Annual Report

1992

Farm Credit Administration

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

On behalf of the Farm Credit Administration Board, I am pleased to report that during 1992 the financial condition of the Farm Credit System (System) improved for the fifth consecutive year. The combined net income of its institutions increased 21.6 percent during the year, from $811 million to $986 million. The System's overall capital position also improved as a result of growth in retained earnings. Total capital increased 12.7 percent during the year and stood at $7.2 billion at Dec. 31, 1992. On that date, all System institutions exceeded the minimum capital requirement of 7 percent of risk-adjusted assets.

Gross loans of System institutions increased slightly to $52.4 billion. More important, however, was the improvement in the quality of the loan portfolio. Nonaccrual loans decreased from $2.3 billion to $1.9 billion. Nonperforming loans, which consist of non-accrual loans, accruing restructured loans, and accruing loans 90 days or more past due, decreased from $3.8 billion at the end of 1991 to $2.9 billion at the end of 1992. The System's total nonperforming assets, made up of nonperforming loans and acquired properties, declined from $4.2 billion at Dec. 31, 1991, to $3.2 billion at Dec. 31, 1992.

I am pleased, of course, with the improved financial condition and performance of the System in recent years. However, it is important to remember that much of this improvement can be attributed to falling interest rates, which made possible increases in interest rate margins, and improving farm income, which led to reductions in nonperforming and nonaccrual loans. For example, the average cost of System debt declined from 8.7 percent in 1990 to 4.9 percent in 1992. During this same period, the rates on 3-month debt issues declined from an average of 7.91 percent to 3.61 percent, while their spreads over comparable U.S. Treasury issues dropped from 19 basis points to 7.6 basis points. And this was happening during a period when farm income was at or near record highs.

Without these favorable factors, the System's earnings would likely have been less. And since we cannot count on favorable trends in the future, all of us need to plan for adversity as well as prosperity.

As promised last year, the Farm Credit Administration evaluated ways in which it could operate more efficiently without reducing its effectiveness as a Federal regulator or putting the safety and soundness of System institutions at risk. In carrying out this pledge, the agency implemented most of the recommendations of a management consultant hired for that purpose, including the hiring of a chief operating officer, a reduction in middle management positions, a reorganization of some functions, and a reduction in staff. The evidence to date indicates an increase in overall efficiency with no loss in effectiveness. In furtherance of these efforts, the agency also initiated a study of its electronic data processing capabilities.

As the institutions of the Farm Credit System strive to maintain their financial strength to provide their borrowers with dependable sources of competitively priced credit and financial services, the Farm Credit Administration will strive to provide a regulatory environment that will facilitate those objectives.

Sincerely,

Harold B. Steele

Harold B. Steele
Chairman

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Farm Credit Administration Organization

December 31, 1992

Office of the Farm Credit Administration Board

Harold B. Steele
Chairman and Chief Executive Officer

Billy Ross Brown
Member

Gary C. Byrne
Member

Curtis M. Anderson
Secretary

Office of the Chief Operating Officer

Dorothy L. Nichols
Chief Operating Officer

Office of Examination

David C. Baer
Director and Chief Examiner

Office of Secondary Market Oversight

Suzanne J. McCrory
Director

Office of Special Supervision and Corporate Affairs

Michael L. Young
Director

Office of General Counsel

Jean Noonan
General Counsel

Office of Congressional and Public Affairs

Mary Kay Thatcher
Director

Office of Inspector General

Eldon W. Stoehr
Inspector General

Office of Resources Management

Larry W. Edwards
Director

Preface

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

The management of the agency is vested in a full-time, three-person board whose members are appointed by the President with the advice and consent of the U.S. Senate. The President designates one of the members as chairman of the board. The chairman also serves as the agency's chief executive officer (CEO). The FCA also employs a chief operating officer (COO) who guides its day-to-day operations.

In addition to the Office of the Board, the agency consists of the Office of the Chief Operating Officer, the Office of Examination, the Office of Secondary Market Oversight, the Office of Special Supervision and Corporate Affairs, the Office of General Counsel, the Office of Congressional and Public Affairs, the Office of Inspector General, and the Office of Resources Management.

The agency's headquarters are in McLean, Va. It has regional or field examination offices in McLean, Albany, N.Y., Marietta, Ga., Denver, Colo., Dallas, Texas, Sacramento, Calif., St. Louis, Mo., Oklahoma City, Okla., and Bloomington, Minn. At the end of 1992, the FCA occupied 121,646 square feet of space at its McLean headquarters at a net cost of $11.89 per square foot.

The expenses of the FCA are paid through assessments against the institutions under its jurisdiction. The agency's fiscal year 1992 actual expenses were $38 million.

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

On Dec. 31, 1992, the FCS was comprised of the following active lending institutions.

• Ten Farm Credit Banks (FCBs), which make direct long-term real estate loans through 77 Federal Land Bank Associations (FLBAs) and/or provide loan funds to 68 Production Credit Associations (PCAs), 69 Agricultural Credit Associations (ACAs), and 27 Federal Land Credit Associations (FLCAs). PCAs make short- and intermediate-term loans, ACAs make short-, intermediate-, and long-term loans, and FLCAs make long-term loans.

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

• Three Banks for Cooperatives (BCs), which make loans of all kinds to agricultural, aquatic, and public utility cooperatives.

The following FCS entities are also regulated by the FCA.

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

• The Federal Farm Credit Banks Funding Corporation, which is an entity owned by the FCBs, BCs, and FICB of Jackson, that markets the securities they sell to raise loan funds.

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

The Agricultural Credit Act of 1987 established two entities to provide financial assistance to troubled FCS institutions and to protect investors in FCS securities.

• The Farm Credit System Assistance Board, which carried out a program that provided financial aid to financially distressed FCS institutions and protected the stock of their borrowers. The assistance board was terminated on Dec. 31, 1992, as provided by law.

• The Farm Credit System Financial Assistance Corporation (FAC), which issued 15-year Government-guaranteed bonds as directed by the Farm Credit System Assistance Board, the proceeds of which were used to buy preferred stock in financially distressed FCS institutions. The assistance board certified institutions to receive funds and oversaw the assistance granted.

In addition to this annual report, the FCA produces quarterly reports titled *Risk Analysis of Farm Credit System Operations and Financial Outlook.* Farm Credit System institutions are required by FCA regulations to make financial disclosures to their stockholders. Disclosure to investors in FCS securities is made by the Federal Farm Credit Banks Funding Corporation through annual and quarterly information statements. The funding corporation also produces a *Summary Report of Condition and Performance of the Farm Credit System* on a quarterly basis.

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The Farm Credit Administration Board

The Farm Credit Administration Board held 15 meetings during calendar year 1992. Of these 15 meetings, 2 were completely open to the public, 13 were partially closed to the public, and none were completely closed to the public. Exemptions (2), (4), (8), and (9) of the Government in the Sunshine Act were the reasons given for closing portions of the meetings. To facilitate its activities, the FCA Board also acted on 74 routine matters on which joint deliberations were deemed unnecessary.

Policies of the Farm Credit Administration Board

During calendar year 1992, the FCA Board adopted new policies concerning:

- FCS institution capital requirements;
- disclosure of component CAMEL ratings;
- supervision of the Office of Secondary Market Oversight;
- relocation expenses for members of the FCA Board;
- alternative means of dispute resolution; and
- agreements between Farm Credit Banks and associations for repayment of Treasury-paid interest on Farm Credit System Financial Assistance Corporation debt.

The Board also revised existing policies concerning communications with the public during rulemaking, travel and travel-related expenses, acceptance of gifts, and acceptance of honoraria by the Board Members.

In addition, the Board revoked a Federal Farm Credit Board policy concerning changing the names of Farm Credit Districts.

Communications Efforts Highlighted

FCA activities in 1992 were highlighted by continued efforts to improve communications and working relationships with FCS institutions.

Several years ago, as part of the agency's strategic planning process, improving communications was adopted as an objective. This past year, the agency considerably expanded communications between it and the institutions of the FCS, especially in its approach to developing regulations.

In March, the FCA Board revised its policy on public communications during rulemaking. Previously, no mechanism existed for informal discussion before rulemaking began. The policy now encourages unrestricted communications with the public before the formal rulemaking process begins, which is when the agency publishes a notice of proposed rulemaking in the *Federal Register*. After the rulemaking announcement, certain statutory procedures require public comment.

The effectiveness of the revised policy was illustrated when the FCA began considering revisions to the General Financing Agreement (GFA) regulations. These regulations address lending agreements between FCBs and direct lender associations and the supervisory authorities FCBs have over associations. The agency sought comments from the banks and associations by holding two meetings with representatives from the banks and one with association representatives. FCA staff is drafting proposed regulation revisions, using information gained from these meetings, for consideration by the FCA Board in 1993.

The FCA has also used personal contact to improve communications with FCS institutions. In October, the FCA Board was host to its fourth information exchange meeting with the presidents and board chairmen of FCS banks. In addition, six similar meetings were held with the presidents and board chairmen of all FCS associations. Additionally, all three Board Members traveled to banks and associations throughout the Nation during the past year to discuss a variety of issues and concerns.

One issue brought to the FCA Board's attention during these meetings was disclosure of CAMEL ratings to FCA institution management and boards. The acronym CAMEL represents the five key components of financial and operational criteria—capital adequacy, asset quality, management, earnings, and liquidity—that FCA examines in each FCS institution. In April, the FCA Board adopted a policy to permit disclosure to an institution of its component CAMEL ratings for each critical area examined. The policy went into effect in June on a trial basis for 1 year.

Another issue brought to the Board's attention through the information exchange meetings was the certification of quarterly reports by boards of directors. Under current FCA regulations, quarterly reports filed with the FCA must be certified by each board member of an FCS institution within 45 days after the end of each reporting quarter. At its December meeting, because this requirement was found to be burdensome and logistically difficult to meet, the FCA Board approved a proposed regulation to give FCS institutions additional options for meeting this certification requirement. The proposed rule would give institution board members the option to designate authority to one or more directors to certify quarterly reports on behalf of the entire board.

The FCA also has removed many of its operational prior approval requirements. In 1988, more than 100 prior approval authorities were on the books. That number is now down to 31, and 19 of these are required by statute. Of the remaining 12 prior approvals required by regulation, any that are not important to safety and soundness will be considered for elimination.

Regulation Development

The FCA issues regulations in compliance with the Administrative Procedure Act. The Regulation Development Division in the Office of Examination, working with the Office of General Counsel, has the primary responsibility for coordinating and managing the development of regulations within the agency.

Once the FCA Board establishes a regulatory agenda and assigns priority status to a regulation project, a work group is formed to draft regulations. Generally, after approval by the Board, proposed regulations are submitted to Congress for a required 30-day review, after which they are published for public comment in the *Federal Register*. The notice and comment period is intended to encourage public participation in the regulation development process. When drafting the final regulations, the work group considers and addresses all comments received during the public comment period. Generally, after approval by the Board, the final regulations become effective 30 days after publication in the *Federal Register*, during which either or both Houses of Congress are in session.

In an effort to use new approaches to developing regulations, the FCA Board established a Negotiated Rulemaking Committee to develop and negotiate amendments to the regulations governing the assessment of FCS institutions to pay the administrative expenses of the FCA. The committee consisted of 19 representatives of FCS institutions and one FCA representative. The committee met four times over a 7-week period. At the conclusion of the negotiations, the committee submitted a report to the agency containing its consensus recommendations regarding the amendments to the assessment regulations. The FCA Board approved proposed regulations that were based largely on those recommendations.

The FCA also incorporated into its regulation development process the five requirements set forth in the President's Jan. 21, 1992 directive establishing a regulatory moratorium. The purpose of the moratorium was to eliminate unnecessary regulatory burdens by identifying regulations that could hinder economic growth. Although the FCA, as an independent agency, was not required to follow the President's mandate, the agency determined it would work within the spirit of that initiative. Under the review process, all pending FCA regulations were analyzed to determine whether they satisfied the five requirements in the President's directive. The five requirements are as follows:

- The expected benefits of the regulation must outweigh the cost it would impose.
- The regulation should be fashioned to maximize net benefits.
- To the maximum extent possible, regulatory agencies should set performance standards instead of prescriptive command-and-control requirements to achieve regulatory goals at the lowest possible cost.
- Regulations should incorporate market mechanisms to the maximum extent possible.
- Regulations should provide clarity and certainty and should be designed to avoid needless litigation.

Regulations Promulgated

The FCA Board also took the following additional actions during the year.

- Approved final regulations to implement changes made in title VIII of the Civil Rights Act of 1968 by the Fair Housing Amendments Act of 1988. The final regulations add two new protected categories, prohibit discrimination in "residential real estate-related transactions," revise the Equal Housing Lender Poster, conform complaint processing procedures, and make technical amendments referencing the Department of Housing and Urban Development's fair housing regulations and the Equal Credit Opportunity Act.

- Approved final regulations regarding the organization of service corporations under section 4.25 of the Farm Credit Act of 1971, as amended, to act as certified agricultural mortgage marketing facilities. The regulations authorize all FCS institutions except the Federal Agricultural Mortgage Corporation (Farmer Mac) or its affiliates to organize title VIII service corporations for that purpose. The regulations also permit persons (individuals and legal entities) other than FCS institutions to own stock in the service corporations provided that 80 percent of the voting stock is held by FCS institutions other than Farmer Mac or its affiliates.

- Approved final regulations exempting the Office of Inspector General's investigative files from certain provisions of the Privacy Act.

