FARM CREDIT ADMINISTRATION

Report on the Financial Condition and Performance of the Farm Credit System

1997

Contents

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FCA's Mission

The Farm Credit Administration will promote a safe and sound, competitive Farm Credit System by creating an environment that enables it to serve rural America as a dependable source of credit and other financial services within the authorities established by Congress.

Chairman's Message

Recently, we reported that the Farm Credit Administration Board had removed the last enforcement document placed on a Farm Credit System institution during the economic downturn of a decade ago. We regard this event as the closing of an important chapter in the System's history. Indeed, it signals the symbolic end of the 1980s agricultural credit crisis. Despite the severe stress during that period, much was learned about what it takes to ensure financial institutions thrive to better serve agriculture. The System has returned to financial prosperity with 1997 performance adding further strength to a sound financial base. As always, however, we remain constantly vigilant to identify risks on the horizon.

During 1997, System banks and associations continued their 10-year trend of improving financial condition and performance. Total loans to agricultural producers, cooperatives, and others increased by 3.7 percent to $63.4 billion, representing the third consecutive year of meaningful loan growth. Nonperforming loan volume continued its decline — down by 71 percent from 5 years ago.

System net earnings for 1997 were $1.3 billion, up 5.5 percent from 1996. This is the fifth consecutive year that earnings have exceeded $1 billion. Many System cooperatives return a portion of their income to their borrowers/owners, and in 1997 declared $313 million in patronage distributions. During the past 5 years, System capital has increased more than 62 percent to $11.7 billion, bringing the System's capital-to-asset ratio to 15.0 percent. This figure includes the $1.31 billion in the Insurance Fund managed by the Farm Credit System Insurance Corporation.

During the past 15 years, the System has undergone significant restructuring to achieve operational efficiency and to provide better service to borrowers throughout the country. Between January 1, 1983, and January 1, 1998, the number of System banks and associations declined from 932 to 211, a 77 percent decline.

Because of its strong financial health, the System continued to issue its debt at highly favorable spreads over Treasury securities. The average spread over equivalent maturity Treasury securities was 26 basis points during 1997, an increase from the 16 basis point average spread in 1996. Because rates in the capital markets declined, System institutions were able to hold interest rates charged to borrowers roughly the same as those of 1996. The average interest rate on all System loans was 8.38 percent during 1997.

Consistent with the trend of improving financial condition, CAMEL ratings — a standard measure used by financial regulators to assess an institution's condition — have improved and enforcement activity has declined. During the 12-month period ending December 31, 1997, the Agency terminated one enforcement action and issued one order to cease and desist and one agreement to System institutions. As of yearend, less than 4 percent of the System's assets were under enforcement action compared with the high of 83 percent in the second quarter of 1991.

Loans to young, beginning, and small farmers continued to represent a significant portion of the System's loans to farmers. At yearend 1997, 17.9 percent of the System's loans by number and 12.9 percent of the

System's loans by volume outstanding were to this group of borrowers. During the past 4 years, 1994-1997, the System's growth in loans outstanding to young, beginning, and small farmers has kept pace with the 17 percent loan growth to all farm borrowers. Overall, the System's average size of loan outstanding to farmers was $75,979 as of yearend, while the average size of loan to young, beginning, and small borrowers was $54,792.

My visits with farmers, ranchers, and cooperatives throughout the country indicate to me that additional young and beginning farmers are benefiting from System financing. Their numbers, however, are not reflected in the current data because the primary borrower is a parent or other senior partner. In addition, our definition of small farmer — gross agricultural sales of less than $40,000 and total agricultural assets of less than $100,000 — has not changed since the 1980s despite the significant changes in the farming sector and inflation. During 1997, we initiated a study to thoroughly review and update reporting requirements and definitions for young, beginning, and small farmers. Our objective is to ensure that programs vital to serving this group of borrowers receive appropriate emphasis, as well as to ensure that our reports are accurate.

We are pleased to see the dramatic improvement in the financial condition of the System. A healthy Farm Credit System strengthens the U.S. farming sector. Yet, as indicated, we monitor closely the many risks on the horizon. Farmers are operating under a new farm policy. Prices for many crops are at low levels. And the outlook for farm exports is clouded by the financial crisis in Asia. We well recognize that agriculture is cyclical by nature and the System and its regulator must be prepared to deal with emerging difficulties. Whatever challenges the future may hold, our focus remains unchanged — to ensure a safe and sound Farm Credit System that serves rural America with a dependable source of credit and other financial services.

Marsha Pyle Martin
Chairman
Farm Credit Administration Board
June 30, 1998

Farm Credit Administration Organization

Farm Credit Administration

The Farm Credit Administration (FCA or Agency), an independent agency in the executive branch of the U.S. Government, is responsible for regulating and examining the banks, associations, and related entities that constitute the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). In addition, the FCA annually examines the National Consumer Cooperative Bank (NCB) and its affiliate, the NCB Development Corporation, and presents the reports of examination to the U.S. Senate Committee on Banking, Housing, and Urban Affairs and the U.S. House of Representatives Committee on Banking and Financial Services.

Created by an Executive order of President Franklin D. Roosevelt in 1933, the Agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (Act). The FCA issues regulations to implement the Act and examines FCS institutions for compliance with applicable statutes, regulations, and safe and sound banking practices. If an institution violates statutes or regulations or operates in an unsafe or unsound manner, the Agency has several enforcement options to bring about corrective action.

The Agency has its headquarters in McLean, Virginia. It has field offices at its headquarters and in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.[1]

1. The regional offices in Denver, Colorado, and McLean, Virginia, and the field offices in Marietta, Georgia, and St. Louis, Missouri, were closed as of March 31 and June 30, 1997, respectively.

Farm Credit Administration Board

FCA policymaking is vested in a full-time, three-person Board appointed by the President with the advice and consent of the U.S. Senate. FCA Board members serve a 6-year term and may not be reappointed after serving a full term or more than 3 years of a previous member's term. The President designates one of the members as Chairman of the Board. The Chairman also serves as the Agency's Chief Executive Officer.

Marsha Pyle Martin was appointed to the FCA Board and designated Chairman by President Clinton on October 17, 1994; her term expires October 13, 2000. Ms. Martin also serves as Chief Executive Officer of the Agency. She brings to her position more than 30 years of experience in agriculture and agricultural finance. A Texas native, she joined the Federal Intermediate Credit Bank (FICB) of Texas in 1970, and in 1979 was the first woman appointed to a senior officer position in the System. During her career with the FICB of Texas and the Farm Credit Bank (FCB) of Texas, she gained broad management experience, providing leadership and direction for the bank's corporate relations, legal, operations and supervision, management information, human resources, marketing, and public and legislative affairs departments. She has held leadership positions with various agricultural councils and advisory committees in Texas, including the Texas Agricultural Loan Mediation Program Advisory Board, the Texas Department of Commerce Credit Advisory Committee, the Texas Agricultural Lifetime Leadership Board of Directors, and the Texas Agricultural Cooperative Council Board. In 1990, she received the Cooperative Communicators Association's highest honor, the H.E. Klinefelter Award, in recognition of her distinguished contributions to cooperative communications. In 1995, she was named to the Academy of Honor in Agriculture by the FCB of Texas Board of Directors in recognition of her contributions to agriculture and farm credit in Texas. In 1996, she was presented the Distinguished Alumni Award by Texas Woman's University. She holds a B.A. from Texas Woman's University and an M.S. from Texas A&M University.

Doyle L. Cook was appointed to the FCA Board by President Clinton on October 5, 1994, for a term that expired May 21, 1998. Mr. Cook also serves as chairman of the Farm Credit System Insurance Corporation's (FCSIC's) Board of Directors. He brings to this position more than 30 years of experience in agricultural lending, 19 of which were with various FCS institutions. Before his appointment to the FCA Board, Mr. Cook served as president and chief executive officer of the FCB of Spokane, an active participant on various committees of FCS banks, a director of Farmer Mac, and a member of the Chicago Mercantile Exchange Lender Advisory Committee. Previously, he served as president and chief executive officer of the Farm Credit Services of Mid-America, Agricultural Credit Association (ACA); senior vice president for credit for the FICB of Texas; and senior vice president of the FICB of Louisville. He began his career with Ralston Purina, where he worked in credit, marketing, finance, and general management for 13 years before joining the FCS. Mr. Cook, a native of Star City, Arkansas, holds a B.S. in agricultural business and an M.S. in agricultural economics from the University of Arkansas.

Ann Jorgensen was appointed to the FCA Board by President Clinton on May 27, 1997, for a term that expires May 21, 2002. She brings to her position extensive experience in production agriculture and accounting. In 1963, she started farming in partnership with her husband. Their farming operation now includes a cropping operation, Jorg-Anna Farms, and a hog operation, Timberland Hogs Ltd. She also worked for 10 years as a tax accountant and for 7 years as a licensed commodity broker. In 1981, she started Farm Home Offices, a mail-order catalog company that sells farm management products designed to help farmers improve their financial and production management systems. She served on a number of governing boards for the State of Iowa, including, for 6 years, the Board of Regents. The Board of Regents is responsible for the State's three universities, including the University of Iowa Hospital, a world-renowned teaching hospital, and its affiliated clinics. She is a coauthor of a producer's guide entitled *The Farmer's Guide to Total Resource Management* and is the author of a book, *Put Paperwork in Its Place.* She was honored as the Outstanding Young Woman for the State of Iowa in 1976 and was inducted into the Iowa Volunteer Hall of Fame in 1989. She and her husband were recognized by Farm Futures magazine in 1983 as the owners of one of the Top 10 Best Managed Farms. In 1997, she was one of the national agricultural leaders named by Alpha Zeta, the national honorary agricultural fraternity, to its Centennial Honor Roll. A native of Iowa, she holds a B.A. from the University of Iowa.

Officials[2]

Marsha Pyle Martin	Chief Executive Officer
Floyd J. Fithian	Secretary to the Board
Eileen M. McMahon	Director, Office of Congressional and Public Affairs
Roland E. Smith	Chief Examiner and Director, Office of Examination
Jean Noonan	General Counsel
Eldon W. Stoehr	Inspector General
Thomas G. McKenzie	Director, Office of Policy Development and Risk Control[3]
Donald P. Clark[4]	Director, Office of Resources Management
Larry W. Edwards[5]	Director, Office of Secondary Market Oversight

2. David C. Lavoie served as the Chief Operating Officer until his retirement on March 31, 1997; no successor has been named.
3. The Office of Policy Development and Risk Control was reorganized and renamed the Office of Policy and Analysis, effective February 1, 1998.
4. Donald P. Clark was named Director, Office of Resources Management, on April 1, 1997. Michael L. Young served as Acting Director, Office of Resources Management, until his retirement on March 31, 1997.
5. Larry W. Edwards retired from his position as Director, Office of Secondary Market Oversight, on April 3, 1998. George D. Irwin was named as his successor, effective April 12, 1998.

6 Overview of Organizations

Farm Credit System

The Farm Credit System is a network of borrower-owned cooperative financial institutions and related service organizations that serve all 50 States and the Commonwealth of Puerto Rico. These institutions specialize in providing credit and related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. They make loans to finance certain processing and marketing activities of their borrowers. They also may make loans to rural homeowners for housing; to certain farm-related businesses; and to agricultural, aquatic, and public utility cooperatives.

On January 1, 1998, there were 211 System banks and associations, consisting of the following:

- Six Farm Credit Banks, which provide loan funds to 64 Production Credit Associations (PCAs), 56 Agricultural Credit Associations, and 31 Federal Land Credit Associations (FLCAs) and make direct long-term real estate loans through 48 Federal Land Bank Associations (FLBAs). PCAs make short- and intermediate-term loans; ACAs make short-, intermediate-, and long-term loans; FLCAs make long-term loans; and FLBAs act as lending agents for the banks.

- One Bank for Cooperatives (BC), which makes loans to agricultural, aquatic, and public utility cooperatives, and other persons or organizations owned by or having transactions with such cooperatives.

- One Agricultural Credit Bank (ACB), providing loan funds to four ACAs, which has the combined authorities of an FCB and a BC. In addition, both the BC and the ACB are authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives.

The following FCS entities are also examined and regulated by FCA:

- The Federal Farm Credit Banks Funding Corporation (Funding Corporation) is an entity owned by FCS banks that markets debt securities that the banks sell to raise loan funds.

- The FCS Financial Assistance Corporation (FAC) was chartered in 1988 to provide capital to System institutions that received financial assistance authorized by the FCS Assistance Board. The transactions were handled through the purchase by the FAC of preferred stock issued by the System institutions being assisted.

- The Federal Agricultural Mortgage Corporation[1] guarantees the timely payment of principal and interest on securities representing interests in, or obligations backed by, pools of agricultural real estate loans.

Service corporations organized under section 4.25 of the Act[2] include the following:

- The Farm Credit Finance Corporation of Puerto Rico uses tax incentives offered to investors to provide low-interest funding (other than that from the Funding Corporation) to the Puerto Rico Farm Credit, ACA.

1. Farmer Mac is established in law as a part of the Farm Credit System. However, Farmer Mac has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac debt. Farmer Mac is organized as an investor-owned corporation, not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations making farm mortgage loans, and other FCS institutions. Non-voting stock may be owned by any class of investor. Farmer Mac is regulated by the Farm Credit Administration through the director of a separate Office of Secondary Market Oversight, who reports directly to the FCA Board.
2. Section 4.25 of the Farm Credit Act provides that one or more FCS banks and/or associations may organize a corporation or corporations to perform functions and services on their behalf. These corporations are federally chartered and are prohibited from extending credit or providing insurance services.

- The Farm Credit Leasing Services Corporation (Leasing Corporation) provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

- Farm Credit Financial Partners, Inc., provides support services to the associations affiliated with CoBank, ACB and some associations affiliated with the Western Farm Credit Bank.

- AgCo Services Corporation is chartered to provide management information systems and electronic data processing services to CoBank, ACB.

- The FCS Building Association (FCSBA) acquires, manages, and maintains facilities to house the FCA's headquarters and field offices. The FCSBA was formed in 1981 and is owned by the FCS banks. However, the FCA Board oversees the FCSBA's activities.

Farm Credit System Insurance Corporation

The Farm Credit System Insurance Corporation was established by the Agricultural Credit Act of 1987 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. By ensuring the repayment of FCS securities to investors, the FCSIC helps to maintain a dependable source of funds for farmers, ranchers, and other FCS borrowers. FCA Board members serve ex officio as the Board of Directors for the FCSIC; however, the FCA Board Chairman may not serve as the Chairman of the FCSIC Board.

8 Economic and Agricultural Finance Environments[1]

General Economic Setting

The U.S. economy chalked up another year of growth in 1997. By most standards, it was an exceptionally good year as real gross domestic product (GDP) increased nearly 4 percent compared with an annual gain of about 3.4 percent in 1996. The past year was marked by robust indicators almost across the board, including strong employment gains, low inflation, a surging stock market, and, starting in the spring, declining intermediate- and long-term interest rates. Only the dark clouds of a foreign currency crisis and other financial problems in Asia seemed to be slowing the economy as the year ended.

Almost all of the economy's key components contributed to last year's impressive performance. Bolstered by strong gains in income and wealth, personal consumption expenditures rose about 3.75 percent in 1997. Employment gains helped propel the economy as about 3 million new jobs were created in the manufacturing and service sectors. For the year, the unemployment rate averaged 4.9 percent. It was just 4.7 percent in December, a rate lower than those reached in the expansion of the 1980s. The inflationary pressures normally associated with tight labor markets were abated in 1997 by a sharp gain in labor productivity, new entrants in the labor markets, rising competition from imports, and a Federal budget that was nearly in balance. Signs of low inflation were prevalent throughout the economy as even the volatile energy and food sectors behaved well. The consumer price index (CPI) increased 1.7 percent in 1997 as compared with 3.3 percent in the previous year and 6.1 percent in 1990.

Although financial problems began to appear in several Asian countries toward the end of the year, the trade sector seemed to weather the storm reasonably well. The trade deficit for goods and services increased only slightly in 1997, to $114 billion. Farm exports, of course, were in a strong surplus position, but sharp moves in currency exchange rates affected sales to the Pacific Rim countries. Future sales to that region and other markets may weaken if these problems ripple throughout the global economy.

A well-behaved economy without inflation allowed the Federal Reserve to maintain an accommodative policy in 1997 that led to a flattening of the yield curve. Short-term rates[2] remained within a fairly narrow band around 5 percent, but intermediate- and long-term rates declined about 70 basis points from December 1996 to December 1997, and more than 100 basis points from April through December 1997. The net effect was little change in the System's average cost of interest bearing funds in 1997: 5.95 percent in 1997 versus 5.85 percent in 1996. Borrowers/stockholders benefited as the average rate on all System loans fell slightly to 8.38 percent in 1997 from 8.4 percent in 1996.

Commodity Developments

The nation's farmers and ranchers generally enjoyed a good year in 1997, although farm income fell below the record 1996 level. The year was perhaps better in one respect: benefits were more evenly distributed among producers. The rebound in the cattle industry was especially welcome as prices strengthened faster than expected with the cutbacks in production. Although the drop in grain prices was disappointing, crop producers

1. Some of the economic and agricultural finance data for previous years reported in this section have been revised to reflect revisions made by the U.S. Government agencies that are the source of this data.
2. Most FCS debt is issued with short-term maturities.

enjoyed large harvests and revenue remained strong. The farm economy continued to be bolstered by the second round of guaranteed government payments and robust foreign sales despite rising dollar and currency problems in Asia. El Niño altered weather patterns on the West Coast and in the southern tier of states. While the overall damage was significant for some producers, it appeared to be limited to a small area of the country with winter crops.

Nearly ideal growing conditions led to large harvests in 1997. Soybean production reached a new high of 2.74 billion bushels, while corn and wheat production, at 9.36 and 2.53 billion bushels, respectively, were close to all-time records. Cotton production was almost 19 million bales, only slightly below the record set in 1994. Normally, bumper crops presage a big drop in prices. But crop supplies were very tight going into the 1997 crop year, and, with strong foreign demand, markets were able to absorb the production glut without depressing prices. December grain prices were, on average, about 4 percent below year-earlier figures. The price drops for the major commodities were generally larger — 4 percent for corn, 8 percent for cotton and soybeans, and more than 15 percent for wheat.

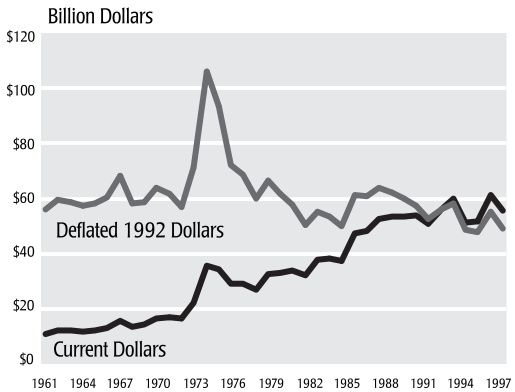
Livestock producers fared well in 1997. Highlights include the turnaround in the profit picture for cattlemen, a brighter dairy situation, and continued strength in most of the other sectors. The drop in grain prices during the second half of the year, combined with the uptrend in prices for cattle sold for slaughter (fed cattle), helped feedlot operators remain profitable most of the year. Hog producers expanded their herds last year, reversing 2 years of decline in hog inventories and pushing pork production slightly above the 1996 level. The hog market was boosted by strong exports and healthy domestic demand, which supported prices in the face of higher production. Prices were retreating sharply by yearend however. The poultry industry experienced falling prices in 1997, but cheaper feed costs helped sustain profitability. Dairy producers saw prices bottom early in the year and then rebound nicely as the year progressed. By December, fed cattle prices were in the range of $65 per hundredweight, up modestly from year-earlier levels. Hog prices, on the other hand, finished the year at about $45 per hundredweight, or $10 below the year-earlier figure. As the year concluded, some ominous signs were emerging in both the export and domestic markets. The loss of export growth, reflecting both Asian financial problems and the strong dollar, and the buildup in meat production from adjustments in the cattle and hog cycles were pointing to downward price pressures.

