Farm Credit Administration Annual Report

1990

CHAIRMAN OF THE FARM CREDIT ADMINISTRATION
1501 Farm Credit Drive
McLean, Virginia 22102-5090
703 883-4001

Dear Reader:

The Farm Credit Administration (FCA) Board, though at no time at full strength, was without a quorum for only a few weeks during the calendar year 1990. Marvin Duncan resigned effective September 10, and Billy Ross Brown's appointment became effective October 30.

Mr. Brown is a well known farmer and conservationist from Oxford, Mississippi. He brings an added perspective to the FCA Board from his more than 20 years experience as a director of Production Credit Associations.

As required by statute, this report deals with the condition of the Farm Credit System (FCS) and the extent to which the law is being carried out.

Net income of the Farm Credit Banks and the Banks for Cooperatives decreased during 1990 as compared to that of 1989. The decrease in the Farm Credit Banks occurred in spite of an increase in net interest margin. This increase, however, was off-set by smaller negative provisions for loan losses in 1990, as well as the fact that 1989 income was positively affected by non-recurring items. The primary reason for the decline in the net income of the Banks for Cooperatives was the increase in their provisions for loan losses. The net income of the direct lender associations remained relatively stable; whereas the net income of the Federal Land Bank Associations decreased by approximately 50 percent of 1989 net income because their 1989 net income was inflated as a result of the financial assistance received by the FLBA of Jackson in Receivership.

In carrying out the provisions of the statute, the FCA conducted 209 examinations during the year. The agency also executed seven cease and desist orders and five formal agreements with FCS institutions. At the end of the year, 88 institutions with assets totaling $52 billion were operating under enforcement documents. These figures represent only 28 percent of all FCS institutions, but account for 82 percent of total assets.

The FCA issued 29 new or amended charters because of corporate restructuring activity during the year. The results of this activity caused an increase in the number of associations, as stockholders of associations that previously merged voted to reorganize into smaller associations. This activity will continue into 1991.

During 1991, the FCA will be assisting in the legislative development process to strengthen the institutions of the FCS, encourage more local control, and alleviate the risk to the Government and the taxpayer.

Sincerely,

Harold B. Steele

Harold B. Steele, Chairman
Farm Credit Administration Board

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Terms

These terms are listed here to aid in the understanding of the Farm Credit Administration section of this report. Some are explained in more detail in other sections of the report.

Farm Credit System (FCS)—Collective term for lending institutions and other entities chartered under authorities contained in the Farm Credit Act of 1971, as amended.

Farm Credit Bank (FCB)—Makes direct long-term agricultural real estate loans and/or provides short-and intermediate-term loan funds to Federal Land Credit Associations (FLCAs), Production Credit Associations (PCAs), or Agricultural Credit Associations (ACAs).

Federal Land Bank Association (FLBA)—Takes applications for and services long-term real estate loans for an FCB.

Federal Land Credit Association (FLCA)—An FLBA that has been given direct long-term real estate lending authority and makes such loans with funds obtained from an FCB.

Production Credit Association (PCA)—Makes direct short-and intermediate-term loans with fund obtained from an FCB.

Agricultural Credit Association (ACA)—Makes direct short-, intermediate-, and long-term loans with funds obtained from an FCB.

Federal Land Bank of Jackson in Receivership—Made long-term real estate loans in Alabama, Louisiana, and Mississippi. Was placed in receivership May 20, 1988.

Federal Intermediate Credit Bank of Jackson—Provides short-and intermediate-term loan funds to two PCAs.

Bank for Cooperatives (BC)—Makes loans of all kinds to agricultural, aquatic, and rural utility cooperatives.

Federal Agricultural Mortgage Corporation—A federally chartered instrumentality of the United States that provides guarantees for the timely payment of principal and interest on securities representing interests in, or obligations backed by, pools of qualified loans.

Farm Credit District—Territory served by a Farm Credit Bank.

Farm Credit System Insurance Corporation—A Government corporation established chiefly to insure the timely payment of principal and interest on notes, bonds, debentures, and other obligations of Farm Credit System banks.

Federal Farm Credit Banks Funding Corporation—An entity owned by the FCBs that markets the securities sold to raise loan funds.

Farm Credit System Financial Assistance Corporation (FAC)—A federally chartered instrumentality whose purpose is to carry out a program to provide capital to FCS institutions that are experiencing financial difficulty.

Farm Credit System Assistance Board—A federally chartered instrumentality whose purpose is to carry out a program to provide assistance to, and protect the stock of borrowers of, the institutions of the FCS, and to assist in restoring FCS institutions to economic viability.

Farm Credit Administration Organization

December 31, 1990

Office of the Farm Credit Administration Board

Harold B. Steele
Chairman

Billy Ross Brown
Member

(Vacancy)

Curtis M. Anderson
Secretary

Robert R. Andros
Staff Director

Office of Examination

David C. Baer
Director and Chief Examiner

Office of Regulatory Enforcement

William L. Robertson
Director

Office of Resources Management

Michael A. Bronson
Director

Office of General Counsel

Anne E. Dewey
General Counsel

Office of Congressional and Public Affairs

Mary Kay Thatcher
Director

Office of Inspector General

Eldon W. Stoehr
Inspector General

Farm Credit Administration Board: Harold B. Steele (right), Chairman; Billy Ross Brown (left), Member

Farm Credit Administration

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

The management of the FCA is vested in a three-member board appointed by the President of the United States with the advice and consent of the U.S. Senate. The chairman of the board, who is designated by the President from among its members, also serves as the chief executive officer of the agency.

The statutory powers of the board include:

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

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

In carrying out the responsibilities of chief executive officer, the chairman is responsible for directing the implementation of policies and regulations adopted by the board and, after consultation with the board, the execution of the administrative functions and duties of the FCA.

During calendar year 1990, the FCA Board was without a quorum from September 10, when Marvin R. Duncan resigned after completing his term, until October 30, when Billy Ross Brown began his.

Major Actions of the FCA Board

The board approved the following Mission Statement for the agency.

"The Farm Credit Administration will provide an effective regulatory environment to facilitate the competitive delivery of financial services to agriculture while protecting the public, the taxpayer, and the investor by using wisdom, sound judgment, and vision."

The board also approved the following as the objectives of the FCA.

"Ensure that the Farm Credit System operates in a safe and sound manner and in compliance with laws and regulations.

"Create innovative examination and regulatory techniques to efficiently use agency resources.

"Foster a work environment in which all employees can develop professionally, contribute to the agency's initiatives, and achieve a sense of satisfaction in their work.

"Maintain and improve FCA's communications."

Restructuring Continues

During 1990, the FCA issued 29 new or amended charters because of mergers and other corporate restructuring activity among FCS associations. Two charters were canceled due to liquidations—one was a Production Credit

Association (PCA) in the Texas Farm Credit District, and the other was the Farm Credit Corporation of America, a service corporation. There were no terminations of FCS institution status pursuant to section 7.10 of the act.

Also in 1990, six more Federal Land Bank Associations (FLBAs) gained the authority to make direct long-term real estate mortgage loans through transfer of loan making authority from their respective Farm Credit Banks (FCBs). These newly designated Federal Land Credit Associations (FLCAs) were in the St. Paul and Western Farm Credit Districts. In addition, 10 FLBAs in the St. Louis Farm Credit District have received stockholder and bank approvals for transfer of long-term lending authority and are expected to become FLCAs on January 1, 1991.

As authorized under section 7.9 of the act, stockholders of associations that voluntarily merged between December 23, 1985, and January 6, 1988, were permitted to vote to reorganize as separate associations. Stockholders in three districts went through this process. The reorganization of the South Atlantic PCA in the Columbia Farm Credit District resulted in the creation of 20 new PCAs effective July 1, 1990. In the Wichita Farm Credit District, an FLBA and a PCA will be reorganized into eight FLBAs and six PCAs, respectively, as of January 1, 1991. Six of the FLBAs and PCAs share joint management and serve similar but not identical territories. In the St. Louis Farm Credit District, the Central PCA was reorganized into nine separate PCAs. Also, 20 of the 21 FLBAs in the district consolidated into nine FLBAs. These actions took place during 1990 and will become effective January 1, 1991.

Section 433 of the Agricultural Credit Act of 1987 provided that stockholders of associations adjoining another district may vote on reassignment of their association to the adjoining district. To be eligible, an association had to file a petition with the FCA before January 6, 1989. The first association (Albuquerque Production Credit Association) to take advantage of this authority did so as of December 21, 1990, and was reassigned from the Wichita district to the Texas district.

The reassignment occurred when the charter of the FCB of Texas was amended to enable the bank to lend to the PCA in that territory in New Mexico.

A large number of association reorganizations are expected during 1991, including mergers of like associations, mergers of unlike associations to create Agricultural Credit Associations (ACAs), and conversion of FLBAs into direct lending FLCAs.

The number of associations is not indicative of total service locations because of the many branch offices that exist.

Examination Activities

The mission of the Office of Examination (OE) is to provide continual oversight of each FCS institution through examination and supervisory programs that promote safe and sound operations and ensure compliance with all applicable laws and regulations.

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

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

*Association Structure**

For The Years Ended December 31,	1989				1990			
District	FLBA	PCA	ACA	FLCA	FLBA	PCA	ACA	FLCA
Springfield	—	—	13	—	—	—	13	—
Baltimore	1	1	16	—	1	1	16	—
Columbia	20	1	—	—	20	20	—	—
Lousiville	—	2	3	2	—	1	4	1
Jackson	—	2	—	—	—	2	—	—
St. Louis	21	5	—	—	21	5	—	—
St. Paul	22	19	4	—	20	19	4	2
Omaha	1	1	—	—	1	1	—	—
Wichita	15	16	—	—	15	15	—	—
Texas	50	21	—	—	50	21	—	—
Western	15	15	3	—	11	15	3	4
Spokane	1	2	—	—	1	2	—	—
Total	**146**	**85**	**39**	**2**	**140**	**102**	**40**	**7**

**Excludes institutions in receivership.*

- efficiently and effectively manage resources.

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

The Office of Examination underwent a number of organizational changes during 1990. Effective August 27, 1990, the Office of Financial Analysis and the Special Examination Division of the Office of Examination merged forming a single division known as the Policy and Risk Analysis Division (PRAD). Also, OE reduced its regional examination offices from four regions to three and designated them as the Eastern, Central, and Western Regions. The consolidation provided an opportunity to further streamline operations. In addition, three field examination offices located in Omaha, Neb., Louisville, Ky, and Spokane, Wash., will be closed in August 1991.

With the new regional and field examination office alignment, the Office of Examination has implemented a portfolio approach to examination. This approach assigns specific FCS institutions to OE field offices. The assignments have been established based on the most cost effective means of conducting the examinations and do not necessarily correspond to the Farm Credit District boundaries.

Currently, the Office of Examination consists of the Office of the Chief Examiner, three regional offices, and the Policy and Risk Analysis Division. The Office of the Chief Examiner, PRAD, and the Eastern Regional Office are located at the agency's headquarters in McLean, Va. The Eastern Regional Office has field offices in McLean, Va., Albany, N.Y., Louisville, Ky., and Atlanta, Ga., and is primarily responsible for examinations in the Springfield, Baltimore, Louisville, Columbia, and Jackson Farm

Credit Districts. The Eastern Regional Office also includes the Information Systems Examination Branch (ISEB) and the Special Examination Branch (SEB). ISEB conducts examinations on information systems of all Farm Credit Banks while SEB is primarily responsible for the examinations and oversight of the Federal Farm Credit Banks Funding Corporation, the Farm Credit System Financial Assistance Corporation, and the Federal Agricultural Mortgage Corporation.

The Central Regional Office, St. Louis, Mo., is responsible for examinations primarily in the Omaha, Wichita, St. Louis, and St. Paul Farm Credit Districts, as well as the Farm Credit Leasing Services Corporation in Minneapolis, Minn. Central Region field offices are located in St. Louis, Mo., Bloomington, Minn., Omaha, Neb., and Oklahoma City, Okla. The Western Regional Office, Denver, Colo., is responsible for the examinations primarily in the Western, Spokane, and Texas Farm Credit Districts, and the National Bank for Cooperatives in Denver, Colo. Western Region field offices are located in Spokane, Wash., Dallas, Texas, Sacramento, Calif., and Denver, Colo. The Office of Examination is also responsible for the examination of the National Consumer Cooperative Bank and the National Consumer Cooperative Bank Development Corporation, Washington, D.C.

