. They also evaluate institutions' compliance with the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers and ranchers. In addition, we research, develop, and adopt rules, regulations, and other guidelines that govern how institutions conduct their business and interact with customers.

If any System institution, including Farmer Mac, violates laws or regulations, or if we determine that its operations are unsafe or unsound, we may use our enforcement authority to ensure that the problem is corrected in a timely manner. We also ensure that the rights of certain borrowers are protected.[3]

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[2] Costs have been negligible because of our agreement with the Office of the Comptroller of the Currency (OCC). Through this agreement, we generally rely on the OCC's safety and soundness examinations to effectively and more efficiently carry out our statutory responsibilities with respect to NCB.

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

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 and may continue to serve as chairman after the expiration of his or her term until the president designates a new chairman. The board chairman also serves as the agency's chief executive officer.

The FCA board approves charters of FCS institutions, oversees the agency's supervision and examination of those institutions, and issues enforcement actions. The governing philosophy of the FCA board is grounded in the Farm Credit Act. The board believes that the principles on which the System was founded are just as important today as they were in the early decades of the 20th century.

FCA organizational structure

Figure 1 presents our organizational structure and shows how the offices provide strategic support to the FCA board and ensure that our mission and goals are performed effectively and efficiently. We have our headquarters in McLean, Virginia, with field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

Figure 1. FCA organizational chart as of January 2021

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

FCA Internal Operations

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

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

Human capital management

Our human capital strategies are linked to our strategic plan through clearly defined strategic drivers and operational goals. We regularly 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 2012 through 2022.

Table 10. Full-time-equivalent staffing levels, FYs 2012 – 2022

Fiscal year	FTE staffing level
2012	287
2013	273
2014	278
2015	277
2016	290
2017	296
2018	298
2019	308
2020	297
2021	326 (authorized)
2022	330 (authorized)

Note: From FYs 2012 to 2022, 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, 2020, almost 22% of our personnel were eligible to retire; we expect that number to increase substantially in the next few years. By FY 2025, approximately 36% of our workforce will be eligible to retire. See table 11 for retirement eligibility projections.

Table 11. FCA retirement eligibility, FYs 2020 – 2025

Fiscal year	Number of staff first eligible during the fiscal year	Number of staff eligible at fiscal year end	Percentage of staff eligible to retire at fiscal year end
2020	16	68	21.7%
2021	17	85	27.2%
2022	8	93	29.7%
2023	5	98	31.3%
2024	11	109	34.8%
2025	3	112	35.8%

Also, as we demonstrated throughout the COVID-19 pandemic, the health and well-being of our employees are key components of our human management strategy. Shortly after the announcement of the national emergency in March 2020, we instituted a mandatory telework policy. When we later deemed it was safe to allow a limited number of staff to come to the office on a voluntary basis, we instituted protocols to protect the health of those entering agency offices. Although we continued to fulfill our public mission throughout the pandemic, we were always careful to preserve the health and well-being of our employees.

Training

As evidence of our commitment to fostering a climate that fully engages all staff, we provide professional training and development opportunities. We believe our efforts in this area help us attract and retain exceptional staff. We also believe these efforts have contributed substantially to our ranking as one of the best places to work in the federal government.

In FY 2020, we focused on reviewing and refining our competency model and establishing links between our developmental offerings and the competency model. Further, we invested in the development of our Learning and Organizational Change Team members. As a result, we were able to expand, and enhance the quality of, the design and delivery of our internal training services.

We coordinate training goals with the leadership skills and competencies that are necessary for achieving our mission. We establish training projection plans at the office level and the agency level each year to help manage developmental activities. These plans project budget needs for training and development; they are directly linked to FCA's performance management system. Supervisors and employees collaborate on training and career development goals.

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

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

We demonstrated our commitment to training and knowledge transfer goals in FY 2020 when the Office of Agency Services sponsored agency-level supervisory development programs to increase the effectiveness of our leaders and potential leaders. To support knowledge transfer, we began a partnership with an academic institution to deliver graduate-level courses and certificate programs relevant to the agency's mission. We also partner with OPM, other small agencies, and our FIRREA counterparts to provide employees access to training courses outside our agency.

We created and sustained an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key part of our continuous learning strategy. When we hire new employees in critical fields, we require them to work closely with experienced employees to ensure the new employees acquire the knowledge and skills they need. We use details and special projects to provide development opportunities.

FCA's electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, also support our knowledge management goals. These databases enable employees to communicate and share knowledge.

We have established internal SharePoint sites to enhance knowledge transfer and collaboration. All employees have access to most of the sites, including the sites containing resources on contracting, technology, leadership development, audit and internal controls, and plain writing. Other sites are intended for the use of specific groups of employees, such as credit specialists, operations specialists, and recruiters. Still others are set up for work groups on topics such as training, planning and reporting, and policy development.

Examiner commissioning program

Through our 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 requires the federal banking agencies to "seek to maintain comparability regarding compensation and benefits." The provision was intended to promote comparability in pay and benefits among the federal banking agencies and to avoid competition among the agencies for qualified staff.

To comply with FIRREA, we participate in a biennial survey of the other federal bank regulators and adjust our employees' compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under FIRREA.

We use a pay-for-performance program to adjust each employee's salary according to his or her performance rating and salary range position. We make salary adjustments each calendar year based on several factors, including the compensation programs of other federal bank regulators and available funding.

The FCA board approved for the 2021 compensation program a merit pay matrix with pay increases ranging from 0.39% to 3.1%, depending on each employee's performance rating and placement in the salary range for his or her grade. 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 2021 locality rates for FCA locations.

Table 12. FYs 2020 and 2021 locality rates

Locality	2020 rate	2021 rate
McLean	28.35%	29.52%
Bloomington	19.13%	19.62%
Denver	20.63%	21.53%
Dallas	20.35%	20.99%
Sacramento	22.29%	22.89%
Rest of United States	14.70%	14.99%

External contracting and shared services

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

Table 13. Shared services, FY 2021

Contract	Services provided	Amount
Administrative Service Center (BFS)	Full-service accounting, e-Travel, credit card, and platform procurement services	$818,280
National Finance Center (USDA)	Payroll services	$47,960
Department of Interior	Personal security and credential services	$50,082
Defense Counterintelligence Security Agency	Background investigation services	$90,000

Tables 14 and 15 provide a summary of our competitive consulting service contracts for FYs 2020 and 2021.

