1989

Farm Credit Administration
Established 1933

Farm
Credit
Administration

Annual Report

Copies are available from:
Office of Congressional and Public Affairs
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A Message from the Chairman

Dear Reader:

During the first 9 months of 1989, the Farm Credit Administration Board operated without a quorum. I want to acknowledge the efforts and dedication of my colleague, Marvin R. Duncan, who so capably served as Acting Chairman and Chief Executive Officer during that period.

In accordance with the Farm Credit Act of 1971, as amended, this annual report deals with the condition of the Farm Credit System and the extent to which the law is being carried out.

In carrying out its regulatory and examination responsibilities, the Farm Credit Administration conducted 257 examinations of system institutions during the year. Increased examination emphasis was placed on borrower rights, asset/liability management, and off-balance-sheet activities that could expose institutions to the risk of loss. The agency also executed 23 enforcement documents during 1989. At the end of the year, 72 institutions with a total of $44.8 billion in assets were operating under enforcement actions. These numbers represented only 25 percent of all system institutions, but accounted for 70 percent of their total assets.

In accordance with provisions contained in the Agricultural Credit Act of 1987, the Farm Credit Administration issued 57 new or amended charters during the year. These were the result of mergers, consolidations, transfers of direct lending authority, special reconsiderations of mergers, and the incorporation of six new Federal Land Bank Associations in Alabama, Mississippi, and Louisiana, the states previously served by the Federal Land Bank Association of Jackson in Receivership. Name changes, territorial realignments between like associations, and headquarters relocations accounted for 14 additional charter changes. Two Production Credit Associations were placed in liquidation and their respective territories were divided and temporarily assigned to six neighboring associations. In addition, the charter of one Federal Land Bank Association was canceled upon completion of its liquidation.

The Farm Credit Administration Board promulgated a number of regulations during the year, the more important of which dealt with conservatorships and receiverships, loan policies and operations, and funding and fiscal affairs.

There are now reasons for cautious optimism with respect to the condition of the Farm Credit System. Its institutions reported combined earnings of $605 million for 1989, and a significant improvement in loan quality was evident. Marked declines were noted in nonaccrual and high risk loans, as well as in acquired properties. The level of these assets, however, remains relatively high and poses a degree of risk. Improved farm income and collateral values have facilitated the efforts of system institutions in working out troubled loans.

If the agricultural economy continues to improve and land values continue to rise, we should witness a corresponding improvement in the quality of restructured loans and in the overall financial condition of system institutions. It is essential, however, that the directorate and management of system institutions recognize that despite the progress that has been made in some areas, there are serious problems that have yet to be overcome. They must not become either complacent or overzealous in carrying out their responsibilities.

In the coming year, the Farm Credit Administration will continue to fulfill its congressional mandate of ensuring that all Farm Credit System institutions operate in accordance with the law, regulations, and safe and sound banking practices.

Sincerely,

Harold B. Steele

Harold B. Steele, Chairman
Farm Credit Administration Board

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Farm Credit Administration Organization
December 31, 1989

Farm Credit Administration Board

Harold B. Steele
Chairman

Marvin R. Duncan
Member

(Vacancy)

Jeffrey P. Katz
Acting Secretary

Office of Congressional and Public Affairs
Vacant

Office of Examination
David C. Baer
Director and Chief Examiner

Office of Financial Analysis
Michael J. Powers
Director

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 Inspector General
Eldon W. Stoehr
Inspector General

The Farm Credit System had its beginnings with enactment of the Federal Farm Loan Act of 1916, which established 12 Federal Land Banks (FLBs) in as many Farm Credit Districts across the country. These institutions were designed to make long-term farm real estate loans through local offices first called National Farm Loan Associations and later Federal Land Bank Associations (FLBAs).

The Agricultural Credits Act of 1923 provided for the establishment of 12 Federal Intermediate Credit Banks (FICBs) to be located in the same cities and serve the same territories as the Federal Land Banks. The FICBs were intended to discount the short- and intermediate-term notes of farmers executed with commercial banks and other agricultural lenders.

Ten years later, the Congress passed the Farm Credit Act of 1933, which permitted farmers to establish local Production Credit Associations (PCAs), which could avail themselves of credit from the FICBs and make short- and intermediate-term loans. That act also established 12 district Banks for Cooperatives in the same cities and serving the same territories as the FLBs and FICBs. These banks were to provide a range of financial services to agricultural marketing, supply, and service cooperatives. The act also established a Central Bank for Cooperatives that could participate in loans that exceeded the individual lending capacities of the district banks.

Also in 1933, an Executive Order of the President created the Farm Credit Administration (FCA) as an independent agency in the Executive Branch of the U.S. Government and placed all institutions of the Farm Credit System under its jurisdiction.

From 1933 until enactment of the Agricultural Credit Act of 1987, the Farm Credit System had the same basic structure. In each of the 12 Farm Credit Districts there was a Federal Land Bank that made long-term farm real estate loans through Federal Land Bank Associations, a Federal Intermediate Credit Bank that provided short- and intermediate-term loan funds to Production Credit Associations and other financing institutions serving eligible borrowers, and 13 Banks for Cooperatives that provided credit services to producer-owned cooperatives.

Restructuring the Farm Credit System

The Farm Credit Act of 1971, as amended by the Agricultural Credit Act of 1987, mandated the restructuring of some Farm Credit System institutions and permitted voluntary restructuring of others.

The act required the merger of the Federal Land Bank and Federal Intermediate Credit Bank in each Farm Credit District. Mergers in 11 of the 12 districts became effective July 6, 1988. The FLB of Jackson (Miss.) was placed in receivership on May 20, 1988, and did not merge with the FICB of Jackson.

The 13 Banks for Cooperatives were required by the act to conduct a merger vote. Stockholders of 10 of the 12 district banks and the Central Bank for Cooperatives voted to merge into a National Bank for Cooperatives effective January 1, 1989. It has its headquarters in Denver, Colo., with branches at the locations of the 10 former district banks. The stockholders of the Springfield (Mass.) Bank for Cooperatives and the St. Paul (Minn.) Bank for Cooperatives voted to remain independent. Each of the three Banks for Cooperatives is now authorized to make loans in all 50 states and Puerto Rico.

Association Structure – 1988 and 1989

	1988			1989			
District	FLBA	PCA	ACA	FLBA	PCA	ACA	FLCA
Springfield	-	-	13	-	-	13	-
Baltimore	1	1	18	1	1	16	-
Columbia	20	1	-	20	1	-	-
Louisville	9	5	-	-	1	4	2
Jackson	-	2	-	-	2	-	-
St. Louis	21	4	-	21	5	-	-
St. Paul	26	23	-	22	19	4	-
Omaha	1	1	-	1	1	-	-
Wichita	15	16	-	15	16	-	-
Texas	44	23	-	50	21	-	-
Sacramento	16	16	2	15	15	3	-
Spokane	1	2	-	1	2	-	-
Total	154	94	33	146	84	40	2

The act mandated merger votes for FLBAs and PCAs serving substantially the same territories. The resulting institutions would be Agricultural Credit Associations (ACAs), with direct short-, intermediate-, and long-term lending authority. The act also permitted FLBAs to gain direct long-term real estate lending authority. Those that sought and gained such authority would become Federal Land Credit Associations (FLCAs). In addition, association stockholders could voluntarily vote to merge with like or unlike associations, transfer their territories to an adjoining district, reverse certain previous mergers, or terminate their status as institutions of the Farm Credit System. The past 2 years have been marked by considerable activity in most of these areas.

On January 1, 1988, there were 233 FLBAs and 145 PCAs. Merger votes conducted during that year reduced the number of associations to 154 FLBAs and 94 PCAs. Although stockholders voted to approve the mergers in 1988, they did not become effective until January 1, 1989. In addition to this activity, stockholders of 38 FLBAs and 38 PCAs serving substantially the same territories voted for mergers that resulted in the formation of 33 ACAs. Although the total number of associations declined by only nine in 1989, the composition of the total changed significantly.

During 1989, the Farm Credit Administration issued 57 new or amended charters as a result of corporate restructuring activity. Further corporate activity is expected in 1990, including possible reassignment of associations to adjoining districts, the formation of new ACAs and FLCAs, and termination of Farm Credit System status by associations.

The total number of associations is not indicative of service locations because most FLBAs and PCAs have one or more branch offices. Many FLBAs and PCAs now operate under common management and are referred to as Farm Credit Services.

Lending Authorities

Farm Credit System institutions, except for the Banks for Cooperatives, are authorized to make loans to farmers, ranchers, or producers or harvesters of aquatic products; persons furnishing to farmers and ranchers farm-related services directly related to their onfarm operating needs; or owners of rural homes. A farmer or rancher is generally defined as a person who owns agricultural land or who is engaged in the production of agricultural products on a full- or part-time basis.

Loans to farmers, ranchers, and producers or harvesters of aquatic products may be made for any agricultural or aquatic purpose and for other needs of the applicant. This includes financing for basic processing and marketing activities directly related to the applicant's operation. However, at least 20 percent of the product that is processed or marketed must come from the applicant's operation.

Operating loans are usually made with maturities coinciding with the purpose of the loan and the normal marketing season for the enterprise being financed. Loans for major capital items, such as equipment, machinery, buildings, etc., may be made with maturities normally not to exceed 7 years. However, a program to extend these maturities to 10 years can be adopted. Loans to producers or harvesters of aquatic products may be made with maturities of up to 15 years for the purchase of vessels, construction of shore facilities, and similar purposes directly related to the producing or harvesting operation.

Loans to persons furnishing services directly related to the onfarm operating needs of farmers and ranchers may be made for the necessary capital structures and equipment and initial working capital for such services.

The financing of rural homes is limited to single-family, moderately priced dwellings in rural areas or in cities and villages where the population does not exceed 2,500. Such homes must be used as permanent, year-round residences.

Loans secured by agricultural real estate may be made for terms of from 5 to 40 years. The outstanding balance on any such loan may not at any time exceed 85 percent of the most recent appraised value of the real estate security. This loan-to-value ratio may be raised to 97 percent if the loan is guaranteed by a Federal, state, or other governmental agency. Loans secured by agricultural real estate are typically made for a variety of purposes, including the purchase of farms, farmland, machinery, equipment, and livestock; refinancing existing mortgages and paying other debts; constructing and repairing buildings; improving land; and financing other farm, farm home, or farm family needs. Loans can also be made for financing real estate needed for aquatic operations and for processing and marketing facilities.

The Banks for Cooperatives may make loans of all kinds to agricultural or aquatic marketing, supply, or business service cooperatives. 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 producers or harvesters of aquatic products. Federations of such cooperatives are also eligible. The percentage of voting control may be reduced to 60 percent for certain farm supply cooperatives. Entities that are eligible to borrow from the Rural Electrification Administration or the Rural Telephone Bank are also eligible to borrow from the Banks for Cooperatives. To be eligible, a cooperative must do at least 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 exempt from this requirement.

Ownership and Control

Each Farm Credit Bank and association is owned and controlled by its borrowers. As a condition to obtaining a loan, a borrower must purchase stock in the institution. The percentage or dollar amount of equity investment in the institution is determined by its board of directors, but it cannot be less than 2 percent of the loan amount or $1,000, whichever is less.

Farm Credit Banks and associations are governed by boards of directors elected by and from among their borrowers. The statute, however, provides for the election of at least one member of the board who is not connected with the Farm Credit System. This outside director is elected by the other members of the board.

Federal Farm Credit Banks Funding Corporation

The Federal Farm Credit Banks Funding Corporation issues debt securities to raise loan funds for Farm Credit System institutions. The funding corporation is located in New York City and manages a selling group of approximately 125 investment dealers and dealer banks that offer the securities.

The selling group distributes these securities throughout the world to commercial banks, thrift institutions, states and municipalities, money market funds, pension funds, insurance companies, foreign banks and governments, individuals, and others.

The funding corporation also provides financial advisory services and supports the Farm Credit System institutions in the management of interest rate risk.

Owned by the banks of the Farm Credit System, the funding corporation is governed by a board of directors composed of nine voting members and one nonvoting member as provided for by statute.

Farm Credit System Financial Assistance Corporation

The Farm Credit System Financial Assistance Corporation provides for the issuance of 15-year U.S. Government-guaranteed bonds used to buy preferred stock in troubled Farm Credit System institutions and for other purposes. The assistance corporation creates no new bureaucracy because its board of directors is composed of the directors of the funding corporation and bond issues are handled by funding corporation staff. An aggregate amount of $4 billion in these bonds is authorized to be issued, but no bonds may be issued after September 30, 1992.

During 1989, the assistance corporation had one offering of bonds totaling $157 million. This brought the total offerings since inception to $847 million.

With the exception of interest on the proceeds used to fund the assumption of certain accounts payable that were assumed by the assistance corporation, which will be borne by Farm Credit System institutions, the U.S. Treasury will pay the interest on the bonds for the first 5 years and will equally share the payment of interest with the institutions for the second 5 years. Interest for the third 5 years will be entirely borne by the Farm Credit System institutions. At the end of 15 years, the FCA, in consultation with the U.S. Treasury, will determine a schedule under which interest previously paid by the Treasury will be repaid by the Farm Credit System institutions. They will eventually repay all funds, either from their own earnings or by refinancing the debt. Refinanced debt will be solely the obligation of the institutions.

The Farm Credit System Assistance Board was chartered by the Farm Credit Administration on January 12, 1988, as an instrumentality of the United States. It is not, however, an institution of the Farm Credit System, nor is it subject to regulation by the FCA.

The role of the Farm Credit System Assistance Board is to certify institutions to receive assistance and administer assistance received. An institution may apply for certification if the value of its capital stock falls below par and must apply for certification if the value of its capital stock falls below 75 percent of par.

To date, the assistance board has certified the Farm Credit Banks of Louisville, Omaha, and St. Paul to receive financial assistance of just over $333 million. These funds were used principally to restructure high cost debt. In addition, the Federal Land Bank of Jackson in Receivership received approximately $37 million in initial assistance to enable it to retire borrower stock and avoid default on its debt. Some $415 million was used to fund capital preservation agreements. About $21 million was used to retire capital stock of Production Credit Associations in the Spokane and Omaha Districts. The rest went to fund other items related to assistance, including $34 million in prefunding costs, $2.2 million in a discount on the first bond sale, $3 million in assistance board expenses, and $563,498 in interest on a promissory note.

