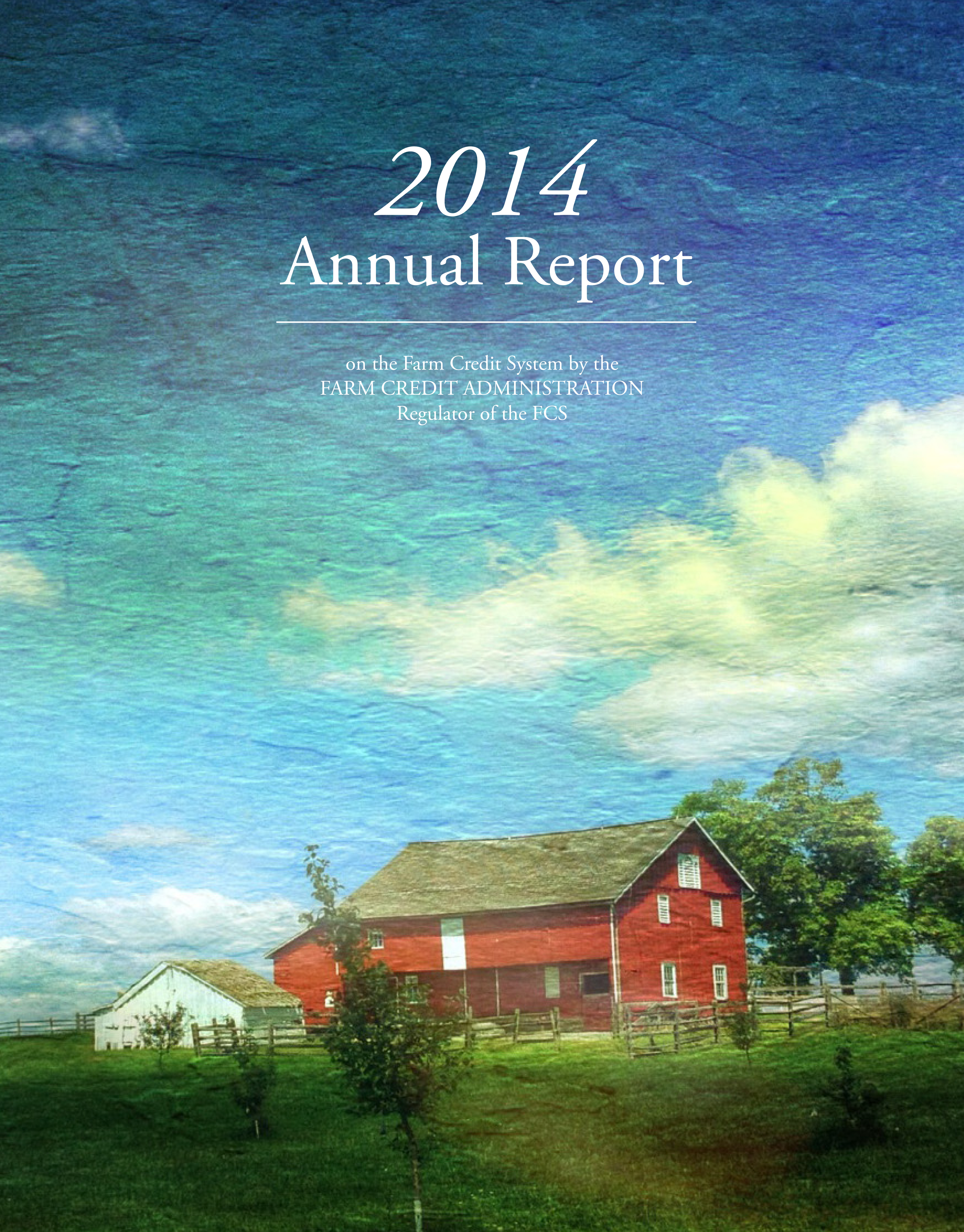
2014
Annual Report

on the Farm Credit System by the
FARM CREDIT ADMINISTRATION
Regulator of the FCS



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Statement of the Board Chairman and CEO

July 2015

Dear Reader,

On behalf of the Board and the staff of the Farm Credit Administration, I present the 2014 Annual Report on the Farm Credit System (System). I am pleased to report the System's overall condition and performance remain sound. Its net income was $4.72 billion in 2014, up 1.8 percent from 2013, and its capital position is strong. The System had $45.7 billion in total capital at December 31, 2014, compared with $42.6 billion a year earlier.

In general, the quality of System loans remains very good. Credit quality for livestock, dairy, and poultry producers improved in 2014 because of lower feed costs and favorable pricing. Also, the System continued to have reliable access to the debt capital markets in 2014, and investor demand for all System debt security products remained favorable. Total Systemwide debt increased by 8.7 percent, compared with 4.8 percent in 2013.

This document also contains our annual report on the System's service to young, beginning, and small (YBS) farmers and ranchers. In 2014, the pace of new lending to YBS farmers exceeded the pace in overall farm lending by System institutions. From 2013 to 2014, the share of total new System farm loans made to each YBS category rose. The dollar volume of new loans made to young and beginning categories also rose from 2013 to 2014, but loan volume to small farmers declined.

As the arm's-length regulator of the System, we examine System institutions for their safety and soundness and their compliance with laws and regulations, providing heightened oversight of institutions with higher risk. In addition to the areas normally considered, our examiners are currently emphasizing internal controls; portfolio management and allowance for loan loss in volatile times; large, complex, and shared assets; and board governance and nominating committees.

In 2014, the FCA Board adopted a proposed rule to make extensive revisions to the Agency's capital regulations. The proposed rule would modernize our capital requirements while ensuring that System institutions continue to hold enough regulatory capital to fulfill their mission. It would ensure that the System's capital requirements are appropriate for the System's cooperative structure and comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Although we had already received considerable input during the comment period following publication of our proposed rule, we recently decided to briefly reopen the comment period. Because of the complexity of this rule, we want to ensure that we receive input from all interested parties.

I am also pleased to report that the Federal Agricultural Mortgage Corporation (Farmer Mac) remains safe and sound. On December 31, 2014, Farmer Mac's net worth was $781.8 million, compared with $574.5 million a year earlier, and Farmer Mac was in compliance with all minimum capital requirements.

Economists anticipate a number of challenges for the farm economy in the near future, including a decline in farm income. Already, grain prices have dropped from the record-high prices we've seen in recent years. When farm incomes decline, farmland values and farm loan credit quality often follow suit. We will watch these developments closely and provide guidance to help System institutions weather these difficulties.

Our goal is to ensure that the System remains safe and sound so that it can continue to fulfill its congressional mandate to meet the credit needs of farmers, ranchers, and other eligible borrowers for generations to come.

Sincerely,

Kenneth A. Spearman

*The Farm Credit Administration ensures
a safe, sound, and dependable source
of credit and related services
for all creditworthy and eligible persons
in agriculture and rural America.*

Farm Credit Administration

Overview and Mission

The Farm Credit Administration is an independent agency in the Executive branch of the U.S. Government. We are responsible for regulating and supervising the Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac).