- Approved final regulations to address the loan-related authorities of FCS institutions that are created either by mergers or the transfer of long-term lending authorities from a bank to an association. Also authorized FCS institutions to sell and purchase nonparticipation interests in loans and addressed the sale of loans to a pooler certified by Farmer Mac and non-FCS lending institutions.

- Approved a temporary suspension of certain provisions of the regulations governing the computation of permanent capital ratios of FCS institutions.

- Approved final regulations authorizing FCS banks to pay their directors fair and reasonable compensation that does not exceed the amount set forth in section 4.21 of the Farm Credit Act of 1971, as amended. The final regulation also requires FCS banks to disclose the amount of reimbursement that directors receive for travel, subsistence, and other related expenses separately from cash compensation in annual disclosures to shareholders and reports to the FCA.

- Approved final regulations removing the agency's prior approval of retirement and thrift savings plans at all FCS institutions. The regulations also require the institutions to assume greater responsibility for developing human resources management policies that are consistent with safe and sound operations.

- Approved final regulations governing conservatorships and receiverships for which the Farm Credit System Insurance Corporation is appointed as conservator or receiver. Amendments were also made to existing conservatorship and receivership regulations, which continue to apply in situations where the insurance corporation does not act as conservator or receiver.

- Approved final regulations to establish minimum standards for performing a collateral evaluation; to establish evaluation requirements for various types of transactions requiring the services of an evaluator from those requiring the services of either a state-certified or a state-licensed appraiser; to require the board of directors of each FCS institution engaged in lending or leasing to adopt policies and standards for the evaluation of all real, personal, and intangible property; and to prescribe qualifications for real estate appraisers that are consistent with the Uniform Standards of Professional Appraisal Practices as adopted by the Appraisal Foundation.

• Approved final regulations implementing the Equal Access to Justice Act to establish conditions under which parties who prevail over the FCA in certain administrative proceedings may be awarded attorney fees and other expenses.

• Approved proposed regulations governing the referral of known and suspected criminal violations that would mandate the use of a uniform criminal referral form that will replace the various forms that are currently being used by FCS institutions.

• Approved proposed regulations governing the release of information by FCS directors, officers, and employees. The proposed regulations would allow information concerning borrowers and loan applicants to be released for the confidential use of authorized representatives of any state certifying and licensing agency in contemplation of state certification and licensure of FCS employees as real estate appraisers.

• Approved an advance notice of proposed rulemaking to solicit comments on accounting and reporting issues in an effort to promote consistency with industry practices pertaining to problem loan accounting and to ensure that the regulatory requirements and standards of FCA regulations are consistent with Generally Accepted Accounting Principles.

Management Efficiency, Effectiveness Are Ongoing Objectives

Management efficiency and the effective use of resources have been among the agency's most important objectives for the past 3 years. The FCA has taken several actions to reduce costs, including instituting a time-tracking system to monitor the agency's work and to ensure the most effective and efficient use of resources.

Implementation of the recommendations made in the study of FCA's operational and management structure has nearly been completed. The study, conducted at the request of the House and Senate Appropriations Committees, was completed in March 1992 by a management consulting firm. After reviewing the consultant's report, agency management had a plan in place by June 1 to implement the recommendations on October 1.

The consultant's report made three major recommendations.

• Consider appointing a chief operating officer and enhancing management systems that control resource utilization.

• Reduce management layers and eliminate 25 staff positions.

• Study the application of computer technology to determine if the agency is making good use of what it has.

Chief Operating Officer Hired

A chief operating officer (COO) was appointed October 19 and began work in November. The COO reports to the FCA Board for policy direction and to the CEO for administrative direction.

The COO has broad responsibility for planning, organizing, and directing a wide range of agency functions. The COO is also responsible for supervising the development and controlling implementation of the agency budget and operating plan.

The general counsel and the directors of the Offices of Examination, Special Supervision and Corporate Affairs, and Resources Management report to the COO. The directors of the Offices of Inspector General, Congressional and Public Affairs, and the equal employment opportunity manager report to the chief executive officer. The director of the Office of Secondary Market Oversight reports to the FCA Board for policy direction and to the CEO for administrative direction.

Management and Staff Reductions

The consulting firm recommended that the FCA eliminate 25 positions—18 positions in fiscal year (FY) 1993 and the remaining seven divided between FY 1994 and FY 1995. The consultant also recommended adding three positions, the COO and two staff positions, for a net savings of 15 positions in FY 1993. The report questioned management layers and recommended downsizing the agency's in-house training staff. The consultant pointed out that the agency's training effort, which was expanded in 1986 to develop a large group of entry-level employees into a professional corps of commissioned examiners, could be decreased now that this developmental process has been largely achieved.

After the consultant's report was delivered to FCA management in March 1992, a hiring freeze was put in effect while management developed the plan for implementing the recommendations. The reorganization plan developed by agency management proposed a more streamlined management structure than was recommended by the consultant.

Offices of Examination, General Counsel Restructure Management

The consultant's report also recommended that the Office of Examination (OE) evaluate the possibility of eliminating some of its field management positions and the Office of General Counsel (OGC) evaluate its management structure. Although the consultant did not recommend immediate action, both offices moved forward with restructuring plans.

The OE eliminated one layer of management, the examination managers, effective Jan. 1, 1993.

The OGC reduced the number of divisions and removed three assistant general counsels from line management positions. The new organization has two divisions, each headed by an associate general counsel, with eight attorneys assigned to each division.

Technology Applications Study

Following the consultant's recommendation to hire an outside consultant to study the effectiveness of the agency's data processing systems and computer capability and use, the FCA worked with the Information Resources Management Service of the General Services Administration (GSA) to acquire the services of a contractor to conduct the Technology Applications Study.

In early December, a contract was signed and work will continue through June 1993. The study is evaluating the effectiveness of FCA's information systems capability, its capacity and how it is used, and the planning process for information resources management (IRM). This assessment will be used as a basis for identifying future information systems needs and opportunities, developing a recommended FCA 5-year IRM plan, and developing procedures for updating the plan annually.

Congress Reduces FCA's FY 93 Budget

Few agricultural or related agencies escaped the budget reductions for FY 1993. Most budget requests of U.S. Department of Agriculture agencies were reduced in the final agriculture appropriations bill. Even in cases where Congress chose to increase funding for programs, the administrative funding to run those programs was reduced. FCA's FY 1993 budget request also was reduced in the agriculture appropriations bill. Congress approved a budget of $39.9 million for FCA, which is 1 percent below the FY 1992 budget of $40.3 million, and set budget limits on three agency offices—the Office of General Counsel, the Office of Congressional and Public Affairs, and the Office of Secondary Market Oversight.

The congressional budget cut forced the Office of Congressional and Public Affairs to reduce its staff from eight to five. The Office of Secondary Market Oversight, which had requested funding for the director, a secretary, and one staff position, was limited to funding only for the director. To meet the budget restrictions, the Office of General Council implemented a reduction-in-force that resulted in the termination of four attorneys and one paralegal assistant.

Office of Examination

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

Principal objectives for the OE are to:

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

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

Office Organization

Currently, the OE consists of the Office of the Chief Examiner, three examination regions, the Regulation Development Division (RDD), and the Technical and Operations Division (TOD). The Office of the Chief Examiner, the RDD, the TOD, and the Eastern Region Office are located at the agency's headquarters in McLean, Va.

Examination Approach

The OE uses a portfolio approach to examinations by assigning specific institutions to the OE field offices. The assignments have been established based on the most cost-effective means of conducting the examinations and do not necessarily correspond to Farm Credit District boundaries. The OE periodically reviews the cost effectiveness of these assignments and plans to further study the field office alignment to ensure that all possible efficiencies are gained.

The OE continued to gradually increase its use of the offsite examination program implemented in 1991. Results from the five offsite examinations conducted in 1992 showed significant reductions from the amount of resources used compared with onsite examinations. Increased use of offsite examinations is planned during 1993. Implementation of the offsite examination program has allowed the FCA to focus resources on high-risk institutions while reducing resource needs for examinations of low-risk institutions. The OE also refined its "risk-based" approach to examinations in 1992 to achieve greater balance between efficiency and effectiveness. Examination procedures are constantly reviewed in an effort to identify areas that will enhance examination efficiency and improve the quality of reports.

The OE provides continual oversight through monitoring activities that review the performance and condition of all FCS institutions. The monitoring program facilitates early recognition of adverse trends in key performance areas of an institution. The program is enhanced with the use of direct computer networking between the FCA's McLean headquarters and all regional and field offices. This provides examiners access to periodic financial reports and loan portfolio information. Computer networking helps examiners detect increased risk in a timely manner and facilitates early initiation of corrective actions in an effort to avert serious financial problems.

Areas of Emphasis

During 1992, the OE continued to emphasize and intensify examinations in a number of areas, including the following:

• Loan Portfolio Management—An effective loan portfolio management process ensures that credit risk is properly identified, planned for, and controlled. Examinations have historically addressed the elements of loan portfolio management. However, integrating the conclusions reached in each area and formulating an overall assessment on the quality of loan portfolio management is useful in developing a prospective view of the future condition of asset quality.

• Internal Controls—It is the responsibility of an institution's board and management to assess its business environment, determine prudent business risk, and establish a system of internal controls to achieve the organization's objectives within those risks. Given that responsibility, the OE continues to focus examination efforts on evaluating the strengths and weaknesses of an institution's internal controls.

• Information Systems—Historically, the OE has conducted information systems examinations at the banks where the functions and controls were located. Recently, the banks' information systems functions, such as data entry, loan initiation, and processing, have been moved to the associations. The introduction of new computer and communication technology, coupled with changes in the business and regulatory environment, has significantly increased the importance of the associations' role in this area. Therefore, the OE established procedures to assess the overall strengths and weaknesses of the associations' information systems controls.

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

• Borrower Rights—The OE continues to review institutions' compliance with FCA regulations concerning borrower rights as well as Regulation B, Equal Credit Opportunity, and Regulation Z, Truth in Lending, which were issued by the Board of Governors of the Federal Reserve System. During 1992, the OE received 120 borrower complaints. Investigative responsibility has been delegated to the TOD, which researches each complaint. To supplement the TOD's investigations, field offices perform followup activities on complaints during examinations. Frequently, such investigations involve field reviews of loan transactions to ensure an institution's compliance with the requirements of applicable statutes and regulations. Findings and conclusions are normally communicated to complainants by the Office of Congressional and Public Affairs. While some weaknesses were noted, the examinations and complaint investigations showed that FCS institutions are generally complying with the borrower rights provisions of the Farm Credit Act of 1971, as amended.

Regulation Development Division

The Regulation Development Division (RDD) is responsible for the development of new regulations, as well as amendments or changes to existing regulations governing the supervision of the FCS and the operations of the FCA. The RDD fulfills its responsibility by coordinating the development of regulations and policies with other affected offices within the FCA. A detailed description of the regulations approved by the FCA Board was described earlier in this report.

Technical and Operations Division

The TOD was formed during 1992, centralizing the OE's technical expertise. It consists of Accounting and Reporting, Technical Support, and the OE operational support staff. Accounting and Reporting develops and issues accounting and disclosure guidelines and interprets accounting policy issues for the agency. It also manages the Call Report system, by which the agency obtains periodic financial reports from FCS institutions. Technical Support completes prior approvals of FCS funding, provides technical guidance on many examination issues, investigates borrower complaints, and works to improve computer resource use. The support staff coordinates the OE's overall efforts in planning, budgeting, quality assurance reviews, and enhancing general communications with field offices. The most significant activities performed by TOD include the following:

• Evaluating new accounting pronouncements to determine their effect on FCS institutions.

• Interpreting accounting issues involving income taxes, employee benefits other than pensions, foreclosed assets held for sale, and the 1992 legislative changes relating to repayment of FAC debt and the allowance for loan losses for PCAs.

• Processing Call Reports and other financial reports from FCS institutions.

• Participating in a work group comprised of regulators of financial institutions charged with developing a uniform policy statement relating to the allowance for loan and lease losses.

• Implementing revisions to the Call Report data requirements that become effective the first quarter of calendar year 1993.

• Processing requests of two banks for agency concurrence in providing for the retirement of preferred stock purchased by the FAC.

• Granting final approval for GFAs in five districts and conditional approval in two districts.

• Issuing bookletters providing guidance on GFAs, disclosure to borrowers, repayment of Treasury-paid interest, and employee compensation.

Examinations and Ratings

The FCA is statutorily required to examine each FCS institution except FLBAs at least annually. Each FLBA must be examined at least once every 3 years. The OE successfully carried out this responsibility by examining 195 FCS institutions during 1992.

Each FCS institution is assigned a composite rating upon the completion of its examination. The FCA Rating System is similar to the Uniform Financial Institutions Rating System used by most regulators of financial institutions, but has been revised to reflect the nondepository nature of FCS institutions. Each institution is assigned a composite rating, commonly referred to as a CAMEL rating, based on an evaluation of its capital adequacy, asset quality, management, earnings, and liquidity. The ratings are on a scale of "1" through "5" in ascending 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. The purpose of the rating system is to identify institutions that exhibit financial, operating, and compliance weaknesses that may require supervisory attention. Listed here are the ratings of 188 institutions examined in 1992. The table excludes seven institutions, which are either service corporations or in receivership.