An important factor in the certification process is the business plan submitted to the assistance board by the applicant institution. It is considered a key indicator of the ability of the institution's board and management to assess its financial problems, to know the measures needed to correct them, and to implement the plan once adopted.

Once an institution receives assistance, the assistance board monitors its progress regularly against its recovery plan. This monitoring includes visits with the institution's board and management and with FCA examiners.

The Farm Credit System Assistance Board is controlled by a three-member board of directors. Currently serving are Secretary of Agriculture Clayton Yeutter, Secretary of the Treasury Nicholas Brady or his designee, and William W. Irwin of Indiana. Irwin is a producing farmer who was nominated by the President and confirmed by the U.S. Senate.

The Federal Agricultural Mortgage Corporation (Farmer Mac) is a federally chartered instrumentality of the United States. It was created by the Farm Credit Act of 1971, as amended by the Agricultural Credit Act of 1987. Its purpose is to attract new capital for the long-term financing of agricultural real estate and rural housing and to provide greater liquidity to agricultural lenders.

Farmer Mac is intended to aid in the development of a secondary market for loans secured by first mortgages on agricultural real estate or rural homes by guaranteeing the timely payment of principal and interest on securities representing interests in or obligations backed by such loans. A certified facility or pooler is responsible for accumulating such loans in accordance with Farmer Mac's standards and for issuing securities.

The statute gave Farmer Mac three primary responsibilities. First was the development of uniform credit underwriting, security appraisal, and repayment standards for loans. These standards were submitted to Congress on June 30, 1989. Second was the establishment of standards for certified facilities to contract with Farmer Mac for the provision of guarantees on securities. These standards were adopted on June 30, 1989. Third was the establishment of geographic, commodity, and other loan diversification standards for loan pools. These standards were submitted to Congress on July 18, 1989. Farmer Mac completed these responsibilities on October 18, 1989, when the congressional review period for certain standards concluded.

With the completion of the Securities Guide at the end of 1989, Farmer Mac was ready to start certifying poolers and guaranteeing securities.

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* Material contained in this section was derived from the Federal Agricultural Mortgage Corporation Annual Report–1989.

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

The management of the FCA is vested in a three-member bipartisan 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 agency's chief executive officer. The responsibilities of the board include establishing FCA policies, promulgating regulations to implement the statute, and approving enforcement actions against Farm Credit System institutions. The board's specific responsibilities include:

- approving rules and regulations to implement the Farm Credit Act of 1971, as amended;
- providing for the examination of the condition and general regulation of the performance of the powers, functions, and duties vested in each institution of the Farm Credit System;
- providing for the performance of the powers, functions, and duties vested in the Farm Credit Administration; and
- requiring such reports from the institutions of the Farm Credit System as the board deems necessary.

The Farm Credit Act of 1971, as amended, requires that every direct lending institution of the Farm Credit System be examined once each year. If an examination reveals that an institution is not complying with the statute or regulations or is being operated in an unsafe and unsound manner, the FCA has several enforcement options at its disposal to bring about corrective action. These include issuing cease and desist orders, levying civil money penalties, removing officers and directors, and placing such institutions into conservatorship or receivership. Through its regulatory enforcement activities, the agency ensures compliance with the provisions of all applicable statutes and regulations, including those applying to the rights of loan applicants and borrowers, promotes safety and soundness among institutions, and protects the public interest. The agency also requires full financial disclosure by Farm Credit System institutions to their stockholders and to those who invest in the securities sold to raise funds.

From January 7, 1989, through October 11, 1989, the Farm Credit Administration Board had only one member. Chairman Frank W. Naylor, Jr., had resigned November 11, 1988, and Board Member Jim R. Billington's resignation was effective as of the close of business January 6, 1989. Because two members are required to constitute a quorum, and the board cannot transact business without a quorum, no new FCA Board policies or regulations could be issued. However, Board Member Marvin R. Duncan was named acting chairman and chief executive officer during the intervening period and was empowered with the full authority to manage the FCA, except for actions where the delegation of authority is expressly prohibited by statute. On October 12, 1989, following his nomination by the President and confirmation by the Senate, Harold B. Steele was sworn in as chairman and chief executive officer. A past president and chief executive officer of the Illinois Farm Bureau, Steele also served on the board of directors of the Midwest Financial Group, Inc., a holding company comprised of 19 member banks in northern Illinois. He and his son operate a 655-acre farm in Princeton, Ill., on which they produce grain and pork.

Due primarily to the lack of a quorum for more than 9 months of the year, the FCA Board held only five meetings during 1989. In carrying out its responsibilities during 1989, the acting chairman, within his delegated authority, and the FCA Board took a number of actions. The more significant of these actions follow.

Policy Statement Adopted Dealing With Nonexclusive Charters

Section 411 of the Agricultural Credit Act of 1987 essentially provides for the voluntary merger of Federal Land Bank Associations and Production Credit Associations serving substantially the same territory. An association resulting from such a merger would be an Agricultural Credit Association (ACA) and would be a direct provider of short-, intermediate-, and long-term credit. At its January 6, 1989, meeting, the Farm Credit Administration Board adopted the following policy statement addressing nonexclusive chartering of territory resulting from mergers pursuant to section 411.

"When two associations merge under Section 411 of the Agricultural Credit Act of 1987, the requested charter of the ACA may include the territory of another association. In addition, if an association converts to an ACA after a Section 411 merger has caused it to have a nonexclusive territory, the resulting territory of that converted ACA could include the territory of a third association. The Farm Credit Administration Board adopted a policy statement on November 22, 1988, which provides that an association that was not a party to a merger under Section 411, but whose territory will be included in the charter of a Section 411 ACA, may seek to convert its charter to that of an ACA and thus compete through the exercise of similar lending authorities. The FCA Board now clarifies that policy statement to provide further that this authority to seek to convert to an ACA charter extends to any other association which will have a nonexclusive charter as a result of the ACA conversion by an association affected by a Section 411 merger."

In adopting the policy statement, the board cited its wish to allow adequate opportunity for affected associations to convert their charters and thus be able to compete with a newly formed ACA within the same territory. The policy statement reaffirmed the board's belief in limited competition among and between Farm Credit System institutions as provided by the Agricultural Credit Act of 1987.

Public Hearing Held on Financially Related Services

On June 14, 1989, the Farm Credit Administration held a public hearing on financially related services. It was held to gather information from public sources to determine relevant areas for consideration in possible regulations addressing nonlending services Farm Credit System institutions may offer.

Testimony was offered by 33 individuals representing themselves, elements of the Farm Credit System, the commercial banking and insurance industries, and farm groups.

Various institutions within the Farm Credit System currently offer, or have offered, such things as credit life and hazard insurance; appraisal, tax, and farm business consulting services; electronic farm recordkeeping; and estate planning. No new services were proposed at the hearing.

The Farm Credit Administration has taken no position to encourage or discourage the expansion of financially related services among the institutions it regulates. If a new financially related service is proposed, the Farm Credit Administration would determine if it fell within the scope of the law, if there was a demonstrated need for the service, if it was compatible with the institution's strategic plans, and if it was based on sound business practices. These determinations would be made on a case-by-case basis to ensure the institution's compliance with the statute, regulations, and safe and sound banking practices.

FCA Establishes Office of Regulatory Enforcement

The Office of Regulatory Enforcement (ORE) was established January 1, 1989. Its responsibilities include developing supervisory strategies for troubled Farm Credit System institutions and implementing any enforcement processes required by such strategies. During the term of an institution's problems, the ORE oversees and monitors the institution's progress in returning to a safe and sound condition. Should rehabilitative efforts be unsuccessful, the ORE is responsible for placing nonviable institutions into either conservatorship or receivership.

As a result of the creation of this new office, the Office of Analysis and Supervision was renamed the Office of Financial Analysis and the staff of its Supervision Division transferred to the new office.

Law Requires Inspector General To Be Named

In accordance with the Inspector General Act Amendments of 1988, Acting Chairman Marvin R. Duncan appointed Eldon W. Stoehr as Inspector General (IG) of the Farm Credit Administration, effective January 22, 1989. Stoehr was Auditor General for the State of South Dakota and Legislative Auditor for the State of Minnesota. He served as president of the National State Auditors Association and was a member of the Executive Committee of the National Intergovernmental Audit Forum.

Simultaneously, the then existing Office of Internal Audit was incorporated into the Office of Inspector General (OIG), along with its staff and other resources. Currently, the office is staffed by five auditors, a legal counsel to the IG, a secretary, and a part-time typist.

The mission of the OIG is to improve the management and accountability of FCA operations by independently evaluating proposed and existing agency policies, programs, and issues. Conclusions that are developed are consistent with the Inspector General Act and applicable professional standards.

The OIG also strives to coordinate relationships between the FCA and other Federal, state, or local governmental agencies and nongovernmental entities with respect to all matters relating to the promotion of economy and efficiency and prevention of fraud and abuse in agency programs and operations or the identification and prosecution of participants in such fraud and abuse.

The OIG fulfills its mission through audits, investigations, and inspections. The IG keeps the Chairman of the FCA informed by reporting to him regularly. Semiannually, the IG reports to the Congress on the findings of the office for the preceding 6-month period. These reports are intended to inform the chairman and the Congress of serious problems, abuses, fraud, and deficiencies relating to programs and operations administered by the FCA, to recommend corrective action regarding them, and to relate progress made on implementing such corrective actions.

During the first reporting period, from January 22, 1989, to September 30, 1989, the OIG conducted and issued four audits and pursued five investigative matters.

The OIG also reviews legislation and regulations in an effort to analyze their potential effect on the economy and efficiency of FCA programs and operations or the prevention of fraud or abuse in those programs and operations.

To carry out the duties and responsibilities of the IG Act, the IG is authorized to have access to all records, reports, audit reviews, documents, papers, recommendations, or other materials available to the FCA. The IG has subpoena authority to require the production of all information, documents, records, accounts, papers, and other documentary evidence.

The IG Act specifies that the IG may receive and investigate complaints or information from an employee of the establishment concerning the possible existence of an activity constituting a violation of law, rules or regulations, mismanagement, gross waste of funds, or abuses of authority. The identity of the individual reporting to the IG may be kept confidential, unless the IG determines that such disclosure is unavoidable during the course of an investigation. Reprisal for making such complaints is forbidden, unless the information provided was disclosed with the knowledge that it was false or with willful disregard for its truth or falsity. Complaints may be made by telephone to the IG or counsel to the IG at (703) 883-4030.

Farm Credit System Insurance Corporation

The Farm Credit Act of 1971, as amended by the Agricultural Credit Act of 1987, provided for the establishment of a Farm Credit System Insurance Corporation (FCSIC) and a Farm Credit System Insurance Fund to ensure the timely payment of principal and interest on notes, bonds, debentures, and other obligations of eligible and participating Farm Credit System institutions.

As provided in the statute, approximately $260 million in a revolving fund was transferred to the insurance fund during 1989. These funds, originally appropriated funds set aside as initial capitalization of various Farm Credit System institutions, had been administered by the Farm Credit Administration since being paid back to the U.S. Treasury in 1968. The FCA Board, on behalf of the FCSIC, has been investing those funds in obligations of the U.S. Treasury since the date of transfer.

During 1989, several FCA staff members devoted considerable effort to activities related to the pending organization of the FCSIC. These activities included research into the legislative history of the FCSIC, reviewing the operations of similar Government corporations, and analyzing various organizational issues.

The Financial Condition and Performance of Farm Credit System Institutions section of this report briefly explains a lawsuit brought by the Federal Farm Credit Banks Funding Corporation against the FCA challenging the accounting treatment prescribed by the agency of premiums paid.

Office of Examination

The mission of the Office of Examination is to perform examinations of Farm Credit System institutions that fulfill the intent of Congress, meet professional standards, support agency objectives, and cause institutions to take corrective action on cited deficiencies. Each direct lending institution is examined at least once each year.

The examinations evaluate the safety and soundness of the operations of the institutions and their compliance with applicable law and regulations. Examinations identify strengths and weaknesses in the operations of institutions, provide a sound basis for strategies to correct weaknesses, and are sufficiently documented and supported to withstand challenge. Reports of Examination are generally presented orally and in writing to the boards of directors of the respective institutions.

The primary strategy to accomplish this mission is through the recruitment, training, and retention of examiners whose work consistently reflects competence, objectivity, professional integrity, and efficiency.

Examination Activities

The Office of Examination consists of the Office of the Chief Examiner, four regional offices, and the Special Examination Division (SED). The Office of the Chief Examiner, the SED, and the Northeast Regional Office, which is responsible for examinations of institutions in the Springfield (Mass.), Baltimore (Md.), and Louisville (Ky.) Farm Credit Districts, are located at the agency's headquarters in McLean, Va. The Northeast Regional Office has field offices in Albany, N.Y., and Louisville, Ky.

The Southeast Regional Office, Marietta, Ga., is responsible for examinations in the Columbia (S.C.), Jackson (Miss.), and Texas Farm Credit Districts. It has a field office in Dallas, Tex. The Central Regional Office, St. Louis, Mo., is responsible for examinations in the St. Louis, Omaha (Neb.), and Wichita (Kan.), Farm Credit Districts, and the National Bank for Cooperatives in Denver, Colo. The Central Regional Office has field offices in Denver, Oklahoma City, Okla., and Omaha. The Western Regional Office, Bloomington, Minn., is responsible for examinations in the St. Paul (Minn.), Spokane (Wash.), and Sacramento (Calif.) Farm Credit Districts, as well as the Farm Credit Leasing Services Corporation in Minneapolis, Minn. It has field offices in Sacramento and Spokane. The examination of the National Cooperative Bank and Development Corporation, Washington, D.C., is also the responsibility of the Office of Examination.

The SED is primarily responsible for the examination of the Federal Farm Credit Banks Funding Corporation, the Farm Credit System Financial Assistance Corporation, and the Federal Agricultural Mortgage Corporation. In addition, the SED conducts examinations of the electronic data processing operations of the Farm Credit Banks.

The Office of Examination is committed to fulfilling its responsibilities in a professional and cost-efficient manner. To improve productivity and reduce expenses of the examination staff, an offsite examination program was developed in 1989, which will be implemented in 1990. This program is intended to provide greater flexibility in carrying out the FCA's examination responsibilities. Examination procedures are also under constant review to ensure the efficiency of the examination function.