The System is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers.

FCA derives its powers and authorities from the Farm Credit Act of 1971, as amended (12 U.S.C. 2001–2279cc). The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCA and the FCS.

FCA is responsible for ensuring that the System remains a dependable source of credit for agriculture and rural America. We do this in two specific ways:

- We ensure that System institutions, including Farmer Mac, operate safely and soundly and comply with applicable laws and regulations. Our examinations and oversight strategies focus on an institution's financial condition and any material existing or potential risk, as well as on the ability of its board of directors and management to direct its operations. We examine each institution's compliance with laws and regulations to serve eligible borrowers, including young, beginning, and small farmers and ranchers. If a System institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to bring about appropriate corrective action.

- We issue policies and regulations governing how System institutions conduct their business and interact with customers. These policies and regulations focus on protecting System safety and soundness; implementing the Farm Credit Act; providing minimum requirements for lending, related services, investments, capital, and mission; and ensuring adequate financial disclosure and governance. We also approve corporate charter changes, System debt issuances, and other financial and operational matters.

Our headquarters and one field office are in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

FCA does not receive a Federal appropriation. We maintain a revolving fund financed primarily by assessments from the institutions we regulate. Other sources of income for the revolving fund are interest earned on investments with the U.S. Treasury and reimbursements for services we provide to Federal agencies and others.

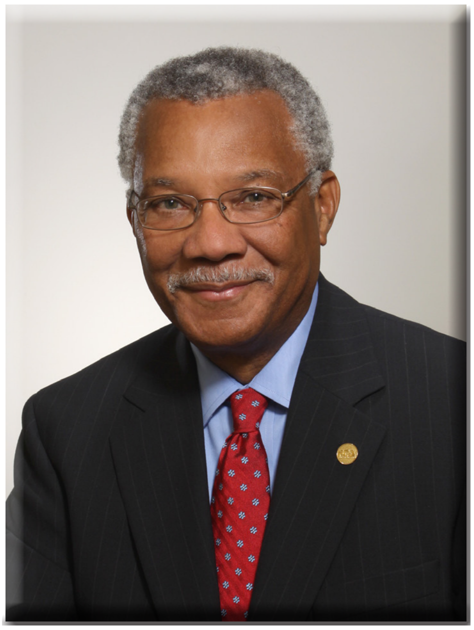
The Board

FCA policy, regulatory agenda, and supervisory and examination activities are established by a full-time, three-person Board whose members are appointed by the President of the United States with the advice and consent of the Senate. Board members serve a six-year term and may remain on the Board until a successor is appointed. The President designates one member as Chairman of the Board, who serves in that capacity until the end of his or her own term. The Chairman also serves as our Chief Executive Officer.

FCA Board members also serve as the Board of Directors for the Farm Credit System Insurance Corporation.

Kenneth A. Spearman

Board Chairman and CEO



Kenneth A. Spearman is Chairman of the Board and CEO of the Farm Credit Administration. Mr. Spearman was appointed to the FCA Board by President Barack Obama on October 13, 2009. He was appointed to the balance of Dallas Tonsager's term and reappointed to a full six-year term that expires on May 21, 2016. He was designated Chairman and CEO by President Obama on March 13, 2015.

Since his appointment to the FCA Board in 2009, Mr. Spearman served as Chairman of the Board of Directors of the Farm Credit System Insurance Corporation, which is responsible for ensuring the timely payment of principal and interest on obligations issued on behalf of Farm Credit System banks. He will continue to serve concurrently as a member of the FCSIC Board of Directors.

Mr. Spearman brings to his position on the FCA Board many years of experience in finance, agriculture, and agricultural cooperatives. He spent 28 years in the citrus industry. From 1980 to 1991, he was controller of Citrus Central, a $100 million cooperative in Orlando, Florida, where he was responsible for financial management and reporting and the supervision of staff accountants.

He later served as director of internal audit for Florida's Natural Growers, where he designed and implemented the annual plan for reviewing and appraising the soundness, adequacy, and application of accounting, financial, and other operating internal controls.

From January 2006 until his appointment to the FCA Board, Mr. Spearman served as an independently appointed outside director on the AgFirst Farm Credit Bank board in Columbia, South Carolina. During his tenure, he served on the board compensation committee and the board governance committee.

Before entering agriculture in central Florida, Mr. Spearman served with the U.S. Army and is a Vietnam veteran. He later was employed by the public accounting firm Arthur Andersen & Co. and was involved with the development of a public accounting firm in Chicago, Illinois. He served as chairman of the board of trustees for the Lake Wales Medical Center. He is a member of the Institute of Internal Auditors, as well as the National Society of Accountants for Cooperatives, where he served a term as national president.

He obtained his master's degree in business administration from Governors State University in University Park, Illinois, and his B.S. in accounting from Indiana University. He also attended Harvard Kennedy School Executive Education, where he completed a program with a concentration in Government Agency Strategic Planning.

Mr. Spearman and his wife, Maria, of Winter Haven, Florida, have three children—twin daughters, Michelle Springs and Rochelle Puccia, and a son, Dr. Kenneth Spearman.

Note: Before Mr. Spearman's designation as Board Chairman and CEO, Jill Long Thompson served as Board Chair and CEO from November 27, 2012, until March 12, 2015.

Dallas P. Tonsager

Board Member

Dallas P. Tonsager was appointed to the Farm Credit Administration (FCA) Board by President Barack Obama on March 13, 2015, for a term that expires May 21, 2020.

Mr. Tonsager also serves as Chairman of the Board of Directors of the Farm Credit System Insurance Corporation, which is responsible for ensuring the timely payment of principal and interest on obligations issued on behalf of FCS banks.

Mr. Tonsager served as Under Secretary for Rural Development at the U.S. Department of Agriculture (USDA) from 2009 to 2013. In this position, he expanded broadband communication in rural America and implemented other key elements of the Recovery Act for rural America. He dramatically expanded USDA's water and wastewater programs, expanded funding for first- and second-generation biofuels, and funded hospitals and other public facilities in rural America. In addition, Mr. Tonsager worked with the Farm Credit System and others to bring on line new venture capital investment funds. While at USDA, he was a member of the Commodity Credit Corporation Board of Directors from 2010 to 2013.

Previously, Mr. Tonsager served as a member of the FCA Board from 2004 to 2009, when he also served as a member of the Board of Directors of the Farm Credit System Insurance Corporation. From 2002 to 2004, he was the executive director of the South Dakota Value-Added Agriculture Development Center.

Mr. Tonsager brings to his position on the FCA Board extensive experience as an agriculture leader and producer, and a commitment to promoting and implementing innovative development strategies to benefit rural residents and their communities. As executive director of the South Dakota Value-Added Agriculture Development Center, he coordinated initiatives to better serve producers interested in developing value-added agricultural projects. Services provided by the center include project facilitation, feasibility studies, business planning, market assessment, technical assistance, and education.