The new Policy and Risk Analysis Division consists of Accounting and Reporting, Financial and Economic Analysis, and Regulatory Policy. Accounting and Reporting establishes and issues accounting and disclosure guidelines in addition to interpreting accounting issues and providing technical support for the Office of Examination. Monitoring external environmental and economic trends and the effects on the Farm Credit System are the primary responsibility of Financial and Economic Analysis. Other duties include conducting economic research and financial studies, and managing the call reporting system that obtains regular financial reports on Farm Credit System institutions. Regulatory Policy is responsible for leading the development of regulations and policy for the FCA, and interpreting technical issues. Other major duties include the prior approval of FCS institution mergers, transfers of direct lending authorities from FCS banks to associations, and changes to institution charters.

The Office of Examination also performs follow-up investigations on borrower rights complaints. Frequently, such investigations involve field review of the loan transaction and the determination of institution compliance with the requirements of the act and the regulations. Findings and conclusions are normally communicated to the complainant by the Office of Congressional and Public Affairs.

In a continuing effort to reduce costs and increase efficiency, an offsite examination program was implemented in 1990 on a pilot basis and several test examinations have been scheduled for the second quarter of 1991. This process will allow shifting of examination resources to high-risk institutions and minimizing examinations of low-risk institutions. The Office of Examination constantly reviews examination procedures in an effort to identify areas that will enhance examination efficiency and improve the quality of reports.

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

During 1990, the Office of Examination increased its emphasis on and intensified examinations of a number of areas, including the following.

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

- Borrower Rights—The Office of Examination has continued to emphasize the examination for compliance with the borrower rights provisions of the Farm Credit Act of 1971, as amended, and Regulation B, Equal Credit Opportunity, issued by the Board of Governors of the Federal Reserve System. As noted earlier, the Office of Examination investigates alleged violations of borrower rights and equal credit opportunity in conjunction with the Office of Congressional and Public Affairs.

- Off-Balance-Sheet Items—Off-balance-sheet activities can expose an institution to the risk of loss. These activities include letters of credit, loan commitments, and pending litigations. Written guidance on the appropriate conversion factors to be used for loan commitments in calculating the permanent capital ratio was provided to FCS institutions during the year.

- Nonperforming Loans—The identification of nonperforming loans by FCS institutions is critical to ensure proper management of loan portfolio risk. The Office of Examination has continued its emphasis on determining that FCS institutions have accurately identified high-risk loans with appropriate performance classifications. The performance classification reflects a borrower's ability to meet the terms of the loan and not the over reliance on collateral for repayment. In addition, the accurate identification of nonperforming loans is important to ensure proper reporting to shareholders and the effect on the institution's financial condition. The FCA has provided written guidance on the identification and accounting of nonperforming loans.

With the additional responsibilities of the former Office of Financial Analysis, the Office of Examination, specifically the Policy and Risk Analysis Division, has been extensively involved with the development of regulations, merger analysis, and accounting issues. That involvement resulted in:

- the issuance of bookletters to FCS institutions that provided guidelines on interest rate swaps, liquidity and investment practices, beginning permanent capital ratio calculations, and the applicability of FCA regulations to loans sold in the secondary market;

- the issuance of revised regulations on lending authorities and proposed revised regulations on lending limits, appraisals, loan participation, and financial disclosure to shareholders;

- the development of proposed new regulations for termination of FCS status for small associations and for the organization and ownership of certified mortgage poolers by FCS banks and associations;

- analyses and recommendations on the termination of the charter of the Farm Credit Corporation of America, the reassignment of a PCA to an adjoining Farm Credit District, six transfers of direct lending authority from the district banks to associations, one reorganization of a large association into 20 smaller ones, and 104 other financial and credit approvals;

- the granting of conditional preliminary approval to form a certified mortgage facility in the FCS to pool and securitize loans with the Federal Agricultural Mortgage Corporations (Farmer Mac) and analyzed Farmer Mac's Securities Guide;

- the evaluation of General Accounting Office and Department of the Treasury studies on risks from Government-sponsored enterprises and identified FCA's role for controlling these risks; and

- the initiation of an analysis of competition within the FCS to determine the most appropriate options for balancing the needs of borrowers with the interests of the public and investors.

The PRAD also:

- led the development of regulations dealing with disclosure to shareholders;

- developed accounting interpretations for staff dealing with a variety of issues including the accounting for sales of real estate, accounting for sales of loans between FCS institutions, accounting for nonaccrual loans, classification of loans sold between FCS institutions, application of the accounting concept of materiality, the proper accounting relating to participation loans between FCS institutions, and disclosure of financial forecasts;

- provided accounting support to the agency relating to the FCS and initiated action regarding the proper recording of the Farm Credit System Insurance Corporation assets;

- provided timely processing of the monthly and quarterly call reports;

- provided input to and support of the preparation of FCA's quarterly and annual reports of analysis of the financial performance of condition of institutions of the Farm Credit System;

- continued the development and enhancement of FCA's offsite surveillance capability, which monitors the financial soundness of FCS institutions, and includes the Uniform Performance Report, Early Warning System, Key Indicators Report, and financial projection models for institutions;

- kept FCA board and management informed of external and FCS conditions and risk utilizing the FCA Quarterly Report, the annual Economic Perspectives Report, the annual Economic Resource Handbook, Risk Analysis Memorandums and special analysis on economic conditions affecting the FCS and its institutions; and

- prepared special analyses of the conditions of the Farm Credit Bank of Spokane and several other FCS institutions.

The FCA Examiner Commissioning Program continues to play an important role in the development and training of FCA examiners. The 3-to 5-year on-the-job and formal Precommission Training Program concludes with a week-long oral and written test. Once an individual successfully completes the test, he or she is commissioned to conduct examinations of any bank, association, corporation, or other institution subject to examination by the FCA and to perform all acts requisite and proper for the conduct of such examinations. Five commissioning tests were conducted in 1990 and 32 examiners were commissioned. At the end of 1990, the FCA had 161 commissioned examiners with a total examination staff of 293 examiners. The commissioning test is updated annually and revised to reflect changes in the structure of FCA and in examination procedures.

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

Ratings

Institutions	1	2	3	4	5
FCBs, BCs, FICB		5	7	3	
PCAs		37	24	23	3
ACAs	1	30	6	2	
FLBAs	1	19	35	9	
FLCAs		1	3		
Total	**2**	**92**	**75**	**37**	**3**

Each FCS institution is assigned a composite rating upon the completion of each examination. The FCA Rating System is similar to the Uniform Financial Institutions Rating System used by most regulators of financial institutions. The rating system has been revised to reflect the nondepository nature of FCS institutions. Each institution is assigned a composite rating based on an evaluation of its capital adequacy, asset quality, management, earnings, and liquidity position. The ratings are on a scale of "1" through "5" in descending order of regulatory concern. A rating of 1 is assigned to well-managed institutions that are basically sound in every respect, while a rating of 5 is assigned to institutions with an extremely high immediate-or near-term probability of failure. Institutions rated 3 exhibit numerous weaknesses ranging from unsatisfactory to moderately severe. Above are the ratings of the 209 FCS institutions examined by FCA in 1990.

Supervision and Enforcement

The Office of Regulatory Enforcement (ORE) is the lead office for the FCA's supervision and enforcement activities for FCS institutions that require more than normal attention. Such institutions are typically found to be in noncompliance with the statute or regulations and/or are operating in an unsafe or unsound manner. The office also oversees institutions in receivership and undertakes special projects.

The ORE has two basic goals in the supervisory and enforcement areas.

1. To apply consistent and effective enforcement actions to any FCS institution that demonstrates instability or whose financial condition poses a threat to itself or to other FCS institutions.

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

During the year ended December 31, 1990, the ORE executed seven cease and desist orders and five agreements with FCS institutions. It also issued nine supervisory letters and 40 follow-up letters, amended two cease and desist orders and one agreement, and imposed conditions on 14 reorganizations and four corporate restructurings.

Improved compliance and safety and soundness among institutions made it possible to terminate one cease and desist order, three agreements, two conditions of merger, and two supervisory letters.

At the end of the year, there were 88 institutions with a total of $52.1 billion in assets operating under enforcement documents. These figures represent 28 percent of the number of institutions and 82 percent of the total assets of all FCS institutions.

The typical enforcement document is remedial in nature. It most often contains provisions that require boards of directors to establish plans to correct violations of law or regulations, loan administration or other operating deficiencies, or weaknesses in the financial condition of the institution.

Farm Credit System Institutions in Receivership

During 1990, there were 13 FCS institutions in various stages of receivership-the FLB and FLBA of Jackson, six PCAs in the Spokane Farm Credit District, two PCAs in the Texas Farm Credit District, two PCAs in the Omaha Farm Credit District, and the Farm Credit Corporation of America.

Substantially all of the remaining assets of the FLB and FLBA of Jackson in Receivership were sold during 1990. Loan assets were sold to a consortium of FCS banks in June, and the remainder of the physical assets were sold in October. The receivership maintained approximately $15 million at yearend to conclude the receivership. When the institutions were placed in receivership on May 20, 1988, their total assets were nearly $2.0 billion.

The majority of the Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes that remained on the books of the FLB of Jackson in Receivership were assumed on a dollar-for-dollar basis by the consortium of banks based on the purchase price of the assets. The balance of its debt obligations were assumed by FCS banks through assistance provided to the receivership by the Farm Credit System Financial Assistance Corporation in return for a like amount of preferred stock issued by the receivership.

At December 31, 1990, the FLB and FLBA of Jackson in Receivership were involved in 34 lawsuits (both as plaintiff and defendant) dealing with both pre-and post-receivership activities. The receivership also retained the right to sell approximately 5,000 acres of land in Texas. Various other administrative activities must also be concluded before the FCA Board can cancel the charters of the liquidating institutions and discharge the receiver.

The assets of the Richmond Production Credit Association in Receivership, in Sugar Land, Tex., were reduced by 25.6 percent from $8.5 million to $6.4 million during 1990. Since January 6, 1989, when the FCA Board approved the association board's resolution to voluntarily liquidate, a total of 63.6 percent of the assets have been satisfactorily disposed of by the receiver. As of December 31, 1990, a total of 32 accounts remained in the asset portfolio. Efforts to complete the closing of the receivership will continue to concentrate on collections and settlements of the remaining accounts.

The Coleman PCA, Coleman, Tex., was placed in receivership on April 26, 1989, following a determination of the FCA Board that it was operating in an unsafe and unsound manner. During 1990, its assets were reduced from $2.6 million to $1.9 million. Since that time, the receiver has disposed of 74 percent of its assets. As of December 31, 1990, a total of 10 accounts remained in the asset portfolio. As a result of satisfactory collection efforts to date, a partial asset distribution to stockholders was made in early 1991.

The necessary requirements have been met for the FCA Board to consider canceling the charters of the O'Neill Production Credit Association and Valentine Production Credit Association in Nebraska. It is expected that the FCA Board will take action to cancel these charters early in 1991.

The six Production Credit Associations that remain in receivership in the Spokane District are the Glendive PCA (Mont.), the Western Washington PCA (Wash.), the Willamette PCA (Ore.), the Western Montana PCA (Mont.), the Milk River PCA (Mont.), and the Southern Idaho PCA (Idaho). Four of these associations have completed the regulatory requirements necessary for the FCA Board to consider canceling their charters. It is expected that the FCA Board will take action in early 1991 to close these receiverships. Final asset distribution occurred when stockholders received par value for their stock as a result of assistance provided by the Farm Credit System Financial Assistance Corporation. The two remaining associations are expected to satisfy all the regulatory requirements that are necessary to have their charters canceled during 1991.

The Farm Credit Corporation of America (FCCA), a former service organization of the Farm Credit System, requested FCA Board approval for voluntary liquidation. Approval was granted, and on January 31, 1990, the FCA Board placed the FCCA in receivership and appointed a receiver to execute the approved plan of liquidation. The liquidation took place according to the plan and the FCA canceled the charter on December 20, 1990.

Office of General Counsel

The Office of General Counsel (OGC) provides legal advice and services to the FCA Board, the chairman, and agency staff. The mission of the OGC is to provide professional comprehensive, and authoritative legal services of the highest quality to enable the FCA to carry out its responsibilities and meet its objectives.

The OGC has two divisions.

The Corporate and Regulatory Law Division is divided into two branches.

The Corporate and Administrative Law Branch provides advice and renders legal opinions interpreting the Farm Credit Act of 1971, as amended, and other applicable laws addressing questions relating to the powers, duties, and authorities of FCS institutions and the FCA. Some of the areas involved include lending powers, disclosure, reorganizations, personnel and corporate practices, administrative law, and procurement.

The Regulatory and Legislative Law Branch provides legal support for the development and promulgation of all FCA regulations implementing the Farm Credit Act of 1971, as amended, and other applicable laws and in connection with agency legislative activities. During 1990, the Regulatory and Legislative Law Branch assisted in the promulgation of regulations that contained amendments to 12 CFR. Parts 613, 614, 615, 616, 618, and 619-Eligibility and Scope of Financing; Loan Policies and Operations, and Funding Operations; Coordination; General Provisions; Definitions. The regulations were published on June 19, 1990, at 55 FR 24861.