Table 14. Competitive consulting service contracts of more than $25,000, FY 2020

Contract	Purpose	Amount
Second Pillar Consulting (17-FCA-450-005)	Financial risks assessment for the Office of Secondary Market Oversight	$70,000
Human Resource Support (19-FCA-641-017)	HR support services	$120,000
August Schell Enterprises (20-FCA-651-006)	U.S. federal production support	$58,717
Harper, Rains, Knight & Company (18-FCA-700-001)	Financial statement audit services	$47,787
Williams and Adley (20-FCA-700-003)	FISMA evaluation services	$60,850
Wells Fargo Retirement (19-FCA-641-004)	Retirement administration services	$56,000
MetLife (20-FCA-641-001)	Long-term disability services	$160,303
Personnel Decisions Research Institute (15-FCA-301-001)	Commission test and staff evaluation services	$88,619
Stafford Consulting (19-FCA-641-026)	Administrative support services for the Office of Agency Services	$85,000
LinkVisum (19-FCA-641-028)	Human capital support services	$34,670
Totem Consulting (19-FCA-641-030)	Consulting services for improving the onboarding process	$27,500
Shaw, Bransford and Roth P.C. (20-FCA-621-001)	Legal services	$70,000
Gartner, Inc. (20-FCA-641-025)	HR leadership services	$41,108
Patch Advisors (20-FCA-651-030)	Security advisory and assistance services	$49,980
Info-Tech Research Group (20-FCA-651-024)	IT services	$30,439

Table 15. Competitive consulting service contracts of more than $25,000, FY 2021

Contract	Purpose	Amount
Second Pillar Consulting (17-FCA-450-005)	Financial risks evaluation and assessment for the Office of Secondary Market Oversight	$70,000
August Schell Enterprises (19-FCA-651-037)	U.S. federal production support	$60,775
Harper, Rains, Knight & Company (18-FCA-700-001)	Financial statement audit services	$55,432
Wells Fargo Retirement (19-FCA-641-004)	Retirement administration services	$56,000
Williams and Adley (20-FCA-700-003)	FISMA evaluation services	$60,850
MetLife (19-FCA-641-005)	Long-term disability services	$159,386
Personnel Decisions Research Institute (15-FCA-301-001)	Commission test and staff evaluation services	$66,136
Stafford Consulting (19-FCA-641-026)	Administrative support services for the Office of Agency Services	$61,766
Totem (20-FCA-641-022)	Human resource support services	$84,650

Other functions and activities

In FY 2020, we had no reception and representation expenses and no foreign travel expenditures.

Leveraging FCA technology

We have designed a flexible IT program at FCA that can adapt to changing technical and business needs. The Office of Information Technology holds regular partnership meetings with staff from other business units to ensure that we monitor our IT investments closely and adjust our priorities as needed. Through these partnership meetings, we identify multiyear IT initiatives and include these in our annual Information Resources Management Strategic Plan.

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

Over the past year, we accomplished the following:

- Replaced all staff laptops with the latest technology available
- Procured and implemented enhanced mobile communication services
- Implemented streaming video services to improve the delivery of training
- Upgraded our data backup services for better scalability and retention
- Developed a digital routing and approval system to support a remote workforce
- Continued to develop new, and to upgrade existing, applications to support FCA's examination procedures
- Developed and rebuilt several applications to avoid depending on outdated technology and to better support our users
- Continued to improve our technical architecture for data ingestion and ETL (extract, transform, and load) systems
- Continued to enhance data analysis platforms and added geographic information system capabilities to legacy tools
- Built an automated system to synchronize Farm Credit System updates with internal FCA data systems
- Continued to strengthen our IT security program and our privacy program
- Began steps to significantly improve our records management and controlled unclassified information (CUI) culture
- Improved FCA's email security
- Improved IT project management tools with feedback mechanisms, notifications, and dashboards to better communicate with Farm Credit System institutions

For more information about the ways we will use technology in FYs 2021 and 2022 to achieve our strategic goals, see table 2 on page 6.

Independent auditing and accountability

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2020 audit of FCA's financial statements. On November 10, 2020, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2020.

The auditors opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2020, in conformity with generally accepted accounting principles. In addition, although the auditors did not express an opinion on the matter, they did not identify any deficiencies in internal control over financial reporting that would be considered material weaknesses.

The auditors also did not identify any instances of noncompliance with selected provisions of laws and regulations or other reportable matters that could have a direct and material effect on the financial statements.

Ensuring Safety and Soundness

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including Farmer Mac.

The first section below, titled "The Farm Credit System," summarizes examination and supervisory activities performed on the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled "Other Entities."

Our examination and supervision responsibilities are carried out by staff located in our headquarters in McLean, Virginia, and in four field offices — in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2021.

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.
- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR part 630.

System institutions submit other data to us through our Consolidated Reporting System. Some of the submitted information is available to the public on our website (www.fca.gov). We also collect loan data from all System institutions. We have been expanding loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to achieve and maintain minimum capital levels, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder information.

Risk-based examination and supervision

We design examination and supervision processes to address material risks and emerging issues at the institution level and Systemwide. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, ensuring the safety and soundness of the System is more important and challenging than ever. To address these challenges, we annually identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The examination and supervision program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2021 are as follows:

- Credit risk management and loan servicing
- Operational risk management — Response to risk and the pandemic

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 that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

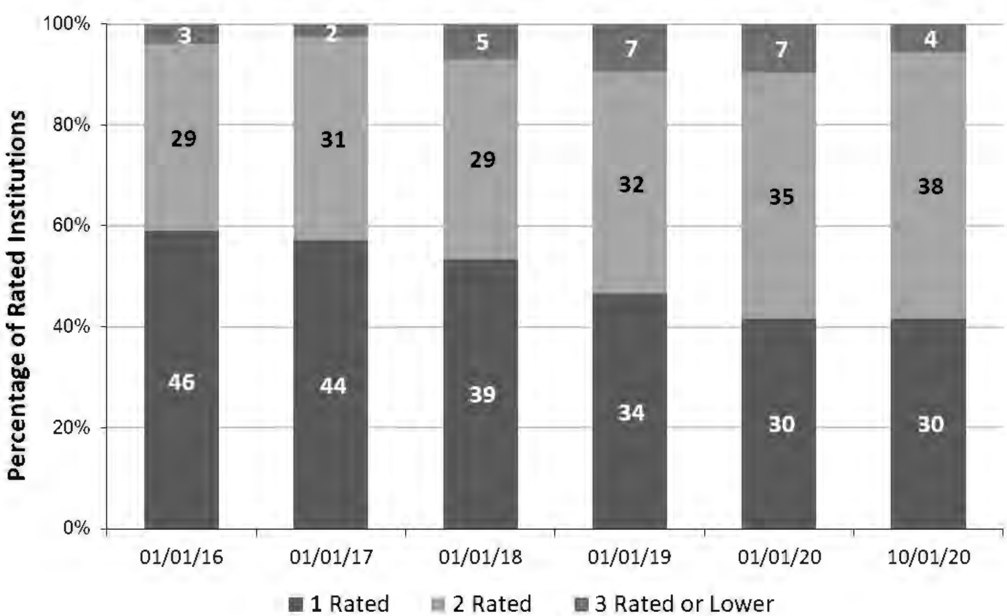
Recent results

As the composite FIRS ratings 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 October 1, 2020:

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

See figure 2 for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

Figure 2. Farm Credit System Financial Institution Rating System (FIRS) composite ratings



Source: FCA's FIRS Ratings Database.

