Farm Credit Administration

Annual Report

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1988

Copies are available from:
Office of Congressional and Public Affairs
Farm Credit Administration
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A Message from the Acting Chairman

Dear Reader:

The Farm Credit Act of 1971, as amended, requires the Farm Credit Administration to report annually to the Congress on the condition of the Farm Credit System and the extent to which the law is being carried out.

In that regard, we report that the year 1988 may have been a pivotal one for the Farm Credit institutions. After posting total operating losses of more than $4.6 billion over the past 3 years, these institutions reported net income of $704 million for 1988. While encouraging, this figure must be viewed with caution because it was made possible with the aid of a reversal in provisions for loan losses of $680 million. In the future, profits essential for the institutions to return to financial stability will need to come from operations. Another contributing factor was the certification of three financially distressed Farm Credit Banks to issue a total of $333 million in preferred stock to be purchased by the Farm Credit System Financial Assistance Corporation and financed through the sale of bonds guaranteed by the U.S. Treasury.

The financial condition of the Farm Credit institutions is reported in detail in the appendix tables to this publication. The figures were derived from call reports submitted to the agency by the institutions. A narrative analysis of the financial condition of Farm Credit institutions by agency staff is also included.

In fulfilling its statutory responsibility, the Farm Credit Administration in 1988 conducted 296 examinations of Farm Credit institutions and executed some 45 enforcement documents, which covered nearly half the Farm Credit institutions' total loans and loan-related assets.

The agency also issued final regulations implementing major provisions of the Agricultural Credit Act of 1987, including those governing mergers and consolidations, borrower rights, and capital adequacy. In addition, the FCA chartered the Farm Credit System Assistance Board and the Farm Credit System Financial Assistance Corporation to facilitate Government–guaranteed financial assistance, and the Federal Farm Mortgage Corporation was chartered to establish a secondary market for agricultural and rural real estate mortgage loans.

In 1989 and beyond, the Farm Credit Administration will continue to fulfill its statutory responsibilities ensuring that Farm Credit institutions operate in compliance with Federal law and regulations and promoting safety and soundness in those institutions.

Sincerely,

Marvin Duncan

Marvin Duncan
Acting Chairman
Farm Credit Administation Board

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Farm Credit Administration Organization
December 31, 1988

Farm Credit Administration Board

Marvin R. Duncan
Acting Chairman

Jim R. Billington
Member

(Vacancy)

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General Counsel

Office of Internal Audit
Norman E. Mattson
Director

The Farm Credit Administration (FCA) is an independent Federal agency in the Executive Branch of the U.S. Government. It has regulatory, examination, and supervisory responsibilities for 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 is directed by a three–member, bipartisan board appointed by the President with the advice and consent of the Senate. The board is responsible for Farm Credit Administration policy, the promulgation of regulations, enforcement activities, and general oversight of operations. The board's specific responsibilities include:

- Approving rules and regulations to implement the Farm Credit Act of 1971, as amended;

- Providing for the examination of the condition and general regulation of the performance of the powers, functions, and duties vested in each institution of the Farm Credit System;

- Providing for the performance of the powers, functions, and duties vested in the Farm Credit Administration; and

- Requiring such reports as it deems necessary from the institutions of the Farm Credit System.

The enforcement authorities of the FCA include the power to issue cease and desist orders, levy civil money penalties, remove officers and directors of system institutions, and place such institutions into conservatorship or receivership. Through its regulatory activity, the FCA also protects the rights of loan applicants and borrowers, and requires full financial disclosure by system institutions to stockholders and investors. The statute mandates the examination of each system institution. The agency exercises its enforcement powers to promote safety and soundness and to protect the public interest.

In carrying out its responsibilities, the Farm Credit Administration Board took a number of actions during 1988, the more significant of which follow.

Mission Statement

At the February 2, 1988, regular meeting of the Farm Credit Administration Board, the following official mission statement was adopted.

"The Farm Credit Administration is an independent Federal financial institutions regulatory agency of the United States Government with regulatory, examination, and supervisory responsibilities for the Farm Credit System banks, associations, and related institutions chartered under the Farm Credit Act of 1971. The Farm Credit Administration is directed by a three–member Presidentially appointed board. This board is responsible for Farm Credit

Administration policy, regulation promulgation, enforcement activities, and general oversight of agency operations.

"As a financial regulator, the Farm Credit Administration is responsible for promulgating regulations to implement the Farm Credit Act and other applicable laws and for promoting the safety and soundness of Farm Credit System institutions. The Farm Credit Administration fulfills this responsibility through such regulatory actions as the examination of system institutions and the enforcement of regulations.

"Regulatory actions are designed to promote adequate disclosure of the institutions' financial condition, to protect the financial interest of member stockholders who own the Farm Credit System and the investors who buy the securities of the Farm Credit Banks. Where necessary, the agency exercises enforcement powers to promote safety and soundness and to protect the public interest.

"Where the Farm Credit Administration, through its examination process or through other means, discovers violations of law and/or regulations, or institutions operating in an unsafe or unsound manner, the agency has the responsibility and authority to institute appropriate formal enforcement actions to promote the prompt correction of the situation by the directors and management of the institution in question.

"The members of the Farm Credit Administration Board and Farm Credit Administration personnel do not involve themselves in management and operating decisions of the Farm Credit System institutions. Rather, the agency affects management and operation through its examination and supervisory process, regulatory controls, and legislatively mandated prior approvals of management actions. These are carried out in accord with Farm Credit Administration Board approved regulations and internal policies."

Farm Credit System Financial Assistance Corporation

On January 12, 1988, the FCA Board approved the charter and articles of incorporation for the Farm Credit System Financial Assistance Corporation. The assistance corporation was created by Congress to provide capital to Farm Credit System institutions experiencing financial difficulty and is authorized to issue up to $4 billion in 15–year uncollateralized bond obligations guaranteed by the U.S. Treasury.

Farm Credit System Assistance Board

At its January 12, 1988, regular meeting, the FCA Board chartered the Farm Credit System Assistance Board, which was created by Congress in 1987 to certify Farm Credit System institutions for financial assistance when their borrower stock falls below its par value and to assist in restoring such institutions to financial viability. The assistance board is comprised of the Secretary of Agriculture, the Secretary of the Treasury, and one agricultural producer who is appointed by the President. In conjunction with the chartering of the assistance board, the FCA Board revoked the charter of the Farm Credit System Capital Corporation.

Capital Adequacy

The Agricultural Credit Act of 1987 significantly altered the capital structure of Farm Credit System banks and associations, which had relied primarily on borrower–owned stock for their capital base. The 1987 Act gave the banks and associations greater flexibility to determine their capital structure and develop sources of at–risk capital. The FCA Board held a public hearing on this subject June 9, 1988.

On September 28, 1988, the FCA Board adopted final regulations governing the capitalization of Farm Credit System banks and associations. These regulations establish minimum permanent capital standards and require the institutions to adopt capital adequacy plans to meet these standards as required by the Agricultural Credit Act of 1987. Major provisions of these regulations follow.

- Each institution must establish a minimum ratio of permanent capital to risk–weighted assets of 7 percent to be achieved by 1993.

- Double counting of capital is eliminated between the direct lender and the Farm Credit Bank by making the elimination at the association level rather than at the bank. This allocation requires the counting of such capital at the institution in which there are tangible earning assets equal to capital. Between participating institutions, double-counted capital is eliminated at the originator level. Federal Land Bank Associations that are not direct lenders are considered originators for this purpose.

- During the first five years of the phase–in, the Farm Credit Bank and its direct lending associations will be permitted to allocate double–counted capital for the purpose of computing the permanent capital ratio as they determine.

- A forbearance plan is provided to assure institutions that the FCA will not take an enforcement action solely for failure to meet the interim capital standards if specified forbearance criteria indicating progress toward achieving the minimum capital requirements are met.

- Provisions are made for Farm Credit Banks and Federal Land Bank Associations that are not direct lenders but have loss–sharing agreements with the bank to allocate the assets between them in the same proportion as they have agreed to share losses. These provisions are for the purpose of computing the capital ratio only.

- Assets are weighted on the basis of credit risk inherent in the type of instrument and the nature of the obligor. Off-balance-sheet items are converted to a balance-sheet equivalent and the risk is weighted on the same basis as other assets.

Borrower Rights

The Agricultural Credit Act of 1987 amended the Farm Credit Act of 1971 by expanding the rights of farm borrowers from Farm Credit System institutions. The FCA Board held a public hearing on this subject on June 8, 1988, to aid it in considering the revision of regulations to comply with the 1987 amendments to the Act. The FCA reviewed more than 300 comments in developing final borrower rights regulations.

On September 6, 1988, the FCA Board adopted final regulations implementing expanded borrower rights provisions of the 1987 Act. Major provisions of those regulations follow.

- Qualified lenders must provide notice that a distressed loan may be a candidate for restructuring and must restructure distressed loans when the cost of restructuring is equal to or less than the cost of foreclosure.

- Qualified lenders must disclose the effective interest rate, which includes the effect of loan origination fees.

- Qualified lenders must disclose that borrower stock is at risk, with the exception of eligible borrower stock under section 4.9A of the Act.

- Qualified lenders must permit an applicant or borrower seeking reversal of a credit decision or who has been denied restructuring to participate in the credit review process.

- Qualified lenders must give the right of first refusal to certain borrowers to repurchase or lease their former property acquired through foreclosure or voluntary conveyance.

Restructuring Farm Credit System Institutions

At various times throughout the year, the FCA Board took actions regarding the mandatory and voluntary restructuring of Farm Credit System institutions.

The board chartered 11 new Farm Credit Banks, which were created by the legislatively mandated merger of the Federal Land Bank and Federal Intermediate Credit Bank in each Farm Credit District. The two banks in the Jackson district did not merge because the Federal Land Bank of Jackson was in receivership. The board also approved final regulations implementing section 412 of the Agricultural Credit Act of 1987, which provided for the creation of a committee to develop a proposal to reduce the number of these banks to no fewer than six.

On May 5, 1988, the FCA Board approved a voluntary merger plan for the 13 Banks for Cooperatives to form either a National Bank for Cooperatives, if the stockholders of eight or more voted to merge, or a United Bank for Cooperatives, if fewer than eight so voted. Based on the stockholder vote, the FCA chartered the National Bank for Cooperatives on December 27, 1988.

The FCA also approved final regulations implementing the new reorganization authorities of system institutions and on the election of their boards of directors. In addition, final regulations were adopted governing the required stockholder votes on the merger of Federal Land Bank Associations and Production Credit Associations that share substantially the same chartered territory.

The FCA adopted several policy statements relating to the reorganization activities of Farm Credit System institutions. One policy statement addressed the retirement of equities owned by an association transferring from one Farm Credit Bank to another, as authorized by section 433 of the 1987 Act. The policy states that the Farm Credit Bank with which an association was previously affiliated is obligated to retire all of the transferring association's equity. A policy was also adopted by the FCA Board regarding the granting of nonexclusive charters to associations affected by the merger of other associations under section 411 of the 1987 Act and whose territories are included in the chartered territory of the section 411 merger.

Regulatory Accounting Practices

The FCA Board approved final regulations for the use of regulatory accounting practices (RAP) by system institutions. The Agricultural Credit Act of 1987 extended the authorized period of time that system institutions could use RAP to defer and capitalize certain expenses from 1988 to 1992. Other provisions of the 1987 Act have the effect of restricting the use of RAP. These provisions require system institutions to retire eligible borrower stock at par value regardless of the stock's book value under generally accepted accounting principles and require institutions to issue permanent capital that must be considered an at–risk investment. The final RAP regulations reflect these requirements.

The regulations continue to allow system institutions to use RAP, among other factors, to evaluate interest rates charged on loans. Those other factors include the institution's cost of funds, overhead, expected losses, margin to provide for adequate capital, and return to stockholders. In no case, however, may an institution use RAP to charge rates below the competition.

List of Final Regulations

The final regulations promulgated by the Farm Credit Administration during 1988 are shown on the following page. This listing contains the part of the regulation, the subject of its content, the *Federal Register* citation, and the date published.

FCA Chairman Resigns, Acting Chairman Named

On November 11, 1988, FCA Chairman Frank W. Naylor, Jr., resigned to enter the private sector. Marvin R. Duncan, a member of the board, was named acting chairman and chief executive officer.