The increased offsite monitoring of institutions provides the Office of Examination with continuous knowledge of an institution's operations. This permits timely recognition of adverse trends, performance indicators that are outside acceptable norms, and abrupt changes in important statistical measurements. The increased use of direct computer networking between the FCA's McLean headquarters and all regional and field offices, which began in 1988, provides examiners with access to periodic financial reports and loan portfolio information. Computer networking allows examiners to detect increased risk as it occurs.

The Office of Examination is intensifying its examination of asset/liability management in Farm Credit System institutions. An institution's overall financial condition is materially affected by the manner in which its assets and liabilities are managed. The volatility of interest rates over the past several years has increased the importance for financial institutions to have adequate asset/liability policies and procedures implemented to limit risks associated with changing financial markets.

Increased emphasis is also being placed on examining off-balance-sheet activities of Farm Credit System institutions, which could expose an institution to the risk of loss. These activities include letters of credit, interest rate swaps, loan commitments, and pending litigation. The Office of Examination is providing training and written guidance in off-balance-sheet activities to ensure that examiners are aware of the risks associated with these activities. Off-balance-sheet activities must be considered by examiners to properly evaluate an institution's capital adequacy.

Another important function of the examination process is examining 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. The Office of Examination investigates alleged violations of borrower rights and equal credit opportunity in conjunction with the Office of Congressional and Public Affairs.

Other Regulatory Activities

The Office of Examination also provides staff support for other agency activities such as the analysis of merger requests and financial assistance requests. Considerable staff time is allocated to drafting new regulations and revising existing regulations to meet changes within the regulated institutions, including the direct long-term real estate lending authorities granted to associations. The continuing structural changes among Farm Credit System institutions and the formation of Agricultural Credit Associations and Federal Land Credit Associations require the Office of Examination to revise the examination process to address such changes. Major revisions to the FCA's Examination Manual, Examination Bulletins, and Operations Directives were completed in late 1989 and will provide examiners further direction in 1990 and beyond.

Due to the complex issues confronting the examination staff, the Office of Examination developed the OE Management Letter. The main purpose of the letter is to keep examination staff up to date on emerging issues or events that may affect the examination function. The letter also ensures that regional and field office examiners are consistent in their interpretation of laws and regulations. Finally, the letter serves as a forum for Office of Examination staff to receive answers to technical questions raised by regional and field office examiners. The first OE Management Letter was issued in December 1989 and is scheduled to be issued every other month.

Staffing and Training

The FCA Examiner Commissioning Program plays 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. The first four tests were conducted in 1989, with five being scheduled for 1990. 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 Farm Credit Administration and to perform all acts requisite and proper for the conduct of such examinations. At the end of 1989, the FCA had 129 commissioned examiners. The commissioning test is being revised to include changes that have occurred in the structure of the 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 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 Farm Credit Administration 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.

FCA Ratings of Institutions

Each Farm Credit System 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 Farm Credit System 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. Following are the ratings of 257 institutions examined in 1989.

FCA Rating	Number of Institutions
1	8
2	99
3	72
4	67
5	11

Office of Financial Analysis

The Office of Financial Analysis' responsibilities include:

- leading the development of regulatory policy for the FCA, including regulations, policy statements, directives, and standards;
- managing the call reporting system that obtains regular financial reports on Farm Credit System institutions;
- developing analytic tools and management analyses on Call Report or external data;
- monitoring and analyzing "systemic" risks arising in the external agricultural and financial environments and in the Farm Credit System institutions;
- conducting policy and financial analyses of major issues facing the agency arising in the risks to safety and soundness created by the political, economic, financial, and agricultural environments;
- analyzing and developing recommendations on Farm Credit System institution activities requiring FCA approval; and
- supplying analytic support to each of the other FCA offices.

The work was carried out through three divisions requiring a total staff of 54 positions. The Economic Analysis Division acts as external eyes and ears for identifying risks to safety and soundness and bringing their impact into consideration in carrying out FCA operations. The Financial Analysis and Standards Division leads development of the regulatory framework and administers Farm Credit System corporate activities. The Regulatory Reporting and Analysis Division manages the financial reporting by Farm Credit System institutions and leads development of analyses and of tools which use the data.

During 1989, the office also:

- developed recommendations to resolve a series of critical policy matters on Farm Credit System restructuring, including charters to new FLBAs in the former Jackson District, procedures for converting to an ACA, competition among associations via overchartering territory, territorial expansion, interdistrict transfers, and mergers;

- revised regulations on lending limits and authorities, automatic stock reduction plans, and general financing agreements;

- completed analysis of the FLB of Jackson asset sale and made recommendation to the FCA Board;

- developed analyses and recommendations on 54 mergers, 158 other corporate approval requests, and 118 other financial and credit approvals;

- developed accounting interpretations on allowance for loan losses, troubled debt restructuring, guaranteed stock issuance, nonaccrual loans, sale of real estate, and the FCSIC as a restricted asset; and

- led regulation development task forces on capital adequacy and the Federal Agricultural Mortgage Corporation.

In addition, the office:

- provided timely processing of monthly and quarterly Call Reports and improved on-screen computer access for examiners and analysts;

- completed the initial design and development of the FCA offsite surveillance system, which is intended to monitor the financial soundness of individual Farm Credit System institutions, and includes the Uniform Performance Report, a Pre-Examination Analysis Report, Early Warning System and Key Indicators Report, and financial projection models for institutions;

- kept board and management informed of external and Farm Credit System conditions and systemic risks with the FCA Quarterly Report, the annual Economic Perspectives Report, Economic Resource Handbooks for each Farm Credit district, and a special analysis of the effect of the early 1989 drought on likely situations in Farm Credit System institutions;

- prepared special analyses of options on financial assistance on the FCSIC startup, and on legal cases;

- provided major support to agency planning activities;

- developed and presented examiner training in the use of financial analysis techniques and the Uniform Performance Report; and

- conducted a public hearing on financially related services in the Farm Credit System.

Office of Regulatory Enforcement

The Office of Regulatory Enforcement (ORE) is the focal point for the agency's supervision and enforcement activities for all Farm Credit System institutions requiring more than normal attention. The office also oversees institutions in receivership and handles special projects.

The office has two basic enforcement and supervisory objectives.

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

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

During 1989, the ORE executed 23 enforcement documents with Farm Credit System banks and associations. Thirteen were cease and desist orders and 10 were agreements. These documents covered $39 billion of the total assets of Farm Credit System institutions.

The office placed supervisory conditions of merger on three proposed mergers. The office also placed 4 supervisory letters, 40 followup supervisory letters to institutions operating under existing enforcement documents, and developed 10 supervisory conditions of reorganization for associations that will be receiving direct lending authority from their respective Farm Credit Banks.

The improvement in the condition of certain institutions operating under enforcement documents permitted the termination of two cease and desist orders, one agreement, and one supervisory condition of merger during 1989. During the year ended December 31, 1989, there were a total of 72 institutions with a total of $44.8 billion in assets operating under enforcement documents. These figures represented 25 percent of all Farm Credit System institutions at the end of the year and 70 percent of their total assets.

The typical enforcement document is remedial in nature. It most often contains provisions that lead boards of directors to establish workout plans on major loans exhibiting significant weaknesses, correct violations of law or regulations, establish appropriate loan loss reserves, develop business plans that include projections of major balance sheet and income statement components that demonstrate future viability, evaluate and amend the internal loan review program, properly identify and account for nonperforming and nonaccrual loans, and seek new management, if necessary. A document also may contain requirements for addressing any specific weaknesses identified in the Report of Examination or elsewhere.

The assets of the Federal Land Bank of Jackson in Receivership were reduced by 58 percent in 1989. A sale of loan assets of $1.1 billion to the Farm Credit Bank of Texas was consummated in February. This sale was the primary cause of the receivership's success in achieving the objectives of its business plan for the year. Total assets of the receivership declined from $1.4 billion on December 31, 1988, to $566.3 million on December 31, 1989. During this same time, the receivership reduced the number of its employees from 350 to 100.

Through private negotiations, a total of 248 loans with a legal value in excess of $15 million were sold to a Farm Credit Bank in November. The receivership staff also worked with individual borrowers through refinancing, restructuring, and compromises to settle 304 accounts for $122.3 million during the year.

In addition, the receivership conducted a series of auctions in the spring and fall of 1989 which resulted in the sale of 280 properties valued at more than $52.7 million.

The Farm Credit Administration chartered six Federal Land Bank Associations in the three-state territory formerly served by the Federal Land Bank of Jackson. All of these associations are stockholders of the Farm Credit Bank of Texas.

On January 6, 1989, the Farm Credit Administration Board approved the unanimous resolution of the board of directors of the Richmond Production Credit Association, Sugar Land, Tex., to voluntarily liquidate the association's assets. James C. Larson of San Andreas, Calif., was appointed receiver.

At the time of the closing, the association had total assets of approximately $17.5 million and total capital of $3.3 million. It had suffered operating losses in each of the previous 3 years.

Its December 31, 1989, financial statements showed $8.2 million in assets remaining, reflecting the receiver's success in disposing of $9.3 million of assets, a reduction of 53 percent. The receiver continues to concentrate on collections and settlements to dispose of the balance of the asset portfolio.

On April 26, 1989, the Farm Credit Administration Board placed the Coleman Production Credit Association, Coleman, Tex., in receivership and appointed James C. Larson as receiver. The action was taken based on the agency's determination that the association was in an unsafe and unsound condition to transact business.

The association had total assets of some \$7.7 million and total capital of \$1.7 million at the time of the closing. As of December 31, 1989, the receiver reported total assets of \$2.2 million. The reduction was achieved through emphasis on collections and settlements.

Six Production Credit Associations in the Twelfth (Spokane) Farm Credit District remained in liquidation during 1989. The Farm Credit Administration is in the process of completing its final examination of these institutions before taking actions to cancel their charters. The Farm Credit System Assistance Board previously indemnified the stockholders of these associations.

Two Production Credit Associations in the Eighth (Omaha) Farm Credit District also continued in receivership during the year. The FCA has completed its final examination of both of these institutions, and the receiver is preparing final disclosures to their stockholders. These disclosures, which will be delivered in 1990, will conclude all activities of the associations.

At the beginning of 1989, there were 23 pending lawsuits involving the Farm Credit Administration. During the year, 11 lawsuits were initiated against the FCA. As of December 31, 1989, 12 lawsuits had been dismissed in favor of the agency. The general issue of borrower rights was the subject of 10 of the lawsuits pending in 1989.

The FCA's denial of an association's request to reorganize as an independent Agricultural Credit Corporation was upheld in the Fifth Circuit Court in Amarillo Production Credit Association v. FCA, 887 F.2nd 507 (5th Cir. 1989).

The three lawsuits listed in the 1988 Annual Report of the Farm Credit Administration challenging the constitutionality of the one-time stock purchase required by provisions of the Agricultural Credit Act of 1987 to establish the Farm Credit System Financial Assistance Corporation Trust Fund remain pending, awaiting court decision.

Following are some of the remaining lawsuits as of December 31, 1989, involving the Farm Credit Administration. Cases are alphabetically arranged in groups according to issue, and each listing includes the case, number, and court where the suit was filed.

Federal Farm Credit Banks Funding Corp. v. FCA, No. 89-1427-A (E.D. Va. filed Sept. 29, 1989). Plaintiff challenges the FCA's determination that the Farm Credit System Insurance Fund should not be included as an asset on combined financial statements and balance sheets of the Farm Credit System.

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 Agricultural Credit Act of 1987 mandates a merger between the Federal Intermediate Credit Bank of Jackson and the Farm Credit Bank of Texas.

Little, et al. v. First South PCA, et al., CA No. J89-0021(W) (S.D. Miss. filed Apr. 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.

Buckeye PCA/Fostoria FLBA v. FCA, Civil No. 89-2381 (D.D.C. filed Aug. 25, 1989). Plaintiffs challenge the FCA's denial of their requests that the FCA expand their respective territories and amend their charters accordingly.

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

Four-C Ranch, et al. v. Western Farm Credit Bank, et al., No. 289-0457 (US Bankr., E.D. Cal. filed Nov. 3, 1989). Plaintiffs claim the FCA has not properly enforced certain borrower rights provisions.

Jackson, et al. v. FCA, et al., No. CV-E-88-636 (E.D. Cal. filed Dec. 12, 1988). Plaintiffs claim that the FCA has acted arbitrary, capricious, and with abuse of discretion in allowing the institutions involved to have policies and practices in violation of their borrower rights.

Morgan v. FCA, et al., Civ. No. 89-6159 (10th Cir. filed Feb. 3, 1989). Plaintiffs claim that the Farm Credit Bank of Wichita (FCB) and South Central Oklahoma Production Credit Association (PCA) did not comply with borrower rights provisions and request a writ of mandamus to compel the FCA to force the FCB and PCA to comply with borrower rights.

List of Final Regulations

The final regulations promulgated by the Farm Credit Administration during 1989 are listed below. This listing contains the part of the regulation, the subject of its content, the *Federal Register* citation, and the date published.

Part	Subject	Federal Register Citation	Date Published
611	Organization; Conservatorships and Receiverships	54 FR 1146	01/12/89
612, 614, 615, 618	Personnel Administration; Loan Policies and Operations; Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations; General Provisions	54 FR 1149	01/12/89
614	Loan Policies and Operations	54 FR 1151	01/12/89
614, 620, 621	Loan Policies and Operations; Disclosure to Shareholders; Accounting and Reporting Requirements	54 FR 1153	01/12/89
615	Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations	54 FR 1156	01/12/89
600	Organization and Functions; Service of Process	54 FR 50735	12/11/89
612, 614, 615, 618	Personnel Administration; Loan Policies and Operations; Funding and Fiscal Affairs, and Funding Operations; General Provisions	54 FR 50736	12/11/89

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

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

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

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

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

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

- assess and collect such apportioned amounts from time to time during the fiscal year; and

- assess and collect from the Federal Agricultural Mortgage Corporation from time to time during the fiscal year the amount determined necessary.