In 1993, he was selected by President William J. Clinton to serve as the State Director in South Dakota for rural development for the U.S. Department of Agriculture. Mr. Tonsager oversaw a diversified portfolio of housing, business, and infrastructure loans in South Dakota.

A long-time member of the South Dakota Farmers Union, Mr. Tonsager served two terms as president of the organization from 1988 to 1993. He served on the board of National Farmers Union Insurance from 1989 to 1993, and he was a member of the advisory board of the Commodity Futures Trading Commission from 1990 to 1993.

From 1988 to 1993, Mr. Tonsager was a board member of Green Thumb, Inc., a nationwide job training program for senior citizens.

Mr. Tonsager grew up on a dairy farm near Oldham, South Dakota. In partnership with his brother, he owns Plainview Farm in Oldham, a family farming operation that includes corn, soybeans, wheat, and hay. Mr. Tonsager is a graduate of South Dakota State University where he earned a B.S. in agriculture in 1976.

Note: Mr. Tonsager succeeded Jill Long Thompson, who served on the FCA Board from March 2010 until March 2015.

Jeffery S. Hall

Board Member

Jeffery S. Hall was appointed to the FCA Board by President Barack Obama on March 17, 2015. Succeeding Leland A. Strom, Mr. Hall will serve a term that expires on October 13, 2018.

Mr. Hall was president of The Capstone Group, an association management and consulting firm that he cofounded in 2009. He was the State Executive Director for the U.S. Department of Agriculture's Farm Service Agency in Kentucky from 2001 to 2009. In that role, he had responsibility for farm program and farm loan program delivery and compliance.

From 1994 to 2001, Mr. Hall served as Assistant to the Dean of the University of Kentucky, College of Agriculture, advising the Dean on State and Federal legislative activities and managing a state-wide economic development initiative called Ag-Project 2000.

Mr. Hall also served as a senior staff member in the office of U.S. Senator Mitch McConnell from 1988 until 1994. During that time, he was the Legislative Assistant for Agriculture, accountable for internal and external issue management.

Before joining Senator McConnell's staff, Mr. Hall served on the staff of the Kentucky Farm Bureau Federation. Over his 30-year career in agriculture, he has held leadership positions in the following nonprofits: the Kentucky Agricultural Council, the Agribusiness Industry Network, the Louisville Agricultural Club, the Kentucky Agricultural Water Quality Authority, and the Governor's Commission on Family Farms.

Mr. Hall was raised on a family farm in southern Indiana, which has been in his family for nearly 200 years. He is currently a partner in the farm with his mother and sister. Mr. Hall received a B.S. from Purdue University.

Note: Mr. Hall succeeded Leland A. Strom, who served on the FCA Board from December 2006 until March 2015.

Farm Credit System—Role, Structure, and Safety and Soundness

FCS Role

The Farm Credit System (FCS or System) is a network of borrower-owned cooperative financial institutions and service organizations serving all 50 states and the Commonwealth of Puerto Rico. Created by Congress in 1916 to provide American agriculture with a dependable source of credit, the FCS is the oldest Government-sponsored enterprise.[1]

FCS institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and agricultural and aquatic cooperatives. They also make credit available for agricultural processing and marketing activities, rural housing, certain farm-related businesses, rural utilities, and foreign and domestic entities in connection with international agricultural trade.

The System raises funds for its business activities by selling securities in the national and international money markets; its Systemwide debt funding is subject to FCA approval. The U.S. Government does not guarantee the securities issued by the System.

According to the Farm Credit Act of 1971, as amended, Congress established the System to improve the income and well-being of American farmers and ranchers. The System is to provide a permanent, reliable source of credit and related services to agriculture and aquatic producers, farmer-owned cooperatives, and farm-related businesses in rural America.

Congress formed the FCS as a system of farmer-owned cooperatives to ensure that farmer- and rancher-borrowers participate in the management, control, and ownership of their institutions. The participation of member-borrowers helps keep the institutions focused on serving their members' needs.

The System helps to meet a broad public need by preserving liquidity and competition in rural credit markets in both good and bad economic times. The accomplishment of this public goal benefits all eligible borrowers, including young, beginning, and small farmers, as well as rural homeowners.

FCS Structure

The Lending Institutions

As of January 1, 2015, the System was composed of 80 banks and associations. The following four banks provide loans to 74 Agricultural Credit Association (ACA) parent organizations and 2 stand-alone Federal Land Credit Associations (FLCAs)[2]:

- CoBank, ACB
- AgriBank, FCB
- AgFirst Farm Credit Bank
- Farm Credit Bank of Texas

An ACA can make short-, intermediate-, and long-term loans; an FLCA can make only long-term real estate loans. Under the Farm Credit Act of 1971, as amended, the FLCA is exempt from State and Federal income taxes.

CoBank, one of the four Farm Credit banks, is an Agricultural Credit Bank (ACB), which has a nationwide charter to make loans to agricultural and aquatic cooperatives and rural utilities, as well as to other persons or organizations that have transactions with, or are owned by, these cooperatives. The ACB finances U.S. agricultural exports and imports and provides international banking services for farmer-owned cooperatives. In addition to making loans to cooperatives, the ACB provides loan funds to 25 ACAs and 1 FLCA.

Each ACA contains two subsidiaries, a Production Credit Association (PCA), which can make only short- and intermediate-term loans, and an FLCA.[3] The parent-subsidiary structure, with an ACA as parent and its wholly owned PCA and FLCA as subsidiaries, accounted for 97 percent of all direct-lender associations as of January 1, 2015.

The ACA and its two subsidiaries operate with a common board of directors and staff, and each of the three entities is responsible for the debts of the others. For most regulatory and examination purposes, FCA treats the ACA and its subsidiaries

1. The Federal Land Banks were created in 1916, when the System was originally established. Other major parts of the FCS were created in 1923 and 1933.
2. An FLCA is a Federal Land Bank Association that has received a transfer of direct long-term real estate lending authority under section 7.6 of the Farm Credit Act.
3. Although legally separated, the ACA, the PCA, and the FLCA operate an integrated lending business, with loans made through the subsidiaries possessing the appropriate authority. The ACA, the PCA, and the FLCA are jointly and severally liable on the full amount of the indebtedness to the bank under the bank's General Financing Agreement. In addition, the three associations agree to guarantee each other's debts and obligations, pledge their respective assets as security for the guarantee, and share each other's capital.

as a single entity; however, when appropriate, we may choose to treat the parent and subsidiaries as separate entities.

The ACA's parent-subsidiary structure enables the ACA to preserve the tax-exempt status of the FLCA. This structure offers several other benefits as well. It allows the ACA to build and use capital more efficiently, and it enables members to hold stock in only the ACA but to borrow either from the ACA or from one or both of its subsidiaries. This gives the ACA and its subsidiaries greater flexibility in serving their customers, and it allows credit and related services to be delivered to borrowers more efficiently.