In addition, the branch assisted in the development of five sets of proposed regulations during 1990 pertaining to the Freedom of Information Act, service corporations, termination of Farm Credit System status, lending limits, and disclosure to stockholders.

The Litigation and Enforcement Division represents the agency in enforcement proceedings initiated by the FCA, in proceedings before other administrative bodies, and in litigation. When engaged in litigation, the OGC usually works with the U.S. Department of Justice.

At the beginning of 1990, there were 17 pending lawsuits involving the Farm Credit Administration. During the year, three lawsuits were initiated against the agency, and nine were terminated. Of the nine, eight were dismissed in favor of the agency.

Following are some of the remaining lawsuits as of December 31, 1990, involving the Farm Credit Administration. Cases are alphabetically arranged, and each listing includes the name and number of the case, the court where the suit was filed, and the date of the filing.

Public Citizen v. FCA, No. 90-5290 (D.C. Cir. filed Oct. 17, 1990). Plaintiff challenges the FCA's denial of access to reports of examination of the National Consumer Cooperative Bank under the Freedom of Information Act. The U.S. District Court found in favor of the FCA. Plaintiff has appealed to the U.S Circuit Court for the District of Columbia Circuit.

Little, et al. v. First South PCA, et al., CA No. J89-0021(W) (S.D. Miss. filed April 28, 1989). Plaintiffs' suit, in part, challenges the FCA's priority of claims regulation in regard to priority of severance pay for approximately 230 former employees of several Farm Credit System institutions in the Fifth (Jackson) Farm Credit District. On May 15, 1990, the U.S. District Court issued a partial summary judgment in favor of the FCA. No notice of appeal was filed, but the main case is still pending.

First South PCA, et al. v. FCA, et al., No. 89-0935-A (E.D. Va. filed June 23, 1989). Plaintiffs challenge the FCA's determination that section 410 of the Agriculture Credit Act of 1987 mandates a merger between the Federal Intermediate Credit Bank of Jackson and the Farm Credit Bank of Texas. The U.S. District Court found in favor of the FCA. Plaintiffs appealed to the Court of Appeals. A decision is pending.

The following three lawsuits address, in part, certain borrower rights provisions of the Agriculture Credit Act of 1987.

Four-C Ranch, et al. v. Western Farm Credit Bank, et al., No. 289-0457 (U.S. Bankruptcy Court, Eastern District of California, filed Nov. 3, 1989). Plaintiffs claim the FCA has not properly enforced certain borrower rights provisions. The case is still pending.

Jackson, et al. v. FCA, et al., No. CV-E-88-636 (Eastern District of California, filed Dec. 12, 1988). Plaintiffs claimed that the FCA's actions were arbitrary, capricious, and with abuse of discretion in allowing the institutions involved to have policies and practices that violated the plaintiff's borrower rights. The U.S. District Court denied plaintiffs' claim. On Jan. 12, 1990, the U.S. Court of Appeals for the Ninth Circuit affirmed the District Court's decision. On June 25, 1990, the U.S. Supreme Court declined to review the decision by the Ninth Circuit.

Morgan v. FCA, et al., No. 89-6159 (10th Circuit Court of Appeals, filed Feb. 3, 1989). Plaintiffs claimed that the Farm Credit Bank of Wichita (FCB) and South Central Oklahoma Production Credit Association (PCA) did not comply with borrower rights provisions and requested a writ of mandamus to compel the FCA to force the FCB and the PCA to comply with borrower rights. The U.S. Court of Appeals for the Tenth Circuit dismissed the action on April 18, 1990.

Farm Credit Administration Budget

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 FCA shall determine:

- the cost of administering the act for the subsequent fiscal year, including expenses for official functions;

- the amount of assessments that will be required to pay such administrative expenses, taking into consideration the funds contained in the Farm Credit Administration Administrative Expense Account, and maintaining a necessary reserve; and

- the amount of assessments that will be required to pay the cost of supervising and examining the Federal Agricultural Mortgage Corporation.

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

- apportion the amount of the assessment among FCS institutions on a basis determined to be equitable by the 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 to be 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 FCA. The funds contained in this account are not construed to be Federal Government funds or appropriated monies.

Farm Credit Administration Administrative Expense

(Dollar amounts in thousands)

Object Class	FY 1990 Actual	FY 1991 Estimated
Personnel Compensation		
Full-time Permanent	$21,491	$23,207
Other Personnel Compensation	841	998
Personnel Benefits	5,708	6,377
Total Personnel Compensation	**28,040**	**30,582**
Travel and Transportation of Persons	3,167	3,949
Transportation of Things	204	238
Communications, Utilities and Other Rent	765	1,403
Printing and Reproduction	125	136
Other Services	2,103	2,242
Supplies and Materials	573	695
Equipment	1,116	1,045
Total Obligations	$36,093	$40,290

The Farm Economy and Its Effects on the Farm Credit System

Farm Credit System institutions are largely single-industry lenders, serving farmers, ranchers, and their cooperatives. This means that loan demand and repayment capacity of their borrowers are greatly affected by conditions in the agricultural sector of the U.S. economy.

On balance, 1990 was another solid financial year for farmers and ranchers. Entering the year, basic supply and demand factors for most major farm commodities were favorable for strong prices and net farm income. However, as the year progressed the seeds of a downturn were being sown. For several key commodities, excess supply conditions emerged during the second half with cotton and red meats being notable exceptions. In addition, domestic and international policy developments turned negative for agriculture later in the year. Even so, indications are that sector-wide net income measures were at or near record highs in 1990. Less favorable was a slowdown in the gain of farmland values to about half the inflation rate and the prospect of reduced net farm income in 1991.

Farm Commodity Situation

Leading the return of crop supplies that exceeded consumption were record large world wheat, rice, and oilseed harvests, plus financial problems for some importing nations. This meant a global increase in overall grain supplies, generally weaker world trade, and softer price prospects for grains and oilseeds during the 1990-91 marketing year. Generally opposite conditions developed late in the year for domestic fruit and vegetable producers because of adverse weather in the Western states, including severe freeze damage and continued drought.

Overall, livestock producers had good margins during 1990. Margins for milk producers were exceptionally strong during the first half, but prices fell sharply late in 1990. This ended what had been a respite from over production, and portends a much rougher period for dairy producers. Cattle and hog operations stayed profitable as producers seemed to ignore strong market signals to expand herds. Extremely poor range conditions and rising irrigation costs in the West meant a jump in forage cost and caused considerable movement of cattle to feedlots and greener pastures. Margins were slim but positive among poultry and egg producers, resulting in some slow-down in their sustained growth pattern.

Domestic wheat stocks are approaching pre-1988-89 drought conditions; and farm wheat prices in the 1990-91 season are averaging over $1 per bushel below those of the past two seasons. But the stock situation is far from where it had been. Ending 1990-91 wheat stocks will be less than half those from the 1985 and 1986 crop years, and the 1990-91 ending feedgrain stocks in the United States are likely to remain near their relatively tight 1989-90 level. These are far from prior burdensome stock levels. Thus, grain markets in 1991-92 are likely to be highly weather and export sensitive. This situation is not expected to change quickly because a significant portion of our cropland remains out of production due to the long-term conservation reserve program.

Agricultural Policy Situation

Among the major political factors of 1990 affecting U.S. agriculture were: the debate and passage of the 1990 Farm and Budget Reconciliation Acts; Iraq's invasion of Kuwait; internal problems within the Soviet Union; and the breakdown of international trade negotiations. The latter refers to the General Agreement on Tariffs and Trade (GATT) talks. While the suspension is not one of great immediate concern, issues at stake are some of the more critical ones for the sector's long-term health. The unexpected Mideast situation caused a run-up in oil prices, pushing some harvest and transportation costs higher for farmers. The new Farm Act largely froze farm supports where the prior act ended, but the budget measure effectively imposed an immediate 15-percent reduction in crop program benefits.

Budget pressures clearly hinted at reduced farm supports before the final farm bill and budget measures passed Congress. Thus, some of its negative impacts were being reflected in the marketplace before enactment on November 28, 1990. This was evidenced by a slowing of land price increases during the third and fourth quarters throughout much of the Midwest where program crops are most important.

Given a tendency toward over-supply and depressed prices, the immediate outlook for program crop producers is being shaped by the 1990 Farm Act. At least in theory, producers can partially offset lost Government payments on the 15-percent ineligible payment acres by switching to more profitable crops. Thus, the loss of payment acres does not necessarily mean a drop in net income. Still, less income protection is being provided. And under current conditions of limited, profitable alternative crops, the program changes mean that net incomes of most program producers will both be down in 1991 and lower than they otherwise would have been. Cotton is an exception. Where it can be grown, positive features of the new program provisions will be illustrated in 1991.

Farm Financial Situation and FCS Condition

The farm sector has had a series of relatively strong financial performance years since the early 1980s, especially the last 4 years. Relatively high net farm incomes have been coupled with recovery in the balance sheet. The latter gains reflects both a growth in asset values and a reduction in debt levels. Though the nominal gains in net worth over these recent years have essentially just kept pace with inflation, the financial ratios for many farmers have shown substantial improvement.

Net farm income in 1990 is estimated at $49 billion, up from record highs of the prior 3 years. Much of the increase since 1988 was in the form of noncash accumulations of crop and livestock inventories. By managing their inventories, drawing down and then rebuilding them, farmers have held their net cash farm income in a relatively high and stable range, $55-58 billion, over the past 4 years.

Land values last year failed to keep up with inflation in most regions of the country. Notable exceptions were in the Lake and Mountain States where dairy and beef profits carried land values up 8 and 7 percent, respectively. Nationally, farmland values rose only about 2 percent; but declines of 5, 3, and 1 percent showed up, respectively, in Appalachia, the Southern Plains, and the Northeast.

The total farm debt market edged lower again in 1990. Farm debt stood at near $144 billion at yearend 1990, down $2 billion from a year earlier and $62.5 billion (30.3 percent) below a 1983 peak. But the most recent decline was associated with a 22-percent drop ($4.5 billion) in debt of the Farmers Home Administration (FmHA). In other words, the amount of farm debt provided by commercial lenders increased in 1990.

Indeed, Farm Credit System (FCS) institutions registered their first dollar and market share gains since 1982. Eight years ago, FCS lenders' outstanding loans to farmers and ranchers reached over $69 billion, or about 34 percent of all debt owed by these producers. At yearend 1990, FCS lenders' outstanding farm loans stood at $39.5 billion. This was 27.5 percent of the farm debt. By way of contrast, commercial banks over these same 8 years experienced a small initial dip in volume, but a steady rise in market share, from 22 to 34 percent. Their yearend 1990 outstandings to the farm sector was $49.5 billion, slightly below their prior peak in 1984.

The relatively strong farm income and stable real estate market has allowed many FCS institutions to continue to reduce their ratio of nonaccrual loans to gross loans. Still, the level of nonperforming loans, including high risk and restructured loans, remains high. Continued stability in agriculture will be necessary to allow further progress in improving the quality of the farm loan portfolio of FCS institutions.

The Farm Credit System

The Farm Credit System (FCS) is a network of borrower-owned lending institutions and related service organizations serving all 50 states and the Commonwealth of Puerto Rico. These institutions specialize in providing credit and related services to farmers, ranchers, and producers and harvesters of aquatic products. Loans may also be made to finance the processing and marketing activities of these borrowers. In addition, loans may be made to rural homeowners, selected farm related businesses, and agricultural, aquatic, or public utility cooperatives. All lending institutions of the FCS are governed by boards of directors elected by and from among their borrower-stockholders. Their bylaws provide, however, for at least one director to be elected from outside the FCS by the other directors.

On December 31, 1990, the FCS included the following lending related institutions:

- Farm Credit Banks;
- Federal Intermediate Credit Bank;
- Federal Land Bank Associations;
- Production Credit Associations;
- Agricultural Credit Associations;
- Federal Land Credit Associations; and
- Banks for Cooperatives.

The following related service organizations and other entities are also chartered under authorities contained in the Farm Credit Act of 1971, as amended:

- Federal Farm Credit Banks Funding Corporation;
- Farm Credit Leasing Services Corporation;
- Federal Agricultural Mortgage Corporation; and
- Farm Credit System Financial Assistance Corporation.

Farm Credit Banks (FCBs) in 11 of the 12 Farm Credit Districts were created on July 6, 1988, by the merger of the Federal Land Bank (FLB) and Federal Intermediate Credit Bank (FICB) in each of those districts. The FLB and FICB in the Jackson Farm Credit District did not merge because the FLB of Jackson was placed in receivership on May 20, 1988.