Part	Subject	Federal Register Citation	Date Published
620, 621	Disclosure to Shareholders; Content of Annual Reports to Shareholders	53 FR 3335 – 3338	02/05/88
611	Organization; Farm Credit System Capital Corporation	53 FR 12140	04/13/88
615	Funding and Fiscal Affairs; Loan Policies and Operations; Book Entry Procedures	53 FR 12140 – 12141	04/13/88
600	FCA Organization	53 FR 16693 – 16695	05/11/88
620	Disclosure to Shareholders	53 FR 16696 – 16697	05/11/88
606	Enforcement of Nondiscrimination on the Basis of Handicap in the FCA	53 FR 19884 – 19892	06/01/88
612	Personnel Administration, Simultaneous Service; Standards of Conduct for Directors and Employees	53 FR 22134 – 22137	06/14/88
622	Rules of Practice and Procedure; Practice Before FCA; Civil Money Penalties	53 FR 27284 – 27285	07/19/88
611, 617	Organization; Examinations and Investigations	53 FR 27155 – 27156	07/19/88
615	Funding and Fiscal Affairs; Loan Policies and Operations; Book Entry Procedures	53 FR 27156	07/19/88
611	Organization; Consolidation of Farm Credit Banks	53 FR 29445 - 29446	08/05/88
618	General Provisions; Member Insurance	53 FR 35303 – 35306	09/13/88
614, 615, 618	Loan Policies and Operations; Borrower Rights	53 FR 35427 – 35458	09/14/88
611	Organization; Mergers/Consolidations	53 FR 39079 - 39081	10/05/88
615, 618	Funding and Fiscal Affairs; Capital Adequacy	53 FR 39229 – 39250	10/06/88
615	Funding and Fiscal Affairs; Capital Adequacy Related	53 FR 40033 - 40049	10/13/88
624	Regulatory Accounting Practices	53 FR 40049 - 40051	10/13/88
611, 612, 618, 620	Organization; Mergers/Consolidations	53 FR 50381 - 50400	12/15/88

The Federal Land Bank of Jackson and the Federal Land Bank Association of Jackson with its 90 service centers in Alabama, Louisiana, and Mississippi were simultaneously closed at 4:30 p.m. (CDT), May 20, 1988, following the appointment by the Farm Credit Administration Board of REW Enterprises, Inc., as receiver. The closing was undertaken by more than 350 staff members of the Farm Credit Administration, the Federal Deposit Insurance Corporation (FDIC), and the receiver. The assistance of the FDIC was gained through a contractual arrangement.

Financial Condition Critical

The bank and association had experienced critical credit and financial problems beginning early in 1986. The bank initially reported its insolvency on December 31, 1986, but continued operations by using regulatory accounting practices authorized by the Farm Credit Act Amendments of 1986. The bank had received initial financial assistance from the Farm Credit System Capital Corporation and later received interim assistance from the Farm Credit System Financial Assistance Corporation as authorized by the Farm Credit System Assistance Board.

In December 1987, the bank ceased the retirement of borrower–owned capital stock and stopped accepting applications for new loans. Prior to the closing, it was losing approximately $6.0 million a month. Loan volume had dropped by almost half, from $3.2 billion in 1984 to $1.7 billion in 1987. At the time of the closing, the bank and association had total assets of slightly more than $1.9 billion and were serving some 18,500 borrowers in the three states.

Financial Assistance Denied, Receiver Appointed

The Farm Credit System Assistance Board rejected a request for further assistance in May 1988 and then requested the Farm Credit Administration Board to appoint a receiver. Thereafter, following a determination that grounds for the appointment of a receiver existed, in accordance with 12 U.S.C. 2183, the FCA Board appointed a receiver and placed the institutions in liquidation.

Pursuant to the FCA order, the receiver took possession of the assets of both institutions for the purpose of liquidating those assets, paying their creditors, and winding up their business affairs. The FCA further directed the receiver to offer the loan assets to other Farm Credit System institutions before attempting to sell these assets to others. Meanwhile, the FCA approved temporary servicing agreements between the receiver and the Farm Credit Banks of Columbia and Texas to restore long–term agricultural real estate credit services to the territory.

Loan Assets Sold

To facilitate the sale of assets, the receiver allowed Farm Credit System institutions to review relevant data regarding the assets from July 5, 1988, to October 4, 1988. This made it possible for the interested institutions to make a more informed evaluation of the assets before formulating their respective bids.

On October 31, 1988, the receiver delivered to the interested institutions of the Farm Credit System an offering of loan assets for sale comprised of more than 18,000 loans with balances totaling in excess of $1.4 billion. This offering represented more than 75 percent of all assets of the receivership. On December 7, 1988, three offers were delivered to the receiver. The receiver analyzed the bids and submitted its recommendation to the FCA for approval. The FCA board analyzed the receiver's recommendation based on separate analysis by FCA staff.

At its meeting on December 21, 1988, the FCA Board approved the receiver's recommendation that the bid offered by the Farm Credit Bank of Texas be accepted. Coincidental to that acceptance, the FCA Board approved an amendment to the charter of the Farm Credit Bank of Texas to include the authority to provide long–term credit service in the states of Alabama, Louisiana, and Mississippi. The actual transfer of these loan assets was concluded in early 1989.

The Office of Examination consists of the Chief Examiner's Office and five division offices. The agency's headquarters in McLean, Va., houses the Chief Examiner's Office, the Special Examination Division (SED), and the Northeast Regional Office.

The SED is primarily responsible for the examination of the Farm Credit System's service organizations, which include the Federal Farm Credit Banks Funding Corporation, the Farm Credit Corporation of America, and the Farm Credit Leasing Services Corporation. In addition, the SED is responsible for the examination of the Farm Credit System Financial Assistance Corporation and the Federal Agricultural Mortgage Corporation, both of which were created as federally chartered instrumentalities of the United States and institutions of the Farm Credit System pursuant to the Agricultural Credit Act of 1987. The SED conducted an examination of the assistance corporation during 1988 and has scheduled an examination of the mortgage corporation in 1989. The SED also provides support functions for the Office of Examination.

The Northeast Regional Office is responsible for the examination of Farm Credit System institutions in the Springfield, Baltimore, and Louisville Farm Credit Districts.

The other three divisions consist of the Southeast Regional Office in Marietta, Ga., which examines institutions in the Columbia, Jackson, and Texas districts; the Central Regional Office in St. Louis, Mo., which examines institutions in the St. Louis, Omaha, and Wichita districts; and the Western Regional Office in Bloomington, Minn., which examines institutions in the St. Paul, Spokane, and Sacramento districts.

Other Regulatory Activities

In addition to examining all system institutions, Office of Examination staff participated in a number of other activities during 1988 resulting from the Agricultural Credit Act of 1987. Significant staff resources were devoted to analyzing and evaluating the quality of the required financial disclosure information provided stockholders of system institutions relative to 67 merger requests received by the agency during the year. Considerable staff time was also required to draft new regulations and revise existing regulations--activities that were necessitated by the statute.

Changes and additions to the FCA Examination Manual were also necessary because of the new legislation and regulations. Considerable work was done to provide improved guidance in examination techniques, financial analysis, investment securities management, wire transfers, and evaluating compliance with consumer regulations.

A comprehensive training program was established in 1987 to prepare examiners for commissioning and provide continuing professional development. Extensive training was provided in 1988, and the development of the FCA examiner commissioning test will be completed in 1989. Four test dates have been established and testing will occur during the first six months of the year.

Approximately one–half of the professional examination staff was temporarily assigned to the closing of the Federal Land Bank and Federal Land Bank Association of Jackson. Staff support continued after the closing to aid the receiver in the disposition of the institutions' affairs and to establish an interim agreement to provide credit services to borrowers in the territory.

Computer Networking

A network of direct computer communication was established between FCA headquarters in McLean, Va., and all field offices during 1988. The computer network allows all FCA offices to access management information data and data bases on system institution financial reports and loan portfolios.

The loan information system describes each loan and loan–related asset of the institutions. The system is used primarily as an examination support tool to facilitate examination planning and improve productivity in the examination process. The system also provides loan details that allow for numerous comparisons and/or special studies segregated by district, association, service center, and main account number. Financial reports, based on call reports, provide information on each system institution, including comprehensive financial and loan performance information. The management information capabilities include the ability to track examination scheduling and staffing allocation and project staffing needs based on historical information, both of which are part of the Office of Examination's strategic planning process developed in 1988. Other capabilities include electronic mail, word processing, and sharing of precedential documents.

Recruiting and Staffing

The FCA's college recruitment program, which began in 1986, was successful in 1987 and again in 1988. The candidates interviewed were high caliber students and the acceptance rate of offers extended was high.

One positive influence in attracting good examiners is the FCA examiner commissioning program. The purpose of the program is to develop and maintain a staff of thoroughly competent, commissioned examiners and to encourage and provide training, development, and equal opportunity for all FCA examiners to become commissioned. The program includes three to four years of on-the-job and formal training, culminating in a week–long oral and written examination. Most of the formal training has been developed and is instructed by FCA staff to achieve maximum relevancy to the job and be cost efficient.

Although a tremendous amount of staff resources was devoted to other than direct examination work, the office remained within its ceiling of 382 full-time employees as approved by the FCA Board. On December 31, 1988, the workforce of the office was composed of 363 full–time and 11 part–time employees.

Staffing Levels by Region and at McLean Headquarters
December 31, 1988

Office	Full–time	Part-time
McLean	21	2
Northeast Region	68	1
Southeast Region	83	3
Central Region	96	3
Western Region	95	2

Region	Regional Offices	Field Offices
Headquarters	McLean, Va.	
Northeast Region	McLean, Va.	Albany, N.Y. Louisville, Ky.
Southeast Region	Marietta, Ga.	Dallas, Texas
Central Region	St. Louis, Mo.	Omaha, Neb. Oklahoma City, Okla. Denver, Colo.*
Western Region	Bloomington, Minn.	Spokane, Wash. Sacramento, Calf.

*The Office of Examination opened a branch office in Denver, Colorado, in 1988. It is affiliated with the Oklahoma City Field Office and responsible for the examination of institutions in the Wichita district. The branch office affords the Wichita team increased travel and resource efficiency in conducting certain examinations in the district and also lends itself to more efficient examination of the National Bank for Cooperatives, which has its headquarters in Denver.

Rating Farm Credit System Institutions

Upon completion of each examination of a Farm Credit System institution, and at other times as deemed appropriate, the agency assigns a rating to the institution. The rating is based on a modified version of the Uniform Financial Institutions Rating System. It is called the FCA Rating System and rates institutions on a scale of 1 to 5 in descending order. The relevant factors considered in giving a rating are capital adequacy, asset quality, quality and quantity of earnings, liquidity, and management results in all operational areas within the institution.

Following are the ratings of 296 institutions examined.

FCA Rating	Number of Institutions
1	10
2	93
3	59
4	67
5	67

On December 30, 1988, Marvin R. Duncan, acting chairman and chief executive officer of the Farm Credit Administration, announced an internal reorganization to improve the efficiency of operations within the agency. An Office of Regulatory Enforcement was created, composed of an Enforcement Division and a Special Projects Division. The Enforcement Division staff will be that of the former Supervision Division of the Office of Analysis and Supervision. The Special Projects Division, among other things, will handle liquidations. The Office of Financial Analysis and Supervision was renamed the Office of Financial Analysis. The former organizational structure was in place at the end of the year because the reorganization did not take effect until January 1, 1989.

Supervisory Objectives

During 1988, the Supervision Division was the focal point for all the agency's enforcement activities for institutions requiring more than normal supervisory attention. The division has two basic objectives.

1. To apply consistent and effective enforcement actions to any institution that demonstrates instability or whose condition poses a threat to the institution or the Farm Credit System.

2. To cause problem institutions to be rehabilitated through prompt and effective enforcement actions.

Both of these objectives are designed to ensure that the institutions operate within statutory and regulatory requirements and utilize safe and sound banking practices. Enforcement actions, however, are taken only at the direction of the Farm Credit Administration Board.

Enforcement Actions Taken

During the year ended December 31, 1988, the agency executed 45 enforcement documents with system banks and associations. Twenty–five were cease and desist orders and 20 were agreements. These enforcement documents covered $25.0 billion of the system's assets, nearly half the system's total loans and loan–related assets.

The agency also placed supervisory conditions on 27 proposed mergers. The conditions of merger were necessary because in each case one or more of the merging institutions was operating under an existing enforcement document.

Following are three examples of enforcement actions taken by the FCA during 1988.

The first involved a districtwide Production Credit Association (PCA). An examination disclosed that the PCA was in critical financial condition with unsatisfactory levels of capital, earnings, and liquidity. Excessive levels of adversely classified loans and nonearning assets were identified. Credit administration was seriously weak, with deficiencies in the gathering, verification, and analysis of credit and collateral information. Also, loan servicing was inadequate or nonexistent. The PCA's internal credit review program was unreliable, with incorrect loan classifications and assessments of risk. Additionally, the PCA's process for determining its allowance for loan losses was flawed and the amount of specific reserves on individual assets was inadequate.

A cease and desist order was issued that required the PCA to:

- Establish a 3–year business plan to restore financial viability;

- Implement a program designed to improve the quality of its adversely classified assets and to eliminate nonearning assets;

- Correct credit administration deficiencies and establish procedures to prevent future deficiencies;

- Develop and implement a comprehensive and reliable internal credit review program; and

- Correct the deficiencies in the process for determining the allowance and increase the amount of specific reserves on certain loans.

The second example of an enforcement action involved a Farm Credit Bank (FCB). The FCB resulted from the merger of the Federal Intermediate Credit Bank and Federal Land Bank in the district as mandated by the Agricultural Credit Act of 1987. Both institutions had been operating under enforcement documents. An examination showed that weaknesses were evident in the bank's procedures for monitoring its financial management and business plan. The bank's asset quality remained unsatisfactory, even though some improvement was noted. Weaknesses continued to exist in the bank's administration of credit and servicing of past due loans. The bank's new loan accounting and management information system had not performed up to expectations. These weaknesses notwithstanding, the bank had made improvements in its prior approval loan program, the administration of its "other financing institution" loan program, the internal credit review function, the internal audit program, and in its accounting for acquired property.

An agreement was executed between the bank's board of directors and the agency that required the bank to:

- Develop and implement adequate procedures for monitoring the bank's financial management and business plan;

- Develop a plan to improve the quality of the bank's assets;

- Correct deficiencies in the administration of credit and improve the servicing of past due loan accounts; and

- Develop a plan for the correction of deficiencies in the bank's loan accounting and management information system.