Further, the structure allows an association to provide a broader range of specialized services to its member-borrowers. It enables one-stop borrowing—borrowers can obtain long-, intermediate-, and short-term loans from the same institution.

Special-Purpose Entity and Service Corporations

In addition to the banks and lending associations, the System also contains a special-purpose entity known as the Federal Farm Credit Banks Funding Corporation. Established under the Farm Credit Act, the Funding Corporation issues and markets debt securities on behalf of the Farm Credit banks to raise loan funds. It also issues quarterly and annual information statements for investors.

The System also contains the following five service corporations. These corporations exist under the authority of section 4.25 of the Farm Credit Act[4]:

AgVantis, Inc., provides technology-related and other support services to the associations affiliated with CoBank, ACB. AgVantis is owned by the bank and 16 of its affiliated associations.

Farm Credit Leasing Services Corporation provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities. It is wholly owned by CoBank, ACB.

Farm Credit Financial Partners, Inc., provides support services to five associations affiliated with CoBank; one association affiliated with AgriBank, FCB; and the Leasing Corporation. It is owned by four associations to which the corporation provides services.

The FCS Building Association acquires, manages, and maintains facilities to house FCA headquarters and field office staff. The FCS Building Association is owned by the FCS banks, but the FCA Board oversees the Building Association's activities.

Farm Credit Foundations provides human resource services to its employer-owners. These services include payroll processing, benefits administration, centralized vendor management, workforce management and operations, corporate tax and financial reporting services, and retirement workshops. Employer-owners consist of 41 Farm Credit associations, one service corporation (AgVantis, Inc.), and one Farm Credit Bank (AgriBank, FCB).

Farmer Mac

The Federal Agricultural Mortgage Corporation (Farmer Mac), which is also recognized by law as an FCS institution, provides a secondary market arrangement for agricultural real estate loans, Government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans. The purpose of Farmer Mac's activities is to provide greater liquidity and lending capacity to all agricultural and

4. Section 4.25 of the Farm Credit Act provides that one or more FCS banks or associations may organize a service corporation to perform functions and services on their behalf. These federally chartered service corporations are prohibited from extending credit or providing insurance services.

rural lenders, including insurance companies, credit unions, and FCS lending institutions.

The Farm Credit Act established Farmer Mac as a federally chartered instrumentality and an institution of the FCS. However, it has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac debt.

Farmer Mac is owned by its investors—it is not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and FCS institutions. Any investor may own nonvoting stock.

FCA regulates and examines Farmer Mac through its Office of Secondary Market Oversight, whose director reports to the FCA Board on matters of policy.

Although Farmer Mac is an FCS institution under the Farm Credit Act, we discuss Farmer Mac separately from the other entities of the FCS. Therefore, throughout this report, unless Farmer Mac is explicitly mentioned, the Farm Credit System refers only to the banks and associations of the System. For more information about Farmer Mac, see "Condition of Farmer Mac" on page 43.

The Safety and Soundness of the FCS

FCA regulates the FCS—its lending institutions, the Funding Corporation, the service corporations, and Farmer Mac. Our regulatory activities and examinations support the System's mission by ensuring that FCS institutions operate in a safe and sound manner, without undue risk to taxpayers, investors in System securities, or borrower-stockholders. For an overview of our Agency, see page 5 or visit our website at www.fca.gov.

Also serving to protect the safety and soundness of the FCS is the Farm Credit System Insurance Corporation (FCSIC). FCSIC was established by the Agricultural Credit Act of 1987 in the wake of the agricultural credit crisis of the 1980s, when the FCS, like most lenders heavily concentrated in agriculture, experienced severe financial difficulties. The purpose of FCSIC is to protect investors in Systemwide debt securities by ensuring the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks.

FCSIC ensures timely payment by maintaining the Farm Credit Insurance Fund, a reserve that represents the equity of FCSIC. The balance in the Insurance Fund at December 31, 2014, was \$3.7 billion. For more information about FCSIC, go to www.fcsic.gov. Also see FCSIC's 2014 annual report.

Investors in Systemwide debt securities are further protected by the Farm Credit Act's joint and several liability provision, which applies to all FCS banks. The banks are jointly and severally liable for the principal and interest on all Systemwide debt securities. Therefore, if a bank is unable to pay the principal or interest on a Systemwide debt security and if the Farm Credit Insurance Fund has been exhausted, then FCA must call all nondefaulting banks to satisfy the security.

FCS Banks and Associations

Financial Condition

The FCS[5] continued to be fundamentally safe and sound in 2014. The System's overall condition and performance was strong as it reported higher earnings, increased capital, and favorable portfolio credit quality. Tables 1 and 2 provide a breakdown of the System's major financial indicators.

While the overall FCS remained financially sound, a small number of individual System institutions exhibited weaknesses. As the System's regulator, we addressed these weaknesses by increasing our supervision of these institutions. For more information on measures we took to address these weaknesses, see "Maintaining a Dependable Source of Credit for Farmers and Ranchers" on pages 39 to 42 of this report. For more information on the condition of the System, see the 2014 Annual Information Statement of the Farm Credit System on the website of the Federal Farm Credit Banks Funding Corporation at www.farmcreditfunding.com.

Agriculture faced a generally favorable but changing risk environment in 2014. The USDA forecasts net farm income for 2014 to be down by more than 16 percent from a record high in 2013. After dropping sharply in the latter part of 2013, grain prices fell further in the second half of 2014 with record yields helping push corn and soybean production to all-time highs. With the drop in grain prices, profit margins for crop producers narrowed sharply during the year. Margins are expected to remain tight in 2015 because the costs of production, especially land rents, are expected to be slow to adjust.

The livestock, dairy, and poultry sectors enjoyed strong profitability for much of 2014 in large part because of significantly lower feed costs and strong product pricing. While profit margins are expected to narrow somewhat in 2015, the profit outlook is generally favorable although the strong dollar could hurt export demand for U.S. meat and dairy products.

The decline in grain prices in 2014 also intensified the downward pressure on farmland values. In its annual fourth quarter survey of agriculture, the Federal Reserve reported farmland prices were flat to trending down in several districts, particularly in the Midwest. A rise in long-term interest rates in response to the continued strengthening of the U.S. economy would put additional pressure on farmland values.

California saw little relief in 2014 from the exceptional drought that has gripped the state for the past three years. At year-end 2014, 9.6 percent of the System's outstanding loan volume was associated with California. In general, dry conditions persist for much of the Southwest, and these conditions will continue to pose a risk for agriculture and certain System borrowers.

For a detailed discussion of potential risks facing the System in 2015 and beyond, see "Challenges Facing the Agricultural Economy and the Farm Credit System" on pages 49 to 58.