The FCBs provide a source of loan funds and support services to Production Credit Associations (PCAs), Agricultural Credit Associations (ACAs), and Federal Land Credit Associations (FLCAs). The FICB of Jackson does the same for two PCAs, one of which serves the States of Alabama, Mississippi, and most of Louisiana, the other of which serves 11 parishes in Northwest Louisiana.

The FCBs make long-term loans secured by first mortgages on farm and rural real estate through the FLBAs. ACAs, which were created by mergers of FLBAs and PCAs serving substantially the same territories, make direct long-, intermediate-, and short-term loans. PCAs make short-and intermediate-term loans. And the FLCAs, which were created by the granting of direct lending authority to FLBAs, make long-term loans. In many parts of the country, FLBAs or FLCAs and PCAs serving substantially the same territories are under joint management and are called Farm Credit Services, as are many ACAs. The number of associations is not indicative of service locations because most associations have several branch offices.

Long-term loans must be secured by first mortgages on real estate or their equivalency. Such loans may be made for terms of up to 40 years and for amounts of up to 85 percent of the appraised market value of the property taken as security; 97 percent if the loan is guaranteed by a State or Federal agency. Typically, long-term loans are made for purchasing farms, farmland, rural homes, machinery, equipment, and livestock; improving land; refinancing existing mortgages and paying other debts; constructing or repairing buildings; and financing other farm, farm home, or farm family needs.

Short-term loans are generally made for production or operating purposes, including family living expenses, and mature within a year. Examples of such loans include the purchase of seed, feed, and fertilizer. Intermediate-term loans are usually made to purchase production assets having a useful life of more than a year, such as farm equipment, machinery, and livestock. Such loans generally do not exceed 7 years, but may be made for terms of up to 10 years. Loans to commercial fishermen may be extended with terms of up to 15 years for major capital expenditures, including but not limited to the purchase of vessels, construction or purchase of shore facilities, and similar purchases directly related to the production or harvesting operation.

Effective January, 1, 1989, 10 of the 12 district Banks for Cooperatives and the Central Bank for Cooperatives merged to form the National Bank for Cooperatives, which does business as CoBank. The Springfield Bank for Cooperatives and the St. Paul Bank for Cooperatives chose not to participate in the merger. All three banks are authorized to make loans nationwide.

To be eligible to borrow from a Bank for Cooperatives, 80 percent of the voting control of the cooperative must be in the hands of farmers, ranchers, or commercial fishermen. Federations of cooperatives where the control is so held are also eligible. The voting control requirement is reduced to 60 percent for certain rural utilities and farm supply cooperatives. Entities that are eligible to borrow from the Rural Electrification Administration or the Rural Telephone Bank are also eligible. In addition, a legal entity with more than 50 percent of its voting control held by eligible borrowers of a Bank for Cooperatives may also borrow from the banks. To be eligible, a cooperative must also do 50 percent of its business with its members. However, business done with the U.S. Government or services and supplies furnished by the cooperative as a public utility are excluded in determining compliance with this requirement.

The Federal Farm Credit Banks Funding Corporation, located in Jersey City, N.J., issues the securities that are sold to raise loan funds for FCS institutions. It works with a selling group of approximately 110 securities dealers and dealer banks that offer the securities. The selling group distributes the securities worldwide to all types of investors, including commercial banks, money market funds, thrift institutions, pension funds, state and local governments, insurance companies, foreign banks and governments, and individuals.

The Farm Credit Leasing Services Corporation has its headquarters in Minneapolis, Minn., and has 12 sales offices throughout the United States. It provides leasing and related services to FCS borrowers, including agricultural producers, cooperatives, and rural utilities.

A secondary market for agricultural mortgage loans is provided by the Federal Agricultural Mortgage Corporation (Farmer Mac). Qualified agricultural real estate mortgage loans are sold on a non-recourse basis by loan originators to certified agricultural marketing facilities known as poolers. The poolers package the loans, in accordance with statutory requirements and standards established by Farmer Mac, into pools that serve as collateral for securities sold to the investing public. Farmer Mac guarantees the securities as to timely payment of principal and interest.

The 1987 Act also established the Farm Credit System Assistance Board and the Farm Credit System Insurance Corporation.

The Farm Credit System Assistance Board certifies financially distressed FCS institutions to receive financial assistance and administers assistance granted. FCS institutions may apply for assistance when the value of their capital stock falls below par, but must apply when it falls below 75 percent of par. The assistance board determines whether an institution should receive assistance and can impose conditions on institutions as a prerequisite to its receipt. As an alternative to granting financial assistance, the assistance board may request the Farm Credit Administration to require the troubled institution to merge with another FCS institution or place it in receivership.

Funds to provide financial assistance to troubled FCS institutions are obtained through the sale of up to $4.0 billion in 15-year Government-guaranteed bonds issued by the Farm Credit System Financial Assistance Corporation. The interest on these bonds is paid entirely by the U.S. Treasury for the first 5 years, half by the Treasury and half by the FCS for the second 5 years, and entirely by the FCS for the last 5 years. At the end of 15 years, the FCA in consultation with the Treasury will determine a schedule under which the FCS will repay all interest previously paid by the Treasury. FCS institutions are ultimately responsible for the repayment of all principal and interest on the bonds. To date, $1.261 billion in 15-year bonds have been issued.

The Farm Credit System Insurance Corporation (FCSIC) insures the timely payment of interest and principal on bonds, notes, and other obligations of FCS banks. The FCSIC is also required to satisfy the default by FCS institutions on certain bonds issued by the Farm Credit System Financial Assistance Corporation and ensure the retirement of each FCS institution's protected capital stock. In addition, the FCSIC is authorized to provide financial assistance to troubled FCS institutions, and to provide assistance to facilitate the merger of institutions. The FCSIC will also act as conservator or receiver for FCS institutions. With the exception of acting as conservator or receiver, the other authorities of the FCSIC do not become effective until January 1, 1993.

Financial Condition and Performance of Farm Credit System Institutions

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

Farm Credit Banks

The year 1990 marked the second full year of operation of the Farm Credit Banks. However, loan assets from some banks have been transferred to direct lending Agricultural Credit Associations and Federal Land Credit Associations, both of which have increased in number during the year. While most of the banks continue to make long-term real estate loans through Federal Land Bank Associations, an increasing amount of the FCBs' loan volume represents wholesale loans to direct lending associations. Although the banks transferred some of their loans to direct lending associations, much of the transferred loan volume was replaced by wholesale loans to the same direct lending associations. The banks provide the direct lending associations with debt financing, the same type of relationship which has existed for years between the banks and the Production Credit Associations. This trend is expected to continue, as 11 additional FLBAs will become FLCAs by early January of 1991.

Total assets of the Farm Credit Banks of $47.2 billion have declined from 1989 by $1.3 billion, or 2.7 percent, with gross loan volume falling by $642.1 million, or 1.6 percent. Marketable investments also declined by 9.0 percent, falling from $7.8 to $7.1 billion.

Overall, earning assets as a percentage of total assets increased from 92.4 to 92.6 percent. Some deterioration occurred in other high risk loans, which rose from $3.5 to $4.1 billion in 1990, an increase from 8.6 percent of the loan portfolio to 10.2 percent. Nonaccrual loans dropped for the fourth straight year to $2.0 billion, or 5 percent of gross loan volume, from $2.2 billion, or 5.3 percent of gross loan volume. Restructured loans also dropped $386.6 million to 4.4 percent of the loan portfolio from 5.3 percent. Acquired property fell to $281.4 million, from .8 percent of assets in 1989 to .6 percent of assets.

The combined net income of the banks decreased from $516.1 million in 1989 to $259.6 million in 1990, despite a 1990 net interest income gain of 20.3 percent and an operating expense decline of 4.5 percent. This decrease for 1990 compared with 1989 was due primarily to large extraordinary and other net gains in 1989, a large other net loss in 1990 of $58.0 million related to a debt buydown, and negative provisions for loan losses for 1989 exceeding those of 1990 by $82.8 million. The other net gains for 1989, which amounted to $72.6 million, were primarily gains on the sale of acquired property. An extraordinary gain of $30.8 million was related to the sale of loans. Also for 1989, the Federal Land Bank of Jackson in Receivership had $142.5 million in extraordinary gains in its continuing liquidation efforts.

Net interest income as a percentage of average total assets increased from 1.3 to 1.5 percent. Net interest income also increased relative to average earning assets, from 1.4 percent in 1989 to 1.6 percent in 1990. In addition, operating expenses were reduced from 1.15 percent of gross loan volume to 1.12 percent.

As of December 31, 1990, the total net worth of the 11 Farm Credit Banks, the Federal Intermediate Credit Bank of Jackson, and the Federal Land Bank of Jackson in Receivership was $4.2 billion, which was 8.9 percent of total assets. This was an increase from 1989 when total net worth was $3.7 billion, 7.6 percent of assets. Much of this increase was attributable to the $436.8 million in financial assistance provided by the FAC. The assistance was provided to the Farm Credit Bank of Spokane, which received $88.6 million, and the Federal Land Bank of Jackson in Receivership, which received $348.2 million. The FCB of Spokane and FLB of Jackson in Receivership continue to have preferred stock impairments of $64.3 million and $388.2 million, respectively.

In addition to the increased dollar level, net worth quality has improved as well. Protected capital stock, at $22.9 million in 1988, has dropped to $5.6 million in 1990, as its replacement by at-risk stock continues. Also, earned net worth or surplus has risen since the end of 1988. At $1.0 billion, earned net worth has risen to nearly 25 percent of total net worth, from 14 percent in 1988 and 21 percent in 1989. It is now 2.2 percent of total assets, up from 1.6 percent in 1989. Finally, permanent capital ratios for banks have improved. In 1989, six banks had ratios under 7 percent. In 1990, only four banks had (excluding the FLB of Jackson in Receivership) ratios under 7 percent.

Associations With Direct Lending Authority

On December 31, 1990, there were 149 Farm Credit System associations with direct lending authority. One hundred two were Production Credit Associations, 40 were Agricultural Credit Associations, and seven were Federal Land Credit Associations. In 1990, one ACA and five FLCAs were added. PCAs increased by 17. One PCA was broken into 20, one was merged into an ACA, and one was liquidated. This increase in direct lender associations will continue to be a factor in the future. Since ACAs and FLCAs were first established in 1989, financial results for years prior to 1989 do not exist.

Combined assets of direct lending associations increased by $2.2 billion for 1990 to $19.3 billion, due to an increase in gross loan volume of the same amount. Gross loan volume for ACAs and FLCAs, which rose $883 and $936 million, respectively, increased the most due to the added number of associations. PCAs increased gross loans by $399 million.

Net interest income was $426.8 million, a growth of 30.3 percent from $327.6 million for the 1989 period. This was also an increase as a percentage of total assets, 2.2 percent for 1990 compared with 1.9 percent for 1989, showing improved quality of income. Although operating expenses rose 7.7 percent for the year to $323.1 million, they remained stable as a percentage of total assets at 1.7 percent. Net interest income to average total assets increased for PCAs and ACAs as well, to 2.6 and 2.2 percent, respectively. FLCAs remained stable at 2 percent. The combined 1989 loss provision was a negative $64.8 million, but the 1990 provision was a positive $10.7 million.

Net income reached $126.8 million in 1990, an improvement from $124.0 million in 1989. PCA net income dipped $19.6 million for the year, primarily because in 1989 a large negative provision for loan losses of $54.7 million inflated 1989 income. FLCA net income declined only $1 million in 1990, even considering a 1989 other net gain of $12.2 million. ACA net income for 1990 improved $23.4 million over 1989, even though there was a $13.1 million negative provision for loan losses in 1989.

Nonaccrual loans rose in 1990 for direct lending associations, but they fell from 3.3 percent to 3.2 percent as a percentage of gross loan volume. Restructured and other high risk loans rose as percentage of gross loan volume from 6.5 to 6.7 percent. Nonaccrual loans increased as a percentage of gross loan volume for PCAs and FLCAs, while declining for ACAs. The restructured and other high risk loans of ACAs increased as a percentage of gross loan items, while they declined for PCAs and FLCAs. For combined direct lenders, the ratio of interest-earning assets to total assets improved to 86.4 percent at December 31, 1990, from 84.8 percent for the prior year. The ratio for PCAs rose to 81.4 percent, and the ACA and FLCA ratios rose to 90 percent.

Combined total net worth for direct lending associations climbed during 1990 by 7.6 percent, reaching $2.8 billion due primarily to the increase in the number of associations. However, the net worth-to-total assets ratio declined from 15.4 to 14.7 percent, since the new associations are more thinly capitalized. The ratio for PCAs was 18.8 percent, 12 percent for ACAs, and 9.5 percent for FLCAs. ACAs and FLCAs, which were formed within the last 2 years, are in the process of building their capital levels.