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

Table data for figure 2

	FIRS Ratings	01/01/16	01/01/17	01/01/18	01/01/19	01/01/20	10/01/20
Total	1 rating	46	44	39	34	30	30
	2 rating	29	31	29	32	35	38
	3 rating or lower	3	2	5	7	7	4
	Total	78	77	73	73	72	72

Federal Agricultural Mortgage Corporation

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

Statutory authority

OSMO was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102 – 237), which amended section 8.11 of the Farm Credit Act. OSMO is required to be managed by a full-time director who reports to the FCA board, and OSMO's activities, to the extent practicable, must be carried out by individuals not responsible for supervising the banks and associations of the FCS.

Data reporting requirements

Farmer Mac is required to submit quarterly Call Reports to OSMO in addition to meeting several other periodic reporting requirements related to Farmer Mac's regulatory risk-based capital, mission, liquidity, and financial derivatives portfolio. Farmer Mac is also subject to the disclosure and reporting requirements of the Securities and Exchange Commission.

Financial condition and performance

Farmer Mac's financial condition and performance trends were generally positive in FY 2020 despite a modest increase in troubled loan volume.

- Net income available to common shareholders was $88.8 million for the 12 months ended September 30, 2020, compared with $84.1 million during FY 2019.
- Farmer Mac's statutory core capital totaled $984.2 million at the end of FY 2020, compared with $793.3 million at the end of FY 2019. The minimum statutory core capital requirement for Farmer Mac's on- and off-balance-sheet exposures totaled $669.9 million at the end of FY 2020. Thus, Farmer Mac exceeded its statutory minimum core capital requirement by approximately $314.2 million.
- At the end of FY 2020, Farmer Mac had $1.0 billion in regulatory capital (as defined in the Farm Credit Act) available to meet the $222.1 million minimum requirement established by FCA's Risk-Based Capital Model.
- Program activity increased approximately 5.1%, ending FY 2020 at $22.0 billion. Farmer Mac had $3.6 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 2020, compared with fiscal year-end 2019, when it held $1.8 million. Total acceptable loan volume decreased 0.2 percentage points to 91.5% in FY 2020.

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, 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 amount of resources dedicated to providing these services. Currently, the amount is limited.
- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC board consists of the members of the FCA board. Section 5.59(a)(5) of the Farm Credit Act provides that, to the extent practicable, FCSIC must use FCA personnel and resources to minimize duplication of effort and to reduce costs.

Developing Regulations and Policies

FCA routinely issues regulations, informational memorandums, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend.

We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

Regulatory and policy projects active at end of FY 2020

The FCA board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives. The FCA board-approved agenda is part of the federal Unified Agenda, which is published online at www.reginfo.gov. We publish our Regulatory Projects Plan on our website to notify the public of our upcoming regulatory actions and to encourage the public to participate in the regulatory process, but we are not obligated to act on our agenda items. The following list summarizes the topics for which we are considering regulatory action.

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

Eligibility criteria for outside directors: We plan to publish the final rule that the board approved in FY 2020 regarding the eligibility criteria for outside directors. This rule will address the eligibility of a candidate for an outside director position if the candidate owns an interest in an entity that borrows from, or holds stock in, a System bank or association.

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

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

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

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

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 an advance notice of proposed rulemaking to consider whether we should amend our liquidity regulations and more closely align them with the Basel III liquidity framework and the approach of other federal bank regulatory agencies.

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

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

Regulatory and policy projects completed in FY 2020 and early FY 2021

Following is a list of projects we completed in FY 2020 and early FY 2021, along with a list of communications we issued to System institutions to clarify our rules.

Eligibility criteria for outside directors: We approved a final rule regarding the eligibility criteria for outside directors. This rule addresses the eligibility of a candidate for an outside director position if the candidate owns an interest in an entity that borrows from, or holds stock in, a System bank or association.

Amortization limits for agricultural credit associations and production credit associations: We issued a proposed rule and published a final rule to clarify the amortization limits for agricultural credit associations and production credit associations.

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

Investment eligibility: We published a final rule to amend FCA regulations to include certain obligations unconditionally guaranteed by the U.S. Department of Agriculture as eligible investments for associations.

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

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

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

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

Interest rate risk management: We issued a bookletter to System institutions to provide clarification and guidance on an effective framework for managing interest rate risk.

Financing hemp: We issued an informational memorandum to help System banks and associations assess how financing hemp fits into the lending strategies at their institutions.

Guidance for System institutions affected by the COVID-19 pandemic: We issued an informational memorandum to provide System institutions with guidance for managing challenges associated with the COVID-19 pandemic.

Guidance on the Paycheck Protection Program for small businesses affected by the COVID-19 pandemic: We issued an informational memorandum to provide System institutions with guidance on the Paycheck Protection Program.

LIBOR transition guidance: We issued an informational memorandum to provide guidance to System institutions, including Farmer Mac, on the transition away from the London Interbank Offered Rate (LIBOR).

FCS corporate activity and other prior approvals and clearances

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

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

Corporate activities in FY 2020 and early FY 2021

On December 31, 2019, an agricultural credit association (ACA) affiliated with CoBank merged its two production credit association (PCA) subsidiaries into a single PCA and its two federal land credit association (FLCA) subsidiaries into a single FLCA, resulting in an ACA with two subsidiaries.

On February 1, 2020, we approved the issuance of a charter for a new service corporation.

On September 1, 2020, we amended the charters of an association and its subsidiaries to reflect a change in the location of the headquarters.

On November 25, 2020, we amended the charters of an ACA and its subsidiaries to reflect a change in the location of the headquarters.

On January 1, 2021, an ACA affiliated with CoBank merged into another ACA affiliated with CoBank, resulting in an ACA with two subsidiaries.

Projected mergers and FCS institution size

As of January 1, 2021, the System had 67 direct-lender associations and 4 banks. Eight service corporations and special-purpose entities (see pages 47 and 48) brought the total number of FCS institutions, including Farmer Mac, to 78. Because of mergers and consolidations, the number of FCS associations has decreased by 63% since 2000, and the number of FCS banks has decreased by 43%.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decrease. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also have more complex management systems and offer a broader range of financial services to their borrowers.

Security offerings during FY 2020

There was a preferred stock offering by the Farm Credit Bank of Texas totaling $350 million. There were no other preferred stock or subordinated debt offerings by FCS banks and associations during FY 2020.

Funding activity

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation,[4] 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 September 30, 2020, the FCS issued $426 billion in Systemwide debt, compared with $355 billion in FY 2019 and $304 billion in FY 2018. Issuances increased considerably in FY 2020 for a couple reasons. System institutions called more debt and reissued it with more favorable interest rates. Institutions also issued more discount notes in order to strengthen liquidity during the financial stress caused by the COVID-19 pandemic.

Investor demand for FCS debt instruments remained strong as a result of the System's continued favorable financial performance and the reduction in the overall debt outstanding of two other government-sponsored enterprises. FCS debt outstanding increased to $309 billion at the end of FY 2020, an increase of $27 billion from the end of FY 2019.

The financial markets experienced significant volatility because of the global pandemic and its effect on the economy. The Federal Reserve, along with other central banks, took several measures to provide financial backstops domestically. It also took measures to help stabilize global financial markets. One measure was to decrease short-term interest rates to near zero; another was to fortify liquidity in the market by increasing bond purchases.