Agricultural Exports

U.S. agricultural exports enjoyed another strong year in 1997, despite some slippage in both value and tonnage. Sales amounted to $57.2 billion, off about 5.3 percent from the previous year's record of $60.4 billion. The decline in tonnage was about 7.5 percent. Agricultural imports increased almost 8 percent to $36.3 billion in 1997, the increase reflecting the strong U.S. economy and the value of the dollar relative to other currencies. Once again, the farm sector contributed a large surplus to the national trade accounts.

The income trends in developing countries and the general movement toward freer trade account for the optimistic outlook that has existed in the farm economy in recent years. In addition, the rapid growth in sales of intermediate and consumer-oriented agricultural products, which has reduced the heavy reliance on bulk commodity shipments, has encouraged producers. As Government payments are phased out in the period ahead, farmers and ranchers will continue to depend on these trends to support their incomes.

Figure 1
Net Cash Income from Farming, 1961-1997



Note: Data for 1997 are forecast.
Source: USDA, Economic Research Service: National Financial Summary-1993, ECIFS 13-1, December 1994, and Agricultural Outlook, AGO-249, March 1998.

The currency crisis and other financial problems in Southeast Asia were a growing concern as the year ended. By late 1997, trade statistics were showing some weakness in foreign sales, and various forecasts were pointing to increased sluggishness as the Asian problems rippled to other countries. The real fear was a widespread economic recession and the effect it would have on the more income-sensitive, high-value products that are the fastest growing component of agricultural exports. Another factor slowing export sales was the increasing value of the dollar relative to the currencies of the United States' major exporting competitors. This reduced the competitiveness of U.S. exports. The general consensus is that America's farmers and ranchers will weather the current situation with only mild disruptions to prices and incomes. However, the Asian problems demonstrate the new risk universe that producers now face in pinning their hopes on global markets.

Farm Income

Farm sector income in 1997 remained strong in nominal terms after having declined relative to the record high level achieved the previous year. However, real farm income (inflation-adjusted) continued a long-term downward trend that has been in effect for decades (Figure 1). Lower crop prices and rising production expenses, only partially offset by greater production, resulted in an 8 percent drop in net cash income from $59.9 billion in 1996 to $55 billion in 1997. From 1990 to 1996, net cash income averaged slightly lower at $54.1 billion. Net cash income measures the cash available to service debt or substitute for additional debt.[3] Net farm income, an accrual measure of farm income, declined nearly 11 percent in 1997 to $46.6 billion, but was still higher than the average of $44.5 billion from 1990 to 1996.[4]

The decline in farm income was due to relatively stable gross cash income combined with rising production expenses. Gross cash income increased slightly in 1997, to $220.8 billion. The primary source of growth was a $400 million increase in farm-related income to $11.4 billion and a $600 million increase in Government payments to $7.9 billion.

Total cash receipts dropped about $400 million in 1997 to $212.9 billion. Crop receipts declined slightly last year from $109.4 billion in 1996 to $108.9 billion. Livestock receipts also dropped in 1997, declining from $92.9 billion in 1996 to $92.6 billion.

Total production expense rose 2.8 percent in 1997 to $186.4 billion — a $5.1 billion increase. The cost of farm-origin inputs, such as feed, livestock purchased, and seed, was the most important contributor to the rise in production expenses, rising 7.2 percent in 1997. The cost of manufactured inputs (e.g., fertilizers, fuels, electricity, and pesticides) was largely unchanged in 1997 relative to the prior year. Interest expenses were up just 1.4 percent in 1997 due primarily to greater debt balances. Interest rates did not change much in 1997. Short-term rates were slightly higher, while long-term rates were somewhat lower.

Farm Sector Financial Ratios

Since the mid-1980s, the financial condition of farmers as a group has improved markedly. The level of outstanding farm debt fell precipitously from its peak of $194 billion in 1984 to $138 billion in 1989. (Farm debt has recovered to more than $162 billion as of December 31, 1997.) Farm sector asset values had risen at about the rate of inflation since the late 1980s. However, in the past

3. Net cash income is a cash accounting of commodity sales, Government payments, farm-related income, and operating expenses associated with producing that revenue. Neither depreciation nor capital expenditures are deducted.
4. Net farm income is an accounting of farm income and expenses on an accrual basis. Thus, net farm income has adjustments for inventory changes (to reflect only the current year's output), depreciation as an expense, and recognition of other noncash income and expense items. Overall, income tends to be more stable when expressed on a cash basis, because it partly measures how farmers manage to average their sales and expenses from more than one production year.

few years, debt use has picked up and growth in farmland prices has accelerated, rising faster than debt. The result has been declining debt-to-asset ratios and, recently, rising measures of the debt burden when expressed in terms of income and interest expense.

Financial leverage can have a positive effect on farm earnings when commodity prices are high and revenues are strong. When revenues decline, however, farmers with higher financial leverage generally experience a greater decline in earnings than those who employ a more conservative financial management strategy. Consequently, with the resurgence of farm debt growth, one can expect more volatile farm earnings for a given change in gross farm income. Despite the positive financial performance of the farming sector in 1997, prudence dictates that trends in the various measures of farmers' debt burden be monitored carefully.

The decline in farm income in 1997 combined with growing farm sector debt pushed various financial ratios to less favorable levels. In general, those financial ratios that are measured in terms of farm income deteriorated while those ratios based on balance sheet measures improved. Rising farmland values in many parts of the country have pushed the sector's debt-to-asset ratio to lower levels. The result is a set of financial ratios that provide somewhat mixed signals if not carefully interpreted.

Farmers' Use of Credit Capacity Rises

Farmers' use of credit capacity is based on current outstanding debt compared with the debt level that could be serviced with current net cash income before interest. In 1981, credit capacity utilization peaked at about 107 percent, meaning that farmers, as a group, exceeded their ability to service debt out of net cash income. The high debt burden that this measure illustrates led to the financial shakeout in agriculture that continued throughout much of the 1980s. Clearly, any upward trend in farmers' use of credit capacity should be viewed as an early signal of potential financial difficulties in the farm sector. In 1997, farmers' use of credit capacity rose to 56 percent from 49 percent in 1996 (Figure 2). This increase in farmers' use of credit capacity is the result of lower income and greater debt servicing obligations. The U.S. Department of Agriculture (USDA) expects this index of the debt burden to increase again in 1998.

Farm Sector Interest Coverage Ratio Deteriorates

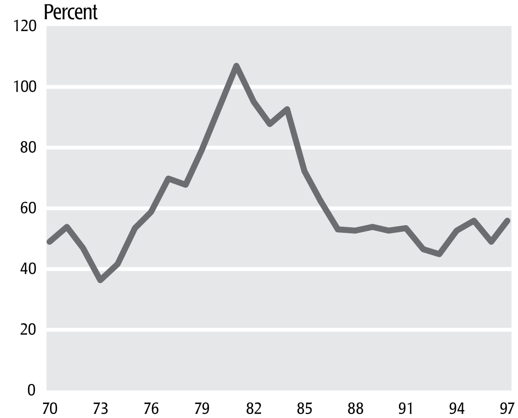
The interest coverage ratio (net cash income before interest divided by interest) is a measure of the earnings available to service interest expenses. The higher the value, the greater the coverage, and the lower the debt servicing burden, all else being equal. After declining for several years, farm sector interest expenses have risen from $10.8 billion in 1993 to about $13.4 billion in 1997. This recent trend has helped to push down the interest coverage ratio from 6.4 in 1993 to 5.1 in 1997. Based on USDA's published forecasts, the farm sector's interest coverage ratio will deteriorate further in 1998 to about 4.8.

Debt-to-Asset Ratio Improves Slightly

The farm sector debt-to-asset ratio, a measure of financial solvency, improved again in 1997, dropping from 15.1 percent in 1996 to a slightly more favorable 15.0 percent. The value of total farm sector assets grew 4.6 percent compared with a growth rate of just 3.8 percent for farm debt.

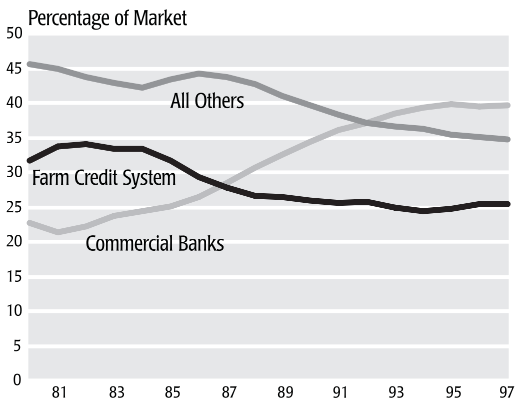
Higher levels of credit capacity use combined with lower interest coverage ratios indicate an adverse trend that suggests a higher likelihood of debt servicing difficulties if farm incomes weaken significantly. This trend is occurring at the same time debt-to-asset

Figure 2
Farmer's Use of Credit Capacity



Note: Use of credit capacity is computed as the ratio of of actual debt to debt repayment capacity. Capacity is based on the debt level that could be serviced with current net cash income before interest. Data for 1997 are forecast.
Source: USDA, Economic Research Service, unpublished data, and Agricultural Income and Finance Situation and Outlook Report, AIS-68, February 1998.

Figure 3
Total Farm Business Debt, Market Shares 1980-1997
(As of December 31)



Note: "All Others" includes trade credit, seller financing of real estate, life insurance companies, USDA's Farm Service Agency, and Farmer Mac. Data for 1997 are preliminary estimates.
Source: USDA, Economic Research Service: Agricultural Income and Finance Situation and Outlook Report, AIS-68, February 1998.

ratios are declining (because asset values are rising faster than debt). This same combination of trends occurred in the 1970s just before the financial crisis of the 1980s. While it is far too early to be concerned with the current trends in the farm sector financial ratios, vigilance must be maintained.

Farm Debt Markets and Lender Shares[5, 6]

By the end of 1997, the Farm Credit Banks and their affiliated associations, as well as those affiliated with CoBank, ACB had completed 3 years of significant growth. This upward trend comes after nearly a decade (1984-1993) of declining farm loan volume. USDA estimates that the System's yearend 1997 market share of total farm business debt outstanding had increased slightly to 25.5 percent, compared with a low of 24.4 percent in 1994 and a high of 34 percent at the end of 1982 (Figure 3). Commercial banks, with a 39.7 percent market share at the end of 1997, continued to hold the largest share of total farm business debt. Commercial banks had been gaining market share steadily since 1981 when they held 21.3 percent of the market.

Total farm business debt grew 3.6 percent during 1997, to $162.2 billion. Total farm business debt reached a high of $193.8 billion in 1984, fell to $137.9 billion in 1989, and has been gradually increasing through the 1990s. During 1997, growth rates of about 2.9 percent in the real estate-secured portion and 4.4 percent in the non-real estate portion brought outstanding real estate debt to $84.1 billion and non-real estate debt to $78.1 billion.

The FCS continues to be the largest provider of farm real estate loans, while commercial banks continue to be the largest provider in the non-real estate area. In recent years, however, commercial banks have lost market share in the non-real estate loan market while the FCS has gained. And conversely, since the middle 1980s, the FCS has lost market share in the real estate area while commercial banks have gained.

USDA estimates that in 1997 the System's share of real estate debt outstanding declined slightly, to 31.2 percent. This decline has been continuous, except for a slight increase in 1996, since the peak of 43.7 percent in 1984 (Figure 4). The System's non-real estate market share has been gradually increasing from a low of 14.2 percent at the end of 1988 to 19.3 percent in 1997 (Figure 5).

Commercial bank market share of real estate-secured loans increased almost fourfold from 1982 to 1997, rising continuously from 7.4 percent to 29.5 percent. Bank share of non-real estate debt had been increasing since the end of 1987, reaching a high of 53.1 percent at the end of 1994. However, by 1997 yearend, the share had declined to 50.7 percent.

Both System and commercial bank share in the farm non-real estate market are probably slightly higher than USDA data show because of "point-of-sale" credit provided by farm input or equipment suppliers. Often this credit is funded through line-of-credit arrangements with System institutions or commercial banks. In 1998, System lending volume associated with point-of-sale credit may increase due to the inauguration of the Farm Credit System's AgSmart program in December 1997. AgSmart is a nationwide program to provide point-of-sale credit through agricultural input suppliers.

Other institutional lenders to farmers include insurance companies and USDA's Farm Service Agency (FSA). While only six insurance companies are now active in farm lending, these companies were very active in the farm real estate market in 1997. Insurance companies emphasize larger loans (more than $500,000) and have held about 11 to 12 percent of the farm real estate-secured debt since the early 1980s, or about 6 to 7 percent

5. Market share data provided here does not include loans to farmers made through credit affiliates of agricultural cooperatives that are funded by System institutions.
6. USDA's farm business debt data for all lenders are preliminary yearend estimates (based on September 30, 1997 financial results) and are adjusted to remove the volume associated with farm households. The source of this data is USDA, Economic Research Service: Agricultural Income and Finance Situation and Outlook Report, AIS-68, February 1998. The yearend actual change in System debt by category is presented later in this report in Table 1, under the section entitled Farm Credit System Performance Report, on page 18.

of overall farm debt. FSA, the "Government lender of last resort," reached a high in both real estate and non-real estate lending during 1986 to 1988. This lending continued to decline through 1997 to an overall farm debt share of only 5.4 percent. The decline reflects the intentional shift in the FSA's direct lending programs to guarantees of loans made by other lenders. Guaranteed loans are showing up on the books of both commercial bank and FCS lenders. The category "individuals and others" constitutes the remaining group of farm debt holders and mostly represents seller financing for real estate and trade credit. The percentage held by this category was 23.3 at the end of 1997.

The strong growth rates for the System during the past 3 years have come at a time when the System has rebuilt its financial strength following the agricultural financial crisis of the mid- to late 1980s. System lenders can now serve their chartered markets with more competitive interest rates and more active marketing efforts. In addition, many System lenders are changing their credit delivery systems, with greater emphasis on expanding customer relationships for large, complex loans and more efficient means of credit delivery for smaller loans that are $100,000 or less. These changes, however, also come at a time when commercial banks, despite rising loan-to-deposit ratios, continue to have the liquidity to be strong competitors in the farm lending arena. Insurance companies are also competing actively for the larger credits. In addition, trade (or point-of-sale) credit, while not as accurately measured as other farm debt, appears to be experiencing strong growth. The result has been continued strong competition in farm lending markets for creditworthy borrowers. The same is expected for 1998.

Potential Risks for the Farm Credit System

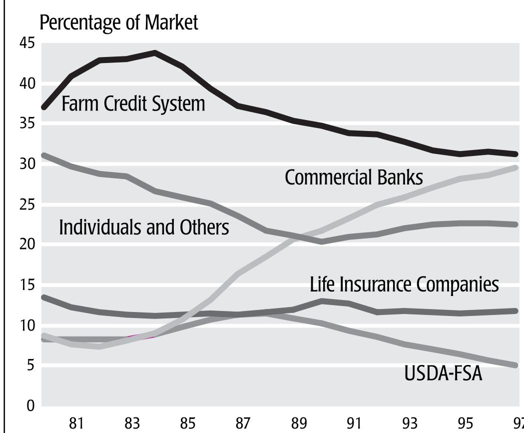
As a safety and soundness regulator, the Farm Credit Administration acts to protect the customers/shareholders of FCS lending institutions and investors in FCS debt securities. Through its regulatory, enforcement, and examination functions, FCA monitors and helps control the risks to these groups with the objective of promoting a safe and sound, competitive Farm Credit System to finance rural America as authorized by Congress. In carrying out these functions, the Agency has identified several risks that bear watching over the next few years.

Many of the risks listed below are related to loan underwriting. The FCA addresses them in a variety of ways. Examiners monitor institutions on an ongoing basis, while economists and financial analysts located at FCA's headquarters evaluate systemic developments that may affect groups of institutions or the entire FCS. The Agency also finalized a new underwriting regulation last year that shifted the focus of the Agency's regulatory approach more to lender accountability for the development of prudent loan policies. These risks are also directly addressed through the FCA's risk-based examination process.

Land Price Increases

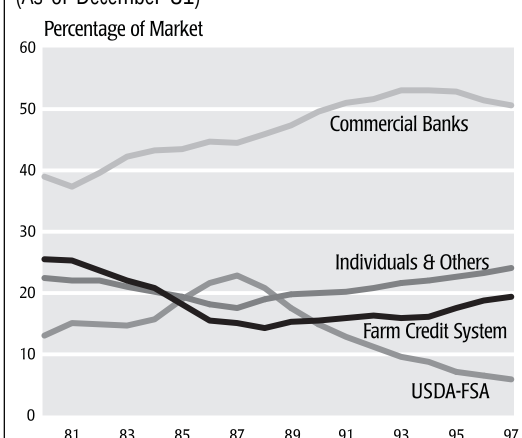
High crop prices combined with generous Government payments and low interest rates have led to significant increases in the farmland market, especially in the Midwest, the region receiving the largest share of payments from Government farm programs. As an example, the Chicago Federal Reserve District's quarterly land value survey has consistently shown an annual gain of 7 to 12 percent during the last 2 years. Nationwide, farmland values have increased at a rate of 5 to 7 percent annually during 1996 and 1997. Some forecasters believe, however, that land

Figure 4
Real Estate Farm Business Debt, Market Shares 1980-1997
(As of December 31)



Note: "Individuals and Others" is mainly seller financing of real estate, but also includes Farmer Mac loans. USDA-FSA is the USDA's Farm Service Agency. Data for 1997 are preliminary estimates.
Source: USDA, Economic Research Service: Agricultural Income and Finance Situation and Outlook Report, AIS-68, February 1998.

Figure 5
Non-real Estate Farm Business Debt, Market Shares 1980-1997
(As of December 31)



Note: "Individuals and Others" is mainly trade credit. USDA-FSA is the USDA's Farm Service Agency. Data for 1997 are preliminary estimates.
Source: USDA, Economic Research Service: Agricultural Income and Finance Situation and Outlook Report, AIS-68, February 1998.

values will drop if Government payments end after the current Farm Act[7] expires in 2002. The risk is that underwriting standards may not adequately focus on borrower repayment capacity from revenue flows as compared to reliance on collateral values.

Asian Economic Crisis

The Asian financial crisis involves the potential for detrimental effects on the Farm Credit System, although major or serious consequences to the System have not yet been detected. The Asian economic situation, however, will have an adverse effect on the U.S. general economy and the farm economy. USDA has already lowered its 1998 forecast of U.S. farm exports to Asia several times, and exports to Japan, South Korea, and Southeast Asia are all expected to fall considerably. If the Asian demand for U.S. farm products should stay weak or considerably worsen or the value of the dollar increase further with respect to the currencies of importing countries or of our exporting competitors, farm exports will decline further. This would lead to further decline in already low farm commodity prices. Also, reduced exports of farm products will depress rural economies, which, in turn, provide important sources of off-farm income to many System borrowers.

These developments have made farm lending somewhat riskier this year and possibly beyond. Lower commodity prices will have a negative impact on the debt servicing capacity of System borrowers. The region most affected will be the western United States where exports to Asian countries are more heavily relied upon than in other parts of the country. The Midwest will also feel the impact as exports of corn, soybeans, and wheat are affected.