Earned net worth or surplus for combined direct lenders rose $125 million or 7.3 percent in 1990 to $1.8 billion, although as a percent of total net worth it has remained relatively stable at 65 percent. For FLCAs, earned net worth was 22.3 percent of total net worth, a large increase over 12.4 percent in 1989. For PCAs and ACAs, the ratios at December 31, 1990, were 67 and 65.2 percent, up 1 percent and 2 percent, respectively.

Capital stock increased $76.5 million during the year to $1 billion. Protected capital stock declined by $40.2 million to $132.8 million, while at-risk stock, increased $114.8 million to $753.9 million. Protected stock, which is being replaced by at-risk stock, now makes up only 13.2 percent of capital stock. Finally, the permanent capital ratios for direct lending associations remained relatively stable, even with the increase in new associations. From 1989 to 1990, the number of institutions with ratios under 7 percent remained relatively stable at 4 and 5, respectively. The number of institutions with ratios between 7 and 15 percent increased from 48 to 49. The number of institutions with ratios between 15 and 25 percent increased from 50 to 63. Associations with ratios between 25 and 50 percent increased from 23 to 31, and those associations with ratios of over 50 percent remained stable at 1. Thus, even though the new associations are more thinly capitalized, the capital is of higher quality allowing permanent capital ratios to remain stable. One reason for this is that there is relatively little protected capital.

Federal Land Bank Associations

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

On December 31, 1990, there were 140 active FLBAs compared with 146 a year earlier. During the year, 6 FLBAs became FLCAs, receiving a transfer of direct lending authority from their district banks.

Combined net income for 1989 of $100.9 million was inflated due to other net gains of $83.2 million related to the FLBA of Jackson's liquidation and to receipt of assistance from the Federal Land Bank of Jackson in Receivership provided for by the Farm Credit System Financial Assistance Corporation. This 1989 assistance, needed for redemption of borrowers' protected stock, was provided according to requirements of the Agricultural Credit Act of 1987. It pushed the FLBA of Jackson in Receivership's income for 1989 to $62.2 million compared with $0 for 1990. The combined FLBAs had $55 million in net earnings in 1990 compared with $100.9 million in 1989, or $38.7 million if the FLBA of Jackson in Receivership's income is removed.

Significant changes in income from 1989 to 1990 also occurred in the Spokane, St. Louis, and Western districts. The FLBAs in the Spokane and St. Louis districts had increases of $22.9 million and $12.7 million, respectively. The FLBA in Spokane was provided assistance of $18.8 million by the bank as provided for in the assistance agreement with the Farm Credit System Financial Assistance Corporation to cure impairment of its members' stock and to restore compliance with permanent capital standards. The income of the FLBAs in the St. Louis district, which rose from $0 in 1989 to $12.7 million in 1990, reflected a changed method of compensation. Prior to 1990, district FLBAs were compensated on a break-even basis, with payment being equal to expenses. In

1990, St. Louis district FLBAs received increased compensation both to provide more incentive to manage loans and to allow capital accretion. This changed compensation system served as preparation for January 1, 1991, when all St. Louis district FLBAs will be converted to FLCAs, direct lenders. Lastly, income in the Western district FLBAs declined by $21.8 million primarily due to the high level of nonaccruals at the Western Farm Credit Bank.

Total net worth of the FLBAs was $1.5 billion as of December 31, 1990, or 93.4 percent of total assets. This ratio, which indicates shareholders' ownership in the associations, decreased slightly from 1989 levels when total net worth was 94.2 percent of total assets. However, quality of net worth has improved. The FLBAs have been steadily replacing protected capital stock with at-risk stock, which qualifies as permanent capital. Protected capital stock declined by $246 million in 1990 to $712.7 million, while at-risk capital stock increased by $89.1 million to $304.9 million; this caused total capital stock to decline by $123.4 million to $1 billion. The ratio of protected to total capital stock is now 70 percent, down from 84 percent in 1989. Earned net worth was $460.4 million or 31.2 percent of total net worth, up from 27.8 percent in 1989.

Banks for Cooperatives

There are three Banks for Cooperatives (BCs); however, the performance of the National Bank for Cooperatives (NBC) dominates the BC financial results because its assets are approximately 90 percent of the combined assets.

Total combined assets of the BCs were $14.5 billion at December 31, 1990, an increase of $518 million, or 3.7 percent.

While marketable investments declined from $3.2 to $3.1 billion or 2.5 percent, gross loans increased by $629.5 million, rising to $11.3 billion. The annual increase in loans affected all BCs, although the gross loans of the NBC and St. Paul BC grew the most. The NBC expanded mostly domestic loan portfolios. The St. Paul BC increased loans to cooperatives in the dairy, sugar, and farm supply segments of the economy.

There has been a deterioration of the banks' loan quality. Nonaccrual loans have increased for the year from $12.5 million as of December 31, 1989, to $100.5 million as of December 31, 1990, and from .1 percent of gross loan items to .9 percent. Over 99 percent of the nonaccruals are associated with the NBC. Roughly half of the nonaccruals ($42.4 million) represent international loans to a Bulgarian bank to finance exports by cooperatives for which there are no U.S. Government guarantees. The remainder of the nonaccrual loans represent large domestic loans to cooperatives in the citrus and rice industries. The combined BCs also had an increase in restructured and other high risk loans, which rose to $355.2 million, from 2.4 percent of the total loan portfolio to 3.1 percent. In addition, acquired property rose from $1.5 to $1.6 million.

Net income, which had been rising since 1986, fell by $34.5 million or 32 percent to $71.8 million resulting in a decrease in the return on average assets from .80 percent to .51 percent. The major reasons for the fall in income were an increase in the provision for loan losses, which expanded due to the increase in nonaccruals, and an increase in operating expenses. Although net income declined, net interest income increased, as it has since 1987, despite the increase in nonaccrual loans. Net interest income also rose as a percentage of average assets from 1.32 to 1.37 percent.

Total net worth of the BCs fell 1.4 percent for the year to $933.3 million from $946.1

Permanent Capital Ratios

As of December 31

	< 7%		7–15%		15–25%		25–50%		> 50%	
System	**1989**	**1990**	**1989**	**1990**	**1989**	**1990**	**1989**	**1990**	**1989**	**1990**
Banks**	6	4	5	7	1	1				
BCs	1	1	2	2						
PCAs*	1		23	18	37	55	23	28	1	1
ACAs	2	1	24	29	13	8		2		
FLBAs*	15	1	43	25	16	22	8	5	64	87
FLCAs	1	4	1	2				1		
Totals	**26**	**11**	**98**	**83**	**67**	**86**	**31**	**36**	**65**	**88**

**Excludes institutions in receivership.*
***Includes Farm Credit Banks and the Federal Intermediate Land Bank of Jackson*

million, with the net worth-to-assets ratio dipping to 6.5 from 6.8 percent. Although capital levels have fallen, permanent capital ratios continue to improve with the shift from protected to at-risk stock. Permanent capital ratios for the three BCs have risen to 10 percent for the Springfield Bank for Cooperatives, 10.4 percent for the St. Paul Bank for Cooperatives, and 5.9 percent for the NBC. Protected stock dropped $133 million in 1990 to $404.2 million, while at-risk stock grew $103.4 million to $348 million.

Combined earned net worth or surplus increased 10.2 percent to $181.1 million. It has also increased to 19.4 percent of total net worth and to 1.3 percent of total assets, from 17.4 percent and 1.2 percent, respectively, in 1989.

Funding the Farm Credit System

The Farm Credit Banks and the Banks for Cooperatives obtain the majority of their loan funds from the sale of Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes through the Federal Farm Credit Banks Funding Corporation. In recent years, they have also expanded their use of specialized funding activities, including a medium-term note program as well as hedging, swaps, and other financing mechanisms. The majority of the proceeds from sales of systemwide debt securities in 1990 were used to fund maturing obligations and to restructure the debt portfolios of FCS institutions through internal transfers of existing debt. Because of the continued lending volume decline, the FCS paid down nearly $1 billion in 1990.

The Federal Farm Credit Banks Funding Corporation issued a total of $137.1 billion of bonds and discount notes in 1990. Of this total, new 3-month bond sale participations were $14.6 billion, 6-month bond participations reached $13.3 billion, and term bond participations amounted to $8.3 billion. Discount note activity totaled $93.7 billion and represented 68.3 percent of the total debt issued.

Specialized funding activities, which reached $5 billion, were priced through underwritten transactions including $3.55 billion in fixed debt and $1.45 billion in floating debt transactions. The narrow yield spreads over U.S. Treasury securities and on callable agency debt made the issuance of callable debt very favorable. Callable debt offerings totaled $3.55 billion in 1990 compared

Farm Credit System: Debt Outstanding and Average Cost

(Dollar Amounts In Millions)

	FCB[1]		BC		Total[3]	
As of December 31,	1990	1989	1990	1989	1990	1989
Bonds[2]	$32,827.2	$35,021.0	$ 6,413.4	$ 4,564.0	$39,232.4	$39,585.0
Discount Notes	8,679.2	8,135.3	6,903.7	8,175.2	15,582.9	16,310.5
Total Debt	**$41,506.4**	**$43,156.3**	**$13,317.1**	**$12,739.2**	**$54,815.3**	**$55,895.5**
Average Bond Cost	8.68%	9.35%	8.69%	9.49%	8.68%	9.37%
Average Discount Note Cost	7.55	8.47	7.58	8.51	7.56	8.49
Average Debt Cost	8.44	9.19	8.10	8.85	8.36	9.15

[1]FCB includes the FICB of Jackson
[2]Bonds include medium-term notes.
[3]Total accounts for paydown of $1,074 million in discount notes of the System Funding Reserve in 1989.
Source: Federal Farm Credit Banks Funding Corporation Annual Information Statement—1990.

with $450 million in 1989. The funding corporation raised $275 million of the total through the reopening of seven outstanding term bond issues during 1990. Other specialized funding activities included the placement of $158.7 million directly with investors, the repurchase of $550.2 million of outstanding debt, and the transfer of $323.6 million of term debt between FCS banks. The medium term note program was also continued, with issues totaling $2.3 billion in 1990.

Lower market interest rates in 1990 and significantly lower spreads of FCS debt over U.S. Treasury securities reduced the average coupon rate and the average cost of debt outstanding in 1990.

The average coupon rates in 1990 for 3-month bonds, 6-month bonds, and term debt were 8, 8.08, and 8.14 percent, respectively. The average interest rate on discount notes in 1990 was 7.92 percent which, together with the use of specialized funding, reduced the average interest rate to 7.99 percent for all new debt issued in 1990 from an average rate of 8.93 percent in 1989.

Improved perceptions about the recovery in the farm economy and investors' preference for high quality debt in the financial markets also favored the funding activities of the FCS in 1990. A paydown in total agency debt, as well as the flight of investors to high quality securities, has meant a progressive reduction in yield spreads between FCS issues and comparable U.S. Treasury securities.

The average spread over U.S. Treasury securities for 3-month bonds dropped 28 basis points, declining from 48 basis points in 1989 to 20 basis points in 1990. The spread for the 6-month bonds narrowed from 48 to 14 basis points. The average spread over Treasury securities for term bonds shrank from 15 basis points in 1989 to 6 basis points in 1990.

The FCS raised $600 million of new money in 3-and 6-month securities, $900 million in medium term notes, and $3.3 billion in specialized funding, and paid down $700 million in discount notes and $5.1 billion in term debt.

Average debt cost of the FCBs fell from 9.19 percent at the end of 1989 to 8.44 percent the end of 1990. The average debt cost of the BCs fell from 8.86 to 8.10 percent in 1990. The combined average debt cost for the FCBs and the BCs dropped from 9.15 percent in 1989 to 8.36 percent in 1990.

Financial Assistance

As of December 31, 1990, a total of $1.261 billion of the $4 billion originally authorized by Congress to provide financial assistance to distressed FCS institutions has been used. Four Farm Credit Banks, those in Louisville, Omaha, St. Paul, and Spokane have received a total of $419 million. The Federal Land Bank of Jackson and the Federal Land Bank of Jackson in Receivership received $388 million. Another $417 million was used to fund FCS capital preservation agreements, and $16 million was used to redeem eligible borrower-owned stock in liquidating institutions. The remaining $21 million has gone to various expenses related to financial assistance or remains in the Farm Credit Assistance Fund under the control of the Farm Credit System Financial Assistance Corporation.