Ratings

Institution	**1**	**2**	**3**	**4**	**5**
FCBs, BCs, FICB	0	7	6	1	0
PCAs	1	36	16	5	0
ACAs	1	45	16	0	0
FLBAs	1	15	13	2	0
FLCAs	0	16	3	2	0
Other Institutions	0	2	0	0	0
Total	**3**	**121**	**54**	**10**	**0**

As previously noted, the OE is now disclosing both the composite rating and the component ratings to the chairman of the board of each institution examined in order to foster more open and productive discussions with boards of directors.

Training

The FCA Examiner Commissioning Program continues to play an important role in the development and training of FCA examiners. The 3- to 5-year on-the-job and formal Precommission Training Program concludes with a 3-day oral and written test. Once an individual successfully completes the test, he or she is authorized to conduct examinations of any bank, association, service corporation, or other institution subject to examination by the FCA. At the end of 1992, the FCA had 179 commissioned examiners. The commissioning test is revised periodically to reflect changes in examination procedures, statutes, regulations, accounting practices, and FCS structure.

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

Office of Secondary Market Oversight

The FCA established the Office of Secondary Market Oversight (OSMO) in 1992, as required by Public Law 102-237. Through the OSMO, the agency provides for the general supervision of the safe and sound performance of the Federal Agricultural Mortgage Corporation (Farmer Mac), using examinations, general rulemaking, and enforcement authorities.

Congress prescribed that the OSMO be a separate office whose activities would be generally carried out by individuals not responsible for the supervision of the banks and associations of the FCS.

The FCA's activities associated with regulation of Farmer Mac involved (1) establishing the new regulatory office, (2) conducting its annual examination of Farmer Mac, (3) developing financial reporting requirements tailored to Farmer Mac's business, (4) quarterly monitoring of Farmer Mac's capital levels, and (5) conducting research on historical levels of agricultural defaults.

Office of Special Supervision and Corporate Affairs

The Office of Special Supervision and Corporate Affairs (OSSCA) is responsible for making recommendations to the FCA Board regarding corporate restructuring among FCS institutions, for the initiation of enforcement actions against problem FCS institutions, and for assessing the overall risk environment for planning and regulatory purposes. As part of this work, the office also conducts analyses of financial and economic conditions that could affect FCS institutions and monitors trends in their performance. The OSSCA carries out these responsibilities through its three divisions—Corporate Affairs, Enforcement, and Risk Analysis. Staff at the office level fulfill the agency's responsibilities under the Freedom of Information and Privacy Acts and coordinate production of the *FCA Annual Report*.

Corporate Affairs Division

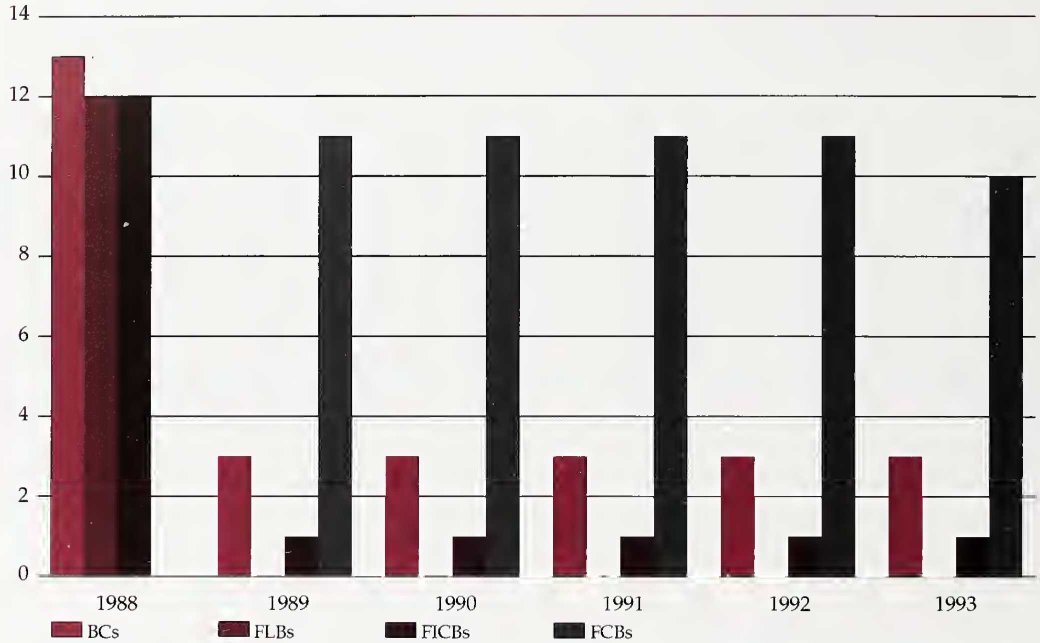
The Corporate Affairs Division is responsible for analyzing and coordinating the agency's response relating to corporate restructuring activities of FCS institutions to ensure they are conducted in a safe and sound manner and in compliance with applicable statutory, regulatory, and policy requirements. In conjunction with restructuring activities, the division is responsible for the preparation of new charters and the amendment or revocation of existing charters. The division also conducts analyses of joint management agreements and the issuance of non-loan-related stock, which require the agency's prior approval.

Restructuring Update

The restructuring activities made possible by the Agricultural Credit Act of 1987 (1987 Act) have had an enormous effect on the FCS. This update is offered to put those activities in perspective. Since the Act became effective on Jan. 6, 1988, and through Dec. 31, 1992, there have been 541 corporate restructurings among FCS associations. These restructurings involved 283 charter cancellations as a result of mergers, liquidations, and other reorganizations; 149 charter issuances as a result of reorganizations, mergers and consolidations, new associations, and transfers of lending authority; and 109 charter amendments as a result of merging like associations, changes in locations of association headquarters, name, and/ or territory. There were 11 mergers of Federal Land Banks and Federal Intermediate Credit Banks, 10 of the 13 Banks for Cooperatives merged to form the National Bank for Cooperatives, and the Farm Credit Banks of St. Louis and St. Paul merged to form AgriBank, FCB.

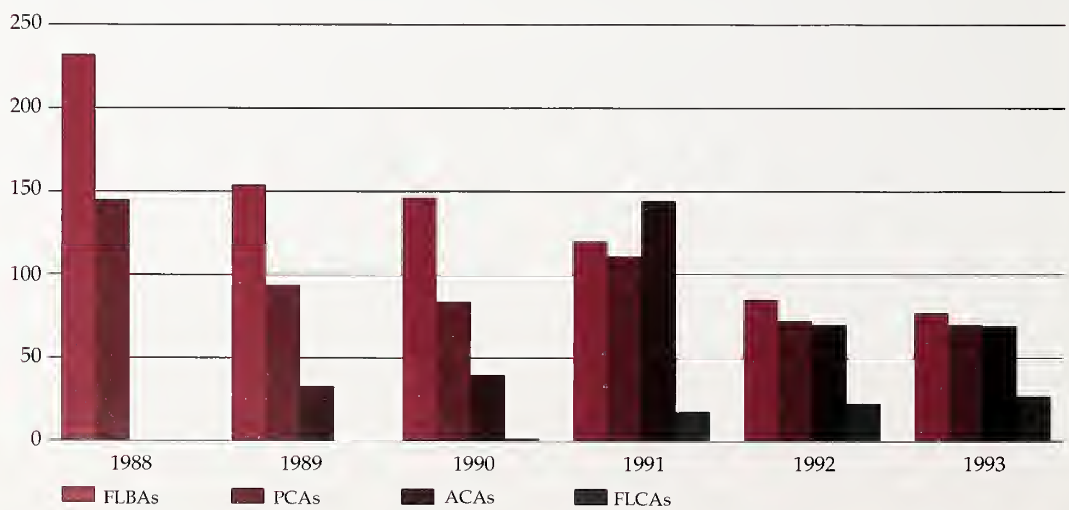
Farm Credit System Banks

Number of Banks January 1, 1988 - January 1, 1993



Farm Credit System Associations

Number of Associations January 1, 1988 - January 1, 1993



Current Restructuring Activity

During the 12 months ended Dec. 31, 1992, the FCA Board approved 20 corporate restructuring requests, which consisted of 13 association mergers, 6 transfers of direct lending authority from FCBs to FLBAs*, consolidation of 2 FCBs, and several charter amendments. In addition, the FCA Board cancelled the charters of eight associations upon completion of their liquidation, and also cancelled the charter of the Farm Credit System Assistance Board in accordance with its termination under section 6.12 of the 1987 Act. The FCA Board also endorsed the requests of two associations to revoke their stockholders' petition to reassign to an adjoining district.

As of Jan. 1, 1993, the FCS consisted of 243 associations, 10 FCBs, 3 BCs, 1 FICB, and 5 service organizations or related entities. Not included in the count are the institutions in liquidation.

The preceding graphs illustrate the number and type of banks and associations comprising the FCS during the period Jan. 1, 1988, through Jan. 1, 1993.

** In order to effect corporate restructuring in two cases during this period, the FLBAs assumed direct lending authority from their respective FCBs, then simultaneously merged with existing FLCAs.*

Enforcement Division

The Enforcement Division is responsible for analyzing Reports of Examination on institutions that may be operating in an unsafe or unsound manner or may not be in compliance with applicable statutes and/or regulations. The division recommends appropriate enforcement actions to correct safety or soundness or compliance concerns. It coordinates the preparation of enforcement documents with the OGC and, with FCA Board approval, delivers the documents necessary to correct the causes of unsafe or unsound practices or compliance problems. Once enforcement actions have been taken, the division, in conjunction with the OE, oversees the performance of the institutions to ensure compliance with the terms of the enforcement actions. The division also oversees the operations of four FCS institutions in receivership.

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

Even though overall conditions in the FCS are improving, for the 12-month period ended Dec. 31, 1992, the FCA placed 4 orders to cease and desist and 15 agreements on institutions, compared with 4 orders to cease and desist and 4 agreements in 1991.

*Farm Credit Association Structure**
(As of January 1, 1993)

Affiliation	FLBAs	PCAs	ACAs	FLCAs	Totals
FCB of Springfield	0	0	12	0	12
FCB of Baltimore	0	0	16	0	16
FCB of Columbia	0	0	19	0	19
FCB of Louisville	0	0	5	0	5
FICB of Jackson	0	2	0	0	2
AgriBank, FCB	2	20	12	18	52
FCB of Omaha	1	1	0	0	2
FCB of Wichita	22	18	0	0	40
FCB of Texas	48	17	0	0	65
Western FCB	4	12	4	9	29
FCB of Spokane	0	0	1	0	1
Totals	**77**	**70**	**69**	**27**	**243**

**Does not include one Federal Land Bank Association and two Production Credit Associations in liquidation.*

In 1992, the FCA issued 6 supervisory letters and 32 followup letters to institutions operating under existing enforcement actions. The FCA formally imposed conditions of merger, corporate restructuring, or consolidation on five associations during 1992.

Improving financial and credit conditions, coupled with satisfactory compliance with the enforcement action, resulted in the FCA's terminating the enforcement actions on 28 institutions.

There were 65 FCS institutions under enforcement actions at the end of 1992. These institutions represented $32.7 billion in assets. These statistics also reflect improvement, as there were 77 institutions with $50.3 billion in assets under some form of enforcement action at the end of 1991.

As in previous periods, the enforcement actions taken by the FCA were generally remedial in nature and required steps to be taken by an institution to rehabilitate its problem areas.

FCS Institutions in Receivership

Of the 12 FCS institutions in receivership at Dec. 31, 1991, only 4 remained at the end of 1992. Six Spokane District PCA and two Omaha District PCA receiverships were completed and the charters of the institutions were cancelled by FCA Board action early in the year. The four remaining receiverships are the FLB of Jackson, Jackson, Miss.; the FLBA of Jackson, Jackson, Miss.; the Richmond PCA, Sugar Land, Texas; and the Coleman PCA, Coleman, Texas.

Since being placed in liquidation on May 20, 1988, by FCA Board action, $2 billion in assets of the Jackson institutions have been fully disposed of, $2.3 billion in bonds and notes was paid or transferred during asset disposition, and protected borrower stock has been retired.

The Jackson receivership is now a part-time operation, with attention focused primarily on the resolution of outstanding litigation. As of Dec. 31, 1992, the Jackson receivership was involved in 14 lawsuits (either as plaintiff or defendant) for predominantly pre-receivership claims. This is down from a high of 40 in June 1990. The number of lawsuits has not materially changed from a year ago because of the difficulty in getting rulings from judges in state courts. One major piece of litigation that has recently been settled out of court is the receivership's lawsuit against the FICB of Jackson over the value it paid for mineral rights of the FLB of Jackson before it was placed into receivership. The FLB of Jackson in Receivership and the FICB of Jackson agreed to a mutually beneficial settlement that resolved a very sensitive situation.

The FLB of Jackson in Receivership has one remaining substantive asset. The receiver is currently marketing a 5,000-acre parcel of land in Texas to which the receivership obtained marketing rights during a distressed loan settlement. The FCA estimates an additional 30 months will be necessary to wind up the receivership affairs.

The assets of the Richmond PCA in Receivership were $5.6 million at Dec. 31, 1992. Since Jan. 6, 1989, when the FCA Board approved the association board's resolution to voluntarily liquidate, a total of 65 percent of the assets have been disposed of by the receiver. Efforts to complete the closing of this receivership will continue to concentrate on collections and settlements of its remaining accounts.

The Coleman PCA was placed in receivership on April 26, 1989, following a determination by the FCA Board that it was operating in an unsafe and unsound manner. The receivership's assets were reduced from $1.9 million at the end of 1991 to $900,000 at the end of 1992. Since the inception of this receivership, the receiver has disposed of more than 80 percent of the association's assets, and a second partial equity distribution was made to stockholders during the year.