The third example involved the supervisory conditions of merger issued by the agency to 27 institutions proposing mergers. These were issued because one or more of the merging institutions was operating under an existing enforcement document. In order to maintain continuity of supervision regarding the problems existing in individual merging institutions, the agency issued supervisory conditions of merger to the continuing entity to ensure the problems of merging institutions would be addressed by the continuing entity. The proposed mergers resulted from, for example, the merger of the Federal Land Bank and Federal Intermediate Credit Bank in each Farm Credit District, several adjoining PCAs electing to merge, and from PCAs and Federal Land Bank Associations sharing predominantly the same territory being allowed to merge under the statute and form Agricultural Credit Associations.

As previously mentioned, other enforcement actions the agency has at its disposal are temporary cease and desist orders, the levying of civil money penalties, the suspension or removal of officers and directors, and the placing of an institution in conservatorship or receivership.

At the beginning of 1988, there were 21 pending lawsuits involving the Farm Credit Administration with regard to the authority of the Farm Credit System Capital Corporation, which was created by the Farm Credit Amendments Act of 1985, FCA's capital corporation regulations, and FCA's Capital Directive No. 1. These suits generally sought to prevent the transfer of funds from financially stronger institutions to those in need of financial assistance. All but one of the suits were dismissed with enactment of the Agricultural Credit Act of 1987, which dissolved the capital corporation and resulted in the recision of the assessment regulations. (See the 1987 Annual Report of the Farm Credit Administration for more information on the Agricultural Credit Act of 1987.)

Following are some of the remaining lawsuits as of December 31, 1988, involving the Farm Credit Administration. Cases are alphabetically arranged in groups according to issue, and each listing includes the case number and court where the suit was filed.

Amarillo Production Credit Association v. FCA No.CA–5–86–098.

U.S. District Court for the Northern District of Texas, Lubbock Division. Plaintiff seeks review of the FCA's denial of the association's request to liquidate and reorganize as an independent agricultural credit corporation.

The following three lawsuits challenge the constitutionality of the one–time stock purchase required by provisions of the Agricultural Credit Act of 1987 to establish the Farm Credit System Financial Assistance Corporation Trust Fund and the imposition of civil money penalties for violation of the one–time stock purchase statute. The three lawsuits have been consolidated for trial.

Chattanooga Production Credit Association, et al. v. FCA and Farm Credit System Financial Assistance Corporation. No.88–0584.

U.S. District Court for the District of Columbia.

Colorado Springs Production Credit Association, et al. v. FCA and the Farm Credit System Financial Assistance Corporation. No.88–0574.

U.S. District Court for the District of Columbia

Sikeston Production Credit Association, et al. v. FCA and the Farm Credit System Financial Assistance Corporation. No.88–0583.

U.S. District Court for the District of Columbia

The following four lawsuits address borrower rights issues.

Leckband, et al. v. Naylor, et al.
CV3–88–167.

U.S. District Court for Minnesota. The lawsuit challenges provisions of the Agricultural Credit Act of 1987 dealing with borrower rights and right of first refusal.

Kochenderfer Farms, Inc. v. FCA, et al.
No. C86–4810A.

U.S. District Court for the Northern District of Ohio, Eastern Division. The suit challenges the FCA's alleged failure to issue borrower rights regulations.

H.L. Riches & Sons, Inc., et al. v. Manning et al.
Adversary No. 88–0502

U.S. Bankruptcy Court, Oregon. The suit claims a violation of borrower rights statutes.

Wyche v. Duncan, et al.
Civ. No. CIV 88 2201 P.

U.S. District Court for Oklahoma. The suit claims a violation of borrower rights statutes.

For budgetary purposes, the Farm Credit Administration operates on a fiscal year beginning on October 1 and ending on September 30. The FCA's budgetary process is set forth in the Farm Credit Act of 1971, as amended. Section 5.15 of the Act requires that prior to the first day of each fiscal year, the Farm Credit Administration 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 maintain a necessary reserve; and

- The amount of expenses that will be required to pay the costs of supervising and examining the Federal Agricultural Mortgage Corporation.

On the basis of the determinations made, the Farm Credit Administration shall:

- Apportion the amount of the assessments among Farm Credit System institutions on a basis that is determined to be equitable by the Farm Credit Administration;

- Assess and collect such apportioned 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 necessary.

The amounts collected are deposited in the Farm Credit Administration Administrative 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 Farm Credit Administration. The funds contained in the expense account shall not be construed to be Federal Government funds or appropriated moneys.

Farm Credit Administration
Administrative Expense
(Dollar amounts in thousands)

Object Class	FY 1988 Actual	FY 1989 Estimated
Personnel Compensation		
Full-time Permanent	$18, 975	$21,230
Other Personnel Compensation	659	721
Personnel Benefits	328	478
Total Personnel Compensation	19,962	22,429
Travel and Transportation of Persons	4,205	3,856
Transporation of Things	345	134
Communications, Utilities, and Other Rent	1,260	923
Printing and Reproduction	227	184
Other Services	2,288	2,017
Supplies and Materials	583	511
Equipment	901	284
Total Obligations	**$33,492**	**$34,983**

The Farm Credit System Assistance Board, as authorized by the Agricultural Credit Act of 1987, was chartered on January 12, 1988. Its purpose is to provide financial assistance to troubled Farm Credit System institutions, help restore them to economic viability, and permit them to provide credit at reasonable and competitive rates. It also authorizes the redemption at par value of borrower–owned stock of institutions in liquidation, thus protecting stockholders from loss.

Bond Sales Total $690 Million

The money to aid troubled institutions and protect borrower stock comes from the sale by the Farm Credit System Financial Assistance Corporation of 15–year bonds guaranteed by the U.S. Treasury. The assistance corporation was chartered on January 12, 1988. Interest on these bonds is paid by the Treasury for the first five years, half by the Treasury and half by the system for the second five years, and entirely by the system for the third five years. After the end of the 15–year period, principal and interest previously paid by the Treasury is due and payable by the assisted institutions.

The first 15–year bonds totaling $450 million were delivered July 22, 1988. They were noncallable, carried a coupon of 9.375 percent, and were priced at 99.50 for a spread of 32 basis points over similar Treasury securities to yield 9.44 percent.

The second and last sale of the year occurred in November 1988. This sale consisted of $240 million in 15–year bonds delivered on November 23, which will be callable after 10 years. The coupon rate was 9.45 percent. They were priced at par for 36.5 basis points above similar Treasury issues plus 9 basis points for the call feature, effectively yielding 9.47 percent.

Stock Purchase Being Challenged

The 1987 Act required system institutions to make a one–time purchase of stock in the assistance corporation. This stock purchase capitalized the assistance corporation and funded the legislatively mandated Financial Assistance Corporation Trust Fund to be held in reserve for use if the system fails to meet its debt obligations. The total amount of stock purchased was approximately $177 million. System banks were required to purchase stock in an amount equal to their unallocated retained earnings that exceeded 5 percent of their assets on December 31, 1986. Associations were required to purchase stock in an amount equal to their unallocated retained earnings that exceeded 13 percent of their assets on December 31, 1986. Litigation by several associations challenging this one–time stock purchase is pending.

Conditions to Receiving Assistance

A system institution receives assistance only after being certified as eligible by the assistance board. Once certified, the institution issues preferred stock in an amount authorized by the assistance board and which is purchased by the assistance corporation using the proceeds from the sale of the 15–year bonds.

An institution may apply to the assistance board for certification to issue preferred stock and receive financial assistance when the book value of its stock is less than par under generally accepted accounting principles. An institution must, however, apply for certification if the book value of its stock falls below 75 percent of par.

Before approving financial assistance, the assistance board considers the ability of the institution's board and management to take the steps necessary for the institution to regain long–term financial viability. The applicant institution must submit a realistic business plan and recovery plan with the full support of its directorate and management. This plan must include actions aimed at reducing nonearning assets, operating, and funding costs; adhering to sound, prudent lending and management practices; and offering competitive and innovative lending products and services. Any assistance provided is then tailored to the financial and operational problems of the institution and is designed to achieve long–term financial viability in conjunction with prudent board and management practices.

Institutions Certified During 1988

During the year ended December 31, 1988, the assistance board certified the following institutions for financial assistance.

- The Federal Land Bank of Jackson was granted approximately $37 million in interim assistance to provide collateral and otherwise assist in meeting the maturing debt obligations for which it was primarily liable. The assistance board requested the Farm Credit Administration to place the bank in receivership as no acceptable plan to restore financial viability was developed. Assistance was also granted to retire borrower–owned stock at par.

- The Farm Credit Bank of Louisville was certified to issue up to $90 million in preferred stock, primarily to reduce the cost of its outstanding debt.

- The Farm Credit Bank of Omaha was certified to issue up to $110 million in preferred stock to implement its business and recovery plan and to reduce the cost of its outstanding debt.

- The Farm Credit Bank of St. Paul was certified to issue up to $133 million in preferred stock to provide capital to the bank and distressed associations and to reduce funding costs through the repurchase of high-cost debt.

- Approximately $21 million in assistance was provided to receivers for six Production Credit Associations in liquidation in the Spokane and Omaha Farm Credit Districts so they could retire borrower–owned stock at par value.

The certification of the Farm Credit Banks of Louisville, Omaha, and St. Paul also made the acquired properties of those banks eligible for participation in the Farmers Home Administration demonstration project.

Farm Credit System Financial Assistance Corporation Expenditures
(Dollar amounts in millions)

Use of Proceeds	Amount
Third quarter 1986 capital preservation cash outs for Louisville, St. Paul, Omaha, and Jackson	$ 258.4
Provide Financial Assistance	370.6
Assistance Board Expenses	2.0
Retirement of Borrower–Owned Stock	21.0
Interest on Promissory Notes Payable	0.6
Discount on First Bond Sale	2.2
Prefunding	35.2
Total	**$ 690.0**

Territorial Changes Sought

In October 1988, the assistance board gave preliminary, conditional approval for the Production Credit Associations of Albuquerque, Southern New Mexico, and Eastern New Mexico to be reassigned from the Wichita Farm Credit District to the Texas Farm Credit District. These requests, if approved by all necessary parties, would permit the associations to transfer their loans to, and become a part of, the Texas District, pursuant to section 433 of the 1987 Act. The Farm Credit Bank of Texas has approved the request.

The assistance board's final approval is conditioned on: (1) approval of the proposed reassignments by the associations' stockholders; (2) the absence of any material change in the financial condition of the associations, the Farm Credit Banks of Wichita and Texas, or other institutions in the Wichita District that would have an effect on the basis of the preliminary approval; and (3) clearance of the associations' disclosure material with respect to the assistance board's preliminary approval. In addition to approval by the respective stockholders and the assistance board, the requests must also be approved by the Farm Credit Administration.

Petitions from several other associations to transfer their affiliations to adjoining districts have been received by the FCA.

National Special Asset Council Formed

In accordance with the provisions of the 1987 Act, the assistance board established a National Special Asset Council to:

- Monitor compliance by system lenders certified to issue preferred stock and by their special asset groups with certain statutory loan restructuring requirements, and

- Review a sample of determinations by each special asset group that distressed loans will not be restructured.

An executive secretary carries out the administrative functions of the National Special Asset Council, manages its operations, and acts as liaison between the council, special asset groups, certified institutions, and others involved in loan restructuring.

In carrying out its responsibilities, the council reviews the findings of FCA examiners relating to the implementation of loan restructuring provisions. The council also reviews monthly activity reports from the special asset groups, which detail the groups' decisions on applications to restructure troubled loans. Subsequently, the council informs the groups of any problems in their compliance with the restructuring provisions.

*Information contained in this section was obtained from the Farm Credit System Assistance Board.

The Agricultural Credit Act of 1987 established the Federal Agricultural Mortgage Corporation (FAMC) as a federally chartered instrumentality of the United States and as a Farm Credit System institution. Its purpose is to facilitate the development of a secondary market for agricultural real estate mortgages. The FAMC is to accomplish this action by guaranteeing the payment of principal and interest in, or obligations backed by, pools of qualified loans.

Simply stated, in this secondary market, qualified loans will be sold on a nonrecourse basis by loan originators to certified agricultural marketing facilities called poolers. The poolers will package the loans into pools that serve as collateral for securities guaranteed by the FAMC and sold to the investing public.

In addition to providing guarantees, the FAMC has two other primary objectives that are statutorily mandated. It is to establish uniform credit underwriting, security appraisal, and repayment standards for qualified loans made by originators. It is also to determine the eligibility of certified facilities to contract with it for the provision of guarantees for specific pools of qualified loans.

Interim Board Named, Stock Issued, Permanent Board Elections Set

On June 16, 1988, the nine-member interim board of directors of the FAMC appointed by President Ronald Reagan was sworn in by the Secretary of Agriculture. As required by the Agricultural Credit Act of 1987, three members represented Farm Credit System institutions, three members represented banks, other financial institutions or entities and insurance companies, two members represented farmers and ranchers, and one member represented the general public.

The interim board was responsible for arranging the FAMC's initial capitalization and it completed the initial public offering of common stock in December 1988, raising more than $20 million in capital. It will manage the FAMC's operations until the FAMC's permanent board first meets with a quorum present.

The permanent board will consist of 15 members, five elected by the Farm Credit System institutions that are holders of Class B FAMC common stock, five elected by insurance companies, banks, or other financial institutions or entities that are holders of Class A FAMC common stock, and five appointed by the President with the advice and consent of the U.S. Senate.