5. Throughout this chapter, when referring to the Farm Credit System, we mean only the banks and direct-lending associations of the System, excluding Farmer Mac. The analyses in this section are based on data that System institutions provided to FCA or to the Federal Farm Credit Banks Funding Corporation. These analyses are based on publicly available information and, except where noted, are based on the 12-month period ended December 31, 2014. They are based on a combination of bank and association data; these data exclude transactions between System entities.

Table 1

Farm Credit System Major Financial Indicators, Annual Comparison

As of December 31

Dollars in Thousands

At and for the 12 months ended	31-Dec-14	31-Dec-13	31-Dec-12	31-Dec-11	31-Dec-10
Farm Credit System Banks[a]					
Total Assets	249,370,568	230,427,442	219,043,177	205,087,928	207,098,256
Gross Loan Volume	192,083,080	179,260,572	173,227,170	158,420,741	161,069,141
Nonaccrual Loans	227,872	275,228	365,478	384,795	477,341
Cash and Marketable Investments	55,472,944	49,241,806	43,618,788	44,047,407	43,289,148
Net Income	2,042,527	2,057,199	2,011,314	1,860,347	1,917,143
Nonperforming Loans/Total Loans[b]	0.15%	0.18%	0.23%	0.27%	0.33%
Capital/Assets[c]	6.41%	6.58%	6.51%	6.49%	6.00%
Unallocated Retained Earnings/Assets	3.42%	3.39%	3.23%	3.25%	3.03%
Return on Assets	0.84%	0.91%	0.94%	0.92%	0.95%
Return on Equity	12.76%	13.31%	13.86%	13.68%	15.00%
Net Interest Margin[d]	1.05%	1.15%	1.25%	1.28%	1.22%
Operating Expense Ratio[e]	0.33%	0.32%	0.31%	0.31%	0.30%
Efficiency Ratio[f]	24.20%	22.20%	20.00%	20.14%	18.24%
Payout Ratio[g]	58.19%	54.61%	47.79%	53.76%	50.43%
Associations					
Total Assets	167,313,321	157,131,836	148,778,120	136,717,742	134,048,892
Gross Loan Volume	157,543,632	146,917,046	138,314,966	126,187,799	124,140,035
Nonaccrual Loans	1,141,679	1,456,381	1,932,706	2,353,352	2,744,528
Net Income	3,338,474	3,308,036	2,989,912	3,007,154	2,408,449
Nonperforming Loans/Gross Loans[b]	0.92%	1.17%	1.59%	2.03%	2.29%
Capital/Assets[c]	18.78%	18.50%	17.80%	17.84%	16.54%
Unallocated Retained Earnings/Assets	17.40%	17.27%	16.65%	16.78%	15.07%
Return on Assets	2.05%	2.14%	2.06%	2.24%	1.84%
Return on Equity	10.55%	11.34%	11.23%	12.42%	10.88%
Net Interest Margin[d]	2.75%	2.80%	2.83%	2.94%	2.79%
Operating Expense Ratio[e]	1.51%	1.48%	1.45%	1.43%	1.38%
Efficiency Ratio[f]	39.52%	37.14%	39.13%	31.27%	35.12%
Payout Ratio[g]	25.06%	25.42%	25.82%	22.57%	22.62%
Total Farm Credit System[h]					
Total Assets	282,844,000	260,782,000	246,664,000	230,411,000	229,973,000
Gross Loan Volume	217,054,000	201,060,000	191,904,000	174,664,000	175,351,000
Bonds and Notes	229,064,000	210,704,000	200,365,000	186,889,000	189,575,000
Nonperforming Loans	1,737,000	2,040,000	2,608,000	2,997,000	3,386,000
Nonaccrual Loans	1,375,000	1,736,000	2,300,000	2,738,000	3,229,000
Net Income	4,724,000	4,640,000	4,118,000	3,940,000	3,495,000
Nonperforming Loans/Gross Loans[b]	0.80%	1.01%	1.36%	1.72%	1.93%
Capital/Assets[c]	16.16%	16.34%	15.65%	15.60%	14.46%
Surplus/Assets	13.36%	13.44%	12.94%	12.90%	11.80%
Return on Assets	1.74%	1.84%	1.73%	1.71%	1.59%
Return on Equity	10.50%	11.28%	10.89%	11.17%	10.85%
Net Interest Margin[d]	2.64%	2.78%	2.87%	2.86%	2.82%

Sources: Farm Credit Administration's Consolidated Reporting System as of December 31, 2014, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

a. Includes Farm Credit Banks and the Agricultural Credit Bank.
b. Nonperforming loans are defined as nonaccrual loans, accruing restructured loans, and accrual loans 90 or more days past due.
c. Capital includes restricted capital (amount in Farm Credit Insurance Fund), excludes mandatorily redeemable preferred stock and protected borrower capital.
d. Net interest margin ratio measures net income produced by interest-earning assets, including the effect of loanable funds, and is a key indicator of loan pricing effectiveness.
e. Operating expenses divided by average gross loans, annualized.
f. The efficiency ratio measures total noninterest expenses for the preceding 12 months divided by net interest income plus noninterest income for the preceding 12 months.
g. The percentage of earnings paid out in dividends to shareholders. This ratio is only valid at year-end December 31.
h. Cannot be derived by adding the categories above because of intra-district and intra-System eliminations used in Reports to Investors.