Risk Analysis Division

The Risk Analysis Division has the lead role in monitoring, analyzing, and forecasting the external economic, financial, and policy environment in which FCS institutions operate. The division uses these activities to assist the agency in policy analyses, strategic planning, regulation development, and in the identification and analyses of systemic as well as institution risk. Through the development and maintenance of financial models, the division analyzes financial viability of FCS institutions and keeps the agency informed on FCS financial performance trends. The division also develops and maintains the agency's Early Warning System and provides analytical expertise to the agency on the use and content of its Consolidated Reporting System.

Office of General Counsel

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

The OGC has two divisions—the Regulatory Operations Division and the Administrative Law and Enforcement Division. These divisions resulted from a reorganization of the OGC on Oct. 1, 1992. The responsibilities of the OGC are divided between the two divisions on the basis of subject matter and the identity of the client. Although the divisions primarily serve the clients and concentrate in the subject areas discussed in the following paragraphs, attorneys in the divisions also serve other clients and work on other matters as required by the needs of the client and the office.

Regulatory Operations Division

The Regulatory Operations Division provides advice, legal opinions, and recommendations to the Office of Examination, the Office of Secondary Market Oversight, the Office of Congressional and Public Affairs, and the Farm Credit System Insurance Corporation. The division provides legal advice and support and represents the agency in litigation in connection with agency proposals or actions involving all aspects of the operations of FCS institutions, except those matters handled by the Office of Special Supervision and Corporate Affairs. The responsibilities of the division include the areas of lending, funding, borrower rights, disclosures to investors and stockholders, capital, and financial assistance. In addition, the Regulatory Operations Division provides legal support for the development and promulgation of FCA regulations and for legislative activities in these subject areas. The OGC also assisted in the preparation of regulations relating to assessments, compensation of FCS institution directors, collateral evaluation, investments of FCS institutions, the Equal Access to Justice Act, the Privacy Act, capital allocation, conservatorships and receiverships, personnel administration, and title VIII service corporations. The division also generally assists in the representation of the FCA before Congress. Finally, if a contested enforcement matter were to proceed to an administrative hearing and decision by the FCA Board, the Regulatory Operations Division would be responsible for advising the FCA Board in its decision-making process.

Administrative Law and Enforcement Division

The Administrative Law and Enforcement Division provides advice, legal opinions, and recommendations to the Offices of the Board, Chief Operating Officer, Resources Management, and Special Supervision and Corporate Affairs. The division represents the agency in enforcement proceedings initiated by the FCA and in litigation. It also provides legal advice and support regarding enforcement actions; the issuance and amendment of charters; mergers, consolidations, and other reorganizations; the implementation and administration of receiverships; and issues concerning the FCS Building Association. In addition, the division provides monitoring and support for FCA operations and internal agency administration in areas such as the Government in the Sunshine Act, the Freedom of Information Act, the Privacy Act, personnel law, contract and procurement law, and ethics.

Additionally, at the beginning of 1992, there were 12 lawsuits pending against the FCA. During the year, one lawsuit was initiated against the agency, and nine were terminated. The discussion of the following lawsuits is illustrative of the type of litigation in which the agency is involved.

Colorado Springs PCA v. FCA, Chattanooga PCA v. FCA, and Sikeston PCA v. FCA, (D.C. Cir.)

On June 26, 1992, the U.S. Court of Appeals for the District of Columbia Circuit upheld the constitutionality of the assessments on FCS institutions made pursuant to the Agricultural Credit Act of 1987. The assessments are available to cover certain potential defaults by institutions on the repayment of the bonds issued by the FAC to assist troubled institutions. Upon repayment of the FAC bonds, any remaining money will be transferred to the Farm Credit Insurance Fund.

The plaintiffs alleged, among other things, that the assessment was a deprivation of property without due process and a taking without just compensation in violation of the Fifth Amendment of the Constitution. A unanimous Court of Appeals agreed with the FCA's argument that the Takings Clause of the Constitution does not prohibit the Government from compelling a party to provide funding for a program from which it derives a significant benefit.

Buckeye Production Credit Association and Federal Land Bank Association of Fostoria, FLCA v. FCA, (4th Cir.)

The plaintiffs filed suit on April 16, 1991, in the U.S. District Court for the Eastern District of Virginia requesting the court to set aside the FCA's issuance of a charter to Mid-America ACA as being in violation of certain provisions of the Farm Credit Act of 1971, as amended. In Orders dated March 23 and July 15, 1992, the District Court invalidated Mid-America ACA's charter to the extent that Mid-America was subject to certain "obligations" under section 7.8 of the Act and granted a stay of its actions pending appeal. The FCA has filed an appeal with the U.S. Court of Appeals for the Fourth Circuit.

Office of Congressional and Public Affairs

The Office of Congressional and Public Affairs (OCPA) is responsible for the coordination and dissemination of information by the agency to the Congress, other Federal agencies, the FCA's various publics, including FCS institutions, and the agency's own employees. In carrying out this responsibility, the OCPA works with other agency offices that serve as expert resources on various issues. The background information provided by these other offices is used to plan and prepare the agency's communications with its various publics. The OCPA also provides these same communications services on a reimbursable basis for the FCSIC.

In the congressional affairs area, the OCPA maintains open communications with Members of Congress and their staffs through briefings on the agency's mission, its view on pending legislation, and the budget for its administrative expenses, as well as in responding to congressional concerns. Further, the office responds to congressional inquiries, arranges briefings, develops congressional testimony, and monitors legislation that may affect the FCA or the FCS. If borrower complaints or inquiries are sent to the agency through a congressional office, the OCPA directs any analysis or investigation necessary to prepare the agency's response.

The office serves as the initial point of contact with the Office of Management and Budget and other Federal agencies concerning legislative and administrative matters.

The primary responsibilities in the area of public affairs are to communicate the agency's positions and actions to its various publics and to respond to requests for information. The principal means for agency communications are the preparation and dissemination of news releases and media advisories, arranging for media interviews, responding to media and public inquiries, and writing and distributing many of the FCA's printed materials. Until Sept. 30, 1992, the office responded to requests under the Freedom of Information Act and the Privacy Act, at which time those functions were transferred to the OSSCA. The major publication of the office is the *FCA Bulletin*, and the office directed publication of the *FCA Annual Report* for 1991. Another significant duty of the office is providing internal communications to employees through its electronic newsletter.

During 1992, the OCPA responded to more than 500 inquiries from the general public and processed more than 500 inquiries from System borrowers, Members of Congress, and the White House.

Another major activity of the office completed in 1992 was communication of the findings of FCA's outside management study and the resulting agency organization changes to the members of the Agriculture Committee and Agriculture Appropriations Subcommittee of both the U.S. Senate and the House of Representatives.

Farm Credit Banks and Associations Safety and Soundness Act of 1992

A major legislative effort was accomplished on Oct. 28, 1992, when President Bush signed the Farm Credit Banks and Associations Safety and Soundness Act of 1992 (1992 Act) into law. This was the culmination of almost 2 years of effort on the part of the Congress, the FCA, the FCSIC, and others to strengthen the repayment provisions for the debt issued by the FAC to provide financial assistance to troubled FCS institutions after the passage of the Agricultural Credit Act of 1987. The 1992 Act addresses System capital, expands some authorities for the BCs, and modifies the FCA's authority to determine the scope of examinations. It also provides a statutory method for resolving the merger of the FICB of Jackson. Many of the issues raised by the FCA Board in its 1991 legislative recommendations to the Congress were incorporated into the 1992 Act.

The 1992 Act is divided into five separate titles. Title I makes permanent the former transition provision of FCA regulations dealing with allocation of capital between an FCS bank and its related associations. The law provides that an association's investment in a bank is counted for regulatory capital requirements in accordance with an agreement between each bank and its related associations. Further, this title expands the definition of permanent capital to include other debt and equity instruments as the FCA may deem appropriate.

Title II deals with a separate GAO study which is required on the office space, furniture, and equipment being used by both the FCA and FCS institutions.

Strengthening the repayment provisions of FAC debt is the principal purpose of title III. Generally, this title requires FCS institutions to begin to set aside the funds that will be necessary to repay their portions of the FAC obligations. These provisions clarify and strengthen the requirement for repayment of the capital preservation obligations, the repayment of preferred stock by assisted institutions, the Systemwide repayment obligation, and the repayment of Treasury-paid interest. Another provision transfers the repayment obligations from associations to banks. The FAC is authorized to obtain recoveries from all defaulting banks on any of the FAC debt payments and to recover from the FCSIC if the defaulting bank fails to pay within 12 months of the default.

The resolution of the FICB of Jackson merger is the primary purpose of title IV. It permits the FICB to voluntarily merge with an FCB by June 30, 1993, if it can find a suitable merger partner. The FCA can grant an one-time extension to this voluntary merger date to Oct. 31, 1993, if the FICB and its merger partner demonstrate that a merger is being pursued in good faith and will occur by the extension deadline. This title also affirms the exclusive long-term lending charter of the FCB of Texas in the three states that are also served by the FICB of Jackson.

Title V of the 1992 Act:

- establishes the allowance for losses for PCAs solely according to Generally Accepted Accounting Principles and removes the regulatory reserve requirement for loan losses;

- permits the BCs to purchase participations of non-cooperatives, offer technical and financial assistance to eligible borrowers, expand their water and sewer lending authorities, expand the eligibility for nonprofit service cooperatives, and allows for the election of one member of their boards' directors on the basis of equity-weighted voting;

- gives the FCA increased flexibility in determining the scope for examinations of FCS institutions;

- permits the compensation of FCS directors to be raised from $15,000 to $20,000 per year, with adjustments for inflation, unless the FCA determines that the safety and soundness of an institution is adversely affected;

- repeals the prohibition on the guarantee of tax-exempt indebtedness by FCS institutions; and

- requires the FCA to review its financial disclosure and conflict-of-interest regulations and adopt any needed amendments to the existing regulations by Oct. 28, 1993.

In addition to supporting passage of the 1992 Act, the agency gave its support to legislative efforts that would strengthen lender liability protection for environmental hazards and legislation that would clarify the FCA's role in examining the National Consumer Cooperative Bank. Neither of these legislative initiatives has yet been enacted.

Office of Inspector General

The FCA Office of the Inspector General (OIG) was statutorily created in 1989 for the purpose of improving operations, stimulating constructive change, and detecting and preventing waste, fraud, abuse, and mismanagement. The OIG's independent role and general responsibilities are defined by the Inspector General Act of 1978, as amended, which includes reporting responsibilities to both the chairman of the FCA and the Congress. The jurisdiction of the OIG is primarily the programs and operations of the FCA itself, but oversight of the agency's programs could cause the OIG to perform work in some FCS institutions. The operation of the OIG is built around the following activities.

• Audits—The scope and emphasis of OIG audits may include financial statement and financially related audits, compliance reviews, and performance audits designed to measure the economy and efficiency of programs, or to determine the extent to which a program achieves its intended purpose. The OIG has an interdisciplinary audit staff, which has been primarily engaged in performing program audits. Copies of audits are generally available to the public.

• Inspections—Inspections are similar to audits, but have the objective of providing greater coverage with fewer staff resources and giving more timely feedback to managers about their programs and activities. Inspections are characteristically more limited in scope and use more flexible methodologies than audits.

• Investigations—OIG investigations are usually in response to allegations of fraud or abuse made by the public or FCA employees or in response to indications of illegal acts or abuses identified through audits or inspections. The OIG may also conduct proactive investigations into areas of specific weakness or vulnerability. Investigations are directed at individuals and therefore differ from audits and inspections, which are directed at organizations and programs.

• Reviews of Proposed Legislation and Regulations—The focus of this activity is to identify opportunities to improve the controls and efficiencies in proposed legislation or regulations. The OIG may also evaluate existing legislation and regulations for the same purposes as a part of the ongoing evaluation of the FCA's programs and operations.

The Inspector General has established a HOTLINE to facilitate reporting complaints or information about apparent violations of laws, rules, or regulations; waste or mismanagement; abuse of authority; or dangers to public health or safety. Such complaints should be submitted in writing to the Inspector General, c/o Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102-5090 or by calling the OIG HOTLINE (800-437-7322). Information received through complaints is treated confidentially.

Office of Resources Management

The Office of Resources Management (ORM) provides administrative management and services to the agency and represents the agency with other Federal agencies and departments with centralized administrative responsibilities. These functions are carried out through four divisions.

The Office of the Director, in addition to managing the ORM, develops information resources management (IRM) plans, policies, and procedures and coordinates IRM budget and procurement actions. It also administers programs involving the Agency Time Tracking System, Computer Security, Federal Emergency Preparedness, and Information Security. Under the direction of the chief operating officer, it also administers the agency's Audit Followup Program.

The coordination of the development and awarding of agency contracts and the oversight of purchasing supplies and equipment is achieved by the Administrative Resources Division. This division administers the agency's support functions relating to supplies, equipment, mail, telecommunications, design, presentation materials, publications, duplicating, and vehicle management. It also administers the agency's property management system and serves as the agency's point of contact with the FCS Building Association.

The Fiscal Resources Division administers agency budgeting, cash management, fiscal, and accounting activities. These include financial reporting, investment of surplus funds, interagency agreements, vendor and travel payments, credit cards, cash advances, and imprest fund.

The Human Resources Division is responsible for the administration of the agency's human resources management programs and procedures for recruiting and staffing. It also administers the FCA job evaluation and compensation program, FCA and Federal benefits programs, payroll, employee relations, performance management, personnel security, training, and awards and recognition. The division manages the Employee Assistance Program and the maintenance, validation, and administration of the FCA Examiner Commissioning Test.