At yearend 1988, four of the five Presidentially–appointed permanent board members had been named and confirmed by the Senate, and the fifth such member received a recess appointment. These appointed members served at the pleasure of the President. The election of the permanent board members representing Class A and Class B stockholders was scheduled to occur at the FAMC's first annual meeting to be held in March 1989.

Within 120 days after the election and appointment of its permanent board, the FAMC is required to establish uniform underwriting security appraisal and repayment standards for qualified loans. It is expected that the first FAMC–guaranteed securities will be issued before the end of 1989.

Although the FAMC is a Farm Credit System institution, it is not liable for any debt or obligation of any other Farm Credit System institution. Conversely, Farm Credit System institutions, whether considered individually or as a whole, will not be liable for any debt or obligation of the FAMC.

The year 1988 was marked by organizational change among the lending institutions of the Farm Credit System in accordance with provisions contained in the Agricultural Credit Act of 1987, which was signed into law January 6, 1988.

The Federal Land Bank and Federal Intermediate Credit Bank in 11 of the 12 Farm Credit Districts merged on July 6, 1988, to become Farm Credit Banks. The merger was required by statute, and the resulting Farm Credit Banks have all the powers granted to, and are subject to all the obligations imposed on, their constituent institutions. The Federal Land Bank of Jackson (Mississippi) was placed in receivership on May 20, 1988, and did not merge with the Federal Intermediate Credit Bank of Jackson.

Association Mergers Voluntary

There was also considerable voluntary merger activity among Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs). On January 1, 1987, there were 233 FLBAs and 155 PCAs. During the year, stockholders in a number of these associations voted for mergers that reduced the number of associations to 154 FLBAs and 94 PCAs. Although the stockholders of the associations voted to approve these mergers in 1988, the mergers did not become effective until January 1, 1989. In addition, stockholders of 38 FLBAs and 38 PCAs serving substantially the same territories voted for mergers that formed 33 Agricultural Credit Associations (ACAs).

Lending Authority Linked to Structure

On December 31, 1988, there were 11 Farm Credit Banks. These banks are authorized to make loans of from 5 to 40 years secured by first mortgages on farm or rural real estate through Federal Land Bank Associations or provide the funds for such loans to Agricultural Credit Associations which are the direct lenders. Loans may be made to farmers, ranchers, rural homeowners, commercial fishermen, and certain farm–related businesses. Loans may not exceed 85 percent of the appraised market value of the real estate security or 97 percent if the loan is guaranteed by a governmental agency. Though the statutory authority exists for Federal Land Bank Associations to become direct agricultural and rural real estate mortgage lenders, no such authority had been transferred as of December 31, 1988. Transfer of authority requires the approval of the Farm Credit Administration, the boards of directors of the Farm Credit Bank and the Federal Land Bank Association, and a majority vote of the stockholders of both institutions.

The Farm Credit Banks are also authorized to provide short– and intermediate–term loan funds to Production Credit Associations, Agricultural Credit Associations, and other financing institutions (OFIs) serving eligible borrowers. Generally speaking, PCAs may make loans with terms of up to 10 years (15 years if the loan is made to commercial fishermen for major capital expenditures). PCAs are authorized to make loans to farmers, ranchers, rural homeowners, commercial fishermen, and certain farm-related businesses. ACAs are authorized to operate as direct lenders. ACAs have both short– and long–term lending authority.

As indicated earlier, the Federal Land Bank of Jackson is in receivership. The Federal Intermediate Credit Bank of Jackson continues to provide loan funds to PCAs and OFIs in its territory, and the Farm Credit Bank of Texas has been chartered to provide long–term credit in the territory formerly served by the Federal Land Bank of Jackson.

A number of Farm Credit Banks, Federal Land Bank Associations and Production Credit Associations under common management, and Agricultural Credit Associations do business as Farm Credit Service or Farm Credit Services.

Association Structure

District	FLBA	PCA	ACA
Springfield	–	–	13
Baltimore	1	1	18
Columbia	20	1	–
Louisville	9	5	–
Jackson	–	2	–
St. Louis	21	4	–
St. Paul	26	23	–
Omaha	1	1	–
Wichita	15	16	–
Texas	44	23	–
Sacramento	16	16	2
Spokane	1	2	–
Totals	**154**	**94**	**33**

Further adjustments will occur in 1989, including possible reassignment of associations to adjoining districts, adjustment of association territories, and additional actions in associations to combine or assume direct lending authority. It is possible that some of these actions will result in nonexclusive territorial charters and, thus, direct competition between or among associations. If that happens, it is the policy of the Farm Credit Administration Board that any affected associations should be provided a reasonable period of time in which to seek and complete the process of converting to Agricultural Credit Associations before the implementation of competitive credit services by associations that have been given nonexclusive charters in their territory.

One association, the Amarillo (Texas) Production Credit Association, is seeking approval to liquidate, relinquish its Federal charter, and reorganize as an independent agricultural credit corporation under state law.

As provided in the statute, a special committee has been named to develop a proposal by which the number of Farm Credit Districts, and hence Farm Credit Banks, will be reduced to no fewer than six.

Eleven Banks for Cooperatives Vote to Merge

Stockholders of 10 of the 12 district Banks for Cooperatives and stockholders of the Central Bank for Cooperatives voted to merge their institutions into a National Bank for Cooperatives effective January 1, 1989. The National Bank for Cooperatives has its headquarters in Denver, Colorado, with regional offices in the locations of its constituent banks. Stockholders of the Springfield (Massachusetts) Bank for Cooperatives, which encompasses New England, New York, and New Jersey, and the St. Paul (Minnesota) Bank for Cooperatives, which covers Minnesota, Michigan, North Dakota, and Wisconsin, voted to remain independent.

Each of the three Banks for Cooperatives is authorized to make loans of all kinds to eligible agricultural, aquatic, and public utility cooperatives in all 50 states and Puerto Rico.

The Farm Credit Banks, which for funding purposes include the Banks for Cooperatives, obtain the majority of their loan funds through the sale of securities through the Federal Farm Credit Banks Funding Corporation. The securities are Federal Farm Credit Banks Consolidated Systemwide Bonds and Federal Farm Credit Banks Consolidated Systemwide Notes.

The funding of the Farm Credit Banks during the year ended December 31, 1988, was characterized by a reduction in their debt portfolio, a continued paydown of long–term debt, some reduction in average costs, lower spreads over Treasury issues of comparable maturity, and a greater use of term issues. In an effort to control average costs, the Farm Credit Banks also continued to use discount notes on a larger scale in the total portfolio.

The implementation of the Agricultural Credit Act of 1987 coincided with a significant recovery in the farm economy, growth in farm income, and a stabilization of land values. These improvements in the condition of U.S. agriculture and financial assistance to the weaker institutions in the Farm Credit System had a favorable effect on the system's financial performance. There was also an improved perception of Farm Credit Bank debt in the financial markets, which was reflected in lower spreads over Treasury securities. For example, the spread for the 3–month bond—while varying from month to month—fell from 139.5 basis points in January to a low of 37 basis points at the end of the year.

Though the spreads over Treasury issues declined in 1988, average rates paid on 3–month and 6–month bonds as well as term issues actually increased because average rates on Treasury securities were about 80–85 basis points higher than in 1987. However, with the reduction in spreads and the greater use of discount notes, average debt costs for the Farm Credit Banks declined 2 basis points, from 9.36 percent to 9.34 percent. Discount notes are used to improve portfolio liquidity, but they can also be used to reduce funding costs. While the shape of the yield curve favored the use of discount notes throughout most of the year, by the end of 1988, the occasional inversions of the yield curve were resulting in funding penalties.

As required by the Agricultural Credit Act of 1987, the Federal Land Bank and Federal Intermediate Credit Bank in 11 of the 12 Farm Credit Districts merged into Farm Credit Banks on July 6, 1988. The merger did not occur in the Fifth Farm Credit District because the Federal Land Bank of Jackson was placed in receivership on May 20, 1988. Through the end of 1988, the newly formed Farm Credit Banks participated in issues of $8.1 billion in 3–month bonds, $12.2 billion in 6–month bonds, and $6.3 billion in new term bonds with maturities of one to three years. During 1988, the Banks for Cooperatives participated in issues of $2.2 billion in 3–month bonds, $2.6 billion in 6–month bonds, and $1.2 billion in term bonds with maturities of one and two years.

Farm Credit System Debt Outstanding and Average Cost As of December 31

(Dollar amounts in millions)

	FCB 1988	FLB/ FICB 1987	Jackson FICB 1988	BC 1988	BC 1987	Total* 1988	Total* 1987
Bonds	$33,762	$36,466	$358	$ 4,950	$3,864	$39,070	$40,501
Notes	6,859	7,191	18	6,211	5,596	14,162	14,736
Total Debt	$40,621	$43,657	$376	$11,161	$9,460	$53,232	$54,736
New Money (Paydown)	($2,580)	($79)	$1,701	($1,504)			
Average Bond Cost	9.75%	10.20%	8.92%	8.96%	8.94%	9.64%	10.02%
Average Note Cost	8.52%	7.50%	7.47%	8.53%	7.50%	8.53%	7.48%
Average Debt Cost	9.54%	10.13%	8.85%	8.72%	8.09%	9.34%	9.36%

*Totals include discount notes and Farm Credit System Funding Reserve.

Note: Table takes into consideration the merger of the Federal Land Banks and Federal Intermediate Credit Banks on July 6, 1988, except for those in Jackson.

Use of Specialized Funding

Farm Credit institutions have expanded their use of variable rate loans, interest rate swaps, and other specialized funding and financing mechanisms to alter the effective repricing characteristics of their funding sources. Also, the institutions have attempted to improve their net interest income while limiting exposure to interest rate risk by adjusting the interest rate and maturity mix of their assets and liabilities.

Among the programs used in 1988 were internal debt transfers, interest rate swaps, direct placements, debt reopenings, debt repurchases, and floating rate notes. Altogether, these specialized funding programs amounted to $7.1 billion.

The specialized funding programs were initiated to better meet the funding needs of the institutions with respect to maturities and interest rate structures, to achieve a better match between assets and liabilities with respect to interest rate sensitivity, and to provide protection against changing interest rates for future debt issues. As of December 31, 1988, Farm Credit institutions were generally asset sensitive since the loans could be repriced in advance of the borrowings used to fund the loans. Because the banks and associations are subject to volatile interest rates and the risks that arise from different repricing characteristics of loan assets and liabilities, the use of specialized funding programs is expected to grow in the future.

Agricultural economic conditions have shown substantial improvement over the last few years, and this has been reflected in the repayment capacity of farm borrowers. Agricultural exports are on a more solid footing for growth, and domestic land values are better aligned with earnings. Among the key factors underlying the positive changes in the farm sector are: large Government payments emanating from the 1985 farm legislation, lower inflation and interest rates, more favorable U.S. exchange rates, improved economic conditions abroad, and weather-related production shortfalls in various nations which have reduced worldwide grain stocks. Prospects are favorable for a continuation of these developments, though Federal budget considerations will likely cause farmers to be increasingly dependent on the marketplace rather than the Government for income support.

Effects of the 1988 Drought

The adverse effects of the drought plagued many individual operators in the Midwest, while others prospered as a result of higher commodity prices associated with reduced stocks. Meanwhile, several billions of dollars in farm program savings were channeled into Government drought–relief efforts.

Because of the drought, many farmers experienced sharply lower crop yields in 1988. The farm sector's net cash income, however, edged to a record $58 billion. By drawing down crop inventories, the sector maintained its overall ability to service debt. An increase in crop prices combined with sales out of current production and inventories more than offset lower yields to raise crop marketing receipts by nearly 15 percent. Many operators in drought–stricken areas were able to mitigate losses via a combination of crop insurance, drought assistance, and the sale of previously accumulated stocks.

Although the drought greatly improved inventory structures for major grain crops and soybeans, the livestock sector had to contend with rising expenses, particularly for feed ingredients and forage. A record high level of per capita meat supplies put some downward pressure on hog and poultry prices. As a result, pork producers saw their feed margins largely evaporate, while broiler margins narrowed but remained positive.

Government Payments Important Factor

Direct Government payments continued to play a significant role in the financial stability of the farm sector in 1988, with total outlays approaching the record of $16.8 billion registered in 1987. Government payments, excluding net Commodity Credit Corporation loans, comprised about 8 percent of gross cash income in 1988 and slightly more than 10 percent in 1987. This compares with an average of about 6 percent from 1984 to 1986. Higher crop prices led to significant savings in deficiency payments in 1988, but a good portion of those savings was redirected to assist farmers who had crop losses due to the drought.

Farm Sector Balance Sheet Improves

Last year marked the second straight year of improvement in the balance sheet of the farm sector. With an estimated rise of 6 percent in farmland values and continued debt liquidation, estimates by the U.S. Department of Agriculture indicate that equity improved about $38 billion to more than $600 billion. The decline in farm debt to $139 billion represented a 3-percent drop and was the smallest since 1984. When combined with improved asset values and cash income, plus expanded plantings in 1989, this could signal a turnaround in the demand for agricultural credit in the near future. Farmers' overall return on equity averaged 4.6 percent in 1988, a slight drop from 1987. The past two years, however, represent significant improvements over the negative rates of return from 1980 to 1986.