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

Farm Credit Administration
Administrative Expense
(Dollar amounts in thousands)

Object Class	FY 1989 Actual	FY 1990 Estimated
Personnel Compensation		
Full-time Permanent	$19,776	$21,974
Other Personnel Compensation	1,081	1,048
Personnel Benefits	3,315	5,332
Total Personnel Compensation	24,172	28,354
Travel and Transportation of Persons	3,867	3,629
Transporation of Things	22	109
Communications, Utilities, and Other Rent	871	868
Printing and Reproduction	166	168
Other Services	1,100	1,712
Supplies and Materials	640	649
Equipment	3,390	631
Total Obligations	**$34,228**	**$36,120**

The institutions of the Farm Credit System are essentially single-industry lenders. The vast majority of their loans are to farmers, ranchers, and their cooperatives. The financial results of those institutions, therefore, are significantly affected by conditions in the agricultural sector of the U.S. economy.

Farm Commodity Situation

The dominant forces shaping the commodity outlook in 1989 were the 1988 drought and farm policies adopted in the 1985 farm bill. Following the severe drought, stocks of grains and oilseeds were reduced worldwide, making prices more sensitive to increases in demand. Drought continued in the western parts of the Corn Belt, but mainly took its toll in the Wheat Belt during 1989. But as in 1988, a combination of higher prices, crop insurance, and disaster assistance provided relief for the most stressed areas. The Export Enhancement Program and other policy measures to induce competition in export prices tended to reduce stock levels and shore up crop receipts. Cattle and hog producers, by contrast, reduced their herd sizes in response to poor range conditions, higher feed costs, and lackluster consumer demand.

The same factors–recent drought, reduced livestock inventories, patterns of unusual weather, and current policy–are shaping the commodity outlook for 1990. The events of recent years have brought basic supply and demand factors into better balance for a number of major farm commodities. At the same time, high crop prices induced by drought and Federal transfers do not provide a sustainable basis for a prosperous agriculture.

Agricultural Policy Situation

The intermediate outlook will be shaped by the outcome of the 1990 farm bill and international trade negotiations. Farm commodity groups prefer little change in the basic provisions of the 1985 farm bill. The commodity interests appear, however, to have less leverage over the course of the farm bill debate than in previous years. The need to reduce the Federal deficit, respond to food safety and environmental concerns, and increase planting flexibility have been early drivers in the farm bill debate.

Pressure to reduce the Federal deficit is expected to result in modest declines in program target prices and has resulted in a review of several program areas, including the Export Enhancement Program, direct lending by the Farmers Home Administration (FmHA), and the Federal Crop Insurance Program. Budgetary restrictions have also prompted recent General Agreement of Tariffs and Trade (GATT) initiatives that would reduce the general level of support to agriculture in a multilateral context. GATT negotiations with the European Community, Japan, and other nations have proceeded slowly and may not be completed in time to have an effect on the 1990 farm bill. The eventual outcome of GATT could reopen parts of the farm bill.

Food safety and environmental concerns are focusing on the quantity and proper management of chemical inputs. It appears that the outcome could favor production technologies that make less use of land, require farmers to keep records of their use of chemicals, and give greater authorities to environmental inspectors. Such changes could alter regional production patterns, lower farm output, and raise farm production costs. But they would also likely boost commodity prices and maintain farm revenues.

A range of policy proposals would increase planting flexibility by cutting the link between set-aside provisions and program participation. Other proposals would provide farmers incentives to plant new crops and undertake nonfarm activities on the farm. These proposals share the common trait that they increase the reliance of farmers on market prices and encourage diversification of farm enterprises consistent with policies being promoted in GATT negotiations. Because shortages of certain commodities, such as oats, arose in 1989 when farmers were reluctant to give up their program base, it seems likely that Congress will act to increase planting flexibility in the 1990 farm bill.

Farm Financial Conditions and Outlook

Farm financial conditions have greatly improved in recent years. Six years of declining farm debt and 3 years of rising land values have worked wonders in restoring the sector's financial ratio and equity position. In addition, data from the 1987 Census of Agriculture shows that farm asset values dropped less severely during the 1980s than previously estimated. Rather than having lost nearly $300 billion in equity, the sector's loss was closer to $225 billion. By the end of 1990, nearly two-thirds of the nominal loss will have been recovered. In real terms, the revisions still show that major losses were sustained by owners of American farmland.

Beyond the outward signs of improvement, many farmers have made real progress in getting their financial houses in order. They have achieved higher earnings through cautious investment behavior, effective cost controls, and less use of credit. Lenders have assisted in this process by restructuring loans and writing off troubled debt.

During 1989, farm asset values increased by about $40 billion, while farm debt dropped nearly $2 billion, and net farm income was near record high. Though farmers opted to rebuild crop inventories and received about $3 billion less in Government payments, increased marketing receipts allowed them to increase their gross cash income by about $2 billion to $174 billion. Revenues were higher from most crop and livestock enterprises. Notable changes showed that dairy receipts were up for the first time in several years, while soybean receipts dropped. The expenses of farmers were pushed higher by expanded acreage and a 3-percent rise in prices paid. As a result, cash expenses were about $7 billion above the $114 billion of 1988. This dropped the sector's net cash farm income to around $53 billion from a record $57.2 billion in 1988.

The number of producers in difficulty has declined, although severe financial stress is still common in some areas. The U.S. Department of Agriculture (USDA) estimates that about 68,000 commercial farms remained financially vulnerable during 1989 because of high debt levels and poor cash flows. The Northern Plains is one region that continues to have difficulties. Another year of drought could aggravate an already bad situation and lead to widespread liquidations.

The domestic commodity outlook points to a continuation of favorable net cash income from farming operations in 1990. Income and expense factors currently tend to offset one another with margins for livestock producers improving, while those of crop producers have declined. Net cash income in 1990 is projected to range from $52 billion to $57 billion.

The farm sector's balance sheet and various financial ratios also suggest improvement in 1990. Farm debt may increase slightly and assets are projected to climb 4 to 5 percent. In general, land values are expected to keep up with, but not exceed, the rate of inflation. Though debt servicing is still a problem in some areas, the overall farm debt burden has declined. Many farmers and ranchers are leery of expanding debt loads because of earlier debt servicing problems and a fear that interest rates may become more volatile and average higher. These concerns may keep pressure on farmers to use cash to pay expenses for quite some time.

Situation for Farm Lenders

The favorable net farm income situation has meant that many more solid farm borrowers and potential customers have used higher cash flows to pay down existing loans, to pay cash, and/or to seek more favorable loan terms from lenders. The competition and high real interest rates make it difficult to pass on the high administrative costs associated with loan workouts. Consequently, some farm lenders are not gaining as much benefit from the improved farm financial conditions as others.

This has been especially true for a number of Farm Credit System institutions. At the national level, they have seen a steady erosion of market share over the past 5 years, from a fairly stable 33.6 percent during 1981-1984 to 25.9 percent at the end of 1989. Commercial banks have largely taken over the lost share and now hold 32 percent of the farm debt. Since peaking at $193 billion in December 1983, farm debt has fallen $57 billion, or 30 percent. Just over half the decline was in debt owed Farm Credit System institutions. Debt owed to commercial banks declined initially, but has since risen to slightly below the 1983 level.

The USDA estimates that as of December 31, 1989, farmers owed $135.8 billion in farm debt, which excludes about $10 billion owed on operator dwellings. Of the total farm debt, $43.9 billion was held by commercial banks, $35.3 billion by Farm Credit System institutions, $27.5 billion by individuals and others, $20.2 billion by the FmHA, and $8.9 billion by life insurance companies. The debt cited for Farm Credit System institutions does not include loans outstanding from the Banks for Cooperatives, rural housing or farm-related business loans, outstanding loans of producers or harvesters of aquatic products, or loans held by Farm Credit Banks that were made to other financing institutions. The USDA's data show that farmers' short-term interest expense exceeded their long-term interest expense during 1989, which is a reversal of what had been the pattern.

Farm lending is expected to grow modestly in 1990. Lending by Farm Credit System institutions may grow by as much as $1 billion, with other commercial lenders also showing some increases. The FmHA is expected to continue strengthening its portfolio under provisions of the Agricultural Credit Act of 1987. The new secondary market in agricultural and rural housing mortgages being initiated by the Federal Agricultural Mortgage Corporation may facilitate some of this increase.

Farm Credit System institutions have been required to make disclosures to their stockholders since the quarter ended June 30, 1986. Though not a requirement of the FCA, disclosure to investors is made by the Federal Farm Credit Banks Funding Corporation through its quarterly and annual Information Statements. The Farm Credit System 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.

This section is based on analysis of external information and on interpretation of reports compiled from submissions to the Farm Credit Administration by the banks and associations of the Farm Credit System in mandatory quarterly Call Reports. The FCA reviews such reports for internal consistency and conformity to accounting and reporting standards. In some instances, adjustments are made to help ensure accurate and consistent financial information that complies with applicable standards. These reviews, however, should not be considered financial audits.

Details about the financial condition and performance of Farm Credit System institutions–on a combined basis and by institutional groups–are provided in graphic and tabular form in the appendices to this report. The graphs and tables reflect initial and revised financial reports filed with the FCA as of April 6, 1990. A word of caution, however, is in order. In most cases, the figures for individual institutional groups will not add up to the financial results shown on a combined basis. Some of the figures for a given group were affected by mergers, reversals of assessments, and financial transfers among institutions. On a combined basis, many of these adjustments netted out to zero.

Another important financial issue concerns the Farm Credit System Insurance Fund. At this writing, there is litigation between the Federal Farm Credit Banks Funding Corporation and the FCA over how the insurance fund and the attendant premium expenses should be treated from an accounting standpoint. The Farm Credit System's 1989 Report to Investors includes $349.8 million in the insurance fund as a restricted asset and does not expense the associated premiums in the combined income statement. The FCA is of the opinion that the insurance fund should not be included as an asset and that the related insurance premiums must be recorded as an expense in the system's combined financial statement. The analysis in this report and the statistical material represented in the graphs and tables reflect the FCA's position on the insurance fund. On December 31, 1989, the actual amount of the insurance fund was $271.3 million.

Combined Financial Results

The continued recovery of the farm economy combined with financial assistance made possible by the Agricultural Credit Act of 1987 contributed to the improved overall financial condition of the Farm Credit System during 1989. Increasing farm income and rising collateral values have aided system institutions in working out troubled loans. Financial assistance has allowed troubled institutions to buy back some of their high cost debt. These developments, plus unusual growth in the system's investment portfolio, led to higher net interest income in 1989.

While total net income in 1989 was not as high as the previous year, system institutions relied less on reversals in their allowance for loan losses to generate earnings. Net interest income exceeded $1 billion and was sufficient to cover other operating expenses and produce a profit before the reversal in loan loss provisions of $284.7 million. In 1988, the reversal was $680.6 million.

Further progress in the condition of system institutions may be affected by the provisions of the 1990 farm bill and the Federal Agricultural Mortgage Corporation. If cuts in farm program benefits reduce farm income levels, nonaccrual and delinquent loans will likely expand, which will increase provisions for loan losses and decrease net earnings. The advent of the secondary market for farm real estate mortgages should create more competition from commercial banks and life insurance companies. These factors could cause system institutions to look for ways to further streamline operations and expand authorities to remain competitive and maintain or increase their share of the market.

The ability of system institutions to generate earnings and build permanent capital improved in 1989, reflecting better asset quality. Also aiding in the recovery was the repurchase of high cost debt by the Farm Credit Banks of Omaha, St. Paul, and Louisville, which was made possible through the purchase of preferred stock in these institutions by the Farm Credit System Financial Assistance Corporation.

Total net worth of system institutions decreased to $5.1 billion, or 4 percent, during 1989. At the end of the year, the net worth was composed of $1.7 billion in protected capital stock, $1.1 billion of at–risk stock, and $2.3 billion in earned net worth. The level of protected stock at the end of 1989 was one-half the level of a year earlier, while at-risk stock increased five-fold. Total stock, however, declined 20 percent during the period due to declining loan volume and reduced stock requirements on loans permitted by the Agricultural Credit Act of 1987.

Earned net worth increased 28 percent in 1989. At the end of the year, it was 45 percent of total net worth, compared with 34 percent in 1988, 27 percent in 1987, and 26 percent in 1986. Earned net worth also increased in relation to total assets, growing from 2.1 percent at the end of 1986 to 3.6 percent at the end of 1989.

Total assets rose 3.2 percent in 1989 to a total of $63.6 billion, after declining for several years. This gain was due to a 29-percent increase in cash and marketable securities, as gross loans continued to decline, dropping 1.4 percent to $50.7 million. Loan quality, however, improved significantly during the year. Accruing loans increased $55 million, while nonaccruing loans fell $776 million. The decline of 1.4 percent in gross loans during 1989 compares with declines of 16.5 percent in 1986, 9.9 percent in 1987, and 2 percent in 1988. This trend could indicate the decline is bottoming out.

With improvements in the farm economy, nonaccruing loans fell 23 percent and acquired properties dropped 29 percent in 1989. Other high risk loans declined 16 percent, and restructured loans increased 20 percent. As a result of these developments, system institutions had net recoveries of $5 million in 1989 as opposed to net chargeoffs of $413 million a year earlier.

Combined earnings for 1989 were $605 million, a 14-percent decline from 1988. The decline is misleading, however, because net interest income was $1 billion, 28 percent above the 1988 level. Improvements in loan quality, increases in marketable securities, and the repurchase and retirement of high cost debt accounted for most of the gain in net interest income. The net interest margin increased from 1.3 to 1.7 percent of interest-earning assets.

Operating expenses increased 17 percent in 1989 to $834 million, mostly reflecting the payment of $90 million in insurance premiums to the Farm Credit System Insurance Corporation.

In 1989, the return on assets of system institutions was 1.04 percent, compared with 1.13 percent for 1988. These results compare with negative returns of 2.25 percent in 1986 and 0.03 percent in 1987.

Farm Credit Banks

The year 1989 marked the first full year of operation of the Farm Credit Banks, which resulted from the mergers of the Federal Land Banks and Federal Intermediate Credit Banks on July 6, 1988. Some banks transferred their loan assets to direct lending Agricultural Credit Associations (ACAs) and Federal Land Credit Associations (FLCAs), while others continued to make long-term real estate loans through Federal Land Bank Associations (FLBAs). These changes are expected to continue in 1990 as more banks become wholesalers of credit to associations and further streamline their own operations.