The responsibility for all aspects of the agency's information resources management program lies with the Information Resources Division. These include the development and operation of electronic data processing activities, a computer facility, microcomputers and related equipment, the library, and central files.

Farm Credit Administration Budget

The FCA's fiscal year begins on October 1 and ends on September 30. The agency's budgetary process is set forth in section 5.15 of the Farm Credit Act of 1971, as amended. The act requires that prior to the first day of each fiscal year, the FCA shall determine:

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

- the amount of assessments that will be required to pay such administrative expenses, taking into consideration the funds contained in the Farm Credit

Administration Administrative Expense Account, and maintaining a necessary reserve; and

• the amount of assessments that will be required to pay the cost of supervising and examining Farmer Mac.

On the basis of determinations made, the FCA is required to:

• apportion the amount of the assessment among FCS institutions on a basis determined to be equitable by the FCA;

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

• assess and collect from Farmer Mac from time to time during the fiscal year the amount determined to be necessary.

The amounts collected are deposited in the Farm Credit Administration Administrative Expense Account. The expense account is maintained in the Treasury of the United States and is available, without regard, for purposes of sequestration, to the Balanced Budget and Emergency Deficit Control Act of 1985, to pay the expenses of the FCA. The funds contained in the expense account shall not be construed to be Federal Government funds or appropriated monies.

Farm Credit Administration Administrative Expenses

(Dollars in Thousands)

Object Class	FY 1992 Actual	FY 1993 Estimated
Personnel Compensation		
Full-time Permanent	$24,474	$25,146
Other Personnel Compensation	1,104	1,086
Personnel Benefits	6,369	6,658
Total Personnel Compensation	**$31,947**	**$32,890**
Travel and Transportation of Persons	$ 2,502	$ 2,822
Transportation of Things	106	100
Communication, Utilities, and Other Rent	892	893
Printing and Reproduction	146	213
Other Services	2,037	2,203
Supplies and Material	521	403
Equipment	397	384
Insurance Claims and Indemnities	539	0
Total Obligations	**$39,087**	**$39,908**
Prior Year Obligations	(1,083)	0
Total	**$38,004**	**$39,908**

The Economic Environment

Farm Credit System institutions are largely single-industry lenders. They serve the Nation's agricultural community through its farmers, ranchers, producers and harvesters of aquatic products, and their cooperatives. And they serve the Nation's rural communities through rural housing and rural utility loans. This means that FCS institutions' loan demand and the repayment capacity of their borrowers are shaped by a host of influences affecting the agricultural sector of the U.S. economy.

FCS institutions raise loan funds in national financial markets. The supply and cost of these funds are affected by a wide-ranging set of forces affecting the financial sector. Both agricultural and financial markets respond to private market forces and to the public policies enacted by governments around the world. Significant forces affecting the FCS are important in understanding its financial performance and condition in 1992.

Economic Changes Improve the Interest Rate Environment

Economic activity in 1992 continued with a pattern of slow and sustainable growth in output, with some acceleration in the second half, but without significant growth in labor force participation. This unusual pattern for the early stages of recovery from a recession had important effects on the lending and funding environment.

The modest rate of economic growth, together with surplus labor, excess productive capacity, and moderate aggregate demand, continued to be a positive influence in holding down the inflation rate. For all of 1992, inflation, as measured by the Consumer Price Index (CPI), rose only 3 percent, while the core rate of inflation (the CPI adjusted for food and energy prices, which are often quite volatile) was increasing at only a 2.5-percent rate.

More than 2 years of declining inflation rates have contributed to a favorable environment for interest rates. In addition, the relatively slow-growing economy favored the financial markets by allowing interest rates to fall due to weak loan demand and boosting prices on financial instruments. Further, the drop in rates permitted extensive refinancing of home mortgages, freeing cash formerly tied to monthly payments and often allowing net borrowing against equity. Both these factors provided stimulus to consumer spending that would not have been available from per capita consumer income.

The long decline in short-term interest rates, which began back in 1989, is likely to have ended when monetary policy ended its tilt toward lower rates in December 1992. However, long-term bonds, which began their descent in April 1992, continued to decline throughout December. The new and favorable interest rate environment was created by a combination of a slow-growing economy and a declining rate of growth in consumer prices.

During much of 1992, the spread between short- and long-term interest rates was unusually wide, creating unique profit opportunities for financial intermediaries.

Financial Condition of Farm Sector Largely Restored

By 1989, the farm sector was well on the road to recovery from the financial crisis it had endured during the early and mid-1980's. Since 1989, the sector has basically maintained its improved financial condition. Borrower accounts showed a similar pattern of improvement, although a small portion of borrowers remain in unsatisfactory financial condition.

Between debt paydowns, writeoffs, and bankruptcies, the sector had shed nearly 30 percent ($60 billion) of its debt by 1989, and it had cut its yearly interest expense nearly one-third to less than $15 billion. Farmland values ended a 5-year slide in early 1988. Land values have since been on a slow climb, reaching $685 per acre in early 1992 (compared with $823 per acre a decade earlier). The debt-to-asset ratio of the sector had deteriorated to 23 percent in 1985. By 1989, this important ratio had come back down to less than 17 percent and was near this improved level in 1992.

The sector's greatly improved debt-to-asset ratio suggests that some farmers could carry more debt. But not all farmers are in solid financial health. About half the Nation's farmers carry debt financing, and for those operations with sales of more than $100,000 annually, more than 80 percent carry debt. A limited number of these have high enough debt-to-asset ratios to pose concerns if either expenses were to increase or receipts to decline significantly.

Credit is, of course, not a substitute for income over any extended period. But change in income often provides a partial explanation of changes in debt. Debt increase may temporarily fill in for an income shortfall, or it may be used to supplement investment of funds from income in strong income years.

Information from the U.S. Department of Agriculture (USDA) on farm receipts and expenses suggests that net income in 1992 was about $50 billion, and net cash income was near $59 billion. Both are near the record highs set in 1990. Net cash farm income is a summation of commodity sales, Government payments, and farm-related income, less cash operating expenses associated with producing those revenues. Net farm income is a somewhat broader concept that includes some farm household income and expense items. It is basically an accrual accounting, reflecting current year output and taking depreciation as an expense. Certain noncash income and expense items are included, such as valuing home consumption and adjusting for physical changes in farm inventories. Both series are important in monitoring the health of the sector. The cash series is more relevant from a loan repayment standpoint. But net farm income can be somewhat more revealing for looking ahead.

Financial Condition of Farm Operators Improving

As we complete 1992, most farm borrowers were in good financial condition. Farmers continue to make progress in holding down expenses. Over the last 2 years, total farm production expenses declined 1 percent. Helping in this regard have been the overall containment of general price inflation and lower interest rates. In 1992, the interest expenses of farmers were $13.5 billion, 7 percent less than in 1991.

A small and diminishing number of farmers, however, continue to struggle to overcome adversities that began in the 1980's. Though the USDA reported that by early 1991 farm operators were in their best overall financial condition since 1984, about 7 percent of farms, owing 21 percent of operator debt, were in a vulnerable position. Vulnerable farms are defined as those with debt-to-asset ratios at or above 40 percent and a negative net farm income.

By late 1992, about 5 percent (roughly 30,000) of the farms with annual sales over $40,000 were in the vulnerable category, along with about 7 percent of the smaller farms. The recent surveys show that highly leveraged larger farmers have been able to improve their balance sheet positions more than have highly leveraged smaller farm operators. While three-fourths of farm operator debt is held by larger operators, small operators also pose a default risk since a higher proportion of their debt is in the vulnerable category.

Geographic locations and production specialties associated with vulnerable farms have also changed from the Corn Belt and Lake States to the Southeast and Southern Plains regions. By production specialty, the composition shifted away from cash grain and dairy farms toward those specializing in beef, hogs, or sheep.

As of early 1991, farmers in the Pacific and Mountain regions were in the weakest average financial shape, while the Northeast and Southeast saw deterioration for the first time. These changes appear to tie to unfavorable local economic conditions affecting asset values and to weaknesses in off-farm income of smaller farmers. In fact, much of this regional deterioration was related to small farms. Three regions (the Northeast, Pacific, and Mountain) looked much healthier if one focuses on larger farm operators. Taking just larger farms, the Southeast, Southern Plains, and Delta were in the worst shape due to cotton and poultry producers.

Importance of Off-Farm Income Grows

The USDA has recently reported that off-farm income is playing a much greater role in farm finance than had been previously evident. Some 90 percent of farm operator households have off-farm income, a figure that holds across four broad U.S. geographic regions. Nationally, off-farm income was equal to 85 percent of farm operator households' overall net income in 1990 (nearly $33,300 out of roughly $39,000 per farm operator household).

A major regional difference is in the average level of farm and off-farm income. The Midwest had the highest average net farm income (nearly $10,000) and the lowest average off-farm income (under $25,000). At the other extreme, the Northeast had an average net farm income of less than $1,700 and the West had an average off-farm income of nearly $56,000.

This new information demonstrates the great importance of local economic conditions to the financial well-being of FCS borrowers. The data are consistent with recent years of improved FCS institution performance in the Nation's midsection as well as with the more recent deterioration experienced by those institutions serving both the East and West Coasts.

*Financial Condition and Performance of Farm Credit System Institutions**

The financial condition of the Farm Credit System continued to improve during 1992 through strong earnings performance. Combined net income increased to $986 million** in 1992 from $811 million in 1991.

Increased earnings were primarily attributable to increased net interest margins. Net interest margins increased to 2.91 percent in 1992, up from 2.57 percent in 1991. In the fourth quarter, net interest margins increased to 3.13 percent in 1992 from 2.70 percent in the same period of the prior year.

Partially offsetting 1992 net interest income was a one-time expense of $37 million. This expense was the result of eight FCS banks changing their accounting methods for post retirement benefits (in compliance with SFAS No. 106). The remaining six banks have chosen to amortize the expenses associated with SFAS No. 106, as permitted under transitional obligation guidelines. The future expenses estimated to be recognized due to SFAS No. 106 are $71 million.

Total assets increased modestly to $63.2 billion at the end of 1992 from $62.5 billion in 1991. Loan volume was also rather flat. Total gross loans (including nonaccruals) increased $950 million to $52.4 billion in 1992 from $51.5 billion in 1991. Accrual loan volume increased $1.3 billion to $50.4 billion. Nonaccrual loans decreased from $2.5 billion to $2 billion.

Composition of the loan portfolio also changed slightly. Long-term real estate loans to farmers decreased $218 million in 1992, while short- and intermediate-term loans increased $183 million. Loan volume increased $202 million on loans to domestic cooperatives and increased $966 million on international loans.

Total capital increased to $7.2 billion*** in 1992 from $6.4 billion in 1991. The quality of capital also improved as capital that is not at risk decreased from $668 million in 1991 to $401 million in 1992. This capital is comprised of borrower-owned stock issued prior to Oct. 6, 1988, and is protected from loss by provisions of the Agricultural Credit Act of 1987. Total capital to assets increased to 11.4 percent in 1992 from 10.2 percent in 1991. All FCS institutions exceeded the regulatory permanent capital requirement of 7 percent of risk-adjusted assets at the end of the year.

Farm Credit Banks

The total assets of the Farm Credit Banks declined 0.5 percent during 1992, reflecting a slight reduction in loans outstanding. However the quality of the banks' assets improved, as non-accrual loans declined significantly during the year. At Dec. 31, 1992, non-accrual loans totaled $1.3 billion, nearly 25 percent less than a year earlier. The most significant reduction in nonaccrual loans was in the Western FCB's portfolio, where these loans declined by 55.8 percent. This was largely the result of transferring a $126 million loan to one large ACA from nonaccrual to accrual status.

**Note: This combined data and the data used in the Message from the Chairman for the Farm Credit System was obtained from reports of the Federal Farm Credit Banks Funding Corporation. Its development requires significant intercorporate eliminations and combinations of financial data.*

*** The FCS's method of reporting 1992 net income includes $35 million in interest income on securities held by the FCSIC and $74 million in premiums paid by FCS institutions to the FCSIC.*

**** In reporting total capital, the FCS includes $656 million in restricted assets, representing the total assets of the FCSIC.*

With the transfer of direct long-term lending authority from the FCBs to the FLCAs and ACAs, as authorized by the 1987 Act, the banks are increasingly becoming wholesale lenders, making loans to associations instead of directly to farmers and other eligible borrowers. At Dec. 31, 1992, 78.8 percent of FCB loans were to associations, compared with 42.5 percent at the end of 1988.

Net earnings of the FCBs remained relatively stable during 1992, while improvement was noted in the quality of earnings. Net income totaled $345.1 million for the 12 months ended Dec. 31, 1992, down 8.9 percent from the $378.7 million recorded for 1991. The decline in earnings was largely a result of the $127.3 million in allowance for loan loss reversals the banks recorded in 1991, which increased net income for that year. The banks' operating expenses declined by 15.4 percent during 1992. Operating expenses as a percent of average earning assets declined from 1.29 percent in 1991 to 1.10 percent in 1992.

The banks' net interest income rose by 2.9 percent during 1992, as their average interest rate spread on loans increased to 219 basis points. Interest earned on loans fell 17.3 percent, as the average lending rate declined 162 basis points to 7.76 percent. But total interest expense declined even more, 25.7 percent, as the average cost of funds declined 181 basis points to 5.58 percent.

