ANNUAL 1991 REPORT

FARM CREDIT ADMINISTRATION

CHAIRMAN OF THE FARM CREDIT ADMINISTRATION
1501 Farm Credit Drive
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Dear Reader:

The Farm Credit Administration (FCA) board is at full strength for the first time since November 12, 1988. On December 3, 1991, the board welcomed Gary C. Byrne as its third member. Mr. Byrne brings extensive experience in finance, administration, and Government to the position, having served as chairman of the board of a commercial bank, president and chief executive officer of a multi-bank holding company, and administrator of the U.S. Department of Agriculture's Rural Electrification Administration.

The condition of the Farm Credit System (FCS) continued to improve during 1991, with combined net earnings of $811 million for the year. At the end of the year, all but one Farm Credit Bank and two associations had met the seven percent risk-weighted capital standard that FCA regulations require all institutions to meet by January 1, 1993.

On December 31, 1991, there was a total of 290 institutions, including service organizations and institutions in receivership, that made up the FCS and for which the FCA has oversight responsibility. With the exception of Federal Land Bank Associations, the law requires the FCA to examine each FCS institution at least once each year. In carrying out this responsibility, the FCA conducted 207 examinations during the year.

The improving condition of FCS institutions was further reflected in the number of enforcement actions taken by the FCA. For the year ended December 31, 1991, the agency placed only four cease and desist orders and four agreements on FCS institutions, compared with 12 formal enforcement actions the previous year. Improving conditions also resulted in enforcement actions being terminated on five institutions during the year. The agency, however, issued nine supervisory letters and 49 follow-up letters to institutions operating under existing enforcement documents. At the end of the year, 77 institutions with combined assets of $50.3 billion were operating under enforcement actions.

Restructuring activity among FCS institutions continued in 1991. The FCA approved 47 restructuring requests during the year, which included 30 association mergers, seven transfers of direct lending authority from banks to associations, three reassignments of associations to adjoining districts, one conversion to an Agricultural Credit Association, the termination of one association, and several charter amendments.

In the coming year, the FCA will evaluate ways in which it can more efficiently carry out its responsibilities under the law, while remaining an effective regulator and ensuring the safety and soundness of the institutions under its jurisdiction.

Sincerely,

Harold B. Steele

Harold B. Steele
Chairman

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December 31, 1991

From left, Gary C. Byrne, Harold B. Steele and Billy Ross Brown.

Office of the Farm Credit Administration Board

Harold B. Steele
Chairman and Chief Executive Officer

Billy Ross Brown
Member

Gary C. Byrne
Member

Curtis M. Anderson
Secretary

Office of Examination

David C. Baer
Director and Chief Examiner

Office of Regulatory Enforcement

Michael L. Young
Director

Office of Resources Management

Michael A. Bronson
Director

Office of General Counsel

Jean Noonan
General Counsel

Office of Congressional and Public Affairs

Mary Kay Thatcher
Director

Office of Inspector General

Eldon W. Stoehr
Inspector General

Preface

The Farm Credit Administration (FCA) is an independent agency in the Executive Branch of the U.S. Government. It is responsible for the regulation and examination of the banks, associations, and related entities that collectively comprise what is known as the Farm Credit System (FCS). Initially created by an Executive Order of the President in 1933, the agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended. The FCA promulgates regulations to implement the act and examines FCS institutions for compliance with applicable statutes, regulations, and safe and sound banking practices. If an institution is found to be in violation of the statute or regulations or is operating in an unsafe or unsound manner, the agency has several enforcement options at its disposal to bring about corrective action.

The management of the agency is vested in a full-time, three-person board whose members are appointed by the President with the advice and consent of the U.S. Senate. The President designates one of the members as chairman of the board. The chairman also serves as the agency's chief executive officer. The FCA has been so managed since enactment of the Farm Credit Amendments Act of 1985, which became effective Jan. 23, 1986.

In addition to the Office of the Board, the agency consists of the Office of Congressional and Public Affairs, the Office of General Counsel, the Office of Examination, the Office of Regulatory Enforcement, the Office of Resources Management, and the Office of Inspector General.

The agency's headquarters are in McLean, Va. It has regional or field examination offices in Albany, N.Y., Marietta, Ga., Denver, Colo., Dallas, Texas, Sacramento, Calif., St. Louis, Mo., Oklahoma City, Okla., and Bloomington, Minn.

The agency's fiscal year 1991 budget was $37.5 million.

The expenses of the Farm Credit Administration are paid through assessments against the institutions under its jurisdiction. No federally appropriated funds are involved.

The Farm Credit System is a network of borrower-owned lending institutions and related service organizations serving all 50 states and the Commonwealth of Puerto Rico. These institutions specialize in providing credit and related services to farmers, ranchers, and producers or harvesters of aquatic products. Loans may also be made to finance the processing and marketing activities of these borrowers. In addition, loans may be made to rural homeowners, certain farm related businesses, and agricultural, aquatic, and public utility cooperatives.

On Dec. 31, 1991, the Farm Credit System was comprised of the following lending institutions.

- Eleven Farm Credit Banks (FCBs) that make direct long-term real estate loans through 86 Federal Land Bank Associations (FLBAs) and/or provide loan funds to 77 Production Credit Associations (PCAs), 70 Agricultural Credit Associations (ACAs) and 25 Federal Land Credit Associations (FLCAs). PCAs make short- and intermediate-term loans, ACAs make short-, intermediate-, and long-term loans, and FLCAs make long-term loans.

- Three Banks for Cooperatives that make loans of all kinds to agricultural, aquatic, and public utility cooperatives.

• The Federal Intermediate Credit Bank (FICB) of Jackson provides short- and intermediate-term loan funds to two PCAs, which serve Alabama, Mississippi, and Louisiana.

The following FCS entities are also regulated by the FCA.

• The Federal Agricultural Mortgage Corporation, which provides guarantees for the timely payment of principal and interest on securities representing interests in, or obligations backed by, pools of agricultural real estate loans.

• The Federal Farm Credit Banks Funding Corporation, which is an entity owned by the FCBs that markets the securities they sell to raise loan funds. FCS institutions obtain the majority of their loan funds through the sale of these securities in the Nation's capital markets. These securities, chiefly bonds and discount notes, are offered by the funding corporation through a nationwide group of securities dealers and dealer banks. At the end of 1991, outstanding securities totaled $53.4 billion.

• The Farm Credit Leasing Services Corporation, which provides leasing and other services to FCS borrowers, including agricultural producers, cooperatives, and rural utilities.

The Agricultural Credit Act of 1987 established three entities to provide financial assistance to troubled FCS institutions and to protect investors in FCS securities. The Farm Credit System Financial Assistance Corporation was chartered to issue 15-year Government-guaranteed bonds as directed by the Farm Credit System Assistance Board. The assistance board certifies institutions to receive funds and oversees the assistance granted. As of Dec. 31, 1991, a total of $1.3 billion in bonds had been issued. In addition, the 1987 act established the Farm Credit System Insurance Corporation, primarily to insure the timely payment of principal and interest on consolidated securities issued by one or more Farm Credit System banks.

On Dec. 31, 1991, FCS insitutions had $62.5 billion in assets, including $51.4 billion in gross loans outstanding. Their net income for the year was $811 million.

Note: The combined figures for all lending institutions of the FCS used here were obtained from the Federal Farm Credit Banks Funding Corporation. No further FCS-wide figures will be used in this report.

Farm Credit Administration Board

The FCA is an independent agency in the Executive Branch of the U.S. Government. It is responsible for the regulation and examination of the banks, associations, and related institutions chartered under the Farm Credit Act of 1971, as amended, which collectively comprise what is known as the Farm Credit System.

The Farm Credit Administration derives its powers and duties from the Farm Credit Act of 1971, as amended, specifically Title V of the act. The management of the agency is vested in a three-member board appointed by the President of the United States with the advice and consent of the U.S. Senate. The chairman of the board, who is designated by the President from among its members, also serves as the chief executive officer of the agency.

The statutory powers of the board include:

- approving the rules and regulations necessary for the implementation of the act;
- providing for the examination and general regulation of the performance of all the powers, functions, and duties vested in each FCS institution;
- providing for the performance of all the powers and duties vested in the FCA; and
- requiring such reports as it deems necessary from institutions of the FCS.

In carrying out his responsibilities under the act, the chairman is governed by general policies adopted by the board and by such regulatory decisions, findings, and determinations as the board may be authorized by law to make. The chairman enforces the rules, regulations, and orders of the board. All acts of the chairman are conclusively presumed to be in compliance with the board's regulatory decisions, findings, and determinations.

In carrying out his responsibilities as chief executive officer, the chairman is responsible for directing the implementation of policies and regulations adopted by the board.

Meetings of the Farm Credit Administration Board

There were 20 meetings of the FCA Board held during calendar year 1991, eight regular meetings and 12 special meetings. Of these 20 meetings, three were completely open to the public, six were completely closed to the public, and 11 were partially closed to the public. Exemptions (8), (9), and (10) of the Government in the Sunshine Act were the reasons given for closing of any portions of any of the meetings. Additionally, there were 102 separate notational votes.

Regulation Development

The FCA issues regulations in compliance with the Administrative Procedures Act. Within the agency, a Regulation Development Group in the Office of Examination (OE) has primary responsibility for coordinating and managing the development of regulations. Additionally, the Regulatory and Legislative Law Branch of the Office of General Counsel (OGC) provides legal support for the development of regulations and coordination of legislative issues.

Once the FCA Board establishes a regulatory agenda and assigns a priority, a work group is formed to draft the regulations. Draft proposed regulations are circulated to the office directors before being presented to the FCA Board.

After approval by the board, proposed regulations are submitted to Congress for the required 30-day review, after which they are published for public comment in the *Federal Register*. The notice and comment period is intended to encourage public participation in the regulatory process. In drafting the final regulations, the work group considers and addresses all comments received during the public comment period. Draft final regulations are circulated to the office directors before being presented to the FCA Board. After approval by the board, the final regulations become effective 30 days after publication in the *Federal Register*, during which either or both Houses of Congress are in session.

Regulations Promulgated

During 1991, the FCA Board acted on several regulations, proposed some for public comment, held public hearings on others, and adopted others as final regulations. Further, for the first time, the FCA Board approved the use of negotiated rulemaking to draft a proposed rule.

The FCA Board took the following actions during the year.

- Approved final regulations concerning the Freedom of Information Act (FOIA) and disclosure to shareholders. The FOIA regulations establish a new fee schedule for document requests processed pursuant to the FOIA.

- Approved final regulations regarding requirements for FCS institutions' annual and quarterly reports to shareholders.

- Approved final regulations concerning eligibility, scope of financing, insurance services, and processing and marketing loans to conform with changes to the Farm Credit Act of 1971 that were required by the 1990 Farm Bill.

- Approved final personnel administration regulations, which eliminated requirements for FCA prior approval of FCS chief executive officer compensation actions and FCA prior approval for bank employee salary scales.

- Conducted public hearings in Denver, Colo., and Atlanta, Ga., concerning the proposed regulations on lending limits, appraisals, and participations. The proposals would revise regulations addressing FCS institution loan collateral appraisal requirements, loan purchase requirements, including existing participation authorities, and lending limit provisions for existing and newly created FCS institutions. One hundred and twenty-one individuals provided comments at these hearings, and more than 700 written comments were received.

- Approved proposed investment regulations and the use of negotiated rulemaking to formulate the regulations that will determine the appropriate formula to assess the FCS institutions for the operations of the Farm Credit Administration. This is the first time that the FCA Board has approved the use of negotiated rulemaking, which is a process by which all interested parties are represented on a committee that attempts to reach a consensus on proposed regulations to be forwarded to the FCA Board. The proposed investment regulations would revise regulations defining eligible investment types and purposes for FCS institutions.

- Approved miscellaneous technical corrections to some existing regulations and new regulations concerning the termination of small associations from Farm Credit System status.

Policies Adopted

The FCA Board took four actions during 1991 that resulted in the amendment or revocation of existing policy statements or the creation of new policy statements.

It adopted a revised policy concerning travel, acceptance of gifts and travel-related expenses, and acceptance of honoraria, which clarifies rights and responsibilities of members of the FCA Board. This policy emphasizes that board members may not accept honoraria, most gifts, or most travel-related expenses.

It rescinded four existing policy statements because they had been superseded by statutory or regulatory amendments. These included policy statements concerning the following.

- Loan Documentation Related to Borrower Financial Statements (approved Aug. 5, 1986, including Bookletters 016-OB and 090-OB).

- Approval of Farm Credit System Institutions' Salary Ranges and Compensation of Chief Executive Officers (approved July 1, 1987).

- Examination of Federal Land Bank Associations (approved Aug. 18, 1987).

- New Capitalization Plans Governed by Capital Directive No. 1 (approved Sept. 6, 1988, including Bookletter 177-OAS and Capital Directive No. 1).

It adopted a new policy concerning the disclosure of the issuance and termination of enforcement documents. After the general counsel determines that disclosure would not adversely affect a civil or criminal investigation, then a disclosure would be made which would include:

- the type and date of the action taken;

- the type of institution to which the action pertains, or if the action pertains to an individual or entity, the relationship between the individual or entity and the institution; and

- a description of the essential facts pertaining to the action, excluding information that would identify the particular institution and/or persons involved.

And, it approved a statement to clarify an existing policy concerning public communications during a public rulemaking to make it clear that the existing policy does not prohibit the use of negotiated rulemaking, nor does it prohibit the unfettered public discussion of issues prior to the official Notice of Proposed Rulemaking. The statement is intended to ensure that open communication between the FCA Board and the public continues for as long as possible without violating the Administrative Procedures Act.

Compensation Program Adopted

Last year, FCA hired an outside consultant, the Wyatt Company, to analyze the agency's pay practices and those of other financial regulators and to recommend an equitable job evaluation and compensation program that is consistent with practices among other Federal financial regulators. In January 1992, FCA implemented the agency-specific job evaluation and compensation program developed in consultation with the consultant. The agency believes it would be a mistake to allow other financial regulators to reap the benefit of hiring FCA commissioned examiners after the FCA has incurred the cost of training and developing those individuals. Therefore, the new program, which is based on a pay-for-performance system, is targeted to eventually reach the average of other Federal financial regulators.

Other FCA Board Activities

In March, the FCA Board terminated the charter of the California Livestock Production Credit Association at its request. This marks the first time an FCS institution has voluntarily terminated its FCS status while continuing to operate as a financial institution.

In August, the FCA Board assessed civil money penalties on the directors of an FCS institution for the first time. The ability to assess civil money penalties adds another means for the FCA to ensure the safety and soundness of FCS institutions.

