2019 Annual Report of the Farm Credit Administration

Regulator of the Farm Credit System

Contents

About this report

This is the Farm Credit Administration's annual report to Congress. Section 5.17(a)(3) of the Farm Credit Act of 1971, as amended, requires this report to include the following:

- An annual report to Congress on the condition of the Farm Credit System (FCS or System) and its institutions
- A summary and analysis of the annual reports submitted to us by the FCS banks regarding programs for serving young, beginning, and small farmers and ranchers

The report also includes information about our agency and the work we do to ensure that the System continues to meet its mission and to operate safely and soundly.

This report is available on the FCA website at www.fca.gov. If you have any questions about it, please contact the Office of Congressional and Public Affairs at info-line@fca.gov or 703-883-4056. Also, please contact the office if you have accessibility issues with any of the charts in the report.

For more financial information about the Farm Credit System, go to the website for the Federal Farm Credit Banks Funding Corporation at www.farmcreditfunding.com. For information about the Farm Credit System Insurance Corporation, go to www.fcsic.gov.

FCA's 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.

About FCA and the Farm Credit System

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and supervising the Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

The System is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers.

Farmer Mac is a federally chartered corporation that provides a secondary market for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans.

FCA's 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. We have two primary functions: examination and regulation.

Examination

We conduct onsite examinations at every System institution on a regular basis to

- evaluate its financial condition;
- evaluate its compliance with laws and regulations;
- identify any risks that may affect the institution or the System as a whole; and
- ensure it is fulfilling its public mission to serve the credit and related needs of farmers and ranchers, including those who are young, beginning, or small.

If a System institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to bring about appropriate corrective action.

Regulation

We issue policies and regulations governing how System institutions conduct their business and interact with borrowers. These policies and regulations focus on

- protecting System safety and soundness;
- implementing the Farm Credit Act;
- providing minimum requirements for lending, related services, investments, capital, and mission; and
- ensuring adequate financial disclosure and governance.

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1 Although Farmer Mac is an FCS institution under the Farm Credit Act, we discuss Farmer Mac separately from the other institutions of the FCS. Therefore, throughout this report, unless Farmer Mac is explicitly mentioned, the Farm Credit System refers only to the banks and associations of the System. For more information about Farmer Mac, see page 41.

We also approve corporate charter changes, System debt issuances, and other financial and operational matters.

Our authorities and governance

FCA derives its powers and authorities from the Farm Credit Act of 1971, as amended (12 U.S.C. 2001 – 2279cc). The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCA and the FCS.

FCA does not receive a federal appropriation. We maintain a revolving fund financed primarily by assessments from the institutions we regulate. Other sources of income for the revolving fund are interest earned on investments with the U.S. Treasury and reimbursements for services we provide to federal agencies and others. FCA's access to the revolving fund, however, is regulated through congressional appropriations legislation.

FCA is governed 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. Board members serve a six-year term and may remain on the board until a successor is appointed. The president designates one member as chairman of the board, who serves in that capacity until the end of his or her term. The chairman also serves as our chief executive officer. For information about our current board, see page 47.

The Farm Credit System Insurance Corporation

FCA board members also serve as the board of directors for the Farm Credit System Insurance Corporation (FCSIC), which was established by the Agricultural Credit Act of 1987 in the wake of the agricultural credit crisis of the 1980s. The purpose of FCSIC is to protect investors in Systemwide debt securities by insuring the timely payment of principal and interest on obligations issued by FCS banks.

It fulfills this purpose by maintaining the Farm Credit Insurance Fund, a reserve that represents the equity of FCSIC. The balance in the Insurance Fund at June 30, 2020, reflects the secure base amount. For more information about FCSIC, go to www.fcsic.gov. Also see FCSIC's 2019 annual report.

Message from the board

On behalf of the board, it is our pleasure to present the 2019 annual report of the Farm Credit Administration. In this message from the board, we describe three important priorities and the progress we've made toward achieving our goals. We also describe current conditions (as of fall 2020) in the Farm Credit System, Farmer Mac, and in the general and farm economies. We conclude by renewing our commitment to fostering diversity and fairness at FCA and across the System. The balance of this report focuses on results from 2019.

FCA Board Chairman and CEO Glen Smith (left) and FCA Board Member Jeff Hall.

Our priorities and progress

We have focused on three main priorities this past year: monitoring credit risk; improving service to young, beginning, and small (YBS) farmers and ranchers; and improving the timeliness and efficiency of our regulatory activities. These continue to be our priorities as we enter the fall of 2020.

Monitoring credit risk

Although the Farm Credit System and Farmer Mac remain strong and financially sound, monitoring credit risk must always be the agency's highest priority. Under normal circumstances, this involves sending our examiners out to banks and associations to perform onsite examinations. But of course, there was nothing normal about the circumstances we've encountered in 2020.

To keep our staff safe, as well as the staff at System institutions, we shifted to conducting most of our examination activities remotely. Thanks to the expertise and commitment of our examiners and our information technology team, we had the knowledge, skills, and technology needed to successfully monitor the safety and soundness of System institutions remotely. We did not allow the challenges of COVID-19 to materially interrupt our examination activities and our monitoring of risk.

Without a doubt, COVID-19 is not the only challenge facing the farm economy and farm lenders. Even as this report goes to print, wildfires in the western United States are threatening both lives and livelihoods, and recent storms have struck regions across the country. Low prices for several agricultural products are also adding to the financial stress many borrowers are experiencing.

We will continue to closely monitor the effects that these and other challenges are having on credit quality. Our goal must always be the safety and soundness of the System so that it can continue to provide credit to future generations of farmers and ranchers — which leads us to our second priority.

Improving service to YBS producers

In 1980, Congress established a mandate for the institutions of the Farm Credit System to develop and maintain programs to provide credit and related services to young, beginning, and small farmers and ranchers. Congress recognized that, for the U.S. economy to remain strong, the country needs new entrants to agriculture. And because of the high capital demands of agriculture, these new entrants will require affordable, dependable credit. For this reason, improving service to YBS producers is one of our highest priorities, and we have identified three key steps for meeting this goal:

1. Improve data accuracy and reporting.
2. Identify and share best practices.
3. Evaluate growth and performance.

For the past year, we have made significant strides in improving the collection of YBS data. We have worked with System institutions to both improve the quality of current reporting and to enhance reporting on YBS lending for the future. We are working to make the collection of YBS data more automated and consistent. This enhances our ability to analyze the data while reducing the regulatory burden for System institutions. 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.

Improving the timeliness and efficiency of regulatory activities

Another important priority for our board has been to improve the timeliness and efficiency of our regulatory activities. We're pleased to report significant progress on this front in recent months despite the regulatory pause we took earlier in the year to allow the System and the agency to focus on COVID-19 concerns.

So far in 2020, we have issued four final rules (on swap margins, amortization, investment eligibility, and financial reporting) and a proposed rule on the capital framework. We also acted decisively and quickly to provide extensive guidance to the System regarding the Paycheck Protection Program. We wanted to ensure that the institutions understood how the program worked so they could participate in it and get relief to qualified borrowers as quickly as possible.

To help the System manage the challenges associated with COVID-19, we issued an informational memorandum in April, followed by half a dozen supplements. For example, one supplement addressed how to handle troubled debt restructurings; another provided guidance on conducting annual meetings and board elections during the pandemic.

FCA has also been a leader among federal financial regulators in providing guidance to lenders on financing hemp production. In February 2020, we issued an informational memorandum that outlined a number of factors institutions should consider when extending loans to hemp producers and processors.

Current conditions

Following is a brief update about conditions in the Farm Credit System and Farmer Mac, as well as conditions in the general and farm economies.

The Farm Credit System

So far in 2020, credit risk continues to remain manageable in the Farm Credit System. Nonperforming assets (nonaccrual loans, restructured loans, loans that are 90 days or more past due, and other property owned) increased by $140 million during the first six months of 2020 to just under $2.5 billion. Most of the increase was in accruing loans 90 days or more past due, which are considered well secured and in the process of collection. Despite this increase, nonperforming assets still represented less than 1% (0.84%) of the System's $297 billion loan portfolio plus other property owned at June 30, 2020. Loan losses remain very low, with net charge-offs representing only 2 basis points of volume in calendar year 2019. Loans classified as less than acceptable amounted to 6.8% of volume at June 30, 2020, down from 7.1% of volume at Dec. 31, 2019, and 7.2% a year earlier.

Agricultural producers in certain key crop and livestock sectors have endured several years of low prices and decreasing cash flows. The emergence of COVID-19 this year has increased the uncertainty and risk in the general economy and the farm economy. The impact of the current health crisis on the farm economy, System institutions, and rural communities won't be known for some time, but much depends on its duration and severity.

For several years now, FCA has stressed the importance of capital in its oversight and guidance of System institutions. Strong earnings have supported continued capital growth and liquidity, providing System institutions the risk-bearing capacity to support U.S. farmers and ranchers during adverse economic cycles. The System's strong capital position makes System debt attractive to investors. The board is keenly aware of the importance of maintaining the excellent reputation of System financial instruments in order to offer the best possible interest rates to American agriculture. In this year of unprecedented challenges, this focus on capital has paid off.

Although the System remains safe and financially sound, these are difficult times. Agriculture and rural communities are being challenged by considerable uncertainty, rapidly changing market conditions, and significant business disruptions. During times like these, the System's mission to provide reliable credit and related services in support of agriculture and rural America becomes more important than ever. System institutions are well-positioned to work with borrowers to develop appropriate action plans to meet funding and liquidity needs. This may include loan modifications for borrowers impacted by COVID-19.

Farmer Mac

Farmer Mac also remains safe and sound. For the 12-month period that ended June 30, 2020, its portfolio grew $1.3 billion, or 6.2%, to $22.0 billion. The Farm & Ranch and Rural Utilities business lines were the primary contributors to this growth, with Farm & Ranch increasing by $727 million (10%) and Rural Utilities increasing by $530 million (25%) over the 12-month period. USDA Guarantees grew 6.2% or $157 million while Institutional Credit declined 1.4% or $123 million. Farmer Mac's core capital was $915.6 million, up 16.4% for the 12-month period; its core capital was $247.9 million above the minimum requirement.

Farmer Mac's credit quality remained manageable, but the trend warrants a watchful eye. Loans classified as 90 days past due increased from 0.38% to 0.86% of loans outstanding. As a percentage of total outstanding loan volume, special-mention and substandard volume increased from 7.6% to 9.4%.

The general economy

The onset of the COVID-19 pandemic earlier this year had an immediate and unprecedented impact on communities, businesses, and markets around the world. U.S. economic activity plunged, resulting in skyrocketing unemployment claims. Efforts to slow the spread of the disease and the response of consumers have contributed to the depth and severity of the pullback in 2020.

To temper the evolving economic crisis, the federal government responded with massive monetary and fiscal stimulus. After a steep and rapid contraction, the U.S. economy is now improving, and local economies are reopening. Unemployment rates are also improving, and this is a good sign for farm household income because off-farm employment contributes significantly to loan repayment in rural America.

The farm economy

The first half of 2020 saw many setbacks for agricultural producers, with the pandemic causing major disruptions to our food supply and delivery system. Many of these challenges persist — such as wildfires in the West and regionalized adverse weather events around the country.

Fortunately, going into the fall, we are starting to see marked improvement in many ag commodity prices, precipitated

To help the System manage the challenges associated with COVID-19, we issued an informational memorandum in April, followed by half a dozen supplements.

In 2019, we were named the second-best place to work in the federal government by the Partnership for Public Service, and we were ranked first in the subcategory for diversity and inclusion.

primarily by robust ag exports. In addition, crop receipts for many commodities will be favorable, with strong production numbers coming in for much of the country. As global economies stabilize, the demand for our livestock products will gain solid footing. Like the Market Facilitation Program (MFP) payments in 2018 and 2019, the Coronavirus Food Assistance Program payments will contribute significantly to a wide diversity of agricultural enterprises in 2020. And, of course, the Farm Credit System will continue its vital role in providing competitive rates of financing to the agriculture industry.

Diversity, fairness, and inclusion

Finally, we would like to reaffirm our commitment to the principles of diversity, fairness, and inclusion. We are committed to these principles both in our own workplace and in the System. Ever since the 2012 final rule took effect requiring institutions to promote diversity and inclusion in their human capital and marketing plans, our examiners have evaluated institutions' efforts to promote diversity and inclusion in their workplace and their customer base. And we're pleased to report that FCA has been recognized for our efforts. In 2019, we were named the second-best place to work among small agencies in the federal government by the Partnership for Public Service, and we were ranked first in the subcategory for diversity and inclusion.

In conclusion

The COVID-19 pandemic has affected all of us both professionally and personally. The board is proud of the way FCA staff has adapted to meet the challenges created by this historic global event. FCA has a talented and hard-working staff, and we look forward to working with both them and the System in the coming year. As always, our goal is to ensure that the Farm Credit System can continue to provide dependable, affordable credit to agriculture and rural America in good times and bad, for generations to come.

Glen R. Smith
FCA Board Chairman and CEO

Jeffery S. Hall
FCA Board Member

The System obtains the money it lends by selling securities in national and international money markets through the Federal Farm Credit Banks Funding Corporation.

FCS banks and associations

The banks and associations of the Farm Credit System form a network of borrower-owned cooperative financial institutions and service organizations serving all 50 states and the Commonwealth of Puerto Rico. Created by Congress in 1916 to provide American agriculture with a dependable source of credit, the FCS is the nation's oldest government-sponsored enterprise.

As federally chartered cooperatives, the banks and associations of the Farm Credit System are limited-purpose lenders. Congress created them to "improve the income and well-being of American farmers and ranchers" by providing credit and related services for them, their cooperatives, and "selected farm-related businesses necessary for efficient farm operations." Congress also gave the Farm Credit System the authority to support rural economic development by financing rural residences and rural utilities.