While the quality of the banks' net worth improved through growth in retained earnings, their total capital position was stable during 1992. Earned net worth continued to grow, increasing by 21.2 percent to $1.6 billion during 1992. Unallocated retained earnings represented 41.5 percent of total net worth and 3.6 percent of total assets at Dec. 31, 1992, compared with 34.1 and 2.9 percent, respectively, a year earlier. Total net worth declined by 0.2 percent for the 12 months ended Dec. 31, 1992, largely as a result of extraordinary transactions completed during the year. These transactions involved the purchase of zero-coupon U.S. Treasury bonds by the FCB of Omaha and AgriBank, FCB, to ensure the retirement of preferred stock issued to the FAC. Total capital of these two banks was reduced by the amount used to purchase the bonds, preferred stock was reduced by the amount of financial assistance received earlier, and surplus was increased by the difference between the two amounts. At the FCB of Omaha, total capital was reduced by $47.7 million, but surplus grew $59.3 million. At AgriBank, total capital was reduced by $59.4 million, while surplus increased by $73.6 million.

The effect of these transactions on the combined banks' financial statements was partially offset by another extraordinary transaction completed by the FCB of Omaha, which resulted in an increase in capital stock and a reduction in surplus. The bank issued a stock dividend to its two districtwide associations, which effectively transferred more than $110 million from the bank's surplus account to capital stock. The bank's total capital position was not affected.

Associations With Direct Lending Authority

Structural changes continued at the retail level, as eight direct lending institutions merged, and five new direct lending associations (DLAs) were formed. On Dec. 31, 1992, 166 FCS associations had direct lending authority. Seventy were PCAs, 69 were ACAs, and 27 were FLCAs.

Gross loans of DLAs totaled $25 billion as of Dec. 31, 1992, an increase of 5.2 percent from a year earlier. Gross loans in PCAs decreased $569 million, while they increased by $1.1 billion in ACAs, and increased by $699 million in FLCAs. The increases reflect the formation of ACAs throughout the FCS and additional down-loading of loan assets from the FCBs to the FLCAs and ACAs. Combined total assets of DLAs increased by $1.1 billion, or approximately 4.1 percent to $26.6 billion during 1992.

Total net worth of DLAs increased by 12.5 percent during 1992 to $4.3 billion. This represented 16.2 percent of total assets at Dec. 31, 1992. Earned net worth increased by 19.7 percent during the year and represented 65.4 percent of total net worth at Dec. 31, 1992, up from 61.5 percent a year earlier.

Combined DLA net income increased by 57.7 percent in 1992 from the 1991 earnings level. Net interest income, that income received on accrual loans that exceeds interest expense on the debt owed to FCBs supporting those loans, increased 24 percent. Total DLA net interest income increased $149.3 million, from $622 million in 1991 to $771.3 million in 1992. PCAs accounted for $73.9 million of this increase. Other income increased by 31.4 percent to $303.9 in 1992 from $231.2 in 1991.

Total nonperforming loans decreased $72 million or 3.2 percent during 1992, with nonaccrual loans decreasing $25.6 million or 3.7 percent. Other high risk loans increased 6.9 percent. On balance, the combined DLA nonperforming loan portfolio showed continued improvement.

Some of this improvement in loan performance is attributable to restructuring activities. Specifically, FLBAs restructuring to become direct lending FLCAs typically transfer only accruing loans from the FCB. The effect is to dilute percentages of nonperforming loans at the association and to increase such percentages in the bank portfolio.

With the improvement in the loan portfolio, provision for loss expenses decreased 21.1 percent, from $49.7 million in 1992 to $39.2 million. Net chargeoffs for DLAs decreased from $19.8 million to $7.3 million. The decrease occurred in ACAs, while PCAs and FLCAs showed increases.

Note: Due to the continuing changes occurring in 1992 in the numbers of DLAs and the assets they control, year-to-year comparisons can be misleading. The reader is cautioned to avoid making firm judgments without first examining financial trends on a districtwide consolidated basis. These data reflect trends only on DLA activities.

Federal Land Bank Associations

Federal Land Bank Associations are not direct lenders, but serve as lending agents for the Farm Credit Banks. Most of their revenue comes from loan servicing fees paid by the FCBs, and only a portion of FLBAs share in loan loss expenses.

On Dec. 31, 1992, there were 77 active FLBAs, compared with 86 a year before. Five of the original 12 Farm Credit Districts continue to have FLBAs.

Combined net income for FLBAs increased from $17.8 million in 1991 to $129.2 million in 1992. This is the highest level of earnings since 1988. As a result of improved earnings in 1992, cash and investments in securities increased $50.5 million.

The total increase of $111.4 million in net earnings of the FLBAs was the result of several developments. The most important factors were a reduction in salaries and employee benefits of $13.6 million, an increase in loan fees and compensation income of $16 million, and an increase in patronage and dividend income of $64.2 million.

Total assets increased from $705 million in 1991 to $749 million in 1992. Total net worth increased from $632.8 million or 89.8 percent of total assets in 1991 to $693.5 million or 92.6 percent of total assets in 1992. Earned net worth increased to 45 percent of total assets in 1992 from 30.3 percent in 1991.

Banks for Cooperatives

Performance of the National Bank for Cooperatives dominates the financial results of the three Banks for Cooperatives because its assets are approximately 87 percent of the combined BC assets.

Total assets of the BCs increased $95.2 million to $14.6 billion in 1992 from $14.5 billion in 1991. During the year, gross loans increased $408 million, while total cash and marketable investments fell $274 million. Portfolio quality improved significantly as nonaccrual loans declined by 57.7 percent during 1992 to $48.1 million. The improvement in the level of nonaccrual loans was predominantly a result of improvement at the National Bank for Cooperatives, where nonaccruals declined by 61.6 percent. This measure is volatile from year to year because of the large size of individual loans in the portfolio.

Net income for 1992 was $160.7 million, up 34 percent from 1991 levels. Annual return on average assets increased to 1.09 percent in 1992 from 0.86 percent a year earlier. Return on equity, which measures the return on a stockholder's investment in the BCs, increased to 14.22 percent in 1992 from 11.16 percent in 1991.

Net interest income totaling $320.9 million represented an increase of 24.6 percent over 1991. The improved net interest income was largely a result of an increase in the average spread charged on loans. Average interest spreads on accrual loans increased from 154 basis points in 1991 to 206 basis points during 1992.

Operating efficiency was relatively stable during 1992. Operating expenses as a percentage of average earning assets increased slightly from 0.48 percent during 1991 to 0.49 percent during 1992.

Financial Assistance

The Farm Credit System Assistance Board and the Farm Credit System Financial Assistance Corporation (FAC) were created by the Agricultural Credit Act of 1987 to carry out a program to provide assistance to financially troubled FCS institutions. Under this program, the assistance board had responsibility for administering assistance to FCS institutions determined eligible for assistance. As of Dec. 31, 1992, all authorities of the assistance board expired in accordance with provisions of the 1987 Act, and its charter was terminated at that time.

Provisions in the 1987 Act authorized the FAC, upon direction of the assistance board, to issue up to $4 billion in U.S. Government-guaranteed 15-year bonds to fund financial assistance to FCS institutions experiencing severe financial stress. Under these provisions, the FAC's authority to issue such bonds expired as of Sept. 30, 1992. As of Dec. 31, 1992, debt securities issued by the FAC totaled $1.261 billion. No new debt securities were issued by the FAC after 1990, and all debt issuances mature by the year 2005.

The $1.261 billion FAC debt securities were issued to (1) purchase preferred stock from certain FCS banks, (2) pay the banks' third quarter 1986 Capital Preservation Agreement accruals, (3) retire eligible borrower stock of certain liquidating FCS institutions, and (4) pay FAC debt issuance costs and operating expenses of the assistance board and the FAC.

A total of $419 million was used to assist four FCBs via the purchases of preferred stock by the FAC. The FCB of Louisville received $90 million, the FCB of Omaha received $107 million, the FCB of St. Paul received $133.4 million, and the FCB of Spokane received $86.6 million. The assistance was needed primarily to facilitate the restructuring of a portion of the banks' high-cost debt and strengthen their capital.

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

Another $417 million was used to fund the FCS banks' third quarter 1986 Capital Preservation Agreement accruals, and $16 million was used to redeem eligible borrower-owned stock in liquidating institutions. The remaining $21 million was used to fund debt issuance costs and various operating expenses of the FAC and the assistance board.

Repayment of FAC Debt

The 1987 Act provided various requirements for repayment of the principal and interest of the securities issued by the FAC. The four assisted FCBs are obligated to repay the $419 million of principal on debt issued to fund the assistance they received. All FCS banks are required to repay the $417 million of principal on debt issued to fund the Capital Preservation Agreement accruals. All FCS institutions are required to repay the principal on the remaining $37 million of debt issued.

Interest related to the principal on Capital Preservation Agreement accruals is required to be repaid by the FCS banks as it comes due. Excluding interest on the debt obligations for Capital Preservation Agreement accruals, repayment of interest on FAC debt is the responsibility of all FCS institutions. Additional provisions provide that the Department of the Treasury will pay all of the interest on all outstanding FAC debt for the first 5 years and pay half of the interest for the next 5 years. Interest for the last 5 years must be paid by all FCS institutions.

Early Retirement of Preferred Stock

During 1992, the FCA was notified by two FCS banks, the FCB of Omaha and AgriBank, FCB, of their intent to provide for the retirement of the preferred stock issued to the FAC. This preferred stock represented $107 million and $133.4 million of direct financial assistance to the FCB of Omaha and AgriBank, FCB, respectively.

To accomplish the retirement, both banks proposed buying securities having sufficient value at maturity to repay the FAC debt issued to fund the preferred stock assistance. The securities were to be held in a trust for the holders of FAC debt securities. The retirement of the preferred stock (and the resulting effective redemption of FAC debt issued to provide the assistance) was perceived by the boards of directors and management of both banks as improving their public image with borrowers.

Although FCA approval of the retirement was not required, under the provisions of the 1987 Act, the FCA was responsible for determining, in consultation with the Secretary of the Treasury, whether the redemption of the preferred stock would endanger the viability or competitiveness of either bank. Based on an analysis of both banks' financial condition and other information, the FCA Board, in consultation with the Secretary of the Treasury, determined that the FCB of Omaha and AgriBank, FCB, had satisfactorily met all statutory requirements to retire the preferred stock issued to the FAC. Each bank subsequently retired the preferred stock issued to the FAC, which discharged its responsibility to provide funds for the retirement of $240 million of FAC debt securities issued to provide the banks with financial assistance.

Funding the Farm Credit System

The Farm Credit Banks, the Banks for Cooperatives, and the Federal Intermediate Credit Bank of Jackson obtain the majority of their loan funds through the sale of debt securities, chiefly Federal Farm Credit Banks Consolidated Systemwide Bonds and Federal Farm Credit Banks Consolidated Systemwide Discount Notes. In recent years, they have also used specialized funding activities, including a medium-term note program, hedging, swaps, and other financing mechanisms.

Funding activities are handled by the Federal Farm Credit Banks Funding Corporation, through a selling group of approximately 90 investment dealers and dealer banks who offer the securities.

The debt securities are not obligations of, nor are they guaranteed by, the United States or any agency or instrumentality thereof, other than the banks. The debt securities are the joint and several obligations of the FCBs, the BCs, and the FICB of Jackson and are backed by their combined resources.

Funding Costs Lower in 1992

It was clear by the end of 1992 that FCS institutions reaped significant advantages from declining interest rates, as had their commercial banking and thrift counterparts.

Four funding developments interacted to dominate the financial environment of FCS institutions: an overall decline in interest rates; a steep yield curve between long and short interest rates; a program of funding which relied more on shorter maturities; and lack of downward pressure from competitors on rates charged on loans.

A big boost to FCS profits occurred as the cost of funding gradually but persistently declined in response to monetary policy during the past 3 years and usually at a rate much faster than drops in rates paid by borrowers. This was possible because competitive lenders also needed to generate earnings in order to strengthen their capital positions, creating an environment of restraint in the pace of lowering borrower interest rates.

On average, the price the FCS paid for 3-month debt dropped from 7.91 percent in 1990 to 3.61 percent in 1992, while the yearly average spread over Treasury issues of the same maturity fell from 19 to 7.6 basis points. The narrow spread over Treasury issues reflected strong confidence of financial markets in the FCS issues as well as weak overall demand for borrowed funds in the economy.

In addition, the large differences between rates on short and long maturity funding made it possible to earn additional spreads by funding loans with short-maturity security issues. Over the 1990-92 period, the FCS shortened the maturity of its debt by substituting 3-month issues for longer term debt and reduced its total outstanding bond debt in 3-month, 6-month, and 1-year maturities by more than $4.6 billion by the end of December 1992. Some of the Systemwide bonds and medium-term notes were replaced with discount notes of even shorter maturity.