Management Study

During the latter part of the year, an operational audit of the agency was begun by the independent management firm Riso and Dempsey. The study is the result of actions taken in response to the reports of the House and Senate Committees on Appropriations. The agency expects the implementation of recommendations will help improve operating efficiency.

New Board Member

On Dec. 3, 1991, Gary C. Byrne was sworn in as a member of the board to fill out a term that expires on May 26, 1996. The FCA Board now has three members for the first time since Nov. 12, 1988.

Office of Examination

The mission of the Office of Examination (OE) is to provide continual regulation and oversight of the Farm Credit System through examination, supervisory programs, and regulatory standards that promote safe and sound operations and ensure compliance with applicable laws and regulations.

The Office of Examination is committed to excellence and efficient operations. Principal objectives for the OE are to:

- evaluate each institution's condition and performance and cause corrective action where necessary;
- ensure an appropriate regulatory framework to promote safe and sound operations in compliance with applicable law;
- develop, motivate, and retain staff to carry out the agency's mission;
- communicate effectively; and,
- efficiently and effectively manage resources.

The primary method to accomplish this mission and principal objectives is through the recruitment, training, and retention, of qualified staff whose work consistently reflects competence, objectivity, professional integrity, and efficiency.

Office Organization

Currently, the Office of Examination consists of the Office of the Chief Examiner, three examination regions, and the Policy and Risk Analysis Division (PRAD). The Office of the Chief Examiner, PRAD, and the Eastern Regional Office are located at the agency's headquarters in McLean, Va.

The Eastern Region has field offices in McLean, Va., Albany, N.Y., and Atlanta, Ga., and is primarily responsible for examinations in the Springfield, Baltimore, Columbia, and Jackson Farm Credit Districts. In addition, the Eastern Region is responsible for the examination of the National Consumer Cooperative Bank and the National Consumer Cooperative Bank Development Corporation in Washington, D.C. The Eastern Region also includes the Information Systems Examination Branch (ISEB) and the Special Examinations Branch (SEB). ISEB conducts examinations on information systems of all Farm Credit System banks, while SEB is primarily responsible for the examinations and oversight of the Federal Farm Credit Banks Funding Corporation, the Farm Credit System Financial Assistance Corporation, and the Federal Agricultural Mortgage Corporation.

The Central Regional Office, St. Louis, Mo., is responsible for examinations primarily in the Omaha, Wichita, Louisville, St. Louis, and St. Paul Farm Credit Districts, as well as the Farm Credit Leasing Services Corporation in Minneapolis, Minn. Central Region field offices are located in St. Louis, Mo., Bloomington, Minn., and Oklahoma City, Okla.

The Western Regional Office, Denver, Colo., is responsible for examinations primarily in the Western, Spokane, and Texas Farm Credit Districts, and the National Bank for Cooperatives in Denver, Colo. Western Region field offices are located in Denver, Colo., Dallas, Texas, and Sacramento, Calif.

The Policy and Risk Analysis Division consists of Accounting and Reporting, Financial and Economic Analysis, and Regulatory Policy. Accounting and Reporting develops and issues accounting and disclosure guidelines and interprets accounting issues for the Office of Examination. It also manages the call reporting system, which obtains periodic financial reports from FCS institutions. Monitoring economic trends and determining their effects on the Farm Credit System are the primary responsibilities of Financial and Economic Analysis. Other duties include conducting economic research and financial studies to support FCA Board policies and agency planning and developing financial information systems to enhance off-site monitoring and examination planning. Regulatory Policy is responsible for leading the development of regulations and policy for the FCA and interpreting technical issues. Other major duties include the prior approval of FCS funding, institution mergers, transfers of direct lending authorities from banks to associations, and financial assistance programs.

The Office of Examination also performs follow-up investigations on borrower complaints. Frequently, such investigations involve field reviews of loan transactions and the determination of an institution's compliance with the requirements of applicable statutes and regulations. Findings and conclusions are normally communicated to complainants by the Office of Congressional and Public Affairs. In 1991, the OE completed 80 borrower complaint investigations. While some weaknesses were noted, the results showed that FCS institutions are generally complying with the borrower rights provisions of the Farm Credit Act.

Organizational and Operational Changes

The Office of Examination implemented several organizational changes during 1991 to further streamline operations. This included closing of the field offices in Omaha, Neb., Louisville, Ky., and Spokane, Wash., in August 1991. With the new field office alignment, the portfolio approach to examinations initiated in 1990 has been fully implemented. This approach assigns specific institutions to the OE field offices. The assignments have been established based on the most cost effective means of conducting the examinations and do not necessarily correspond to the Farm Credit District boundaries. The OE periodically reviews the cost effectiveness of these assignments and plans to further study the field office alignment to ensure that all possible efficiencies are gained.

The OE continued to test the off-site examination program implemented in 1990. Results from the three off-site examinations conducted in 1991 included significant reductions in the number of resources used. While these results are promising, additional testing of this examination approach is planned during 1992. Implementation of the off-site examination program will allow the transfer of resources to high-risk institutions and minimize examinations of low-risk institutions.

The Office of Examination also refined its "risk-based" examinations and Reports of Examination. These refinements have allowed the OE to achieve greater balance between efficiency and effectiveness of operations. Examination procedures are constantly reviewed in an effort to identify areas that will enhance examination efficiency and improve the quality of reports.

The Office of Examination has an off-site monitoring program that periodically monitors the performance and condition of all FCS institutions. The program facilitates early recognition of adverse trends in key performance areas of an institution. The monitoring program is enhanced with the use of direct computer networking between the FCA's McLean headquarters and all regional and field offices. This provides examiners access to periodic financial reports and loan portfolio information. Computer networking allows examiners to detect increased risk in a timely manner and permits early initiation of corrective actions in an effort to avert serious financial problems.

Areas of Emphasis

During 1991, the Office of Examination continued to emphasize and intensify examinations of a number of areas, including the following.

- Asset/Liability Management — The potential volatility of interest rates has increased the importance for financial institutions to have adequate asset/liability policies and procedures implemented to limit risks associated with changing financial markets. An institution's overall financial condition is materially affected by the manner in which its assets and liabilities are managed. The FCA provided written guidance to FCS institutions on asset/liability management practices and loan terms and conditions offered by institutions. In addition, examination activities have been intensified in the areas of liquidity and compliance with regulations concerning investments by FCS institutions.

- Borrower Rights — The Office of Examination continues to review institutions' compliance with FCA regulations concerning borrower rights; Regulation B, Equal Credit Opportunity; and Regulation Z, Truth in Lending, which were issued by the Board of Governors of the Federal Reserve System. As noted earlier, the Office of Examination investigates alleged violations of borrower rights and Federal consumer lending regulations in conjunction with the Office of Congressional and Public Affairs.

- Non-performing Loans — The identification of non-performing loans by FCS institutions is critical to ensure proper management of loan portfolio risk. The Office of Examination has continued its emphasis on determining whether FCS institutions have accurately identified high-risk loans with appropriate performance classifications. The performance classification reflects a borrower's ability to meet the terms of the loan rather than reliance on collateral for repayment. The accurate identification of nonperforming loans is important to ensure proper reporting to shareholders of their effect on the institution's financial condition. During 1991, the FCA recommended that each FCS institution adopt policies incorporating the concepts set forth in the FCS's *High Risk Accounting Guidelines.*

Policy and Risk Analysis Division

The Policy and Risk Analysis Division was extensively involved with the development of regulations, corporate restructuring activities, accounting practice guides, and other policy issues in 1991. The most significant activities included the following.

• The issuance of an asset/liability management bookletter to FCS institutions that provides guidance on the FCA's expectations with respect to policies, operating procedures, and controls.

• The issuance of final regulations that made a number of technical changes to existing regulations to reflect the 1987 amendments to the Farm Credit Act of 1971, as amended, and other legislation recently adopted by Congress. Also issued were final regulations permitting small associations to terminate their status as FCS institutions and regulations dealing with disclosure to shareholders, and marketing and processing regulations mandated by the 1990 Farm Bill.

• The development of proposed regulations on FCS investments establishing maximum levels that can be held for liquidity, interest rate risk, and cash management purposes. The regulations also identify those instruments that qualify as eligible investments.

• The holding of public hearings to receive additional input for proposed regulations on appraisals, lending limits, and loan participations.

• The issuance of bookletters to FCS institutions outlining corporate restructuring procedures for mergers and transfers of direct lending authority. In 1991, the FCA prior approved 47 restructuring requests, which included 30 association mergers, seven transfers of direct lending authority from district banks to associations, three reassignments of associations to adjoining districts, the termination of FCS status for one small association, one conversion to an ACA, and several charter amendments.

• The evaluation of new accounting pronouncements to determine their effect on FCS institutions and the interpretation of several accounting issues, including high-risk assets, downloading of loan assets, troubled debt restructurings, acquired property, and the repayment of Farm Credit System Financial Assistance Corporation debt.

• The timely processing of call reports and other financial reports from FCS institutions.

• The development of an Early Warning System, Key Indicators Report, Uniform Performance Reports, and various financial projection models to monitor FCS performance and enhance off-site supervision.

• The preparation of quarterly reports on the financial condition and performance of the FCS banks and associations and special studies on the financial prospects for several institutions and the potential impact of the water supply situation in California on FCS institutions.

Examinations and Ratings

With the exception of Federal Land Bank Associations, the FCA is statutorily required to examine each FCS institution no less than once each year. Each Federal Land Bank Association must be examined at least once every 3 years. The Office of Examination successfully carried out this responsibility by examining 207 institutions during 1991.

Each FCS institution is assigned a composite rating upon the completion of its examination. The FCA Rating System is similar to the Uniform Financial Institutions Rating System used by most regulators of financial institutions, but has been revised to reflect the non-depository nature of FCS institutions. Each institution is assigned a composite rating, commonly referred to as a CAMEL rating, based on an evaluation of its capital adequacy, asset quality, management, earnings, and liquidity position. The ratings are on a scale of "1" through "5" in descending order of regulatory concern. A rating of "1" is assigned to well-managed institutions that are basically sound in every respect, while a rating of "5" is assigned to institutions with an extremely high, immediate, or near-term probability of failure. Institutions rated "3" exhibit numerous weaknesses ranging from unsatisfactory to moderately severe. Listed here are the ratings of the 207 institutions examined in 1991. The table does not include institutions in receivership.

Starting in 1992, the Office of Examination plans to disclose both the composite rating and the rating of each element to the chairman of the board of each institution examined. While the FCA Rating System is maintained to guide the examination and regulatory response of the FCA, the CAMEL ratings will be disclosed to foster more open and productive discussions with boards of directors.

Ratings

Institution	1	2	3	4	5
FCBs, BCs, FICB		5	8	2	
PCAs	1	37	24	7	
ACAs	1	43	16	2	
FLBAs	2	15	12	6	
FLCAs		15	9		
Other Institutions	1	1			
Total	5	116	69	17	0

Training

The FCA Examiner Commissioning Program continues to play an important role in the development and training of FCA examiners. The 3- to 5-year on-the-job and formal Precommission Training Program concludes with a week-long oral and written test. Once an individual successfully completes the test, he or she is authorized to conduct examinations of any bank, association, corporation, or other institution subject to examination by the FCA. Four commissioning tests were conducted in 1991 at which 23 examiners received their commissions. At the end of 1991, the FCA had 163 commissioned examiners. The commissioning test is updated annually and revised to reflect changes in examination procedures, statutes, regulations, accounting practices, and system structure.

While most of the formal training has been developed and is carried out by FCA staff to facilitate its relevance to the job and ensure cost efficiency, interagency training is also an important aspect of an examiner's development. FCA examiners are exposed to other Federal financial institution regulators through training courses conducted by the Federal Financial Institutions Examination Council. The FCA is committed to the training and development of precommissioned and commissioned examiners to ensure that the FCA meets its regulatory responsibilities in a professional and competent manner.

Office of Regulatory Enforcement

The supervisory and enforcement activities of the FCA continue to be the primary responsibility of the Office of Regulatory Enforcement (ORE). Those FCS institutions that required more than normal supervision due to unsafe or unsound operating conditions or that were in violation of the statute and/or regulations have generally been placed under the oversight of the ORE. In addition, 12 FCS institutions in receivership remained a supervisory responsibility of the ORE.

The goals for carrying out the ORE's supervisory and enforcement responsibilities were consistent with those of prior years. The major goals being maintained are (1) the application of consistent and effective actions on any FCS institution that is operating in an unsafe and unsound manner that poses a threat to itself or to other FCS institutions and (2) the utilization of prompt and specific enforcement actions for individual troubled institutions.

Enforcement Actions

Fewer enforcement actions were executed by the FCA during 1991 than in previous years, reflecting the improving conditions of FCS institutions. For the 12-month period ending Dec. 31, 1991, the ORE placed four orders to cease and desist and four agreements on institutions, compared to 12 formal enforcement actions in 1990.

In 1991, ORE issued nine supervisory letters and 49 follow-up letters to institutions operating under existing enforcement actions. The FCA formally imposed conditions of merger, reorganization, or corporate restructuring on 28 associations during 1991. These supervisory conditions were mainly the result of significant changes in the structure of associations in two Farm Credit Districts.

Improving financial and credit conditions, coupled with the satisfactory compliance with the enforcement action, resulted in the FCA terminating the enforcement actions on five institutions.

There were 77 FCS institutions under enforcement actions at the end of 1992. This number represented 27 percent of all institutions. These institutions represented $50.3 billion, or 80 percent, of the FCS's total assets. These statistics also reflect some improvement, as there were 88 institutions with $52.1 billion in assets under some form of enforcement action at the end of 1990.

As in previous periods, the enforcement actions taken by the FCA were generally remedial in nature and required steps to be taken by an institution to rehabilitate its problem areas. A civil money penalty, however, was levied and collected in 1991 against an institution's board of directors for refusing to disclose information about a director's loan that had been classified as a nonperforming asset. Violations of law or regulation by an FCS institution may also result in civil money penalties and/or other enforcement actions.

Farm Credit System Institutions in Receivership

During 1991, there were 12 FCS institutions in various stages of receivership. They were the Federal Land Bank of Jackson, the Federal Land Bank Association of Jackson, six Production Credit Associations in the Spokane Farm Credit District, two Production Credit Associations in the Texas Farm Credit District, and two Production Credit Associations in the Omaha Farm Credit District.

At Dec. 31, 1991, the FLB and FLBA of Jackson in Receivership were parties to 18 lawsuits. Litigation and various other administrative activities must be concluded before the FCA Board can cancel the charters of these institutions and discharge their receiver.

The assets of the Richmond Production Credit Association in Receivership, Sugarland, Texas, remained at $6.4 million during 1991. Since Jan. 6, 1989, when the FCA Board approved the association board's resolution to voluntarily liquidate, a total of 64 percent of the assets have been disposed of by the receiver. Efforts to complete the closing of this receivership will continue to concentrate on collections and settlements of its remaining accounts.