Congress formed the FCS as a system of farmer-owned cooperatives to ensure that farmer- and rancher-borrowers participate in the management, control, and ownership of their institutions. The participation of member-borrowers helps keep the institutions focused on serving their members' needs.

The System helps to meet broad public needs by providing liquidity and competition in rural credit markets in both good and bad economic times. The accomplishment of this public goal benefits all eligible borrowers, including young, beginning, and small farmers, as well as rural homeowners.

The System obtains the money it lends by selling securities in national and international money markets through the Federal Farm Credit Banks Funding Corporation. Established under the Farm Credit Act, the Funding Corporation issues and markets debt securities on behalf of the FCS banks to raise loan funds. The System's debt issuances are subject to FCA approval. The U.S. government does not guarantee the securities that the System issues.

The banks are jointly and severally liable for the principal and interest on all Systemwide debt securities. Therefore, if a bank is unable to pay the principal or interest on a Systemwide debt security and if the Farm Credit Insurance Fund has been exhausted, then FCA must call all non-defaulting banks to satisfy the liability.

FCS structure

The System is composed of the following four banks:

- CoBank, ACB
- AgriBank, FCB
- AgFirst Farm Credit Bank
- Farm Credit Bank of Texas

These banks provide loans to 68 associations, which in turn make loans to farmers, ranchers, and other eligible borrowers. (See figure 1.) All but one of these associations are structured as agricultural credit associations (ACAs) with two subsidiaries — a production credit association (PCA) and a federal land credit association

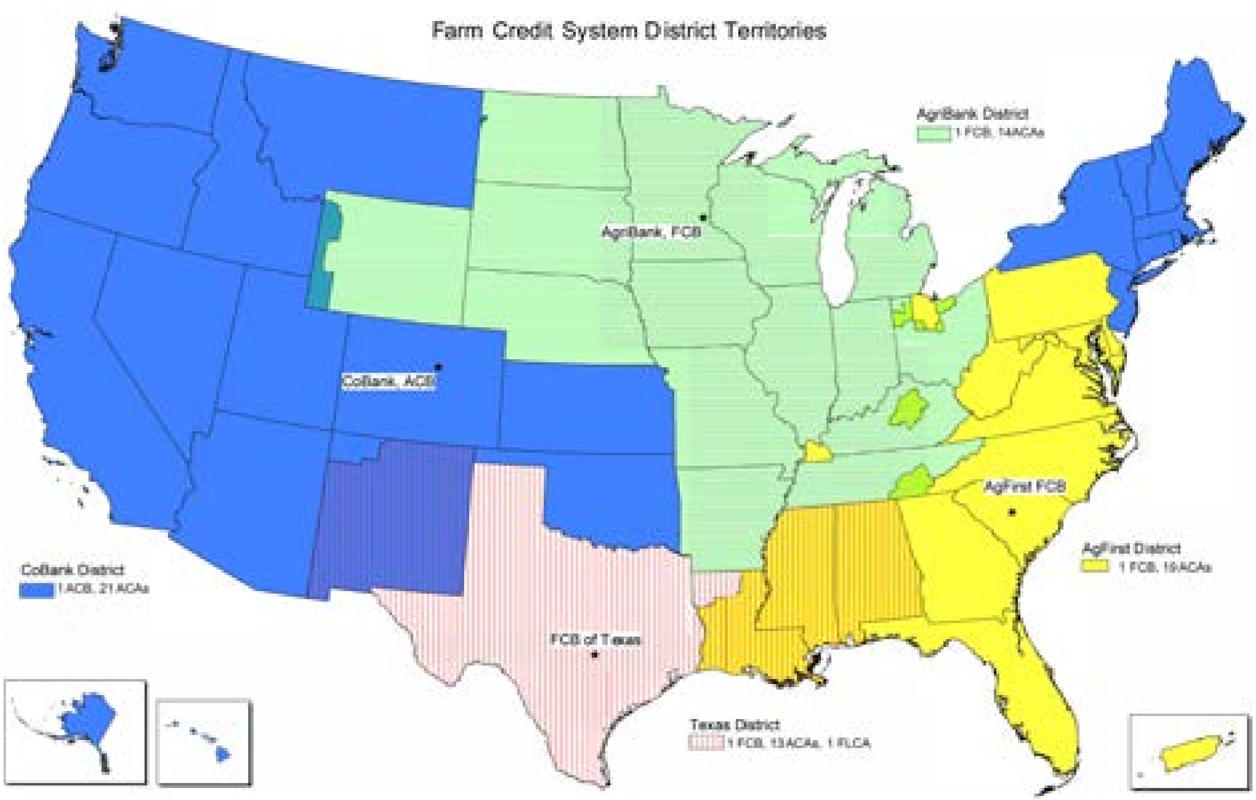
(FLCA). The PCA primarily makes agricultural production and intermediate-term loans, and the FLCA primarily makes real estate loans. The other remaining association is a stand-alone FLCA.

The ACA's parent-subsidiary structure offers several benefits. It allows the association to preserve the tax-exempt status of the FLCA and to build and use capital more efficiently. It also enables members to hold stock in only the ACA but to borrow either from the ACA or from one or both of its subsidiaries. This gives the ACA and its subsidiaries greater flexibility in serving their borrowers, and it allows them to deliver credit and related services to borrowers more efficiently.

Each ACA and its two subsidiaries operate with a common board of directors and staff, and each of the three entities is responsible for the debts of the others. For most regulatory and examination purposes, FCA treats the ACA and its subsidiaries as a single entity; however, when appropriate, we may choose to treat the parent and subsidiaries as separate entities.

CoBank, one of the four FCS banks, is an agricultural credit bank (ACB). It has a nationwide charter to make loans to agricultural and aquatic cooperatives and rural utilities, as well as to other persons or organizations that have transactions with, or are owned by, these cooperatives. The ACB finances U.S. agricultural exports and imports and provides international banking services for farmer-owned cooperatives. In addition to making loans to cooperatives, CoBank provides loan funds to 21 ACAs.

Figure 1
Chartered territories of FCS banks
As of July 1, 2020



Borrowers served

Under the Farm Credit Act of 1971, as amended, the System has the authority, subject to certain conditions, to make the following types of loans:

- Agricultural real estate loans
- Agricultural production and intermediate-term loans (e.g., for farm equipment)
- 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
- Rural home mortgages
- Loans that finance agricultural exports and imports
- Loans to rural utilities
- Loans to farmers and ranchers for other credit needs

Also, under its similar-entity authority, the System may participate with other lenders to make loans to those who are not eligible to borrow directly from the System but whose activities are functionally like those of eligible borrowers. Through these participations, the System diversifies its portfolio, reducing the risks associated with serving a single industry.

As required by law, borrowers own stock or participation certificates in System institutions. The FCS had nearly 1.2 million loans and leases and over 574,000 stockholders in 2019. Approximately 87% of the stockholders were farmers or cooperatives with voting stock. The remaining percent were nonvoting stockholders, including rural homeowners and other financing institutions that borrow from the System.

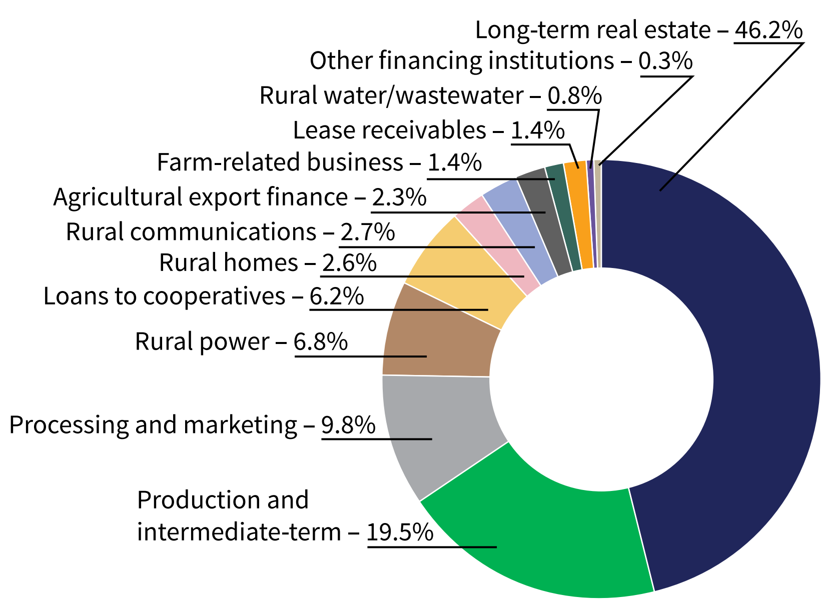
Nationwide, the System had $287 billion in gross loans outstanding as of Dec. 31, 2019. Loans for agricultural production and agricultural real estate purposes represented by far the largest type of lending, with $188 billion, or 66%, of the total dollar amount of loans outstanding. See figure 2.

System funding for other lenders

Other financing institutions

Under the Farm Credit Act, System banks may further serve the credit needs of rural America by providing funding and discounting services to certain non-System lending institutions described in our regulations as "other financing

Figure 2
Farm Credit System lending by type
As of Dec. 31, 2019



Source: 2019 Federal Farm Credit Banks Funding Corporation Annual Information Statement.

institutions” (OFIs). These include the following:

- Commercial banks
- Savings institutions
- Credit unions
- Trust companies
- Agricultural credit corporations
- Other specified agricultural lenders that are significantly involved in lending to agricultural and aquatic producers and harvesters

System banks may fund and discount agricultural production and intermediate-term loans for OFIs that demonstrate a need for additional funding to meet the credit needs of borrowers who are eligible to receive loans from the FCS. OFIs benefit by using the System as an additional source of liquidity for their own lending activities and by capitalizing on the System’s expertise in agricultural lending.

As of Dec. 31, 2019, the System served 19 OFIs, down from 20 in 2018. Outstanding loan volume to OFIs stood at $845 million at year-end. OFI loan volume continues to be less than half of 1% of the System’s loan portfolio. About 70% of the System’s OFI lending activity occurs in the AgriBank district.

Syndications and loan participations with non-FCS lenders

In addition to the authority to provide services to OFIs, the Farm Credit Act gives FCS banks and associations the authority to partner with financial institutions outside the System, including commercial banks, in making loans to agriculture and rural America. Generally, System institutions partner with these financial institutions through loan syndications and participations.

A loan syndication (or “syndicated bank facility”) is a large loan in which a group of financial institutions work together to provide funds for a borrower. Usually one financial institution takes the lead, acting as an agent for all syndicate members and serving as a liaison between them and the borrower. All syndicate members are known at the outset to the borrower.

Loan participations are loans in which two or more lenders share in providing loan funds to a borrower. One of the participating lenders originates, services, and documents the loan. Generally, the borrower deals with the institution originating the loan and is not aware of the other participating institutions.

Financial institutions primarily use loan syndications and participations to reduce credit risk and to comply with lending limits. For example, a financial institution with a high concentration of production loans for a single commodity could use participations or syndications to diversify its loan portfolio, or it could use them to sell loans that are beyond its lending limit.

Institutions also use syndications and participations to manage and optimize capital, earnings, and liquidity. Syndications and participations allow the System to more fully meet its mission by serving agricultural and rural borrowers who might not otherwise receive funding.

The System’s gross loan syndication volume grew by more than $2.7 billion over the past year to $20.6 billion at year-end 2019. This figure includes volume from syndications that System institutions have with other System institutions, as well as with non-FCS institutions.

At year-end 2019, the System had $5.7 billion in net eligible-borrower loan participations with non-System lenders. Net eligible-borrower loan participations have increased from their 2012 value of $3.7 billion, when sales of these participations were at a low point. The volume of eligible-borrower loan participations purchased from non-System lenders grew from $7.5 billion at Dec. 31, 2015, to $10.0 billion at year-end 2019, and the volume of eligible-borrower loan participations sold to non-System lenders was $4.3 billion at year-end 2019, up over $1 billion from the prior year.

In addition to participating in loans to eligible borrowers, FCS institutions have the authority to work with non-System lenders that originate "similar-entity" loans. A similar-entity borrower is not eligible to borrow directly from an FCS institution, but because the borrower's operation is functionally similar to that of an eligible borrower's operation, the System has authority to participate in the borrower's loans (the participation interest must be less than 50%). Similar-entity loans contain other limitations as specified in sections 3.1(11)(B) and 4.18A of the Farm Credit Act.