Young, Beginning, and Small Farmers

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

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

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

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

Each of the association classes (FLBAs*, FLCAs, PCAs, and ACAs) experienced an increase in gross new money loaned in the year ending December 31, 1990, due to improved economic conditions. Each association class, except for the PCAs, increased the proportion of its new loans going to target groups. The PCA proportion remained roughly constant. The absolute amount of new money going to target groups increased significantly across all association classes. The total volume of PCA loans going to target groups, for example, increased 63 percent, rising from $792 million in 1989 to $1.29 billion in 1990. Together, these results suggest the target groups benefitted significantly from the highly competitive agricultural credit market that existed during the past year.

As in 1989, the ACAs lent the largest dollar volume of new loans ($1.35 billion) to target groups. The PCAs followed with a loan volume of $1.29 billion and the FLBAs/FLCAs with $480 million. The proportion of new money going to target groups was ranked differently with 32 percent of ACA loans, 24 percent of FLBA/FLCA loans, and 17 percent of PCA loans going to target groups. Greater statistical detail can be found in table 13 of the appendix.

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

Appendix A—Financial Tables

Notice to the Reader

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

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

Table 1

Farm Credit Banks Combined Statement of Financial Condition

(Dollars in Millions)

As Of December 31,	1990	1989	1988	1987	1986
Assets					
Loans	$39,821.8	$40,463.9	$42,210.1	$44,816.6	$52,012.3
Less: Allowance for Losses	902.1	987.2	1,254.0	2,187.0	2,701.8
Net Loans	38,919.7	39,476.7	40,956.1	42,629.6	49,310.5
Cash and Investments in Securities	7,318.6	8.057.2	5,736.4	6,472.1	8,913.6
Net Acquired Property	281.4	385.5	578.3	764.7	937.4
Other Assets—Net	709.2	596.5	572.9	565.7	727.4
Total Assets	**47,228.9**	**48,515.9**	**47,843.7**	**50,432.1**	**59,888.9**
Liabilities					
Consolidated Systemwide and Other Bonds	29,950.9	34,936.2	34,110.8	36,538.8	44,481.5
Consolidated Systemwide Notes	11,116.5	7,209.3	6.495.3	6,547.1	7,930.2
Other Liabilities	1,962.8	2,663.7	3,261.9	3,977.3	3,670.7
Total Liabilities	**43,030.2**	**44,809.2**	**43,868.0**	**47,063.2**	**56,082.4**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	5.6	9.6	22.9	3,326.1	3,614.6
Capital Stock and Participation Certificates—Unprotected	2,687.3	2,818.7	3,595.1	0.0	0.0
Preferred Stock—FAC	807.3	370.6	375.6	0.0	0.0
Other Capital	(346.2)	(278.1)	(585.1)	(702.2)	0.0
Total Capital	**3,154.0**	**2,920.8**	**3,408.5**	**2,623.9**	**3,614.6**
Earned Net Worth	1,044.7	785.9	567.2	745.0	191.9
Total Net Worth	**4,198.7**	**3,706.7**	**3,975.7**	**3,368.9**	**3,806.5**
Total Liabilities and Net Worth	**$47,228.9**	**$48,515.9**	**$47,843.7**	**$50,432.1**	**$59,888.9**

Note: Totals may not add due to rounding.

Table 2

Farm Credit Banks Combined Statement of Income and Expense

(Dollars in Millions)

For the year ended December 31,	1990	1989	1988	1987	1986
Interest Income					
Loans	$3,823.1	$4,116.8	$4,088.3	$4,304.4	$5,644.8
Investments and Other	610.6	579.9	443.7	489.7	495.1
Total Interest Income	**4,433.7**	**4,696.7**	**4,532.0**	**4,794.1**	**6,139.9**
Interest Expense					
Consolidated Bonds	3,109.3	3,386.6	3,435.8	4,022.3	5,207.9
Notes and Other	608.9	715.2	683.4	590.9	516.5
Total Interest Expense	**3,718.2**	**4,101.8**	**4,119.2**	**4,613.2**	**5,724.4**
Net Interest Income (Loss)	715.5	594.9	412.8	180.9	415.5
Less: Provision for Loan Losses	(58.3)	(141.1)	(651.4)	(92.3)	1,443.6
Net Interest Income (Loss) after Provision for Loan Losses	773.8	736.0	1,064.2	273.2	(1,028.1)
Other Income	46.7	128.0	559.7	154.8	570.4
Operating Expenses					
Salaries And Employee Benefits	123.1	140.6	137.9	154.8	128.6
Occupancy and Equipment Expenses	37.2	37.5	34.6	38.2	34.1
Other Operating Expenses	283.8	287.0	284.2	289.0	427.7
Total Operating Expenses	**444.1**	**465.1**	**456.7**	**482.0**	**590.4**
Other Expenses	105.9	56.1	44.7	92.8	357.3
Extraordinary Items	(10.9)	173.3	(373.0)	0.0	0.0
Net Income (Loss)	**$ 259.6**	**$ 516.1**	**$ 749.5**	**($ 127.9)**	**($1,405.4)**

Note: Totals may not add due to rounding.

Table 3

Farm Credit Banks Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31,	1990	1989	1988	1987	1986
Loan Performance					
Performing	$32,033.3	$32,719.7	$32,178.1	$31,077.7	$34,326.4
Formally Restructured	1,693.3	2,096.7	1,960.0	1,745.5	998.3
Other Restructured or Reduced Rate	45.3	28.5	16.5	33.6	5.6
Other High Risk	4,078.3	3,469.7	5,093.6	7,187.5	518.0
Nonaccrual	1.988.3	2,164.9	3,001.4	4,512.4	6,025.7
Net Chargeoff on Loans	$ 12.1	$ 196.5	$ 64.0	$ 422.5	$ 1,062.3
Selected Ratios					
Return on Assets	0.55%	1.10%	1.54%	–0.24%	–2.22%
Return on Equity	6.59%	13.41%	19.39%	3.67%	–29.45%
Net Interest Margin	1.63%	1.37%	0.94%	0.38%	0.74%
Capital as Percentage of Assets	8.89%	7.64%	8.31%	6.68%	6.36%
Debt-to-Capital Ratio (:1)	10.25	12.09	11.03	13.97	14.73

Table 4

Banks for Cooperatives Combined Statement of Financial Condition

(Dollars in Millions)

As of December 31,	1990	1989	1988	1987	1986
Assets					
Loans	$11,305.9	$10,676.4	$10,195.8	$ 8,386.5	$7,547.3
Less: Allowance for Losses	151.2	128.3	128.5	141.0	145.5
Net Loans	11,154.7	10,548.1	10,067.3	8,245.5	7,401.8
Cash and Investments in Securities	3,114.7	3,192.3	2,936.6	2,749.4	2,290.0
Net Acquired Property	1.6	1.5	6.9	11.4	15.5
Other Assets–Net	192.5	203.9	164.1	131.7	103.7
Total Assets	**14,463.5**	**13,945.8**	**13,174.9**	**11,138.0**	**9,811.0**
Liabilities					
Consolidated Systemwide and Other Bonds	5,536.2	4,564.0	5,501.1	4,132.0	3,785.2
Consolidated Systemwide Notes	7,780.9	7,989.5	6,422.4	5,441.8	4,277.3
Other Liabilities	213.1	446.2	243.0	529.4	674.1
Total Liabilities	**13,530.2**	**12,999.7**	**12,166.5**	**10,103.2**	**8,736.6**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	404.2	537.2	730.2	697.5	728.4
Capital Stock and Participation Certificates—Unprotected	348.0	244.6	96.1	0.0	0.0
Preferred Stock—FAC	0.0	0.0	0.0	0.0	0.0
Other Capital	0.0	0.0	0.0	0.0	0.0
Total Capital	**752.2**	**781.8**	**826.3**	**697.5**	**728.4**
Earned Net Worth	181.1	164.3	337.4	337.4	346.1
Total Net Worth	**933.3**	**946.1**	**1,008.3**	**1,034.9**	**1,074.4**
Total Liabilities and Net Worth	**$14,463.5**	**$13,945.8**	**$13,174.9**	**$11,138.1**	**$9,811.0**

Note: Totals may not add due to rounding

Table 5

Banks for Cooperatives Combined Statement of Income and Expense

(Dollars in Millions)

For the year ended December 31,	1990	1989	1988	1987	1986
Interest Income					
Loans	$1,021.5	$1,009.3	$ 853.9	$658.0	$730.8
Investments and Other	240.4	266.0	205.9	163.5	134.1
Total Interest Income	**1,261.9**	**1,275.3**	**1,059.8**	**821.5**	**864.9**
Interest Expense					
Consolidated Bonds	475.5	491.8	412.1	360.4	410.5
Notes and Other	592.7	608.8	486.7	332.3	314.6
Total Interest Expense	**1,068.1**	**1,100.6**	**898.8**	**692.7**	**725.1**
Net Interest Income (Loss)	193.7	174.7	161.0	128.8	139.8
Less: Provision for Loan Losses	27.9	(8.6)	11.0	(6.7)	13.6
Net Interest Income (Loss) after Provision for Loan Losses	165.8	183.3	150.0	135.5	126.2
Other Income	8.9	12.9	11.8	8.3	11.0
Operating Expenses					
Salaries and Employee Benefits	31.3	27.0	28.1	29.2	31.3
Occupancy and Equipment Expenses	7.4	5.7	6.5	7.5	7.5
Other Operating Expenses	24.3	22.8	21.5	19.8	19.1
Total Operating Expenses	**63.0**	**55.5**	**56.1**	**56.5**	**57.9**
Other Expenses	39.9	34.4	19.9	7.6	78.8
Extraordinary Items	0.0	0.0	0.0	0.0	0.0
Net Income (Loss)	**$ 71.8**	**$ 106.3**	**$ 85.8**	**$ 79.8**	**$ 0.5**

Note: Totals may not add due to rounding

Table 6

Banks for Cooperatives Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31,	1990	1989	1988	1987	1986
Loan Performance					
Performing	$10,851.3	$10,406.2	$10,307.1	$7,933.6	$7,111.5
Formally Restructured	92.6	85.9	76.1	67.3	71.0
Other Restructured or Reduced Rate	0.5	0.0	2.8	14.7	15.8
Other High Risk	262.6	171.7	36.4	72.8	171.4
Nonaccrual	100.5	12.5	14.7	10.8	48.0
Net Chargeoffs on Loans	$ 5.0	($ 8.4)	$ 22.9	($ 2.0)	($ 1.8)
Selected Ratios					
Return on Assets	0.51%	0.80%	0.67%	0.75%	0.01%
Return on Equity	6.74%	10.02%	6.24%	7.61%	0.05%
Net Interest Margin	1.41%	1.34%	1.22%	1.22%	1.40%
Capital as a Percentage of Assets	6.45%	6.78%	7.65%	9.29%	10.95%
Debt-to-Capital Ratio (:1)	14.50	13.74	12.07	9.76	8.13

Table 7

Direct Lenders Combined Statement of Financial Condition[1]

(Dollars in Millions)

As of December 31,	1990[2]	1989[2]	1988	1987	1986
Assets					
Loans	$17,693.1	$15,474.9	$ 9,459.9	$ 9,675.4	$11,432.1
Less: Allowance for Losses	387.3	375.9	416.5	574.5	698.2
Net Loans	17,305.8	15,099.0	9,043.4	9,100.9	10,733.9
Cash and Investments in Securities	72.1	70.5	49.4	37.4	54.9
Net Acquired Property	63.8	75.7	83.4	110.5	156.5
Other Assets—Net	1,867.9	1,895.1	1,963.5	2,018.4	2,004.8
Total Assets	**19,309.6**	**17,140.3**	**11,139.7**	**11,267.2**	**12,950.1**
Liabilities					
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	0.0	0.0	0.0	0.0	0.0
Other Liabilities	16,462.2	14,494.5	8,950.7	9,149.1	10,748.6
Total Liabilities	**16,462.2**	**14,494.5**	**8,950.7**	**9,149.1**	**10,748.6**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	132.8	173.0	659.8	994.0	1,171.5
Capital Stock and Participation Certificates—Unprotected	753.9	639.1	167.8	0.0	0.0
Preferred Stock—FAC	0.0	0.0	0.0	0.0	0.0
Other Capital	123.0	121.1	0.8	(23.3)	0.0
Total Capital	**1,009.7**	**933.2**	**828.4**	**970.7**	**1,171.5**
Earned Net Worth	1,837.6	1,712.5	1,360.6	1,147.4	1,030.0
Total Net Worth	**2,874.3**	**2,645.7**	**2,189.0**	**2,118.1**	**2,201.5**
Total Liabilities and Net Worth	**$19,309.6**	**$17,140.3**	**$11,139.7**	**$11,267.2**	**$12,950.1**

Note: Totals may not add due to rounding.