Outlook Uncertain

Though weather and the current Farm Act have combined to buoy economic prospects in agriculture, these improvements must be viewed with caution. In the foreign area, the production of feed grains, wheat, and soybeans abroad has increased only about 1 percent per year during the last three years, less than half of what it had averaged from 1972–85. Consumption growth worldwide has averaged about 2.5 percent per year (double the rate of 1980–85) and world trade in these commodities has been growing around 4 percent annually in contrast to a slight downtrend during the prior five years. These are encouraging shifts; but the period is short, and weather disruptions may account for some of what appear to be significant supply and demand responses to lower world prices associated with the 1985 Farm Act.

Two related areas to watch over the next year or so are new farm program legislation and international trade negotiations. The favorable growth prospects for the domestic farm sector are predicated on assumptions that world markets will grow and that U.S. farmers will be able to compete more freely in that arena. History has shown that many countries feel a need to support their farm industry, largely to assure at least some self–sufficiency in agriculture. Similarly, farmers have demonstrated a tendency to overproduce when domestic farm policies push prices above market–clearing levels.

Planted acreage will expand in 1989 as domestic farm programs are adjusted to build back stocks that were depleted by the drought in 1988. Thus, while the volume of production financing is expected to increase significantly, commodity prices may be subject to unusual volatility based on weather developments which could increase credit risks for lenders. Furthermore, Government payments are forecast to drop by about $3 billion to $10–$11 billion in calendar year 1989, and program adjustments are needed to cut an additional $1.1 billion in spending during fiscal 1990.

The outlook for recently restructured loans hangs in the balance. Problems could arise due to unusual weather or the effects of either monetary or trade policy, causing new problems with restructured loans and a recurrence of nonaccrual loans. Thus, credit quality will need to be monitored very closely in the period ahead.

From a longer term perspective, some analysts are concerned that the recent improvement within the sector may induce farmers to increase their use of debt financing too rapidly, resulting in another artificial bidding up of asset values. Moreover, some lenders are inclined to push loans aggressively in this environment as a way of growing out of their recent period of financial difficulty. While memories of recent problems in farm finance should guard against imprudent behavior, a throw-caution-to-the-wind attitude could cause history to repeat itself.

Improvements in farm income, rising land values, stronger agricultural exports, debt reductions, and significant economic and financial assistance strengthened the farm economy in 1988. These developments, together with the implementation of the Agricultural Credit Act of 1987, contributed to the improved performance of Farm Credit institutions. An encouraging development in 1988 was the return to overall profitability. On a cautionary note, however, almost all of the net earnings were accounted for by reversals in loan loss provisions. Interest income was still large enough to cover interest costs and other expenses by a small margin. In addition, most Farm Credit institutions experienced a stabilization or improvement in the credit quality of their loan portfolios. A continuation of these trends over the next few years would put the banks and associations firmly on the road to financial recovery.

Though the outlook for Farm Credit institutions is brighter, the picture is clouded by the one–time nature of some of the events of the past year as well as the uncertainty surrounding the new secondary market for farm real estate mortgages. The bulk of 1988 profits stemmed from a $681 million reversal in the loan loss provision and a $69 million gain from the disposition of acquired property. Part of this income was offset by an extraordinary charge related to the restructuring of high–cost debt by three FCBs and losses from the FLB of Jackson, which was placed in receivership. Because these adjustments reflect unusual events that occurred in 1988, future income will depend increasingly on the ability of the banks and associations to reduce operating expenses and improve their operating spreads.

The recent improvement in net interest income must continue if the banks and associations are to rebuild their capital bases and meet minimum regulatory standards. However, the ability to increase net income will be constrained by competitive forces and future developments in credit quality. Although credit quality improved in 1988 as a result of loan restructurings and a stronger farm economy, total high–risk loans and acquired property were still 14 percent of total assets at year-end. New adversities in the farm economy in 1989 could weaken restructured loans, resulting in more nonaccrual loans, additional provision for loan losses, and less net earnings. When coupled with the advent of Farmer Mac and the tasks of rebuilding capital and eventually repaying the financial assistance that has been received, the Farm Credit Banks and associations face a daunting future. The road to recovery will require good planning and management, as well as careful attention to operating efficiency.

Details about the financial condition and performance of Farm Credit institutions—by institutional groups and on a combined basis—are provided in the following sections. A word of caution is in order: in most cases, the figures for individual institutional groups will not add up to the financial results shown on a combined basis. Some of the figures for a given group were affected by mergers, financial assistance, reversals of assessments, and other financial transfers among institutions. On a combined basis, however, many of these adjustments netted out to zero.

Several significant changes have been made in the manner in which financial data is presented in the tables in the following sections. Some of the changes were made necessary by restructuring requirements of the Agricultural Credit Act of 1987. All financial tables have been streamlined to better reflect the Farm Credit System as a whole and the individual lending groups. Financial information on individual Farm Credit District institutions reported in previous annual reports has been omitted.

Farm Credit System institutions are required to make their own quarterly disclosures to stockholders and investors. They have issued quarterly reports since the quarter ended June 30, 1986. Disclosure to investors is done through the Federal Farm Credit Banks Funding Corporation and to others through reports of individual banks and associations and combined reports issued by the Farm Credit Corporation of America through its quarterly "Summary Report of Condition and Performance of the Farm Credit System." This report provides a detailed discussion of financial results and additional data for individual banks.

Combined Financial Results of Farm Credit Institutions

Total assets continued to decline last year but at a slower rate, falling slightly from $62.2 billion in 1987 to $61.6 billion at yearend 1988. However, the combined volume of gross loans outstanding at Farm Credit institutions fell from $52.5 billion in 1987 to $51.4 billion in 1988, a 2–percent drop. Declines of 9.9 percent and 16.6 percent were posted for 1987 and 1986, respectively. The improvement in credit quality was reflected in a reduction of the allowance for loan losses, which decreased from $2.9 billion in 1987 to $1.8 billion in 1988. This adjustment contributed to a small increase in net loans outstanding from $49.5 billion in 1987 to $49.6 billion in 1988.

The volume of nonperforming loans, a measure of asset quality, declined from $10.8 billion in 1987 to $7.9 billion in 1988. At the end of 1988, $3.3 billion of the total portfolio was classified nonaccrual, and $2.6 billion was classified as other high-risk loans. A year earlier, the figures were $5.2 billion in nonaccrual loans and $4.3 billion of other high–risk loans. The process of loan restructuring continued at a faster pace in 1988 as restructured loans increased to $2.0 billion from $1.3 billion in 1987. Net chargeoffs fell from $488 million in 1987 to $413 million in 1988, reflecting reductions in loan delinquencies, nonaccrual loans, and undercollateralized loans.

Farm Credit institutions realized a combined net income of $704.4 million in 1988, which was a significant improvement from net losses of $17.5 million in 1987, $1.9 billion in 1986, and $2.7 billion in 1985. In 1988, Farm Credit institutions incurred an extraordinary expense of $174 million for loss on the repurchase of high coupon debt; however, net income was aided significantly by a $681 million reversal of loan loss provision.

Other elements which contributed to a positive net income in 1988 were a $69 million gain on other property owned and an increase of $278 million in net interest income.

Over the past four years, changes in net income at Farm Credit institutions have been strongly correlated to changes in credit quality and adjustments to the provision for loan losses. In 1987, the reversal of loan loss provisions of $196 million reduced losses to $17.5 million. However, the large net losses realized in 1986 and 1985 reflected increases in loan loss provisions of $1.8 billion and $3.0 billion, respectively.

Net interest income increased to $787 million in 1988 from $509 million in 1987, after falling from $781 million in 1986 and $1.3 billion in 1985. The ratio of net interest income to average earning assets increased to 1.3 percent in 1988, up from 0.79 percent in 1987 and 1.08 percent in 1986.

The improved financial performance in 1988 reflected a more stable loan volume. Accruing loan volume was 94 percent of gross loans as compared with 90 percent at the end of 1987. The reduction in nonaccrual loans in 1988 increased the spreads on interest-bearing funds and boosted the returns on average assets.

The return on average assets of Farm Credit institutions recovered to 1.13 percent following losses of 0.03 percent in 1987 and 2.55 percent in 1986. Combined earned net worth increased to $1.8 billion at the end of 1988, as compared with $1.3 billion on December 31, 1987; unallocated retained earnings (surplus) increased from $1.3 billion in 1987 to $1.8 billion in 1988.

During 1988, the capital position of Farm Credit institutions increased by $270.6 million. The $5.3 billion of total net worth included $3.2 billion of protected borrower stock and $2.1 billion of other capital. Total net worth was $5.0 billion on December 31, 1987, of which $3.7 billion became protected as a result of the Agricultural Credit Act of 1987.

The increase in capital and the decrease in loan volume improved capital–to–asset and debt–to–capital ratios. The return on equity (average protected borrower capital and other capital) rose to 13.6 percent from losses of 0.04 percent in 1987 and 26.1 percent in 1986. The ratio of total capital to average assets increased to 8.6 percent in 1988 as compared with 8.1 percent in both 1987 and 1986. The debt–to–capital ratio dropped to 10.6 percent in 1988 as compared with 11.4 percent in each of the previous two years.

Nonperforming loans as a percentage of total capital declined from 215 percent in 1987 to 149 percent in 1988. While showing improvements over the last three years, these ratios still indicate that Farm Credit banks and associations face a significant financial burden and an earnings drain.

Farm Credit Banks

The mandatory mergers in mid–1988 of the Federal Land Banks (FLBs) and the Federal Intermediate Credit Banks (FICBs) (in all districts except Jackson) into Farm Credit Banks (FCBs) combined the very different seasonal lending activities and repayment schedules of the two institutions.

The FCBs had $42.2 billion in total loans outstanding on December 31, 1988, which was $2.6 billion below the yearend 1987 figures for the FLBs and FICBs. This 6-percent decline was relatively modest when compared with the 14– and 18–percent declines in 1987 and 1986, respectively. Although loan volume declined during 1988, the quality of the FCB loan portfolios improved as a result of loan restructuring, the rise in collateral values, and the recovery in the farm economy.

Net loans outstanding fell to $41.0 billion in 1988 from $42.6 billion in 1987. Nonaccrual loans decreased 33.3 percent from $4.5 billion at the end of 1987 to $3.0 billion at yearend 1988. The Farm Credit Banks' volume of restructured loans increased from $1.8 billion in 1987 to $1.9 billion in 1988. Other high-risk loans declined from $7.2 billion in 1987 to $5.0 billion in 1988 and the allowance for loan losses fell from $2.2 billion in 1987 to $1.2 billion in 1988. The volume of performing loans increased from $31.1 billion at the end of 1987 to $32.3 billion at yearend 1988. The FCBs reduced their net acquired property from $764.7 million in 1987 to $578.3 million in 1988 and reduced net chargeoffs from $409.3 million in 1987 to $64.0 million in 1988.

The trends in loan portfolios differed from bank to bank. Net loan volume increased in 1988 in the FCBs of Springfield, Baltimore, and Omaha but decreased in the other FCBs. While nonaccrual loan volume decreased in all FCBs by substantial amounts, the FCB of Omaha was able to lower its volume of nonaccruals by over 70 percent, or $378 million. This decline accounted for about 25 percent of the total FCBs' decline in nonaccruals.

In 1988, the FCBs reported improvements in several key indicators of financial performance. Return on assets rose to 1.54 percent in 1988 from a negative 0.24 percent in 1987, after negative ROAs of 2.22 and 2.90 percent in 1986 and 1985, respectively. Return on equity rose to 19.39 percent in 1988 from 3.67 percent in 1987, as compared with negative ROEs of 28.06 and 29.45 percent in 1985 and 1986, respectively.

Total capital of the FCBs rose 30.0 percent from $2.6 billion in 1987 to $3.4 billion in 1988. Impaired capital was reduced from $702.2 million to $585.1 million during the same period.

The reduction in impaired capital and a $576 million undistributed surplus increased the total net worth of the FCBs by 18 percent, from $3.4 billion in 1987 to $4.0 billion in 1988. The ratio of total capital to assets increased from 6.7 percent in 1987 to 8.3 percent in 1988, while the debt–to–total capital ratio dropped from 14 percent in 1987 to a still high 11 percent in 1988.

In 1988, interest income for the FCBs was $4.5 billion and interest expenses were $4.1 billion, resulting in net interest income of $412.8 million. Net interest margin and the reversal in loan loss provisions of $651.4 million amounted to $1.1 billion, or 0.9 percent of average earning assets.

Total noninterest expenses fell 10 percent from $555.9 million in 1987 to $501.4 million in 1988. Thus, net income for the FCBs was $750 million in 1988 as compared with a loss of $128 million for the previous year.

Although the FLB of Jackson, which was placed in receivership in May and is no longer an ongoing entity, posted a net loss of $291 million in 1988, the remaining banks recorded net income increases. The FCB of Omaha showed the largest increase, posting a net income of $166 million, compared to a 1987 loss of $90 million. The FCBs of Louisville, Omaha, and St. Paul plus the FLB of Jackson in Receivership recorded extraordinary losses on buybacks of high-cost debt made in conjunction with assistance granted by the Farm Credit System Assistance Board.

Production Credit Associations

At the close of 1988, net loans outstanding at the Production Credit Associations (PCAs) stood at $9.04 billion, a decline of less than 1 percent from the $9.1 billion in loans outstanding a year earlier. Although nonaccrual loans fell $280.1 million during 1988, they still amounted to $485.8 million at yearend. The allowance for loan losses declined by $157.8 million in 1988 to reach $416.7 million. Net acquired property fell 24.5 percent, from $110.5 million at the end of 1987 to $83.4 million at yearend 1988.