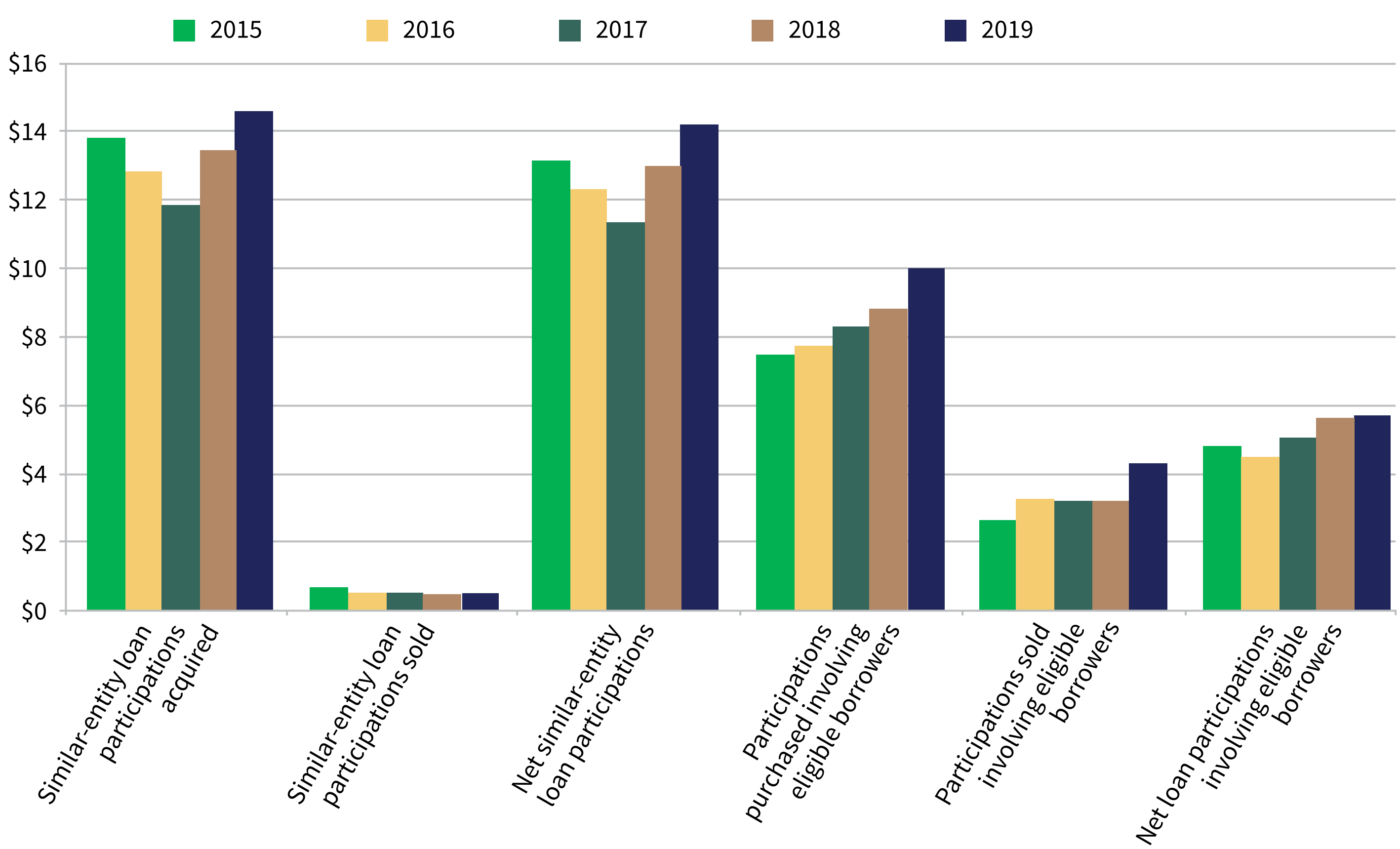
The System had $14.6 billion in acquired similar-entity loan participations as of Dec. 31, 2019, up from $13.5 billion the prior year. As figure 3 indicates, the volume of similar-entity participations that System institutions sell to non-System institutions is relatively small, amounting to $500 million over the past several years.

Figure 3

Loan participation transactions with non-System lenders, 2015 – 2019

As of Dec. 31

Dollars in billions



Source: Farm Credit System Call Reports.

Farm debt and market shares

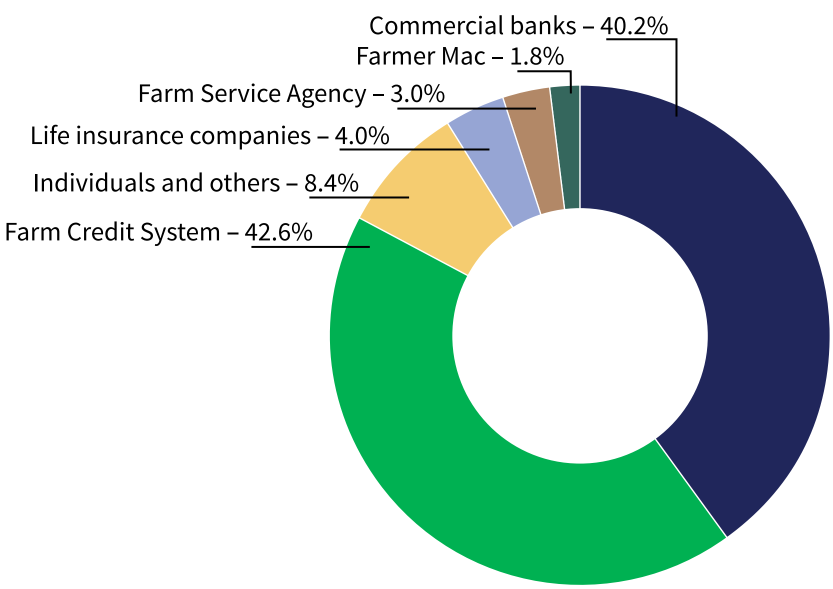
The U.S. Department of Agriculture's estimate of total farm business debt for the year ended Dec. 31, 2019, was $419 billion, up 4.1% from its $402 billion estimate for year-end 2018. The System's market share of total farm business debt rose from 41.4% at the end of 2018 to 42.6% at the end of 2019. (See figure 4.)

Except for brief periods, the FCS has typically had the largest market share of farm business debt secured by real estate. At year-end 2019, the System held 47% of this $267 billion of debt; by comparison, commercial banks held 36.7%. Commercial banks have historically dominated non-real estate farm lending. At year-end 2019, commercial banks held 46.3% of this $152 billion of debt, and the System held 34.9%.

Figure 4

Estimated market shares of U.S. farm business debt

As of Dec. 31, 2019



Source: FCA's Office of Data Analytics and Economics, based on Sept. 2, 2020, data from USDA's Economic Research Service.

Financial condition

The System reported strong financial results in 2019, including record earnings, increased capital levels, and acceptable portfolio credit quality. FCS banks had reliable access to debt capital markets and maintained liquidity levels well above the 90-day regulatory minimum. Tables 1 and 2 provide a summary of the System's major financial indicators. For more information on the condition and performance of the System, see the 2019 Annual Information Statement of the Farm Credit System on the website of the Federal Farm Credit Banks Funding Corporation.

While the System is financially sound, a small number of individual FCS institutions displayed some weaknesses in 2019. As the System's regulator, we addressed these weaknesses by increasing our oversight and supervision of these institutions. For more information on our supervisory and enforcement approach, see page 35 to 37.

2019 was a difficult year for many U.S. farmers and ranchers. Trade uncertainties, weather extremes, and low farm prices presented significant economic challenges for agricultural producers. This follows several years of declining producer cash flows, which have depleted working capital and increased borrowing needs. Crop insurance, farm programs, and Market Facilitation Program payments provided important financial support to the farm economy, although the level of support varied by region and commodity.

Partly because of large commodity supplies, producers in several key crop and livestock sectors saw a continuation of price volatility, low margins, and tight cash flows in 2019. High-cost producers and those with significant leverage likely faced significant stress.

Weather-related crop losses, particularly in parts of the Midwest, added to the financial stress on some crop producers. Market conditions were generally favorable for livestock sectors, but trade disruptions hurt producer profitability for the export-dependent pork and dairy sectors.

Farmland values were relatively stable in 2019, with some regional weaknesses and strengths. Farmer interest and financial capacity to buy land lessened, but the limited amount of land for sale, the solid demand from nonfarmers, and low interest rates contributed to stability in land markets.

Table 1

Farm Credit System major financial indicators, by annual comparison

Dec. 31, 2019

Dollars in millions

Item	31-Dec-19	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15
Total assets	$365,359	$348,992	$329,518	$319,915	$303,503
Gross loan volume	$286,964	$273,378	$259,888	$249,791	$236,750
Bonds and notes	$295,499	$283,276	$267,119	$260,213	$246,214
Nonperforming assets[1]	$2,347	$2,282	$2,022	$2,037	$1,725
Net income, full year	$5,446	$5,332	$5,189	$4,848	$4,688
Nonperforming assets/Gross loans and other property owned	0.82%	0.83%	0.78%	0.82%	0.73%
Capital & insurance/Assets[2]	16.90%	16.75%	16.81%	16.35%	16.09%
Retained earnings/Assets	13.41%	13.31%	13.24%	13.50%	13.33%
Return on average assets	1.54%	1.59%	1.62%	1.56%	1.64%
Return on average capital	8.91%	9.29%	9.49%	9.44%	9.87%
Net interest margin[3]	2.42%	2.46%	2.48%	2.49%	2.55%
Efficiency ratio[4]	36.2%	35.2%	35.1%	34.6%	35.0%
Operating expenses/Average loans[5]	1.18%	1.17%	1.17%	1.16%	1.21%

Sources: FCA's Consolidated Reporting System as of Dec. 31, 2019, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

[1] Nonperforming assets are defined as nonaccrual loans, accruing restructured loans, accrual loans 90 or more days past due, and other property owned.

2 Capital excludes mandatorily redeemable preferred stock and protected borrower capital. Insurance refers to the funds in the Farm Credit Insurance Fund administered by the Farm Credit System Insurance Corporation.

[3] Net interest margin ratio measures net income produced by interest-earning assets, including the effect of loanable funds, and is a key indicator of loan pricing effectiveness.

[4] The efficiency ratio measures total noninterest expenses for the preceding 12 months divided by net interest income plus noninterest income for the preceding 12 months.

[5] Operating expenses divided by average gross loans, annualized.

Earnings

The System reported strong earnings in 2019. For the year, System net income equaled $5.4 billion, up $114 million or 2.1% from 2018 (See figure 5). Year over year, net interest income was up $290 million, loan loss provisions decreased $25 million, noninterest income was down $44 million, noninterest expenses increased $180 million, and income tax provisions declined $23 million.

The increase in net interest income was primarily due to an increase in average earning assets, partially offset by a decline in net interest spread. Driven largely by growth in loan volume, average earning assets increased $16.5 billion, or 5.1%, to $341.3 billion. Net interest spread decreased 8 basis points to 2.04% as the rising cost of System debt continued to outpace the increase in the rate on earning assets. Net interest margin decreased 4 basis points to 2.42%. A 4-basis-point increase in income earned on earning assets

Table 2

Farm Credit System major financial indicators, by district

Dec. 31, 2019

Dollars in millions

Institution Name	Total Assets	Gross Loan Volume	Nonaccrual Loans	Allowance for Loan Losses	Cash and Marketable Investments	Capital Stock[1]	Total Capital	Net Income
FCS banks								
AgFirst	$34,505	$25,112	$23	($18)	$9,027	$325	$2,331	$272
AgriBank	$115,232	$98,298	$58	($32)	$16,094	$2,872	$6,182	$628
CoBank	$145,004	$108,854	$241	($655)	$35,185	$3,622	$10,567	$1,091
Texas	$25,664	$19,498	$17	($11)	$5,717	$388	$1,844	$203
Total	$320,405	$251,762	$339	($716)	$66,023	$7,207	$20,924	$2,194
FCS associations								
AgFirst	$23,372	$2,482	$240	($193)	$87	$177	$4,873	$541
AgriBank	$112,894	$106,015	$800	($488)	$1,755	$269	$21,803	$2,160
CoBank	$64,074	$60,503	$422	($331)	$288	$72	$12,676	$1,285
Texas	$20,559	$19,775	$111	($78)	$102	$66	$3,326	$394
Total	$220,899	$208,775	$1,573	($1,090)	$2,232	$584	$42,678	$4,380
Total FCS[2]	$365,359	$286,964	$1,910	($1,806)	$68,266	$2,009	$61,730	$5,446

Sources: FCA's Consolidated Reporting System as of Dec. 31, 2019, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

[1] Includes capital stock and participation certificates, excludes mandatorily redeemable preferred stock and protected borrower capital.

[2] Cannot be derived by adding the categories above because of intradistrict and intra-System eliminations used in Reports to Investors. Also, the total FCS numbers exclude mandatorily redeemable preferred stock and protected borrower capital but include restricted capital from the Farm Credit Insurance Fund.

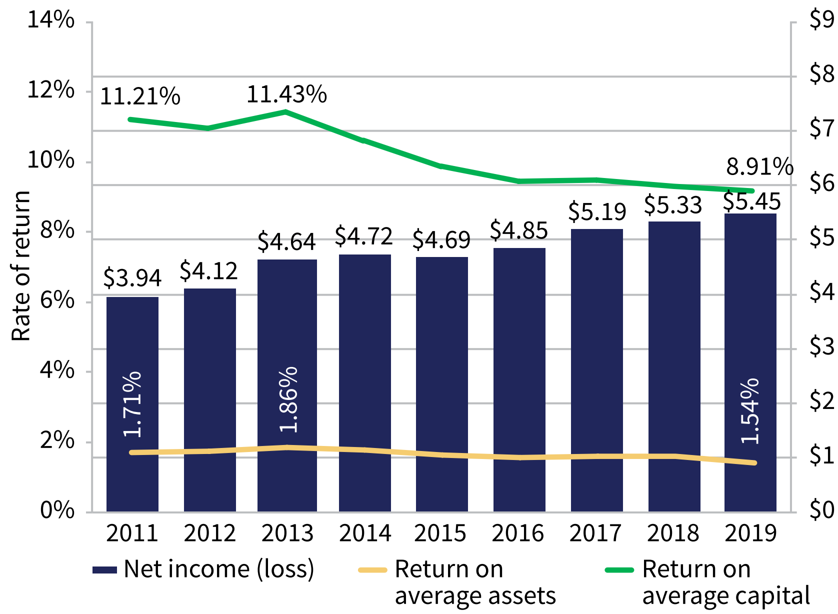
funded by noninterest-bearing sources (principally capital) helped offset the decline in net interest spread. The return on average assets decreased to 1.54% in 2019 from 1.59% in 2018. The return on average capital dropped to 8.91% from 9.29%.