New Risk Control Devices for Farmers

The Farm Act ushered in a new era of farm policy. The result will be a riskier environment due to the greatly reduced Government role in providing a financial buffer during low-income years. The lack of Government controls on the supply side will likely bring greater commodity price and income volatility, thus making debt repayment capacity more uncertain over time. Farmers will need to use new and improved risk control devices. Examples include various commodity price hedging contracts, yield and other forms of futures contracts, and income or revenue insurance. If not properly understood and implemented, these management tools could lead to unexpected risks for farmers and lenders.

High Concentration Portfolios

The limited charter of System institutions — to operate principally in the agricultural sector — presents unique challenges to their safety and soundness. In addition, each System lending institution (except CoBank and the St. Paul BC) operates under a limited geographical charter. As a result, many Farm Credit institutions have high loan concentrations in a few agricultural commodities. Also, many FCS institutions have high concentrations of borrowers producing commodities under Government support programs. Farmer repayment capacity could deteriorate due to the phasing out of these programs. These commodities are also predicted to experience greater price volatility as a result of the new market orientation of Government farm policy. The FCA monitors commodity concentration risk exposure to ensure that System institutions implement appropriate strategies for dealing with this source of risk.

7. The formal title of the Farm Act is the Federal Agriculture Improvement and Reform Act of 1996.

Highly Competitive Markets

Markets for farm credit have become highly competitive in recent years. In addition, non-bank lenders such as captive finance companies are not only offering aggressive rates to promote machinery sales, but are also expanding into making operating loans not tied directly to the products they sell. This competition encourages the borrower to demand fast turnaround time on loan decisions combined with reduced borrower information requirements. The new credit scoring models for farm loans are a prime example of how lenders, including many FCS institutions, have changed their credit delivery practices to improve turnaround times and reduce information collected. The risks in these competitive rural lending markets are that underwriting standards and loan administration practices may be compromised.

Increased Access to Agency Security Market Funds for Other Rural Lenders

Several legislative and regulatory initiatives are underway that would expand the access of rural commercial banks and thrift institutions to borrowing from Government-sponsored enterprises (GSEs). The outcome of these initiatives and the resultant use by rural lending institutions, might change considerably the competitive balance between the FCS and other rural lenders. The FCS's ability to meet its ongoing public purpose of assuring credit availability and promoting competitive rural credit markets might be adversely affected.

Year 2000

The most pervasive technological change occurring in 1998 and 1999 will be the System's efforts to adjust computer and related business systems to correctly interpret dates associated with the Year 2000. Most information systems will require modifications to perform as intended beginning January 1, 2000. The computer problems associated with the Year 2000 pose potential safety and soundness concerns because there is zero tolerance for late delivery or project failure. Also, experience has shown that modification projects are usually more costly and time consuming than anticipated.

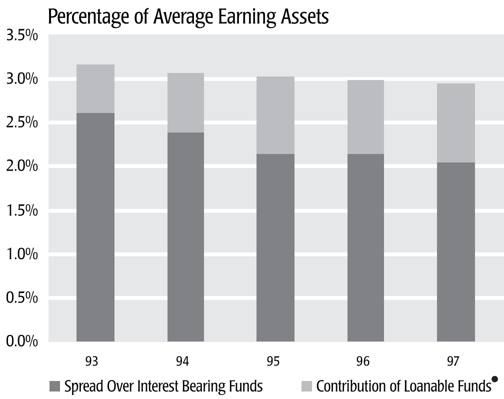
The Year 2000 computer problem is one of the FCA's examination focus areas for 1998-1999. Special monitoring and examination programs have been implemented for this issue. The purpose of the examination program is to accurately assess the degree of exposure in the System and in individual institutions as a result of the millennium date change on January 1, 2000. This assessment is enabling the Agency to identify high-risk institutions so corrective action can be implemented.

New Means of Credit Delivery

The FCS will continue to develop innovative credit delivery processes such as scorecard lending and electronic commerce. One example is the System's increased use of a national trade credit program using scorecard technology. Scorecard lending introduces new risks that, like any underwriting mechanism, must be closely monitored. Risks include the handling of override decisions, capital requirements, and regulatory compliance. The increased use of the Internet for lending and the use of electronic commerce are additional areas of increased risk potential. All new credit delivery processes afford loan officers a way to "book" loans more efficiently, but risks arise without controls to ensure that new approaches are working properly.

Farm Credit System Performance Report[1, 2]

Figure 6
Net Interest Margins, 1993-1997



●Loanable funds are owned (interest-free) funds that support interest-earning assets.
Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

During 1997, Farm Credit System banks and associations continued a 10-year trend of improving financial condition and performance. Earnings were more than $1 billion for the fifth straight year. In the past 5 years, System capital has increased more than 60 percent. Nonperforming loan volume continues to decline steadily and is 29 percent of what it was 5 years ago. The System's ability to absorb risk continues to increase as capital grows, primarily through retained earnings.

Earnings

Net earnings for 1997 were $1.3 billion, up 5.5 percent from 1996 earnings. Reasons for the increase included higher loan volume, higher net interest income, and a lower provision for loan losses. These positive influences were offset by an increase in the provision for income taxes. Net interest income was up 1.3 percent over 1996, to nearly $2.2 billion. Net interest income increased because of higher loan volumes, partially funded by an increase in loanable funds.[3] The net interest margins fell slightly from 2.99 percent of average earning assets in 1996 to 2.95 percent in 1997 (Figure 6), because of a higher average cost of funds. The net interest spread[4] decreased 10 basis points to 2.05 percent.

Most of the banks and their affiliated associations experienced an increase in net income in 1997. Only the Wichita District registered a drop (-2.6 percent) in net earnings compared with 1996. The decline in net earnings in the Wichita District was due primarily to a 6 percent increase in noninterest expenses and a $2.9 million increase in the provision for loan losses. The St. Paul Bank for Cooperatives showed the largest increase in net income, rising 36.7 percent relative to the 1996 results. The Western and AgAmerica Districts' net income rose 14.7 percent and 10.4 percent, respectively. Systemwide, the return on average assets for the 12 months ended December 31, 1997, was 1.66 percent, compared with 1.63 percent for the 12 months ended December 31, 1996.

Operating expenses for 1997 totaled $892 million, a 5.4 percent increase from 1996. Salaries and employee benefits, the largest portion of expenses, increased 3.5 percent. Occupancy and equipment expenses rose 3.9 percent. However, other operating expenses jumped nearly 10 percent to $280 million. Only the Texas District experienced a decline in operating expenses, which was down 6.9 percent. The largest increases in operating expenses occurred at the St. Paul Bank for Cooperatives (26.7 percent) and the AgriBank District (10.5 percent). The System's operating expense rate (operating expense as a percentage of total loans) increased to 1.41 percent from 1.38 percent in 1996. This increase came after two consecutive years of decreases (Figure 7). The number of districts with increases in expense rate between 1996 and 1997 equaled the number with decreases (most changes were less than 10 basis points).

In 1997, the System added $92 million to the allowance for loan losses, $49 million less than in 1996. Only the Western District did not add provisions to the allowance account. The Western District reduced its allowance for loan losses after determining that the level of credit risk in the district had improved enough to warrant a lower allowance. The other districts increased their allowance for

1. The material on the Farm Credit System, Farmer Mac, and the Farm Credit Insurance Fund section is based on calendar year 1997.
2. The information presented in this section includes all Farm Credit Banks and the Agricultural Credit Bank and their affiliated associations and the Bank for Cooperatives. References to individual districts include financial data for the district bank and its affiliated associations, adjusted to eliminate transactions between institutions in the district. Separate analysis of Farmer Mac, the Farm Credit Leasing Services Corporation, and the Farm Credit Insurance Fund follow. The data used in the overall FCS analysis were provided by the FCS institutions to the Federal Farm Credit Banks Funding Corporation, are based on publicly available information, and have been adjusted to eliminate transactions between FCS institutions.
3. Loanable funds are the excess of interest-earning assets after subtracting interest-bearing liabilities.
4. Net interest spread is the difference between the interest rate charged to borrowers and the interest rate paid by the institution.

loan losses in response to an increase in loan volume and operating weaknesses experienced by a limited number of borrowers.

Offsetting increases to net income included a $12 million increase in the provision for income taxes to $186 million. Because System institutions are cooperatives, they can offset some of their tax liability by declaring patronage distributions, thus returning a portion of their income to the borrowers/owners. In 1997, the System declared $313 million in patronage distributions, of which $124 million is to be paid in cash. Of the remaining $189 million in declared patronage, $120 million was transferred to allocated surplus, and the remaining $69 million was declared as capital stock.

Capital

As the System generates and retains earnings, total capital continues to grow.[5] During 1997, total capital grew 9.0 percent, to $11.7 billion. Capital rose from 14.3 percent of total assets at yearend 1996 to 15.0 percent at yearend 1997 (Figure 8). Surplus increased 12 percent and comprised 71 percent of total capital compared with 69 percent at the end of 1996. Also contributing to capital was a $47 million net unrealized gain on investments available for sale versus a $6 million net unrealized gain at yearend 1996. Nonperforming loans were 7.1 percent of total capital, compared with 8.6 percent at yearend 1996.

As of yearend 1997, only two System institutions were not in compliance with the Farm Credit Administration's minimum capital requirements. The Agency requires each institution to maintain a minimum 7 percent permanent capital to risk-adjusted assets ratio; 7 percent total surplus to risk-adjusted assets ratio; and 3.5 percent core surplus to risk-adjusted assets ratio.[6]

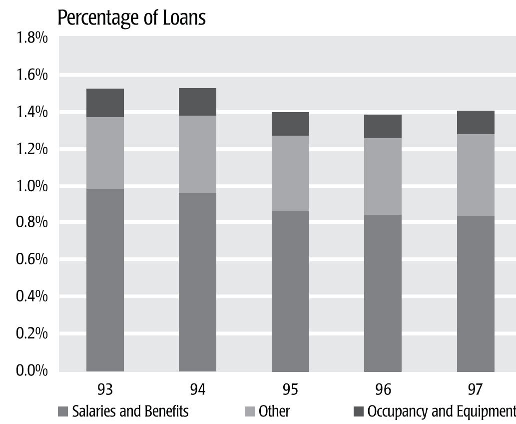
Assets

Total assets increased 4.3 percent over yearend 1996 to $78.1 billion. The System's investment portfolio, up 6.8 percent from a year ago to $12.6 billion, contributed to the increase. Systemwide, 43 percent of the investment portfolio consists of mortgage-backed securities, 27 percent of bankers' acceptances, certificates of deposit, and other commercial securities, 14 percent of Federal funds, and 16 percent of various other types of investments. Total investment portfolios of System banks amounted to just under 20 percent of total loans, well under the 30 percent regulatory maximum. Total loans of $63.4 billion (Table 1), which constitute 81 percent of assets, increased 3.7 percent. The largest increase came in long-term real estate loans, up $1.5 billion, a 5.5 percent increase over 1996. This gain was due to the generally healthy farm economy, competitive loan pricing, and improved marketing efforts. The System also saw an increase of $1.4 billion (9.4 percent) in production and intermediate-term loans and a $411 million (10.6 percent) increase in rural utilities lending.

Long-term real estate loans made up 45.8 percent of the System loan portfolio at yearend 1997, up from 45 percent the year before. Production and intermediate-term loans also increased their share of the FCS portfolio, increasing from 24 percent to 25.3 percent in 1997.

All Farm Credit banks contributed to the rise in 1997 loan volume. The largest increases were in the Wichita District (10.5 percent) and in the Western District (8.0 percent). The St. Paul BC saw a 14.3 percent decrease in loan volume in 1997.

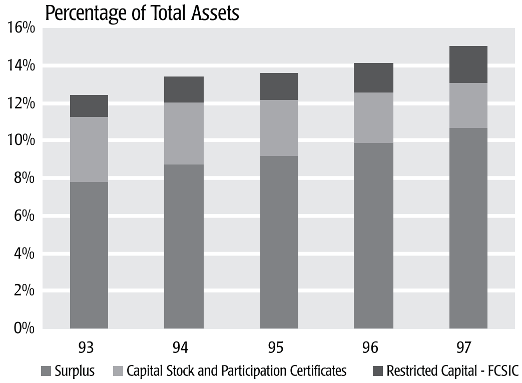
Figure 7
Operating Expenses as a Percentage of Loans, 1993-1997



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

5. Total capital includes protected capital and restricted capital. Protected capital ($109 million at yearend 1997) consists of borrower stock, participation certificates, and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated before October 8, 1988. Protection of certain borrower capital is provided under the Farm Credit Act of 1971, as amended, which requires FCS institutions, when retiring protected borrower capital, to retire such capital at par or stated value regardless of its book value. Restricted capital ($1.31 billion at yearend 1997) represents the total assets under the control of the Farm Credit System Insurance Corporation including those that have been identified for estimated insurance obligations ($0.14 billion) and the Insurance Fund equity ($1.17 billion). See following section on the Insurance Fund.
6. Two institutions did not meet the Agency's core surplus requirement. However, these institutions are operating under FCA approved capital restoration plans which puts them in technical compliance with the regulations.

Figure 8
Farm Credit System Capital as a Percentage of Total Assets, 1993-1997



Note: Protected stock is not included since it represents a small (0.9 percent) percentage of total capital at yearend 1997.
Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Table 1
Farm Credit System Loan Volume, 1993-1997
(Dollars in Millions)

Loan Category	1993	1994	1995	1996	1997	Percentage Change from 1993
Long-Term Real Estate	$26,461	$26,440	$26,635	$27,556	$29,085	9.9
Production and Intermediate-Term	10,979	11,648	13,255	14,659	16,040	46.1
Domestic Cooperatives	7,604	7,700	10,390	9,954	9,764	28.4
International Loans	3,739	3,202	2,759	2,623	2,077	(44.5)
Rural Utilities	2,468	2,927	3,208	3,890	4,301	74.3
Rural Home	1,737	1,680	1,628	1,584	1,554	(10.5)
Other	921	1,079	714	912	618	(32.9)
Total	$53,909	$54,676	$58,589	$61,178	$63,439	17.7

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

Asset Quality

Loan quality continued to improve. Nonperforming loans[7] fell $91 million (10 percent) from 1996 balances to $828 million at yearend 1997. Nonperforming loans now represent 1.3 percent of the portfolio, compared with 1.5 percent at yearend 1996 and 3.8 percent at yearend 1993 (Figure 9). Nonaccrual loans dropped 8.2 percent over the year to $592 million. Of these loans, 62.5 percent are current as to principal and interest payments.[8] Only the Texas and CoBank districts experienced a small increase in nonperforming loans during 1997. Still, nonperforming loans as a percentage of total loans remains relatively low in these districts. Loan delinquencies (accruing loans 30 or more days past due) as a percentage of accrual loans declined slightly in 1997, remaining at a relatively low level (less than 1 percent).

The System's allowance for loan losses in relation to the loan portfolio at yearend 1997 remained about the same as the previous year at 2.89 percent. The allowance is 310 percent of the amount of nonaccrual loans, compared with 275 percent in 1996. Nonaccrual loans are the loans posing the greatest risk of loss to the System.

FCA Rating System

The overall improvement in the financial performance and condition of the FCS continues to be evident in the CAMEL (capital, asset quality, management, earnings, and liquidity) ratings given as a result of FCA's examinations.[9] At yearend 1997, there were no 5-rated institutions and only one 4-rated institution (Figure 10). The percentage of 3-rated institutions has dropped from 23.7 percent at yearend 1993 to 1.9 percent at yearend 1997.

Enforcement Activity

FCA may use its various enforcement authorities to ensure that FCS institution operations are safe and sound and in compliance with applicable statutes and regulations. These authorities include the use of agreements or orders to cease and desist, civil money penalties, and the removal or suspension of officers and directors of FCS institutions.

7. Nonperforming loans consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due.
8. FCA regulation 621.6(a) states: "A loan shall be considered nonaccrual if it meets any of the following conditions: (1) Collection of any amount of outstanding principal and all past and future interest accruals, considered over the full term of the asset, is not expected; (2) Any portion of the loan has been charged off, except in cases where the prior chargeoff was taken as part of a formal restructuring of the loan; or (3) The loan is 90 days past due and is not both adequately secured and in process of collection."
9. During 1998 the Agency modified the FCA Rating System (commonly referred to as CAMEL) by adopting the Financial Institutions Rating System (referred to as FIRS). The FIRS modifies CAMEL by adding a separate rating "S" factor for sensitivity to market risk. This component reflects the degree to which changes in interest rates may affect earnings or market value of an institution's equity.

During 1997, the FCA entered into an order to cease and desist issued upon consent with one System institution. In addition, the FCA entered into an agreement with one institution and terminated an order to cease and desist with another. At yearend, in addition to the two new enforcement actions that were put in place during 1997, one agreement and supervisory conditions placed on a merger entered into in prior years continued in effect. The total assets under enforcement action at the end of 1997 were approximately $3 billion or less than 4 percent of the System's assets.

Farm Credit Leasing Services Corporation

The Farm Credit Leasing Services Corporation, chartered in 1983, is a service corporation owned and funded by the FCS banks. The Leasing Corporation's headquarters are in Minneapolis, Minnesota, with sales offices located throughout the United States. It specializes in equipment leasing to agricultural producers and their cooperatives, rural electric and telephone organizations, and FCS entities. Funds required by the Leasing Corporation to originate leases are advanced by its owners.

Since 1984, Leasing Corporation business volume and profitability have increased steadily. At the end of its fiscal year in September 1997, the Leasing Corporation had more than 41,000 contracts outstanding to more than 8,700 customers. The Leasing Corporation's return on equity has been more than 10 percent each year since 1989 and was 15.1 percent for 1997. Net earnings of $8.9 million were higher than 1996's $8.2 million due primarily to a 15.3 percent increase in rental revenue on increased operating lease volume and higher fee income. The Leasing Corporation's capital-to-asset ratio was 9.3 percent at the end of its 1997 fiscal year, compared with 9.6 percent a year earlier.

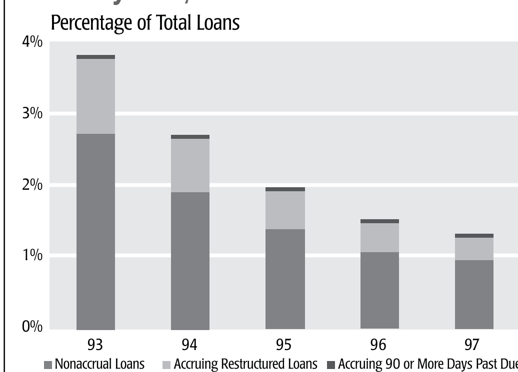
Business volume increased considerably during the year. Total assets were up 11.8 percent to $689.2 million from the end of the 1996 fiscal year. Lease placements were up 15.7 percent to nearly $480 million, another record. The majority of these placements, $330 million, were added to the Leasing Corporation's portfolio and the rest were syndicated with FCS banks, associations, and others. The lease portfolio consisted of agricultural equipment (43 percent), manufacturing equipment (14 percent), automobiles and light trucks (12 percent), trucks (11 percent), irrigation equipment (9 percent), and other (11 percent). The portfolio was split between agricultural producers (62 percent) and cooperatives (38 percent).

Asset quality improved during fiscal year 1997. Nonaccrual leases were $7.8 million at 1997 fiscal yearend, down from $9.6 million the year before. The allowance for doubtful lease collections as a percentage of outstanding leases was unchanged at 1.8 percent.