As a result of these measures, System institutions and others significantly increased the call options they exercised. Interest rates for System debt when compared with U.S. Treasuries of similar maturities remained favorable and in demand by investors.

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[4] See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of System banks. In addition, the Funding Corporation helps the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System's financial disclosures and the release of public information concerning the financial condition and performance of the System as a whole.

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 will continue to review nonleveraged RBIC licensing applications and to examine licensed nonleveraged RBICs. The agreement calls for us to review and provide recommendations for seven RBIC applications over a five-year timeframe. We agreed to expend no more than 1,800 hours, or 90% of one full-time-equivalent staff position, to complete the RBIC assignments during a fiscal year.

Part III

Farm Credit System

Profile of the Farm Credit System

The Farm Credit System consists of a network of borrower-owned cooperative financial institutions, along with related service organizations, and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the government-sponsored enterprises (GSEs). As of January 1, 2021, the System had four banks providing loan funds to

- 66 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.

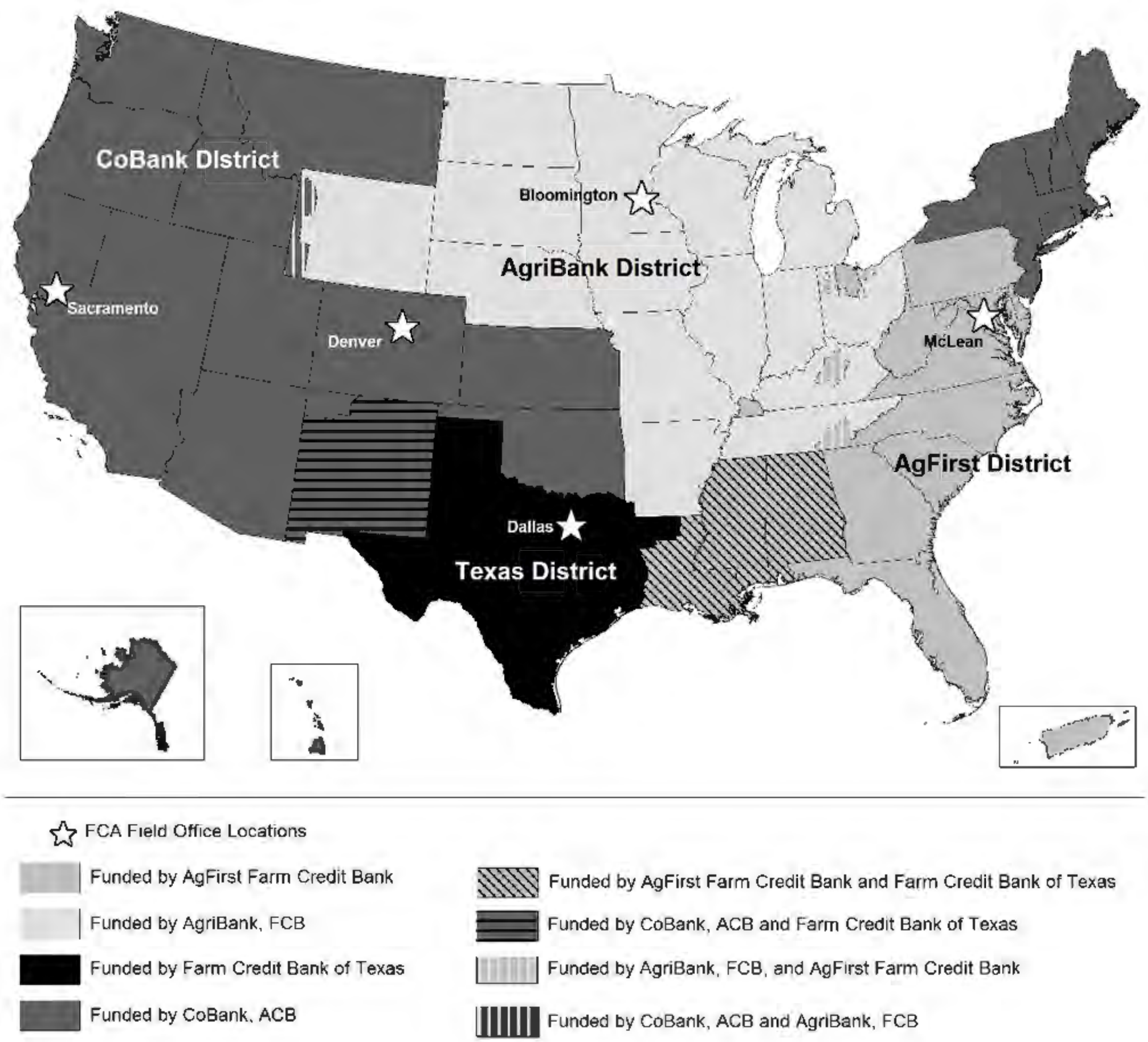
The map in figure 3 shows each bank's chartered territory.

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, 2021



NOTE: CoBank, ACB, funds 20 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 14 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 71 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:[5]

- 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[6] is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. In May 2008, the Food, Conservation, and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac conducts its business primarily through four core programs:

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

Under the Farm & Ranch and Rural Utilities segments, Farmer Mac purchases, or commits to purchase, qualified loans, or obligations backed by qualified loans, that are not guaranteed by any instrumentality or agency of the United States. Under USDA Guarantees, Farmer Mac purchases the guaranteed portions of farm ownership and farm operating loans, rural business

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[5] 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.

[6] 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.

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 five 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 34 System entities (31 FCS associations, 2 service corporations, and 1 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, 2 district associations, and an ownership collaboration of 9 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 remained safe and sound during a challenging year. In 2020, agricultural producers and rural communities faced considerable uncertainty, rapidly shifting market conditions, and significant business disruptions. The System's mission to provide reliable credit and related services in support of agriculture and rural America was more important than ever.

Through the first nine months of 2020, the System reported favorable financial results, including strong earnings, increased capital, and manageable portfolio credit risk. FCS banks maintained access to debt capital markets and held liquidity positions well above the regulatory minimum. System institutions are strongly capitalized, with significant risk-bearing capacity. They are well-positioned to support U.S. farmers and ranchers.

Credit stress for certain agricultural sectors and geographical regions is likely to remain high in 2021. Producers in the protein sectors face uncertain demand prospects and rising input costs. Intensifying drought, particularly in the West and Great Plains, remains a concern for both livestock and crop producers. However, prospects have improved for the major cash crops. Grain prices rallied in late 2020 because of tighter-than-expected world supplies, lower global production, and strong demand.

For the past several years, government payments have played an important role in the farm economy, accounting for a growing share of farm income. For 2020, substantial ad hoc government payments helped lessen the near-term impact of the COVID-19 pandemic on agricultural producers. However, considerable longer-term uncertainty remains. High-cost producers and those with significant leverage will be the most vulnerable to financial stress.