As of December 31, 1989, the total net worth of the 11 Farm Credit Banks and the Federal Intermediate Credit Bank (FICB) of Jackson was $3.7 billion, representing 7.6 percent of total assets. Both of these figures were down from the end of the previous year when total net worth was $4 billion, or 8.3 percent of total assets. This reduction was largely due to a 14-percent decline in capital stock, which resulted from a decline in gross loans and reduced stock requirements. Impaired capital stock, however, declined from $587.8 million at the end of 1988 to $385.3 million at the end of 1989. Of the three banks receiving financial assistance, only the Farm Credit Bank of Omaha cured its stock impairment.

Earned net worth of the banks was $787.5 million at the end of 1989, which equaled 1.6 percent of total assets and 21.2 percent of total net worth. A year earlier, earned net worth totaled $567 million, which was 1.2 percent of total assets and 14.3 percent of net worth.

The total assets of the banks of $48.5 billion at the end of 1989 were 1.4 percent higher than a year earlier. However, the increase was not from loan volume, which declined 4.1 percent, but from a 41-percent increase in marketable investments. Growth in assets varied among the banks, but in most cases it was from the increase in investments. The Farm Credit Bank of Texas had a 29-percent increase in assets as a result of the purchase of loans from the Federal Land Bank of Jackson in Receivership, as well as gains in investments. Only in the FICB of Jackson did asset growth (14 percent) come exclusively from increased loan volume. In those banks where total assets declined, the cause was generally a decline in loan volume and acquired properties.

Asset quality in the banks continued to improve in 1989. About 82 percent of the $40.5 billion in gross loan volume was classified as performing compared with 76.2 percent in 1988. Nonaccrual loans declined 28 percent during the year to $2.2 billion, or 5.4 percent of gross loans. Restructured loans comprised 5.2 percent of the loan portfolio at the end of 1989, up from 4.6 percent in 1988. Acquired properties fell from $578.3 million to $385.5 million during the year, a decline of 33 percent.

The 11 Farm Credit Banks and the FICB of Jackson had combined earnings of $517.7 million in 1989, 31 percent less than in 1988. However, 1988 income was augmented by a reversal of $651 million in loan loss provisions, which more than offset an extraordinary expense of $174 million for the purchase of high cost debt. In 1989, the reversal in loan loss provisions was $141 million. Moreover, in the first quarter of 1988, several banks booked a one-time reversal of capital preservation assessments of $415 million that were paid in 1986. These reversals were authorized by the Agricultural Credit Act of 1987.

With the exception of the Farm Credit Bank of Spokane, all the banks had an improvement in the quality of their earnings, as they posted net gains even before reversals from the loan loss account. Net interest income increased 44 percent over 1988, and net interest margins increased from 0.92 to 1.37 percent of average earning assets. The improvements came from the repurchase and retirement of high cost debt in conjunction with the financial assistance received by the Farm Credit Banks of Omaha, Louisville, and St. Paul and the reduction in nonearning assets.

Operating expenses increased 1.6 percent in 1989, but the increase was small as a percentage of average earning assets, rising from 1.04 percent in 1988 to 1.07 percent in 1989.

Net interest margins as a percent of interest-earning assets improved for all banks except Spokane, Louisville, and Springfield. Spokane's large amount of high cost debt limited its spread. Louisville and Springfield transferred their loan assets to associations, which allowed them to earn only wholesale spreads on their lending activities. Altogether, the Farm Credit Banks realized an 1.11-percent return on assets in 1989, compared with 1.54 percent in 1988.

Associations With Direct Lending Authority

On December 31, 1989, there were 126 Farm Credit System associations with direct lending authority. Eighty-four were Production Credit Associations (PCAs), 40 were Agricultural Credit Associations (ACAs), and two were Federal Land Credit Associations (FLCAs). Because the ACAs and FLCAs were first established in 1989, the financial statements for 1989 are not comparable with those of previous years.

The combined net worth of the direct lending associations was $2.7 billion, or 15.5 percent of total combined assets, on December 31, 1989. The net worth-to-asset ratio was 19.7 percent for PCAs, 12 percent for ACAs, and 6.6 percent for FLCAs. The high ratio of asset ownership by the PCAs reflects their long business tenure as opposed to the newly formed ACAs and FLCAs.

For the combined entities, earned net worth made up 64.8 percent of total net worth. For the PCAs, earned net worth was 66.2 percent of total net worth, compared with 63.5 percent for ACAs and 12.5 percent for FLCAs.

Of the $933.2 million in total capital stock, $172.9 million, or 18.5 percent, was protected. This ratio declined throughout the year as new loans were made and/or current loans were renewed, thereby converting protected stock to at-risk stock.

Combined performing loans totaled $13.8 billion, or 89.3 percent of the portfolio. The ACAs, whose $7.8 billion in performing loans constituting 91.7 percent of their portfolio, had the largest proportion of performing loans. PCAs had $5.8 billion in performing loans, or 86.4 percent of their portfolio, and FLCAs had $171 million, or 85.9 percent of their total loans.

PCA nonaccrual loans were $253 million, or 3.8 percent of gross loans. ACAs had $237 million in nonaccruals, or 2.8 percent of gross loans, and FLCAs had $5.8 million, or 2.9 percent.

Combined net earnings for the direct lending associations were $122.2 million in 1989, although about half of this figure results from reversals of loan loss provisions.

The PCAs had $58.6 million in earnings for the year, $54.6 million of which came from reversals of loan loss provisions. Their net interest income of $182.3 million was barely sufficient to cover operating expenses of $181.5 million.

The ACAs earned $51.3 million in 1989, which was augmented by $13.1 million in reversals from the loan loss account. The interest income of the ACAs, which totaled $140.8 million, was more than adequate to cover their $110.1 million in operating expenses. This favorable situation was an outgrowth of their authority to provide financing with a spectrum of maturities, thereby cross-selling their loan products. Also, most ACAs are concentrated in the Springfield and Baltimore Districts where loan quality problems are relatively minor.

Of the $12.3 million in earnings reported by the FLCAs, $12.2 million was associated with the transfer of assets from the Farm Credit Banks and was credited as other income. The FLCAs also relied heavily on $6.4 million of compensation income from the banks because their $3.9 million in net interest income was insufficient to cover their $8.1 million in noninterest expenses.

Federal Land Bank Associations

The financial performance of the Federal Land Bank Associations (FLBAs) must be interpreted very carefully because they serve as lending agents for the Farm Credit Banks. Most of their revenue is compensation from the Farm Credit Banks.

On December 31, 1989, there were 146 active FLBAs compared with 154 a year earlier. Some associations merged territories, some merged with PCAs, and some became FLCAs. Six new FLBAs were also chartered during the year.

The combined FLBAs had $111.3 million in net earnings in 1989 compared with $942.3 million in 1988.

Several factors explain the large change. First, the number of associations declined. Second, 1988 earnings were augmented by income adjustments made in conjunction with bank mergers. And third, certain FLBAs were provided with financial assistance by their Farm Credit Banks so that the associations would have a sufficient capital base to become direct lenders. Operating expenses were $154.3 million in 1989, down from $208.2 million in 1988.

The total net worth of the FLBAs was $1.6 billion as of December 31, 1989, representing 94.1 percent of total assets. This ratio, which indicates shareholder ownership in the associations, increased slightly from 1988 levels when total net worth was 93.2 percent of total assets. Earned net worth was $439.3 million, or 28.4 percent of total net worth.

Banks for Cooperatives

On January 1, 1989, 10 of the 12 district Banks for Cooperatives (BCs) and the Central Bank for Cooperatives merged to form the National Bank for Cooperatives, which does business as CoBank. As mentioned earlier, the Springfield (Mass.) Bank for Cooperatives and the St. Paul (Minn.) Bank for Cooperatives chose not to participate in the merger. In reviewing the combined financial condition of the BCs, it should be noted that the performance of the National Bank for Cooperatives will dominate the results of the combined entities because its assets make up almost 90 percent of the total.

Total net worth of the BCs declined 6.2 percent during the year to $946 million on December 31, 1989. The total net worth-to-total assets ratio, 6.8 percent, was also down from the previous year's 7.7 percent. These facts, however, should not be interpreted as an adverse financial trend because they most likely reflect enactment of the capital bylaws of the banks. Indeed, gross loans and earnings both increased over 1988 levels.

The protected stock of the BCs fell 26.4 percent during the year to $537.2 million on December 31, 1989. At-risk stock increased over the same period to $244.6 million, which was not enough to offset the decrease in protected stock. Thus, total stock declined 5.4 percent.

Earned net worth was $164.3 million at the end of 1989, 17 percent of total net worth and 1.2 percent of total assets. A year earlier, earned net worth was $182 million, 18.1 percent of total net worth and 1.4 percent of total assets.

Only the Springfield Bank for Cooperatives reported an increase in total net worth, up 12.5 percent to $41.3 million. As a percent of total assets, however, Springfield's net worth dropped from 19 percent in 1988 to 15 percent in 1989. The increase in net worth came from an increase of 20 percent in capital stock, which was driven by an increase of 30 percent in loan volume.

Total combined assets of the BCs were $13.9 billion at the end of 1989, an increase of 5.8 percent from a year earlier. Gross loans increased 4.7 percent to $10.7 billion, and marketable securities grew 9.7 percent. The ratio of earning assets to total assets held steady at 98 percent.

At the end of 1989, nonaccrual loans and acquired properties for the BCs were 0.13 percent of gross loan items and acquired properties compared with 0.21 percent at the end of 1988. The National Bank for Cooperatives and the St. Paul Bank for Cooperatives reduced their level of nonaccruals by 14.4 percent, while the National BC reduced acquired properties 77 percent during the year. Net chargeoffs, which were $23 million in 1988, were transposed into net recoveries of $8.4 billion in 1989, as the banks were able to increase payouts and rework some loans back into accrual status. All of the Springfield BC's assets were performing at the end of 1988 and 1989.

For the year ended December 31, 1989, the BCs together earned $106 million, 24 percent more than in 1988. Most of the increase was attributable to improvements in asset quality, which further permitted an $8.6 million reversal from the loan loss account.

Net interest margin as a percentage of average earning assets rose from 1.22 percent in 1988 to 1.34 percent in 1989. This was due largely to the reduction in nonperforming loans. At the same time, operating expenses fell slightly to $55.5 million, or 0.43 percent of average earning assets. The BCs' return on assets was 0.80 percent in 1989, up from 0.67 percent in 1988.

The Farm Credit Banks and the Banks for Cooperatives obtain the majority of their loan funds through the Federal Farm Credit Banks Funding Corporation from the sale of Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes. Most of the proceeds from the sale of Systemwide debt securities in 1989 were used to fund maturing obligations because lending volume continued to decline.

In 1989, the total financing operations of the funding corporation were $112.6 billion. Of this total, 3-month bond sale participations were $11.3 billion, 6-month bond participations reached $13.5 billion, and term bond participations amounted to $7.3 billion. Discount note activity, on the other hand, totaled $75.2 billion, representing 67 percent of the total systemwide debt issued. Specialized funding activities increased from $1.1 billion in 1988 to $5.4 billion in 1989.

The specialized funding activities focused on the medium-term note program, as $2.9 billion was issued to access the term fixed rate market and the floating rate market for greater funding flexibility. Also, $650 million was placed on an underwritten basis, of which $450 million was callable debt.

The funding corporation raised a total of $1.3 billion through the reopening of 14 outstanding term bond issues, while $363 million was placed directly with investors. Other activities included a repurchase of $76 million of outstanding high coupon debt and transfers of $31.5 million between system banks.

Market interest rates rose in the first part of 1989 and averaged above 1988 levels. For the Farm Credit Banks and BCs, the average coupon rate for 3-month issues was 8.93 percent, 6-month bonds had an average rate of 9.04 percent, and term issues averaged 8.91 percent. However, because of expanded use of specialized funding, greater use of discount notes, the retirement of high coupon debt, and the repurchase of high coupon debt by some institutions, the average cost of the outstanding debt portfolio was 9.15 percent during 1989, 19 basis points lower than in 1988.

A continuing trend toward narrower spreads over U.S. Treasury securities also contributed to lower funding costs. The average spread on 3-month bonds dropped to 48 basis points, a 29-basis-point decrease from the 1988 average. The spread on 6-month bonds and term issues was 48 and 15 basis points, respectively, or 12 and 10 basis points lower than in 1988. This trend toward narrower spreads can be attributed to the perception of investors that the financial condition of Farm Credit System institutions has improved and to the successful implementation of the Agricultural Credit Act of 1987. Also, uncertainties in the financial markets brought about by technical distortions in the market for Treasury securities, stock market volatility, and deterioration in the junk bond market prompted some flight to quality that favored the agency markets.

The average debt cost of the Farm Credit Banks fell from 9.53 percent in 1988 to 9.23 percent in 1989. The average debt cost for the Banks for Cooperatives, however, rose 14 basis points, from 8.72 to 8.86 percent. The combined average debt cost for the Farm Credit Banks and Banks for Cooperatives was 9.15 percent in 1989 and 9.34 percent in 1988.

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

(Dollar amounts in millions)

	FCB[1]		BC		Total[3]	
	1989	1988	1989	1988	1989	1988
Bonds[2]	$34,777	$34,120	$4,051	$4,950	$38,828	$39,070
Discount Notes	7,997	6,877	8,035	6,211	16,032	14,163
Total Debt	42,774	40,997	12,086	11,161	54,860	52,157
Net New Money (Paydown)	$1,777	($2,659)	$926	$1,701	$1,629	($1,504)
Average Bond Cost	9.35%	9.74%	9.49%	8.96%	9.36%	9.64%
Average Discount Note Costs	8.47%	8.52%	8.51%	8.53%	8.53%	8.53%
Average Debt Cost	9.23%	9.53%	8.86%	8.72%	9.15%	9.34%

[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.

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 farmers.

Programs for these farmers were largely unchanged from those reported for previous years. In general, all associations in a given district have adopted the same policy statement, though their specific activities and emphasis may vary. Beyond a host of public relations efforts aimed at young farmers, their specific programs generally center on educational efforts and assistance in the extension of credit.