The Coleman Production Credit Association, Coleman, Texas, was placed in receivership on April 26, 1989, following a determination by the FCA Board that it was operating in an unsafe and unsound manner. The receivership's assets were reduced from $1.9 million at the end of 1990 to $1.3 million at the end of 1991. Since the inception of this receivership, the receiver has disposed of more than 75 percent of the association's assets, and a partial equity distribution was made to the stockholders during the year.

Most necessary requirements have been met for the FCA Board to consider canceling the charters of the O'Neill Production Credit Association and the Valentine Production Credit Association in Nebraska. Such action is expected to be taken in 1992.

The six associations that remain in receivership in the Spokane Farm Credit District are the Glendive PCA, Western Montana PCA, and Milk River PCA in Montana; the Willamette PCA in Oregon; the Southern Idaho PCA in Idaho, and the Western Washington PCA in Washington. These associations have completed the regulatory requirements necessary for the FCA Board to cancel their charters.
It is expected that action will be taken in 1992. Stockholders will have their stock redeemed at par value as a result of assistance provided by the Farm Credit System Financial Assistance Corporation.

Office of General Counsel

The Office of General Counsel (OGC) provides all legal advice and services to the FCA Board, the chairman, and agency staff. The OGC is also responsible for assisting the agency to operate in accordance with statutory and regulatory authorities and responsibilities. The mission of the OGC is to provide professional, comprehensive, and authoritative legal services of the highest quality to enable the FCA to carry out its responsibilities and meet its objectives.

The OGC has two divisions: the Corporate and Administrative Law Division and the Litigation and Enforcement Division.

Corporate and Administrative Law Division

The Corporate and Administrative Law Division is divided into two branches, the Corporate and Administrative Law Branch and the Regulatory and Legislative Law Branch.

The Corporate and Administrative Law Branch provides advice, legal opinions, and recommendations concerning the formulation and execution of FCA policies and actions. This branch provides legal advice and support in connection with agency proposals or actions involving all aspects of the operations of FCS institutions including lending, funding, borrower rights and capital; the issuance of charters and charter amendments; mergers, consolidations and other reorganizations of FCS institutions; and the implementation and administration of receiverships. In addition, the branch provides monitoring and support for FCA operations and internal agency administration in areas such as the Government in the Sunshine Act, the Freedom of Information Act (FOIA), the Privacy Act, personnel law, contract and procurement law, and other applicable laws and regulations, including the identification of desirable legislative or regulatory changes, where needed. Finally, if a contested enforcement matter were to proceed to an administrative hearing and decision by the FCA Board, this branch would be responsible for advising the FCA Board in its decision-making process.

Subjects addressed by the Corporate and Administrative Law Branch during 1991 included legal issues related to:

- repayment of Farm Credit System Financial Assistance Corporation (FAC) debt obligations;
- the Farm Credit System Insurance Corporation;
- the Federal Agricultural Mortgage Corporation;
- the Farm Credit Investment Bond program;
- charter amendments, mergers, and terminations;
- formation of service corporations;
- Federal securities law requirements concerning Farm Credit System debt and equity;
- Farm Credit System institutions' contractual arrangements concerning Farm Credit System Assistance Corporation debt;
- authority of receivers;
- extensive FOIA and Privacy Act requests;
- borrower rights;
- lending authorities;
- board policies;

- compensation of Farm Credit System institution directors; and
- the National Consumer Cooperative Bank.

During 1991, the Corporate and Administrative Law Branch assisted in the preparation of two sets of final FCA regulations and one set of proposed regulations.

The Regulatory and Legislative Law Branch provides legal support for the development and promulgation of FCA regulations and for legislative activities, including the FCA's 1991 legislative initiative. It also provided comments to Congress on other legislative proposals, including legislation relating to the Federal Agricultural Mortgage Corporation, Farm Credit System institutions, and lender liability; provided technical drafting assistance to congressional staff; and generally assisted in the representation of the FCA before Congress. In addition, the branch reviewed and commented on draft proposed regulations on lender liability that were developed by the Environmental Protection Agency.

During 1991, the Regulatory and Legislative Law Branch assisted in issuance of five sets of final regulations.

In addition to these final regulations, there were projects at various stages of development for which the branch attorneys provided legal advice and drafting support. This branch also assisted in reviewing comments on proposed regulations pertaining to appraisals and lending limits and eligible investments. The branch helped the FCA Board conduct four days of public hearings on regulations in Atlanta, Ga., and Denver, Colo., in June 1991, and analyzed the testimony and comments received.

Litigation and Enforcement Division

The Litigation and Enforcement Division represents the agency in enforcement proceedings initiated by the FCA, in proceedings before other administrative bodies, and in litigation. When engaged in litigation, the OGC usually works with the U.S. Department of Justice. The division provides advice and handles proceedings on behalf of the FCA in Federal courts and various administrative bodies such as the Merit Systems Protection Board, the General Services Board of Contract Appeals, and the Equal Employment Opportunity Commission. This division also represents the FCA in litigation in which it is involved as a nonparty, for example, as the result of a request for documents that are the property of the agency. The division provides advice to the Office of Regulatory Enforcement concerning the preparation and presentation of enforcement documents to the FCA Board and an institution's board of directors. This division is responsible for handling contested enforcement matters that proceed to an administrative hearing, decision by the FCA Board, and appeal through the courts.

At the beginning of 1991, there were 11 pending lawsuits involving the Farm Credit Administration. During the year, six lawsuits were initiated against the agency, and five were terminated. All five were either settled or dismissed in favor of the agency.

The following is a discussion of some of the lawsuits involving the Farm Credit Administration as a party during 1991.

Buckeye PCA v. FCA, No. 91-533-A (E.D. Va. filed April 16, 1991). Plaintiffs allege that the charter issued to a competitor institution is invalid under Section 5.17(a)(2) of the Farm Credit Act of 1971, as amended.

Chattanooga PCA v. FCA, No. 88-0584 (USDC, DC filed March 4, 1988); *Colorado Springs PCA v. FCA*, No. 88-0574 (USDC, DC filed March 3, 1988); and *Sikeston PCA v. FCA*, No. 88-0583 (USDC, DC filed March 4, 1988). These lawsuits challenge the one-time stock purchase required by Section 6.29 of the Act. On Feb. 25, 1991, the District Court found in favor of the FCA and upheld the constitutionality of the stock purchase. The plaintiffs have filed an appeal to the Court of Appeals for the D.C. Circuit.

FICB of Jackson v. FCA, No. J91-0152(B) (S.D. Miss. filed April 3, 1991). Plaintiff, pursuant to the FOIA, challenges the FCA's denial of access to certain records.

First South PCA v. FCA, No. 91-1166 (Fourth Circuit filed June 3, 1989). Plaintiffs challenge the FCA's determination that Section 410 of the Agricultural Credit Act of 1987 required the merger of the Federal Intermediate Credit Bank of Jackson and the Farm Credit Bank of Texas (FCB). On Feb. 2, 1990, the U.S. District Court upheld FCA's determination. On Feb. 19, 1991, the Court of Appeals reversed the lower court, holding that Section 410 did not require a merger between those two banks. As of Dec. 31, 1991, plaintiff's appeal of the District Court's entry of judgment was pending.

Public Citizen v. FCA, No. 90-5290 (D.C. Cir. filed Oct. 17, 1990). On July 28, 1989, the plaintiff filed a complaint pursuant to the FOIA challenging the FCA's denial of access to reports of examination of the National Consumer Cooperative Bank. On Sept. 6, 1990, the District Court upheld the FCA's decision. On July 12, 1991, the Court of Appeals affirmed the decision holding that FCA examination reports are exempt from release under the FOIA.

PCA of Minnesota Valley v. FCA, No. 3-91-263 (D. Minn. filed April 29, 1991). Plaintiffs filed a complaint in the District Court challenging the FCA's disapproval of a merger plan proposed by the plaintiffs. On Nov. 18, 1991, the District Court found in favor of the FCA, holding that the FCA's denial of the merger plan was a reasonable exercise of its discretion.

Office of Congressional and Public Affairs

The Office of Congressional and Public Affairs (OC&PA) provides public communications support and congressional liaison services for the agency.

In the area of congressional affairs, the office maintains an open line of communications with members of Congress and their staffs. The office responds to congressional inquiries, arranges briefings and other meetings, assists with the preparation of testimony for congressional hearings, and monitors legislation that may affect the FCA or the FCS. When congressional offices forward inquiries or complaints from constituents, the OC&PA coordinates the work necessary to prepare the agency's response. OC&PA staff members frequently visit with congressional staff to explain proposed regulations, give the agency's views on legislation, or address concerns members of Congress may have.

The FCA presented legislative recommendations to the House and Senate Agriculture Committees during May in response to their concern for the future of the FCS, with special consideration being given to the safety and soundness of FCS institutions and the possible risk to the Government that could be posed by losses. The agency outlined five categories in which legislative changes in the Farm Credit Act of 1971, as amended, would improve the efficiency and the safety and soundness of Farm Credit System institutions.

The first would enhance the permanence of capital and promote its accumulation at the point of primary risk — the association level. This recommendation was based on the belief that the primary protection for the taxpayer and the best hope for the long-term health of the Farm Credit System are adequately capitalized and soundly managed institutions. Such institutions are also the best hope for a consistent source of reasonably priced credit for their borrowers.

To enhance the permanence of capital, the FCA said it needed the flexibility Congress has given all other Federal regulators of financial institutions to determine what instruments would be counted toward capital requirements and what weight would be given to them. In short, the agency asked for the authority to define permanent capital by regulation.

To promote the accumulation of capital at the association level, however, the agency believes the disincentives for doing so must be removed. Capital has historically been accumulated at the bank level, where it is not taxable, rather than at the association level. This results in the control of critical aspects of the operations of the associations being vested in the banks, which reduces local control and association autonomy.

The FCA said that Congress could promote the accumulation of capital at the primary point of risk by equalizing the tax status of the Farm Credit Banks and their affiliated associations so that there are no tax incentives to accumulate capital at the banks rather than at the associations. At a minimum, Congress could provide a one-time opportunity to transfer capital from the banks to the associations.

The second FCA recommendation involved strengthening the Farm Credit System Insurance Corporation so that all capital of FCS institutions would be available before the Government was exposed to risk. The Department of the Treasury recommended putting in place higher insurance premiums as a means of protecting against loss. The FCA's alternative was to authorize the insurance corporation to levy supplemental premiums on banks if the need arose and require the banks to pass on the cost to the associations. The agency, however, did not recommend that such authority be given without limit, but that the circumstances under which the supplemental premiums could be levied be specified and a limit set on their amount. The agency further recommended that the insurance corporation be authorized to modify its premium structure by regulation to better reflect the relative risk of all assets and the funding of those assets.

Third, the FCA offered to support legislation that would require territorial realignment so that the remaining FLBAs and PCAs serve the same territories and then require those institutions to present plans of merger to their stockholders.

The banks would remain as funding mechanisms and could exercise some oversight over the lending activities and asset/liability management of the associations in their capacity as creditors. The agency also expressed its belief that there may be benefits in reducing the number of banks and that the principle of local control would be enhanced by making the banks wholesalers of credit to the associations and eliminating their supervisory authority.

The fourth recommendation made by the FCA would ensure that the repayment of obligations related to financial assistance was provided for. The agency wants these obligations reflected in the financial statements of the banks and not only on the consolidated statements used by the Federal Farm Credit Banks Funding Corporation.

The fact that the individual banks do not report certain of these obligations results in financial statements that are not prepared in accordance with Generally Accepted Accounting Principles. In recommending this change, the agency recognized that it would affect the capital levels of some institutions. Therefore, the agency also recommended that it be authorized or directed to forbear from any enforcement actions based solely on the change in the financial condition of an institution that resulted from the recording of obligations related to financial assistance.

Finally, for safety and soundness reasons, the FCA sought lending limit regulation changes and general rulemaking authority over the Federal Agricultural Mortgage Corporation.

The OC&PA's primary responsibility in the area of public affairs is to effectively communicate the agency's positions and actions to various audiences and accurately respond to requests for information. Avenues of communication include the preparation of speeches, news releases and media advisories; arranging for media interviews; responding to media and public inquiries; and the writing and preparation of printed materials. The office also responds to requests under the Freedom of Information Act and Privacy Act, publishes the *FCA Bulletin* and *FCA Annual Report*, and handles internal communications through a weekly employee newsletter and electronic mail bulletins.

During 1991, the OC&PA responded to 500 inquiries from the general public; 350 inquiries from FCS borrowers, members of Congress and the White House; and 67 requests under the Freedom of Information Act.

Office of Inspector General

The Office of Inspector General (OIG) is an independent office established by law to:

- conduct, supervise, and coordinate audits, investigations, and operations reviews relating to FCA's programs and operations;
- review existing and proposed legislation and regulations and to make recommendations to the Congress concerning the impact on the economy and efficiency of programs and operations administered by FCA or the prevention and detection of fraud and abuse;
- recommend and review policies promoting economy and efficiency or preventing and detecting fraud and abuse; and
- keep the Chairman of the FCA and the Congress fully and currently informed.

The inspector general may receive and investigate complaints or information concerning violations of law, rules, or regulations; mismanagement or waste; abuse of authority; or danger to health or safety. Such violations should be reported in writing to the Inspector General, c/o Farm Credit Administration, McLean, VA 22102-5090, or by calling the OIG HOTLINE (800) 437-7322. Such matters and information are treated confidentially.

Office of Resources Management

The responsibilities of the Office of Resources Management (ORM) fall into three distinct categories: (1) providing services to the agency; (2) providing the focal point for services and programs on behalf of the agency to external audiences; and (3) ensuring that the FCA complies with Government regulations applicable to the agency. The total scope of activity includes physical facilities, fiscal management, procurement, contracting, human resources programs, training, information resources, and computer and office automation programs.

The office director participates with agency senior management in long-range planning, goal setting, and management of the agency. The director also oversees provision of administrative resources to the agency in the areas of human resources; fiscal management; budget and accounting; support services, such as contracting and procurement; employee training and development; information resources; and electronic data processing (EDP). The director also serves as the agency's Budget Officer, Freedom of Information Act Appeals Officer, Senior Contracting Officer, and Senior Information Resources Management Official.

Equal Employment Opportunity

Under the direct supervision of the director of the Office of Resources Management, the Equal Employment Opportunity (EEO) Manager advises the chairman on EEO matters and administers the agency's EEO program. Fifteen collateral duty EEO counselors, the collateral duty Federal Women's Program manager, and the EEO Manager focus on prevention of discrimination complaints through a formal program of education and information and informal personal intervention.