Total capital stock and participation certificates declined $125.8 million in 1988, falling to $844.9 million. However, all stock impairments were eliminated. Total net worth of the PCAs increased from $2.1 billion at the beginning of the year to $2.2 billion at yearend, a 3.7-percent gain.

Interest income fell 2.5 percent to $935.5 million during 1988 and interest expenses fell to $740.8 million, a decrease of 5.9 percent. Net interest margin rose 13 percent to $194.7 million during 1988. A reduction of $26.8 million in operating expenses and the reversal in provision for loan losses of $147.6 million contributed to an increase in net income. For the year, net income was $235.2 million, or $133.7 million above 1987.

Federal Land Bank Associations

The Federal Land Bank Associations (FLBAs) generated net income of $970 million in 1988, compared to a net loss of $234.0 million in 1987. Operating expenses totaled $208.1 million in 1988, down from $224.9 million in 1987.

The overall net worth of the FLBAs rose 62 percent in 1988 to $2.4 billion. Total capital stock and participation certificates increased 33 percent to $1.7 billion in 1988, reflecting a decline in impairments from $695.5 million to $107.5 million. The positive net earnings contributed to a rise in total earned net worth to $674.0 million during 1988 as compared with $189.2 million at the beginning of the year.

The financial performance of the FLBAs must be interpreted carefully because most of their revenue is from patronage refunds and compensation from the district banks. Interest income is small. In addition, the 1988 figures reflect various income adjustments made in conjunction with the bank mergers at midyear and financial assistance. Almost $500 million was accounted for by returning stock that had been written off earlier to its full protected value.

Banks for Cooperatives

Net loan volume at the 13 Banks for Cooperatives (BCs) stood at $10.1 billion on December 31, 1988, an increase of 22.1 percent over the $8.2 billion outstanding a year earlier. Nonperforming loans declined 21.5 percent and totaled $130 million at the end of 1988, with $14.7 million in nonaccrual status. The improved performance of the BCs in 1988 stemmed from increased loan volume and asset quality. Gross loans increased by $1.8 billion and the allowance for loan losses decreased from $141 million in 1987 to $128.5 million at the end of 1988.

Total capital stock and participation certificates of the BCs were $826.3 million on December 31, 1988, an increase of 18.5 percent from $697.5 million a year earlier. Total net worth dropped slightly from $1.035 billion at the end of 1987 to $1.008 billion at the end of 1988. The 1987 drop was $39.5 million from $1.074 billion in 1986.

While most BCs reported increased loan volume, with the Louisville and St. Louis BCs reporting substantial increases of 40 and 75 percent, respectively, the Springfield and St. Paul BCs posted declines. In addition, four of the BCs—Baltimore, Jackson, St. Louis, and St. Paul—and the Central Bank for Cooperatives recorded increases in total net worth. The Texas BC experienced a 40–percent decline in its total net worth as a result of a substantial net operating loss for 1988.

Total interest income of the 13 BCs increased from $821.5 million in 1987 to $1.06 billion in 1988, while their total interest costs increased from $692.7 million to $898.8 million. After provisions for loan losses of $11 million, net interest income increased to $150 million in 1988 from $135.5 million in 1987. Net earnings increased to $85.8 million in 1988, as compared with net earnings of $79.8 million in 1987. However, because assets grew faster than earnings, return on average assets dropped from 0.75 percent in 1987 to 0.67 percent in 1988.

Net income varied substantially across the banks. Two BCs—Louisville and Omaha—recorded sizable increases of 75 and 280 percent, respectively. Four BCs—Baltimore, Columbia, Texas, and Sacramento—posted declines, with the Texas BC recording a $12.6 million loss, compared to an income of $2.9 million in 1987. The Texas BC loss was the result of a $17 million provision for loan losses. This provision far exceeded the sum of the provisions of the remaining BCs and the CBC.

Each Federal Land Bank Association and Production 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 young, beginning, and small farmers and ranchers.

Programs for young, beginning, and small farmers during 1988 were largely unchanged from those previously documented. Beyond a host of public relations efforts aimed at youth and young farmers, specific programs generally fall into two main categories—educational and assisting in credit extension. The latter typically involves coordinating efforts with programs available through Federal, state, and local agencies. Educational programs tend to emphasize the need for, and the use of, good records as well as sound management practices.

After retreating for several years, credit extension activities under these programs increased somewhat during 1987 and 1988 due to an overall increase in lending activity and an improved economic environment. Certainly, economic incentives over the past two years have been more favorable for those desiring to enter farming or to expand to full–time operations.

About 26 percent of $2.4 billion in new money loaned by the Federal Land Bank Associations (FLBAs) in 1988 went to borrowers who met one or more of the target group criteria. Nearly $121 million, or 5 percent, went to borrowers who met two or more of the criteria. Of the nearly $32.0 billion in outstanding loans, about 1.5 percent was associated with borrowers meeting two or more criteria and another 12 percent was held by those meeting just one of the three criteria. Nearly 22 percent of those having loans outstanding met one or more criteria, with about half of these qualifying because of their small sales and asset position.

The data for Production Credit Associations (PCAs) showed less activity in terms of new money loaned but more in terms of outstandings associated with young, beginning, and small farmers than for the FLBAs. Of the total amount of new money loaned ($6.45 billion), about 17 percent was to PCA borrowers meeting one or more criteria, but such borrowers held 22 percent of the outstandings and accounted for nearly 41 percent of the member–borrowers. As with the FLBA borrowers, smallness of the farming operations, rather than age and years in farming, was what qualified the largest number of borrowers as members of the target group.

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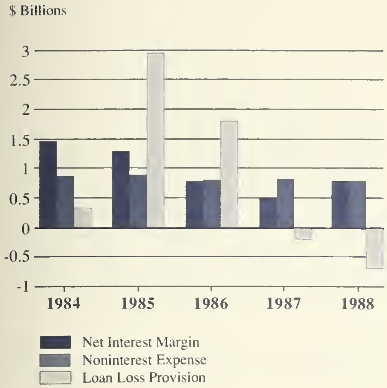
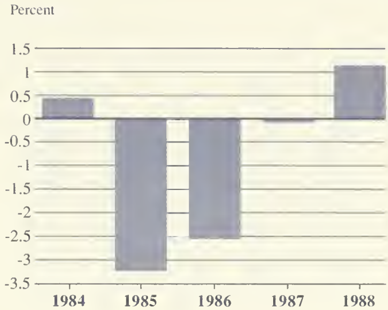
Appendix A—Financial Condition of Farm Credit Institutions, Graphs

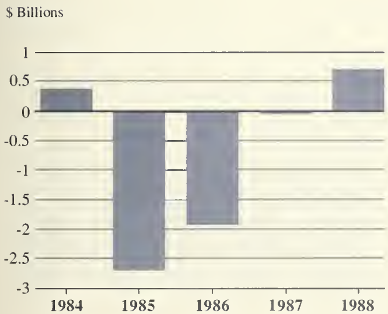
Major Income Components for Combined Institutions



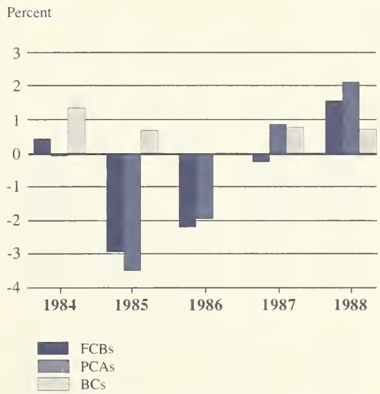
Combined Institutions Return on Average Assets



Net Income for Combined Institutions*



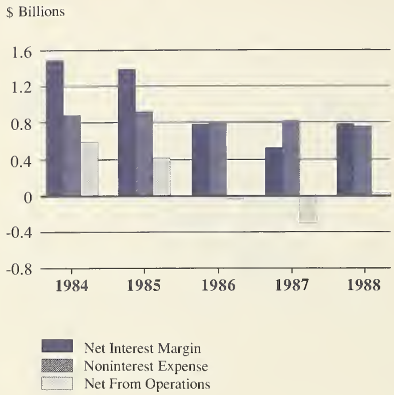
Return on Average Assets by Farm Credit Institution Group



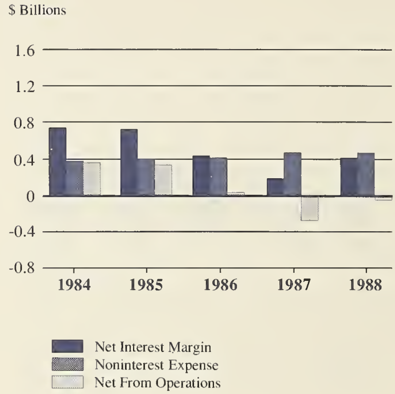
* Overall combined net income includes extraordinary income and expense items, as well as loan loss provision. These are not included in net from operations.

Income from Operations of Farm Credit Institutions, 1984 - 1988

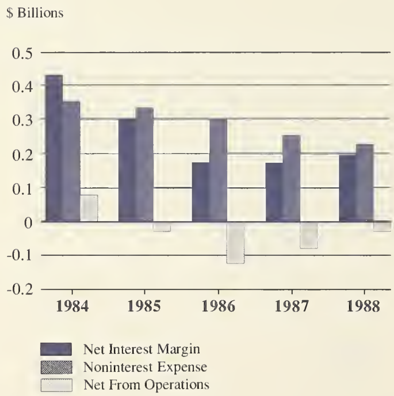
Combined Farm Credit Institutions



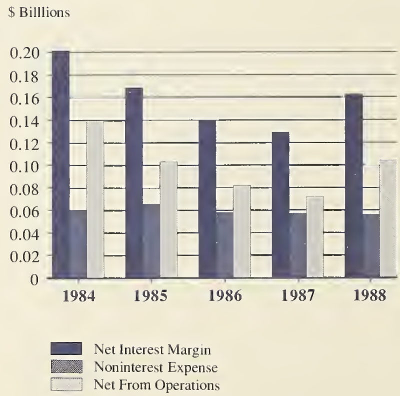
Farm Credit Banks



Production Credit Associations

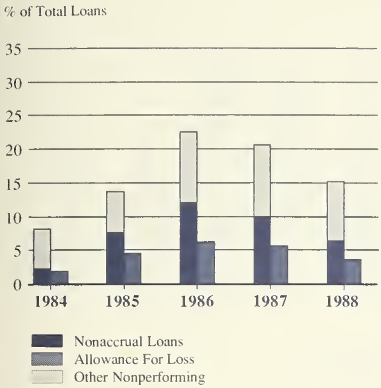


Banks for Cooperatives

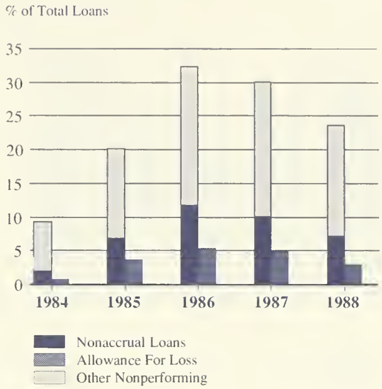


Asset Quality of Farm Credit Institutions, 1984 - 1988
As of December 31

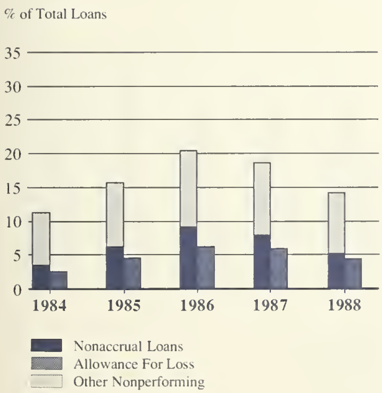
Combined Farm Credit Institutions



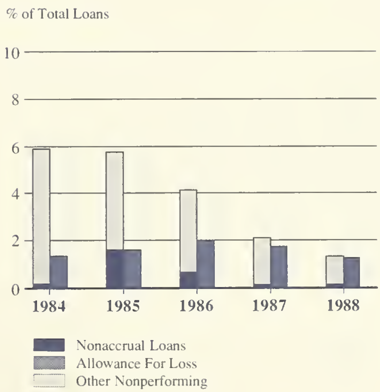
Farm Credit Banks



Production Credit Associations

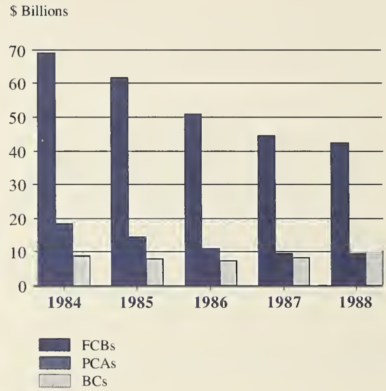


Banks for Cooperatives

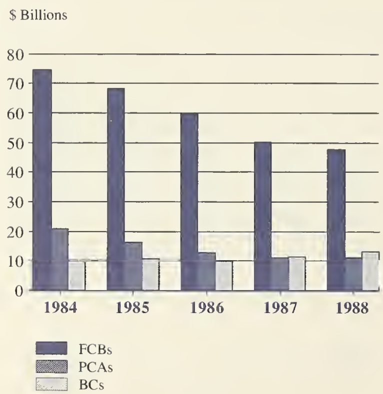


Total Loans and Assets for Combined Institutions

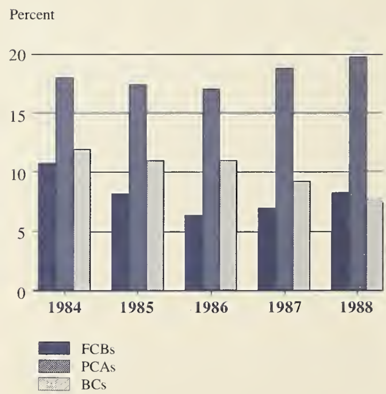
Total Loans by Farm Credit Institution Group