Note: All financial data in this section are as of September 30, 2020, unless noted otherwise.

Earnings

The FCS earned $4.45 billion in the first nine months of 2020, a 9.6% increase from the $4.06 billion earned in the same period last year. As table 16 shows, net income increased in 2020 because of higher net interest income and higher noninterest income, partially offset by higher provisions for losses.

Table 16. Net income (dollars in millions)

System net income	First 9 months of 2019	First 9 months of 2020	Dollar change	Percent change
Net interest income	$6,150	$6,682	532	8.7%
− Provision for losses	95	165	70	73.7%
= Net interest income after loss provision	$6,055	$6,517	$462	7.6%
+ Noninterest income	494	548	54	10.9%
− Noninterest expense	2,363	2,478	115	4.9%
= Pretax income	$4,186	$4,587	$401	9.6%
− Provision for income tax	131	141	10	7.6%
= Net income	$4,055	$4,446	$391	9.6%

Source: Third Quarter 2020 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 $364.3 billion for the nine months ended September 30, 2020, from $339.7 billion a year earlier. Net interest margin was 2.45%, up 4 basis points from the same period a year ago (table 17). Net interest spread increased 20 basis points. This change was driven by a 101-basis-point decrease in the annualized rate on interest-bearing liabilities, which was partially offset by an 81-basis-point decrease in the rate on total interest-earning assets.

Table 17. Interest margin in annualized percentages

Net interest margin	First 9 months of 2019	First 9 months of 2020	Change (bps)
Total interest-earning assets	4.46	3.65	(81)
Total loans	4.91	4.12	(79)
Investments and other assets	2.52	1.67	(85)
Total interest-bearing liabilities	2.44	1.43	(101)
Net interest spread	2.02	2.22	20
Impact of noninterest-bearing items	0.39	0.23	(16)
Net interest margin	2.41	2.45	4

Source: Third Quarter 2020 Quarterly Information Statement of the Farm Credit System, p.16.
bps = basis points

As table 18 shows, all districts except AgriBank reported an increase in the return on average assets, and all districts reported an increase in the return on average capital 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	2019	1.41	1.68	1.48	1.39
	2020	1.62	1.64	1.63	1.41
Percentage return on average capital	2019	8.17	9.05	10.03	10.22
	2020	9.55	9.14	11.23	10.33

Source: Third Quarter 2020 Quarterly Information Statement of the Farm Credit System, p. F-56

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

System growth

The System reported strong year-over-year growth. FCS assets were up $31.0 billion or 8.7% to $384.9 billion. Much of the increase was the result of growth in the System's loan portfolio, which grew by $25.4 billion or 9.2%.

Balances for all major loan categories (real estate mortgage, production and intermediate-term, agribusiness, and rural infrastructure) were up. Real estate mortgage and agribusiness lending accounted for much of the growth, increasing 10.0% and 10.3%, respectively.

All System districts reported higher loan portfolio balances. The AgriBank district reported the largest percentage increase in volume, with loan balances growing 10.8% year over year. Provided in table 19 are the gross loan volume and the percentage change in volume for System districts.

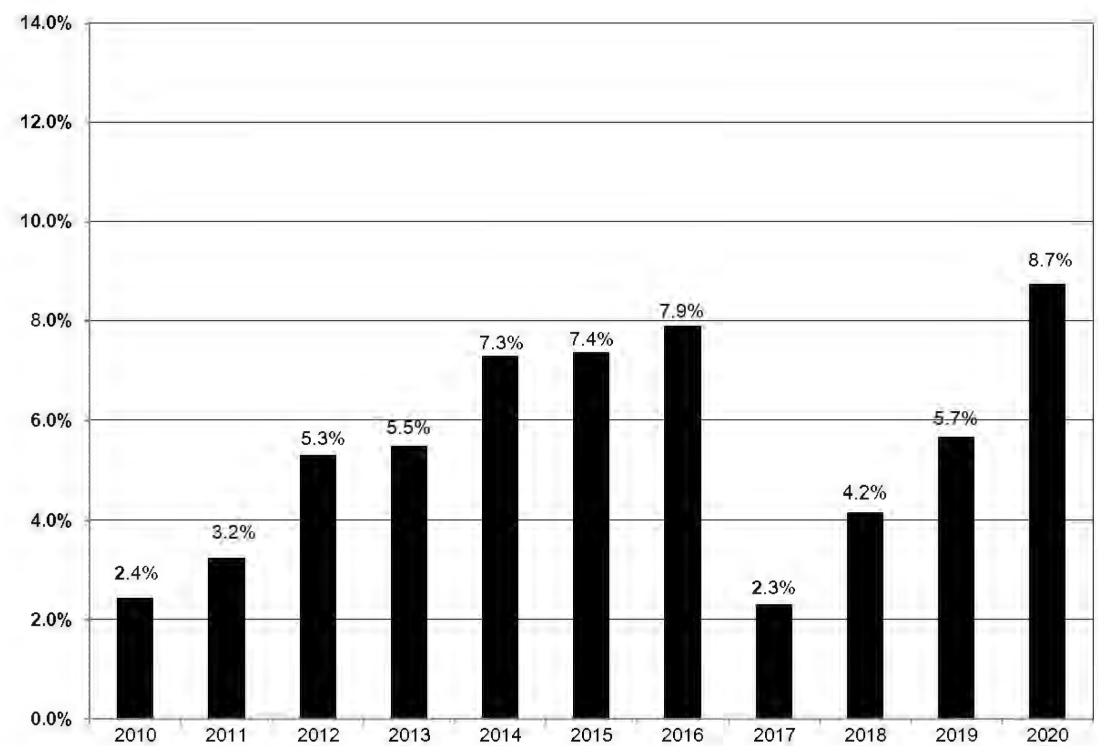
Table 19. Gross loan growth by district and Systemwide (dollars in millions)

District	September 30, 2019		September 30, 2020		Change in dollars	Percent change
	Gross loans	Percent total	Gross loans	Percent total		
AgFirst	$30,449	11.0	$31,672	10.5	$1,223	4.0
AgriBank	111,938	40.6	124,025	41.2	12,087	10.8
Texas	25,946	9.4	27,830	9.2	1,884	7.3
CoBank	113,037	40.9	123,344	40.9	10,307	9.1
Insurance Fund and Intra-System Eliminations	(5,258)	(1.9)	(5,310)	(1.8)	(52)	1.0
Total for System	276,112	100.0	301,561	100.0	$25,449	9.2

Source: Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-50; and Third Quarter 2020 Quarterly Information Statement of the Farm Credit System, p. F-52.

As noted in figure 4 below, the System's total assets increased by 8.7% during the 12-month period, up from 5.7% for the same period a year ago.

Figure 4. Year-over-year percent change in System assets, September 2010 – 2020



Source: Quarterly Information Statements of the Farm Credit System.