As cooperative institutions, FCS banks and associations typically pass on a portion of their earnings as patronage distributions to their borrower-owners. For 2019, System institutions declared a total of $2.4 billion in patronage distributions — $2.2 billion in cash and $228 million in allocated retained earnings. This represents 45.6% of the System's net income for 2019 as compared with 42.6% in 2018. The System also distributed $187 million in cash from allocated retained earnings related to patronage distributions from previous years.

Figure 5

FCS net income, 2011 – 2019

As of Dec. 31, Dollars in billions



Source: Annual Information Statements of the Federal Farm Credit Banks Funding Corporation.

System growth

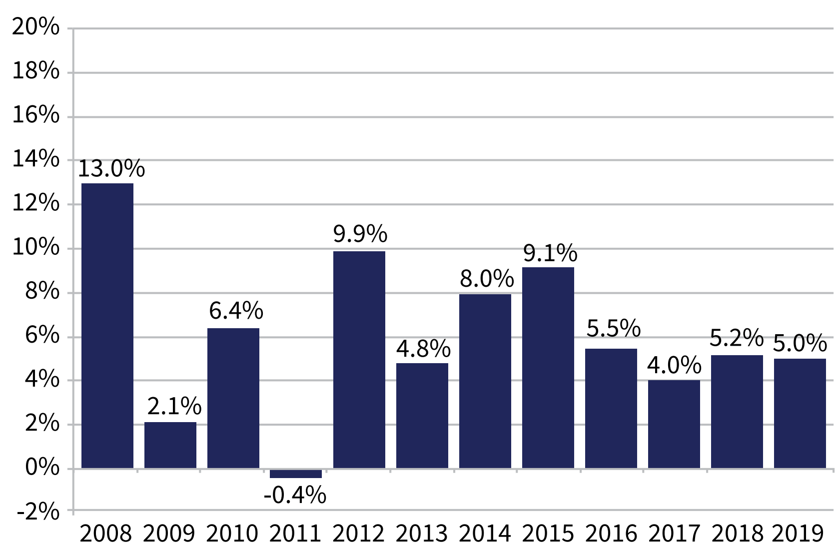
The System grew at a moderate pace in 2019. Total assets increased to $365.4 billion, up $16.4 billion or 4.7% from 2018. Gross loan balances were $287.0 billion at year-end, up $13.6 billion or 5.0% in 2019, compared with 5.2% in 2018. (See table 3 and figure 6.)

Most of the System's loan growth in 2019 related to real estate mortgages, production and intermediate-term lending, and processing and marketing lending. Real estate mortgages, the largest segment of the loan portfolio at 46.1%, grew by $5.9 billion, or 4.7% for the year. Production and intermediate-term loans, the second largest loan category at almost 20%, increased $2.6 billion, or 5.0%. Processing and marketing loans, accounting for 9.8% of the loan portfolio, were up $3.4 billion, or 13.6% in 2019.

Loan volume increased for most major commodity categories in 2019. The cash grains and cattle sectors were the System's two largest commodity categories,

Figure 6

Annual growth rate of FCS loans outstanding, 2008 – 2019



Source: Annual Information Statements of the Federal Farm Credit Banks Funding Corporation.

Table 3

FCS gross loans outstanding, 2015 – 2019

As of Dec. 31

Dollars in millions

Loan Type	2019	2018	2017	2016	2015	Percent Change from 2015	Percent Change from 2018
Agricultural real estate mortgage loans	$132,215	$126,310	$120,561	$115,469	$108,673	21.7%	4.7%
Agricultural production and intermediate-term loans	56,095	53,447	51,724	50,282	49,204	14.0%	5.0%
Agribusiness loans to the following:							
Processing and marketing operations	28,205	24,832	21,582	21,166	19,949	41.4%	13.6%
Cooperatives	17,776	17,589	17,335	15,300	13,113	35.6%	1.1%
Farm-related businesses	4,068	3,692	3,293	3,162	3,533	15.1%	10.2%
Rural utility loans by type of utility:							
Energy	19,432	20,100	19,689	19,577	17,925	8.4%	-3.3%
Communication	7,847	6,755	6,311	6,023	6,196	26.6%	16.2%
Water/wastewater	2,390	2,305	1,965	1,840	1,677	42.5%	3.7%
Rural home loans	7,405	7,308	7,261	7,148	7,117	4.0%	1.3%
Agricultural export finance	6,712	6,581	5,645	5,531	5,075	32.3%	2.0%
Lease receivables	3,902	3,630	3,665	3,480	3,373	15.7%	7.5%
Loans to other financing institutions	917	829	857	813	915	0.2%	10.6%
Total	$286,964	$273,378	$259,888	$249,791	$236,750	21.2%	5.0%

Sources: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

equaling almost 25% of the total loan portfolio. Lending to the cash grains sector was up 3.7% in 2019, and loan volume to the cattle sector increased 4.4%.

Asset quality

Despite the challenges facing agriculture, portfolio loan quality was favorable in 2019, although credit risk remained elevated in certain key agricultural sectors. Trade uncertainties, large commodity supplies, and weather extremes hurt farm prices and producer returns. While credit stress is likely to increase in 2020, the System's risk-bearing capacity is strong.

As of Dec. 31, 2019, nonperforming loans totaled $2.3 billion, or 0.79% of gross loans outstanding. This is up from $2.2 billion, or 0.80%, at year-end 2018 (See figure 7.) Loan delinquencies (accruing loans that are 30 days or more past due) decreased slightly to 0.32% of total accruing loans from 0.33% at year-end 2018. In total, 92.9% of System loans were classified as acceptable, down from 93.4% at year-end 2018.

The allowance for loan losses was $1.81 billion, or 0.63% of loans outstanding, at year-end 2019. This compares with an allowance for loan losses of $1.71 billion, or 0.63% of loans outstanding, at year-end 2018. The System recognized provisions for loan losses of $169 million in 2019 as compared with $194 million in 2018. Net loan charge-offs remained low at $59 million in 2019 as compared with $89 million in 2018.

Capital

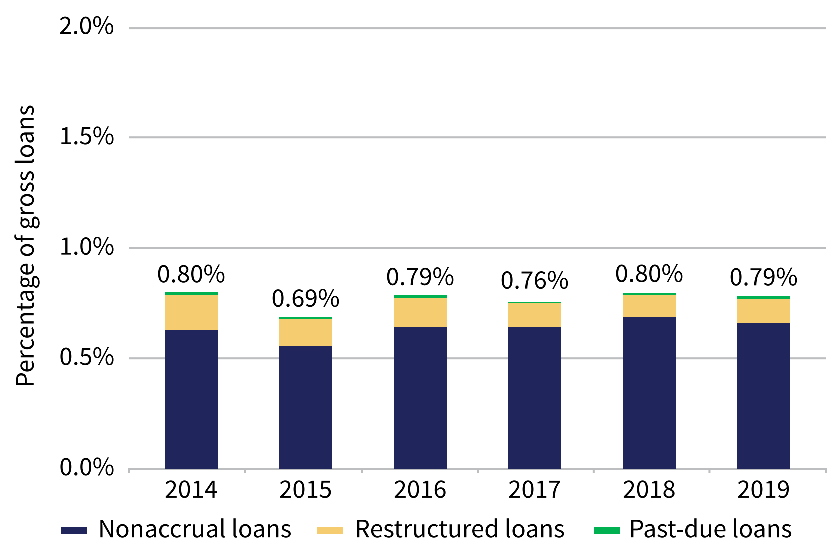
Strong earnings continued to support System capital growth in 2019. Total capital equaled $61.7 billion at Dec. 31, 2019, compared with $58.4 billion at year-end 2018. (Please note that these numbers include restricted capital, which is the amount held in the Farm Credit Insurance Fund.) At year-end 2019, the System's capital-to-assets ratio was 16.9%, compared with 16.7% in 2018.

As illustrated in figure 8, retained earnings is the most significant component of System capital at 79.4%. FCA regulations establish minimum capital levels that each System bank and association must achieve and maintain. As of Dec. 31, 2019, capital levels at all System banks and associations were above the regulatory minimum capital requirements.

Funding and liquidity

During 2019, the System maintained reliable access to the debt capital markets. Investors were attracted by the System's status as a government-sponsored enterprise (GSE), as well as its financial performance and strength.

Figure 7
FCS nonperforming loans, 2014 – 2019
As of Dec. 31



Source: Annual Information Statements of the Federal Farm Credit Banks Funding Corporation.

Risk spreads and pricing on System debt securities during 2019 remained favorable. Since regulatory requirements promote the use of GSE debt, the System benefits from its GSE status. The System also benefits from its persistently strong financial performance and the continuing decline in debt issuances by the two housing-related GSEs, which are in conservatorship and are congressionally mandated to reduce their debt outstanding. As a result of the strong demand for System debt, the System was able to continue to issue debt on a wide maturity spectrum at highly competitive rates.

The System funds loans and investments primarily with a combination of consolidated Systemwide debt and equity capital. The Funding Corporation, the fiscal agent for System banks, sells debt securities, such as discount notes, bonds, designated bonds, and retail bonds, on behalf of the System. This process allows funds to flow efficiently from worldwide capital-market investors to agriculture and rural America, thereby providing rural communities with ready access to global credit resources. At year-end 2019, Systemwide debt outstanding was $293.6 billion, representing a 4.3% increase from the preceding year-end.

Several factors contributed to the $12.1 billion increase in Systemwide debt outstanding. Gross loans increased $13.6 billion in 2019, while the System's combined investments, federal funds, and cash balances increased by $1.8 billion during the year.

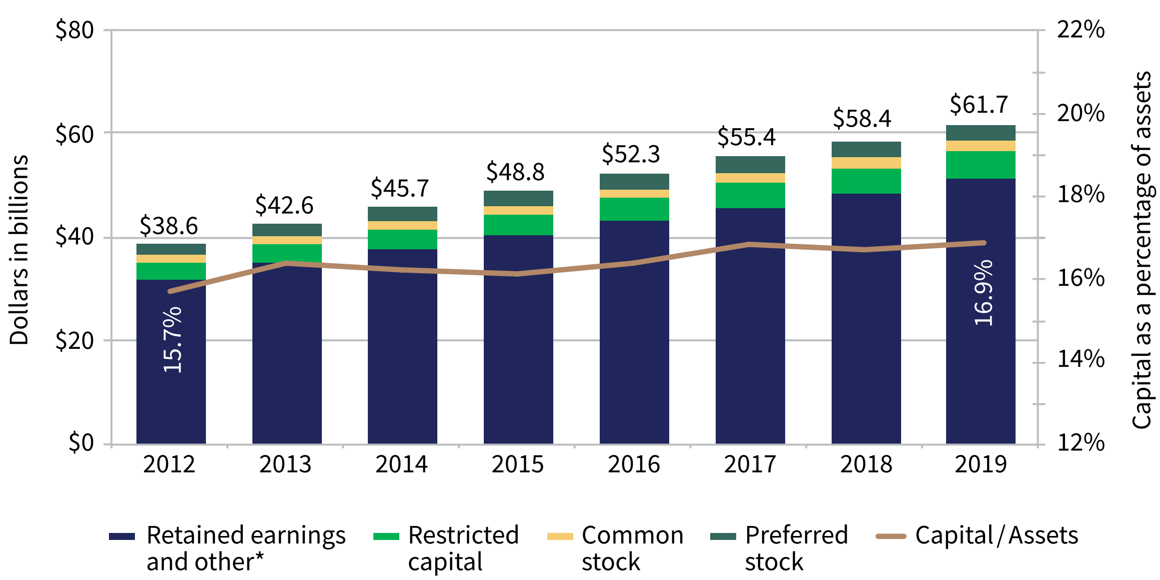
The System had $2.62 billion in outstanding perpetual preferred stock at the end of 2019, unchanged from the previous year-end. It has had no outstanding subordinated debt since June of 2016.

The amount of debt issued by the System increased in 2019. For the 12 months ended Dec. 31, 2019, the System issued $364 billion in debt securities, compared

Figure 8

FCS capital, 2012 – 2019

As of Dec. 31



Source: Annual Information Statements of the Federal Farm Credit Banks Funding Corporation.

Note: Other includes additional paid-in capital and accumulated other comprehensive income or loss.

with $309 billion in 2018. The System issued more debt in 2019 for three primary reasons: the increased opportunity to exercise call options, the growth in the domestic economy, and the increased credit needs of System borrowers.

The amount of outstanding debt on which the System exercised its call options increased significantly because of the substantial decline in yields during the second half of 2019 when the Federal Reserve decreased the target federal funds range by 0.75%. The System exercised calls on $54.5 billion of its outstanding debt in 2019, compared with only $19 million in the preceding year.

Favorable investor sentiment and lower yields continued to provide the System with access to a wide range of debt maturities in 2019. The weighted average of remaining maturities decreased slightly for 2019 to 2.8 years from 2.9 years. The weighted-average interest rates for insured debt decreased as well, going from 2.31% as of Dec. 31, 2018, to 2.15% as of Dec. 31, 2019.

To participate in the issuance of an FCS debt security, a System bank must maintain — free from any lien or other pledge — specified eligible assets (available collateral) that are at least equal in value to the total amount of its outstanding debt securities. Securities subject to the available collateral requirements include Systemwide debt securities for which the bank is primarily liable, investment bonds, and other debt securities that the bank may have issued individually.

Furthermore, our regulations require each System bank to maintain a tier 1 leverage ratio (primarily unallocated retained earnings and certain common cooperative equities divided by total assets) of not less than 4%. In addition, FCA regulations provide for a 1% leverage ratio buffer. Certain restrictions apply if the buffer does not exceed 1%. Throughout 2019, all System banks maintained their tier 1 leverage ratios above the required minimum and the accompanying buffer, with 5.49% being the lowest for any single bank as of Dec. 31, 2019.