Information Resources Planning

The planning staff for information resources is responsible for short- and long-range information resources management (IRM) plans, IRM policies and procedures, the computer security program, the IRM budget, and coordinated IRM contracting. It also administers the agency's Emergency Preparedness Program.

Human Resources Division

The Human Resources Division administers

- the agency's human resources management program, except for training;
- the provisions of the Ethics in Government Act;
- the agency's personnel security program; and
- the agency's payroll.

Division personnel also conduct appropriate staff work for the FCA Board on compensation management activities in Farm Credit System institutions that require prior approval by the board.

Fiscal Resources Division

The Fiscal Resources Division is responsible for the FCA's budget. It is also responsible for the authorization and payment of FCA travel expenses and the accounting for FCA activities. The division participates in the design, development, and maintenance of automated fiscal and accounting systems for the agency.

Administrative Resources Division

The Administrative Resources Division is a support service organization serving the agency with mail handling, supply services and property administration, design and graphics support, duplicating services, and document processing. The division's Contracting and Procurement Branch is responsible for administering a variety of contract instruments and various types of agreements. The division chief is the principal FCA liaison with the FCS Building Association for matters concerning the physical space occupied by the FCA.

Training Resources Division

The Training Resources Division administers an agency-wide training program. It develops and conducts in-house programs and contracts with training vendors. It manages the examiner training and manages the Examiner Commissioning Program, including the development, validation, and administration of the FCA Examiner Commissioning Test.

Information Resources Division

The Information Resources Division is responsible for the design, development, technical management, and administration of the agency's computer-based information system. It is responsible for the agency's central files and records and the FCA Library. The division is responsible for computer and microcomputer management, software development, database administration, hardware and software.

Farm Credit Administration Budget

The Farm Credit Administration operates on a fiscal year beginning on Oct. 1 and ending on Sept. 31. The agency's budgetary process is set forth in Section 5.15 of the Farm Credit Act of 1971, as amended. The act requires that prior to the first day of each fiscal year, the FCA shall determine:

- the cost of administering the act for the subsequent fiscal year, including expenses for official functions;
- the amount of assessments that will be required to pay such administrative expenses, taking into consideration the funds contained in the Farm Credit Administration Administrative Expense Account, and maintaining a necessary reserve; and
- the amount of assessments that will be required to pay the cost of supervising and examining the Federal Agricultural Mortgage Corporation.

On the basis of determinations made, the Farm Credit Administration is required to:

- apportion the amount of the assessment among FCS institutions on a basis determined to be equitable by the FCA;
- assess and collect such amounts from time to time during the fiscal year; and
- assess and collect from the Federal Agricultural Mortgage Corporation from time to time during the fiscal year the amount determined to be necessary.

The amounts collected are deposited in the Farm Credit Administration Expense Account and are maintained by the U.S. Treasury. The funds contained in the expense account shall be available without regard to the Balanced Budget and Emergency Deficit Control Act of 1985 or any other law to pay the expenses of the FCA. The funds contained in this account are not construed to be Federal Government funds or appropriated funds.

Farm Credit Administration Administrative Expense

(Dollars in Millions)

Object Class	FY 1991 Actual	FY 1992 Estimated
Personnel Compensation		
Full-time Permanent	$22,740*	$24,729
Other Personnel Compensation	1,188	1,207
Personnel Benefits	5,515	6,359
Total Personnel Compensation	**29,443**	**32,295**
Travel and Transportation of Persons	2,980	3,354
Transportation of Things	110	104
Communications, Utilities and Other Rent	1,011	918
Printing and Reproduction	136	157
Other Services	1,734	2,417
Supplies and Materials	675	653
Equipment	1,263	392
Insurance Claims and Indemnities	152	
Total Obligations	$37,504	$40,290

** The official "Budget of the U.S. Government, Fiscal Year 1993" erroneously reflected Personnel Compensation, Full-time Permanent, at $20,804.*

The Economic Environment

Farm Credit System institutions are largely single industry lenders, serving the Nation's agricultural community through loans to its farmers, ranchers, aquatic producers, and their cooperatives. This means that loan demand and repayment capacity of their borrowers are shaped by a host of influences affecting the agricultural sector of the U.S. economy.

The Economy of 1991 in Retrospect

The general economy was marked by weakness in 1991. Gross Domestic Product fell at an annual rate of 2.5 percent during the first quarter, and the decline for the year was 0.7 percent. The absence of major inflationary concerns induced the Federal Reserve to expand the money supply and reduce interest rates to promote greater economic growth. Although short-term rates fell sharply as a result of this action, long-term rates proved to be more stubborn. Thus, the yield curve steepened significantly as the year progressed.

The shape of the yield curve reflects investor concerns about structural changes in the global economy, persistently large U.S. budget deficits, and a possible rekindling of inflation. These concerns are important to agriculture because they not only directly affect borrowing costs of farmers, but also influence the demand for farm products.

The Agricultural Economy

The agricultural economy, which affects the lending activities of FCS institutions, is influenced by several forces, most beyond the control of the institutions or their borrowers. Among these influences are climatic conditions, Government policy, international trade and politics, credit conditions, and the U.S. farm commodity situation.

Climatic Influences

Weather played a prominent role in the agricultural economy during 1991. Lingering effects of a severe December 1990 freeze in the West had both negative and positive effects on grower incomes, causing a surge in some fruit prices and boosting fruit marketing receipts. California also benefited from March storms that greatly eased problems from 5 years of drought. Elsewhere, a wet spring in much of the Nation's mid-section turned to drought over the Eastern Corn Belt as the growing season progressed. As the year ended, formation of El Nino conditions in the South Pacific led to speculation about a quick end to California's drought, as well as the potential of drought in the Nation's mid-section during either the 1992 or 1993 growing season.

Weather disruptions elsewhere in the world also influenced American farmers by boosting demand for U.S. exports, particularly wheat and soybeans. Grain yields were generally lower, with notable shortfalls in the former Soviet republics and southern Africa. At the same time, there were record large world oilseed and cotton crops. Nonetheless, exports of United States' soybeans surged in the fall of 1991, aided by a short 1990-91 soybean crop in Argentina.

Government Policy Influence

The 1990 Farm Bill was in its first full year of operation during 1991. Farmers were attempting to assess the most complex farm programs ever put forth. The revamped programs offer participants a new freedom to respond to market prices without losing part of their base acreage. But there are no direct payments on that protected base acreage. Most farmers found no attractively priced alternative crop into which to shift their newly established 15-percent of base "flex acreage". In other words, they continued to produce the program crop on their flex acreage because it was the best option, even with no deficiency payment.

Wheat growers in particular experienced reduced incomes. They had to idle 10 percent more acres, received no deficiency payment on their flex acres, and sold most of their harvest at low prices before the wheat market rallied late in the year. At the same time, some farmers were able to shift flex acres into cotton and lock in favorable cotton prices early in the season. By the end of 1991, this situation had largely reversed. Prospects for 1992 are much improved for wheat growers and less favorable for cotton producers.

International Influences

There was much talk but little outward evidence of progress in key trade negotiations. Most notably, there was little progress, other than for extending the final stage, in the Uruguay round of negotiations on the General Agreement on Tariffs and Trade (GATT). Meanwhile, even as the United States and Canada started assessing their recently implemented free trade arrangement, talks began on a three-way pact with Mexico. Work to establish a North American Free Trade Agreement (NAFTA) started in June 1991. Both NAFTA and GATT are proceeding under Congressional "fast-track authority."

The more significant international developments affecting U.S. agriculture early in 1991 were changes taking place in Eastern Europe. By mid to late summer, concerns over a poor Soviet grain harvest began affecting U.S. grain markets. This was soon overshadowed by a quickly changing political situation that led to the dissolution of the former Soviet Union into a weakly aligned Commonwealth of Independent States. Hopes for increased exports turned to speculation about the size, composition, and duration of aid and credit packages for the newly formed republics.

Credit Influences

Changes in credit conditions affected farm borrowers, as well as the profitability and growth of FCS institutions. The farm debt market ended a 6-year, $55 billion decline during 1991 as total debt climbed about $3 billion to near $148 billion on December 31. Lower farm incomes and expansion among livestock producers contributed to the rise in farm debt held by farmers and ranchers. Most of the loan volume growth was captured by commercial banks; they completed 10 years of market share growth and 4 years of volume increases. In addition, commercial banks as a group were well positioned at year end to continue expanding their service to the farm sector.

Farm Credit System institutions also had a strong earnings year, and many were able to improve their balance sheets. As a group, they saw slight growth in their volume of non-real estate loans. But a dip in real estate loans lowered their total outstanding farm loans to $34.3 billion. This meant another dip in market share. Overall market share has declined to 24.7 percent from a year end peak of 34.8 percent in 1981. Total FCS outstanding loans to farmers is off 47 percent from a year end 1984 peak of $64.7 billion.

Interest rates on loans to farmers were slow in coming down during 1991. Through much of the year, farm lending rates at commercial banks averaged about 10 percent. Typical rates at large banks (over $500 million in assets) were between 9 and 9.5 percent. At other banks the farm lending rate held near 11.5 percent. By the middle of the final quarter, large banks had lowered their farm rate to near 8 percent and other banks had come down to about 10.7 percent. Rates charged farm borrowers by FCS institutions averaged about midway between those of the two bank size categories.

Thus, the declines seen by farm borrowers lagged the steep money market drops discussed earlier. This meant that both commercial banks and FCS institutions operated with fairly wide spreads. Competitive pressures will likely force commercial agricultural lenders to operate with narrower spreads in 1992.

Farm Commodity Situation

By mid-1991, fortunes within the farm sector shifted away from livestock producers to crop producers. Fundamentals became fairly strong for most of the major crops, due to short grain crops around the globe and a reduced Southern Hemisphere soybean harvest in early 1991. Cotton was a notable exception as large world supplies depressed prices. But as noted earlier, the Soviet Union breakup and economic malaise among the new republics has created much uncertainty for interpreting crop supply/use relationships. Suddenly, what had been a highly variable but important commercial market for U.S. grains and soybeans no longer exists. In the near-term, grain and soybean prices became highly dependent on the amount and composition of aid and credit guarantees to the former Soviet republics.

The early season feedgrain market has been a prime example of a crop situation being less positive than one might expect given the short world crop. The major weakness for U.S. corn markets is that export demand is down from the former Soviet Union and Mexico. In addition, China has managed to fill some of the Asian market that the U.S. has normally served. However, drought conditions in Southern Africa means that the area, which normally has exported corn, may need to import corn, which could make for a more bullish market as the 1991-92 season progresses.

Good profits for cattle and hog producers ended in early 1991, as both producer groups finally responded to strong price signals to expand herds. This resulted in a record large per capita supply of beef, pork, and poultry reaching the market at a time of weak consumer demand. Cattle feedlot operations experienced negative margins during the latter half of 1991. Farrow-to-finish hog operations also saw margins virtually vanish. Similar conditions developed for poultry, with turkey margins going negative during the fourth quarter. Meanwhile, egg producers had an unprecedented 3-year string of positive margins.

Dairy prices bottomed in the spring of 1991 and gradually recovered, exceeding year earlier levels by the final quarter. The slow but steady improvement in dairy producer margins took some of the pressure off proposed dairy legislation to boost milk price supports. The dairy bills lingered and finally died in November.

Financial Condition and Performance of Farm Credit System Institutions

Farm Credit System institutions are required by FCA regulations to make disclosures to their stockholders. Disclosure to investors of the combined financial condition and performance of all FCS institutions is made by the Federal Farm Credit Banks Funding Corporation through quarterly and annual information statements to investors and bondholders. The funding corporation also produces a quarterly *Summary Report of Condition and Performance of the Farm Credit System*, which provides a detailed discussion of the financial results and additional data for individual banks.

Farm Credit Banks

Total assets of the Farm Credit Banks were $45.3 billion on Dec. 31, 1991, a decrease of $2.0 billion or 4.2 percent from a year earlier. Gross loan volume decreased 2.6 percent from $38.6 billion at the end of 1990 to $37.6 billion at the end of 1991. Marketable investments also declined, falling from $7.1 to $6.1 billion.

Overall, earning assets as a percentage of total assets increased from 92.6 to 93.0 percent. Interest earning assets decreased in total dollars from $47.2 billion on Dec. 31, 1990, to $42.1 billion on Dec. 31, 1991. Other high risk loans declined from $4.1 to $3.4 billion, a decrease from 10.2 to 8.9 percent of the loan portfolio. Nonaccrual loans dropped for the fifth straight year to $1.7 billion, or 4.4 percent of gross loan volume, from $2.0 billion, or 5 percent of gross loan volume. Restructured loans also dropped $679 million during 1991, from $1,738 million at the end of 1990 to $1,059 million at the end of 1991, or 2.7 percent of the loan portfolio down from 4.4 percent. Net acquired property increased from $281.4 to $316.5 million, or 0.7 percent of assets.

The combined net income of the banks increased from $264.3 million on Dec. 31, 1990, to $383.5 million on Dec. 31, 1991. Net income increased primarily due to an increase in net interest income. Average returns on the FCBs' loan portfolio declined in 1991 as did all interest rates. However, net interest spreads, the amount an FCB charges in excess of its cost of funds, increased as FCBs were able to lower their interest rates more slowly than the average cost of their funds declined.

As of Dec. 31, 1991, the total net worth of the 11 Farm Credit Banks, the Federal Intermediate Credit Bank of Jackson, and the Federal Land Bank of Jackson in Receivership was $3.88 billion, 8.6 percent of total assets. This was a decrease of $320 million in total dollars and a 0.3-percent decrease as a percentage of total assets from a year earlier. Total net worth declined despite increased earnings, primarily due to a continued shift of direct loans and associated stock to direct lender associations.

The quality of net worth has also improved. Protected capital stock, at $22.9 million at the end of 1988, had dropped to $3.9 million at the end of 1991. Earned net worth or surplus rose to 2.92 percent of total assets on Dec. 31, 1991, from 1.35 percent on Dec. 31, 1988. Unallocated retained earnings represented 34.1 percent of total capital at the end of 1991 as compared to 25 percent a year earlier.

Associations With Direct Lending Authority

Due to the substantive changes during 1991 in both the numbers of direct lending institutions and the assets they control, year to year comparisons can be misleading. The reader is cautioned to avoid making firm judgments without first examining financial trends on a districtwide consolidated basis. The following data reflects trends only on direct lending institution activities.

On Dec. 31, 1991 there were 172 active Farm Credit System associations with direct lending authority. Seventy-seven were Production Credit Associations, 70 were Agricultural Credit Associations, and 25 were Federal Land Credit Associations.