Table data for figure 4

Year	Year-over-year percent change in System assets
2010	2.4
2011	3.2
2012	5.3
2013	5.5
2014	7.3
2015	7.4
2016	7.9
2017	2.3
2018	4.2
2019	5.7
2020	8.7

Assets — Investments

The System's investments totaled $68.1 billion, up 10.9% from a year earlier. As shown in table 20, investments available for sale totaled $66.4 billion. Investments held to maturity were $1.8 billion, including $1.0 billion for mortgage-backed securities.

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

During the most recent 12-month period, the yield on investments available for sale decreased from 2.40% to 1.42%, with yields decreasing on all available-for-sale segments. For investments held to maturity, the yield decreased from 3.91% to 2.75% mainly because of a decrease in the yield for mortgage-backed securities.

Ineligible investments held by the System totaled $0.5 billion at fair value, up from $0.4 billion a year ago.

Table 20. FCS investments (dollars in millions)

Investment classification		September 30, 2019		September 30, 2020		Change		
						Amount		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
Available for sale (fair value)	Money market instruments	$6,875	2.47	$6,138	0.70	($737)	(10.7)	(177)
	U.S. Treasury securities	18,767	2.08	24,521	1.34	5,754	30.7	(74)
	U.S. agency securities	2,943	2.38	2,989	1.89	46	1.6	(49)
	Mortgage-backed securities	26,601	2.53	27,480	1.54	879	3.3	(99)
	Asset-backed securities	3,959	2.78	4,363	1.90	404	10.2	(88)
	Other securities	449	3.15	862	1.14	413	92.0	(201)
	Total	**$59,594**	**2.40**	**$66,353**	**1.42**	**$6,759**	**11.3**	**(98)**
Held-to-maturity (amortized cost)	Mortgage-backed securities	$1,302	4.06	$1,040	3.40	($262)	(20.1)	(66)
	Asset-backed securities	457	3.13	651	1.39	194	42.5	(174)
	Other securities	75	5.98	62	6.14	(13)	(17.3)	16
	Total	**$1,834**	**3.91**	**$1,753**	**2.75**	**($81)**	**(4.4)**	**(116)**
Total	**All FCS investments**	**$61,428**	**2.44**	**$68,106**	**1.49**	**$6,678**	**10.9**	**(95)**

Source: Third Quarter 2020 Quarterly Information Statement of the Farm Credit System, pp. F-10 – 12; and Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, pp. F-10 – 12.

WAY = weighted average yield; bps = basis points.

Loan quality

Credit risk in the System's portfolio remained relatively low compared with credit risk over the past 10 years. It is well within the System's risk-bearing capacity, despite the unprecedented challenges faced in 2020. Nonperforming assets totaled $2.321 billion or 0.77% of total loans and other property owned, as compared with $2.540 billion or 0.92% a year earlier.

In the first nine months of 2020, net charge-offs for the System increased to $81 million from $31 million for the same period a year ago. Annualized net charge-offs equaled just 0.04% of average loans outstanding, up from 0.02% for the same period in 2019. The allowance for loan losses increased to $1.828 billion in the first nine months of 2020, up 4.5% from the same period in 2019. See table 21 for additional information about the allowance for loan losses and other loan quality measures.

Portfolio loan quality deterioration is possible in 2021. While prospects have improved for the major cash crops, producers in the protein sector will be challenged by uncertain demand prospects, weather, and rising input costs. 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, 2019	September 30, 2020	Change in percentage points
Nonperforming assets as percentage of total loans and other property owned	0.92%	0.77%	(0.15)
Nonperforming assets as percentage of capital	4.09%	3.52%	(0.57)
Nonaccrual loans as percentage of total loans	0.74%	0.60%	(0.14)
ALL as percentage of total loans	0.63%	0.61%	(0.02)
ALL as percentage of nonperforming assets	68.7%	78.8%	10.1
ALL as percentage of nonaccrual loans	85.4%	100.7%	15.3

Source: Quarterly Information Statements of the Farm Credit System.

ALL = allowance for loan losses.

Liabilities, funding, and liquidity

The System's total liabilities increased by 9.4% to $318.9 billion. See table 22 below. Short-term debt securities (due within one year) increased 11.3% to $110.7 billion. Systemwide debt securities due after one year increased 8.0% to $185.8 billion. Short-term debt securities represented 38.6% of the total Systemwide liabilities, up from 38.0% a year earlier.

Table 22. Systemwide debt (dollars in millions)

System debt by maturity	September 30, 2019	September 30, 2020	Change	
			Dollars	Percent
Systemwide discount notes due within one year	$17,738	$23,917	$6,179	34.8
Systemwide bonds, medium-term notes, and master notes due within one year	93,007	99,337	6,330	6.8
Total short-term liabilities	**$110,745**	**$123,254**	**$12,509**	**11.3**
Systemwide bonds, medium-term notes, and master notes due after one year	$172,116	$185,812	13,696	8.0
Other liabilities	8,757	9,850	1,093	12.5
Total liabilities	**$291,618**	**$318,916**	**$27,298**	**9.4**

Source: Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-2; and Third Quarter 2020 Quarterly Information Statement of the Farm Credit System, p. F-2.

Liquidity risk management is necessary for the Farm Credit System to ensure its ability to meet its financial obligations. These obligations include the repayment of Systemwide debt securities as they mature, the ability to fund new and existing loans, and the ability to fund operations in a cost-effective manner. The System's liquidity position decreased slightly to 172 days from 177 a year earlier. Each bank met the three tiers of the liquidity reserve requirements and exceeded the regulatory minimum of 90 days of liquidity.[7]

The aggregate duration gap for the FCS (the sum of the banks' duration gaps) was a positive 0.9 months compared with a positive 2.6 months a year earlier, which means the System's exposure to interest rate risk was lower this year. A duration gap of a positive six months to a negative six 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.

[7]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

The System continued to build capital in 2020. According to the System's combined financial statements, capital totaled $66.0 billion, a 5.9% increase from a year earlier (see table 23). The increase in capital was driven by an increase in net income earned and retained, partially offset by cash distributions to stockholders. Retained earnings as a percentage of total capital remained steady at 79.0% compared with 79.1% a year ago. The System's overall capital-to-assets ratio declined to 17.1% from 17.6% a year ago.

Table 23. FCS capital composition (dollars in millions)

System capital	September 30, 2019	September 30, 2020	Change	
			Dollars	Percent
Preferred stock	$3,168	$3,222	$54	1.7
Capital stock and participation certificates	1,985	$1,951	(34)	(1.7)
Additional paid-in capital	3,738	3,738	0	0.0
Restricted capital (Insurance Fund)	5,122	5,368	246	4.8
Accumulated other comprehensive income (loss)	(1,005)	(437)	568	(56.5)
Retained earnings	49,350	52,172	2,822	5.7
Total capital	**$62,358**	**$66,014**	**$3,656**	**5.9**

Source: Data from the Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-2; and Third Quarter 2020 Quarterly Information Statement of the Farm Credit System, p. F-2.