All System banks have kept their respective days of liquidity above the required minimum levels. The lowest liquidity levels at any single bank as of Dec. 31, 2019, were as follows:

- 27 days (15 days regulatory minimum) of level 1 assets
- 71 days (30 days regulatory minimum) of level 1 and 2 assets
- 135 days (90 days regulatory minimum) of level 1, 2, and 3 assets
- 166 days overall (including the supplemental liquidity buffer)

In addition to the protections provided by the joint and several liability provisions, the Funding Corporation and the System banks have entered into the following voluntary agreements:

- The Amended and Restated Market Access Agreement, which establishes certain financial thresholds and provides the Funding Corporation with operational oversight and control over the System banks' participation in Systemwide debt obligations.
- The Amended and Restated Contractual Interbank Performance Agreement, which is tied to the Market Access Agreement and establishes certain measures that monitor the financial condition and performance of the institutions in each FCS bank's district. For all of 2019, all Farm Credit System banks maintained scores above the benchmarks in the Contractual Interbank Performance Agreement.

Favorable investor sentiment and lower yields continued to provide the System with access to a wide range of debt maturities in 2019.

Ratings

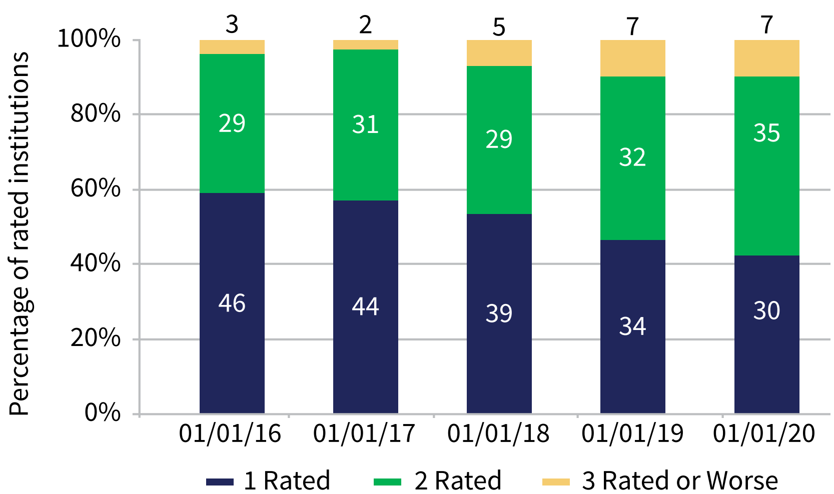
FCA uses the Financial Institution Rating System (FIRS) to assess the safety and soundness of each FCS institution. Similar to the systems used by other federal banking regulators, FIRS is a framework of component and composite ratings to help examiners evaluate significant financial, asset quality, and management factors. FIRS ratings range from 1 for a sound institution to 5 for an institution that is likely to fail.

As figure 9 shows, the financial condition and performance of the FCS remains strong. The System's strength reduces the risk to investors in FCS debt, to the Farm Credit System Insurance Corporation, and to FCS institution stockholders.

Based on the institutions' financial reporting as of Dec. 31, 2019, 65 FCS institutions were rated 1 or 2 (90%) and 7 institutions were rated 3 or lower (10%). The institutions rated 3 or lower represented less than 2.3% of the System's total assets, which is well within the System's risk-bearing capacity.

Figure 9

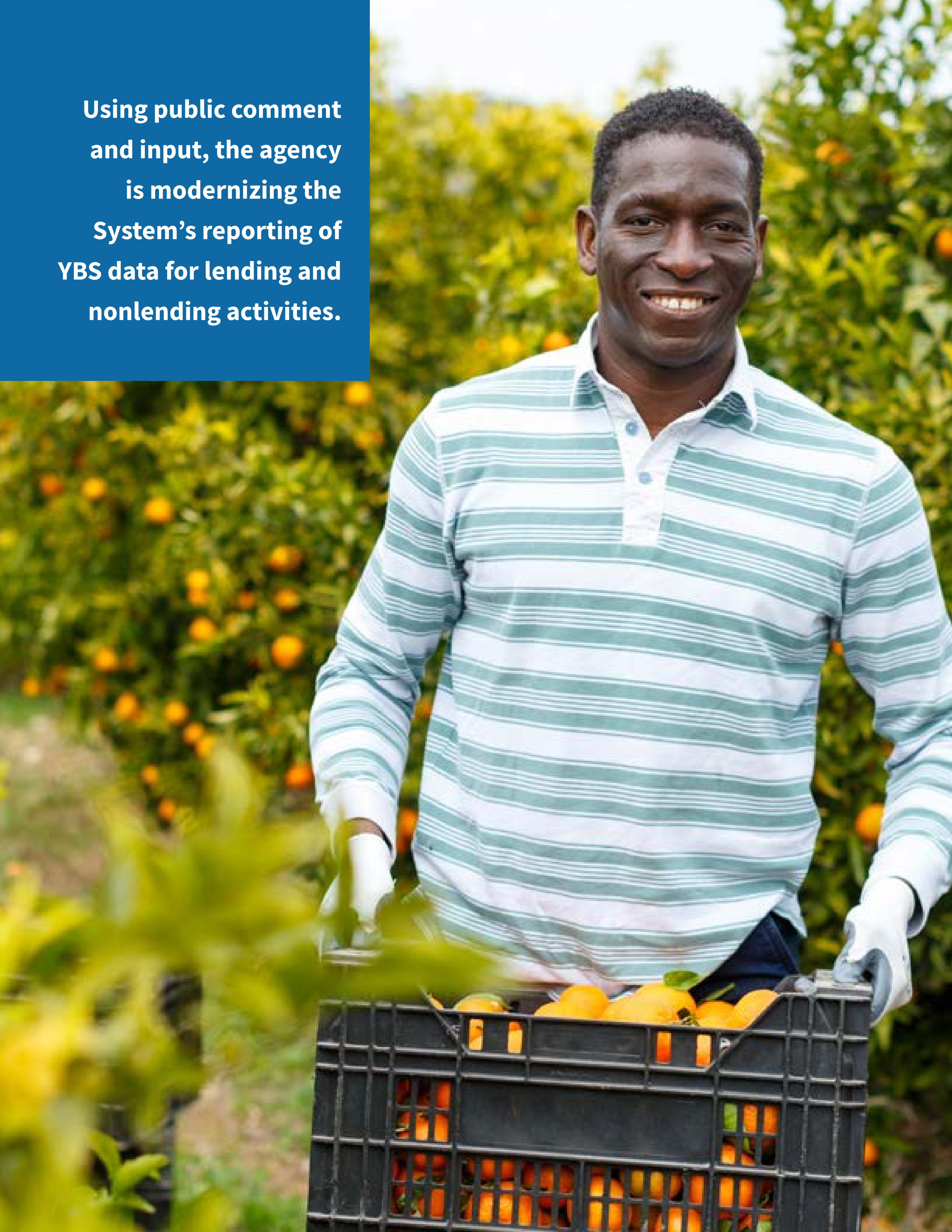
Financial Institution Rating System (FIRS) composite ratings for the FCS, 2016 – 2020



Source: FCA's FIRS ratings database.

Note: Figure 9 reflects ratings for only the Farm Credit 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.

Using public comment and input, the agency is modernizing the System's reporting of YBS data for lending and nonlending activities.



Serving 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 long-term process, we are engaged in a collaborative and transparent process with System institutions to leverage existing data assets and establish data enhancements to reduce regulatory burden, improve efficiency, and promote consistency in YBS data reporting.

Results

The following information summarizes the quantitative information that System institutions provided for their YBS programs. (See tables 4A and 4B.)

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 Dec. 31, 2018, to Dec. 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%. (See table 5A.)

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%. (See table 5B.)

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. (See figures 10A, 10B, and 10C). All the ratios either increased slightly from 2018 or remained flat.

Table 4A
YBS loans made during 2019

YBS Category	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 4B
YBS loans outstanding as of Dec. 31, 2019

YBS Category	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

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

Note: The YBS totals listed in tables 4A and 4B include loans, advancements, commitments, and participation interests to farmers, ranchers, and aquatic producers, and exclude rural home loans made under 613.3030, loans to cooperatives, and activities of the Farm Credit Leasing Services Corporation.

Table 5A
Change in new YBS lending from 2018 to 2019

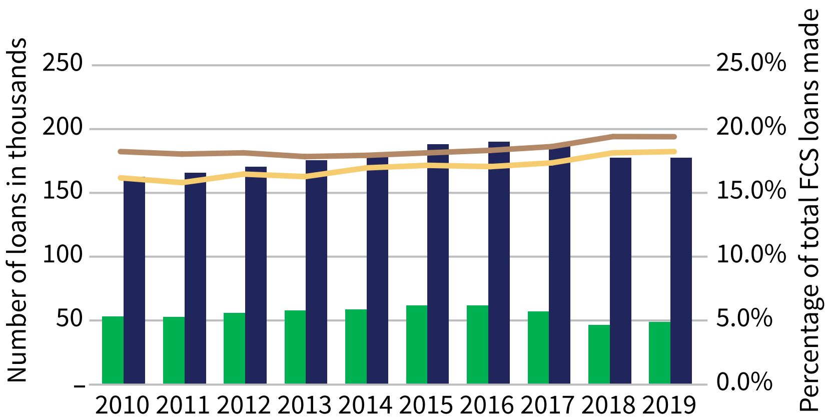
YBS Category	Dollar Volume	Loan Numbers
Young	7.3%	5.9%
Beginning	8.0%	8.1%
Small	15.9%	7.8%

Table 5B
Change in outstanding YBS lending from 2018 to 2019

YBS Category	Dollar Volume	Loan Numbers
Young	3.3%	1.0%
Beginning	3.9%	1.8%
Small	4.6%	0.6%

Figure 10A

Young farmers and ranchers



Number of young, beginning, or small loans made (left scale)

Number of young, beginning, or small loans outstanding (left scale)

Number of young, beginning, or small loans made as a percentage of total FCS loans made (right scale)

Number of young, beginning, or small loans outstanding as a percentage of total FCS loans outstanding (right scale)

Figure 10B

Beginning farmers and ranchers

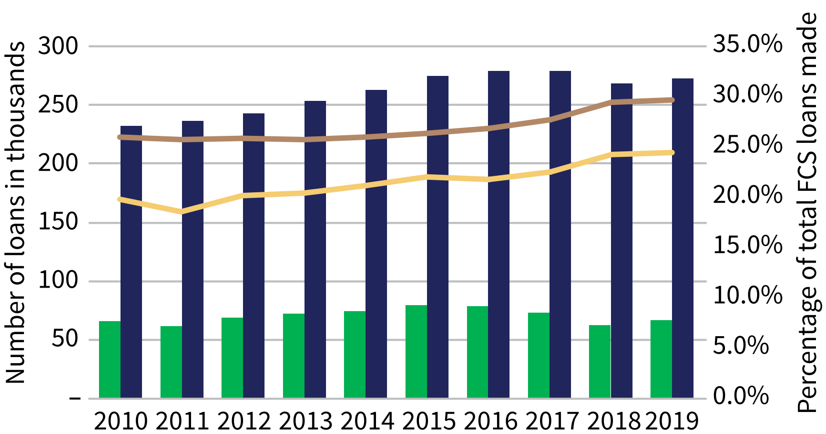
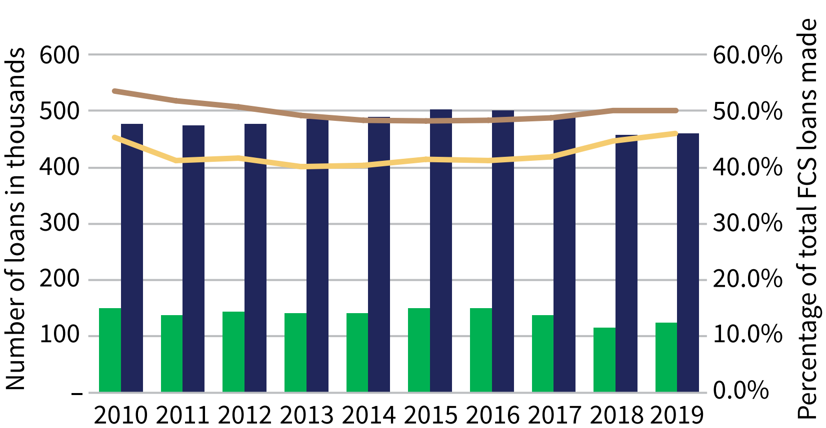
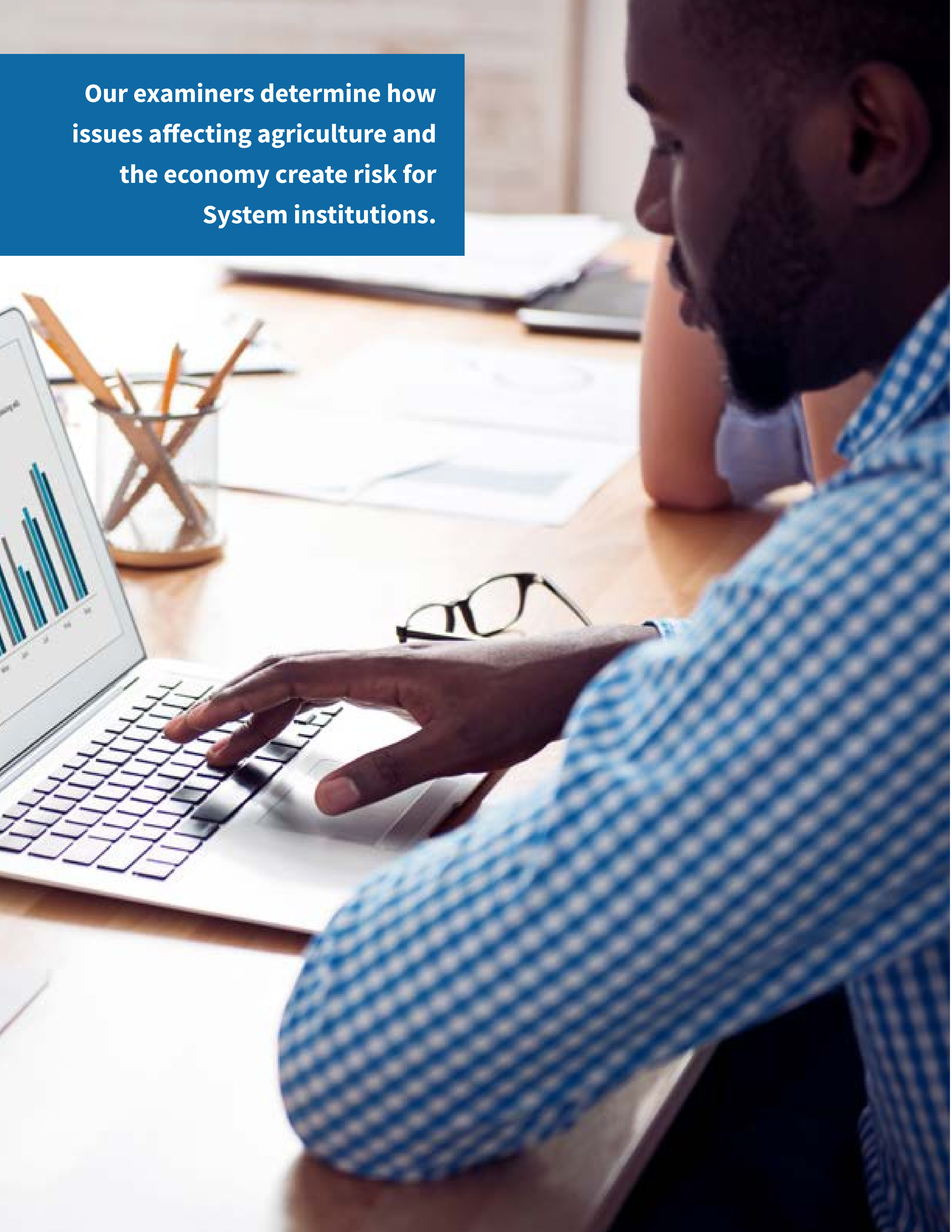