Combined assets of direct lending associations grew by $6.2 billion in 1991 from $19.3 billion at Dec. 31, 1990 to $25.5 billion at Dec. 31. 1991. This increase was due principally to an increase of $6.0 billion in gross loans. Loan volume increased at the direct lender level in large part due to continuing downloading from district banks.

Net income reached $272.7 million in 1991, a significant improvement from $126.7 million in 1990. Improved net interest margins were mostly responsible for this increase. Total gross loan volume increased from $17.2 billion in 1990 to $23.3 billion in 1991, or by 34.9 percent, while net interest margins increased by 45.9 percent.

Direct lending associations were able to reduce their interest rates charged on loans more slowly than their own cost of funds decreased. This allowed association net income to increase more rapidly than the growth in loan volume would normally provide. Average interest spreads for PCAs increased 0.4 percent, 0.57 percent for FLCAs, and 0.41 percent for ACAs.

Non-accrual loans increased from $577.5 million on Dec. 31, 1990, to $688.6 million on Dec. 31, 1991. This is 17.9 percent higher than 1990 levels. However, as a percentage of gross loans, non-accrual loans fell 0.4 percent reflecting modest improvement in the credit quality of the loan portfolio. Non-accrual loans decreased for PCAs but increased for ACAs and FLCAs.

Combined total net worth for direct lending associations climbed by 34.1 percent during 1991, increasing from $2.8 billion on Dec. 31, 1990 to $3.8 billion on Dec. 31, 1991. The increase was due in part to increasing loans and in larger part due to net income increasing more rapidly than growth in total assets. Net worth as a percentage of total assets increased to 15.0 percent in 1991 from 14.7 percent in 1990. The ratio for PCAs was 19.1 percent, 14 percent for ACAs, and 12.4 percent for FLCAs. ACAs and FLCAs, which were formed within the last 3 years, are in the process of building their capital levels.

Capital stock increased $475.0 million during 1991 to $1.4 billion at Dec. 31. Protected stock increased $68 million, primarily due to loans transferred to the associations from the Farm Credit Banks. Protected stock now represents 5.1 percent of total net worth and will eventually be phased out by at-risk stock.

Federal Land Bank Associations

The financial performance of the Federal Land Bank Associations must be interpreted very carefully because they serve as lending agents for the Farm Credit Banks. Most of their revenue is servicing fees from the banks. Some share in losses on loans, others do not.

On Dec. 31, 1991, there were 86 active associations, compared with 140 a year earlier. During the year, five more FLBAs became FLCAs, receiving a transfer of direct lending authority from their respective Farm Credit Banks. Only five of an original 12 Farm Credit Districts have FLBAs.

Combined net income for 1991 totaled $18 million compared with $55 million in 1990. The reduction in 1991's net income reflects a reduction of $78 million in loan fee and compensation income received from district banks.

Total net worth of the FLBAs was $633 million as of Dec. 31, 1991, versus $1.48 billion on Dec. 31, 1990. This reflects the trend of FLBAs to become direct lenders. It also reflects a $523 million decrease in protected stock and an overall lower minimum capitalization requirement for new loans of 2 percent versus 5 percent enacted as part of FCS reforms in 1988. On Dec. 31, 1991, total net worth as a percentage of assets was 89.8 percent. This ratio has fallen annually since 1988, when it was 93.3 percent of total assets. In 1991, the composition of net worth improved when earned net worth increased to $213.7 million, or 30.3 percent of assets. This represents a slight increase from 1990's level of 29 percent.

Banks for Cooperatives

There are three Banks for Cooperatives. However, the performance of the National Bank for Cooperatives dominates the financial results of the BCs because its assets are approximately 88 percent of the combined assets.

Total combined assets of the BCs were $14.5 billion at Dec. 31, 1991. This represented no change from Dec. 31, 1990. Gross loan volume increased from $11.079 billion in 1990 to $11.463 billion in 1991 or $383.5 million. Marketable investments fell from $3.098 billion in 1990 to $2.822 billion in 1991.

Total net worth of the BCs was $984.8 million on Dec. 31, 1991, an increase of $51.5 million from a year earlier. Total net worth as a percentage of assets increased from 6.45 percent at Dec. 31, 1990, to 6.8 percent a year later. Unallocated retained earnings increased from 1.17 percent of total assets to 1.43 percent.

Net income as of Dec. 31, 1991 was $120 million as compared to $71.8 million as of Dec. 31, 1990. This represented an increase of 67 percent. The primary reason for this increase stems from a 33 percent increase in net interest margins. Total noninterest expenses increased 15 percent in 1991, but rose less quickly than net interest margins.

The loan quality of the BCs showed deterioration in 1991. Non-accrual loans increased from $100.5 million on Dec. 31, 1990, to $113.5 million on Dec. 31, 1991. Non-accrual loans represented 1 percent of gross loans as of Dec. 31, 1991. All categories of nonperforming loans totaled 3.2 percent as of Dec. 31, 1991. This represents no change from 1990. Delinquent loans as a percentage of gross loans showed improvement, decreasing from 0.96 percent at the end of 1990 to 0.29 percent at the end of 1991.

Permanent Capital Ratios

As of December 31

	<7%		7-15%		15-25%		25-50%		>50%	
System	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991
FCB's[1]	4	1	7	10	1	1	—	—	—	—
BCs	—1	—	2	3	—	—	—	—	—	—
PCA's[2]	—	—	19	16	55	35	28	26	—	—
ACAs	1	1	29	52	8	15	2	2	—	—
FLBAs[3,4]	1	—	25	15	22	30	6	2	85	38
FLCAs	4	1	2	14	—	3	1	7	—	—
Total	11	3	84	110	86	84	37	37	85	38

[1]*Includes the FICB of Jackson and excludes the FLB of Jackson in receivership.*
[2]*Excludes PCAs in receivership.*
[3]*Excludes the FLBA of Jackson in receivership.*
[4]*Excludes the FLBA of the Midlands (FLBAM) due to a loss-sharing agreement with the FCB of Omaha that resulted in zero resk-adjusted assets to the FLBAM, making permanent capital ration meaningless.*

Financial Assistance

The Farm Credit System Assistance Board and the Farm Credit System Financial Assistance Corporation (FAC) are required by the Agricultural Credit Act of 1987 to carry out a program to provide assistance to troubled Farm Credit System institutions. The assistance board and the FAC were established with distinct responsibilities. The assistance board will be terminated on Dec. 31, 1992.

Among other things, the FAC, at the direction of the assistance board, is authorized to issue up to $4 billion in Government-guaranteed 15-year bonds to fund financial assistance to stressed FCS institutions, but no bonds may be issued after Sept. 30, 1992. As of Dec. 31, 1991, debt securities issued by the FAC totaled $1.261 billion. No new debt was issued after 1990, and all debt matures by 2005.

The $1.261 billion of FAC debt securities were issued primarily to purchase preferred stock from financially distressed FCS banks, pay the banks' 1986 third quarter Capital Preservation Agreement accruals, retire eligible borrower stock of liquidating FCS institutions, and pay FAC debt issuance costs and operating expenses of the assistance board and the FAC.

A total of $419 million was issued to assist four Farm Credit Banks via the purchases of preferred stock by the FAC. The FCB of Louisville received $90 million, the FCB of Omaha received $107 million, the FCB of St. Paul received $133 million, and the FCB of Spokane received $89 million. The assistance was needed primarily to facilitate the restructuring of a portion of their high cost debt and strengthen their capital.

Also, a total of $388 million of preferred stock was purchased from the Federal Land Bank of Jackson in Receivership. The proceeds were used to retire eligible borrower stock and fund maturing debt obligations.

Another $417 million was issued to fund the Capital Preservation Agreement accruals, and $16 million was used to redeem eligible borrower-owned stock in liquidating institutions. The remaining $21 million was issued to fund debt issuance costs and various current and future operating expenses of the FAC and the assistance board.

Repayment of FAC Debt

The statute prescribes a general mechanism that allocates the responsibility for funding the interest payments and repaying the principal of FAC debt securities among FCS institutions and the U.S. Treasury. The methods prescribed for allocation of debt obligations vary significantly, depending on the type of assistance provided, the type of institution, the financial condition of the institution, and whether the repayment is for principal or interest. Ultimately, the FCS is responsible for the payment of all principal and interest of all FAC debt.

In brief, the 1987 act requires each FCS bank that received assistance by issuing preferred stock to the FAC to repay the principal of debt securities issued for that purpose. All FCS institutions, however, are obligated to repay the interest on the same debt. Also, all banks are required to repay the principal and interest on FAC debt issued to fund the Capital Preservation Agreement accruals, based on the percentage of each bank's accruing loan volume to the total loan volume of all banks. The repayment of debt issued to redeem eligible borrower stock and to fund debt issuance costs and the operating expenses of the FAC and the assistance board is the responsibility of all institutions.

Excluding interest on the debt obligations relating to the Capital Preservation Agreement accruals, the act further requires that the U.S. Treasury pay 100 percent of the interest due in the first 5 years and 50 percent of interest due in the second 5 years. FCS institutions are obligated to pay all other interest when due. After maturity of the debt, the amount paid by the Treasury must be paid back by the institutions on a fair and equitable basis as determined by the FCA.

The act expressly provides an allocation formula that uses a 15-year average performing loan volume of FCS institutions for determining individual institutions' proportional obligation for repayment of the FAC debt obligations and interest not paid by the Treasury. In accordance with the act, for determining an allocation method for repayment of Treasury-paid interest, the FCA is authorized to set the payment levels and dates for FCS institutions. However, the FCA, in consultation with the Treasury, must also determine the financial viability of the institutions before repayment begins. No institution is to be required to make payments for Treasury-paid interest in a manner that would impair its stock or jeopardize its ability to meet minimum capital standards.

The provisions of the act bear two significant implications on accounting for reporting of FAC debt securities. First, the act requires all FCS banks to pay the interest and principal of FAC debt securities issued to fund the Capital Preservation Agreement accruals. However, the act prohibits each bank from reporting the principal amount due as a liability in its financial statements until maturity of the debt. As a result, the principal amount of the debt can only be disclosed by each bank in the accompanying notes to its financial statements. The statutory prohibition deviates from the requirements of generally accepted accounting principles (GAAP) and has resulted in the banks' external auditors issuing qualified opinions on the banks' financial statements. Interest payments on the FAC debt obligations for the Capital Preservation Agreement accruals are properly recorded as expenses by each bank since recognition of such interest payments in the financial statements are not subject to the aforementioned statutory prohibition.

Second, with respect to allocation of the obligation for repayment of Treasury-paid interest among FCS institutions, the act requires the FCA to consider variables (e.g., financial viability and capital structure) that will change over time. As a result, the FCA is unable to develop a methodology assuring that the allocation will not eventually jeopardize individual institutions' financial viability. Since there is no method of allocation, FCS institutions have been prevented from reporting their obligation for Treasury-paid interest as a liability in their financial statements. During 1991, however, the FCS proposed an interim method to allocate the Treasury-paid interest among the FCS institutions, thereby enabling each institution to accrue the liability in its financial statements.

The FCS has continually voiced its commitment to repay all of its obligations. It developed an interim formula that allocates the obligation for repayment of Treasury-paid interest among its institutions based on average accruing retail loan volume. Most FCS institutions have accrued a liability for their estimated amount of the Treasury-paid interest in their 1991 financial statements under the FCS-developed allocation method. The accrual has resulted in a reduction of earnings by individual FCS institutions and could slow the pace by which the institutions accumulate capital from earnings in the future.

The FCA concluded that this proposal to provide for eventual repayment to the Treasury was a reasonable allocation method for estimating the liability under GAAP. However, since the FCA by statute must ultimately determine the final allocation, adjustments to the liability accruals recorded in accordance with the proposed repayment method may be required. The FCA also advised the FCS that the act requires the obligation for repayment of Treasury-paid interest to reside with each institution. Farm Credit Banks cannot "absolve," by agreement or otherwise, any institutions in their districts from this statutory liability.

Funding the Farm Credit System

The Farm Credit Banks and the Banks for Cooperatives obtain the majority of their loan funds from the sale of Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes through the Federal Farm Credit Banks Funding Corporation. In recent years, they have also expanded their use of specialized funding activities, including a medium-term note program as well as the use of hedging, swaps, and other financing mechanisms.

The majority of the proceeds from sales of systemwide debt securities in 1991 were used to fund maturing debt obligations. Conditions in the financial markets in 1991 were characterized by a reduction in short-term interest rates that influenced the funding decisions of the banks of the Farm Credit System as they concentrated on their issuance of shorter term maturities and discount notes. The FCS raised $660 million in new money through systemwide discount notes and paid down $2.04 billion in bonds and other forms of debt. Thus, the net paydown was $1.38 billion.

The Federal Farm Credit Banks Funding Corporation issued a total of $168.6 billion of bonds, medium-term notes and discount notes in 1991. Of this total, new 3-month bond sale participations were $13.4 billion, and 6-month bond participations amounted to $9.5 billion. Of a total of $9 billion of term debt, the FCS issued $3.6 billion in callable bonds, taking advantage of the narrow yield premiums on callable agency debt. Discount note issues were $131.1 billion. Their average term was 43 days, and they represented 78 percent of the total debt issued in 1991.

FCS banks also use the funding corporation for specialized funding transactions that provide greater flexibility for the issues of securities with longer term maturities. Of the total issues, specialized funding issuance was $4.6 billion, medium-term notes were $2.4 billion, and underwritten transactions amounted to $2.2 billion. Swaps negotiated on behalf of FCS banks totaled $940 million, a significant decline from the $4.1 billion in 1990 that is explained by the reduced advantage of issuing fixed rate debt to swap into synthetic LIBOR-indexed floating-rate debt because of the tighter swap curve. LIBOR is the acronym for London Interbank Offering Rate.

Other specialized funding activities included the placement of $184.1 million directly with investors, the issuance of $78 million through reopening outstanding bond issues, and $570 million in Master Note Agreements.

Short-term market interest rates fell significantly and the spreads of FCS debt over Treasury securities also narrowed in 1991, which reduced the average coupon rates of new issues and lowered the average cost of FCS debt outstanding.