Farm Credit Insurance Fund

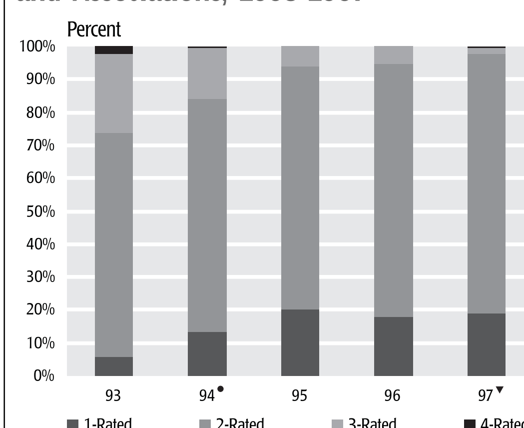
The Farm Credit System Insurance Corporation manages the Insurance Fund in carrying out its mission of protecting investors. The Insurance Fund balance at yearend 1997 was $1.17 billion, an increase of $132 million (13 percent) from 1996. The increased fund balance resulted from premiums of $71 million and interest income of $71 million, less operating expenses of $1.5 million, and a provision for estimated insurance obligations of $9.1 million. FCSIC's total assets were $1.31 billion. Its total liabilities included a $139 million liability for the present value of FCSIC's obligation to provide for future repayment of assistance provided to the Federal Land Bank of Jackson in Receivership.

Figure 9
Nonperforming Loans in the Farm Credit System, 1993-1997



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

Figure 10
CAMEL Ratings for Farm Credit Banks and Associations, 1993-1997



Note: CAMEL ratings are based on capital, asset quality, management, earnings, and liquidity. Ratings range from 1 (a sound institution) to 5 (an institution that is likely to fail).
Source: FCA Examination Reports.
● At yearend 1994, one institution was 4-rated.
▼ At yearend 1997, one institution was 4-rated.

Federal Agricultural Mortgage Corporation

The Federal Agricultural Mortgage Corporation reported $4.6 million of net income for 1997, a marked increase from the $0.8 million reported for 1996. The increase was due primarily to net earnings on an increased $629 million in the average investment portfolio and secondarily to increased guarantee fees and gains on issuance of Farmer Mac securities. According to Farmer Mac, the increase in investments was a temporary byproduct of securities sales designed to establish a presence in financial markets, which in turn would facilitate the future growth in loan securitization. Farmer Mac guaranteed an additional $197 million of Farmer Mac I securities and $95 million of Farmer Mac II securities. Additional staff were hired and substantial operational, professional, marketing, and legal resources were devoted to continuing to implement the expanded authorities provided by the Farm Credit System Reform Act of 1996 (1996 Act). The 1996 Act provided new authorities for Farmer Mac — including the authority to purchase and pool loans — required Farmer Mac to raise additional capital, and deferred implementation of risk-based capital regulation until after January 1999.

Farmer Mac operates two programs. In Farmer Mac I, either Farmer Mac or private institutions form pools of agricultural real estate loans. Securities backed by those loans are created, and Farmer Mac guarantees timely payment of principal and interest to security holders.[11] In Farmer Mac II, lenders sell guaranteed portions of certain kinds of USDA loans to Farmer Mac. Farmer Mac pools the guaranteed portions of those loans and creates securities backed by guarantees of timely payment of principal and interest. Farmer Mac may also retain Farmer Mac I and II securities in its investment portfolio.

Operating expenses increased in 1997 by $2.8 million to $7.8 million. The largest increase, $1.1 million, was in salary and related expenses due to higher salaries and an increase in staff from 21 in 1996 to 26 in 1997.[12] Professional fees increased $0.7 million and the loan loss provision increased $0.7 million. Farmer Mac attributed these increased expenses to the implementation of expanded authorities granted by the 1996 Act.

Capital increased in 1997 by $27.9 million (59 percent) to $75.1 million. Most of the increase, $23 million, was due to the net proceeds from the November 1997 sale of 400,000 shares of non-voting Class C common stock. The rest of the increase was the result of the $4.6 million in net income and other miscellaneous capital account transactions. The capital-to-asset ratio declined from 7.8 percent at December 31, 1996, to 5.6 percent at December 31, 1997, primarily because of a sharp increase in Farmer Mac's investment portfolio. Farmer Mac's largest stockholder, Zions Bancorporation, Salt Lake City, Utah, owned 31.9 percent of Farmer Mac's Class A Voting Common Stock at yearend, slightly less than the 33 percent maximum allowed by law.

From business inception through 1997, Farmer Mac guaranteed approximately $1.094 billion of Farmer Mac I securities; $570 million in principal balance was still outstanding at yearend, of which Farmer Mac held $184 million. Farmer Mac also issued and guaranteed approximately $365 million of Farmer Mac II securities; $273 million in principal balance was still outstanding at yearend, of which Farmer Mac held $249 million. These retained securities provided a substantial portion of Farmer Mac's interest income.

11. Rural housing loans are also permissible.
12. The Farmer Mac 1997 Annual Report notes that if Farmer Mac had elected to record expenses for employee stock compensation awards per Statement of Financial Accounting Standards (SFAS) 123, net income would have been reduced $523,000 to $4.1 million.

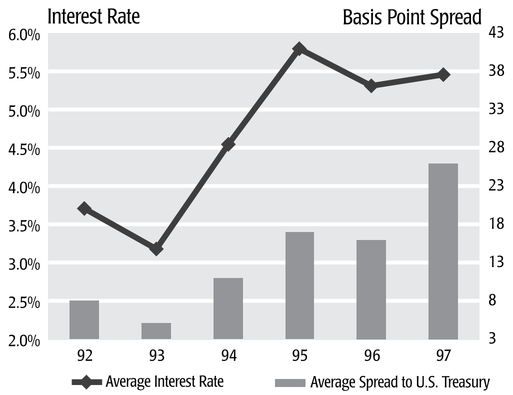
Of the loans underlying Farmer Mac I securities, 0.3 percent of the aggregate principal amount of the loans was either past due 90 days or more, in foreclosure, or in bankruptcy. This figure was down from the 0.7 percent reported at yearend 1996. Because all troubled loans were in pools backed by a 10 percent subordinated interest, none of the loans was deemed likely to result in a loss to Farmer Mac. The loans purchased by Farmer Mac after the 1996 Act do not have the subordinated interest attached. The default rate for these loans is unknown, but Farmer Mac increased its loan loss reserve by $990 thousand to $1.6 million in anticipation of potential future losses. None of the loans purchased without a subordinated interest was 90 days or more past due at December 31, 1997.

Approximately two-thirds of the loans underlying Farmer Mac I securities originated in the western states with increased concentration in the Northwest and decreased concentration in the Southwest, including California. Approximately 55 percent of the loans underlying Farmer Mac I securities were used for crops and concentration in this type of loan increased in 1997. The median loan-to-value ratio for loan pools backing Farmer Mac I securities was about 53 percent, essentially unchanged from 1996.

Funding the Farm Credit System

Figure 11

Farm Credit System Debt, 1992-1997 Average Rates and Spreads on Total Debt Issued



Source: Farm Credit Banks Funding Corporation Annual Reports.

Farm Credit System banks obtain most of their loan funds through the sale of debt securities. Securities outstanding include Federal Farm Credit Banks Systemwide Debt Securities and other uninsured bond obligations issued by individual banks.[1] Systemwide debt securities can be issued as discount notes, bonds, medium-term notes (MTN) or global debt.[2] Under the Farm Credit Act of 1971, as amended, all issuances of Systemwide debt securities are subject to approval of the Farm Credit Administration. Pursuant to FCA authorizations, the maximum amount of discount notes, MTNs, and global debt securities that the banks may have outstanding at any one time is $25 billion, $40 billion, and $5 billion, respectively. FCA approves Systemwide bond issues individually, and, therefore, there are no specific limits on the amount of Systemwide bonds that can be outstanding.

The debt securities are not obligations of, nor are they guaranteed by, the United States or any agency or instrumentality thereof, other than the FCS banks. Systemwide debt securities are the joint and several obligations of the Agricultural Credit Bank, Farm Credit Banks, and the Bank for Cooperatives, and are backed by their combined resources and insured by the Farm Credit System Insurance Corporation. Other uninsured bonds issued directly by individual banks are the sole obligations of the issuing bank.

As a condition for participation in the issuance of Systemwide debt securities, the Farm Credit Act and FCA regulations require each bank to maintain specified eligible assets at least equal in value to the total amount of debt securities outstanding for which it is primarily liable. As of December 31, 1997, the combined FCS banks reported eligible assets of approximately $70.4 billion and debt securities and accrued interest payable of $64.6 billion. For the comparable period a year ago, the banks reported a combined $67.3 billion in eligible assets and $61.7 billion in debt securities and accrued interest payable at December 31, 1996.

The Federal Farm Credit Banks Funding Corporation handles funding activities and offers securities to the public through a selling group of approximately 70 investment dealers and dealer banks. The chief investors in Systemwide bond securities are municipalities and money market funds, followed by investment advisors, insurance companies and, to a lesser degree, commercial banks.[3] However, the investors in Systemwide discount note securities differ slightly from bond investors. The chief investors in Systemwide discount notes securities are corporations and money market funds, followed by municipalities, commercial banks, and to a lesser degree, individuals and investment advisors.

The average spread for all Systemwide debt issued during 1997 was 26 basis points above comparable U.S. Treasury securities, an increase from the 16 basis point average spread experienced during 1996 (Figure 11). Despite an increased average spread, the average interest rate on total debt issued remained relatively stable at 5.44 percent for 1997 compared with 5.31 percent for 1996. The widening in the average spread is attributable to reduced U.S. Treasury financing needs given the Federal budget surplus and strong demand for U.S. Treasury securities by international investors. The turmoil in the Asian markets, which heightened in the

1. Uninsured bonds are Farm Credit Investment Bonds issued by individual banks to their members and employees.
2. Global debt is debt targeted to international investors.
3. Investment advisors are professional money managers hired by pension funds, corporations, and individuals. Commercial banks invest for their own investment portfolios and trust portfolios of clients.

fall of 1997, also contributed to investor demand for U.S. Treasury securities. During 1997, as well as 1996, competitive pressures in the brokerage industry provided the Funding Corporation the opportunity to use an underwritten auction process to sell 1-year bonds at more favorable issuance costs and spreads as compared with the conventional selling group process. The average spread on 1-year bonds issued in 1997 was 9 basis points over comparable U.S. Treasury securities, which compares favorably to the average spread for other Systemwide debt securities issued (Appendix Table 2).

Moderate growth and low inflation combined with stable interest rate policy by the Federal Reserve resulted in relatively stable interest rates on Systemwide debt securities issued during 1997. Consequently, the average interest rates on Systemwide debt securities were slightly higher than in 1996. The average interest rate on total outstanding Systemwide debt securities at December 31, 1997, was 5.89 percent, an increase of only 13 basis points from the previous yearend (Appendix Table 1). The remaining maturity of Systemwide debt securities at December 31, 1997, was 19.2 months (1.6 years) as compared with 15.7 months (1.3 years) at the previous yearend.

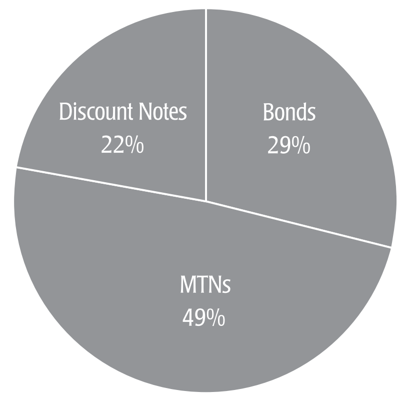
Debt securities outstanding at yearend 1997 totaled $63.2 billion as compared with $61.1 billion at yearend 1996 (Figure 12 and Appendix Table 1). The $2.1 billion debt increase was used mainly to fund loan growth and other earning assets. Bonds and discount notes outstanding declined slightly while MTNs increased. Total issuance of Systemwide debt securities was $244.8 billion in 1997, down $16.5 billion compared with the record issuance of $261.3 billion in 1996 (Figure 13 and Appendix Table 2). The issuance decline is attributable, in part, to a modest extension in the average remaining maturity of debt. The bulk of the System's debt issuance continued to be in the form of discount notes, with $193.3 billion issued in 1997 compared with $209.5 issued during 1996. The majority of discount notes issued were concentrated in maturities of less than 60 days.

Only two high-cost Systemwide bonds, both issued during the 1980s, remain outstanding and both will mature after the year 2000. These high-cost bonds have a weighted average coupon of 13.9 percent and total $150 million. Since 1979 and the implementation of Systemwide debt securities, the Farm Credit System has not issued any consolidated bank debt, and during 1997 the last of these securities outstanding matured.

In 1996, FCA approved the Funding Corporation's request to establish a $5 billion Global Debt Program, including global debt securities denominated in a foreign currency. The program is targeted to international investors with the goal of lowering funding costs as opportunities arise. In the fourth quarter of 1996, the System entered the international debt capital market with an inaugural $500 million issue. During 1997, the Funding Corporation brought two issues totaling $725 million to the global marketplace, including the call and reissue of the inaugural 1996 debt offering. While the Funding Corporation has stated it is pleased with international investor response to Systemwide global debt securities, it remains sensitive to the transaction costs of issuing debt overseas. In 1998, the Funding Corporation hopes to begin foreign currency debt issuance if offshore markets provide cost effective debt issuance opportunities.

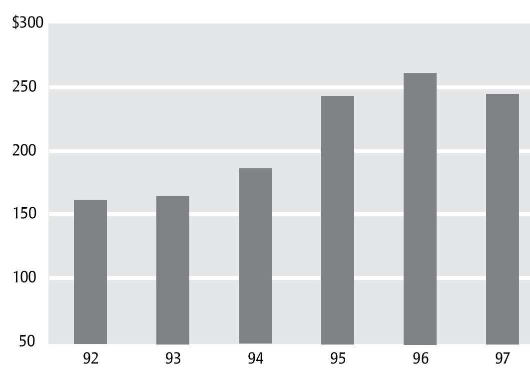
The System's level of MTNs outstanding increased 13.1 percent in 1997 compared with the previous yearend. MTNs outstanding at December 31, 1997, totaled $30.9 billion as compared with $27.3 billion at yearend 1996 (Appendix Table 1). During

Figure 12
Debt Outstanding = $63.2 Billion
December 31, 1997



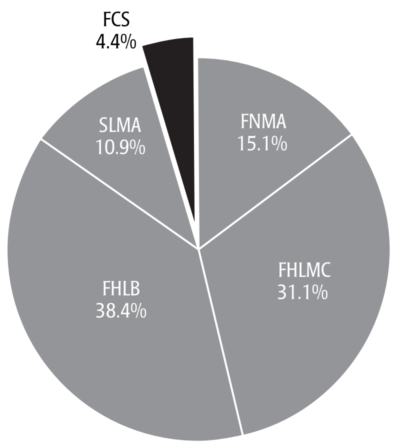
Source: Farm Credit System Annual Information Statement—1997.

Figure 13
Trend in Total Debt Issued, 1992-1997
(Dollars in Billions)



Source: Farm Credit Banks Funding Corporation Annual Reports.

Figure 14
1997 GSE Debt Issuance



FCS = Farm Credit System
FNMA = Federal National Mortgage Association or Fannie Mae
FHLMC = Federal Home Loan Mortgage Corporation or Freddie Mac
FHLB = Federal Home Loan Bank System
SLMA = Student Loan Marketing Association or Sallie Mae
Source: J.P. Morgan

1997, a total of $17.9 billion in MTNs were issued (Appendix Table 2) of which $13.9 billion where either fixed-rate or fixed-rate callable and the other $4.0 billion were floating-rate. Of the $13.9 billion of fixed-rate MTNs issued, about 66 percent were callable securities. MTNs offer System banks more flexibility than bonds because System banks can negotiate the settlement, call, and maturity dates, as well as repricing characteristics, to better manage cash flows. MTNs are often swapped to achieve the debt repricing characteristics desired by individual System banks and to diversify the use of short-term funding sources such as discount notes and bonds.[4] About 40 percent of fixed-rate and fixed-rate callable MTNs issued during 1997 were swapped to a short-term floating rate. Most swaps issued in 1997 converted MTNs from longer-term fixed rate coupons to floating-rate coupons that reprice frequently. This effectively shortened by a third the MTN repricing frequency of 34.8 months (2.9 years) indicated by the remaining maturity of MTNs (Appendix Table 1). About 10 percent of floating-rate MTNs issued during 1997 were also swapped to different short-term floating-rate indexes.

While the Farm Credit System is one of the smaller Government-sponsored enterprise issuers, it is able to maintain continuously an effective funding program and obtain funds at levels equal or slightly favorable to other GSE issuers. The FCS issuance was 4.4 percent of the total GSE issuance for 1997.[5] As can be seen in Figure 14, the largest issuer in 1997 was the Federal Home Loan Bank System (FHLB), followed closely by the Federal Home Loan Mortgage Corporation (FHLMC).

4. While bonds are often considered long-term debt securities, the Farm Credit System typically issues Systemwide bonds with maturity terms of 3 months, 6 months, and 1 year.
5. The Tennessee Valley Authority and Farmer Mac were excluded from the total GSE issuance for 1997 because they are both very small issuers and each issued less than 0.5 percent of the total GSE debt issuance.

Corporate Activity

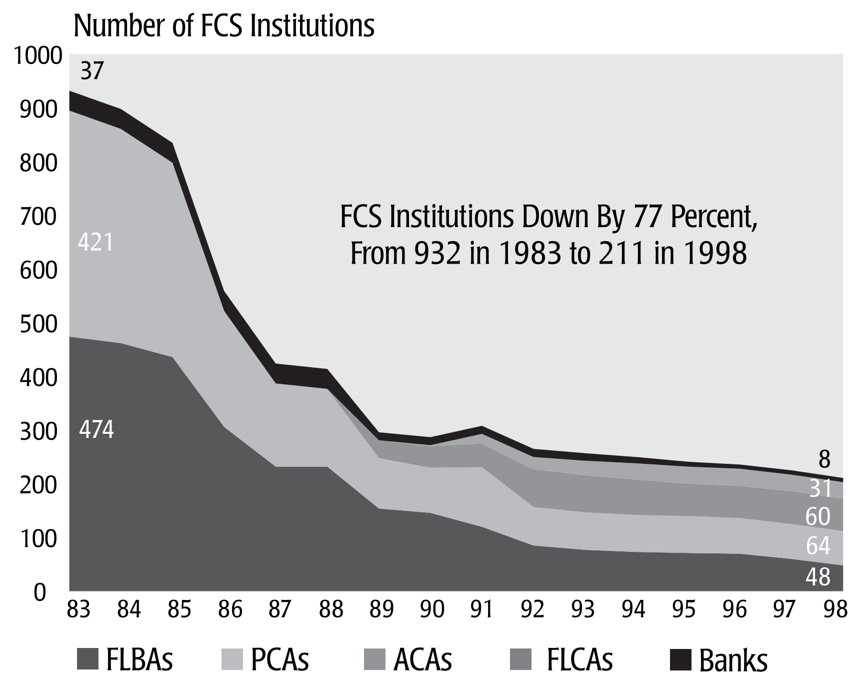
Merger activity among associations in the Farm Credit System increased over 1996 as a result of mergers among Federal Land Bank Associations in the Texas District. In most cases, association boards of directors stated that mergers would lead to increased efficiencies in operating costs and to the opportunity to provide better service to borrowers.

The Farm Credit Administration Board approved 13 corporate applications that took effect during calendar year 1997. (See Appendix Table 5 for a complete list.) They included nine association mergers; one change to an association's chartered territory; the relocation of a Farm Credit Bank's headquarters; and amendments that modified the Articles of Incorporation of two System service corporations.

Mergers of FLBAs in the Texas District, which involved 19 associations, accounted for 7 of the 9 mergers. Of the two remaining mergers, one each occurred in territory served by CoBank, ACB and AgriBank, FCB. In CoBank's territory, the FCA approved the merger of two Agricultural Credit Associations. In AgriBank's territory, the FCA approved the merger of a Production Credit Association into an ACA. Concurrent with the merger, the FCA expanded the charter of the Federal Land Credit Association to permit the ACA and FLCA to serve common territory. The FCB relocation occurred March 1, 1997, when AgAmerica, FCB moved its headquarters from Spokane, Washington, to Sacramento, California, to implement joint operations with the Western Farm Credit Bank, whose headquarters are in Sacramento.