Figure 10C

Small farmers and ranchers



Our examiners determine how issues affecting agriculture and the economy create risk for System institutions.



Examining and regulating the banks and associations

Examination

Managing risk is a challenge for all kinds of lenders but especially for those lending to a single sector of the economy—in this case, agriculture. To manage this risk, Farm Credit System institutions must have both sufficient capital and effective risk-management controls. As the independent regulator of the FCS, the Farm Credit Administration examines and supervises System institutions. Our examiners determine how issues affecting agriculture and the economy create risk for System institutions.

Our examiners also evaluate whether each institution is fulfilling its chartered mission to provide credit and financially related services to all eligible, creditworthy customers. They do so in a couple of ways. They determine whether each institution is complying with mission-related laws and regulations. They also evaluate System outreach efforts and best practices in implementing innovative programs for serving the credit needs of eligible agricultural producers and cooperatives, including young, beginning, and small farmers and ranchers.

Our examiners review System institutions' annual reports and business plans and encourage institutions to include a discussion of how they are meeting their mission. Ongoing oversight and examination efforts continue to address diversity and inclusion, along with compliance with YBS regulations and YBS data integrity.

As required by the Farm Credit Act, FCA examines each institution at least once every 18 months. In the interim between these statutory examinations, we also monitor and examine institutions as circumstances warrant. We customize our examination activities to each institution's specific risks. To monitor and address FCS risk as effectively and efficiently as possible, we assign highest priority to institutions, or the parts of an institution's operations, that present the greatest risk.

We require institutions to develop and maintain programs, policies, procedures, and controls to identify and manage risk. For example, our regulations require FCS institutions to have effective loan underwriting and loan administration processes. We also have regulations requiring FCS institutions to maintain strong asset-liability management capabilities.

National oversight program

In addition to monitoring risks that are unique to a single institution, we also monitor risks that affect the System as a whole. Each year we develop a national oversight plan that takes certain systemic risks into account. In fiscal year 2020, we are focusing on three risk areas:

Lending controls. The System and its borrowers have been operating in a turbulent economic environment for the past several years. Our examination program emphasizes risk identification in stressed industries and institutions' lending controls.

We particularly emphasize collecting and analyzing accurate and timely financial information, evaluating carry-over operating debt and repayment capacity projections, and servicing loans to correct weaknesses in borrower credit factors. We also continue to focus on collateral-related controls, as well as the effectiveness and reliability of automated lending systems used to underwrite loans.

Internal audit governance. A sound internal controls environment is a basic requirement for every Farm Credit System institution, regardless of size or complexity. This governance process begins with a fully engaged board of directors and audit committee; sound policies, procedures, and internal controls; and an effective internal audit and review program. Our oversight and examination program evaluates the effectiveness of the control system, which includes the control environment, risk assessment, control activities, accounting and information systems, and the monitoring of the control system. Examination activities focus on board governance of internal controls, especially of the internal audit program.

Cybersecurity. The increasing volume and sophistication of cybersecurity threats require the boards and management of all System institutions to identify and manage inherent security risks. We evaluate various aspects of the security programs of System institutions and provide guidance as needed. We focus examination activity in these areas to ensure appropriate controls are in place to protect customer information and maintain safe operations.

Three tiers of supervision

In examining and overseeing System institutions, we use a three-tiered program: normal supervision, special supervision, and enforcement actions. Institutions under normal supervision are performing in a safe and sound manner and are complying with laws and regulations. These institutions can correct weaknesses in the normal course of business.

For those institutions displaying more serious or persistent weaknesses, we shift from normal to special supervision, and our examination oversight increases accordingly. Under special supervision, we give an institution clear and firm guidance to address weaknesses, and we give a timeframe for correcting the problems.

If informal supervisory approaches have not been or are not likely to be successful, we will use our formal enforcement authorities to ensure that FCS institutions are safe and sound and that they comply with laws and regulations. We may take an enforcement action for several reasons:

- A situation threatens an institution's financial stability.
- An institution has a safety or soundness problem or has violated a law or regulation.
- An institution's board is unable or unwilling to correct problems we have identified.

Our enforcement authorities include the following powers:

- To enter into formal agreements
- To issue cease-and-desist orders
- To levy civil money penalties
- To suspend or remove officers, directors, and other persons

If we take an enforcement action, the FCS institution must operate under the conditions of the enforcement document and report back to us on its progress in addressing the issues identified. The document may require the institution to take corrective actions, such as reducing risk exposures, increasing capital, enhancing earnings, and strengthening risk management. Our examiners oversee the institution's performance to ensure compliance with the enforcement action.

As of Jan. 1, 2020, no FCS institutions were under enforcement action.

Borrower rights

We also examine institutions to make sure they are complying with the borrower rights provisions of the Farm Credit Act. These provisions provide certain System borrowers and loan applicants with the following rights:

- To know the current effective rates of interest on their loans by the dates the loans close
- To be informed that they are required to purchase at-risk stock in their FCS institutions
- To receive copies of all the documents they have signed by the time their loans close
- To be informed promptly as to whether their loan applications have been accepted, reduced, or denied
- To be informed of their right to request restructuring for their loans if their loans are determined to be distressed
- To obtain credit committee reviews of denials or reductions of loan requests and denials of restructuring requests
- To have first refusal when their FCS institutions decide to sell agricultural properties their institutions have acquired from them
- To receive cooperation from their FCS institutions if they seek mediation

We also receive and review complaints from borrowers who believe their rights have been denied. If we find violations of law or regulations, we have several options to bring about corrective action. In 2019, we received 27 borrower complaints, compared with 33 in 2018.

Regulation

As the regulator of the Farm Credit System, we issue regulations, policy statements, and other guidance to ensure that the System, including its banks, associations, Farmer Mac, and other related entities, complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission. Our regulatory philosophy is to provide an environment that enables the System to safely and soundly offer high-quality, reasonably priced credit and related services to farmers and ranchers, agricultural cooperatives, rural residents, and other entities on which farming depends.

We strive to develop balanced, well-reasoned regulations whose benefits outweigh their costs. With our regulations, we seek to meet two general objectives. The first is to ensure that the System continues to be a dependable source of credit and related services for agriculture and rural America while also ensuring that System institutions comply with the law and with the principles of safety and soundness. The second is to promote participation by member-borrowers in the management, control, and ownership of their System institutions.

Regulatory activity in 2019

The following paragraphs describe some of FCA's regulatory efforts in 2019, along with several projects that will remain active in 2020. More information on these topics is available on our website. From

We strive to develop balanced, well-reasoned regulations whose benefits outweigh their costs.

the **Laws & regulations tab** at www.fca.gov, you can read our board policy statements, bookletters, informational memorandums, proposed rules, and any final rules whose effective dates are pending.

Statement on regulatory burden—The FCA board approved a final notice of intent in May 2019 to publish a notice in the Federal Register that responded publicly to the comments FCA received from the 2017 Regulatory Burden Solicitation.

Flood insurance—The FCA board approved a final rule in February 2019 that amends the regulations to implement the private flood insurance provisions of the Biggert-Waters Flood Insurance Reform Act of 2012.

District financial reporting—The FCA board approved a proposed rule in December 2019 that would amend regulations governing the presentation of related association financial information within an FCS bank's Annual Report to Shareholders.

Investment eligibility—The FCA board approved a proposed rule in August 2019 that would amend the FCA regulations governing eligible investments for System associations.

Implementation of current expected credit losses methodology for allowances—The FCA board approved a proposed rule in August 2019 that would amend the capital framework to address changes to U.S. generally accepted accounting principles and make conforming amendments to other regulations to accurately reference credit losses.

Criteria to reinstate nonaccrual loans—The FCA board approved a proposed rule in February 2019 that would use more measurable standards to determine when high-risk loans are suitable for reinstatement to accrual status. The proposed standards closely resemble the standards of the Federal Financial Institutions Examination Council.

Young, beginning, and small farmers and ranchers—The FCA board approved an advance notice of proposed rulemaking in February 2019 that requested public comment on ways for FCA to improve the collection, evaluation, and reporting of FCS data regarding the System's mission to provide credit and related services to young, beginning, and small farmers, ranchers, and producers or harvesters of aquatic products.

Interest rate risk management guidance—The FCA board approved a bookletter in March 2019 to provide guidance on interest rate risk management to the Federal Agricultural Mortgage Corporation (Farmer Mac).

National Oversight and Examination Program for 2020—We issued an informational memorandum in October 2019 that summarized the National Oversight Plan for 2020. The plan detailed strategies for addressing critical risks and other areas of focus.

Compensation for 2019—We issued an informational memorandum in January 2019 to notify System institutions that the Agriculture Improvement Act of 2018 repealed the limitations on bank director compensation contained in the Farm Credit Act. As a result, beginning in 2019, FCA will no longer calculate the maximum annual compensation adjustments in FCA regulation § 611.400(b)(c).

Loan syndications and assignment markets study—We continued to study loan syndications and assignment markets to determine whether our regulations should be modified to reflect significant changes in the markets.

Corporate activity in 2019

In 2019 and early 2020, we analyzed and approved the following corporate applications.

- On July 1, 2019, an ACA affiliated with CoBank, ACB, combined its operations with another ACA in the CoBank district. The PCA and FLCA subsidiaries associated with the ACAs merged their operations on Dec. 31, 2019.
- Effective Feb. 1, 2020, AgriBank received approval from FCA for the issuance of a charter of an affiliated service corporation.

The total number of associations as of July 1, 2020, was 68 (67 ACAs and 1 FLCA). We publish information about corporate applications on our website at www.fca.gov.

Funding activity in 2019

As the System's regulator, we have several responsibilities pertaining to System funding activities. The Farm Credit Act requires the System to obtain our approval before distributing or selling debt. Because we make it a high priority to respond efficiently to the System's requests for debt issuance approvals, we have a program, which we monitor on an ongoing basis, that allows the System to issue discount notes at any time up to an outstanding balance of $100 billion. (In 2019, the discount note ceiling was $60 billion; it increased to $100 billion in 2020.) In addition, we approve most longer-term debt issuances through a monthly "shelf" approval program. For 2019, we approved $157.6 billion in longer-term debt issuances through this program.

Farmer Mac provides a secondary market for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans.

Farmer Mac

Created in 1988, the Federal Agricultural Mortgage Corporation (Farmer Mac) provides a secondary market for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans. It offers greater liquidity and lending capacity to agricultural and rural lenders, including insurance companies, credit unions, commercial banks, other FCS institutions, and investors.

Farmer Mac is owned by its investors — it is not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and other FCS institutions. Any investor may own nonvoting stock.

Farmer Mac is a federally chartered instrumentality and an institution of the FCS. However, it has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac debt.

Farmer Mac conducts activities through four major lines of business:

- **Farm & Ranch**, which involves mortgage loans secured by first liens on agricultural real estate and rural housing.
- **USDA Guarantees**, which involves certain agricultural and rural loans guaranteed by the U.S. Department of Agriculture, including farm ownership loans, operating loans, and rural business and community development loans.
- **Rural Utilities Program**, which involves loans made by cooperative lenders to finance rural electric facilities.
- **Institutional Credit**, which involves Farmer Mac's purchase or guarantee of collateralized bonds known as AgVantage securities. AgVantage bonds are general obligations of the issuer that are secured by pools of eligible loans or real estate.