The average coupon rates in 1991 for new issues of 3-month bonds, 6-month bonds, and term debt were 5.86, 5.99, and 6.47 percent, respectively, compared with 8.0, 8.08, and 8.14 percent in 1990. The average interest rate on discount notes dropped from 7.92 percent in 1990 to 5.58 percent in 1991. The use of specialized funding also allowed the FCS to reduce the average

Farm Credit System: Debt Outstanding and Average Costs

(Dollar Amounts in Millions)

	FCB[1]		BC		Total[2]	
As of December 31	1991	1990	1991	1990	1991	1990
Bonds[3]	$30,882	$32,827	$5,898	$6,413	$37,184	$39,232
Discount Notes	9,191	8,679	6,904	7,058	16,249	15,583
Total Debt	40,073	41,506	12,956	13,317	53,433	54,815
Average Cost Bonds Outstanding	7.27%	8.68%	7.81%	8.69%	7.36%	8.68%
Average Cost Discount Notes Outstanding	4.90%	7.55%	4.73%	7.58%	4.83%	7.56%
Average Cost of Debt Outstanding	6.74%	8.44%	6.14%	8.10%	6.59%	8.36%

[1]FCB includes FICB of Jackson.
[2]Total includes consolidated bank and other bonds outstanding.
[3]Bonds include medium-term notes.

interest rate to 5.72 percent for all new debt issued in 1991 from an average rate of 7.99 percent in 1990.

The continued recovery in the farm economy, the stronger financial condition of the FCS, and investor preference for higher quality short-term debt were favorable to the funding activities of the FCS. Yield spreads between FCS short-term issues and comparable U.S. Treasury securities narrowed in 1991 compared to the average spreads in 1990. The average spread over Treasury securities for 3-month bonds dropped from 20 basis points to 15 basis points. The spread for the 6-month issues also declined from 14 to 9 basis points.

However, the average spread over Treasury securities for term bonds widened from the very low 6-basis-point spread in 1990 to a spread of 13 basis points due to stronger competition and a large supply of term debt in financial markets during 1991.

Average cost of the outstanding debt of the Farm Credit Banks fell from 8.44 percent at the end of 1990 to 6.74 percent at the end of 1991. Banks for Cooperatives' average debt cost dropped from 8.10 to 6.14 percent in 1991. The combined average cost of outstanding debt for FBCs and BCs was reduced from 8.36 percent in 1990 to 6.59 percent in 1991.

Young, Beginning, and Small Farmers

Each Federal Land Bank Association, Production Credit Association, Federal Land Credit Association, and Agricultural Credit Association is required by law, under policies established by each Farm Credit District Board, to prepare a program for furnishing sound and constructive credit and related services to target groups of young, beginning, and small farmers.

Programs for these farmers generally consist of public relations efforts aimed at young farmers, support for the 4-H and Future Farmers of America, educational projects, and assistance in making use of existing credit programs. Some districts also offer insurance programs tailored to the needs of young, beginning, and small farmers.

Educational programs tend to focus on the need for and use of good farm records and sound management practices. These programs consist of seminars, counseling sessions, and other meetings with target groups.

Credit programs for the target groups typically involve coordinating regular loan programs with special programs offered by Federal, state, and local agencies. While these outside programs are often subsidized, the programs of the FCS institutions are not. The chief contribution of the FCS institutions is to highlight existing programs. The loans extended are expected to meet normal underwriting standards.

The continued restructuring of the Farm Credit System affected the number of loans and the new money loaned by the different types of associations in 1991. While the number of FLCAs and ACAs rose as a result of restructuring activities the number of PCAs and FLBAs was correspondingly reduced.

The ACA group experienced significant growth in gross new money loaned in the year ended Dec. 31, 1991, and the absolute amount of new money going to target groups also increased significantly for the ACAs. The total volume of ACA loans outstanding rose from $9.31 billion in 1990 to $16.69 billion in 1991, and the loans outstanding to young, beginning, and small farmers rose by $1.1 billion during 1991 to $3.2 billion. The gross new money loaned by the ACAs going to target groups, for example, increased 13.1 percent, rising from $1.35 billion in 1990 to $1.53 billion in 1991.

The total portfolio of PCA loans outstanding fell from $6.94 billion to $4.87 billion during the year. The gross new money loaned by the PCAs to the target groups fell from $1.29 billion in 1990 to $1.13 billion in 1991. But since the total in gross new money loaned by PCAs fell from $7.38 billion in 1990 to $5.2 billion in 1991, the proportion of new money of the total of the gross new money loaned by PCAs to target groups rose from 17.4 to 21.6 percent.

The volume of FLBA and FLCA gross new money loaned to the target groups during 1991 was $274.3 million compared with $480.6 million in 1990. The total amount of loans outstanding to the target groups fell from $2.27 billion at the end of 1990 to $1.35 billion at the end of 1991.

The ACAs lent the largest dollar volume of new loans — $1.53 billion — to target groups. The PCAs followed with a loan volume of $1.13 billion and the FLBAs/FLCAs with $274.3 million.

These results taken together for all types of associations indicate that target groups' share of gross new money loaned fell by $189.4 million and outstanding loans dropped by $191.37 million in 1991 compared with 1990.

Greater statistical details for the young, beginning, and small farmers program may be found in Table 13 of Appendix A to this Annual Report.

FLBAs process and service loans for FCBs, but are considered lenders for purposes of this program.

Appendix A—Financial Tables

Notice to the Reader

The financial tables and related graphs included herein have been developed by the Farm Credit Administration (FCA) from Call Report data submitted by each Farm Credit System (FCS) institution. The Call Report information submitted to the FCA is routinely reviewed for completeness and verified for accuracy. Although the FCA performs periodic examinations of each FCS institution, there is no assurance that the examinations were conducted at the date of the financial reports. While the FCA believes the Call Report data to be reliable, the financial data submitted by each FCS institution and contained in the Call Reports has not been audited by the FCA, nor does the FCA express an opinion on their content.

In addition, because of the significant intercorporate relationships that exist between and among FCS institutions, it is not possible to add financial data for each group of like entities presented in this report and obtain data for combined FCS. Before such "systemwide" data could be developed, significant intercorporate eliminations and combinations of the financial data of selected service organizations that are not included as a part of this report would be required. Accordingly, caution should be exercised in performing further analysis of or in attempting to draw additional conclusions regarding the FCS from the financial data presented in this report. This report is prepared and presented for informational purposes only.

Table 1

Farm Credit Banks Combined Statement of Financial Condition

(Dollars in Millions)

As of December 31,	1991	1990	1989	1988	1987
Assets					
Loans	$38,628.2	$39,824.2[1]	$40,463.9	$42,210.1	$44,816.6
Less: Allowance for Losses	746.0	902.1	987.2	1,254.0	2,187.0
Net Loans	37,882.2	38,922.1[1]	39,476.7	40,956.1	42,629.6
Cash and Investments in Securities	6,388.9	7,318.6	8,057.2	5,736.4	6,472.1
Net Acquired Property	316.5	281.4	385.5	578.3	764.7
Other Assets–Net	681.6	709.2	596.5	572.9	565.7
Total Assets	**45,269.2**	**47,231.3[1]**	**48,515.9**	**47,843.7**	**50,432.1**
Liabilities					
Consolidated Systemwide and Other Bonds	30,671.9	32,872.6[1]	34,936.2	34,110.8	36,538.8
Consolidated Systemwide Notes	8,786.3	8,197.3[1]	7,209.3	6,495.3	6,547.1
Other Liabilities	1,928.0	1,958.1[1]	2,663.7	3,261.9	3,977.3
Total Liabilities	**41,386.2**	**43,028.0[1]**	**44,809.2**	**43,868.0**	**47,063.2**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	3.8	5.6	9.6	22.9	3,326.1
Capital Stock and Participation Certificates—Unprotected	1,858.5	2,687.3	2,818.7	3,595.1	0.0
Preferred Stock—FAC	807.3	807.3	370.6	375.6	0.0
Other Capital	(113.1)	(346.2)	(278.1)	(585.1)	(702.2)
Total Capital	**2,556.5**	**3,154.0**	**2,920.8**	**3,408.5**	**2,623.9**
Earned Net Worth	1,326.5	1,049.3[1]	785.9	567.2	745.0
Total Net Worth	**3,883.0**	**4,203.3[1]**	**3,706.7**	**3,975.7**	**3,368.9**
Total Liabilities and Net Worth	$45,269.2	$47,231.3[1]	$48,515.9	$47,843.7	$50,432.1

Note: Totals may not add due to rounding.
[1]*Revised.*

Table 2

Farm Credit Banks Combined Statement of Income and Expense

(Dollars in Millions)

For the Year Ended December 31,	1991	1990	1989	1988	1987
Interest Income					
Loans	$3,408.1	$3,823.1	$4,116.8	$4,088.3	$4,304.4
Investments and Other	405.9	610.6	579.9	443.7	489.7
Total Interest Income	**3,814.0**	**4,433.7**	**4,696.7**	**4,532.0**	**4,794.1**
Interest Expense					
Consolidated Bonds	2,444.3	3,109.3	3,386.6	3,435.8	4,022.3
Notes and Other	565.5	608.9	715.2	683.4	590.9
Total Interest Expense	**3,009.8**	**3,718.2**	**4,101.8**	**4,119.2**	**4,613.2**
Net Interest Income (Loss)	804.2	715.5	594.9	412.8	180.9
Less: Provision for Loan Losses	(127.3)	(58.3)	(141.1)	(651.4)	(92.3)
Net Interest Income (Loss) after Provision for Loan Losses	931.5	773.8	736.0	1,064.2	273.2
Other Income	69.1	46.7	128.0	559.7	154.8
Operating Expenses					
Salaries and Employee Benefits	119.7	123.1	140.6	137.9	135.9
Occupancy and Equipment Expenses	35.2	37.2	37.5	34.6	38.2
Other Operating Expenses	389.8	283.8	287.0	284.2	289.0
Total Operating Expenses	**544.7**	**444.1**	**465.1**	**456.7**	**463.1**
Other Expenses	72.4	101.2[1]	56.1	44.7	92.8
Extraordinary Items	0.0	(10.9)	173.3	(373.0)	0.0
Net Income (Loss)	$ 383.5	$ 264.3[1]	$ 516.1	$ 749.5	($ 127.9)

Note: Totals may not add due to rounding.
[1]*Revised.*

Table 3

Farm Credit Banks Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31,	1991	1990	1989	1988	1987
Loan Performance					
Performing	$32,490.4	$32,034.7[1]	$32,719.7	$32,178.1	$31,801.5
Formally Restructured	1,019.6	1,693.3	2,096.7	1,960.0	1,745.7
Other Restructured or Reduced Rate	3.4	45.3	28.5	16.5	28.3
Other High Risk	3,429.5	4,053.3[1]	3,469.7	5,093.6	7,211.4
Nonaccrual	1,702.2	2,014.3[1]	2,164.9	3,001.4	4,476.0
Net Chargeoffs on Loans	$ 28.7	$ 26.8	$ 125.7	$ 281.1	$ 422.3
Selected Ratios					
Return on Assets	0.84%	0.56%	1.10%	1.54%	–0.24%
Return on Equity	9.78%	6.71%	13.41%	19.39%	3.67%
Net Interest Margin	1.89%	1.63%	1.37%	0.94%	0.38%
Capital as a Percentage of Assets	8.58%	8.90%	7.64%	8.31%	6.68%
Debt-to-Capital Ratio (:1)	10.66	10.24	12.09	11.03	13.97

[1] *Revised.*

Table 4

Banks for Cooperatives Combined Statement of Financial Condition

(Dollars in Millions)

As of December 31,	1991	1990	1989	1988	1987
Assets					
Loans	$11,621.5	$11,301.9[1]	$10,676.4	$10,195.8	$ 8,386.5
Less: Allowance for Losses	147.5	151.2	128.3	128.5	141.0
Net Loans	11,474.0	11,150.7[1]	10,548.1	10,067.3	8,245.5
Cash and Investments in Securities	2,832.1	3,114.7	3,192.3	2,936.6	2,749.4
Net Acquired Property	1.2	1.6	1.5	6.9	11.4
Other Assets–Net	177.0	192.5	203.9	164.1	131.7
Total Assets	**14,484.3**	**14,459.6[1]**	**13,945.8**	**13,174.9**	**11,138.0**
Liabilities					
Consolidated Systemwide and Other Bonds	6,270.4	6,413.4[1]	4,564.0	5,501.1	4,132.0
Consolidated Systemwide Notes	7,029.1	6,903.7[1]	7,989.5	6,122.3[1]	5,441.8
Other Liabilities	200.0	209.1[1]	446.2	543.1[1]	529.3
Total Liabilities	**13,499.5**	**13,526.2[1]**	**12,999.7**	**12,166.5**	**10,103.1**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	279.2	404.3[1]	537.2	730.2	697.5
Capital Stock and Participation Certificates—Unprotected	496.3	356.8[1]	244.5	96.1	0.0
Preferred Stock—FAC	0.0	0.0	0.0	0.0	0.0
Other Capital	0.0	0.0	0.0	0.0	0.0
Total Capital	**775.5**	**761.1[1]**	**781.8**	**826.3**	**697.5**
Earned Net Worth	209.3	172.2[1]	164.3	182.0[1]	337.4
Total Net Worth	**984.8**	**933.3**	**946.1**	**1,008.3**	**1,034.9**
Total Liabilities and Net Worth	$14,484.3	$14,459.6[1]	$13,945.8	$13,174.9	$11,138.0

Note: Totals may not add due to rounding.
[1]*Revised.*

Table 5

Banks for Cooperatives Combined Statement of Income and Expense

(Dollars in Millions)

For the Year Ended December 31,	1991	1990	1989	1988	1987
Interest Income					
Loans	$ 875.5	$1,021.5	$1,009.3	$ 853.9	$ 658.0
Investments and Other	198.8	240.4	265.9	206.0	163.5
Total Interest Income	**1,074.2**	**1,261.9**	**1,275.3**	**1,059.9**	**821.5**
Interest Expense					
Consolidated Bonds	409.5	475.5	491.8	412.1	360.4
Notes and Other	407.1	592.7	608.8	486.7	332.3
Total Interest Expense	**816.6**	**1,068.2**	**1,100.6**	**898.8**	**692.7**
Net Interest Income (Loss)	257.6	193.7	174.7	161.1	128.8
Less: Provision for Loan Losses	24.4	27.9	(8.6)	11.0	(6.7)
Net Interest Income (Loss) after Provision for Loan Losses	233.3	165.8	183.3	150.0	135.5
Other Income	8.7	9.0	12.9	12.2[1]	8.3
Operating Expenses					
Salaries and Employee Benefits	35.0	31.3	27.0	28.1	29.2
Occupancy and Equipment Expenses	7.8	7.4	5.7	6.5	7.5
Other Operating Expenses	22.1	24.3	22.8	21.5	19.8
Total Operating Expenses	**64.9**	**63.0**	**55.5**	**56.1**	**56.5**
Other Expenses	57.7	40.0	34.4	20.4[1]	7.6
Extraordinary Items	0.6	0.0	0.0	0.0	0.0
Net Income (Loss)	$ 119.9	$ 71.8	$ 106.3	$ 85.8	$ 79.8