Higher cost debt issued in the mid-1980's has increasingly been retired and replaced with debt of much lower yields. The combination of financing new debt at a lower rate and rolling over old debt at

Amounts and Spreads on Bonds Issued in 1992

(Dollars in Millions)

Year	Rate in Percent	Spread in Basis Points	New Issues	Maturing Issues	New Money (Paydown)
Three-Month Debt Issues of the Farm Credit System					
1990 Average	7.913	19.0	$14,725	$14,510	$ 215
1991 Average	5.639	12.0	$13,435	$13,385	$ 50
1992 Average	3.613	7.6	$16,150	$15,255	$ 900
Six-Month Debt Issues of the Farm Credit System					
1990 Average	7.973	13.0	$13,220	$13,261	$ (41)
1991 Average	5.742	7.7	$ 9,180	$11,235	$(2,055)
1992 Average	3.732	4.6	$ 8,749	$ 8,154	$ 595
One-Year Debt Issues of the Farm Credit System					
1990 Average	8.058	5.1	$ 6,530	$ 7,849	$(1,319)
1991 Average	5.975	10.3	$ 6,327	$ 6,997	$ (670)
1992 Average	3.952	5.3	$ 5,024	$ 7,312	$(2,288)

Note: Term debt and discount notes issued during the period December 1989-92 are not reflected in this table but were important sources of funding.

the current lower yields allowed the FCS to benefit significantly. Both the greater spreads of earning assets over the cost of funds and the reduced average cost of funding caused overall interest expense to decline. Average cost of FCS debt declined from 8.36 percent in 1990 to 6.59 percent in 1991 and to 4.93 percent in 1992. The FCS's increasing reliance on short-term debt responded to a monetary policy focused on short-term interest rates. Yields at the short end of the yield curve declined through 1992 by several hundred basis points, making short issues increasingly attractive. And while they work to the benefit of the FCS during periods of declining rates, they have the opposite effect when rates begin to rise.

Young, Beginning, and Small Farmers

Associations in the Farm Credit System are required by law to provide programs that target service to young, beginning, and small farmers. Programs may include assistance in making use of existing credit programs, Farmers Home Administration (FmHA) guarantee and interest rate buydown programs, linked deposit programs available in at least four states, scholarships, young farmer recognition programs, other public relations efforts aimed at young farmers, support for 4-H Clubs and Future Farmers of America, educational projects, and young farmer advisory committees. Some districts also offer specifically tailored insurance programs. Each district provides the FCA an annual report on activities supporting these groups.

Data on the extent of the use of lending programs by these groups are also reported. The FCA obtains summaries by type of association—mortgage lending (FLBA and FLCA), operating and intermediate lending (PCA), or both (ACA). Data are cross-classified into five groups: (1) all borrowers, (2) young borrowers (under 35 years), (3) beginning borrowers (less than 6 years' experience), (4) small borrowers (farming assets less than $100,000), and (5) borrowers meeting two or more of the criteria to be included.

The most restrictive definition concerns loans to borrowers who met two or more of the three criteria for young, beginning, and small borrowers. Some 3.9 percent of the total number of loans outstanding by all three classes of associations were held by this group of borrowers at the end of 1992. These loans represented 23,940 of the 609,030 loans outstanding to all farmers and ranchers. In 1991, 23,012 loans were outstanding to this group.

These loans totaled $910.7 million, or 2.3 percent of the $40.3 billion in loans outstanding of the associations, and $507 million or 3.5 percent of the $14.4 billion in gross new lending in 1992. Included are just over 5 percent of gross new lending of ACAs, 2.1 percent of gross new mortgage lending by FLBAs and FLCAs, and 1.7 percent of gross operating lending by PCAs. Comparable volumes for 1991 were $807.6 million outstanding and $532.7 million in new loans.

Less restrictive by definition are borrowers who meet only one of the standards—young, beginning, or small—as reflected by the middle three columns of table 13. Considering age only, some 31,735 young borrowers had nearly $1.9 billion in loans outstanding after receiving $977 million in gross new loans during 1992 and making payments on earlier loans. Considering experience only, some 13,926 beginning farmers had $1.45 billion outstanding at yearend after receiving $723 million in gross loans during the year. By size only, 68,296 small farmers had $2.1 billion outstanding at yearend, after receiving $457 million in loans during the year. Numbers of loans to small farmers increased over 1991, while numbers decreased for young and beginning farmers. Amounts outstanding increased slightly for all three groups, while the amount of new money loaned decreased slightly.

Finally, an unknown number of individuals who are young, beginning, and/or small are not counted because they are in a borrowing partnership or farm corporation whose principal borrower does not meet these criteria. Parent-child joint operations are a significant factor in farming entry, but are not identifiable in available data.

Note: Readers should be aware that the method of reporting (table 13) includes double counting among the three middle columns and the right-hand column. The three columns are not defined as meeting "one and only one" standard, so one cannot add across the columns to obtain a total number of individuals served by a combination of the criteria.

Financial Tables

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

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

Table 1

Farm Credit Banks Combined Statement of Financial Condition

(Dollars in Millions)

As of December 31,	1992	1991	1990	1989	1988
Assets					
Loans	$38,279.2	$38,626.4[1]	$39,824.3[1]	$40,463.9	$42,210.1
Less: Allowance for Losses	722.8	746.0	902.1	987.2	1,254.0
Net Loans	37,556.3	37,880.3[1]	38,922.2[1]	39,476.7	40,956.1
Cash and Investments in Securities	6,695.5	6,389.0[1]	7,318.6	8,057.2	5,736.4
Net Acquired Property	246.1	316.5	281.4	385.5	578.3
Other Assets—Net	553.8	680.6[1]	709.2	596.5	572.9
Total Assets	**45,051.7**	**45,266.4[1]**	**47,231.3**	**48,515.9**	**47,843.7**
Liabilities					
Consolidated Systemwide and Other Bonds	30,496.9	30,768.3[1]	32,872.7[1]	34,936.2	34,110.8
Consolidated Systemwide Notes	9,469.2	9,220.2[1]	8,197.3	7,209.3	6,495.3
Other Liabilities	1,214.2	1,399.8[1]	1,958.1	2,663.7	3,261.9
Total Liabilities	**41,180.3**	**41,388.2[1]**	**43,028.0**	**44,809.2**	**43,868.0**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	1.3	3.9[1]	5.6	9.6	22.9
Capital Stock and Participation Certificates—Unprotected	1,594.8	1,858.5	2,687.3	2,818.7	3,595.1
Preferred Stock—FAC	566.7	807.3	807.3	370.6	375.6
Other Capital	104.1	(115.0)[1]	(346.2)	(278.2)[1]	(585.1)
Total Capital	**2,266.9**	**2,554.6[1]**	**3,154.0**	**2,920.8**	**3,408.5**
Earned Net Worth	1,604.5	1,323.6[1]	1,049.3	785.9	567.3[1]
Total Net Worth	**3,871.4**	**3,878.2[1]**	**4,203.3**	**3,706.6[1]**	**3,975.7**
Total Liabilities and Net Worth	**$45,051.7**	**$45,266.4[1]**	**$47,231.3**	**$48,515.9**	**$47,843.7**

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

Table 2

Farm Credit Banks Combined Statement of Income and Expense

(Dollars in Millions)

For the Year Ended December 31,	1992	1991	1990	1989	1988
Interest Income					
Loans	$2,814.1	$3,406.1[1]	$3,823.1	$4,116.8	$4,088.3
Investments and Other	246.8	405.9	610.6	579.9	443.8[1]
Total Interest Income	**3,060.9**	**3,812.0[1]**	**4,433.7**	**4,696.7**	**4,532.0**
Interest Expense					
Consolidated Bonds	1,869.7	2,445.3[1]	3,109.3	3,386.6	3,435.8
Notes and Other	365.8	564.4[1]	608.9	715.2	683.4
Total Interest Expense	**2,235.5**	**3,009.8**	**3,718.3[1]**	**4,101.8**	**4,119.2**
Net Interest Income (Loss)	825.4	802.2[1]	715.5	594.9	412.8
Less: Provision for Loan Losses	(9.2)	(127.3)	(58.4)[1]	(141.1)	(651.4)
Net Interest Income (Loss) After Provision for Loan Losses	834.6	929.6[1]	773.8	736.0	1,064.2
Other Income	77.7	69.1	46.7	128.0	559.7
Operating Expenses					
Salaries and Employee Benefits	132.1	122.6[1]	123.1	140.6	137.9
Occupancy and Equipment Expenses	32.7	35.2	37.2	37.5	34.6
Other Operating Expenses	298.7	389.8	283.8	287.0	284.2
Total Operating Expenses	**463.5**	**547.6[1]**	**444.1**	**465.1**	**456.7**
Other Expenses	102.1	72.4	101.3[1]	56.1	44.8[1]
Extraordinary Items	(1.7)	0.0	(10.9)	173.3	(373.0)
Net Income (Loss)	**$ 345.1**	**$ 378.7[1]**	**$ 264.3**	**$ 516.1**	**$ 749.5**

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

Table 3

Farm Credit Banks Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31,	1992	1991	1990	1989	1988
Loan Performance					
Performing	$34,354.1	$32,478.9[1]	$32,034.7	$32,719.7	$32,178.1
Formally Restructured	687.1	1,031.1[1]	1,693.3	2,096.7	1,960.0
Other Restructured or Reduced Rate	3.6	3.4	45.3	28.5	16.5
Other High Risk	1,970.5	3,429.6[1]	4,053.3	3,469.7	5,093.6
Nonaccrual	1,275.5	1,700.2[1]	2,014.3	2,164.9	3,001.4
Net Chargeoffs on Loans	$ 13.8	$ 28.7	$ 26.8	$ 125.7	$ 281.1
Selected Ratios					
Return on Assets	0.77%	0.83%[1]	0.56%	1.10%	1.54%
Return on Equity	8.81%	9.66%[1]	6.71%	13.41%	19.39%
Net Interest Margin	1.96%	1.88%[1]	1.63%	1.37%	0.94%
Capital as a Percentage of Assets	8.59%	8.57%[1]	8.90%	7.64%	8.31%
Debt-to-Capital Ratio (:1)	10.64	10.67[1]	10.24	12.09	11.03

[1]*Revised.*

Table 4

Banks for Cooperatives Combined Statement of Financial Condition

(Dollars in Millions)

As of December 31,	1992	1991	1990	1989	1988
Assets					
Loans	$12,029.1	$11,621.5	$11,301.9	$10,676.4	$10,195.8
Less: Allowance for Losses	157.4	147.5	151.2	128.3	128.5
Net Loans	11,871.8	11,474.0	11,150.7	10,548.1	10,067.3
Cash and Investments in Securities	2,557.9	2,832.1	3,114.7	3,. 92.3	2,936.6
Net Acquired Property	1.1	1.2	1.6	1.5	6.9
Other Assets—Net	148.7	177.0	192.5	203.9	164.1
Total Assets	**14,579.5**	**14,484.3**	**14,459.6**	**13,945.8**	**13,174.9**
Liabilities					
Consolidated Systemwide and Other Bonds	7,317.8	6,270.4	6,413.4	4,564.0	5,501.1
Consolidated Systemwide Notes	5,986.3	7,029.1	6,903.7	7,989.5	6,122.3
Other Liabilities	209.7	200.0	209.1	446.2	543.1
Total Liabilities	**13,513.9**	**13,499.5**	**13,526.2**	**12,999.7**	**12,166.5**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	112.5	279.2	404.3	537.2	730.2
Capital Stock and Participation Certificates—Unprotected	672.6	496.3	356.8	244.5	96.1
Preferred Stock—FAC	0.0	0.0	0.0	0.0	0.0
Other Capital	0.0	0.0	0.0	0.0	0.0
Total Capital	**785.2**	**775.5**	**761.1**	**781.8**	**826.3**
Earned Net Worth	280.4	209.3	172.2	164.3	182.0
Total Net Worth	**1,065.6**	**984.8**	**933.3**	**946.1**	**1,008.3**
Total Liabilities and Net Worth	$14,579.5	$14,484.3	$14,459.6	$13,945.8	$13,174.9

Note: Totals may not add due to rounding.