Table 2

Farm Credit System Major Financial Indicators, by District

As of December 31, 2014

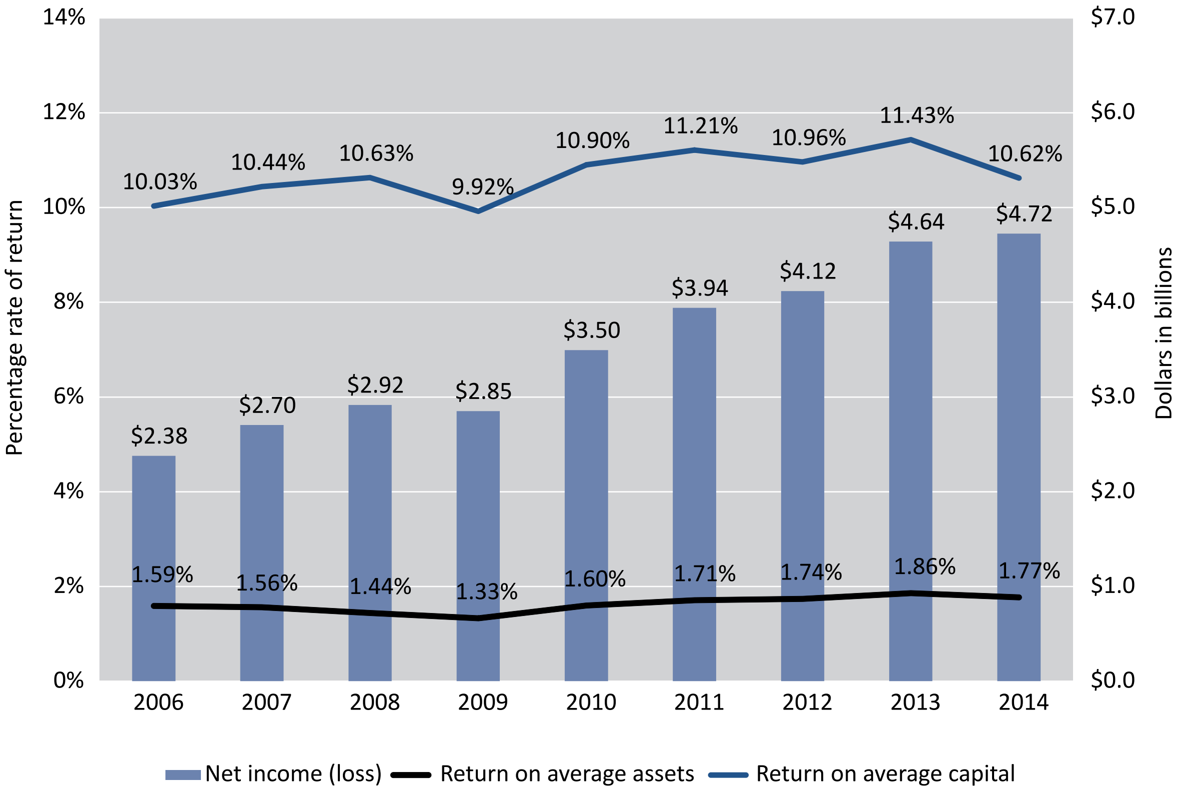
Dollars in Thousands

Farm Credit System Banks	Total Assets	Gross Loan Volume	Nonaccrual Loans	Allowance for Loan Losses	Cash and Marketable Investments[a]	Capital Stock[b]	Surplus[c]	Total Capital[d]	Operating Expense Ratio[e]
AgFirst	29,032,732	20,630,220	46,029	20,181	8,110,288	464,801	1,858,835	2,431,015	0.57%
AgriBank	90,489,117	74,869,690	38,748	11,706	15,149,318	2,157,868	2,725,734	4,880,758	0.15%
CoBank	101,624,422	75,638,203	111,664	407,197	25,027,330	3,673,242	3,398,431	7,061,398	0.38%
Texas	17,263,826	12,704,592	7,536	6,449	4,374,802	820,761	719,162	1,517,069	0.59%
Total	238,410,097	183,842,705	203,977	445,533	52,661,738	7,116,672	8,702,162	15,890,240	0.33%
Associations									
AgFirst	18,625,985	17,787,371	272,586	161,177	153,030	225,679	3,610,033	3,818,660	2.07%
AgriBank	82,975,469	77,309,477	492,607	226,466	1,820,602	338,939	14,854,485	15,193,424	1.31%
CoBank	45,374,520	42,868,829	312,971	298,480	290,791	1,448,769	8,134,601	9,529,972	1.41%
Texas	14,688,175	14,153,693	128,368	52,771	46,977	208,446	2,495,355	2,705,587	1.41%
Total	161,664,149	152,119,370	1,206,532	738,894	2,311,400	2,221,833	29,094,474	31,247,643	1.51%
Total Farm Credit System[f]	**282,844,000**	**217,054,000**	**1,375,000**	**1,237,000**	**57,839,000**	**1,676,000**	**37,775,000**	**45,706,000**	

Sources: Farm Credit System Call Report as of December 31, 2014, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

a. Includes accrued interest receivable on marketable investments.
b. Includes capital stock and participation certificates, excludes mandatorily redeemable preferred stock and protected borrower capital.
c. Includes allocated and unallocated surplus.
d. Includes capital stock, participation certificates, perpetual preferred stock, surplus, accumulated other comprehensive income. For the total Farm Credit System amount, total capital also includes $3.750 billion of restricted capital, which is the amount in the Farm Credit Insurance Fund. Excludes mandatorily redeemable preferred stock and protected borrower capital.
e. Operating expense per $100 of gross loans.
f. Cannot be derived by adding the categories above because of intradistrict and intra-System eliminations used in Reports to Investors.

Figure 1
FCS Net Income, 2006–2014
As of December 31



Sources: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Earnings

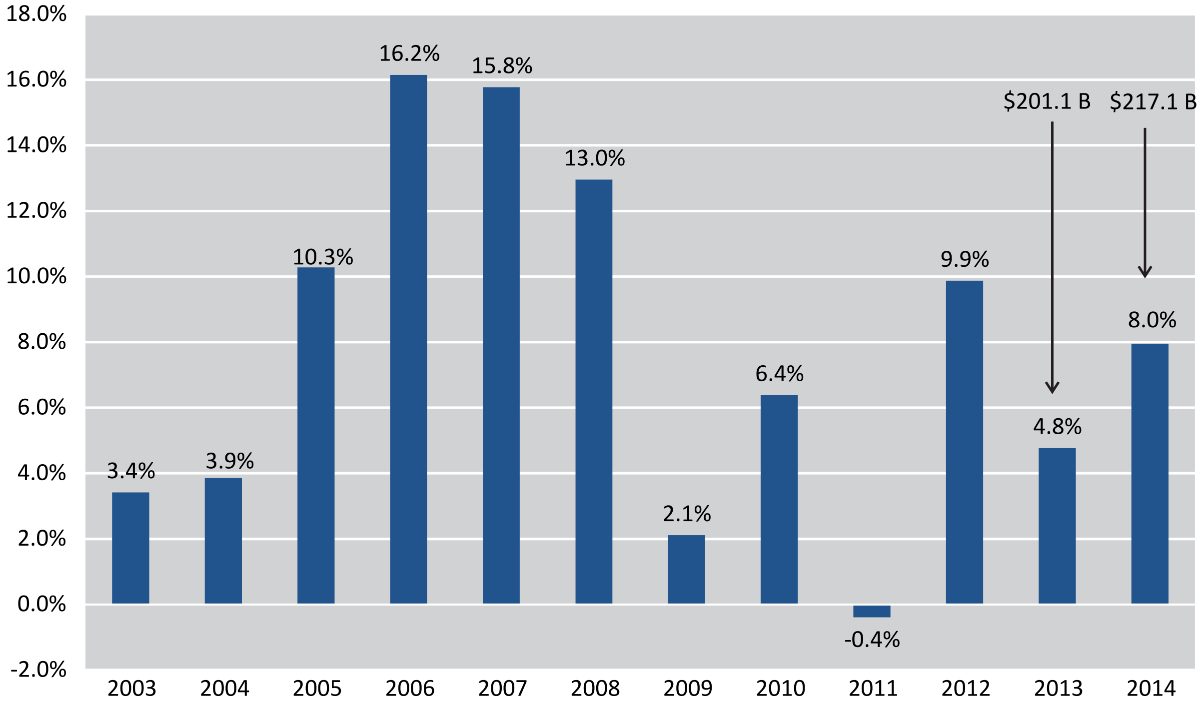
The System reported higher earnings in 2014. Net income was $4.72 billion, up 1.8 percent from 2013 (See figure 1). The increase in earnings was the result of gains in net interest income and noninterest income although these gains were partially offset by higher provisions for loan losses and higher noninterest expenses.