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

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

Table 8

Director Lenders Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the year ended December 31,	1990[2]	1989[2]	1988	1987	1986
Interest Income					
Loans	$1,744.1	$1,558.1	$931.5	$958.8	$1,336.9
Investments and Other	9.9	17.8	3.9	0.3	1.8
Total Interest Income	**1,754.0**	**1,575.9**	**935.4**	**959.1**	**1,338.7**
Interest Expense					
Consolidated Bonds	0.0	0.0	0.0	0.0	0.0
Notes and Other	1,372.2	1,248.3	740.7	787.0	1,165.4
Total Interest Expense	**1,327.2**	**1,248.3**	**740.7**	**787.0**	**1,165.4**
Net Interest Income (Loss)	426.8	327.6	194.7	172.1	173.3
Less: Provision for Loan Losses	10.7	(64.8)	(148.0)	(83.6)	308.7
Net Interest Income (Loss) after Provision for Loan Losses	416.1	392.4	342.7	255.8	(135.4)
Other Income	100.9	101.5	172.5	118.0	182.2
Operating Expenses					
Salaries and Employee Benefits	194.0	185.2	144.4	163.1	195.9
Occupancy and Equipment Expenses	25.6	24.6	21.0	23.3	28.7
Other Operating Expenses	103.5	90.1	59.8	65.6	74.0
Total Operating Expenses	**323.1**	**299.9**	**225.2**	**252.0**	**298.6**
Other Expenses	72.7	83.7	65.1	20.4	37.1
Extraordinary Items	5.6	13.7	20.2	0.1	0.1
Net Income (Loss)	**$ 126.8**	**$ 124.0**	**$245.1**	**$101.5**	**($ 289.0)**

Note: Totals may not add due to rounding

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

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

Table 9

Direct Lenders Combined Trends in Selected Financial Measures[1]

(Dollars in Millions)

As of December 31,	1990[2]	1989[2]	1988	1987	1986
Loan Performance					
Performing	$15,933.1	$13,957.8	$8,127.6	$7,867.9	$8,798.3
Formally Restructured	416.7	357.1	321.1	367.2	224.3
Other Restructured or Reduced Rate	3.8	10.9	20.1	29.0	12.0
Other High Risk	771.8	639.1	520.3	645.4	1,025.8
Nonaccrual	568.1	511.4	485.1	765.9	1,018.2
Net Chargeoffs on Loans	$ 10.0	$ 10.8	$ 10.0	$ 40.1	$ 137.2
Selected Ratios					
Return on Assets	N/A	N/A	2.20%	0.84%	–1.95%
Return on Equity	N/A	N/A	11.40%	4.55%	–11.57%
Net Interest Margin	N/A	N/A	2.25%	1.97%	1.46%
Capital as a Percentage of Assets	14.75%	15.44%	19.65%	18.76%	17.00%
Debt-to-Capital Ratio (:1)	5.78	5.48	4.09	4.33	5.69

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

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

Table 10

Federal Land Bank Associations Combined Statement of Financial Condition

(Dollars in Millions)

As of December 31,	1990[1]	1989[1]	1988	1987	1986
Assets					
Loans[2]	N/A	N/A	N/A	N/A	N/A
Less: Allowance for Losses[3]	N/A	N/A	N/A	N/A	N/A
Net Loans	N/A	N/A	N/A	N/A	N/A
Cash and Investments in Securities	$ 241.9	$ 211.0	$ 352.4	$ 220.2	$ 208.4
Net Acquired Property	0.3	0.3	N/A	N/A	N/A
Other Assets—Net	1,340.2	1,466.3	2,134.5	1,461.8	2,117.3
Total Assets	**1,582.4**	**1,6776.6**	**2,486.9**	**1,682.0**	**2,325.7**
Liabilities					
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	0.0	0.0	0.0	0.0	0.0
Other Liabilities[3]	104.4	97.3	169.9	229.7	254.2
Total Liabilities	**104.4**	**97.3**	**169.9**	**229.7**	**254.2**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	712.7	958.7	1,741.3	1,958.6	2,240.9
Capital Stock and Participation Certificates—Unprotected	304.9	215.8	42.4	0.0	0.0
Other Capital	0.0	(33.5)	(107.5)	(695.5)	(37.7)
Total Capital	**1,017.6**	**1,141.0**	**1,676.2**	**1,263.1**	**2,203.2**
Earned Net Worth	460.4	439.3	640.8	189.2	(131.7)
Total Net Worth	**1,478.0**	**1,580.3**	**2,317.0**	**1,452.3**	**2,071.5**
Total Liabilities and Net Worth	**$1,582.4**	**$1,677.6**	**$2,486.9**	**$1,682.0**	**$2,325.7**

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

[2]The FLBAs act as agents for the FCBs (formerly Federal Land Banks) in the lending process, but do not hold loans themselves.

[3]FLBAs in some districts have liability for losses on FCB (formerly Federal Land Bank) loans. Because FLBAs do not make loans, the FLBA allowance for loan losses is included in FLBA liabilities.

Table 11

Federal Land Bank Associations Combined Statement of Income and Expenses

(Dollars in Millions)

For the year ended December 31,	1990[1]	1989[1]	1988	1987	1986
Interest Income					
Loans	$ 0.6	$ 1.2	$ 1.0	$ 0.0	$ 0.0
Investments and Other	1.8	1.3	6.9	13.7	26.1
Total Interest Income	**2.4**	**2.5**	**7.9**	**13.7**	**26.1**
Interest Expense					
Consolidated Bonds	N/A	N/A	N/A	N/A	N/A
Notes and Other	N/A	N/A	N/A	N/A	N/A
Total Interest Expense	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Net Interest Income (Loss)	2.4	2.5	7.9	13.7	26.1
Less: Provision for Loan Losses	5.8	3.2	10.3	(10.7)	14.3
Net Interest Income (Loss) after Provision for Loan Losses	(3.4)	(0.7)	(2.4)	24.4	11.8
Other Income	234.2	277.1	1,097.2	222.8	201.8
Operating Expenses					
Salaries and Employee Benefits	108.7	104.5	143.4	153.5	141.1
Occupancy and Equipment Expenses	15.1	14.0	19.0	19.2	18.7
Other Operating Expenses	46.0	35.8	45.8	52.2	120.2
Total Operating Expenses	**169.8**	**154.3**	**208.2**	**224.9**	**280.0**
Other Expenses	6.0	0.2	10.0	256.3	411.6
Extraordinary Items	0.0	(21.0)	65.7	0.0	0.0
Net Income (Loss)	**$ 55.0**	**$100.9**	**$942.3**	**($234.0)**	**($478.0)**

Note: Totals may not add due to rounding

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

Table 12

Federal Land Bank Associations Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31,	1990[1]	1989[1]	1988	1987	1986
Loan Performance					
Performing	—	—	—	—	—
Formally Restructured	—	—	—	—	—
Other Restructured or Reduced Rate	—	—	—	—	—
Other High Risk	—	—	—	—	—
Nonaccrual	—	—	—	—	—
Net Chargeoffs on Loans	$6.7	$5.5	$6.8	$3.9	$50.3
Selected Ratios					
Return on Assets	3.39%	5.51%	48.50%	–12.23%	–3.85%
Return on Equity	3.60%	5.90%	52.82%	–12.55%	–4.10%
Net Interest Margin	N/A	N/A	N/A	N/A	N/A
Capital as a Percentage of Assets	93.40%	94.20%	93.17%	78.32%	92.45%
Debt-to-Capital Ratio (:1)	0.07	0.06	0.07	2.64	0.05

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

Table 13

Young, Beginning, and Small Farmers: Loans Outstanding and New Money Loaned by Type of Association

(Dollars in Thousands)

For the year ended December 31, 1990	Total Portfolio	Young, Beginning, & Small Farmers[1]	Young Farmers[2]	Beginning Farmers[3]	Small Farmers[4]	Other Farmers
Federal Land Bank Associations & Federal Land Credit Associations						
Total Number of Loans Outstanding	297,228	4,432	7,877	6,853	26,116	251,950
Percentage Distribution	100.00%	1.49%	2.65%	2.30%	8.79%	84.77%
Total Amount of Loans Outstanding	$23,420,202	$221,007	$586,846	$728,999	$732,214	$21,151,136
Percentage Distribution	100.00%	0.94%	2.51%	3.11%	3.13%	90.31%
Gross New Money Loaned	$ 1,972,435	$ 71,628	$127,575	$193,364	$ 88,099	$ 1,491,499
Percentage Distribution	100.00%	3.63%	6.47%	9.82%	4.47%	75.62%
Agriculture Credit Associations						
Total Number of Loans Outstanding	176,754	13,926	15,344	6,511	33,376	107,597
Percentage Distribution	100.00%	7.88%	8.68%	3.68%	18.88%	60.88%
Total Amount of Loans Outstanding	$ 9,316,179	$409,600	$640,149	$415,496	$629,534	$ 7,221,400
Percentage Distribution	100.00%	4.40%	6.87%	4.46%	6.76%	77.51%
Gross New Money Loaned	$ 4,221,542	$404,577	$424,751	$267,455	$258,640	$ 2,866,119
Percentage Distribution	100.00%	9.58%	10.06%	6.34%	6.13%	67.89%
Production Credit Associations						
Total Number of Loans Outstanding	124,913	5,438	12,569	6.968	9,180	90,758
Percentage Distribution	100.00%	4.35%	10.06%	5.58%	7.35%	72.66%
Total Amount of Loans Outstanding	$ 6,939,078	$156,502	$528,965	$421,829	$197,647	$ 5,634,135
Percentage Distribution	100.00%	2.26%	7.62%	6.08%	2.85%	81.19%
Gross New Money Loaned	$7,383,655	$164,362	$501,487	$385,452	$235,918	$ 6,096,436
Percentage Distribution	100.00%	2.22%	6.79%	5.22%	3.20%	82.57%

[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.*

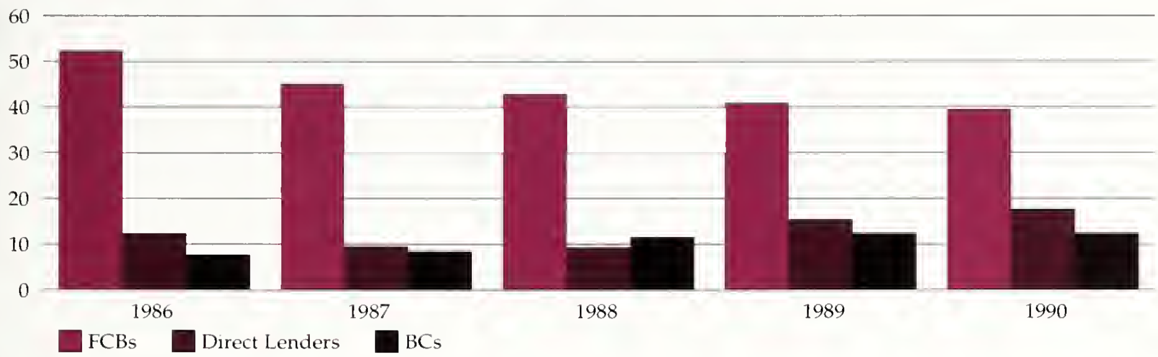
Appendix B—Graphs

Loans and Assets of Farm Credit System Institutions

December 31, 1986–1990

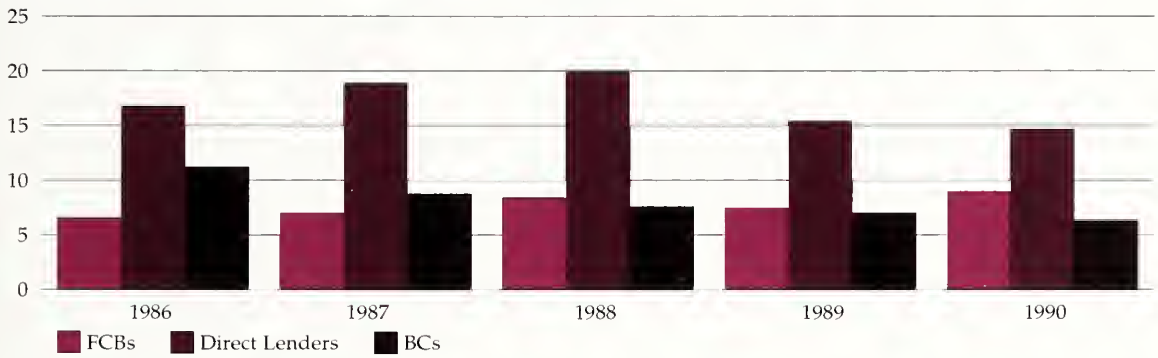
Total Loans by Farm Credit Institution Group