Farmer Mac purchases eligible loans directly from lenders, provides advances against eligible loans by purchasing obligations secured by those loans or assets that qualify as eligible agricultural real estate collateral, securitizes assets and guarantees the resulting securities, and issues long-term standby purchase commitments (standbys) for eligible loans. Securities guaranteed by Farmer Mac may be held either by the originator of the underlying assets or by Farmer Mac, or they may be sold to third-party investors.

Examining and regulating Farmer Mac

FCA regulates Farmer Mac through the Office of Secondary Market Oversight (OSMO), which was established by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991. This office provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties.

The statute requires OSMO to be a separate office within our agency and to report directly to the FCA board. The law also stipulates that OSMO's activities must, to the extent practicable, be carried out by individuals who are not responsible for supervising the banks and associations of the FCS.

Through OSMO, we examine Farmer Mac at least annually for capital adequacy, asset quality, management performance, earnings, liquidity, and interest rate sensitivity. We oversee and evaluate Farmer Mac's safety and soundness and its mission achievement. We also supervise and issue regulations governing Farmer Mac's operations.

In March 2019, the FCA board approved a bookletter to provide guidance to Farmer Mac on managing interest rate risk. In April 2019, OSMO provided formal guidance on providing a secondary market for hemp loans.

Financial condition of Farmer Mac

OSMO reviews Farmer Mac's compliance with statutory and regulatory minimum capital requirements and supervises its operations and condition throughout the year. Table 6 summarizes Farmer Mac's condensed balance sheets at the end of each calendar year from 2014 to 2019.

Capital

As of Dec. 31, 2019, Farmer Mac's net worth (that is, equity capital determined using generally accepted accounting principles [GAAP]) was $799.3 million, compared with $752.6 million a year earlier. Its net worth was 3.7% of its on-balance-sheet assets as of Dec. 31, 2019, slightly below 2018 results. Net worth, in terms of dollars, went up primarily because of an issuance of preferred stock.

Table 6

Farmer Mac condensed balance sheets, 2014 – 2019

As of Dec. 31

Dollars in millions

Item	2014	2015	2016	2017	2018	2019	Growth Rate 2018–2019
Total assets	$14,287.8	$15,540.4	$15,606.0	$17,792.3	$18,694.3	$21,709.4	16.1%
Total liabilities	$13,506.0	$14,986.6	$14,962.4	$17,084.1	$17,941.8	$20,910.1	16.5%
Net worth or equity capital	$781.8	$553.7	$643.6	$708.1	$752.6	$799.3	6.2%

Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

When Farmer Mac's off-balance-sheet program assets (essentially its guarantee obligations) are added to its total on-balance-sheet assets, net worth was 3.2% as of Dec. 31, 2019, compared with 3.3% in 2018. Farmer Mac continued to be in compliance with all statutory and regulatory minimum capital requirements.

At year-end 2019, Farmer Mac's core capital (the sum of the par value of outstanding common stock, the par value of outstanding preferred stock, paid-in capital, and retained earnings) remained above the statutory minimum requirement. It totaled $815.4 million, exceeding the statutory minimum capital requirements of $618.8 million by $196.7 million or 31.8%.

Its regulatory capital (core capital plus allowance for losses) exceeded the required amount as determined by the Risk-Based Capital Stress Test. Farmer Mac's regulatory capital totaled $828.1 million as of Dec. 31, 2019, exceeding the regulatory risk-based capital requirement of $122.1 million by $706.0 million.

Regulatory capital was 4.5% of total Farm & Ranch and Rural Utilities Program volume (including both on- and off-balance-sheet volume but excluding USDA guarantees). Risk exposure on USDA guaranteed portions is very low because they are backed by the U.S. Department of Agriculture. Table 7 offers a historical perspective on capital and capital requirements for 2014 through 2019.

Program activity

Farmer Mac's total program activity increased to $21.1 billion by year-end 2019, up from $19.7 billion a year earlier. (See

Table 7

Farmer Mac capital positions, 2014 – 2019

As of Dec. 31

Dollars in millions

Item	2014	2015	2016	2017	2018	2019
GAAP equity	$781.8	$553.7	$643.6	$708.1	$752.6	$799.3
Core capital	$766.3	$564.5	$609.7	$657.1	$727.6	$815.4
Regulatory capital	$776.4	$571.1	$617.1	$665.9	$736.8	$828.1
Statutory requirement	$421.3	$462.1	$466.5	$520.3	$545.0	$618.8
Regulatory requirement	$121.6	$72.2	$104.8	$235.4	$119.0	$122.1
Surplus core capital over statutory requirement*	$345.0	$102.4	$143.2	$136.8	$182.6	$196.7
Capital margin excess over the minimum	81.9%	22.2%	30.7%	26.3%	33.5%	31.8%

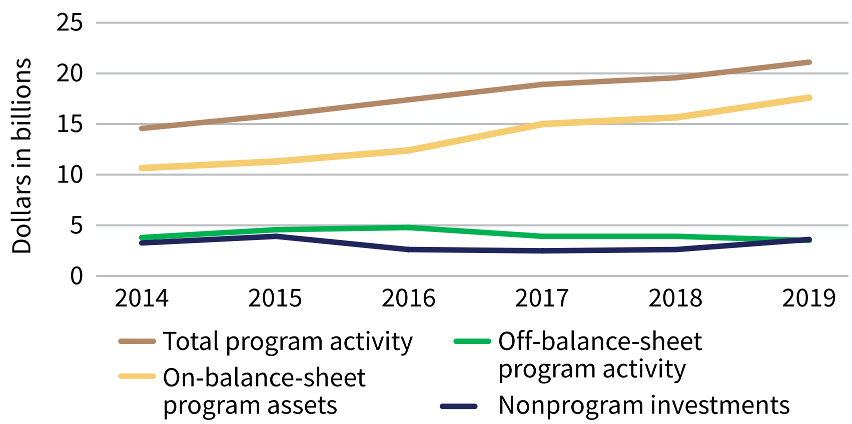
Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

* Farmer Mac is required to hold capital at or above the statutory minimum capital requirement or the amount required by FCA regulations as determined by the Risk-Based Capital Stress Test, whichever is higher.

Figure 11

Farmer Mac program activity and nonprogram investment trends

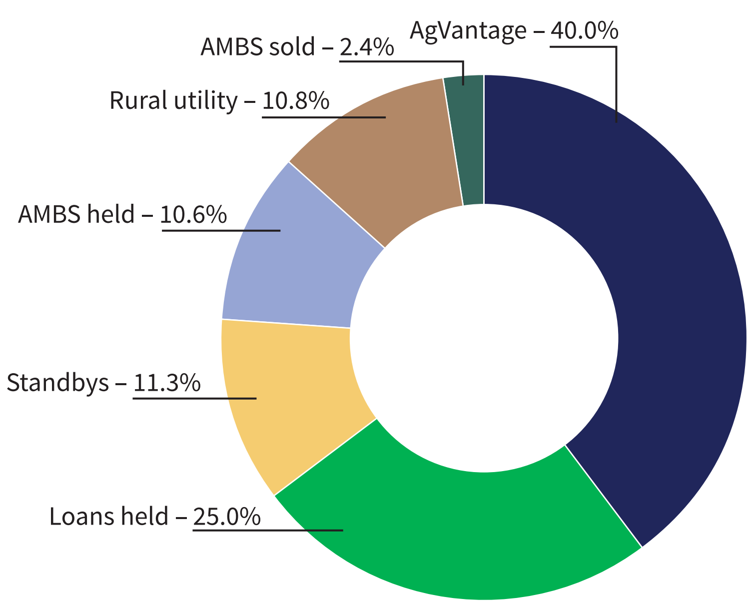
As of Dec. 31



Source: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Figure 12

Farmer Mac total program activity



Source: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

AMBS = agricultural mortgage-backed securities

figure 11.) Farmer Mac experienced steady growth in its Farm & Ranch loan purchases, as well as its Institutional Credit Program, which involves the purchase or guarantee of AgVantage securities. These bonds are general obligations of the issuing financial institution that are purchased or guaranteed by Farmer Mac. Each AgVantage security is secured by eligible loans under one of Farmer Mac's programs in an amount at least equal to the outstanding principal amount of the security.

Off-balance-sheet program activity consists of standbys, certain AgVantage securities, and agricultural mortgage-backed securities (AMBS) sold to investors. At the end of December 2019, 16.6% of program activity consisted of off-balance-sheet obligations, as compared with 20.2% a year earlier.

Farmer Mac's Long-Term Standby Purchase Commitment product is similar to a guarantee of eligible pools of program loans. Under the standbys, a financial institution pays a fee in return for Farmer Mac's commitment to stand ready (that is, "stand by") to purchase loans at face value even under adverse conditions. As shown in figure 12, standbys represented 11.3% of Farmer Mac's total program activity in 2019.

Asset quality

Figure 13 shows Farmer Mac's allowance for losses, its levels of substandard Farm & Ranch assets, and its 90-day delinquencies relative to outstanding program volume, excluding AgVantage loan volume.

As of Dec. 31, 2019, Farmer Mac's allowance for losses totaled $12.6 million, compared with $9.2 million the year before. Of its Farm & Ranch program portfolio, $310.0 million was substandard, representing 3.99% of the principal balance of Farm & Ranch loans purchased, guaranteed, or committed to be purchased. This compares with $232.7 million on Dec. 31, 2018. Assets are considered to be substandard when they have a well-defined weakness or weaknesses that, if not corrected, are likely to lead to some losses.

As of Dec. 31, 2019, Farmer Mac's 90-day delinquencies increased to $61.0 million, or 0.78% of Farm & Ranch loans, from $26.9 million, or 0.37%, as of Dec. 31, 2018.

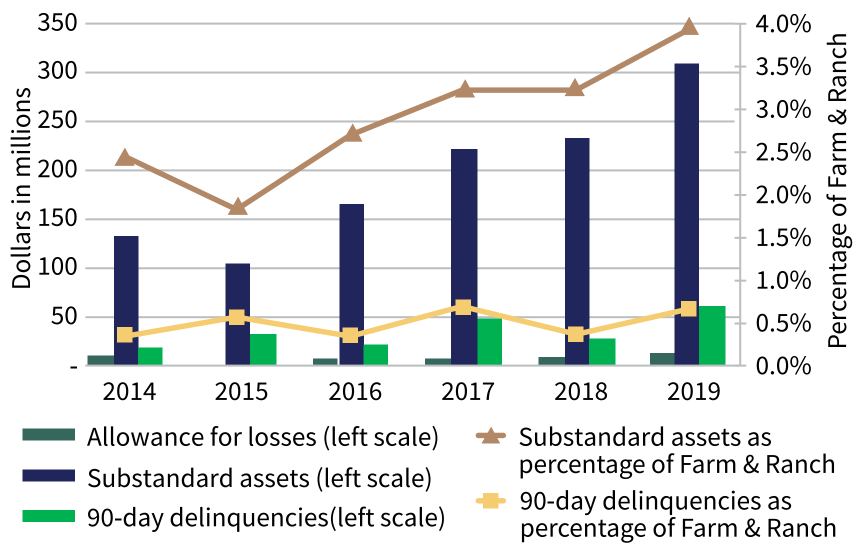
Real estate owned at the end of 2019 was $1.77 million, up from $0.13 million a year earlier. Farmer Mac reported no delinquencies in its pools of rural utility cooperative loans.

Earnings

Farmer Mac reported net income available to common stockholders of $93.7 million (in accordance with GAAP) for the year ended Dec. 31, 2019, down from $94.9 million reported at year-end 2018. Core earnings for 2019 were $93.7 million, compared with $84.0 million in 2018. Net interest income, which excludes guarantee fee income, was reported at $169.6 million in 2019, down from $174.2 million in 2018. Guarantee fee income was $13.7 million, compared with $14.0 million in 2018. Table 8 shows a six-year trend for the basic components of income.

Figure 13

Allowance, nonperforming asset, and delinquency trends, 2014 – 2019



Source: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Table 8

Farmer Mac condensed statements of operations, 2014 – 2019

As of Dec. 31

Dollars in millions

Item	2014	2015	2016	2017	2018	2019	Growth Rate 2018 – 2019
Total revenues	$103.6	$145.9	$160.8	$175.1	$186.1	$194.1	4%
Total expenses	$65.4	$98.5	$96.6	$103.8	$91.2	$100.4	10%
Net income available to common stockholders	$38.3	$47.4	$64.2	$71.3	$94.9	$93.7	−1%
Core earnings	$53.0	$47.0	$53.8	$65.6	$84.0	$93.7	12%

Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Figure 14

FCA organizational chart as of September 2020

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

FCA Board

Glen R. Smith, Chairman

Jeffery S. Hall, Member

- Office of the Board Chairman and Chief Executive Officer
  Glen R. Smith
  - Office of the Chief Operating Officer
    S. Robert Coleman
    - Office of the Chief Financial Officer
      Stephen G. Smith
    - Office of Agency Services
      Vonda Bell
    - Office of Examination
      Roger Paulsen
    - Office of Information Technology
      Jerald Golley
    - Office of Regulatory Policy
      David Grahn
    - Office of General Counsel†
      Charles R. Rawls
    - Office of Data Analytics and Economics
      Jeremy D'Antoni
  - Office of Secondary Market Oversight*
    Laurie A. Rea
  - Office of Congressional and Public Affairs
    Michael A. Stokke
  - Designated Agency Ethics Official
    Jane Virga
  - Equal Employment and Inclusion Director
    Thais Burlew
  - Secretary to the Board
    Dale L. Aultman
- Office of Inspector General
  Wendy R. Laguarda

* Reports to the board for policy and to the CEO for administration.

† Maintains a confidential advisory relationship with each of the board members.