Net interest income increased by $130 million in 2014 as higher average earning asset balances offset the effect of lower net interest margins. Driven largely by growth in loan volume, average earning assets grew by $17.15 billion or 7.1 percent to $257 billion in 2014. Net interest margin decreased 14 basis points to 2.64 percent as a result of competitive pressures and loan volume re-pricing at lower rates. Return on average assets declined to 1.77 percent in 2014 from 1.86 percent in 2013, and the return on average capital decreased to 10.62 percent from 11.43 percent.

Credit risk in the FCS loan portfolio continues to be well managed. For 2014, the System recognized provisions for loan losses of $40 million compared with a loan loss reversal of $31 million in 2013 and provisions for loan losses of $313 million in 2012. Included in the 2014 provision for loan losses was an out-of-period adjustment of $47 million recorded by one association, with assets totaling just over $1 billion, related to its investigation of a sudden significant increase in delinquencies in a discrete portion of its loan portfolio.

As cooperative institutions, FCS banks and associations typically pass a portion of their earnings on to their borrower-owners as patronage distributions. For 2014, System institutions declared a total of $1.438 billion in patronage distributions—$1.051 billion in cash, $321 million in allocated retained earnings, and $66 million in stock. This represents 30 percent of the System's net income for 2014 as compared with 31 percent in 2013. Also in 2014, the System distributed $144 million in cash from patronage allocations of earlier years.

Figure 2
Annual Growth Rate of FCS Loans Outstanding, 2003–2014



Source: Federal Farm Credit Banks Funding Corporation, Annual Information Statements.

System Growth

The System reported moderately strong growth in 2014. Total assets increased to $282.8 billion, up $22.1 billion or 8.5 percent from 2013. Gross loan balances were $217.1 billion at year-end, up $16.0 billion or 8.0 percent from 2013 (see figure 2).

The growth in System loan balances was largely due to increases in agribusiness, real estate mortgage, and production and intermediate-term lending. Agribusiness lending was up $5.52 billion or 20.2 percent because of increased lending to food and agribusiness companies. A lesser factor contributing to the growth in agribusiness lending was the increase in grain inventory levels, which in turn increased seasonal demand for financing from marketing cooperatives.

Real estate mortgage loans, which, at 45.5 percent, represent the largest component of the System's loan portfolio, were up $4.49 billion or 4.8 percent. Production and intermediate-term lending increased $3.58 billion or 7.9 percent primarily because of seasonal financing needs and greater utilization of operating lines.

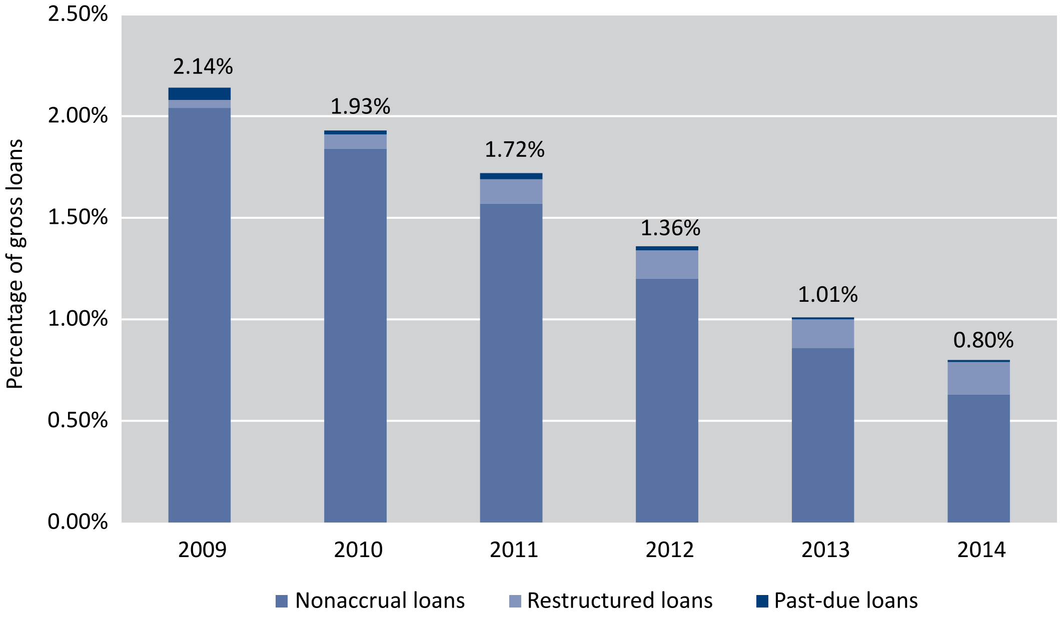
Asset Quality

In general, the quality of System loans remains very good. Credit quality for livestock, dairy, and poultry producers improved in 2014 because lower feed costs and favorable pricing led to strong profits. Certain other agricultural sectors, such as forestry and horticulture, are also slowly recovering as the U.S. economy continues to strengthen.

As of December 31, 2014, nonperforming loans totaled $1.7 billion, or 0.8 percent of gross loans, down from $2.0 billion or 1.01 percent of gross loans at year-end 2013 (see figure 3). Loan delinquencies (accruing loans that are 30 days or more past due) remained a low 0.23 percent of total accruing loans, unchanged from 2013.

The allowance for loan losses was $1.237 billion, or 0.57 percent of loans outstanding, at year-end 2014. This compares with an allowance for loan losses of $1.238 billion, or 0.62 percent of loans outstanding, at year-end 2013. Net loan charge-offs were up slightly from $62 million in 2013 to $68 million in 2014 but remained low in comparison with the $236 million in charge-offs in 2012.

Figure 3
FCS Nonperforming Loans, 2009–2014
As of December 31



Sources: Federal Farm Credit Banks Funding Corporation, Annual Information Statements.

Funding

Throughout 2014, the System had reliable access to the debt capital markets to support its mission, and investor demand for all System debt products remained favorable. Securities due within a year increased by 24.0 percent while securities with maturities greater than one year increased by 0.8 percent. In total, Systemwide debt increased by 8.7 percent.

The System's funding composition also changed. Securities due within a year accounted for 38.6 percent of total Systemwide debt compared with 33.8 percent a year ago. (See "Funding Activity in 2014" on page 35 for further discussion of the System's funding environment.)