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

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

- Common equity tier 1 capital (CET1) ratio of 4.5% of risk-adjusted assets
- Tier 1 capital ratio of 6.0% of risk-adjusted assets
- Total capital ratio of 8.0% of risk-adjusted assets
- Tier 1 leverage ratio of 4.0% of total assets, of which at least 1.5% must consist of unallocated retained earnings (URE) and URE equivalents
- Permanent capital ratio of at least 7.0% of risk-adjusted assets

The regulatory capital framework 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	9/30/2019	18.6	17.3	9.8	12.9
	9/30/2020	18.0	17.1	9.6	12.7
Tier 1 capital	9/30/2019	19.0	18.0	16.0	15.1
	9/30/2020	18.4	17.7	16.0	14.8
Tier 1 leverage	9/30/2019	7.0	5.5	7.2	7.6
	9/30/2020	6.8	5.4	7.1	7.4
Permanent capital ratio	9/30/2019	19.0	18.0	16.1	15.2
	9/30/2020	18.4	17.8	15.9	14.9
Total capital	9/30/2019	19.1	18.1	16.2	16.1
	9/30/2020	18.5	17.8	16.0	15.8
	Change	(0.6)	(0.3)	(0.2)	(0.3)

Source: Data from the Third Quarter 2019 Quarterly Information Statement of the Farm Credit System, p. F-45; the Third Quarter 2020 Quarterly Information Statement of the Farm Credit System, p. F-47; and the Third Quarter 2019 and 2020 Quarterly Shareholder Reports for FCS banks.

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

- CET1 capital ratio: 11.6% to 36.2%
- Tier 1 capital ratio: 11.6% to 36.2%
- Tier 1 leverage ratio: 10.6% to 34.6%
- Total capital ratio: 12.0% to 37.4%

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. We define 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.

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 association 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 institution must report annually to FCA on the operations and achievements of its YBS program. 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 specific outreach toward diversity and inclusion within each market segment. Operational and strategic business plans must include the goals and targets for the association's YBS lending. System institutions must also coordinate with other government and private sources of credit in implementing their YBS programs. FCA's oversight and examination activities monitor each institution's assessment of its performance and market penetration in the YBS area.

In early 2019, we engaged the public through our advance notice of proposed rulemaking. Using public comment and input, the agency is modernizing the System's reporting of YBS data for lending and nonlending activities. To accomplish this, we are engaged in a transparent long-term process to use existing data assets to reduce regulatory burden, improve efficiency, and promote consistency in YBS data reporting.

We have also improved the tracking of nonlending activities that support YBS producers. The past year's progress in improving data quality will support our other two YBS goals — to share best practices across the System and to evaluate the growth and performance of YBS programs over the long term. In addition, we recently began working with USDA's Farm Service Agency to find specific ways for agricultural lenders to better leverage USDA resources for YBS producers.

Results

The following information summarizes the quantitative information that System institutions provided for their YBS programs in calendar year 2019. The System's YBS lending results are also available on our website at www.fca.gov.

In 2019, a total of 269,939 new loans were made by the System, totaling $90.9 billion. The total number of outstanding loans at year-end 2019 was 914,386, amounting to $280.0 billion.

Young: The System reported making 49,104 new loans to young farmers in 2019, and the volume of these loans amounted to $10.1 billion. The new loans made to young farmers in 2019 represented 18.2% of all loans the System made during the year and 11.1% of the dollar volume of loans made. At the end of 2019, the System reported 177,590 loans outstanding to young farmers, totaling $31.0 billion.

Beginning: The System reported making 67,088 new loans to beginning farmers in 2019, and the volume of these loans amounted to $14.3 billion. The new loans made to beginning farmers in 2019 represented 24.9% of all System loans made during the year and 15.7% of the dollar volume of loans made. At the end of 2019, the System reported 272,654 loans outstanding to beginning farmers, totaling $48.6 billion.

Small: System institutions reported making 123,494 new loans to small farmers in 2019, totaling $14.4 billion. The new loans made to small farmers in 2019 represented 45.7% of all System loans made during the year and 15.9% of the dollar volume of loans made. At the end of 2019, the System reported 459,894 loans outstanding to small farmers, totaling $51.9 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.

New loans made in 2019 by dollar volume and number of loans

From December 31, 2018, to December 31, 2019, the System's total new loan dollar volume increased by 5.4%. New loan dollar volume to young farmers increased by 7.3%, to beginning farmers by 8.0%, and to small farmers by 15.9%.

The number of loans made during the year increased for both total System lending and for all YBS categories. The number of total System loans made during the year increased by 4.8%. The number of loans to young farmers increased by 5.9%, to beginning farmers by 8.1%, and to small farmers by 7.8%.

Outstanding loans by dollar volume and number of loans

Both the dollar volume of the System's total loans outstanding and the dollar volume of YBS loans outstanding increased in 2019. Total System loan dollar volume outstanding increased by 6.3%. The loan dollar volume outstanding to young farmers increased by 3.3%, to beginning farmers by 3.9%, and to small farmers by 4.6%.

The number of total System loans outstanding remained relatively flat in 2019, increasing by 0.5%. The number of loans outstanding to young farmers increased by 1.0%, to beginning farmers by 1.8%, and to small farmers by 0.6%.

Ratio of new and outstanding YBS loans to total System loans

The ratio of new YBS loans (by number) to total new System loans was 18.2% for young farmers, 24.9% for beginning farmers, and 45.7% for small farmers. The ratio of outstanding YBS loans (by number) to total outstanding System loans was 19.4% for young farmers, 29.8% for beginning farmers, and 50.3% for small farmers. All the ratios either increased slightly from 2018 or remained flat.

Table 25. YBS loans made during 2019 (as of December 31, 2019)

Type of farmer	Number of loans	Percentage of total number of System loans	Dollar volume of loans in millions	Percentage of total volume of System loans	Average loan size
Young	49,104	18.2%	$10,085	11.1%	$205,380
Beginning	67,088	24.9%	$14,283	15.7%	$212,906
Small	123,494	45.7%	$14,421	15.9%	$116,772

Table 26. YBS loans outstanding (as of December 31, 2019)

Type of farmer	Number of loans	Percentage of total number of System loans	Dollar volume of loans in millions	Percentage of total volume of System loans	Average loan size
Young	177,590	19.4%	$31,043	11.1%	$174,802
Beginning	272,654	29.8%	$48,645	17.4%	$178,414
Small	459,894	50.3%	$51,869	18.5%	$112,785

Source: 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 613.3030, loans to cooperatives, and activities of the Farm Credit Leasing Services Corporation.

Market Share of Farm Debt

According to the U.S. Department of Agriculture's December 2020 forecast, total farm debt is estimated to have topped $435 billion at the end of 2020, up 4.0% from a year earlier and up 38% since 2013. Commercial banks and the Farm Credit System are the primary suppliers of credit to farmers; other providers include life insurance companies, USDA programs, Farmer Mac, individuals, and merchants and dealers.

The System's share of the $419 billion farm debt market at the end of calendar year 2019 was 42.6%, up from 41.4% at the end of 2018. The market share for commercial banks stood at 40.2% at the end of 2019, down from 41.7% at the end of 2018. The combined share of other lender groups rose to 17.3%.