Note: Totals may not add due to rounding.
[1]*Revised.*

Table 6

Banks for Cooperatives Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31,	1991	1990	1989	1988	1987
Loan Performance					
Performing	$11,157.0	$10,836.3[1]	$10,406.2	$10,307.1	$7,933.6
Formally Restructured	11.8	92.6	85.8	76.1	67.3
Other Restructured or Reduced Rate	0.0	0.5	0.0	2.8	14.7
Other High Risk	340.2	273.6[1]	171.7	36.4	72.8
Nonaccrual	113.5	100.5	12.5	14.7	10.8
Net Chargeoffs on Loans	$ 28.1	$ 5.0	($ 8.4)	$ 22.9	($ 2.0)
Selected Ratios					
Return on Assets	0.86%	0.51%	0.80%	0.67%	0.77%
Return on Equity	11.16%	6.74%	10.02%	6.24%	7.53%
Net Interest Margin	1.92%	1.41%	1.34%	1.22%	1.26%
Capital as a Percentage of Assets	6.80%	6.45%	6.78%	7.65%	9.29%
Debt-to-Capital Ratio (:1)	13.71	14.49[1]	13.74	12.07	9.76

[1]*Revised.*

Table 7

Direct Lenders Combined Statement of Financial Condition[1]

(Dollars in Millions)

As of December 31,	1991[2]	1990[2]	1989[2]	1988	1987
Assets					
Loans	$23,816.7	$17,692.9[3]	$15,475.8[3]	$ 9,459.9	$ 9,675.4
Less: Allowance for Losses	553.8	388.0[3]	376.0[3]	416.2[3]	574.5
Net Loans	23,263.0	17,304.9[3]	15,099.9[3]	9,043.8[3]	9,100.9
Cash and Investments in Securities	82.4	72.1	70.5	49.4	37.4
Net Acquired Property	93.7	63.6[3]	75.7	83.4	110.5
Other Assets—Net	2,084.6	1,865.6[3]	1,893.8[3]	1,962.6[3]	2,018.4
Total Assets	**25,523.6**	**19,306.2[3]**	**17,139.8[3]**	**11,139.3[3]**	**11,267.2**
Liabilities					
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	0.0	0.0	0.0	0.0	0.0
Other Liabilities	21,707.2	16,459.6[3]	14,494.1[3]	8,949.9[3]	9,149.1
Total Liabilities	**21,707.2**	**16,459.6[3]**	**14,494.1[3]**	**8,949.9[3]**	**9,149.1**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	193.6	125.4[3]	173.0	659.8	994.0
Capital Stock and Participation Certificates—Unprotected	1,168.1	761.3[3]	639.0[3]	167.8	0.0
Preferred Stock—FAC	0.0	0.0	0.0	0.0	0.0
Other Capital	107.2	123.0	121.3[3]	0.8	(23.3)
Total Capital	**1,469.0**	**1,009.7**	**933.2**	**828.4**	**970.7**
Earned Net Worth	2,347.5	1,836.9[3]	1,712.5	1,361.0[3]	1,147.4
Total Net Worth	**3,816.4**	**2,846.6[3]**	**2,645.7**	**2,189.4[3]**	**2,118.1**
Total Liabilities and Net Worth	$25,523.6	$19,306.2[3]	$17,139.8[3]	$11,139.3[3]	$11,267.2

Note: Totals may not add due to rounding.
[1]*Includes Production Credit Associations (PCAs), Agricultural Credit Associations (ACAs) and Federal Land Credit Associations (FLCAs).*
[2]*1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).*
[3]*Revised.*

Table 8

Direct Lenders Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31,	1991[2]	1990[2]	1989[2]	1988	1987
Interest Income					
Loans	$2,110.5	$1,743.1[3]	$1,558.1	$ 931.5	$ 958.8
Investments and Other	8.2	9.9	17.8	2.6[3]	0.3
Total Interest Income	**2,118.7**	**1,753.0**[3]	**1,575.9**	**934.1**[3]	**959.1**
Interest Expense					
Consolidated Bonds	0.0	0.0	0.0	0.0	0.0
Notes and Other	1,496.7	1,326.6[3]	1,248.3	738.1[3]	787.0
Total Interest Expense	**1,496.7**	**1,326.6**[3]	**1,248.3**	**738.1**[3]	**787.0**
Net Interest Income (Loss)	621.9	426.4[3]	327.5[3]	196.0[3]	172.1
Less: Provision for Loan Losses	50.0	10.9[3]	(64.7)[3]	(148.0)	(83.6)
Net Interest Income (Loss) after Provision for Loan Losses	572.0	415.5[3]	392.2[3]	344.0[3]	255.8
Other Income	231.4	101.4[3]	101.5	167.0[3]	118.0
Operating Expenses					
Salaries and Employee Benefits	260.6	194.1[3]	185.2	144.4	163.1
Occupancy and Equipment Expenses	32.2	25.6	24.6	21.0	23.3
Other Operating Expenses	144.7	103.4	90.1	59.8	65.6
Total Operating Expenses	**437.5**	**323.1**	**299.9**	**225.2**	**252.0**
Other Expenses	99.2	72.5[3]	83.6[3]	61.0[3]	20.4
Extraordinary Items	6.1	5.4[3]	13.7	20.2	0.1
Net Income (Loss)	$ 272.7	$ 126.7[3]	$ 124.0	$ 245.1	$ 101.5

Note: Totals may not add due to rounding.

[1]*Includes Production Credit Associations (PCAs), Agricultural Credit Associations (ACAs) and Federal Land Credit Associations (FLCAs).*

[2]*1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).*

[3]*Revised.*

Table 9

Direct Lenders Combined Trends in Selected Financial Measures[1]

(Dollars in Millions)

As of December 31,	1991[2]	1990[2]	1989[2]	1988	1987
Loan Performance					
Performing	$21,582.6	$15,916.8[3]	$13,803.7[3]	$8,127.6	$7,867.9
Formally Restructured	357.5	415.4[3]	439.4[3]	321.1	367.2
Other Restructured or Reduced Rate	5.4	3.7[3]	10.9	20.1	29.0
Other High Risk	1,190.8	779.8[3]	711.9[3]	520.3	645.4
Nonaccrual	680.6	577.5[3]	511.4	485.1	765.9
Net Chargeoffs on Loans	$ 20.0	$ 9.6[3]	$ 10.8	$ 4.8[3]	$ 40.1
Selected Ratios					
Return on Assets	N/A	N/A	N/A	2.19%[3]	0.84%
Return on Equity	N/A	N/A	N/A	11.49%[3]	4.55%
Net Interest Margin	N/A	N/A	N/A	2.26%[3]	1.97%
Capital as a Percentage of Assets	14.95%	14.74%	15.44%	19.65%	18.76%
Debt-to-Capital Ratio (:1)	5.69	5.78	5.48	4.09	4.33

[1]*Includes Production Credit Associations, Agricultural Credit Associations (ACAs) and Federal Land Credit Associations (FLCAs).*
[2]*1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).*
[3]*Revised.*

Table 10

Federal Land Bank Associations Combined Statement of Financial Condition

(Dollars in Millions)

As of December 31,	1991[1]	1990[1]	1989[1]	1988	1987
Assets					
Loans[2]	N/A	N/A	N/A	N/A	N/A
Less: Allowance for Losses[3]	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	$ 224.7	$ 241.9	$ 211.0	$ 352.4	$ 220.2
Net Acquired Property	0.0	0.3	0.3	N/A	N/A
Other Assets—Net	480.2	1,339.7[4]	1,466.3	2,185.6[4]	1,459.6[4]
Total Assets	**705.0**	**1,581.9[4]**	**1,677.6**	**2,538.0[4]**	**1,679.8[4]**
Liabilities					
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	0.0	0.0	0.0	0.0	0.0
Other Liabilities[3]	71.9	103.9[4]	97.3	169.4[4]	227.5[4]
Total Liabilities	**71.9**	**103.9[4]**	**97.3**	**169.4[4]**	**227.5[4]**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	189.9	712.7	958.7	1,774.4[4]	1,958.6
Capital Stock and Participation Certificates—Unprotected	229.5	305.0[4]	215.8	60.9[4]	0.0
Other Capital	0.0	0.0	(33.5)	(107.5)	(696.2)[4]
Total Capital	**419.4**	**1,017.6**	**1,141.0**	**1,727.8[4]**	**1,262.4[4]**
Earned Net Worth	213.7	460.4	439.3	640.8	189.9[4]
Total Net Worth	**633.0**	**1,478.0**	**1,580.3**	**2,368.6[4]**	**1,452.3**
Total Liabilities and Net Worth	$ 705.0	$1,581.9[4]	$1,677.6	$2,538.0[4]	$1,679.8[4]

[1]1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).
[2]The FLBAs act as agents for the FCBs (formerly Federal Land Banks) in the lending process, but do not hold loans themselves.
[3]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.
[4]Revised.

Table 11

Federal Land Bank Associations Combined Statement of Income and Expense

(Dollars in Millions)

For the Year Ended December 31,	1991[1]	1990[1]	1989[1]	1988	1987
Interest Income					
Loans	$ 0.1	$ 0.6	$ 1.2	$ 0.7[2]	$ 0.0
Investments and Other	2.7	1.8	1.3	7.1[2]	13.7
Total Interest Income	**2.8**	**2.4**	**2.5**	**7.7[2]**	**13.7**
Interest Expense					
Consolidated Bonds	N/A	N/A	N/A	N/A	N/A
Notes and 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 (Loss)	2.8	2.4	2.5	7.7[2]	13.7
Less: Provision for Loan Losses	5.1	5.8	3.2	10.3	(10.7)
Net Interest Income (Loss) after Provision for Loan Losses	(2.3)	(3.4)	(0.7)	(2.6)[2]	24.4
Other Income	125.1	234.5[2]	277.4[2]	1,114.8[2]	222.8
Operating Expenses					
Salaries and Employee Benefits	60.6	108.9[2]	103.8[2]	143.4	153.5
Occupancy and Equipment Expenses	7.9	15.2[2]	14.0	19.0	19.2
Other Operating Expenses	31.1	46.0	35.8	45.8	46.3[2]
Total Operating Expenses	**99.6**	**170.0[2]**	**153.6[2]**	**208.2**	**219.0[2]**
Other Expenses	5.2	6.0	0.2	10.0	261.9[2]
Extraordinary Items	0.0	0.0	(21.1)[2]	55.6[2]	0.0
Net Income (Loss)	$ 18.0	$ 55.0	$ 101.9[2]	$ 949.6[2]	($ 233.7)[2]

Note: Totals may not add due to rounding.

[1]1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).

[2]Revised.

Table 12

Federal Land Bank Associations Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31,	1991[1]	1990[1]	1989[1]	1988	1987
Loan Performance					
Performing	—	—	—	—	—
Formally Restructured	—	—	—	—	—
Other Restructured or Reduced Rate	—	—	—	—	—
Other High Risk	—	—	—	—	—
Nonaccrual	—	—	—	—	—
Net Chargeoffs on Loans	$4.1	$6.7	$5.5	$6.8	$3.9
Selected Ratios					
Return on Assets	1.97%	3.39%	5.57%[2]	47.29%[2]	–12.36%[2]
Return on Equity	2.19%	3.61%[2]	5.96%[2]	51.68%[2]	–14.17%[2]
Net Interest Margin	N/A	N/A	N/A	N/A	N/A
Capital as a Percentage of Assets	89.80%	93.43%[2]	94.20%	93.33%[2]	86.46%[2]
Debt-to-Capital Ratio (:1)	0.11	0.07	0.06	0.07	0.16[2]

[1]1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).
[2]Revised.

Table 13

Young, Beginning, and Small Farmers: Loans Outstanding and New Money Loaned, by Type of Association, Year Ended 12/31/91

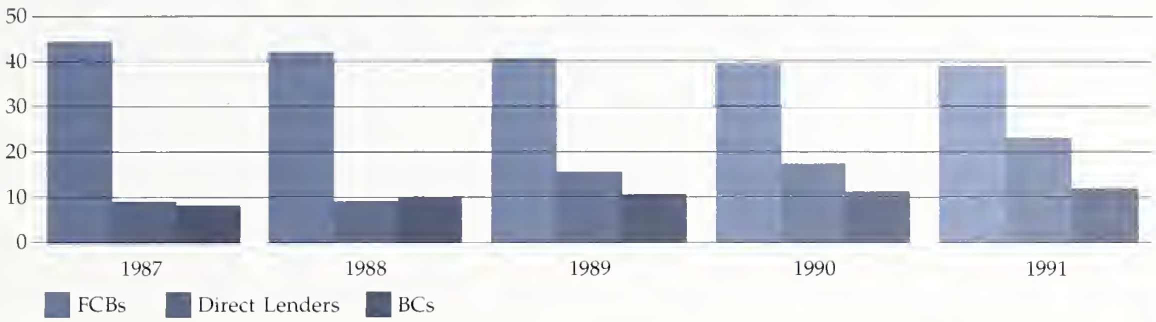
(Dollar Amounts in Thousands)

For the Year Ended December 31, 1991	Total Portfolio	Young, Beginning and Small Farmers[1]	Young Farmers[2]	Beginning Farmers[3]	Small Farmers[4]	Other Farmers
Federal Land Bank Associations and Federal Land Credit Associations						
Total Number of Loans Outstanding	222,893	2,730	5,881	4,703	6,734	202,845
Percentage Distribution	100.00	1.22	2.64	2.11	3.02	91.01
Total Amount of Loans Outstanding	$17,810,032	$138,302	$440,876	$547,527	$ 222,924	$16,460,403
Percentage Distribution	100.00	0.78	2.48	3.07	1.25	92.42
Gross New Money Loaned	$ 1,442,323	$ 34,156	$ 93,129	$132,972	$ 14,015	$ 1,168,051
Percentage Distribution	100.00	2.37	6.46	9.22	0.97	80.98
Agricultural Credit Associations						
Total Number of Loans Outstanding	300,192	16,347	17,436	5,759	48,174	212,476
Percentage Distribution	100.00	5.43	5.79	1.91	16.01	70.78
Total Amount of Loans Outstanding	$16,693,683	$566,926	$981,213	$588,324	$1,058,608	$13,498,612
Percentage Distribution	100.00	3.40	5.88	3.52	6.34	80.86
Gross New Money Loaned	$ 6,190,297	$377,692	$524,824	$312,458	$ 317,900	$ 4,657,423
Percentage Distribution	100.00	6.10	8.48	5.05	5.14	75.24
Production Credit Associations						
Total Number of Loans Outstanding	88,372	3,935	9,461	4,914	5,441	64,621
Percentage Distribution	100.00	4.45	10.71	5.56	6.16	73.12
Total Amount of Loans Outstanding	$ 4,865,136	$102,403	$409,911	$295,821	$ 124,587	$ 3,932,414
Percentage Distribution	100.00	2.10	8.43	6.08	2.56	80.83
Gross New Money Loaned	$ 5,211,006	$120,820	$427,644	$358,414	$ 219,903	$ 4,084,225
Percentage Distribution	100.00	2.32	8.21	6.88	4.22	78.38