Educational programs tend to emphasize the need for and the use of good records and sound management practices. Several districts reported that they held seminars, counseling sessions, and other meetings with young, beginning, and small farmer groups.

Credit programs typically involve putting forth extra effort in coordinating regular loan programs with special ones available through Federal, state, and local agencies. While these outside programs tend to be subsidized, the programs of the Farm Credit System institutions themselves are not. There is benefit from additional attention, but any loans made are sound and constructive credits.

A number of districts reported that improved economic conditions led to a more favorable lender-borrower attitude, which gave rise to greater activity and participation in the special credit programs by the target groups. Because of the new configuration of associations, however, the statistics for 1989 and previous years cannot be directly compared. The 1988 annual report provided special program information only for PCAs and FLBAs. With the advent of two new types of organizations, this year's report also includes data for ACAs. Because there were only two FLCAs at the end of the year, they were grouped with the FLBAs. Overall, however, the 1989 results appear to be fairly similar to those of 1988.

About 29 percent of the $1.3 billion in new money loaned through the FLBAs in 1989 went to borrowers who met one or more of the target group criteria. About $56 million, or 4.4 percent, went to borrowers who met two or more of the criteria. Of the $24 billion in loans outstanding, only 0.86 percent was associated with borrowers meeting two or more criteria, and another 10 percent was held by those meeting just one of the three criteria. Nearly 18 percent of those having loans outstanding met one or more criteria, with about half of them qualifying because of their small sales and asset positions.

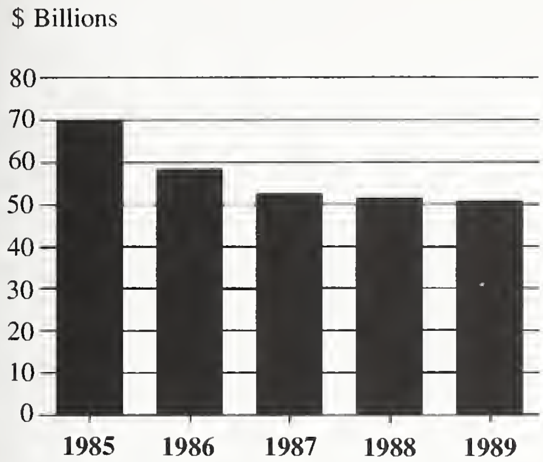
As was the case in 1988, the data for PCAs shows more activity in new money loaned, but less in outstanding loans held by young, beginning, and small farmers than for the FLBAs. Of the total amount of the $4.6 million in new money loaned, about 17 percent was to PCA borrowers meeting one or more criteria. Such borrowers, however, held 20 percent of the outstandings and accounted for nearly 28 percent of all member-borrowers. The qualifying factor for the largest number of borrowers in the target group was age rather than size or years in farming.

The participation results for ACAs were higher than for the other types of associations. About 39 percent of the loan accounts, 21 percent of the outstandings, and 30 percent of new money advanced were associated with young, beginning, and small farmers. The higher figures were largely associated with small farmers, as opposed to young or beginning farmers. This may be explained by the fact that most ACAs are in the Springfield and Baltimore Districts where small farms tend to be more dominant than in most other districts.

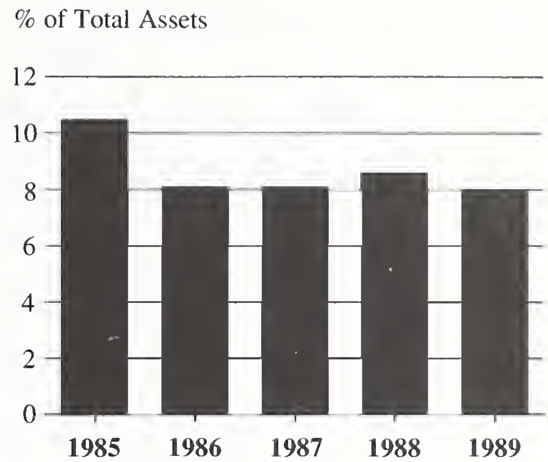
More detail may be found in the appendix tables to this report.

Loans and Assets of Farm Credit System Institutions
December 31, 1985-1989

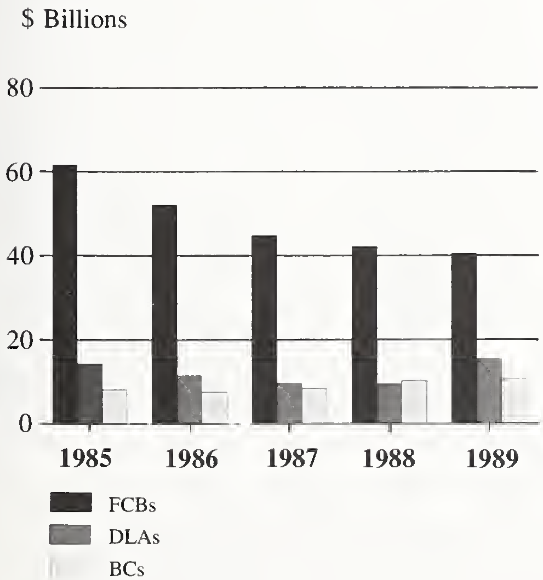
Total Loans for Combined Institutions



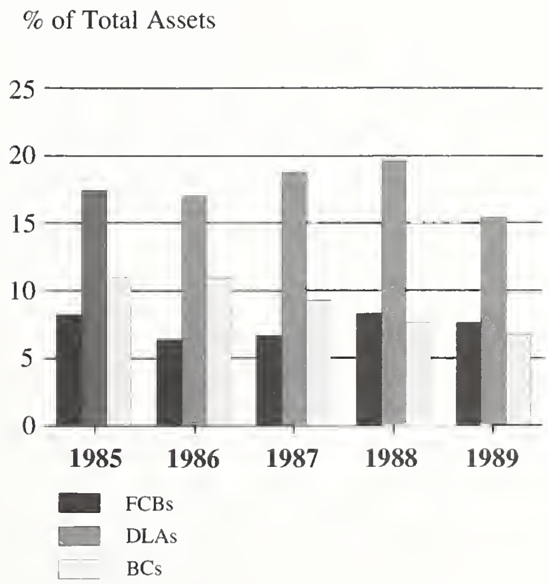
Total Capital to Assets for Combined Institutions



Total Loans by Farm Credit Institution Group

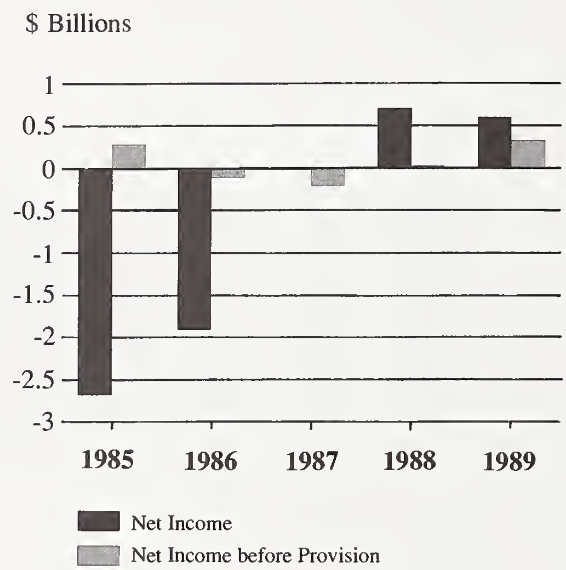


Total Capital to Assets by Farm Credit Institution Group

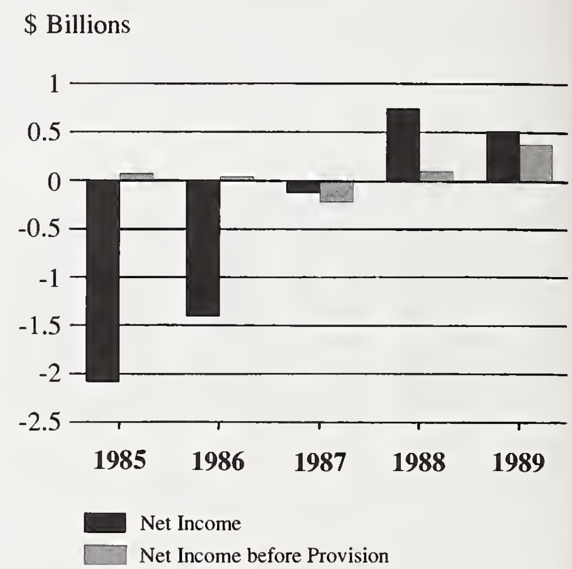


Income of Farm Credit System Institutions 1985-1989

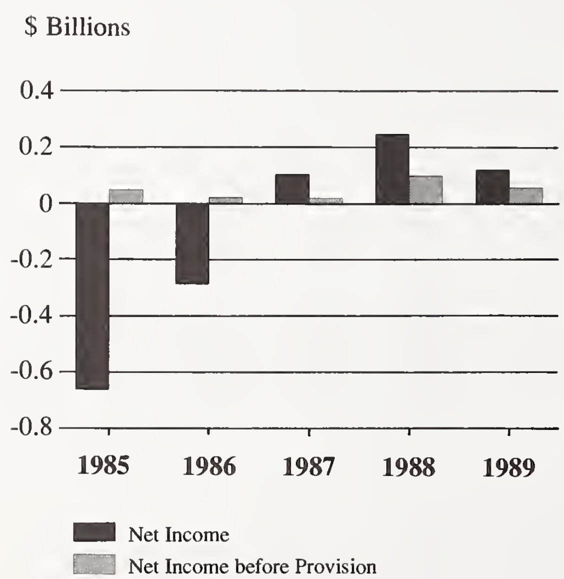
Combined Institutions



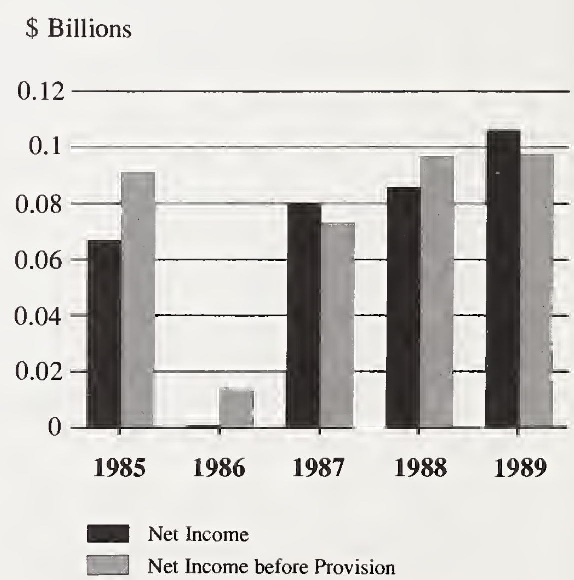
Farm Credit Banks



Direct Lender Associations

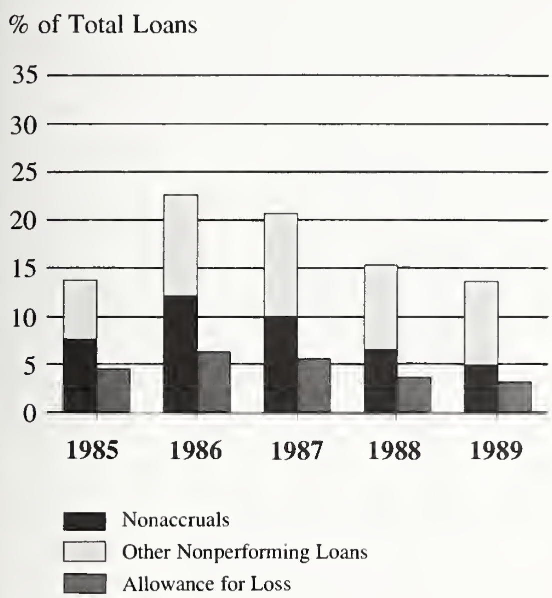


Banks for Cooperatives

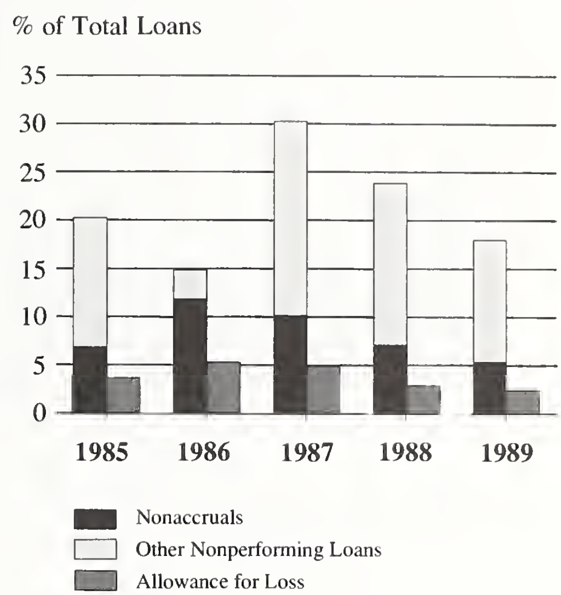


Asset Quality of Farm Credit System Institutions
December 31, 1985-1989

Combined Institutions



Farm Credit Banks



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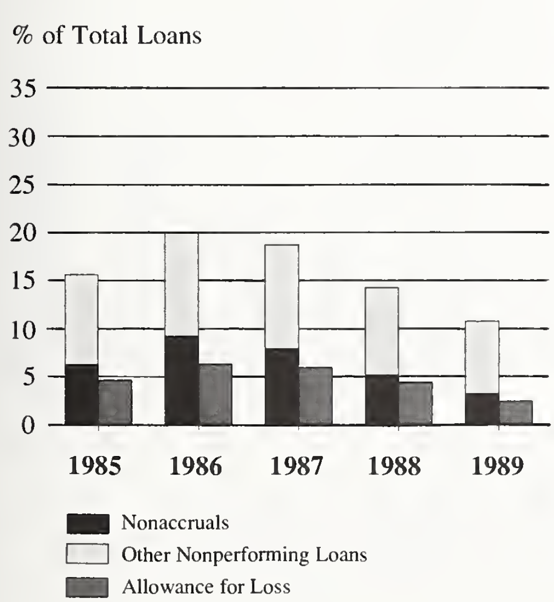