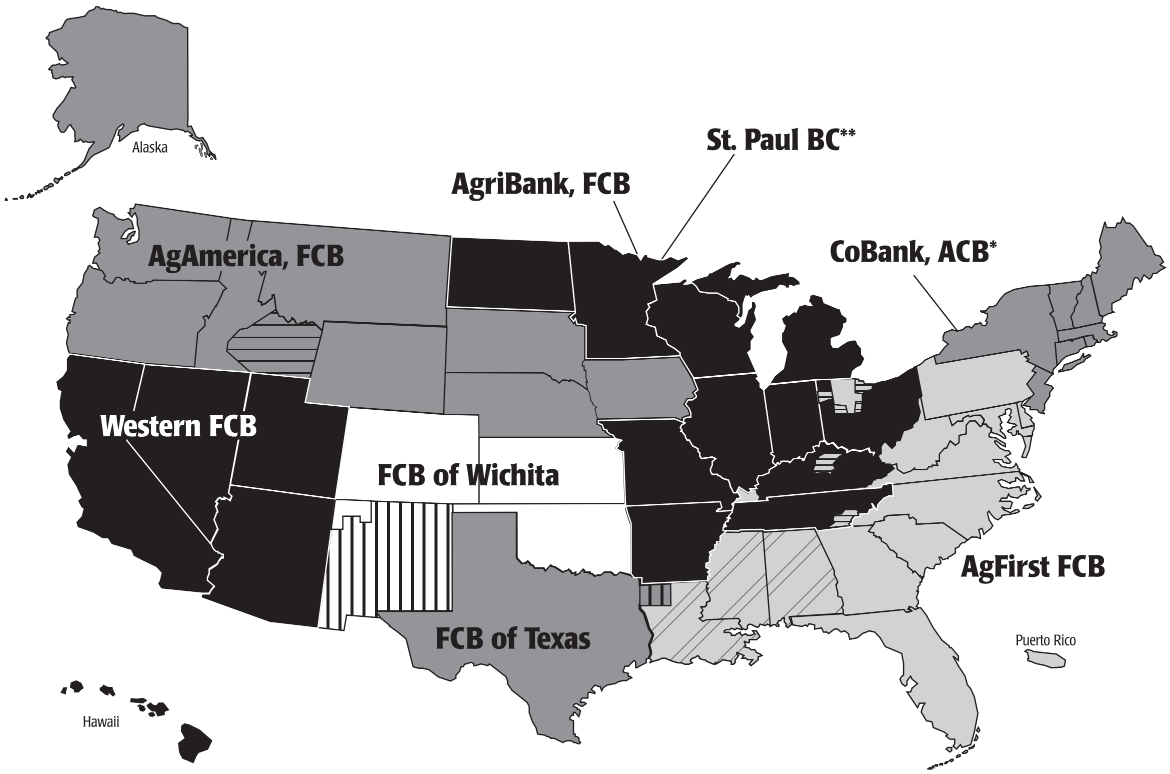
Appendix Table 3 illustrates the bank and association structure in each Farm Credit district showing a decline of 14 institutions during 1997. All of the decline was the result of merger activity. Appendix Table 4 provides a 15-year trend in the number of banks and associations. Figure 15 depicts the changes in the number and type of FCS banks and associations from January 1983 to January 1998. Over this 15-year period, the total number of banks and associations has declined from 932 to 211. Most (69 percent) of the decline in System institutions occurred during the 1980s. Figure 16 depicts the chartered territories of FCS banks.

Figure 15
Trend in Numbers of Farm Credit Banks and Associations, 1983-1998
(As of January 1)



Source: FCA, Office of Policy and Analysis, Risk Analysis Division, records.

Figure 16
Farm Credit System Banks Chartered Territories
(As of January 1, 1998)



AgAmerica, FCB	Western FCB	FCB of Wichita	FCB of Texas	AgriBank, FCB	CoBank, ACB	AgFirst FCB
1 ACA	5 ACAs	22 FLBAs	26 FLBAs	11 ACAs	4 ACAs	39 ACAs
1 FLCA	11 FLCAs	18 PCAs	16 PCAs	19 FLCAs		1 PCA
1 PCA	10 PCAs			18 PCAs		

The Albuquerque and Eastern New Mexico PCAs are funded by the FCB of Texas. The Southern New Mexico PCA is funded by the FCB of Wichita.

The FLBAs in Alabama, Louisiana, and Mississippi generate and service loans for the FCB of Texas. The First South PCA is funded by AgFirst FCB.

The Northwest Louisiana PCA is funded by the FCB of Texas.

*The CoBank, ACB is headquartered in Denver, Colorado, and serves cooperatives nationwide and ACAs in the indicated area.

**The St. Paul BC is headquartered in St. Paul, Minnesota, and serves cooperatives nationwide.

The AG CREDIT, ACA (Ohio), Central Kentucky ACA (Kentucky), Chattanooga ACA (Tennessee), and Jackson Purchase ACA (Kentucky) are funded by the AgFirst FCB.

The Mid-America ACA, funded by AgriBank, FCB, is also authorized to lend in this territory.

The Eastern Idaho ACA is funded by the Western FCB.

Source: FCA, Office of Policy and Analysis, Risk Analysis Division, records.

Young, Beginning, and Small Farmers[1]

The Farm Credit Administration is required by the Farm Credit Act to report annually to Congress on special programs developed by the Farm Credit System to serve young, beginning, and small (YBS) farmers. Since 1982, FCA has provided Congress with summary statistics and an overview of the kinds of programs offered. Data are from special reports filed annually with FCA by the Farm Credit banks, which compile reports from individual associations.

This 1997 report includes both highlights for 1997 and a summary comparison for the 1988–1997 period. Data for years before 1988 are not directly comparable for the "small" category, because the definition of "small farm" was made more restrictive that year. Some comparisons are made with the results of the most recent Census of Agriculture (1992), which provides approximate benchmarks.

Definitions of Young, Beginning, and Small Farmers

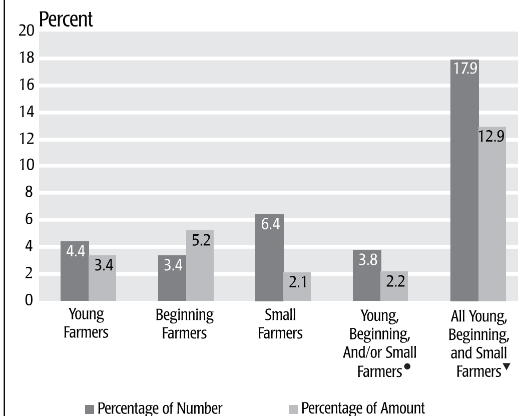
There are four categories of YBS loans. These categories are mutually exclusive; thus data are reported and classified in only one of the four categories. They are (1) loans to young farmers, where the primary borrower's age is under 35; (2) loans to beginning farmers, those who have less than 6 years of farming experience; (3) loans to small farmers, those with annual gross agricultural sales less than $40,000 and agricultural assets less than $100,000;[2] and (4) loans to farmers that meet two or more of the above three categories, (young, beginning, and small), that is, a combination category. To provide a benchmark, the FCA also reports information in a final category that includes all System loans for farming purposes.

For each of the YBS categories, a loan is included only if the primary borrower[3] meets the eligibility criteria. The loan applicant that possesses the best financial position and income capabilities is usually listed as the primary borrower. An unknown number of farmers who themselves would meet one or more of the YBS eligibility criteria are excluded from the data, because the primary borrower (usually the older partner) on the loan is ineligible for any YBS category. This exclusion typically occurs with multioperator farms, including multigeneration partnerships and family corporations. Consequently, the reported data understate the number of YBS farmers who benefit from FCS financing.

1997 FCS Lending to Young, Beginning, and Small Farmers

Loans to YBS farmers in 1997 kept pace with overall System growth in loans to farmers. The FCS had 614,435 total loans[4] outstanding under its farm lending authorities[5] at the end of 1997 for an aggregate amount of $46.7 billion. This total represents an increase of 3.5 percent in number of loans and an increase of 5.8 percent in loans outstanding from a year earlier. (See Appendix Table 6 for supporting data.) The four YBS categories accounted for 110,276 loans totaling $6.0 billion. Because growth in dollar volume in the four YBS categories closely paralleled 1997 growth in all loans to farmers, the combined YBS dollar volume was almost unchanged at 12.9 percent of all farm loans

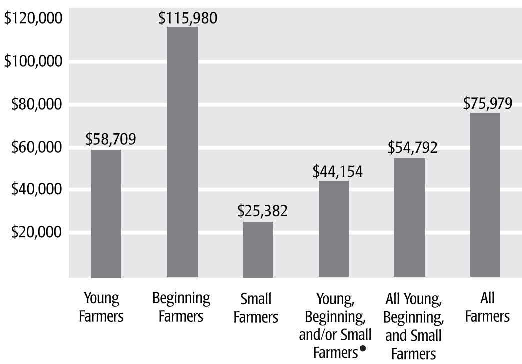
Figure 17
1997 Percentage of Total Number of FCS Loans and Loan Volume Outstanding by Young, Beginning, and Small Borrower Groups
(As of December 31)



Source: Annual Young, Beginning, and Small Farmers Reports submitted by Farm Credit banks.
● Includes only borrowers meeting at least two of the three YBS categories.
▼ The sum of the previous four categories in this figure.

1. Throughout this section, reference is made to young, beginning, and small farmers. These classifications of borrowers also include ranchers and producers or harvesters of aquatic products.
2. FCA changed the joint criteria used to classify small farms in 1988. The sales criterion stayed constant at gross agricultural sales of less than $40,000. However, the agricultural net worth criterion of $100,000 or less, was changed to total agricultural assets of less than $100,000, which is a more restrictive standard.
3. The primary borrower is the equity owner and is primarily responsible for the executive management of the operation.
4. FCS data are for loans, rather than number of persons who are borrowers, and therefore do not adjust for the fact that individual borrowers may have more than one loan outstanding to one or more System institutions. Loan numbers are totaled for all types of banks and associations that have retail farm mortgage or operating loans. Thus data reflecting volume rather than numbers of loans outstanding is a better measure of YBS activity by the FCS.
5. Data include all loans made under Titles I and II of the Farm Credit Act, but exclude loans to cooperatives under Title III.

Figure 18
1997 Average Size of FCS Loans Outstanding by Type of Borrower
(As of December 31)



Source: Annual Young, Beginning, and Small Farmers Reports submitted by Farm Credit banks.

● Includes only borrowers meeting at least two of the three YBS categories.

at yearend compared to 13.0 percent at the end of 1996. The number of loans outstanding to all YBS categories represented 17.9 percent of all FCS farm loans at the end of 1997 (Figure 17), a slight drop from the 18.8 percent at the end of 1996.

Loan volume outstanding to borrowers classified as "young" were 3.4 percent of loan volume as of the end of 1997 (Figure 17), slightly lower than in 1996 (Appendix Table 6).[6] However, an unknown loan volume to young farmers is classified in the "combination" category (see definition above) which increased to 2.2 percent of loan volume outstanding during 1997. This volume increase could account for some of the decline in the "young" category. In contrast, loan volume for 1997 in the "beginning" category increased at a rate faster than overall growth in loans to farmers. This category represented 5.2 percent of loan volume outstanding at the end of 1997. In the "small" category, volume also increased, but by an amount slightly less than overall loan growth. This resulted in a slight decline for this category as a percentage of loans outstanding to 2.1 percent.

Average outstanding loan balance for the YBS categories was smallest for the small farmer category, at $25,382, and largest for the beginning farmer category at $115,980 (Figure 18). The likely reason for the large difference in average loan sizes is that the small category is defined to include only very small farmers (see definitions above), whereas there is no size restriction on the beginning farmer category. The average loan size for the total of all YBS categories was $54,792, about 28 percent less than the $75,979 average size for all System farm loans.

Long-Term Trends in FCS Lending to Young, Beginning, and Small Farmers, 1988–1997

Since 1988, trends in loan volume outstanding in the four YBS categories have been mixed, with increased volume in the "beginning" and "combination" YBS categories, and decreased volume in the "young" and "small" categories. During the same period, System loan volume outstanding to all farm borrowers has increased by 14.3 percent. Figures 19–23 illustrate these trends, as do the data in Appendix Table 6.

In the "beginning" category, loan volume was up substantially, by 30 percent over the 1988-1997 period, and for the "combination" category it was up by 39 percent. Most of these gains occurred in the last 2 years. The decline in the "small" farmers category, was 39 percent, although this category has increased since the end of 1995. This longer-term decline could be expected given the fixed definition used for the small farmer category during a period of steadily increasing farm size. Also, this category is increasingly made up of part-time farmers and, due to FCS limitations in authority to finance non-farm needs of such borrowers, the number served has declined. Loan volume in the "young" category was down, by about 20 percent over the 1988 to 1997 period.

Declining Trend in Number of Farms

The declining trends in the number of System YBS borrowers parallel the declining trends in the number of farms and new entrants in the overall farm sector. The number of farms in the United States has decreased continuously from its peak of 6.8 million in 1935 to 1.9 million as of the 1992 Census of Agriculture. This trend has meant that new entrants only partially replace the exits of the retiring generation of farmers or of those that leave farming for other reasons. A significant portion of the assets of retiring

6. The 1992 Census of Agriculture found that 4.1 percent of all farmers were young and had operating debt, while 3.6 percent were young and had real estate debt. This would seem to show that System lending to young farmers is roughly comparable to the overall population of young farmers with debt. However, the numbers are not directly comparable because the System data is based on loan numbers rather than farm operators. Also, it is unknown how many of the System's young farmers are classified in the combination category (young, beginning, and/or small).

farmers is consolidated into existing operations that do not provide new farming opportunities. Consequently, the average age of farmers has been increasing since the early 1980s and, as of the 1992 Census of Agriculture, 48 percent of farm operators were more than 55 years of age.

The System's YBS farmer lending programs reflect this economic environment of fewer entry opportunities for each succeeding generation. The U.S. Department of Agriculture has estimated that the gross number of new entrants to farming averaged 100,000 per year for 1978–1982, dropped to 75,000 per year for 1982–1987, and dropped again to about 67,000 per year for 1987–1992. Entrants, like exits, occurred among all age groups. Not surprisingly, the largest percentage of entrants occurred among young farmers (under age 35). During the 1978 to 1992 period, the number of annual exits exceeded the number of entrants. The net decrease in numbers of farms varied from 3,000 per year during the favorable income years of 1978–1982, to 20,000 per year during the farm financial crisis of the mid-1980s. The decrease in the number of farms continued to grow to 32,500 per year for 1987–1992, even as farm incomes recovered. Annual exits are projected to grow further in the 1992–2002 decade.

The declining number of farms combined with the enlargement of existing farms means fewer farm units are available for new entrants with each succeeding generation. The large number of farmers in older age groups as of 1992 means that the exit rate will likely continue to increase in the decade ahead. Although, new entrants will replace a portion of the exits, the operations of many retiring farmers will likely continue to be consolidated into existing farm units.

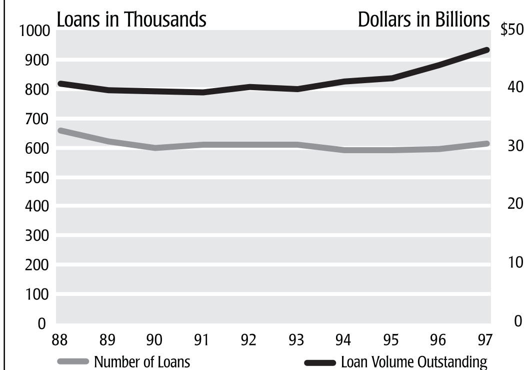
Two other economic forces help define the market limits within which the FCS operates:

(1) The scope of FCS lending to farmers is limited. The significance of part-time farming is shown by the results of the 1992 Census of Agriculture, which indicates that only 54.7 percent of farm operators listed farming as their primary occupation. Along with leasing of capital assets such as farmland or machinery, the strategy of combining farm and non-farm jobs has been a means of overcoming the barriers to entering farming or remaining on the farm from one generation to another. But, YBS farmers who follow this part-time strategy may not be eligible for full financing of their non-farm needs under regulatory provisions governing eligibility and scope of financing within the FCS. As a result, YBS part-time farmers may be more likely to seek loans from institutions free of such limitations, such as trade credit providers or commercial banks.

(2) Data does not reflect the gradual shift from single-proprietor farming organizations to multioperator businesses, especially for the larger farm operations. This shift means that an increasing share of YBS operators are not the primary borrower and thus not counted in the statistics gathered either by the USDA or by lenders such as the FCS. Thus, some YBS farmers may benefit from FCS loans yet are not being recognized through existing reporting mechanisms.

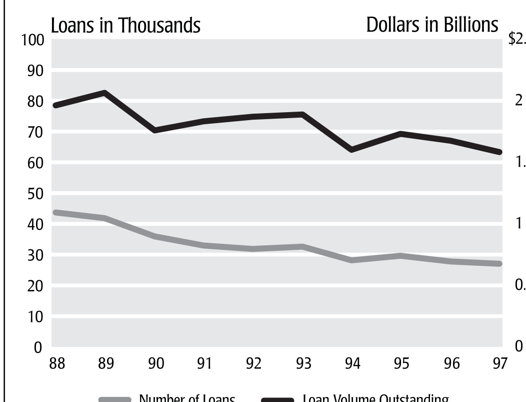
Capital requirements for entry into farming can be a significant barrier, because an individual farm-operating unit is among the most capital-intensive of businesses. Methods for lowering requirements for equity or debt include leasing capital assets. Also, special lending programs can help lower the financial underwriting requirements for

Figure 19
All Farmers: Number of Loans and Loan Volume Outstanding, Farm Credit Banks and Associations, 1988-1997
(As of December 31)



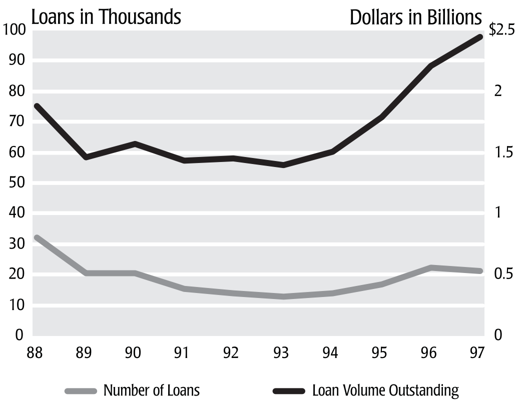
Source: Annual Young, Beginning, and Small Farmers Reports submitted by Farm Credit banks.

Figure 20
Young Farmers: Number of Loans and Loan Volume Outstanding, Farm Credit Banks and Associations, 1988-1997
(As of December 31)



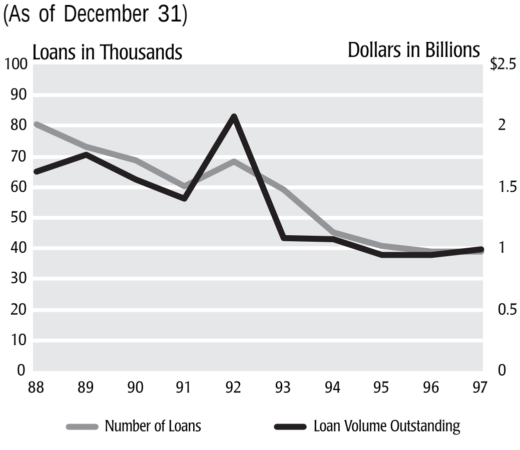
Note: Young means less than 35 years old.
Source: Annual Young, Beginning, and Small Farmers Reports submitted by Farm Credit banks.