Table 5

Banks for Cooperatives Combined Statement of Income and Expense

(Dollars in Millions)

For the Year Ended December 31,	1992	1991	1990	1989	1988
Interest Income					
Loans	$745.0	$ 875.5	$1,021.5	$1,009.3	$ 853.9
Investments and Other	166.1	198.8	240.4	265.9	206.0
Total Interest Income	**911.1**	**1,074.2**	**1,261.9**	**1,275.3**	**1,059.9**
Interest Expense					
Consolidated Bonds	328.5	409.5	475.5	491.8	412.1
Notes and Other	261.8	407.1	592.7	608.8	486.8[1]
Total Interest Expense	**590.2**	**816.6**	**1,068.2**	**1,100.6**	**898.8**
Net Interest Income (Loss)	320.9	257.6	193.7	174.7	161.0[1]
Less: Provision for Loan Losses	24.5	24.4	27.9	(8.6)	11.0
Net Interest Income (Loss) After Provision for Loan Losses	296.3	233.3	165.8	183.3	150.0
Other Income	32.9	8.7	9.0	12.9	12.2
Operating Expenses					
Salaries and Employee Benefits	40.1	35.0	31.3	27.0	28.1
Occupancy and Equipment Expenses	7.7	7.8	7.4	5.7	6.5
Other Operating Expenses	22.4	22.1	24.3	22.8	21.5
Total Operating Expenses	**70.3**	**64.9**	**63.0**	**55.5**	**56.1**
Other Expenses	87.5	57.7	40.0	34.4	20.4
Extraordinary Items	(10.7)	0.6	0.0	0.0	0.0
Net Income (Loss)	**$160.7**	**$ 119.9**	**$ 71.8**	**$ 106.3**	**$ 85.8**

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

Table 6

Banks for Cooperatives Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31,	1992	1991	1990	1989	1988
Loan Performance					
Performing	$11,708.7	$11,157.0	$10,836.3	$10,406.2	$10,307.1
Formally Restructured	10.1	11.8	92.6	85.8	76.1
Other Restructured or Reduced Rate	0.0	0.0	0.5	0.0	2.8
Other High Risk	262.3	340.2	273.6	171.7	36.4
Nonaccrual	48.1	113.5	100.5	12.5	14.6[1]
Net Chargeoffs on Loans	$ 14.6	$ 28.1	$ 5.0	$ (8.4)	$ 22.9
Selected Ratios					
Return on Assets	1.09%	0.86%	0.51%	0.80%	0.67%
Return on Equity	14.22%	11.16%	6.74%	10.02%	6.24%
Net Interest Margin	2.23%	1.92%	1.41%	1.34%	1.22%
Capital as a Percentage of Assets	7.31%	6.80%	6.45%	6.78%	7.65%
Debt-to-Capital Ratio (:1)	12.68	13.71	14.49	13.74	12.07

[1] *Revised.*

Table 7

Direct Lenders Combined Statement of Financial Condition[1]

(Dollars in Millions)

As of December 31,	1992[2]	1991[2]	1990[2]	1989[2]	1988
Assets					
Loans	$25,045.0	$23,816.8[3]	$17,692.9	$15,475.6[3]	$ 9,459.9
Less: Allowance for Losses	566.0	553.4[3]	388.3[3]	376.0	416.2
Net Loans	24,479.0	23,263.4[3]	17,304.6[3]	15,099.6[3]	9,043.8
Cash and Investments in Securities	71.3	82.5[3]	72.1	70.5	49.4
Net Acquired Property	70.6	93.7	63.6	75.7	83.4
Other Assets—Net	1,959.9	2,086.0[3]	1,867.9[3]	1,895.9[3]	1,962.6
Total Assets	**26,580.7**	**25,525.6[3]**	**19,308.2[3]**	**17,141.7[3]**	**11,139.3**
Liabilities					
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	0.0	0.0	0.0	0.0	0.0
Other Liabilities	22,281.3	21,705.0[3]	16,459.4[3]	14,494.0[3]	8,949.9
Total Liabilities	**22,281.3**	**21,705.0[3]**	**16,459.4[3]**	**14,494.0[3]**	**8,949.9**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	146.2	193.6	125.4	173.0	659.8
Capital Stock and Participation Certificates—Unprotected	1,235.6	1,169.2[3]	763.7[3]	641.2[3]	167.8
Preferred Stock—FAC	0.0	0.0	0.0	0.0	0.0
Other Capital	104.5	108.6[3]	123.0	121.3	0.8
Total Capital	**1,486.3**	**1,471.4[3]**	**1,012.0[3]**	**935.4[3]**	**828.4**
Earned Net Worth	2,813.2	2,349.2[3]	1,836.7[3]	1,712.2[3]	1,361.0
Total Net Worth	**4,299.4**	**3,820.6[3]**	**2,848.8[3]**	**2,647.7[3]**	**2,189.4**
Total Liabilities and Net Worth	**$26,580.7**	**$25,525.6[3]**	**$19,308.2[3]**	**$17,141.7[3]**	**$11,139.3**

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]*1992, 1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).*
[3]*Revised.*

Table 8

Direct Lenders Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31,	1992[2]	1991[2]	1990[2]	1989[2]	1988
Interest Income					
Loans	$2,098.0	$2,110.5	$1,743.1	$1,557.8[3]	$931.5
Investments and Other	4.4	8.2	9.9	17.8	2.6
Total Interest Income	**2,102.4**	**2,118.6[3]**	**1,753.0**	**1,575.6[3]**	**934.1**
Interest Expense					
Consolidated Bonds	0.0	0.0	0.0	0.0	0.0
Notes and Other	1,331.2	1,496.6[3]	1,326.6	1,248.3	738.1
Total Interest Expense	**1,331.2**	**1,496.6[3]**	**1,326.6**	**1,248.3**	**738.1**
Net Interest Income (Loss)	771.3	622.0[3]	426.4	327.2[3]	196.0
Less: Provision for Loan Losses	39.2	49.7[3]	10.9	(64.7)	(148.0)
Net Interest Income (Loss) After Provision for Loan Losses	732.1	572.3[3]	415.5	391.9[3]	344.0
Other Income	303.9	231.2[3]	101.4	101.5	167.0
Operating Expenses					
Salaries and Employee Benefits	290.3	260.6	194.1	185.2	144.4
Occupancy and Equipment Expenses	35.0	32.2	25.6	24.6	21.0
Other Operating Expenses	153.0	144.6[3]	103.4	90.1	59.8
Total Operating Expenses	**478.3**	**437.5[3]**	**323.1**	**299.9**	**225.2**
Other Expenses	129.9	97.9[3]	72.4[3]	83.6	61.0
Extraordinary Items	4.9	6.2[3]	5.4	13.7	20.2
Net Income (Loss)	**$ 432.7**	**$ 274.4[3]**	**$ 126.8[3]**	**$ 123.7[3]**	**$245.1**

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]1992, 1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).
[3]Revised.

Table 9

Direct Lenders Combined Trends in Selected Financial Measures[1]

(Dollars in Millions)

As of December 31,	1992[2]	1991[2]	1990[2]	1989[2]	1988
Loan Performance					
Performing	$22,870.6	$21,570.5[3]	$15,916.8	$13,803.7	$8,127.6
Formally Restructured	230.4	357.5	415.4	439.4	321.1
Other Restructured or Reduced Rate	3.5	5.4	3.7	10.9	20.1
Other High Risk	1,282.0	1,199.4[3]	779.8	709.3[3]	520.3
Nonaccrual	658.5	684.1[3]	577.4[3]	513.7[3]	485.1
Net Chargeoffs on Loans	$ 7.3	$ 19.8[3]	$ 9.3[3]	$ 10.8	$ 4.8
Selected Ratios					
Return on Assets	N/A	N/A	N/A	N/A	2.19%
Return on Equity	N/A	N/A	N/A	N/A	11.49%
Net Interest Margin	N/A	N/A	N/A	N/A	2.26%
Capital as a Percentage of Assets	16.17%	14.97%[3]	14.75%[3]	15.45%[3]	19.65%
Debt-to-Capital Ratio (:1)	5.18	5.68[3]	5.78	5.47[3]	4.09

[1]Includes Production Credit Associations, Agricultural Credit Associations (ACAs), and Federal Land Credit Associations (FLCAs).
[2]1992, 1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).
[3]Revised.

Table 10

Federal Land Bank Associations Combined Statement of Financial Condition

(Dollars in Millions)

As of December 31,	1992[1]	1991[1]	1990[1]	1989	1988
Assets					
Loans[2]	N/A	N/A	N/A	N/A	N/A
Less: Allowance for Losses[3]	N/A	N/A	N/A	N/A	N/A
Net Loans	N/A	N/A	N/A	N/A	N/A
Cash and Investments in Securities	$275.2	$224.7	$ 241.9	$ 211.0	$ 352.4
Net Acquired Property	0.0	0.0	0.3	0.3	N/A
Other Assets—Net	473.8	480.2	1,339.7	1,466.3	2,185.6
Total Assets	**749.0**	**705.0**	**1,581.9**	**1,677.6**	**2,538.0**
Liabilities					
Consolidated Systemwide and Other Bonds	0.0	0.0	0.0	0.0	0.0
Consolidated Systemwide Notes	0.0	0.0	0.0	0.0	0.0
Other Liabilities[2]	55.5	72.1[4]	103.9	97.3	169.4
Total Liabilities	**55.5**	**72.1[4]**	**103.9**	**97.3**	**169.4**
Net Worth					
Capital					
Capital Stock and Participation Certificates—Protected	140.1	189.9	712.7	958.7	1,774.4
Capital Stock and Participation Certificates—Unprotected	216.5	229.5	305.0	215.8	60.9
Other Capital	0.0	0.0	0.0	(33.5)	(107.5)
Total Capital	**356.6**	**419.4**	**1,017.6**	**1,141.0**	**1,727.8**
Earned Net Worth	337.0	213.4[4]	460.4	439.3	640.8
Total Net Worth	**693.5**	**632.8[4]**	**1,478.0**	**1,580.3**	**2,368.6**
Total Liabilities and Net Worth	**$749.0**	**$705.0**	**$1,581.9**	**$1,677.6**	**$2,538.0**

[1]1992, 1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).
[2]The FLBAs act as agents for the FCBs (formerly Federal Land Banks) in the lending process, but do not hold loans themselves.
[3]FLBAs in some districts have liability for losses on FCB (formerly Federal Land Bank) loans. Because FLBAs do not make loans, the FLBA allowance for loan losses is included in FLBA liabilities.
[4]Revised.

Table 11

Federal Land Bank Associations Combined Trends in Income and Expense

(Dollars in Millions)

For the Year Ended December 31,	1992[1]	1991[1]	1990[1]	1989[1]	1988
Interest Income					
Loans	$ 0.1	$ 0.1	$ 0.6	$ 1.2	$ 0.7
Investments and Other	1.6	2.7	1.8	1.3	7.1
Total Interest Income	**1.7**	**2.9[2]**	**2.4**	**2.5**	**7.7**
Interest Expense					
Consolidated Bonds	N/A	N/A	N/A	N/A	N/A
Notes and Other	N/A	N/A	N/A	N/A	N/A
Total Interest Expense	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Net Interest Income (Loss)	1.7	2.8	2.4	2.5	7.7
Less: Provision for Loan Losses	2.1	5.3[2]	5.8	3.2	10.3
Net Interest Income (Loss) After Provision for Loan Losses	(0.4)	(2.5)[2]	(3.4)	(0.7)	(2.6)
Other Income	208.0	125.1	234.5	277.4	$1,114.8
Operating Expenses					
Salaries and Employee Benefits	47.0	60.6	108.9	103.8	143.4
Occupancy and Equipment Expenses	6.3	8.0[2]	15.2	14.0	19.0
Other Operating Expenses	24.4	31.1	46.0	35.8	45.8
Total Operating Expenses	**77.7**	**99.6**	**170.0**	**153.6**	**208.2**
Other Expenses	0.0	5.2	6.0	0.2	10.0
Extraordinary Items	(0.6)	0.0	0.0	(21.1)	55.6
Net Income (Loss)	**$129.2**	**$ 17.8[2]**	**$ 55.0**	**$101.9**	**$ 949.6**

Note: Totals may not add due to rounding.

[1]1992, 1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).

[2]Revised.

Table 12

Federal Land Bank Associations Combined Trends in Selected Financial Measures

(Dollars in Millions)

As of December 31,	1992[1]	1991[1]	1990[1]	1989[1]	1988
Loan Performance					
Performing	—	—	—	—	—
Formally Restructured	—	—	—	—	—
Other Restructured or Reduced Rate	—	—	—	—	—
Other High Risk	—	—	—	—	—
Nonaccrual	—	—	—	—	—
Net Chargeoffs on Loans	$5.8	$4.1	$6.7	$5.5	$6.8
Selected Ratios					
Return on Assets	19.22%	1.95%[2]	3.39%	5.57%	47.29%
Return on Equity	21.14%	2.17%[2]	3.61%	5.96%	51.68%
Net Interest Margin	N/A	N/A	N/A	N/A	N/A
Capital as a Percentage of Assets	92.59%	89.77%[2]	93.43%	94.20%	93.33%
Debt-to-Capital Ratio (:1)	0.08	0.11	0.07	0.06	0.07

[1]*1992, 1991, 1990, and 1989 figures are not comparable to previous years due to mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into Agricultural Credit Associations (ACAs) and creation of Federal Land Credit Associations (FLCAs) and downloading of farm real estate loans from Farm Credit Banks (FCBs).*
[2]*Revised.*

Table 13

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

(Dollars in Thousands)

For the Year Ended December 31, 1992	Total Portfolio	Young Farmers[1]	Beginning Farmers[2]	Small Farmers[3]	Young, Beginning, & Small Farmers[4]
Federal Land Bank Associations and Federal Land Credit Associations					
Total Number of Loans					
Outstanding	192,237	5,145	4,802	10,592	2,996
Percentage Distribution	xxx	2.68	2.50	5.51	1.56
Total Amount of Loans					
Outstanding	$16,094,118	$ 405,788	$625,072	$ 504,901	$160,881
Percentage Distribution	xxx	2.52	3.88	3.14	1.00
Gross New Money Loaned	$ 2,123,053	$ 85,731	$195,891	$ 52,167	$ 44,878
Percentage Distribution	xxx	4.04	9.23	2.46	2.11
Agricultural Credit Associations					
Total Number of Loans					
Outstanding	336,652	19,555	5,703	53,947	17,752
Percentage Distribution	xxx	5.81	1.69	16.02	5.27
Total Amount of Loans					
Outstanding	$19,657,278	$1,161,579	$626,104	$1,518,430	$678,342
Percentage Distribution	xxx	5.91	3.19	7.72	3.45
Gross New Money Loaned	$ 7,390,310	$ 561,980	$280,627	$ 381,801	$375,808
Percentage Distribution	xxx	7.60	3.80	5.17	5.09
Production Credit Associations					
Total Number of Loans					
Outstanding	80,141	7,035	3,421	3,757	3,192
Percentage Distribution	xxx	8.78	4.27	4.69	3.98
Total Amount of Loans					
Outstanding	$ 4,537,586	$ 304,941	$199,383	$ 52,728	$ 71,517
Percentage Distribution	xxx	6.72	4.39	1.16	1.58
Gross New Money Loaned	$ 4,928,126	$ 329,534	$246,075	$ 40,618	$ 86,253
Percentage Distribution	xxx	6.69	4.99	0.82	1.75

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

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