FCA's organization and leadership

Organization of FCA

FCA's headquarters is in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. As of Sept. 1, 2020, we had 316 employees.

FCA's leadership

Currently, FCA has only two board members: Chairman Glen R. Smith and Board Member Jeffery S. Hall. The board has one vacancy because former Chairman Dallas Tonsager passed away in May 2019.

Glen R. Smith, FCA Board Chairman and CEO

Glen R. Smith was appointed to the FCA board by President Donald Trump on Dec. 8, 2017. Mr. Smith will serve a term that expires May 21, 2022.

He also serves as a member of the board of directors of the Farm Credit System Insurance Corporation, an independent U.S. government-controlled corporation that insures the timely payment of principal and interest on obligations issued jointly by Farm Credit System banks.

Mr. Smith is a native of Atlantic, Iowa, where he was raised on a diversified crop and livestock farm. His farm experience started at a very early age, after his father was involved in a disabling farm accident. He graduated from Iowa State University in 1979 with a Bachelor of Science in agricultural business and accepted a position with Doane Agricultural Services as state manager of the company's farm real estate division.

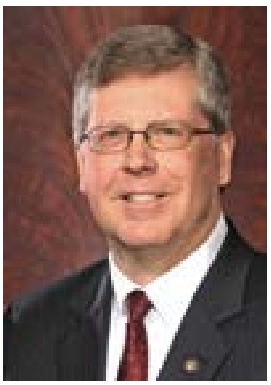
In 1982, Mr. Smith and his wife, Fauzan, moved back to his hometown and started farming and developing his ag service business. Today, their family farm, Smith Generation Farms Inc., has grown to encompass about 2,000 acres devoted to corn, soybeans, hay, and a small beef cow herd.

Mr. Smith is founder and co-owner of Smith Land Service Co., an ag service company that specializes in farm management, land appraisal, and farmland brokerage, serving about 30 Iowa counties. From 2001 to 2016, he was also co-owner and manager of S&K Land Co., an entity involved in the acquisition, improvement, and exchange of Iowa farmland. Mr. Smith has served on numerous community, church, and professional boards. He was elected to the Atlantic Community School Board of Education on which he served for nine years.

In 1990, he earned the title of Accredited Rural Appraiser from the American Society of Farm Managers and Rural Appraisers. In 2000, he served as president of the Iowa chapter of that organization. He is a lifelong member of the Farm Bureau, Iowa Corn Growers Association, Iowa Soybean Association, and Iowa Cattlemen's Association.

The Smiths have four grown children and four grandchildren. Two of their children are involved in production agriculture. Their son Peter has assumed managerial responsibilities for both the family farm and business.

Jeffery S. Hall, FCA Board Member



Jeffery S. Hall was appointed to the FCA board by President Barack Obama on March 17, 2015. Mr. Hall is serving a term that expired on Oct. 13, 2018. He will continue to serve until his successor has been named.

Mr. Hall also serves as chairman of the board of directors of the Farm Credit System Insurance Corporation, an independent U.S. government-controlled corporation that insures the timely payment of principal and interest on obligations issued jointly by Farm Credit System banks.

Mr. Hall was president of The Capstone Group, an association management and consulting firm that he cofounded in 2009. He was the state executive director for the U.S. Department of Agriculture's Farm Service Agency in Kentucky from 2001 to 2009. In that role, he had responsibility for farm program and farm loan program delivery and compliance.

From 1994 to 2001, Mr. Hall served as assistant to the dean of the University of Kentucky, College of Agriculture, advising the dean on state and federal legislative activities and managing a statewide economic development initiative called Ag-Project 2000.

Mr. Hall also served as a senior staff member in the office of U.S. Senator Mitch McConnell from 1988 until 1994. During that time, he was the legislative assistant for agriculture, accountable for internal and external issue management.

Before joining Senator McConnell's staff, Mr. Hall served on the staff of the Kentucky Farm Bureau Federation. Over his 30-year career in agriculture, he has held leadership positions in the following nonprofits: the Kentucky Agricultural Council, the Agribusiness Industry Network, the Louisville Agricultural Club, the Kentucky Agricultural Water Quality Authority, and the Governor's Commission on Family Farms.

Mr. Hall was raised on a family farm in southern Indiana, which has been in his family for nearly 200 years. He is currently a partner in the farm with his mother and sister. Mr. Hall received a Bachelor of Science from Purdue University.

Appendix

Glossary

Agricultural credit association — An ACA results from the merger of a federal land bank association (or a federal land credit association) and a production credit association (PCA) and has the combined authority of the two institutions. An ACA borrows funds from a farm credit bank or an agricultural credit bank to provide short-, intermediate-, and long-term credit to farmers, ranchers, and producers and harvesters of aquatic products. It also makes loans to these borrowers for certain processing and marketing activities, to rural residents for housing, and to certain farm-related businesses.

Agricultural credit bank — An ACB results from the merger of a farm credit bank and a bank for cooperatives and has the combined authorities of those two institutions. An ACB is also authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. CoBank is the only ACB in the FCS.

Bank for cooperatives — A BC provided lending and other financial services to farmer-owned cooperatives, rural utilities (electric and telephone), and rural sewer and water systems. It was also authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. The last remaining BC in the FCS, the St. Paul Bank for Cooperatives, merged with CoBank on July 1, 1999.

Farm Credit Act — The Farm Credit Act of 1971, as amended, (12 U.S.C. §§ 2001 – 2279cc) is the statute under which the FCS operates. The Farm Credit Act recodified all previous acts governing the FCS.

Farm credit bank — FCBs provide services and funds to local associations that, in turn, lend those funds to farmers, ranchers, producers and harvesters of aquatic products, rural residents for housing, and some agriculture-related businesses. On July 6, 1988, the federal land bank and the federal intermediate credit bank in 11 of the 12 then-existing Farm Credit System districts merged to become FCBs. The mergers were required by the Agricultural Credit Act of 1987.

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

Farm Credit System Insurance Corporation — FCSIC was established by the Agricultural Credit Act of 1987 as an independent U.S. government-controlled corporation. Its purpose is to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks and to act as conservator or receiver of FCS institutions. The FCA board serves ex officio as the board of directors for FCSIC. The chairman of the FCSIC board of directors must be an FCA board member other than the current chairman of the FCA board.

Federal Agricultural Mortgage Corporation — Farmer Mac was created with the enactment of the Agricultural Credit Act of 1987 to provide a secondary market for agricultural real estate and rural housing mortgage loans.

Federal Farm Credit Banks Funding Corporation — The Funding Corporation, based in Jersey City, New Jersey, manages the sale of Systemwide debt securities to finance the loans made by FCS institutions. It uses a network of bond dealers to market its securities.

Federal intermediate credit bank — The Agricultural Credits Act of 1923 provided for the creation of 12 FICBs to discount farmers' short- and intermediate-term notes made by commercial banks, livestock loan companies, and thrift institutions. The Farm Credit Act of 1933 authorized farmers to organize PCAs, which could discount notes with FICBs. As a result, PCAs became the primary entities for delivery of short- and intermediate-term credit to farmers and ranchers. The FICBs and the federal land banks merged to become FCBs or part of the ACB. Thus, no FICBs remain within the FCS.

Federal land bank — The Federal Farm Loan Act of 1916 provided for the establishment of 12 federal land banks to provide long-term mortgage credit to farmers and ranchers, and later to rural home buyers. All federal land banks and FICBs have merged to become FCBs or part of the ACB. Thus, no federal land banks remain.

Federal land bank association — These associations were lending agents for FCBs before they received their affiliated banks' direct-lending authority to make long-term mortgage loans to farmers, ranchers, and rural residents for housing. As lending agents, the associations did not own loan assets but made loans only on behalf of the FCBs with which they were affiliated. As of Oct. 1, 2000, all active federal land bank associations had received direct-lending authority and did not serve as lending agents for FCBs.

Federal land credit association — An FLCA is the regulatory term FCA uses for a federal land bank association that owns its loan assets. An FLCA borrows funds from an FCB to make and service long-term loans to farmers, ranchers, and producers and harvesters of aquatic products. It also makes and services housing loans for rural residents.

Financial Institution Rating System — The FIRS is similar to the Uniform Financial Institutions Rating System used by other federal banking regulators. However, unlike the Uniform Financial Institutions Rating System, the FIRS was designed to reflect the nondepository nature of FCS institutions. The FIRS provides a general framework for assimilating and evaluating all significant financial, asset quality, and management factors to assign a composite rating to each System institution. The ratings are described below.

> **Rating 1 —** Institutions in this group are basically sound in every respect; any negative findings or comments are of a minor nature and are anticipated to be resolved in the normal course of business. Such institutions are well managed, resistant to external economic and financial disturbances, and more capable of withstanding the uncertainties of business conditions than those with lower ratings. Each institution in this category exhibits the best performance and risk management practices for its size, complexity, and risk profile. These institutions give no cause for regulatory concern.

Rating 2 — Institutions in this group are fundamentally sound but may reflect modest weaknesses correctable in the normal course of business. Since the nature and severity of deficiencies are not material, such institutions are stable and able to withstand business fluctuations. Overall risk management practices are satisfactory for the size, complexity, and risk profile of each institution in this group. While areas of weakness could develop into conditions of greater concern, regulatory response is limited to the extent that minor adjustments are resolved in the normal course of business and operations continue in a satisfactory manner.

Rating 3 — Institutions in this category exhibit a combination of financial, management, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory. When weaknesses relate to asset quality or financial condition, such institutions may be vulnerable to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting the areas of weakness. Institutions that are in significant noncompliance with laws and regulations may also be accorded this rating. Risk management practices are less than satisfactory for the size, complexity, and risk profile of each institution in this group. Institutions in this category generally give cause for regulatory concern and require more than normal supervision to address deficiencies. Overall strength and financial capacity, however, still make failure only a remote possibility if corrective actions are implemented.

Rating 4 — Institutions in this group have an immoderate number of serious financial or operating weaknesses. Serious problems or unsafe and unsound conditions exist that are not being satisfactorily addressed or resolved. Unless effective actions are taken to correct these conditions, they are likely to develop into a situation that will impair future viability or constitute a threat to the interests of investors, borrowers, and stockholders. Risk management practices are generally unacceptable for the size, complexity, and risk profile of each institution in this group. A potential for failure is present but is not yet imminent or pronounced. Institutions in this category require close regulatory attention, financial surveillance, and a definitive plan for corrective action.

Rating 5 — This category is reserved for institutions with an extremely high, immediate or near-term probability of failure. The number and severity of weaknesses or unsafe and unsound conditions are so critical as to require urgent external financial assistance. Risk management practices are inadequate for the size, complexity, and risk profile of each institution in this group. In the absence of decisive corrective measures, these institutions will likely require liquidation or some form of emergency assistance, merger, or acquisition.

Government-sponsored enterprise — A GSE is typically a federally chartered corporation that is privately owned, designed to provide a source of credit nationwide, and limited to servicing one economic sector. Each GSE has a public or social purpose. GSEs are usually created because the private markets did not satisfy a purpose that Congress deems worthy — either to fill a credit gap or to enhance competitive behavior in the loan market. Each is given certain features or benefits (called GSE attributes) to allow it to overcome the barriers that prevented purely private markets

Abbreviations

ACA — agricultural credit association

ACB — agricultural credit bank

CAMELS — capital, assets, management, earnings, liquidity, and sensitivity

CEO — chief executive officer

Farm Credit Act — Farm Credit Act of 1971, as amended

Farmer Mac — Federal Agricultural Mortgage Corporation

FCA — Farm Credit Administration

FCB — farm credit bank

FCS — Farm Credit System

FCSIC — Farm Credit System Insurance Corporation

FIRS — Financial Institution Rating System

FLCA — federal land credit association

GAAP — generally accepted accounting principles

OFIs — other financing institutions

PCA — production credit association

USDA — U.S. Department of Agriculture

YBS — young, beginning, and small (farmers and ranchers)

from developing. The FCS is the oldest financial GSE.

Participation — A loan participation is usually a large loan in which two or more lenders share in providing loan funds to a borrower to manage credit risk or overcome a legal lending limit for a single credit. One of the participating lenders originates, services, and documents the loan. Generally, the borrower deals with the institution originating the loan and is not aware of the other participating institutions.

Production credit association — PCAs are FCS entities that deliver only short- and intermediate-term loans to farmers and ranchers. A PCA borrows money from its FCB to lend to farmers. PCAs also own their loan assets. As of Jan. 1, 2003, all PCAs were eliminated as independent, stand-alone, direct-lender associations. All PCAs are now subsidiaries of ACAs.

Service corporation — Sections 4.25 and 4.28 of the Farm Credit Act authorize FCS banks and associations to organize service corporations for performing functions and services that banks and associations are authorized to perform under the Farm Credit Act, except that the corporations may not provide credit or insurance services to borrowers.

Syndication — A loan syndication (or "syndicated bank facility") is a large loan in which a group of banks work together to provide funds for a borrower. Usually one bank takes the lead, acting as an agent for all syndicate members and serving as the focal point between them and the borrower. All syndicate members are known at the outset to the borrower and they each have a contractual interest in the loan.

Additional information

The Farm Credit Administration 2019 Annual Report on the Farm Credit System is available on FCA's website at www.fca.gov. For questions about this publication, contact FCA:

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With support from the Farm Credit System banks, the Federal Farm Credit Banks Funding Corporation prepares the financial press releases, the System's Annual and Quarterly Information Statements, and the System's combined financial statements. These documents are available on the Funding Corporation's website at www.farmcreditfunding.com. For copies of these documents, contact the Funding Corporation:

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The Farm Credit System Insurance Corporation's annual report is available on its website at www.fcsic.gov. To receive copies of this report, contact FCSIC:

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