Figure 21
Beginning Farmers: Number of Loans and Loan Volume Outstanding, Farm Credit Banks and Associations, 1988-1997
(As of December 31)



Note: Beginning means less than 6 years of farming experience.
Source: Annual Young, Beginning, and Small Farmers Reports submitted by Farm Credit banks.

Figure 22
Small Farmers: Number of Loans and Loan Volume Outstanding, Farm Credit Banks and Associations, 1988-1997
(As of December 31)



Note: Small means annual gross sales less than $40,000 and less than $100,000 in assets.
Source: Annual Young, Beginning, and Small Farmers Reports submitted by Farm Credit banks.

individuals, enabling them to qualify for the limited number of entry opportunities. The statutory requirement that the FCS have YBS programs cannot be expected to reverse the overwhelming economic trends. The System's ability to lower financial requirements for YBS farmers is limited by its need to ensure that the borrower meets sound credit underwriting standards. Nevertheless, System institutions have found a variety of means by which they can provide both lending and other forms of service to YBS farmers as described below.

District Programs for Young, Beginning, and Small Farmers

Section 4.19 of the Farm Credit Act requires each association to have programs that specifically address the needs of YBS farmers. In 1997, FCA issued final regulations (12 CFR 614.4165) clarifying that each direct lending institution in the System must have a YBS farmer policy in place. Previously, only Farm Credit banks had to have policies governing YBS lending programs. By changing the policy requirement to be effective at each local association, the FCA believes improved YBS results will be attained by the System. Such policies are intended to implement the statutory requirement to make credit and services for YBS farmers available in coordination with other units of the System, and with other governmental and private sources of credit. Significantly, the FCA believes that each local association must evaluate and manage higher-risk loans as part of its loan portfolio and business strategies. The FCA expects YBS loans, which may involve higher risk, to be within appropriate credit underwriting standards for the institution and within its capital resources.

Although association YBS farmer programs varied greatly, they had important common elements. The most common approach is participation in USDA's Farm Service Agency guarantee program or the numerous State and local programs that provide YBS borrowers credit guarantees or reduced funding costs (thereby permitting a below market interest rate). Other lending related programs include special loan underwriting standards for the YBS portion of the loan portfolio, specific allowance for losses, reduced interest rates, and specific programs for targeted borrower groups. Another approach to controlling risks is to provide borrowers with additional financial counseling and loan analysis. This approach was sometimes combined with the use of cosigners or guarantors to enhance credit quality on loans that might not otherwise be made. In addition, many institutions use automated (such as credit scoring) or simplified loan application procedures for small loans to reduce costs of providing credit to these borrowers. In some cases, special procedures were available for YBS applications that were evaluated through credit scoring programs.

Many institutions provide targeted marketing to potential borrowers through direct educational programs or through sponsorship of such programs. Examples include 4-H, Future Farmers of America, other State and local young farmer and college student groups, educational institutions, agricultural fairs, and scholarships. Financial counseling or financial management training for both current and potential borrowers, YBS farmer advisory groups, and outreach programs through farm meetings and organizations are other approaches used to assist YBS farmers in establishing themselves financially.

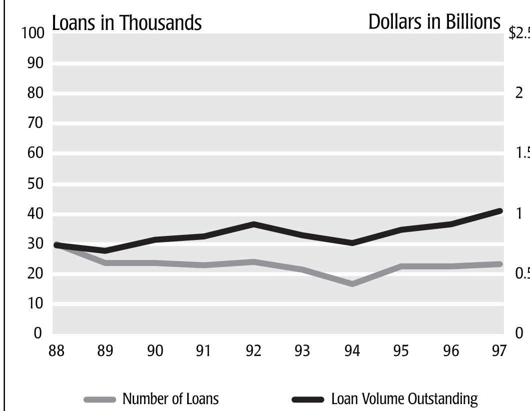
Changes Underway in YBS Reporting

The FCA's annual reporting definitions and requirements for YBS farmer loans have not been significantly modified (with the exception of the 1988 change referred to earlier) since the reporting requirements were adopted in 1982, following the 1980 amendments to the Farm Credit Act. During 1997, the FCA initiated a comprehensive study to evaluate a range of issues regarding reporting definitions and reporting requirements. Agency staff also discussed how to improve reporting requirements with a System workgroup studying these issues. The Agency study will also include a policy development initiative. The initiative will consider various ways to communicate the Agency's expectations of the FCS in providing lending and services to YBS farmers. FCA staff made presentations on YBS issues at the 1998 Information Exchange meetings held with all association board chairmen and CEOs.

The Agency expects to implement a new set of reporting requirements by the end of 1998. The FCA wants to ensure that the reporting definitions are reasonable in representing the YBS borrower groups, are easily understood, are generally consistent with any similar definitions used by other parties interested in YBS farmers, and do not represent a significant reporting burden. With these potential reporting changes in place, the 1998 report on YBS activities should begin to more accurately report on the System's overall performance in meeting its public policy role in lending to YBS farmers. The 1999 report should complete the transition to the new reporting requirements.

One of the most important reporting issues is how to define "small" so that the System's service to "small" farmers can be represented accurately. Clearly, the FCA's existing definition of a small farm (less than $40,000 in gross agricultural sales and less than $100,000 in agricultural assets) has not kept pace with inflation or with the significant changes in the structure of the farming sector. For example, due to inflation, a considerably greater investment in farm assets is now required to establish a viable farming operation. Also, the increased importance of part-time farming, while slowing the downward trend in the number of small farms, has greatly reduced the dependence of small farm operators on farm sales as a primary source of income. According to USDA data, as of 1995, the income of farm operator households was almost entirely from off-farm sources (more than 88 percent) until farm annual sales reached $100,000 or more. The National Commission on Small Farms (Commission) January 1998 report also indicated the need to reconsider the FCA criteria regarding farm size. The Commission recommended to the Secretary of Agriculture that $250,000 or less in gross annual sales was the best way to describe a small farm operation — much higher than the FCA's current level. Interestingly, the FCA estimates that approximately 80 percent of FCS loans would be classified as "small" under this definition.

Figure 23
Borrowers Meeting at Least Two YBS Categories: Number of Loans and Loan Volume Outstanding, Farm Credit Banks and Associations, 1988-1997
(As of December 31)



Note: Includes only borrowers meeting at least two of the YBS categories.
Source: Annual Young, Beginning, and Small Farmers Reports submitted by Farm Credit banks.

Appendix

Appendix Table 1

Farm Credit System Debt Outstanding as of December 31, 1997, and December 31, 1996

(Dollars in Millions)

	As of December 31, 1997			As of December 31, 1996		
	Outstanding Balance	Average Rate[1] (Percent)	Remaining Maturity[2] (Months)	Outstanding Balance	Average Rate[1] (Percent)	Remaining Maturity[2] (Months)
Bonds[3]	$18,284	5.74	5.6	$20,127	5.73	7.3
Medium-Term Notes	30,897[4]	6.00	34.8	27,309[4]	5.91	28.8
Discount Notes	14,039	5.85	3.1	13,648	5.52	1.9
Total	$63,220	5.89	19.2	$61,084	5.76	15.7

1. Data in this column are the average rate of the outstanding balance.
2. Data in this column are the remaining maturity in months for the outstanding balance.
3. Includes Systemwide bonds and other bonds issued by individual banks ($17.3 billion and $1.0 billion outstanding at December 31, 1997, respectively; and Systemwide bonds, consolidated debt securities, and other bonds issued by individual banks of $18.8 billion, $0.4 billion, and $0.9 billion outstanding at December 31, 1996, respectively).
4. Medium-term notes outstanding includes $0.725 billion of global debt securities outstanding at December 31, 1997, and $0.5 billion of global debt securities outstanding at December 31, 1996.

Source: Farm Credit System Annual Information Statement — 1997.

Appendix Table 2

Farm Credit System Debt Issued, 1992–1997

(Dollars in Millions)

Year[1]	Rate[1] (Percent)	Spread[1, 2] (Basis Points)	New Issues (Dollars)
Discount Note Issues			
1992	3.61	N/A	119,942
1993	3.15	N/A	126,392
1994	4.48	N/A	148,370
1995	5.76	N/A	198,459
1996	5.25	N/A	209,523
1997	5.39	N/A	193,262
3-Month Issues			
1992	3.61	7	16,150
1993	3.13	4	15,195
1994	4.37	11	14,890
1995	5.86	17	16,534
1996	5.30	14	19,938
1997	5.49	28	20,186
6-Month Issues			
1992	3.73	4	8,749
1993	3.25	2	8,100
1994	4.71	7	7,830
1995	6.02	8	5,944
1996	5.35	6	5,194
1997	5.51	14	4,547
Medium-Term Notes			
1992	5.69	16[3]	5,536
1993	5.07	19[3]	6,903
1994	6.11	20[3]	5,205
1995	6.53	32[3]	13,001
1996	6.29	34[3]	17,953
1997	6.01	35[3]	17,933
Global Debt Issues			
1996	6.44	39	0.5
1997	6.07	32	0.725
Term Bond Debt Issues[4]			
1992	4.56	10	7,068
1993	3.66	5	6,670
1994	5.10	9	8,519
1995	5.93	6	6,261
1996	5.53	(1)	6,937
1997	5.70	9	7,636
All Debt Issues			
1992	3.70	8	161,301
1993	3.18	5	164,933
1994	4.54	11	185,835
1995	5.80	16.5	242,702
1996	5.31	16	261,304
1997	5.44	26	244,786

Note: N/A = Not applicable.

1. Averages for the year.
2. Spread means the number of basis points above comparable U.S. Treasury rates.
3. Does not include floating rate notes. During 1997, a total of $3.9 billion of floating rate notes were issued at an average rate of 5.46% and spreads over comparable U.S. Treasury rates of 28 basis points.
4. Bond issues with an original maturity of 1 year or longer. The majority of issues are 1 year maturity.

Source: Farm Credit System Annual Information Statements and Federal Farm Credit Banks Funding Corporation Annual Reports.

Appendix Table 3

Farm Credit System Banks and Associations[1]

(As of January 1, 1998)

Bank Affiliation	PCAs	FLBAs	ACAs	FLCAs	ACB	FCBs	BC	Total
CoBank, ACB[2]	0	0	4	0	1	0	0	5
AgFirst FCB	1	0	39	0	0	1	0	41
AgriBank, FCB	18	0	11	19	0	1	0	49
FCB of Wichita	18	22	0	0	0	1	0	41
FCB of Texas	16	26	0	0	0	1	0	43
Western FCB	10	0	5	11	0	1	0	27
AgAmerica, FCB	1	0	1	1	0	1	0	4
St. Paul BC[3]	0	0	0	0	0	0	1	1
1/1/98 Total	64	48	60	31	1	6	1	211
1/1/97 Total	65	60	61	31	1	6	1	225
Increase/(Decrease)	(1)	(12)	(1)	0	0	0	0	(14)

1. PCA = Production Credit Association; FLBA = Federal Land Bank Association; ACA = Agricultural Credit Association; FLCA = Federal Land Credit Association; ACB = Agricultural Credit Bank; FCB = Farm Credit Bank; BC = Bank for Cooperatives.
2. CoBank, ACB has authority to serve cooperatives nationwide and ACAs in CoBank's Northeast Region.
3. The St. Paul BC serves cooperatives nationwide.

Source: FCA, Office of Policy and Analysis, Risk Analysis Division, records.

Appendix Table 4

Trend in Numbers of Farm Credit Banks and Associations, 1983-1998[1]

(As of January 1)

	FLBAs	PCAs	ACAs	FLCAs	FLBs	FICBs	BCs	FCBs	ACB	Total
1983	474	421	0	0	12	12	13	0	0	932
1984	462	399	0	0	12	12	13	0	0	898
1985	436	362	0	0	12	12	13	0	0	835
1986	306	216	0	0	12	12	13	0	0	559
1987	232	155	0	0	12	12	13	0	0	424
1988	232	145	0	0	12	12	13	0	0	414
1989	154	94	33	0	0	1	3	11	0	296
1990	146	84	40	2	0	1	3	11	0	287
1991	120	111	44	18	0	1	3	11	0	308
1992	85	72	70	23	0	1	3	11	0	265
1993	77	70	69	27	0	1	3	10	0	257
1994	73	69	66	30	0	0	3	9	0	250
1995	71	69	60	32	0	0	1	7	1	241
1996	70	66	60	32	0	0	1	6	1	236
1997	60	65	61	31	0	0	1	6	1	225
1998	48	64	60	31	0	0	1	6	1	211

1. FLBA = Federal Land Bank Association; PCA = Production Credit Association; ACA = Agricultural Credit Association; FLCA = Federal Land Credit Association; FLB = Federal Land Bank; FICB = Federal Intermediate Credit Bank; BC = Bank for Cooperatives; FCB = Farm Credit Bank; ACB = Agricultural Credit Bank.

Source: FCA, Office of Policy and Analysis, Risk Analysis Division, records.

Appendix Table 5

1997 Corporate Activity through January 1, 1998

Effective Date	Corporate Activity	Affiliated Bank and Institution	Chartered Name of Resulting Institution	Headquarters Location
2/1/97	Merger (with name change)	FCB of Texas • Caprock-Plains FLBA of Plainview • High Plains FLBA of Pampa • FLBA of Amarillo (continuing FLBA)	Panhandle-Plains FLBA	Pampa, Gray County, Texas
3/1/97	Headquarters Relocation	AgAmerica, FCB	AgAmerica, FCB	Sacramento, Sacramento County, California
5/1/97	Merger	FCB of Texas • FLBA of Paris • FLBA of North Texas (continuing FLBA)	FLBA of North Texas	Denton, Denton County, Texas
5/7/97	Amendments to Articles of Incorporation and Charter	CoBank, ACB • Farm Credit Financial Partners, Inc.	No name change. Amendments permit stock ownership by eligible System associations	Springfield, Hampden County, Massachusetts
7/1/97	Merger	CoBank, ACB • Empire Farm Credit, ACA • First Pioneer Farm Credit, ACA (continuing ACA)	First Pioneer Farm Credit, ACA	Enfield, Hartford County, Connecticut
8/31/97	Merger (with name change)	AgriBank, FCB • PCA of Southeast Wisconsin • FCS of Western Wisconsin, ACA (continuing ACA)	Harvestland Farm Credit Services, ACA	Baraboo, Sauk County, Wisconsin
8/31/97	Charter Amendment (expansion of territory to add 13 counties, name change and headquarters relocation)	AgriBank, FCB • FCS of Southeast Wisconsin, FLCA	Harvestland Farm Credit Services, FLCA	Baraboo, Sauk County, Wisconsin

Appendix Table 5 (continued)

1997 Corporate Activity through January 1, 1998

Effective Date	Corporate Activity	Affiliated Bank and Institution	Chartered Name of Resulting Institution	Headquarters Location
9/1/97	Merger	FCB of Texas • FLBA of Corsicana • FLBA of Waco (continuing FLBA)	FLBA of Waco	Waco, McLennan County, Texas
9/1/97	Merger (with name change and headquarters relocation)	FCB of Texas • FLBA of Brownwood • FLBA of Coleman • FLBA of Haskell • FLBA of San Angelo (continuing FLBA)	FLBA of Texas	Coleman, Coleman County, Texas
10/1/97	Merger (with name change)	FCB of Texas • FLBA of Kerrville • FLBA of Mason • South Central Texas FLBA of San Marcos (continuing FLBA)	Capital of Texas FLBA	San Marcos, Hays County, Texas
11/1/97	Merger	FCB of Texas • Western FLBA of Marfa • Southwest Texas FLBA (continuing FLBA)	Southwest Texas FLBA	Devine, Medina County, Texas
11/26/97	Amendments to Articles of Incorporation	All Farm Credit banks • Farm Credit Leasing Services Corporation (FCSLC)	No change in name. Amendments to FCLSC's Articles modify method for distribution of surplus on liquidation and update other provisions of the Articles.	St. Paul, Minnesota
12/31/97 (close of business)	Merger (with name change and headquarters relocation)	FCB of Texas • FLBA of North Texas • West Central Texas FLBA • FLBA of Cleburne (continuing FLBA)	Lone Star FLBA	Abilene, Taylor County, Texas

Source: FCA, Office of Policy and Analysis, Risk Analysis Division, records.

Appendix Table 6

Farm Credit System Young, Beginning, and Small Farmer Loans: Number and Dollar Volume for All FCS Institutions, 1988–1997

(As of December 31)

	Young Farmers[1]		Beginning Farmers[1]		Small Farmers[1]		Borrowers Meeting at Least Two YBS Categories[1]		All Farm Loans[2]	
Year	Number of Loans	Loan Volume Outstanding ($ thousands)	Number of Loans	Loan Volume Outstanding ($ thousands)	Number of Loans	Loan Volume Outstanding ($ thousands)	Number of Loans	Loan Volume Outstanding ($ thousands)	Number of Loans	Loan Volume Outstanding ($ thousands)
Totals, All Farm Credit System Institutions										
1988	43,579	1,965,226	32,199	1,876,435	80,427	1,623,621	29,821	737,903	656,278	40,826,979
1989	41,988	2,062,363	20,374	1,459,598	73,231	1,769,099	23,703	690,395	618,999	39,829,801
1990	35,790	1,755,960	20,332	1,566,324	68,672	1,559,395	23,796	787,109	598,895	39,675,459
1991	32,778	1,832,000	15,376	1,431,672	60,349	1,406,119	23,012	807,631	611,457	39,368,851
1992	31,735	1,872,308	13,926	1,450,559	68,296	2,076,059	23,940	910,741	609,030	40,288,982
1993	32,640	1,884,482	12,831	1,396,963	59,028	1,080,281	21,250	820,433	609,835	39,880,735
1994	27,974	1,598,979	13,860	1,505,462	45,331	1,077,901	16,506	760,179	590,913	41,312,760
1995	29,713	1,727,405	16,629	1,784,870	40,842	950,721	22,335	868,115	591,545	41,835,541
1996	27,647	1,672,811	22,405	2,207,263	39,152	943,672	22,395	914,273	593,850	44,113,932
1997	26,921	1,580,508	21,091	2,446,135	39,078	991,890	23,186	1,023,758	614,435	46,684,191
Percentages										
1988	6.64	4.81	4.91	4.60	12.26	3.98	4.54	1.81	N/A	N/A
1989	6.78	5.18	3.29	3.66	11.83	4.44	3.83	1.73	N/A	N/A
1990	5.98	4.43	3.39	3.95	11.47	3.93	3.97	1.98	N/A	N/A
1991	5.36	4.65	2.51	3.64	9.87	3.57	3.76	2.05	N/A	N/A
1992	5.21	4.65	2.29	3.60	11.21	5.15	3.93	2.26	N/A	N/A
1993	5.35	4.73	2.10	3.50	9.68	2.71	3.48	2.06	N/A	N/A
1994	4.73	3.87	2.35	3.64	7.67	2.61	2.79	1.84	N/A	N/A
1995	5.02	4.13	2.81	4.27	6.90	2.27	3.78	2.08	N/A	N/A
1996	4.66	3.79	3.77	5.00	6.59	2.14	3.77	2.07	N/A	N/A
1997	4.38	3.39	3.43	5.24	6.36	2.12	3.77	2.19	N/A	N/A

1. Classifications are based on the following standards. The four categories are mutually exclusive.
   Young farmer: Less than 35 years old.
   Beginning farmer: Less than 6 years of farming experience.
   Small farmer: Agricultural assets less than $100,000 and gross agricultural sales less than $40,000.
   Borrowers meeting at least two YBS categories.
   Data are reported and classified in only one of the above four categories.
2. Includes all farm loans made by the Farm Credit System, the majority of which are not to young, beginning, or small farmers.