Total Assets by Farm Credit Institution Group

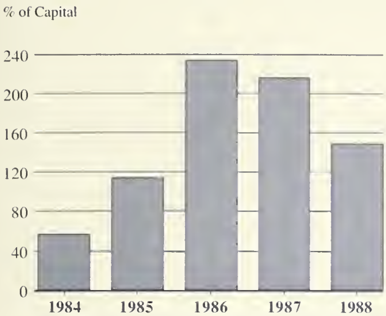


Total Capital to Assets by Farm Credit Institution Group

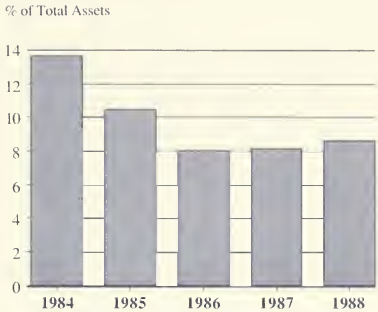


Loans and Assets for Farm Credit Institutions, 1984 - 1988
As of December 31

Combined Institutions
Nonperforming Loans to Capital



Combined Institutions
Total Capital to Assets



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Appendix B—Financial Condition of Farm Credit Institutions, Tables

Table 1
Farm Credit System Combined Statement of Condition

(Dollar amounts in millions)

As of December 31	1988	1987	1986	1985
Assets				
Loans, Less Allowance for Loan Losses of $1,857.5, $2,951.0, $3,635.3 and $3,189.6 in 1988, 1987, 1986 and 1985, respectively	$49,570.5	$49,547.1	$54,614.3	$66,615.1
Cash and Investment Securities	8,940.8	9,408.5	11,413.0	8,329.0
Total Earning Assets	**58,511.3**	**58,955.6**	**66,027.3**	**74,944.1**
Accrued Interest Receivable on Loans	1,693.9	1,641.5	2,201.0	3,070.3
Other Property Owned	662.5	876.5	1,101.5	927.8
Premises and Equipment, Less Accumulated Appreciation	414.3	447.3	494.3	567.3
Other Assets and Deferred Charges	334.2	317.6	276.5	323.0
Total Assets	**61,616.2**	**62,238.5**	**70,100.6**	**79,832.5**
Liabilities				
Consolidated Systemwide and Other Bonds	39,502.1	40,842.9	48,734.3	58,264.0
Consolidated Systemwide Notes	14,430.7	14,431.9	13,743.9	10,587.0
Financial Assistance Corporation Bonds	687.8	0.0	0.0	0.0
Notes Payable and Other Interest-Bearing Liabilities	110.6	253.6	197.7	334.2
Accrued Interest Payable	1,122.5	1,187.3	1,434.4	1,936.0
Other Liabilities	461.8	492.7	349.3	341.5
Total Liabilities	**56,315.5**	**57,208.4**	**64,459.6**	**71,462.7**
Net Worth				
Capital				
Capital Stock and Participation Certificates—Protected	3,243.1	0.0	0.0	0.0
Capital Stock and Participation Certificates—Unprotected	227.2	3,683.9	4,188.1	4,969.2
Total Capital Stock	**3,470.3**	**3,683.9**	**4,188.1**	**4,969.2**
Earned Net Worth				
Allocated Surplus	45.5	0.0	0.0	0.0
Earned Net Worth	1,784.9	1,346.2	1,452.9	3,400.6
Total Earned Net Worth	**1,830.4**	**1,346.2**	**1,452.9**	**3,400.6**
Total Net Worth	**5,300.7**	**5,030.1**	**5,641.0**	**8,369.8**
Total Liabilities and Net Worth	**$61,616.2**	**$62,238.5**	**$70,100.6**	**$79,832.5**

Note: Totals may not add due to rounding.

Table 2
Farm Credit System Combined Statement of Operations

(Dollar amounts in millions)

For the Year Ended December 31	1988	1987	1986	1985
Interest Income				
Loans	$5,182.0	$5,171.8	$6,638.2	$8,581.0
Investment Securities	639.7	611.5	531.2	392.6
Total Interest Income	**5,821.7**	**5,783.3**	**7,169.4**	**8,973.6**
Interest Expense				
Consolidated Systemwide Bonds	3,745.7	4,172.9	5,312.7	6,705.4
Consolidated Bank and Other Bonds	125.1	216.5	280.7	388.9
Consolidated Systemwide Notes	1,117.8	862.6	770.0	540.9
Financial Assistance Corporation Bonds	17.9	0.0	0.0	0.0
Notes Payable and Other Interest-Bearing Liabilities	28.5	22.4	25.4	43.8
Total Interest Expense	**5,035.0**	**5,274.4**	**6,388.8**	**7,679.0**
Net Interest Income	786.7	508.9	780.6	1,294.6
Provision for Loan Losses	(680.6)	(195.9)	1,797.7	2,968.8
Net Interest Income (Loss) after Provision for Losses	1,467.3	704.8	(1,017.1)	(1,674.2)
Other Income	121.6	97.3	129.4	152.5
Other Expenses				
Salaries and Employee Benefits	453.2	486.0	497.1	534.4
Occupancy and Equipment Expense	79.9	88.4	88.7	86.5
Other Operating Expense	192.6	211.7	224.1	275.0
Miscellaneous	(15.1)	33.5	215.2	271.2
Total Other Expenses	**710.6**	**819.6**	**1,025.1**	**1,167.1**
Income (Loss) before Extraordinary Item	878.3	(17.5)	(1,912.8)	(2,688.8)
Extraordinary Item	(173.9)	0.0	0.0	0.0
Net Income (Loss)	**$ 704.4**	**$ (17.5)**	**$(1,912.8)**	**$(2,688.8)**

Note: Totals may not add due to rounding.

Table 3
Farm Credit System Combined Trends in Selected Financial Measures

(Dollar amounts in millions)

For the Year Ended December 31	1988	1987	1986	1985
Loan Performance				
Performing	$43,533.0	$41,670.0	$45,078.0	$60,227.0
Restructured	1,980.0	1,321.0	363.0	227.0
Other High Risk	2,586.0	4,273.0	5,742.0	4,028.0
Nonaccrual	3,329.0	5,234.0	7,066.0	5,323.0
Net Chargeoffs on Loans	$ 413.0	$ 488.0	$ 1,352.0	$ 1,105.0
Selected Ratios				
Return on Assets	1.13%	(0.03%)	(2.55%)	(3.35%)
Return on Equity	13.60%	(0.04%)	(26.10%)	(16.07%)
Net Interest Margin	1.28%	0.79%	1.08%	1.72%
Capital as a Percentage of Assets	8.60%	8.10%	8.10%	10.48%
Debt-to-Capital Ratio (:1)	10.60	11.40	11.40	8.54

Table 4
Farm Credit Banks Combined Statement of Condition

(Dollar amounts in millions)

As of December 31	1988	1987	1986	1985
Assets				
Loans	$42,210.1	$44,816.6	$52,012.3	$63,432.4
Less: Allowance for Losses	1,254.0	2,187.0	2,701.8	2,262.5
Net Loans	40,956.1	42,629.6	49,310.5	61,169.9
Cash and Investments in Securities	5,736.4	6,472.1	8,913.6	5,967.3
Net Acquired Property	578.3	764.7	937.4	744.5
Other Assets—Net	572.9	565.7	727.4	610.5
Total Assets	**47,843.7**	**50,432.1**	**59,888.9**	**68,492.3**
Liabilities				
Consolidated Systemwide and Other Bonds	34,110.8	36,538.8	44,481.5	54,074.8
Consolidated Systemwide Notes	8,008.4	6,547.1	7,930.2	5,021.8
Other Liabilities	1,748.8	3,977.3	3,669.7	3,775.0
Total Liabilities	**43,868.0**	**47,063.2**	**56,082.4**	**62,871.6**
Net Worth				
Capital				
Capital Stock and Participation Certificates—Protected	399.5	3,326.1	3,614.6	3,994.9
Capital Stock and Participation Certificates—Unprotected	3,218.5	0.0	0.0	0.0
Preferred Stock—Financial Assistance Corp.	375.6	0.0	0.0	0.0
Other Capital	(585.1)	(702.2)	0.0	0.0
Total Capital	**3,408.5**	**2,623.9**	**3,614.6**	**3,994.9**
Earned Net Worth	576.2	745.0	191.9	1,625.8
Total Net Worth	**3,975.7**	**3,368.9**	**3,806.5**	**5,620.7**
Total Liabilities and Net Worth	**$47,843.7**	**$50,432.1**	**$59,888.9**	**$68,492.3**

Note: Totals may not add due to rounding.

Table 5
Farm Credit Banks Combined Statement of Operations

(Dollar amounts in millions)

For the Year Ended December 31	1988	1987	1986	1985
Interest Income				
Loans	$4,088.3	$4,304.4	$5,644.8	$7,299.1
Investments and Other	443.7	489.7	495.1	396.3
Total Interest Income	**4,532.0**	**4,794.1**	**6,139.9**	**7,695.4**
Interest Expense				
Consolidated Bonds	3,435.8	4,022.3	5,207.9	6,629.5
Notes and Other	683.4	590.9	516.5	357.6
Total Interest Expense	**4,119.2**	**4,613.2**	**5,724.4**	**6,987.1**
Net Interest Income (Loss)	412.8	180.9	415.5	708.3
Less: Provision for Loan Losses	(651.4)	(92.3)	1,443.6	2,154.6
Net Interest Income (Loss) after Provision for Loan Losses	1,064.2	273.2	(1,028.1)	(1,446.3)
Other Income	559.7	154.8	570.4	82.7
Operating Expenses				
Salaries and Employee Benefits	137.9	154.8	128.6	133.1
Occupancy and Equipment Expenses	34.6	38.2	34.1	32.3
Other Operating Expenses	284.2	289.0	427.7	229.5
Total Operating Expenses	**456.7**	**463.1**	**590.4**	**394.9**
Other Expenses	44.7	92.8	357.3	328.0
Extraordinary Items	(373.0)	0.0	0.0	0.0
Net Income (Loss)	**$ 749.5**	**$ (127.9)**	**$(1,405.4)**	**$(2,086.3)**

Note: Totals may not add due to rounding.

Table 6
Farm Credit Banks Combined Trends in Selected Financial Measures

(Dollar amounts in millions)

For the Year Ended December 31	1988	1987	1986	1985
Loan Performance				
Performing	$32,255.3	$31,077.7	$34,326.4	$49,208.5
Formally Restructured	1,962.7	1,745.5	998.3	1,024.5
Other Restructured or Reduced Rate	16.5	33.6	5.6	79.4
Other High Risk	4,981.5	7,187.5	518.0	7,129.1
Nonaccrual	3,001.4	4,512.4	6,025.7	4,222.3
Net Chargeoffs on Loans	$ 64.0	$ 409.3	$ 1,062.3	$ 503.4
Selected Ratios				
Return on Assets	1.54%	(0.24%)	(2.22%)	(2.90%)
Return on Equity	19.39%	3.67%	(29.45%)	(28.06%)
Net Interest Margin	0.92%	0.38%	0.74%	1.07%
Capital as a Percentage of Assets	8.31%	6.68%	6.36%	8.21%
Debt-to-Capital Ratio (:1)	11.03	13.97	14.73	11.19

Table 7
Banks for Cooperatives Combined Statement of Condition

(Dollar amounts in millions)

As of December 31	1988	1987	1986	1985
Assets				
Loans	$10,195.8	$ 8,386.5	$7,547.3	$ 8,311.1
Less: Allowance for Losses	128.5	141.0	145.5	130.5
Net Loans	10,067.3	8,245.6	7,401.8	8,180.6
Cash and Investments in Securities	2,936.6	2,749.4	2,290.0	2,325.3
Net Acquired Property	6.9	11.4	15.5	11.2
Other Assets—Net	164.1	131.7	103.7	100.7
Total Assets	**13,174.9**	**11,138.1**	**9,811.0**	**10,617.8**
Liabilities				
Consolidated Systemwide and Other Bonds	5,501.1	4,132.0	3,785.2	4,318.0
Consolidated Systemwide Notes	6,422.4	5,441.8	4,277.3	4,395.1
Other Liabilities	243.0	529.4	674.1	738.6
Total Liabilities	**12,166.5**	**10,103.2**	**8,736.6**	**9,451.7**
Net Worth				
Capital				
Capital Stock and Participation Certificates—Protected	730.2	697.5	728.4	799.5
Capital Stock and Participation Certificates—Unprotected	96.1	0.0	0.0	0.0
Preferred Stock—Financial Assistance Corp.	0.0	0.0	0.0	0.0
Other Capital	0.0	0.0	0.0	0.0
Total Capital	**826.3**	**697.5**	**728.4**	**799.5**
Earned Net Worth	182.0	337.4	346.1	366.6
Total Net Worth	**1,008.3**	**1,034.9**	**1,074.4**	**1,166.1**
Total Liabilities and Net Worth	**$13,174.9**	**$11,138.1**	**$9,811.0**	**$10,617.8**

Note: Totals may not add due to rounding.