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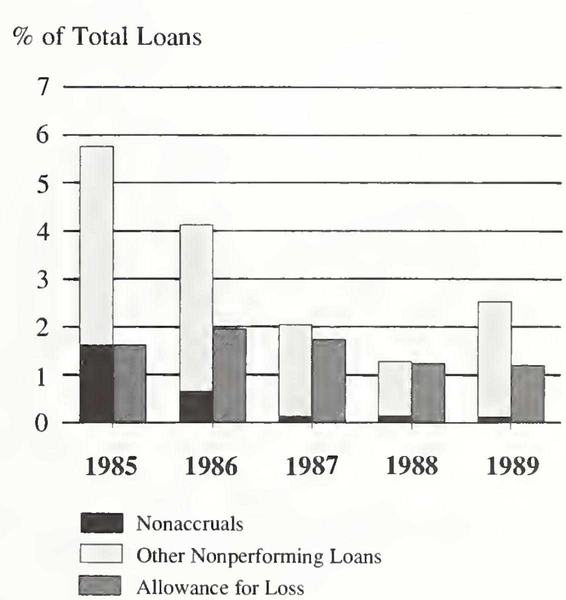
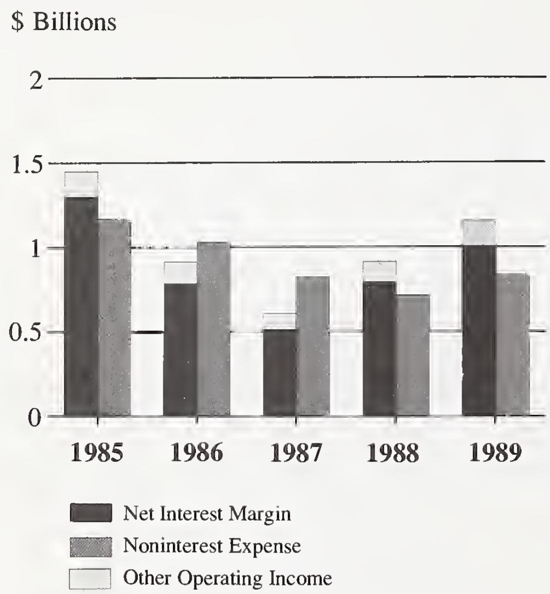
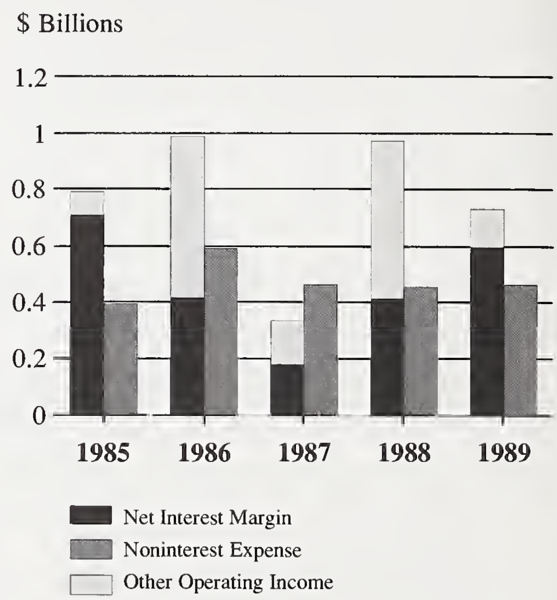


Income from Operations of Farm Credit System Institutions
1985-1989

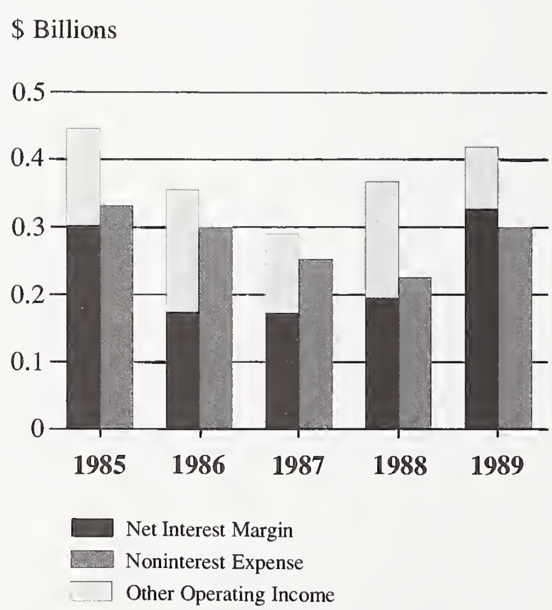
Combined Institutions



Farm Credit Banks



Direct Lender Associations



Banks for Cooperatives

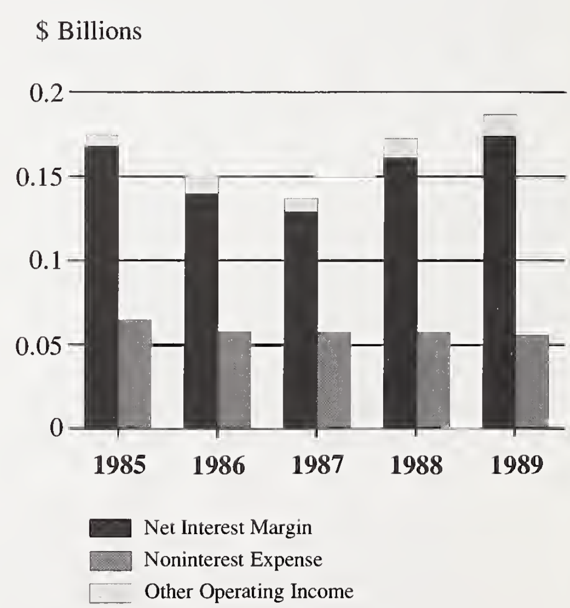


Table of Contents
Appendix B–Financial Condition of Farm Credit System Institutions, Tables

Table 1
Farm Credit System Combined Statement of Condition

(Dollar amounts in millions)

As of December 31	1989	1988	1987	1986
Assets				
Loans, Less Allowance for Loan Losses of $1,577.8, $1,857.5, $2,951.0, and $3,635.3 in 1989, 1988, 1987, and 1986, respectively	$49,128.7	$49,570.5	$49,547.1	$54,614.3
Cash and Investment Securities	11,509.2	8,940.8	9,408.5	11,413.0
Total Earning Assets	**60,637.9**	**58,511.3**	**58,955.6**	**66,027.3**
Accrued Interest Receivable on Loans	1,658.2	1,693.9	1,641.5	2,201.0
Other Property Owned	468.4	662.5	876.5	1,101.5
Premises and Equipment, Less Accumulated Appreciation	388.8	414.3	447.3	494.3
Other Assets and Deferred Charges	450.8	334.2	317.6	276.5
Total Assets	**63,604.1**	**61,616.2**	**62,238.5**	**70,100.6**
Liabilities				
Consolidated Systemwide and Other Bonds	39,585.1	39,502.1	40,842.9	48,734.3
Consolidated Systemwide Notes	16,310.4	14,430.7	14,431.9	13,743.9
Financial Assistance Corporation Bonds	843.2	687.8	0.0	0.0
Notes Payable and Other Interest-Bearing Liabilities	92.7	110.6	253.6	197.7
Accrued Interest Payable	1,141.2	1,122.5	1,187.3	1,434.4
Other Liabilities	540.8	461.8	492.7	349.3
Total Liabilities	**58,513.4**	**56,315.5**	**57,208.4**	**64,459.6**
Net Worth				
Capital				
Capital Stock and Participation Certificates–Protected	1,683.3	3,288.6	0.0	0.0
Capital Stock and Participation Certificates–Unprotected	1,116.7	227.2	3,683.9	4,188.1
Total Capital Stock	**2,800.0**	**3,515.8**	**3,683.9**	**4,188.1**
Earned Net Worth				
Allocated Surplus	0	0	0	0
Earned Net Worth	2,290.7	1,784.9	1,346.2	1,452.9
Total Earned Net Worth	**2,290.7**	**1,784.9**	**1,346.2**	**1,452.9**
Total Net Worth	**5,090.7**	**5,300.7**	**5,030.1**	**5,641.0**
Total Liabilities and Net Worth	**$63,604.1**	**$61,616.2**	**$62,238.5**	**$70,100.6**

Note: Totals may not add due to rounding.

Table 2
Farm Credit System Combined Statement of Operations

(Dollar amounts in millions)

For the Year Ended December 31	1989	1988	1987	1986
Interest Income				
Loans	$5,420.3	$5,182.0	$5,171.8	$6,638.2
Investment Securities	850.0	639.7	611.5	531.2
Total Interest Income	**6,270.3**	**5,821.7**	**5,783.3**	**7,169.4**
Interest Expense				
Consolidated Systemwide Bonds	3,745.9	3,745.7	4,172.9	5,312.7
Consolidated Bank and Other Bonds	151.5	125.1	216.5	280.7
Consolidated Systemwide Notes	1,294.6	1,117.8	862.6	770.0
Financial Assistance Corporation Bonds	63.9	17.9	0.0	0.0
Notes Payable and Other Interest-Bearing Liabilities	8.5	28.5	22.4	25.4
Total Interest Expense	**5,264.4**	**5,035.0**	**5,274.4**	**6,388.8**
Net Interest Income	1,005.9	786.7	508.9	780.6
Provision for Loan Losses	(284.7)	(680.6)	(195.9)	1,797.7
Net Interest Income (Loss) After Provision for Losses and Losses or (Gains) on Other Property Owned	1,290.6	1,467.3	704.8	(1,017.1)
Other Income	148.4	121.6	97.3	129.4
Other Expenses				
Salaries and Employee Benefits	452.3	453.2	486.0	497.1
Occupancy and Equipment Expense	80.2	79.9	88.4	88.7
Other Operating Expense	290.8	200.6	211.7	224.1
Miscellaneous	10.7	(23.1)	33.5	215.2
Total Other Expenses	**834.0**	**710.6**	**819.6**	**1,025.1**
Income (Loss) before Extraordinary Item	605.0	878.3	(17.5)	(1,912.8)
Extraordinary Item	0.0	(173.9)	0.0	0.0
Net Income (Loss)	**$605.0**	**$704.4**	**($17.5)**	**($1,912.8)**

Note: Totals may not add due to rounding.

Table 3
Farm Credit System Combined Trends in Selected Financial Measures

(Dollar amounts in millions)

For the Year Ended December 31	1989	1988	1987	1986
Loan Performance				
Performing	$45,262.0	$43,533.0	$41,670.0	$45,078.0
Restructured	2,376.0	1,980.0	1,321.0	363.0
Other High Risk	2,174.0	2,586.0	4,273.0	5,742.0
Nonaccrual	2,553.0	3,329.0	5,234.0	7,066.0
Net Chargeoffs on Loans	($5.0)	$413.0	$488.0	$1,352.0
Selected Ratios				
Return on Assets	1.04%	1.13%	-0.03%	-2.55%
Return on Equity	12.63%	13.67%	-0.04%	-26.10%
Net Interest Margin	1.67%	1.28%	0.79%	1.08%
Capital as a Percentage of Assets	8.00%	8.60%	8.10%	8.10%
Debt-to-Capital Ratio (:1)	11.49	10.60	11.40	11.40

Table 4
Farm Credit Banks Combined Trends in Financial Condition

(Dollar amounts in millions)

As of December 31	1989	1988	1987	1986
Assets				
Loans	$40,463.4	$42,210.1	$44,816.6	$52,012.3
Less: Allowance for Losses	987.2	1,254.0	2,187.0	2,701.8
Net Loans	39,476.2	40,956.1	42,629.6	49,310.5
Cash and Investments in Securities	8,057.2	5,736.4	6,472.1	8,913.6
Net Acquired Property	385.5	578.3	764.7	937.4
Other Assets – Net	596.9	572.9	565.7	727.4
Total Assets	**48,515.9**	**47,843.7**	**50,432.1**	**59,888.9**
Liabilities				
Consolidated Systemwide and Other Bonds	34,936.2	34,110.8	36,538.8	44,481.5
Consolidated Systemwide Notes	8,295.1	8,008.4	6,547.1	7,930.2
Other Liabilities	1,576.3	1,748.8	3,977.3	3,669.7
Total Liabilities	**44,807.6**	**43,868.0**	**47,063.2**	**56,082.4**
Net Worth				
Capital				
Capital Stock and Participation Certificates– Protected	9.6	22.9	3,326.1	3,614.6
Capital Stock and Participation Certificates– Unprotected	2,818.7	3,595.1	0.0	0.0
Preferred Stock – FAC	370.6	375.6	0.0	0.0
Other Capital	(278.1)	(585.1)	(702.2)	0.0
Total Capital	**2,920.8**	**3,408.5**	**2,623.9**	**3,614.6**
Earned Net Worth	787.5	567.2	745.0	191.9
Total Net Worth	**3,708.3**	**3,975.7**	**3,368.9**	**3,806.5**
Total Liabilities and Net Worth	**$48,515.9**	**$47,843.7**	**$50,432.1**	**$59,888.9**

Note: Totals may not add due to rounding.

Table 5
Farm Credit Banks Combined Trends in Income and Expenses

(Dollar amounts in millions)

For the Year Ended December 31	1989	1988	1987	1986
Interest Income				
Loans	$4,116.8	$4,088.3	$4,304.4	$5,644.8
Investments and Other	579.9	443.7	489.7	495.1
Total Interest Income	**4,696.7**	**4,532.0**	**4,794.1**	**6,139.9**
Interest Expense				
Consolidated Bonds	3,386.6	3,435.8	4,022.3	5,207.9
Notes and Other	715.2	683.4	590.9	516.5
Total Interest Expense	**4,101.8**	**4,119.2**	**4,613.2**	**5,724.4**
Net Interest Income (Loss)	594.9	412.8	180.9	415.5
Less: Provision for Loan Losses	(141.1)	(651.4)	(92.3)	1,443.6
Net Interest Income (Loss) after Provision for Loan Losses	736.0	1,064.2	273.2	(1,028.1)
Other Income	136.5	559.7	154.8	570.4
Operating Expenses				
Salaries and Employee Benefits	140.6	137.9	154.8	128.6
Occupancy and Equipment Expenses	37.5	34.6	38.2	34.1
Other Operating Expenses	285.9	284.2	289.0	427.7
Total Operating Expenses	**464.0**	**456.7**	**463.1**	**590.4**
Other Expenses	64.1	44.7	92.8	357.3
Extraordinary Items	173.3	(373.0)	0.0	0.0
Net Income (Loss)	**$517.7**	**$749.5**	**($127.9)**	**($1,405.4)**

Note: Totals may not add due to rounding.