N/A = Not applicable.

Farm Credit System Financial Tables

The financial tables that follow were developed by the Farm Credit Administration from Call Report data submitted by each Farm Credit System institution. The Call Report information submitted is routinely reviewed for accuracy. Although FCA believes the Call Report data are reliable, the FCA has not audited financial data submitted by each System institution and contained in the Call Reports, nor does FCA express an opinion on the content of the Call Reports. In addition, because of significant intercorporate relationships between and among FCS institutions, financial data presented in this report for each group of like institutions cannot be added to obtain data for the combined FCS.

In 1995, FCA made several changes in the financial tables compared with previous years' reports. The Banks for Cooperatives financial tables were deleted because only one BC existed as of yearend 1995. The Farm Credit System Banks' table contains data for the Farm Credit Banks, the Bank for Cooperatives, and the Agricultural Credit Bank on a combined basis. The Federal Land Bank Associations Combined Trends in Selected Financial Measures was deleted. One table was added: Major Financial Indicators by System, Quarterly Comparison, which exhibits data for the past five quarters for combined Farm Credit System Banks, the combined Direct Lender Associations, and the Total Farm Credit System.[1]

1. This table is updated quarterly on FCA's Web site at http://www.fca.gov.

Financial Table 1

Major Financial Indicators by System, Quarterly Comparison[1]

(Dollars in Thousands)

At and for the 3 months ended	31-Dec-97	30-Sep-97	30-Jun-97	31-Mar-97	31-Dec-96
Farm Credit System Banks[2]					
Gross Loan Volume	58,396,451	58,281,477	57,782,928	57,044,815	56,466,631
Formally Restructured Loans[3]	277,963	316,486	296,403	273,632	307,530
Accrual Loans 90 or More Days Past Due	6,311	7,803	11,529	16,818	6,283
Nonaccrual Loans	224,793	263,050	567,088	583,049	253,869
Nonperforming Loans[4]	0.87%	1.01%	1.51%	1.53%	1.01%
Cash and Marketable Investments	12,021,111	11,428,955	11,221,146	11,088,751	11,274,574
Total Capital/Total Assets[5]	8.53%	8.60%	8.56%	8.54%	8.46%
Total Unallocated Retained Earnings/Total Assets	4.03%	4.05%	3.98%	3.94%	3.87%
Total Net Income	188,721	182,601	165,058	155,501	120,947
Return on Assets[6]	1.07%	1.04%	0.96%	0.93%	0.71%
Return on Equity[6]	12.27%	12.02%	11.15%	10.79%	8.23%
Net Interest Margin	1.55%	1.62%	1.55%	1.62%	1.60%
Operating Expense Rate[7]	0.59%	0.52%	0.52%	0.52%	0.73%
Associations Excluding Federal Land Bank Associations					
Gross Loan Volume	36,820,170	36,330,432	35,546,444	33,779,492	34,065,397
Formally Restructured Loans	89,137	76,932	77,216	83,062	87,959
Accrual Loans 90 or More Days Past Due	23,086	20,355	31,134	44,947	21,775
Nonaccrual Loans	367,066	383,250	398,212	391,334	390,935
Nonperforming Loans	1.30%	1.32%	1.43%	1.54%	1.47%
Total Capital/Total Assets[5]	16.24%	16.22%	16.36%	16.82%	16.35%
Total Unallocated Retained Earnings/Total Assets	12.34%	12.49%	12.41%	12.65%	12.06%
Total Net Income	173,054	156,194	151,526	166,927	160,894
Return on Assets[6]	1.77%	1.61%	1.65%	1.90%	1.77%
Return on Equity[6]	10.57%	9.70%	9.70%	11.02%	10.48%
Net Interest Margin	3.37%	3.26%	3.40%	3.50%	3.39%
Operating Expense Rate[7]	1.97%	1.76%	1.83%	1.89%	2.01%
Total Farm Credit System[8]					
Gross Loan Volume	63,439,000	63,001,000	62,639,000	61,968,000	61,178,000
Formally Restructured Loans[3]	200,000	216,000	220,000	230,000	246,000
Accrual Loans 90 or More Days Past Due	36,000	28,000	41,000	61,000	28,000
Nonaccrual Loans	592,000	646,000	965,000	974,000	645,000
Nonperforming Loans	1.31%	1.41%	1.96%	2.04%	1.50%
Total Bonds and Notes	64,479,000	63,964,000	63,362,000	62,571,000	62,343,000
Total Capital/Total Assets[5]	14.96%	14.87%	14.69%	14.50%	14.32%
Total Surplus/Total Assets	10.64%	10.56%	10.36%	10.19%	9.91%
Total Net Income	332,000	328,000	304,000	303,000	250,000
Return on Assets[6]	1.71%	1.71%	1.60%	1.61%	1.34%
Return on Equity[6]	11.57%	11.68%	11.11	11.33%	9.51%
Net Interest Margin	2.98%	2.99%	2.90%	2.91%	2.93%

1. Some of the previously published quarterly data have been restated to include subsequent adjustments.
2. Includes Farm Credit Banks, the Bank for Cooperatives, and the Agricultural Credit Bank.
3. Excludes loans past due 90 days or more.
4. Nonperforming Loans are defined as Nonaccrual Loans, Formally Restructured Loans, and Accrual Loans 90 or More Days Past Due.
5. Total capital includes protected borrower stock.
6. Income ratios are annualized.
7. Defined as operating expenses divided by average gross loans, annualized.
8. Cannot be derived through summation of above categories because of intradistrict and intra-System eliminations.

Source: Call Reports received from the Farm Credit System and the Federal Farm Credit Banks Reports to Investors of the Farm Credit System.

Financial Table 2

Farm Credit System Banks Combined Statement of Financial Condition[1]

(Dollars in Millions)

As of December 31	1997	1996[2]	1995[2]	1994[2]	1993[2]
Assets					
Loans	$59,237.9	$57,300.7	$55,231.9	$51,563.9	$51,212.6
Allowance for Losses	736.1	729.7	707.0	801.0	885.8
Net Loans	58,501.8	56,571.0	54,524.9	50,762.9	50,326.8
Cash and Investments in Securities	11,969.0	11,234.2	10,509.1	9,710.3	9,261.4
Other Property Owned	7.4	21.1	33.3	52.9	131.6
Other Assets–Net	643.9	723.3	686.6	778.6	788.4
Total Assets	**71,122.1**	**68,549.7**	**65,753.9**	**61,304.8**	**60,508.1**
Liabilities					
Systemwide Notes and Bonds Outstanding	62,333.3	60,156.8	57,992.8	53,609.4	53,281.7
Other Liabilities	2,720.3	2,594.8	2,131.9	2,318.7	1,878.3
Total Liabilities	**65,053.6**	**62,751.6**	**60,124.6**	**55,928.1**	**55,159.9**
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	0.5	0.5	0.5	2.7	7.1
Capital Stock and Participation Certificates–Unprotected	2,781.8	2,748.3	2,715.1	2,329.1	2,444.0
Preferred Stock–Financial Assistance Corporation	0.0	0.0	0.0	388.2	476.7
Other Capital	401.6	383.0	429.8	227.4	113.0
Total Capital	**3,183.9**	**3,131.8**	**3,145.4**	**2,947.2**	**3,040.9**
Earned Net Worth	**2,884.6**	**2,666.2**	**2,483.9**	**2,429.4**	**2,307.3**
Total Net Worth	**6,068.5**	**5,798.1**	**5,629.3**	**5,376.7**	**5,348.2**
Total Liabilities and Net Worth	**$71,122.1**	**$68,549.7**	**$65,753.9**	**$61,304.8**	**$60,508.1**

1. Includes six Farm Credit Banks, one Agricultural Credit Bank, and one Bank for Cooperatives. Figures for 1993 through 1997 are not comparable to previous years because of mergers of Federal Land Bank Associations and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.

Note: Totals may not add because of rounding.

Financial Table 3

Farm Credit System Banks Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31	1997	1996[2]	1995[2]	1994[2]	1993[2]
Interest Income					
Loans	$4,048.2	$3,981.7	$3,904.4	$3,283.5	$3,167.5
Investments and Other	670.4	641.8	595.9	404.9	336.8
Total Interest Income	**4,718.6**	**4,623.5**	**4,500.3**	**3,688.5**	**3,504.4**
Interest Expense					
Systemwide Notes and Bonds	3,544.9	2,669.2	2,442.8	1,882.5	1,744.2
Other	92.3	834.1	1,012.2	721.2	529.5
Total Interest Expense	**3,637.2**	**3,503.2**	**3,455.0**	**2,603.7**	**2,273.7**
Net Interest Income	1,081.4	1,120.3	1,045.3	1,084.7	1,230.7
Less: Provision for Loan Losses	39.0	83.0	(7.8)	17.4	14.9
Net Interest Income after					
Provision for Loan Losses	1,042.4	1,037.4	1,053.1	1,067.3	1,215.8
Other Income	113.5	87.4	82.7	74.3	108.8
Operating Expenses					
Salaries and Employee Benefits	117.5	124.6	120.3	147.0	169.1
Occupancy and Equipment Expenses	24.0	25.3	27.9	32.8	38.8
Other Operating Expenses	168.8	207.2	250.7	311.0	330.0
Total Operating Expenses	**310.3**	**357.1**	**398.9**	**490.7**	**537.9**
Other Expenses	154.2	146.6	138.2	180.7	169.3
Extraordinary Items	0.5	1.2	(43.3)	(2.7)	(12.7)
Net Income	**$ 691.9**	**$ 622.2**	**$ 555.3**	**$ 467.6**	**$ 604.6**

1. Includes six Farm Credit Banks, one Agricultural Credit Bank, and one Bank for Cooperatives. Figures for 1993 through 1997 are not comparable to previous years because of mergers of Federal Land Bank Associations and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.

Note: Totals may not add because of rounding.

Financial Table 4

Farm Credit System Banks Combined Trends in Selected Financial Measures[1]

(Dollars in Millions)

As of December 31	1997	1996	1995	1994[2]	1993[2]
Loan Performance					
Performing[3]	$58,728.8	$56,733.0	$54,547.6	$50,607.0	$49,804.6
Formally Restructured[3]	278.0	307.5	337.1	397.4	490.5
Nonaccrual	224.8	253.9	338.4	524.8	906.7
Loans Past Due 90 Days or More	6.3	6.3	8.8	34.7	10.9
Net Chargeoffs on Loans	**$11.2**	**$30.7**	**($7.9)**	**($0.8)**	**$6.8**
Selected Ratios					
Return on Assets (%)	1.00	0.92	0.89	0.78	1.02
Return on Equity (%)	11.57	10.77	10.04	8.70	11.49
Net Interest Margin (%)	1.58	1.68	1.71	1.84	2.17
Capital as a Percentage of Assets	8.53	8.46	8.56	8.77	8.84
Debt-to-Capital Ratio	10.72	10.82	10.68	10.40	10.31

1. Includes six Farm Credit Banks, one Agricultural Credit Bank, and one Bank for Cooperatives. Figures for 1993 through 1997 are not comparable to previous years because of mergers of Federal Land Bank Associations and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.
3. Excludes loans past due 90 days or more.

Note: Totals may not add because of rounding.

Financial Table 5

Direct Lender Associations Combined Statement of Financial Condition[1]

(Dollars in Millions)

As of December 31	1997	1996 [2]	1995 [2]	1994 [2]	1993 [2]
Assets					
Loans	$37,594.3	$34,771.2	$31,627.2	$29,365.6	$26,416.2
Allowance for Losses	1,017.3	955.3	886.3	748.5	601.1
Net Loans	36,577.0	33,815.8	30,740.9	28,617.1	25,815.2
Cash and Investments in Securities	175.2	170.1	166.0	115.8	47.2
Other Property Owned	24.0	33.5	30.6	47.3	56.7
Other Assets–Net	2,495.1	2,437.2	2,418.5	2,302.1	2,250.3
Total Assets	**39,271.3**	**36,456.6**	**33,355.9**	**31,082.3**	**28,169.4**
Liabilities					
Systemwide Notes and Bonds Outstanding	N/A	N/A	N/A	N/A	N/A
Other Liabilities	32,792.4	30,372.0	27,646.7	25,710.4	23,136.9
Total Liabilities	**32,792.4**	**30,372.0**	**27,646.7**	**25,710.4**	**23,136.9**
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	101.7	122.2	150.3	190.0	215.3
Capital Stock and Participation Certificates–Unprotected	918.8	1,034.1	1,138.6	1,267.8	1,263.1
Preferred Stock–Financial Assistance Corporation	0.0	0.0	0.0	0.0	0.0
Other Capital	14.4	15.5	15.2	14.9	111.4
Total Capital	**1,034.8**	**1,171.9**	**1,304.1**	**1,472.8**	**1,589.8**
Earned Net Worth	**5,444.1**	**4,912.6**	**4,405.1**	**3,899.2**	**3,442.6**
Total Net Worth	**6,478.9**	**6,084.5**	**5,709.2**	**5,371.9**	**5,032.4**
Total Liabilities and Net Worth	**$39,271.3**	**$36,456.6**	**$33,355.9**	**$31,082.3**	**$28,169.4**

1. Includes Production Credit Associations, Agricultural Credit Associations, and Federal Land Credit Associations. Figures for 1993 through 1997 are not comparable to previous years because of mergers of Federal Land Bank Associations and PCAs into ACAs, and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.

Notes: Totals may not add because of rounding. N/A = Not applicable.

Financial Table 6

Direct Lender Associations Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31	1997	1996 [2]	1995	1994	1993
Interest Income					
Loans	$3,100.3	$2,878.2	$2,745.7	$2,258.9	$1,997.2
Investments and Other	2.4	3.7	5.5	0.9	2.0
Total Interest Income	**3,102.8**	**2,882.4**	**2,751.2**	**2,259.7**	**1,999.2**
Interest Expense					
Systemwide Notes and Bonds	N/A	N/A	N/A	N/A	N/A
Other	1,927.8	1,769.9	1,690.2	1,301.2	1,146.2
Total Interest Expense	**1,927.8**	**1,769.9**	**1,690.2**	**1,301.2**	**1,146.2**
Net Interest Income	1,174.9	1,112.0	1,061.0	958.6	853.0
Less: Provision for Loan Losses	56.2	57.7	51.6	46.7	32.6
Net Interest Income after					
Provision for Loan Losses	1,118.7	1,054.3	1,009.3	911.9	820.4
Other Income	356.2	361.9	345.1	326.4	273.3
Operating Expenses					
Salaries and Employee Benefits	376.3	356.3	352.1	348.0	316.8
Occupancy and Equipment Expenses	51.9	48.9	45.7	42.7	38.7
Other Operating Expenses	223.9	218.7	212.1	193.3	165.4
Total Operating Expenses	**652.2**	**623.9**	**609.9**	**584.0**	**521.0**
Other Expenses	**175.1**	**169.3**	**148.4**	**132.6**	**130.9**
Extraordinary Items	**0.0**	**0.2**	**0.2**	**0.0**	**80.6**
Net Income	**$ 647.7**	**$ 623.7**	**$ 596.4**	**$ 521.7**	**$ 522.4**

1. Includes Production Credit Associations, Agricultural Credit Associations, and Federal Land Credit Associations. Figures for 1993 through 1997 are not comparable to previous years because of mergers of Federal Land Bank Associations and PCAs into ACAs, and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.

Notes: Totals may not add because of rounding. N/A = Not applicable.

Financial Table 7

Direct Lender Associations Combined Trends in Selected Financial Measures[1]

(Dollars in Millions)

As of December 31	1997	1996 [2]	1995 [2]	1994	1993
Loan Performance					
Performing[3]	$37,115.0	$34,270.5	$31,035.1	$28,704.1	$25,706.1
Formally Restructured[3]	89.1	88.0	108.1	129.6	137.1
Nonaccrual	367.1	390.9	462.4	513.4	556.5
Loans Past Due 90 Days or More	23.1	21.8	21.6	18.5	16.6
Net Chargeoffs on Loans	**$15.8**	**$17.4**	**$3.2**	**$4.5**	**($0.4)**
Selected Ratios					
Return on Assets (%)	1.73	1.79	1.86	1.74	1.92
Return on Equity (%)	10.24	10.51	10.68	9.95	11.15
Net Interest Margin (%)	3.38	3.46	3.63	3.51	3.48
Capital as a Percentage of Assets	16.50	16.69	17.12	17.28	17.86
Debt-to-Capital Ratio	5.06	4.99	4.84	4.79	4.60

1. Includes Production Credit Associations, Agricultural Credit Associations, and Federal Land Credit Associations. Figures for 1993 through 1997 are not comparable to previous years because of mergers of Federal Land Bank Associations and PCAs into ACAs, and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.
3. Excludes loans past due 90 days or more.

Financial Table 8

Federal Land Bank Associations Combined Statement of Financial Condition[1]

(Dollars in Millions)

As of December 31	1997	1996 [2]	1995	1994 [2]	1993 [2]
Assets					
Loans[3]	N/A	N/A	N/A	N/A	N/A
Allowance for Losses[4]	N/A	N/A	N/A	N/A	N/A
Net Loans	N/A	N/A	N/A	N/A	N/A
Cash and Investments in Securities	$658.8	$528.3	$447.7	$318.0	$263.9
Other Property Owned	N/A	N/A	N/A	N/A	N/A
Other Assets–Net	377.1	415.3	400.1	219.4	268.5
Total Assets	**1,035.9**	**943.6**	**847.8**	**537.4**	**532.5**
Liabilities					
Systemwide Notes and Bonds Outstanding	N/A	N/A	N/A	N/A	N/A
Other Liabilities	61.6	61.2	46.6	35.5	46.0
Total Liabilities	**61.6**	**61.2**	**46.6**	**35.5**	**46.0**
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	8.5	8.2	9.8	11.6	17.7
Capital Stock and Participation Certificates–Unprotected	116.1	133.2	164.9	189.0	200.1
Other Capital	0.0	0.0	0.0	0.0	0.0
Total Capital	**124.5**	**141.4**	**174.7**	**200.6**	**217.9**
Earned Net Worth	**849.8**	**741.0**	**626.4**	**301.4**	**268.7**
Total Net Worth	**974.4**	**882.4**	**801.2**	**502.0**	**486.5**
Total Liabilities and Net Worth	**$1,035.9**	**$943.6**	**$847.8**	**$537.4**	**$532.5**

1. Figures for 1993 through 1997 are not comparable to previous years because of mergers of FLBAs and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks.

2. Some of the previously published annual data have been restated to include subsequent adjustments.
3. The FLBAs act as agents for the FCBs (formerly Federal Land Banks) in the lending process but do not hold loans themselves.
4. FLBAs in some districts have liability for losses on FCB (formerly Federal Land Bank) loans. Because FLBAs do not make loans, the FLBA allowance for loan losses is included in FLBA liabilities.

Notes: Totals may not add because of rounding. N/A = Not applicable.

Financial Table 9

Federal Land Bank Associations Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31	1997	1996	1995 [2]	1994	1993
Interest Income					
Loans	N/A	N/A	N/A	N/A	N/A
Investments and Other	$ 26.8	$ 22.0	$ 24.3	$ 15.7	$ 2.4
Total Interest Income	**26.8**	**22.0**	**24.3**	**15.7**	**2.4**
Interest Expense					
Systemwide Notes and Bonds	N/A	N/A	N/A	N/A	N/A
Other	N/A	N/A	N/A	N/A	N/A
Total Interest Expense	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Net Interest Income	26.8	22.0	24.3	15.7	2.4
Less: Provision for Loan Losses	2.6	4.0	0.0	(2.7)	(1.4)
Net Interest Income after Provision for Loan Losses	24.2	17.9	24.3	18.4	3.8
Other Income	175.2	161.8	335.1	79.4	168.5
Operating Expenses					
Salaries and Employee Benefits	38.5	37.7	36.1	35.2	45.0
Occupancy and Equipment Expenses	5.5	4.9	4.7	4.9	5.9
Other Operating Expenses	32.3	15.3	14.8	15.9	22.0
Total Operating Expenses	**76.2**	**58.0**	**55.7**	**56.0**	**73.0**
Other Expenses	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Extraordinary Items	**0.0**	**0.0**	**0.0**	**0.0**	**(0.4)**
Net Income	**$123.0**	**$121.7**	**$303.7**	**$41.8**	**$98.8**

1. Figures for 1993 through 1997 are not comparable to previous years because of mergers of FLBAs and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.