Table 8
Banks for Cooperatives Combined Statement of Operations

(Dollar amounts in millions)

For the Year Ended December 31	**1988**	**1987**	**1986**	**1985**
Interest Income				
Loans	$ 853.9	$658.0	$730.8	$884.4
Investments and Other	205.9	163.5	134.1	108.6
Total Interest Income	**1,059.8**	**821.5**	**864.9**	**993.0**
Interest Expense				
Consolidated Bonds	412.1	360.4	410.5	521.6
Notes and Other	486.7	332.3	314.6	303.9
Total Interest Expense	**898.8**	**692.7**	**725.1**	**825.5**
Net Interest Income (Loss)	161.0	128.8	139.8	167.5
Less: Provision for Loan Losses	11.0	(6.7)	13.6	24.1
Net Interest Income (Loss) after Provision for Loan Losses	150.0	135.5	126.2	143.4
Other Income	11.8	8.3	11.0	6.9
Operating Expenses				
Salaries and Employee Benefits	28.1	29.2	31.3	33.8
Occupancy and Equipment Expenses	6.5	7.5	7.5	6.8
Other Operating Expenses	21.5	19.8	19.1	24.2
Total Operating Expenses	**56.1**	**56.5**	**57.9**	**64.8**
Other Expenses	19.9	7.6	78.8	18.6
Extraordinary Items	0.0	0.0	0.0	0.0
Net Income	**$ 85.8**	**$ 79.8**	**$ 0.5**	**$ 66.9**

Note: Totals may not add due to rounding.

Table 9
Banks for Cooperatives Combined Trends in Selected Financial Measures

(Dollar amounts in millions)

For the Year Ended December 31	1988	1987	1986	1985
Loan Performance				
Performing	$10,065.8	$7,933.6	$7,111.5	$7,680.0
Formally Restructured	76.1	67.3	71.0	65.4
Other Restructured or Reduced Rate	2.8	14.7	15.8	0.9
Other High Risk	36.4	72.8	171.4	272.0
Nonaccrual	14.7	10.8	48.0	131.1
Net Chargeoffs on Loans	$ 22.9	$ (2.0)	$ (1.8)	$ 13.8
Selected Ratios				
Return on Assets	0.67%	0.75%	0.01%	0.66%
Return on Equity	6.24%	7.61%	0.05%	5.53%
Net Interest Margin	1.22%	1.22%	1.40%	1.69%
Capital as a Percentage of Assets	7.65%	9.29%	10.95%	10.98%
Debt-to-Capital Ratio (:1)	12.07	9.76	8.13	8.11

Table 10
Production Credit Associations Combined Statement of Condition

(Dollar amounts in millions)

As of December 31	1988	1987	1986	1985
Assets				
Loans	$ 9,459.8	$ 9,675.4	$11,432.1	$14,935.1
Less: Allowance for Losses	416.7	574.5	698.2	677.8
Net Loans	9,043.1	9,100.9	10,733.9	14,257.3
Cash and Investments in Securities	49.4	37.4	54.9	28.3
Net Acquired Property	83.4	110.5	156.5	182.5
Other Assets—Net	1,964.0	2,018.4	2,004.8	1,994.8
Total Assets	**11,139.9**	**11,267.2**	**12,950.1**	**16,462.9**
Liabilities				
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	25.0	0.0	0.0	0.0
Other Liabilities	8,918.9	9,149.1	10,748.6	13,598.3
Total Liabilities	**8,943.9**	**9,149.1**	**10,748.6**	**13,598.3**
Net Worth				
Capital				
Capital Stock and Participation Certificates—Protected	660.4	994.0	1,171.5	1,538.2
Capital Stock and Participation Certificates—Unprotected	173.3	0.0	0.0	0.0
Preferred Stock—Financial Assistance Corp.	10.4	0.0	0.0	0.0
Other Capital	0.8	(23.3)	0.0	0.3
Total Capital	**844.9**	**970.7**	**1,171.5**	**1,538.5**
Earned Net Worth	1,351.2	1,147.4	1,030.0	1,326.1
Total Net Worth	**2,196.1**	**2,118.2**	**2,201.5**	**2,864.6**
Total Liabilities and Net Worth	**$11,139.9**	**$11,267.2**	**$12,950.1**	**$16,462.9**

Note: Totals may not add due to rounding.

Table 11
Production Credit Associations Combined Statement of Operations

(Dollar amounts in millions)

For the Year Ended December 31	1988	1987	1986	1985
Interest Income				
Loans	$931.6	$958.8	$1,336.9	$1,912.3
Investments and Other	3.9	0.3	1.8	0.1
Total Interest Income	**935.5**	**959.1**	**1,338.7**	**1,912.4**
Interest Expense				
Consolidated Bonds	11.4	0.0	0.0	0.0
Notes and Other	729.4	787.0	1,165.4	1,611.0
Total Interest Expense	**740.8**	**787.0**	**1,165.4**	**1,611.0**
Net Interest Income (Loss)	194.7	172.1	173.3	301.4
Less: Provision for Loan Losses	(147.6)	(83.6)	308.7	710.1
Net Interest Income (Loss) after Provision for Loan Losses	342.3	255.8	(135.4)	(408.7)
Other Income	162.0	118.0	182.2	144.4
Operating Expenses				
Salaries and Employee Benefits	144.4	163.1	195.9	231.9
Occupancy and Equipment Expenses	21.0	23.3	28.7	31.1
Other Operating Expenses	59.8	65.6	74.0	68.6
Total Operating Expenses	**225.2**	**252.0**	**298.6**	**331.6**
Other Expenses	64.1	20.4	37.1	67.2
Extraordinary Items	20.2	0.1	0.1	0.1
Net Income (Loss)	**$235.2**	**$101.5**	**$ (289.0)**	**$ (663.0)**

Note: Totals may not add due to rounding.

Table 12
Production Credit Associations Combined Trends in Selected Financial Measures

(Dollar amounts in millions)

For the Year Ended December 31	1988	1987	1986	1985
Loan Performance				
Performing	$8,119.6	$7,867.9	$8,798.3	$12,124.5
Formally Restructured	320.4	367.2	224.3	32.6
Other Restructured or Reduced Rate	20.1	29.0	12.0	20.1
Other High Risk	515.5	645.4	1,025.8	1,299.2
Nonaccrual	485.8	765.9	1,018.2	891.5
Net Chargeoffs on Loans	$ 4.8	$ 46.5	$ 137.2	$ 305.8
Selected Ratios				
Return on Assets	2.11%	0.84%	(1.95%)	(3.46%)
Return on Equity	10.94%	4.55%	(11.57%)	(17.53%)
Net Interest Margin	2.26%	1.97%	1.46%	1.89%
Capital as a Percentage of Assets	19.71%	18.76%	17.00%	17.40%
Debt-to-Capital Ratio (:1)	4.07	4.33	5.69	4.75

Table 13
Federal Land Bank Associations Combined Statement of Condition

(Dollar amounts in millions)

As of December 31	1988	1987	1986	1985
Assets				
Loans [1]	N.A.	N.A.	N.A.	N.A.
Less: Allowance for Losses[2]	N.A.	N.A.	N.A.	N.A.
Net Loans	N.A.	N.A.	N.A.	N.A.
Cash and Investments in Securities	$ 352.4	$ 220.2	$ 208.4	$ 437.2
Net Acquired Property	N.A.	N.A.	N.A.	N.A.
Other Assets—Net	2,167.6	1,461.8	2,117.3	2,787.8
Total Assets	**2,520.0**	**1,682.0**	**2,325.7**	**3,225.0**
Liabilities				
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	0.0	0.0	0.0	0.0
Other Liabilities[2]	169.8	229.7	254.2	271.0
Total Liabilities	**169.8**	**229.7**	**254.2**	**271.0**
Net Worth				
Capital				
Capital Stock and Participation Certificates—Protected	1,722.3	1,958.6	2,240.9	2,592.4
Capital Stock and Participation Certificates—Unprotected	61.4	0.0	0.0	0.0
Other Capital	(107.5)	(695.5)	(37.7)	0.0
Total Capital	**1,676.2**	**1,263.1**	**2,203.2**	**2,592.4**
Earned Net Worth	674.0	189.2	(131.7)	361.6
Total Net Worth	**2,350.2**	**1,452.3**	**2,071.5**	**2,954.0**
Total Liabilities and Net Worth	**$2,520.0**	**$1,682.0**	**$2,325.7**	**$3,225.0**

1 The Federal Land Bank Associations act as agents for the Farm Credit Banks (formerly Federal Land Banks) in the lending process, but do not hold loans themselves.

2 Federal Land Bank Associations (FLBAs) in some districts have liability for losses on Farm Credit Bank (formerly Federal Land Bank) loans. Because FLBAs do not make loans, the FLBA allowance for loan losses is included in FLBA liabilities.

Note: Totals may not add due to rounding.

Table 14
Federal Land Bank Associations Combined Statement of Operations

(Dollar amounts in millions)

For the Year Ended December 31	1988	1987	1986	1985
Interest Income				
Loans	$ 1.0	$ 0.0	$ 0.0	$ 0.0
Investments and Other	6.9	13.7	26.1	51.9
Total Interest Income	**7.9**	**13.7**	**26.1**	**51.9**
Interest Expense				
Consolidated Bonds	N.A.	N.A.	N.A.	N.A.
Notes and Other	N.A.	N.A.	N.A.	N.A.
Total Interest Expense	**N.A.**	**N.A.**	**N.A.**	**N.A.**
Net Interest Income (Loss)	7.9	13.7	26.1	51.9
Less: Provision for Loan Losses	10.3	(10.7)	14.3	48.9
Net Interest Income (Loss) after Provision for Loan Losses	(2.4)	24.4	11.8	3.0
Other Income	1,124.5	222.8	201.8	193.4
Operating Expenses				
Salaries and Employee Benefits	143.4	153.5	141.1	141.2
Occupancy and Equipment Expenses	18.9	19.2	18.7	14.5
Other Operating Expenses	45.8	52.2	120.2	36.5
Total Operating Expenses	208.1	224.9	280.0	192.2
Other Expenses	10.0	256.3	411.6	164.2
Extraordinary Items	65.7	0.0	0.0	0.0
Net Income (Loss)	**$ 969.7**	**$ (234.0)**	**$ (478.0)**	**$ (160.0)**

Note: Totals may not add due to rounding.

Table 15
Federal Land Bank Associations Combined Trends in Selected Financial Measures

(Dollar amounts in millions)

For the Year Ended December 31	1988	1987	1986	1985
Loan Performance				
Performing	-	-	-	-
Formally Restructured	-	-	-	-
Other Restructured or Reduced Rate	-	-	-	-
Other High Risk	-	-	-	-
Nonaccrual	-	-	-	-
Net Chargeoffs on Loans	$6.8	$3.9	$50.3	N.A.
Selected Ratios				
Return on Assets	49.79%	(12.23%)	(3.85%)	(13.64%)
Return on Equity	55.30%	(12.55%)	(4.10%)	(14.93%)
Net Interest Margin	N.A.	N.A.	N.A.	N.A.
Capital as a Percentage of Assets	93.26%	78.32%	92.45%	89.41%
Debt-to-Capital Ratio (:1)	0.07	2.64	0.05	0.12

Table 16
Activity Associated with Young, Beginning, and Small Farmers
Federal Land Bank Associations Loans Outstanding and New Money Loaned

(Dollar amounts in thousands)

For the Year Ended December 31, 1988	Total Portfolio	Young, Beginning, & Small Farmers[1]	Young Farmers[2]	Beginning Farmers[3]	Small Farmers[4]
Total Number of Loans Outstanding	431,407	12,859	21,934	18,550	41,078
Number of Loans as a Percentage of Total Number of Loans Outstanding		2.98%	5.08%	4.30%	9.52%
Total Amount of Loans Outstanding	$31,837,407	$470,848	$1,298,927	$1,329,266	$1,121,073
Amount of Loans Outstanding as a Percentage of Total Amount of Loans Outstanding		1.48%	4.08%	4.18%	3.52%
Gross New Money Loaned	$ 2,387,812	$120,883	$170,599	$212,027	$109,393
Gross New Money Loaned as a Percentage of Total New Money Loaned		5.06%	7.14%	8.88%	4.58%

1 Meets two or more ciriteria.
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.

Table 17
Activity Associated with Young, Beginning and Small Farmers
Production Credit Associations Loans Outstanding and New Money Loaned

(Dollar amounts in thousands)

For the Year Ended December 31, 1988	Total Portfolio	Young, Beginning, & Small Farmers[1]	Young Farmers[2]	Beginning Farmers[3]	Small Farmers[4]
Total Number of Loans Outstanding	224,871	16,962	21,645	13,649	39,349
Number of Loans as a Percentage of Total Number of Loans Outstanding		7.54%	9.63%	6.07%	17.50%
Total Amount of Loans Outstanding	$8,989,572	$267,055	$666,299	$547,169	$502,548
Amount of Loans Outstanding as a Percentage of Total Amount of Loans Outstanding		2.97%	7.41%	6.09%	5.59%
Gross New Money Loaned	$6,453,651	$180,959	$429,459	$263,190	$247,709
Gross New Money Loaned as a Percentage of Total New Money Loaned		2.80%	6.65%	4.08%	3.84%

1 Meets 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.

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