Table 6
Farm Credit Banks Combined Trends in Selected Financial Measures

(Dollar amounts in millions)

For the Year Ended December 31	1989	1988	1987	1986
Loan Performance				
Performing	$33,193.1	$32,178.1	$31,077.7	$34,326.4
Formally Restructured	2,096.7	1,960.0	1,745.5	998.3
Other Restructured or Reduced Rate	28.5	16.5	33.6	5.6
Other High Risk	2,995.8	5,093.6	7,187.5	518.0
Nonaccrual	2,164.9	3,001.4	4,512.4	6,025.7
Net Chargeoffs on Loans	$125.7	$281.6	$422.5	$1,062.3
Selected Ratios				
Return on Assets	1.11%	1.54%	-0.24%	-2.22%
Return on Equity	13.39%	19.39%	3.67%	-29.45%
Net Interest Margin	1.37%	0.92%	0.38%	0.74%
Capital as a Percentage of Assets	7.64%	8.31%	6.68%	6.36%
Debt-to-Capital Ratio (:1)	12.08	11.03	13.97	14.73

Table 7
Banks for Cooperatives Combined Trends in Financial Condition

(Dollar amounts in millions)

As of December 31	1989	1988	1987	1986
Assets				
Loans	$10,676.4	$10,195.8	$8,386.5	$7,547.3
Less: Allowance for Losses	128.3	128.5	141.0	145.5
Net Loans	10,548.1	10,067.3	8,245.6	7,401.8
Cash and Investments in Securities	3,192.3	2,936.6	2,749.4	2,290.0
Net Acquired Property	1.5	6.9	11.4	15.5
Other Assets – Net	203.9	164.1	131.7	103.7
Total Assets	**13,945.8**	**13,174.9**	**11,138.1**	**9,811.0**
Liabilities				
Consolidated Systemwide and Other Bonds	4,564.0	5,501.1	4,132.0	3,785.2
Consolidated Systemwide Notes	8,175.2	6,422.4	5,441.8	4,277.3
Other Liabilities	260.5	243.0	529.4	674.1
Total Liabilities	**12,999.7**	**12,166.5**	**10,103.2**	**8,736.6**
Net Worth				
Capital				
Capital Stock and Participation Certificates–Protected	537.2	730.2	697.5	728.4
Capital Stock and Participation Certificates–Unprotected	244.6	96.1	0.0	0.0
Preferred Stock – FAC	0.0	0.0	0.0	0.0
Other Capital	0.0	0.0	0.0	0.0
Total Capital	**781.8**	**826.3**	**697.5**	**728.4**
Earned Net Worth	164.3	182.0	337.4	346.1
Total Net Worth	**946.1**	**1,008.3**	**1,034.9**	**1,074.4**
Total Liabilities and Net Worth	**$13,945.8**	**$13,174.9**	**$11,138.1**	**$9,811.0**

Note: Totals may not add due to rounding.

Table 8
Banks for Cooperatives Combined Trends in Income and Expenses

(Dollar amounts in millions)

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

Note: Totals may not add due to roundng.

Table 9
Banks for Cooperatives Combined Trends in Selected Financial Measures

(Dollar amounts in millions)

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

Table 10
Direct Lenders Combined Trends in Financial Condition[1]

(Dollar amounts in millions)

As of December 31	1989 [2]	1988	1987	1986
Assets				
Loans	$15,476.7	$9,459.9	$9,675.4	$11,432.1
Less: Allowance for Losses	377.3	416.5	574.5	698.2
Net Loans	15,099.4	9,043.4	9,100.9	10,733.9
Cash and Investments in Securities	70.3	49.4	37.4	54.9
Net Acquired Property	76.3	83.4	110.5	156.5
Other Assets – Net	1,903.0	1,963.5	2,018.4	2,004.8
Total Assets	**17,149.0**	**11,139.7**	**11,267.2**	**12,950.1**
Liabilities				
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	0.0	0.0	0.0	0.0
Other Liabilities	14,495.9	8,950.7	9,149.1	10,748.6
Total Liabilities	**14,495.9**	**8,950.7**	**9,149.1**	**10,748.6**
Net Worth				
Capital				
Capital Stock and Participation Certificates–Protected	172.9	659.8	994.0	1,171.5
Capital Stock and Participation Certificates–Unprotected	639.2	167.8	0.0	0.0
Preferred Stock – FAC	0.0	0.0	0.0	0.0
Other Capital	121.1	0.8	(23.3)	0.0
Total Capital	**933.2**	**828.4**	**970.7**	**1,171.5**
Earned Net Worth	1,719.9	1,360.6	1,147.4	1,030.0
Total Net Worth	**2,653.1**	**2,189.0**	**2,118.2**	**2,201.5**
Total Liabilities and Net Worth	**$17,149.0**	**$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 (FLCAs).

[2]1989 figures are not comparable to previous years due to mergers of FLBAs and PCAs into ACAs and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.

Table 11
Director Lenders Combined Trends in Income and Expenses[1]

(Dollar amounts in millions)

For the Year Ended December 31	1989 [2]	1988	1987	1986
Interest Income				
Loans	$1,558.1	$931.5	$958.8	$1,336.9
Investments and Other	17.2	3.9	0.3	1.8
Total Interest Income	**1,575.3**	**935.4**	**959.1**	**1,338.7**
Interest Expense				
Consolidated Bonds	0.0	0.0	0.0	0.0
Notes and Other	1,248.3	740.7	787.0	1,165.4
Total Interest Expense	**1,248.3**	**740.7**	**787.0**	**1,165.4**
Net Interest Income (Loss)	327.0	194.7	172.1	173.3
Less: Provision for Loan Losses	(64.5)	(148.0)	(83.6)	308.7
Net Interest Income (Loss) after Provision for Loan Losses	391.5	342.7	255.8	(135.4)
Other Income	102.0	172.5	118.0	182.2
Operating Expenses				
Salaries and Employee Benefits	185.3	144.4	163.1	195.9
Occupancy and Equipment Expenses	24.6	21.0	23.3	28.7
Other Operating Expenses	89.9	59.8	65.6	74.0
Total Operating Expenses	**299.8**	**225.2**	**252.0**	**298.6**
Other Expenses	77.2	65.1	20.4	37.1
Extraordinary Items	13.7	20.2	0.1	0.1
Net Income (Loss)	**$130.2**	**$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]1989 figures are not comparable to previous years due to mergers of FLBAs and PCAs into ACAS and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.

Table 12
Direct Lenders Combined Trends in Selected Financial Measures[1]

(Dollar amounts in millions)

For the Year Ended December 31	1989 [2]	1988	1987	1986
Loan Performance				
Performing	$13,818.9	$8,127.6	$7,867.9	$8,798.3
Formally Restructured	523.3	321.1	367.2	224.3
Other Restructured or Reduced Rate	10.9	20.1	29.0	12.0
Other High Risk	629.8	520.3	645.4	1,025.8
Nonaccrual	495.2	485.1	765.9	1,018.2
Net Chargeoffs on Loans	($17.8)	$10.0	$40.1	$137.2
Selected Ratios				
Return on Assets	N/A	2.20%	0.84%	-1.95%
Return on Equity	N/A	11.40%	4.55%	-11.57%
Net Interest Margin	N/A	2.25%	1.97%	1.46%
Capital as a Percentage of Assets	15.47%	19.65%	18.76%	17.00%
Debt-to-Capital Ratio (:1)	5.46	4.09	4.33	5.69

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

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

Table 13
Federal Land Bank Associations Combined Trends in Financial Condition

(Dollar amounts in millions)

As of December 31	1989 [1]	1988	1987	1986
Assets				
Loans [2]	N/A	N/A	N/A	N/A
Less: Allowance for Losses [3]	N/A	N/A	N/A	N/A
Net Loans	N/A	N/A	N/A	N/A
Cash and Investments in Securities	$211.0	$352.4	$220.2	$208.4
Net Acquired Property	0.3	N/A	N/A	N/A
Other Assets – Net	1,433.0	2,134.5	1,461.8	2,117.3
Total Assets	**1,644.3**	**2,486.9**	**1,682.0**	**2,325.7**
Liabilities				
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	0.0	0.0	0.0	0.0
Other Liabilities [2]	97.2	169.9	229.7	254.2
Total Liabilities	**97.2**	**169.9**	**229.7**	**254.2**
Net Worth				
Capital				
Capital Stock and Participation Certificates–Protected	922.2	1,741.3	1,958.6	2,240.9
Capital Stock and Participation Certificates–Unprotected	208.6	42.4	0.0	0.0
Other Capital	(23.0)	(107.5)	(695.5)	(37.7)
Total Capital	**1,107.8**	**1,676.2**	**1,263.1**	**2,203.2**
Earned Net Worth	439.3	640.8	189.2	(131.7)
Total Net Worth	**1,547.1**	**2,317.0**	**1,452.3**	**2,071.5**
Total Liabilities and Net Worth	**$1,644.3**	**$2,486.9**	**$1,682.0**	**$2,325.7**

Note: Totals may not add due to rounding.

[1] 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 Lank 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 14
Federal Land Bank Associations Combined Trends in Income and Expenses

(Dollar amounts in millions)

For the Year Ended December 31	1989 [1]	1988	1987	1986
Interest Income				
Loans	$0.8	$1.0	$0.0	$0.0
Investments and Other	1.2	6.9	13.7	26.1
Total Interest Income	**2.0**	**7.9**	**13.7**	**26.1**
Interest Expense				
Consolidated Bonds	N/A	N/A	N/A	N/A
Notes and Other	0.5	N/A	N/A	N/A
Total Interest Expense	**0.5**	**N/A**	**N/A**	**N/A**
Net Interest Income (Loss)	1.5	7.9	13.7	26.1
Less: Provision for Loan Losses	3.1	10.3	(10.7)	14.3
Net Interest Income (Loss) after Provision for Loan Losses	(1.6)	(2.4)	24.4	11.8
Other Income	288.5	1,097.2	222.8	201.8
Operating Expenses				
Salaries and Employee Benefits	104.5	143.4	153.5	141.1
Occupancy and Equipment Expenses	14.0	19.0	19.2	18.7
Other Operating Expenses	35.8	45.8	52.2	120.2
Total Operating Expenses	**154.3**	**208.2**	**224.9**	**280.0**
Other Expenses	0.1	10.0	256.3	411.6
Extraordinary Items	(21.0)	65.7	0.0	0.0
Net Income (Loss)	**$111.3**	**$942.3**	**($234.0)**	**($478.0)**

Note: Totals may not add due to rounding.

[1] 1989 figures are not comparable to previous years due to mergers of Federal Lank 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 15
Federal Land Bank Associations Combined Trends in Selected Financial Measures

(Dollar amounts in millions)

For the Year Ended December 31	1989 [1]	1988	1987	1986
Loan Performance				
Performing	-	-	-	-
Formally Restructured	-	-	-	-
Other Restructured or Reduced Rate	-	-	-	-
Other High Risk	-	-	-	-
Nonaccrual	-	-	-	-
Net Chargeoffs on Loans	$5.5	$6.8	$3.9	$50.3
Selected Ratios				
Return on Assets	6.08%	48.50%	-12.23%	-3.85%
Return on Equity	6.53%	52.82%	-12.55%	-4.10%
Net Interest Margin	N/A	N/A	N/A	N/A
Capital as a Percentage of Assets	94.08%	93.17%	78.32%	92.45%
Debt-to-Capital Ratio (:1)	0.06	0.07	2.64	0.05

[1] 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 16
Young, Beginning, and Small Farmers: Loans Outstanding and New Money Loaned by Type of Association

(Dollar amounts in thousands)

For the Year Ended December 31, 1989	Total Portfolio	Young, Beginning, & Small Farmers [1]	Young Farmers [2]	Beginning Farmers [3]	Small Farmers [4]
Federal Land Bank Associations and Federal Land Credit Associations					
Total Number of Loans Outstanding	314,427	4,575	14,810	6,280	29,688
Number of Loans as a Percentage of Total Number of Loans Outstanding	XXXX	1.46%	4.71%	2.00%	9.44%
Total Amount of Loans Outstanding	$24,012,428	$206,298	$1,039,796	$634,433	$793,447
Amount of Loans Outstanding as a Percentage of Total Amount of Loans Outstanding	XXXX	0.86%	4.33%	2.64%	3.30%
Gross New Money Loaned	$1,281,213	$56,185	$109,015	$127,509	$72,952
Gross New Money Loaned as a Percentage of Total New Money Loaned	XXXX	4.39%	8.51%	9.95%	5.69%
Agricultural Credit Associations					
Total Number of Loans Outstanding	177,791	14,266	14,212	7,551	32,619
Number of Loans as a Percentage of Total Number of Loans Outstanding	XXXX	8.02%	7.99%	4.25%	18.35%
Total Amount of Loans Outstanding	$9,248,152	$365,533	$560,795	$451,123	$595,795
Amount of Loans Outstanding as a Percentage of Total Amount of Loans Outstanding	XXXX	3.95%	6.06%	4.88%	6.44%
Gross New Money Loaned	$3,040,139	$229,985	$324,770	$191,560	$179,606
Gross New Money Loaned as a Percentage of Total New Money Loaned	XXXX	7.56%	10.68%	6.30%	5.91%
Production Credit Associations					
Total Number of Loans Outstanding	126,781	4,862	12,966	6,543	10,924
Number of Loans as a Percentage of Total Number of Loans Outstanding	XXXX	3.83%	10.23%	5.16%	8.62%
Total Amount of Loans Outstanding	$6,569,221	$118,564	$461,772	$374,042	$379,857
Amount of Loans Outstanding as a Percentage of Total Amount of Loans Outstanding	XXXX	1.80%	7.03%	5.69%	5.78%
Gross New Money Loaned	$4,554,707	$109,645	$349,789	$251,568	$80,675
Gross New Money Loaned as a Percentage of Total New Money Loaned	XXXX	2.41%	7.68%	5.52%	1.77%

[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.