Notes: Totals may not add because of rounding. N/A = Not applicable.

Glossary

A

ACA — The acronym for Agricultural Credit Association.

ACB — The acronym for Agricultural Credit Bank.

Act — The abbreviated term for the Farm Credit Act of 1971, as amended.

AgAmerica, FCB — This Farm Credit Bank (FCB) was formed April 1, 1994, as a result of the consolidation of the FCB of Omaha and the FCB of Spokane. AgAmerica provides loan funds and support services to the associations serving Alaska, Idaho, Iowa, Montana, Nebraska, Oregon, South Dakota, Washington, and Wyoming. On March 1, 1997, AgAmerica and the Western FCB entered a joint management agreement. As a result of the agreement, AgAmerica moved its headquarters from Spokane, Washington, to Sacramento, California.

Agency — When capitalized, the term refers to the Farm Credit Administration.

AgFirst Farm Credit Bank — Headquartered in Columbia, South Carolina, this institution provides loan funds and support services to associations serving Delaware, the District of Columbia, Florida, Georgia, Maryland, North Carolina, Pennsylvania, Puerto Rico, South Carolina, Virginia, West Virginia, and parts of Kentucky, Ohio, and Tennessee. It also provides short- and intermediate-term financing to an association serving Alabama, Louisiana, and Mississippi. AgFirst was formed on April 1, 1995, as a result of a consolidation of the FCB of Columbia and the FCB of Baltimore.

AgriBank, FCB — Headquartered in St. Paul, Minnesota, AgriBank was formed on May 1, 1992, as a result of a consolidation of the FCB of St. Louis and the FCB of St. Paul. In January 1994, the FCB of Louisville merged into AgriBank. AgriBank provides loan funds and support services to the associations serving Arkansas, Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, North Dakota, Ohio, Tennessee, and Wisconsin.

Agricultural Credit Association (ACA) — An ACA results from the merger of a Federal Land Bank Association or a Federal Land Credit Association and a Production Credit Association and has the combined authority of the two institutions. An ACA borrows funds from a Farm Credit Bank or Agricultural Credit Bank to provide short-, intermediate-, and long-term credit to farmers, ranchers, and producers or harvesters of aquatic products. It also makes loans to these borrowers for certain processing and marketing activities, to rural homeowners for housing, and to certain farm-related businesses.

Agricultural Credit Bank (ACB) — 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 Farm Credit System.

Assistance Board — The abbreviated term for the Farm Credit System Assistance Board.

Associations — A collective term often used to describe the local entities that serve as the delivery points for credit to farmers, ranchers, producers or harvesters of aquatic products, and rural homeowners. The four types of associations are Agricultural Credit Associations, Federal Land Bank Associations, Federal Land Credit Associations, and Production Credit Associations.

B

Bank for Cooperatives (BC) — A BC provides lending and other financial services to farmer-owned cooperatives, rural utilities (electric and telephone), and rural sewer and water systems. It also is authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. The St. Paul BC is the only BC in the Farm Credit System.

Basis Point — A basis point is one one-hundredth of 1 percent.

BC — The acronym for Bank for Cooperatives.

C

Call Report — A Call Report is a statement of condition and performance of a Farm Credit System bank or association. FCS banks and associations are required to file Call Reports quarterly with FCA.

CoBank, ACB — CoBank originally was formed by the merger of 10 of the 12 district Banks for Cooperatives and the Central Bank for Cooperatives on January 1, 1989. The resulting institution was the National Bank for Cooperatives. On January 1, 1995, CoBank became the only ACB in the Farm Credit System when it consolidated with the FCB of Springfield (Massachusetts) and the Springfield Bank for Cooperatives. Its headquarters is in Denver, Colorado, and it has the combined lending authority of an FCB (in its Northeast Region only, with associations serving Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont) and a Bank for Cooperatives. It also is authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives.

Consumer Price Index (CPI) — The CPI measures prices of a fixed basket of goods bought by a typical consumer, including food, transportation, shelter, utilities, clothing, medical care, entertainment, and other items. The CPI, published by the Bureau of Labor Statistics in the Department of Labor, is based at 100 in 1982 and is released monthly. It is widely used as a cost-of-living benchmark to adjust Social Security payments and other payment schedules, union contracts, and tax brackets. Also known as the cost-of-living index.

F

Fannie Mae — Fannie Mae is a publicly owned, Government-sponsored enterprise chartered in 1938 to purchase mortgages from lenders and resell them to investors. The agency, formerly known as the Federal National Mortgage Corporation, packages mostly mortgages backed by the Federal Housing Administration, but also sells some nongovernmentally backed mortgages. Shares of Fannie Mae itself, known as Fannie Maes, are traded on the New York Stock Exchange.

Farm Credit Act (the Act) — The Farm Credit Act of 1971, as amended, is the statute under which the Farm Credit System operates. The Farm Credit Act recodified all previous acts governing the Farm Credit System.

Farm Credit Administration (FCA or Agency) — The FCA is the independent Federal agency responsible for examining and regulating Farm Credit System institutions. The FCA was created by Executive order in 1933 and derives its powers and authorities from the Farm Credit Act of 1971, as amended. The Agency's headquarters is in McLean, Virginia.

Farm Credit Administration Board — The three-member Farm Credit Administration Board is the policymaking body for the Farm Credit Administration. Members are appointed by the President with the advice and consent of the U.S. Senate to 6-year terms on the Board. Members may not be reappointed after serving a full term or more than 3 years of a previous member's term. The President designates one of the members as chairman of the Board, who also serves as chief executive officer.

Farm Credit Bank (FCB) — On July 6, 1988, the Federal Land Bank and the Federal Intermediate Credit Bank in 11 of the 12 Farm Credit districts merged to become FCBs. The mergers were required by the Agricultural Credit Act of 1987. FCBs generally provide services and funds to local associations that, in turn, lend those funds to farmers, ranchers, producers or harvesters of aquatic products, rural residents for housing, and some agriculture-related businesses. As of December 31, 1997, there were six FCBs: AgAmerica, FCB; AgFirst Farm Credit Bank; AgriBank, FCB; Farm Credit Bank of Texas; Farm Credit Bank of Wichita; and Western Farm Credit Bank.

Farm Credit Bank of Texas — Headquartered in Austin, Texas, this institution provides services and short- and intermediate-term financing to associations serving Texas and New Mexico and part of Louisiana. It provides services and long-term financing to associations serving Alabama, Louisiana, Mississippi, and Texas.

Farm Credit Bank of Wichita — Headquartered in Wichita, Kansas, this institution provides services and short-, intermediate-, and long-term financing to associations serving Colorado, Kansas, and Oklahoma, short- and intermediate-term financing to part of New Mexico, and long-term financing to New Mexico through its FLBA.

Farm Credit Insurance Fund (Insurance Fund) — The Insurance Fund represents the Farm Credit System Insurance Corporation's equity, that is, the difference between its total assets and its total liabilities, including its insurance obligations.

Farm Credit Leasing Services Corporation (Leasing Corporation) — The Leasing Corporation is a service entity owned by Farm Credit System banks to provide equipment leasing and related services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit System (FCS or System) — The FCS is a nationwide network of financial cooperatives. Borrowers include farmers, ranchers, rural homeowners, agricultural cooperatives, rural utility systems, and agribusinesses.

Farm Credit System Assistance Board (Assistance Board) — The Assistance Board was created by the Agricultural Credit Act of 1987 to provide assistance to financially troubled Farm Credit Banks, protect the stock of System borrowers, restore FCS banks to economic viability, and preserve their ability to provide credit at reasonable and competitive rates. The Assistance Board terminated on December 31, 1992.

Farm Credit System Insurance Corporation (FCSIC) — The 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 Farm Credit System banks. The FCA Board serves ex officio as the Board of Directors for FCSIC; however, the chairman of the FCA Board is not permitted to serve as the chairman of the FCSIC Board of Directors.

Farmer Mac — The abbreviated term for Federal Agricultural Mortgage Corporation.

Farm Service Agency — The Farm Service Agency, part of the U.S. Department of Agriculture, has a variety of farm program-related functions, including the making of direct loans and administering guaranteed loan programs for farmers unable to obtain regular credit from commercial sources. In 1994, following a USDA reorganization, the Farm Service Agency assumed certain functions of the Agricultural Stabilization and Conservation Service, the Farmers Home Administration, and the Federal Crop Insurance Corporation.

FCA — The acronym for Farm Credit Administration.

FCA Rating System — The FCA Rating System is similar to the Uniform Financial Institutions Rating System used by other Federal banking regulators; however, it has been modified to reflect the nondepository nature of FCS institutions. The ratings, which range from 1 to 5, are described below.

Rating 1 — Institutions in this group are basically sound in every respect; any negative findings or comments are minor and 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 than institutions with lower ratings of withstanding the uncertainties of business conditions. As a result, these institutions give no cause for regulatory concern.

Rating 2 — Institutions in this group are also fundamentally sound but may reflect modest weaknesses correctable in the normal course of business. The nature and severity of deficiencies are not considered material and, therefore, such institutions are stable and able to withstand business fluctuations. While areas of weakness could develop into conditions of greater concern, regulatory response is limited as long as minor adjustments are resolved in the normal course of business and operations continue in a satisfactory manner.

Rating 3 — Institutions in this group exhibit a combination of financial, management, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory. When weaknesses relate to asset quality and/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. Institutions in this group 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 impair future viability or constitute a threat to the interests of investors, borrowers, and stockholders. A potential for failure is present but not yet imminent or pronounced. Institutions in this group 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 demand urgent external financial assistance. In the absence of decisive corrective measures, these institutions will likely require liquidation or some form of emergency assistance, merger, or acquisition.

FCB — The acronym for Farm Credit Bank.

FCS — The acronym for Farm Credit System.

FCSBA — The acronym for FCS Building Association.

FCSIC — The acronym for Farm Credit System Insurance Corporation.

FCS Building Association (FCSBA or Building Association) — The FCSBA acquires, manages, and maintains facilities for the FCA's headquarters and field offices. Formed in 1981, the FCSBA is owned by the FCS banks; however, oversight of its activities is vested in the FCA Board.

Federal Agricultural Mortgage Corporation (Farmer Mac) — Farmer Mac was created by the Agricultural Credit Act of 1987 to provide guarantees for the timely repayment of principal and interest on securities backed by pools of agricultural real estate or rural home loans. Farmer Mac is controlled by an independent 15-member board composed of 5 representatives from the Farm Credit System, 5 members from commercial banks and insurance companies, and 5 public members appointed by the President. Farmer Mac is regulated by the FCA and is defined by statute as a Farm Credit System institution.

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

Federal Funds Rate — The Federal funds rate is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements.

Federal Home Loan Bank System (FHLB System) — The FHLB System supplies credit reserves for savings and loans, cooperative banks, and other mortgage lenders in a manner similar to the Federal Reserve's role with commercial banks. The FHLB System is made up of 12 regional Federal Home Loan Banks. It raises money by issuing notes and bonds and lends money to savings and loans and other mortgage lenders based on the amount of collateral the institution can provide. The system was established in 1932 after a massive wave of bank failures. In 1989, Congress passed savings and loan bailout legislation revamping the regulatory structure of the industry. The Federal Home Loan Bank Board was dismantled and replaced with the Office of Thrift Supervision. The Federal Housing Finance Board was created to oversee the FHLB System.

Federal Home Loan Mortgage Corporation (FHLMC) — The FHLMC is a publicly chartered agency that buys qualifying residential mortgages from lenders, packages them into new securities backed by those pooled mortgages, provides certain guarantees, and then resells the securities on the open market. The corporation's stock is owned by savings institutions across the United States and is held in trust by the Federal Home Loan Bank System. The corporation, nicknamed Freddie Mac, has created an enormous secondary market, which provides more funds for mortgage lending and allows investors to buy high-yielding securities backed by Federal guarantees. Freddie Mac formerly packaged only mortgages backed by the Veteran's Administration or the Federal Housing Administration, but now it also resells nongovernmentally backed mortgages. The corporation was established in 1970.

Federal Intermediate Credit Bank (FICB) — 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 Production Credit Associations (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. On July 6, 1988, the FICB and the Federal Land Bank in 11 of the 12 Farm Credit districts merged to become Farm Credit Banks. The mergers were required by the Agricultural Credit Act of 1987.

Federal Land Bank (FLB) — The Federal Farm Loan Act of 1916 provided for the establishment of 12 FLBs to provide long-term mortgage credit to farmers, ranchers, and later to rural home buyers. On July 6, 1988, the FLB and the Federal Intermediate Credit Bank in 11 of the 12 Farm Credit districts merged to become Farm Credit Banks. The mergers were required by the Agricultural Credit Act of 1987.

Federal Land Bank Association (FLBA) — FLBAs are lending agents for Farm Credit Banks. FLBAs make and service long-term mortgage loans to farmers, ranchers, and rural residents for housing. FLBAs do not own loan assets but make loans only on behalf of the Farm Credit Bank with which they are affiliated.

Federal Land Credit Association (FLCA) — An FLCA is a Federal Land Bank Association that owns its loan assets. An FLCA borrows funds from a Farm Credit Bank to make and service long-term loans to farmers, ranchers, and rural residents for housing.

FICB — The acronym for Federal Intermediate Credit Bank.

FLCA — The acronym for Federal Land Credit Association.

FLB — The acronym for Federal Land Bank.

FLBA — The acronym for Federal Land Bank Association.

FSA — The acronym for the U.S. Department of Agriculture's Farm Service Agency.

Funding Corporation — The abbreviated term for Federal Farm Credit Banks Funding Corporation.

G

Government-Sponsored Enterprise (GSE) — A GSE is 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 — to improve credit to agriculture, education, or housing. GSEs are usually created because the private markets did not satisfy a purpose that the 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, referred to as GSE attributes, to allow it to overcome the barriers that prevented purely private markets. Sometimes the public assistance is only to get started, at other times it is ongoing.

Gross Domestic Product (GDP) — GDP is the market value of the goods and services produced by labor and property in the United States. GDP is made up of consumer and government purchases, private domestic investments, and net exports of goods and services. Figures for GDP are released quarterly by the Commerce Department. Growth of the U.S. economy is measured by the change in inflation-adjusted GDP, or real GDP. Formerly called Gross National Product.

J

Joint and Several Liability — The Farm Credit Act of 1971, as amended, authorizes each Farm Credit bank to join with other banks of the Farm Credit System in issuing Systemwide notes, bonds, debentures, and other obligations. Each bank is primarily liable for the portion of any issue of Systemwide obligations made on its behalf and is jointly and severally liable for the payment of any additional sums as called upon by FCA in order to make payments of interest or principal that any bank primarily liable is unable to make. "Jointly and severally" is a legal phrase used in definitions of liability meaning that an obligation may be enforced against all obligors jointly, or against any one of them separately.

L

Leasing Corporation — The abbreviated term for Farm Credit Leasing Services Corporation.

P

PCA — The acronym for Production Credit Association.

Production Credit Association (PCA) — The Farm Credit Act of 1933 authorized farmers to organize PCAs that could discount notes with Federal Intermediate Credit Banks. PCAs are Farm Credit System entities that deliver only short- and intermediate-term loans to farmers and ranchers. A PCA borrows money from its Farm Credit Bank to loan to farmers. PCAs also own their loan assets.

S

Student Loan Marketing Association (SLMA) — The SLMA is a publicly traded stock corporation that guarantees student loans traded in the secondary market. It was chartered by act of Congress in 1972 to increase the availability of education loans to college and university students made under the federally sponsored Guaranteed Student Loan Program and the Health, Education Assistance Loan Program. Known as Sallie Mae, it purchases student loans from originating financial institutions and provides financing to state student loan agencies. It also sells short- and medium-term notes, some floating rate notes.

System — When capitalized, the term refers to the Farm Credit System.

U

USDA — The acronym for U.S. Department of Agriculture.

W

Western Farm Credit Bank — Headquartered in Sacramento, California, this institution provides loan funds and services to the associations serving Arizona, California, Hawaii, Nevada, Utah, and part of Idaho.

Y

Year 2000 — The Year 2000 issue refers to the problem posed by the century date change for most computer operating systems and programs, which are unable to distinguish the year 1900 from the year 2000. Most computer operating systems and programs currently in use have six-digit date fields (YYMMDD), which represent, for example, December 31, 1999, by 991231. The six-digit field, with only two digits for the year, is the basis for all date-related calculations within most computer systems, particularly mainframes. Unless the systems are changed, when the year 2000 arrives, they will have no way of expressing a date past yearend 1999. They will interpret 000101 as January 1, 1900.

Additional Information

This report is published in accordance with section 5.17(a)(3) of the Farm Credit Act of 1971, as amended, which requires the Farm Credit Administration to make annual reports directly to Congress on the condition of the Farm Credit System and its institutions. These annual reports also must include a summary and analysis of reports submitted to FCA by Farm Credit banks on programs for serving young, beginning, and small farmers and ranchers. Further discussion of the financial condition and performance of the Farm Credit System may be found in the FCA report *Risk Analysis of Farm Credit System Operations*, published for the quarters ended March 31, June 30, and September 30. Starting with the September 30, 1997 report, the FCA has changed its publication process. A full quarterly report will be issued once per year for the period ending June 30. For the quarters ending March 31, September 30, and December 31, only the continuing data series will be issued. The continuing data series includes tables of financial indicators covering the FCS, a discussion of recent corporate restructuring activity among System institutions, and a table showing numbers and types of active FCS institutions. The June 30 quarterly report will be issued in printed format and also will be available on FCA's Web site (http://www.fca.gov). The reports for the quarters ending March 31, September 30, and December 31 will be available only on FCA's Web site. A discussion of the performance and financial condition of the Farm Credit Administration may be found in the *Farm Credit Administration Annual Report.* Depending on availability, these publications may be obtained without charge from:

Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
Telephone (703) 883-4056
Fax (703) 790-3260
E-mail: info-line@fca.gov

Beginning with the report for the quarter ended September 30, 1996, *Risk Analysis of Farm Credit System Operations* is now available on FCA's Web site (http://www.fca.gov).

Disclosure to investors in Farm Credit System securities is made by the Federal Farm Credit Banks Funding Corporation through annual and quarterly information statements published as part of the *Report to Investors of the Farm Credit System,* and through its *Summary Report of Condition and Performance of the Farm Credit System,* which is published each quarter. Copies of these reports are available from:

Federal Farm Credit Banks Funding Corporation
10 Exchange Place
Suite 1401
Jersey City, NJ 07302-3913
Telephone (201) 200-8000

The Farm Credit System Insurance Corporation, which ensures the timely payment of principal and interest on insured securities issued by FCS banks, publishes an annual report. Copies are available from:

Farm Credit System Insurance Corporation
1501 Farm Credit Drive
McLean, VA 22102
Telephone (703) 883-4380

In addition, FCS banks and associations are required by regulation to prepare annual and quarterly financial disclosure reports and make them available to their stockholders. Copies of these documents are available for public inspection at FCA headquarters in McLean, Virginia.

Copies are Available From:
Office of Congressional
and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
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