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 2019, the share of farm debt secured by farm real estate was 46.9% for the System and 36.7% for commercial banks. At year-end 2019, the share of farm debt secured by collateral other than farm real estate was 34.9% for the System and 46.3% for commercial banks.

Part IV

Performance Budget

FY 2022

Performance Budget Overview

Our FY 2022 performance budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total performance budget (table 27) is $84.72 million and reflects a 4.8% increase from FY 2021.

Table 27. FCA performance budget, FYs 2020 – 2022

	FY 2020 revised budget	FY 2021 revised budget	FY 2022 proposed budget
Policy and regulation	$16,797,670	$18,064,099	$18,693,200
Safety and soundness	59,301,572	61,630,600	64,758,250
Reimbursable activities*	1,530,758	1,175,301	1,268,550
Total	**$77,630,000**	**$80,870,000**	**$84,720,000**

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

Policy and regulation

Our performance budget includes approximately $18.7 million for the policy and regulation program, a 3.5% increase from FY 2021. Most of the funds requested for policy and regulation in FY 2022 will support regulatory projects that were published in the Unified Agenda in the fall of 2020. 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 $64.8 million for the safety and soundness program, a 5.1% increase from FY 2021. 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 2022 budgeted monies will continue to support development of examination guidance and systemic risk oversight of System institutions and Farmer Mac.

Reimbursable activities

During FY 2022, we expect to perform approximately $1.27 million in reimbursable work for the following organizations.

- **Farm Credit System Insurance Corporation (FCSIC)** — We will provide services to support examination, information technology, human resources, and communication and public affairs. We will also help complete one premium audit.
- **USDA** — We will support USDA in its review of the Rural Business Investment Programs.
- **National Consumer Cooperative Bank (NCB)** — We will oversee the NCB's safety and soundness examinations. Costs have been negligible because of our agreement with the Office of the Comptroller of the Currency (OCC). Through this agreement, we generally rely on the OCC's safety and soundness examinations to effectively and more efficiently carry out our statutory responsibilities with respect to NCB.

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

Table 28. FY 2022 proposed budget and full-time equivalents for program activities

Program activity	Products and services	Budget amount	FTEs
Policy and regulation	Regulation and policy development	15,895,366	49.72
	Statutory and regulatory approvals	2,797,834	8.59
	Total for policy and regulation	**$18,693,200**	**58.31**
Safety and soundness	Examination	$59,561,263	253.44
	Economic, financial, and risk analysis	3,960,924	9.77
	FCS data management	1,236,063	3.88
	Total for safety and soundness	**$64,758,250**	**267.09**
Reimbursable activities	**Total for reimbursable activities**	**$1,268,550**	**4.99**
All program activities	**Total**	**$84,720,000**	**330.39**

Desired Outcomes for Strategic Goals

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

- the strategies we use to accomplish the outcomes and
- the measures for each outcome, with targets that reflect our desired performance for FYs 2021 through 2022.

Table 29. Desired outcomes for strategic goals

Strategic goal	Desired outcome
1. Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action
3. Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.	A high-performing, diverse workforce that supports the mission of the agency

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

- Regulation and policy development
- Statutory and regulatory approvals

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

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

Goal 3: Our third goal focuses on human capital. We recognize that to achieve our first two goals we must have a well-trained, motivated, and diverse workforce, and we must ensure that we have an effective plan for leadership succession.

Goal 1

Strategies

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.

2. Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.

3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America. This includes innovative programs for serving the credit and related service needs of YBS farmers, ranchers, and producers and harvesters of aquatic products.

4. Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.

5. Encourage diversity on the boards and in the workforce of System institutions.

6. Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.

7. Encourage System institutions to be conscious of the reputation risk associated with their lending and investment decisions.

8. Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

9. Encourage full participation of stakeholders in the development and review of regulatory and policy proposals as appropriate.

Measuring the achievements

Table 30 shows the measures we will use to evaluate our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac in FYs 2021 and 2022.

Table 30. Goal 1 — Performance measures

Measure	FYs 2021 – 2022 Target
1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion.	≥90%
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations.	≥90%
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date.	Yes
6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (This measure considers all of the pre-rulemaking projects and proposed rules that were listed as completed on FCA's Unified Agenda Abstracts for the reporting period.)	100%

Budgets

Table 31 provides the budgeted amounts to achieve a flexible regulatory environment from FYs 2020 to 2022.

Table 31. Budgets to achieve goal 1

	FY 2020 revised budget	FY 2021 revised budget	FY 2022 proposed budget
Regulation and policy development	$14,413,911	$15,358,980	$15,895,366
Statutory and regulatory approvals	2,383,759	2,705,119	2,797,834
Total	**$16,797,670**	**$ 18,064,099**	**$18,693,200**

Goal 2

Strategies

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Seek early FCA board input on policy and regulatory issues. Ensure that the board has timely and comprehensive information to be fully informed and able to respond appropriately.

2. Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.

3. Continue proactive oversight of institution-specific and systemic risks.

4. Effectively remediate weakened institutions.

5. Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.

6. Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.

Measuring the achievements

Table 32 shows the measures we will use to evaluate our efforts to effectively identify risk and take timely corrective action in FYs 2021 and 2022.

Table 32. Goal 2 — Performance measures

Measure	FYs 2021 – 2022 Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥80%
3. Percentage of institutions complying with regulatory capital ratio requirements.	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.	Yes

Budgets

Table 33 provides the budgeted amounts we need to identify risk in the FCS and to take timely corrective action from FYs 2020 to 2022.

Table 33. Budgets to achieve goal 2

	FY 2020 revised budget	FY 2021 revised budget	FY 2022 proposed budget
Examination	$54,965,298	$56,695,997	$59,561,263
Economic, financial, and risk analysis	3,373,931	3,528,344	3,960,924
FCS data management	962,343	1,406,259	1,236,063
Total	**$59,301,572**	**$61,630,600**	**$64,758,250**

Goal 3

Strategies

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

1. Maintain a highly skilled and diverse workforce to meet FCA's current and future regulatory development, risk analysis, examination, and supervision needs.

2. Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.

3. Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm's length regulator.

4. Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms, and promotes strong ethical behavior.

Measuring the achievements

Table 34 shows the measures we will use to evaluate our efforts to maintain a high-performing, diverse workforce in FYs 2021 and 2022.

Table 34. Goal 3 — Performance measures

Measure	FYs 2021 – 2022
	Target
1. Whether, as part of its recruiting efforts for entry-level examiners, FCA has ensured that at least 25% of its outreach efforts target applicants with a disability or who are members of a minority group.	Yes
2. Whether we have maintained or improved our score from last year in the annual employee satisfaction survey.	Yes

Performance Measurement and Reporting

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2018 to 2023. The system provides a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the agency-level measures are linked to our strategic goals.

Our chief executive officer, with assistance from our chief operating officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The chief executive officer monitors the agency's progress and results relative to the agency-level measures on a quarterly basis. Periodic performance reports are provided to the FCA board. The annual performance report is incorporated in the FCA Performance and Accountability Report, which is submitted to the president and Congress.

Copies are available from
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0421/100