$ In Billions



Total Capital to Assets by Farm Credit Institution Group

% Of Total Assets

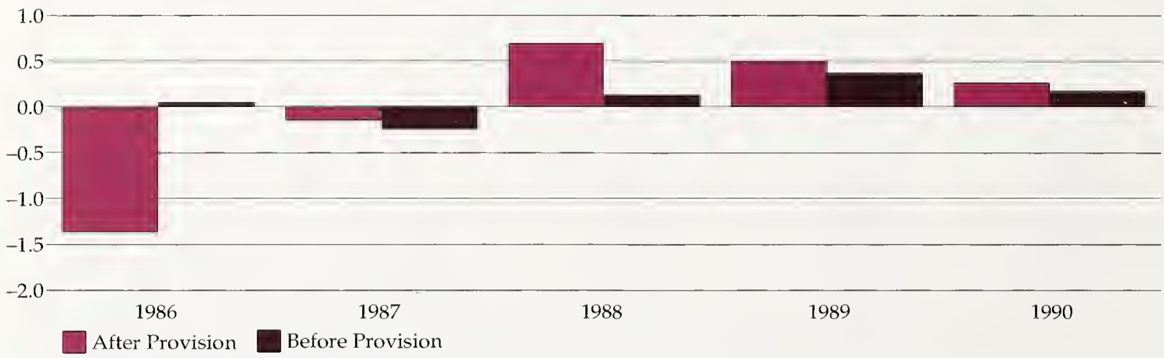


Income of Farm Credit System Institutions

December 31, 1986–1990

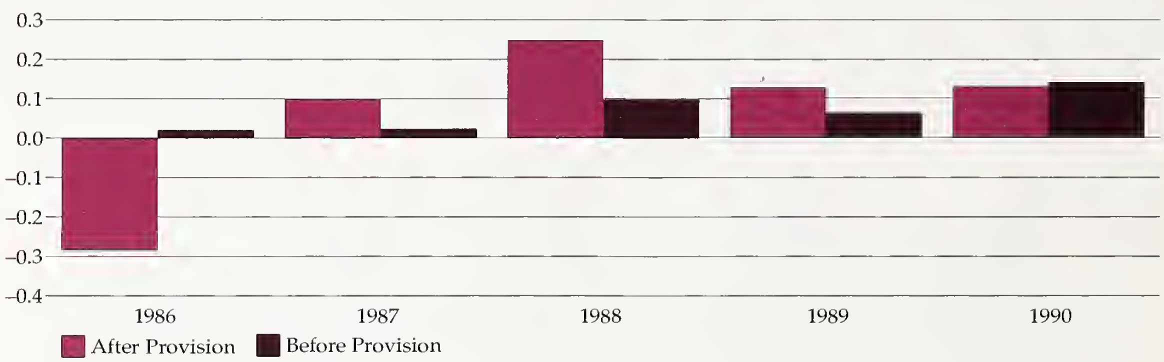
Farm Credit Banks
Net Income

$ In Billions



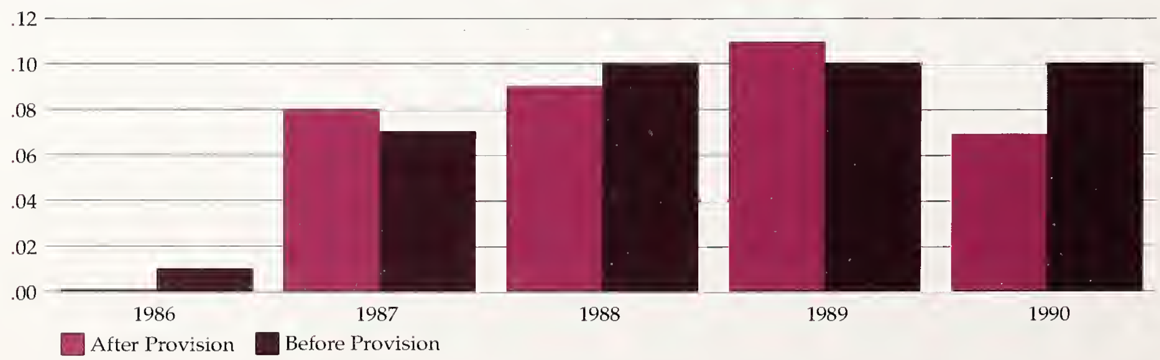
Direct Lender Associations
Net Income

$ In Billions



Banks for Cooperatives
Net Income

$ In Billions

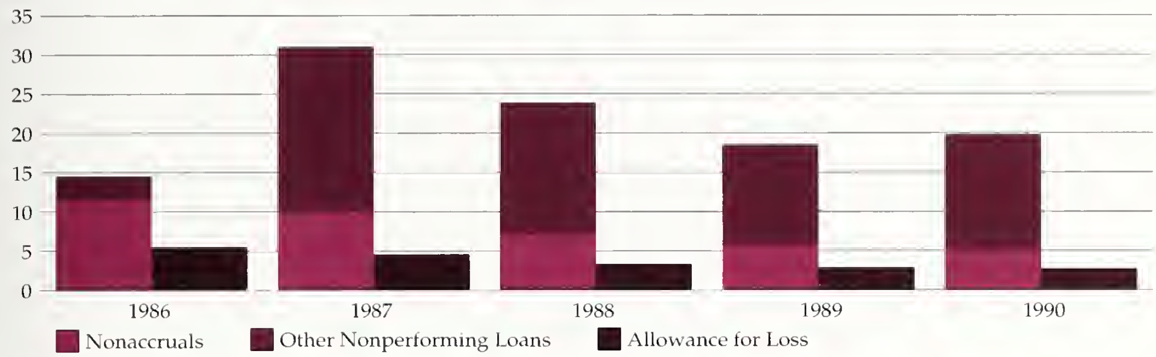


Asset Quality of Farm Credit System Institutions

December 31, 1986–1990

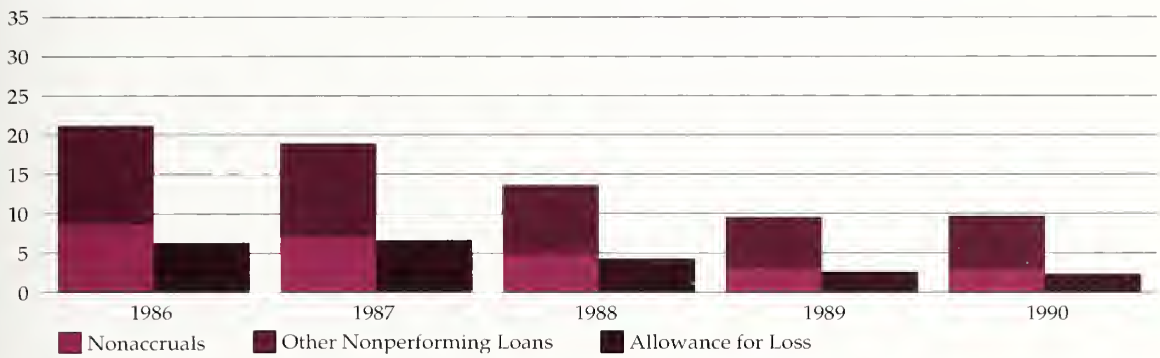
Farm Credit Banks

% Of Total Loans



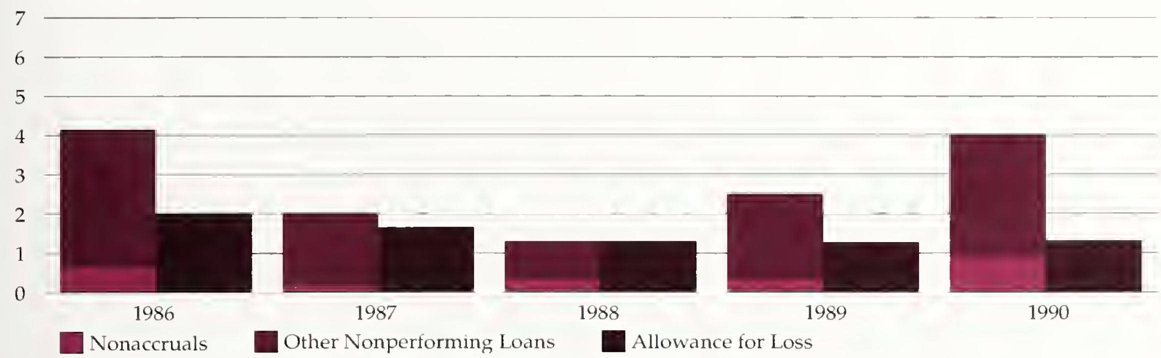
Direct Lender Associations

% Of Total Loans



Banks for Cooperatives

% Of Total Loans

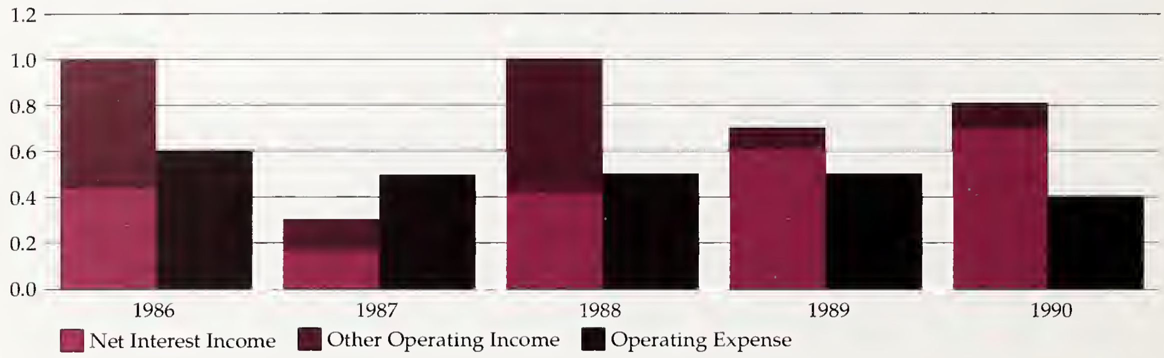


Income from Operations of Farm Credit System Institutions

December 31, 1986–1990

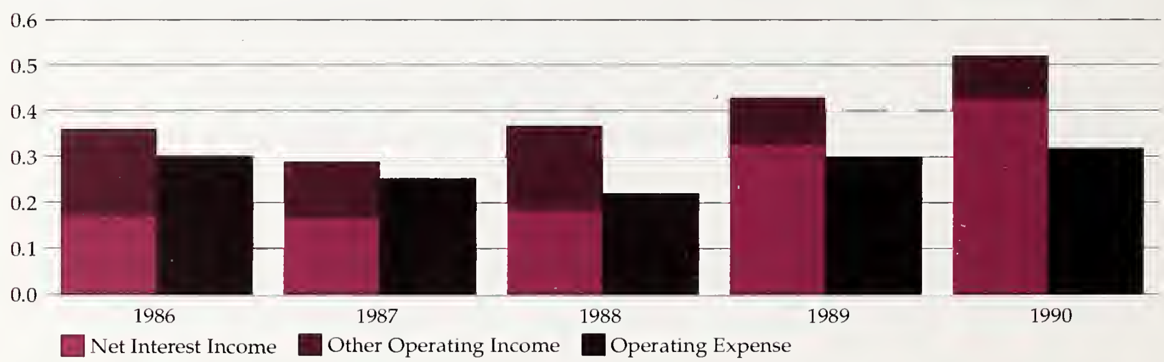
Farm Credit Banks

$ In Billions



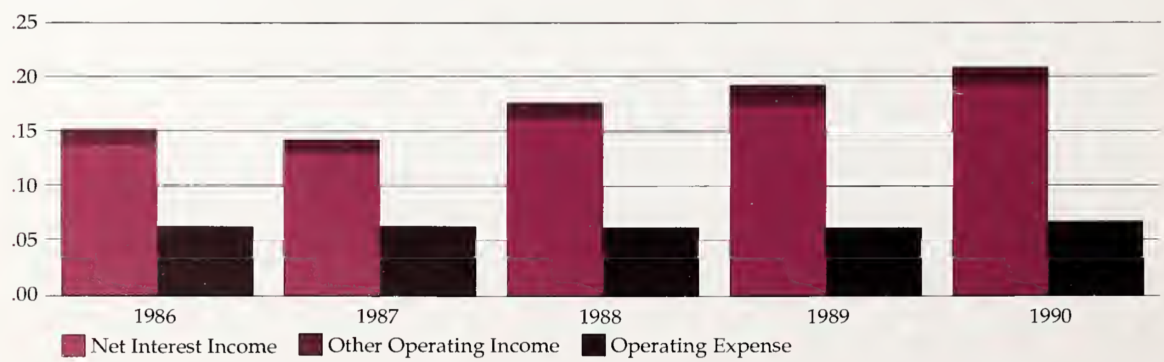
Direct Lender Associations

$ In Billions



Banks for Cooperatives

$ In Billions



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