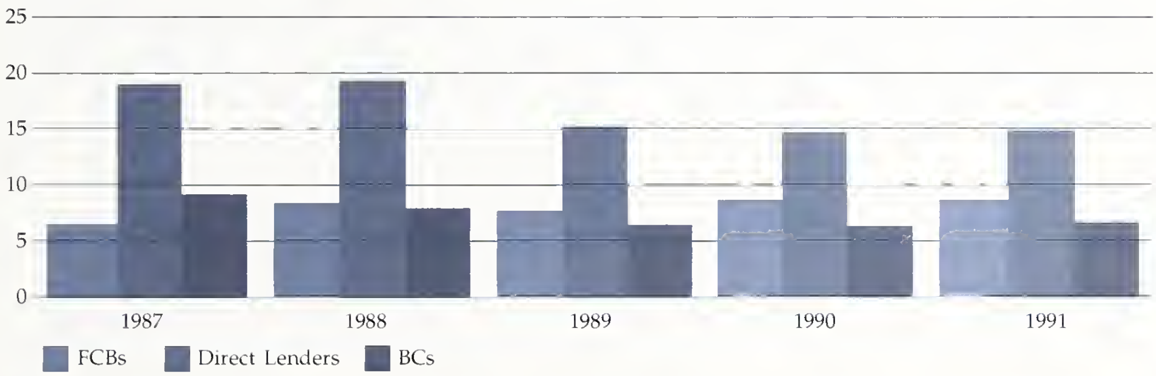
[1]*Meet two or more criteria.*
[2]*Less than 35 years old.*
[3]*Less than 6 years' farming experience.*
[4]*Farming assets less than $100,000 and agricultural sales less than $40,000.*

Appendix B—Graphs
Loans and Assets of Farm Credit System Institutions
December 31, 1987-1991

Total Loans by Farm Credit Institution Group
$ In Billions



Total Capital to Assets by Farm Credit Institution Group
% Of Total Assets

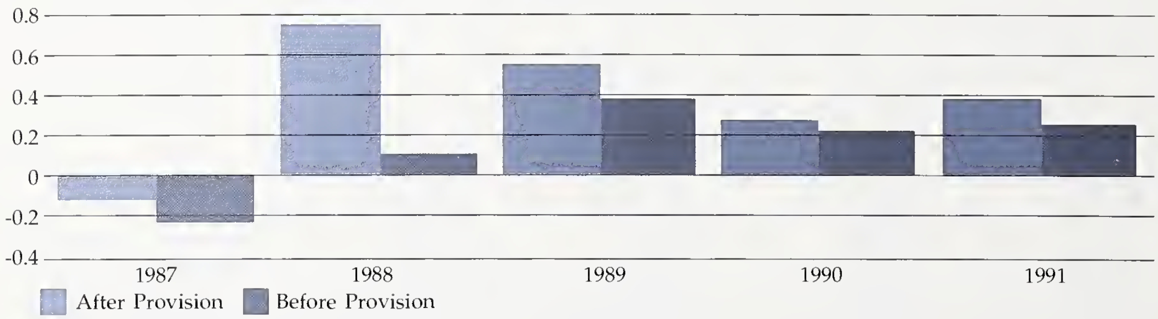


Net Income of Farm Credit System Institutions

December 31, 1987-1991

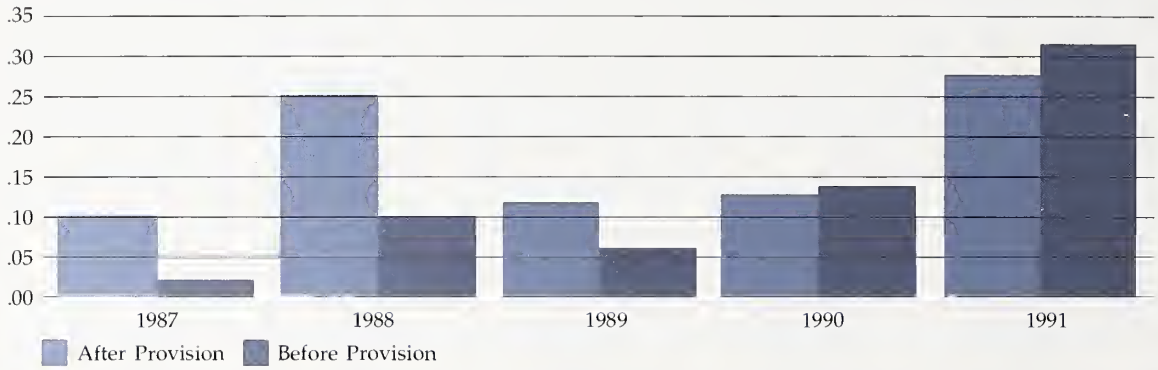
Farm Credit Banks

$ In Billions



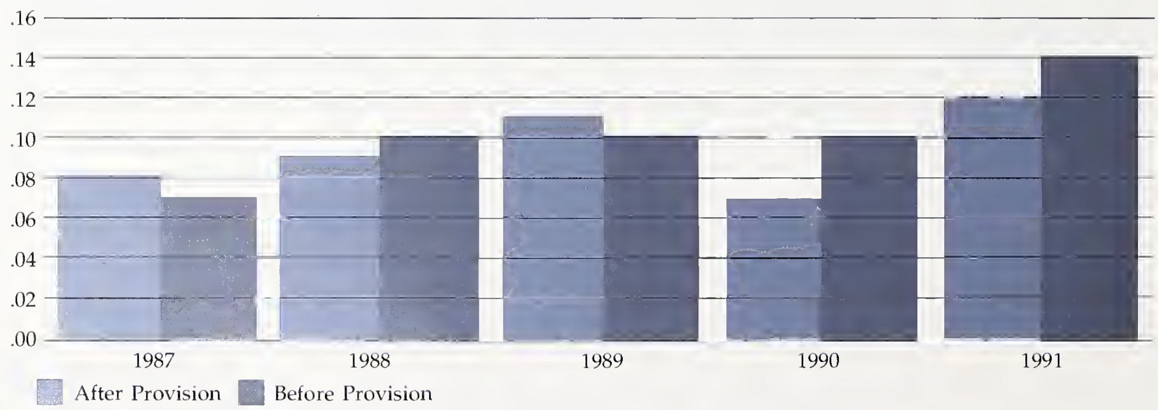
Direct Lender Associations

$ In Billions



Banks for Cooperatives

$ In Billions

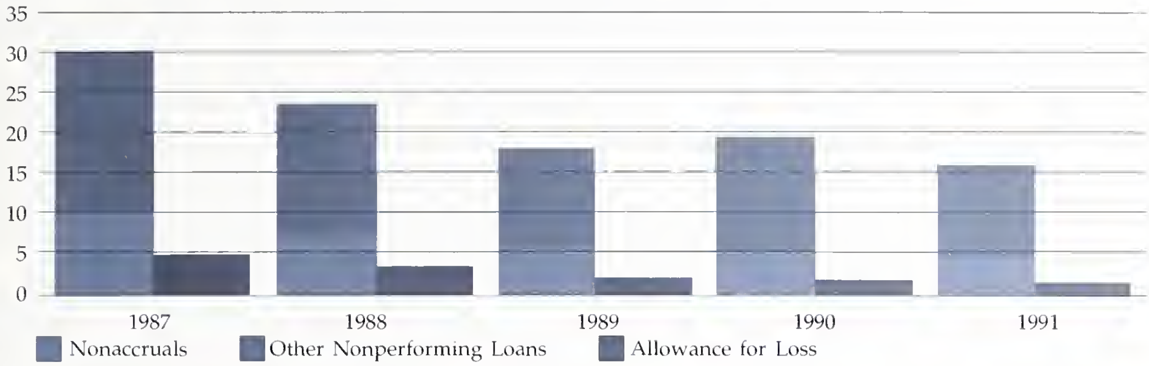


Asset Quality of Farm Credit System Institutions

December 31, 1987-1991

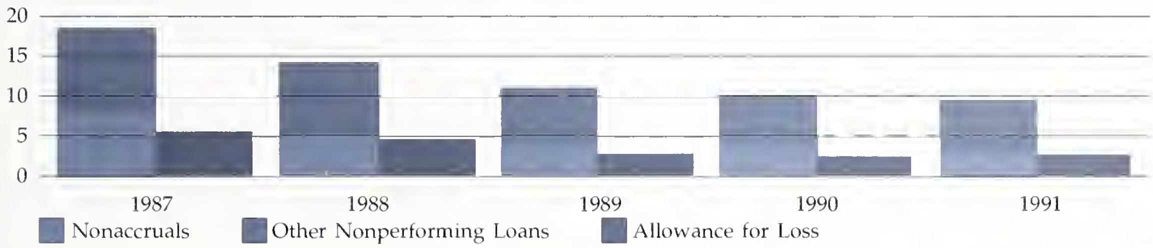
Farm Credit Banks

% Of Total Loans



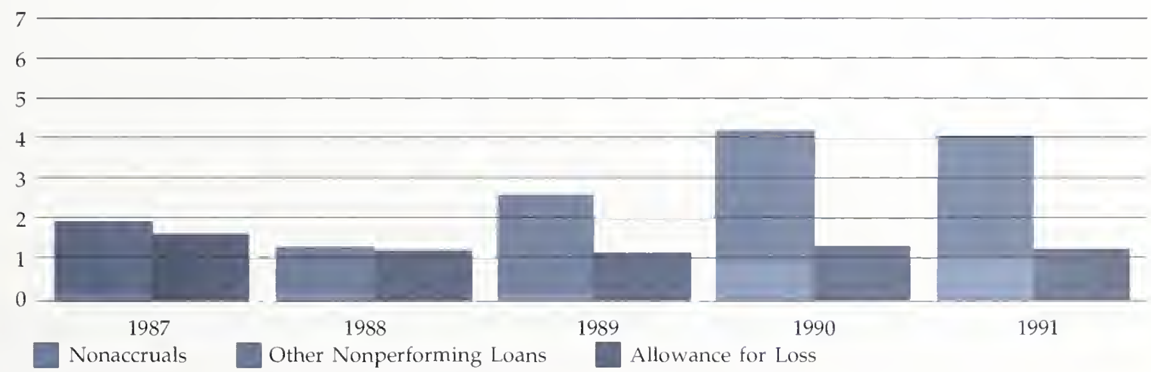
Direct Lender Associations

% Of Total Loans



Banks for Cooperatives

% Of Total Loans

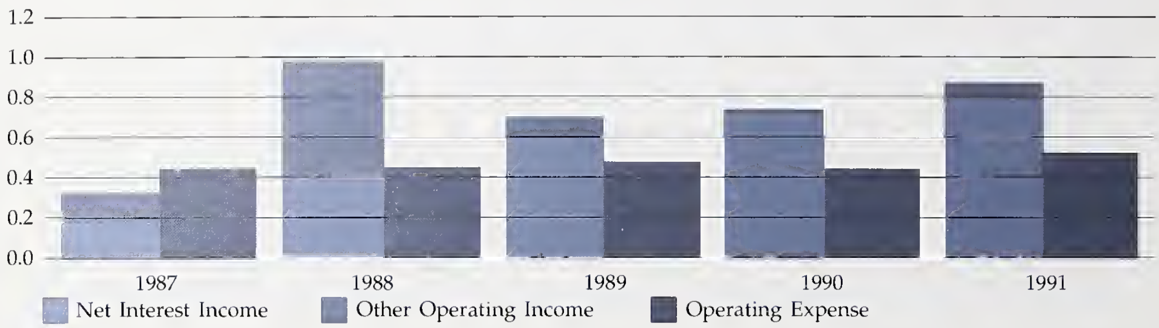


Income from Operations of Farm Credit System Institutions

December 31, 1987-1991

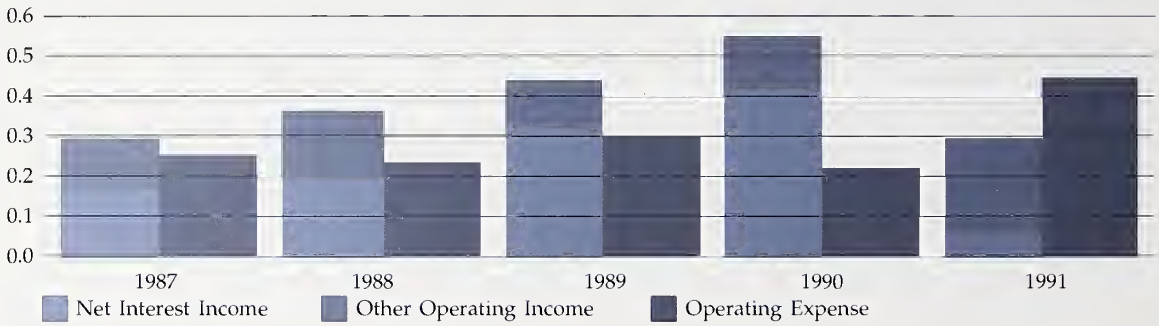
Farm Credit Banks

$ In Billions



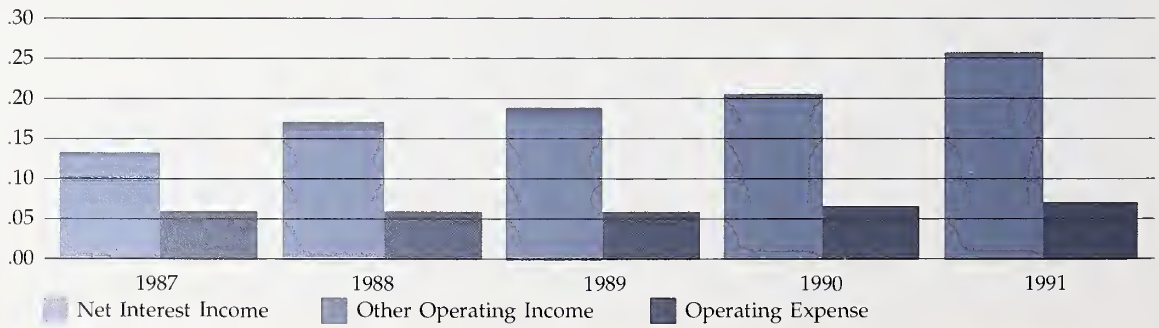
Direct Lender Associations

$ In Billions



Banks For Cooperatives

$ In Billions



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