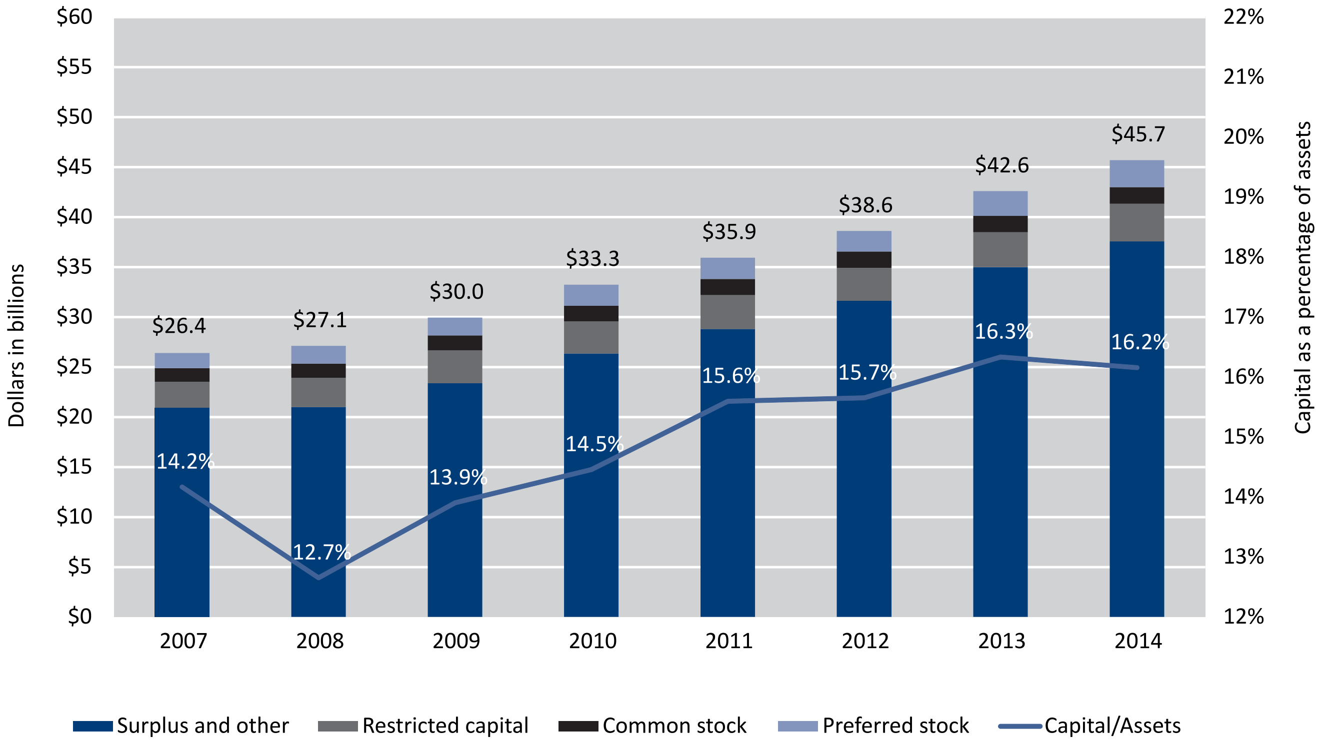
Liquidity

Each System bank maintains a liquidity reserve to ensure adequate liquidity to meet its business and financial needs, especially during unanticipated disruptions in the capital markets. As of December 31, 2014, the System's liquidity position equaled 173 days, down from 194 days at year-end 2013 but significantly above the 90-day regulatory minimum.

Investments available for sale (based on fair value) increased 14.0 percent to $49.2 billion in 2014, with a weighted average yield of 1.2 percent. Mission-related and other investments available for sale (based on fair value) decreased 18.9 percent to $383 million, with a weighted average yield of 2.64 percent. Mission-related and other investments held to maturity decreased 6.3 percent to $2.6 billion, with a weighted average yield of 3.2 percent.

Each System bank may hold Federal funds and available-for-sale securities in an amount not to exceed 35 percent of its average loans outstanding for the quarter. Criteria for eligible investments are defined by FCA regulations. If an investment no longer meets the eligibility criteria, it becomes ineligible for liquidity calculation purposes, but the bank may continue to hold the investment provided certain requirements are met.

Figure 4
FCS Capital, 2007–2014
As of December 31



Sources: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Capital

The System maintained a strong capital position in 2014. Total capital equaled $45.7 billion at December 31, 2014, compared with $42.6 billion at year-end 2013. The most significant contributing factor to the increase in capital was net income earned and retained. At year-end 2014, the System's capital-to-assets ratio was 16.2 percent, compared with 16.3 percent in 2013.

As figure 4 shows, surplus accounts for the vast majority of capital. FCA regulations establish the minimum capital requirements that each System bank and association must achieve and maintain.

As of December 31, 2014, the permanent capital ratios for all System banks and associations were above the regulatory minimum of 7.0 percent. The ratios ranged between 15.7 percent and 21.8 percent for System banks and between 12.9 percent and 35.7 percent for System associations. In addition, as of December 31, 2014, the FCS had $3.75 billion of restricted capital in the Farm Credit Insurance Fund.

Borrowers Served

The System fulfills its overall mission by lending to agriculture and rural America. Its lending authorities include the following:

- Long-term agricultural real estate loans and rural home loans
- Short- and intermediate-term agricultural loans
- Loans to producers and harvesters of aquatic products
- Loans to certain farmer-owned agricultural processing facilities and farm-related businesses
- Loans to farmer-owned agricultural cooperatives
- Loans that finance agricultural exports and imports
- Loans to rural utilities
- Limited portions of loans to entities that qualify under the System's similar-entity authority[6]

Nationwide, the System had $217 billion in gross loans outstanding as of December 31, 2014 (see table 3). Agricultural producers represented by far the largest borrower group, with $147.7 billion, or 68.1 percent, of the total dollar amount of loans outstanding.[7] As of December 31, 2014,

6. A similar-entity borrower is not eligible to borrow directly from an FCS institution, but because the similar-entity borrower's operation has a similar function to that of an eligible borrower, the System can participate in these loans (the participation interest must be less than 50 percent).
7. This amount includes real estate mortgage loans and production (short- and intermediate-term) loans, but excludes leases and loans to "rural homeowners" (as defined in 613.3030 of the FCA regulations).

45.5 percent of the dollar volume of the System's loans outstanding was in long-term real estate loans, 22.6 percent in short- and intermediate-term loans to agricultural producers, and 15.1 percent in agribusiness loans. Agribusiness loans are broken down further into 6.8 percent for loans to cooperatives, 6.7 percent for processing and marketing enterprises, and 1.6 percent for farm-related businesses.

Loans to finance rural utilities represented 9.8 percent of the System's loan volume, while rural residential loans made up 3.1 percent of the System's total loans. Agricultural export loans represented 2.1 percent of the System's loan portfolio, and lease receivables accounted for 1.4 percent of the overall portfolio. Finally, loans outstanding to "other financing institutions" (OFIs) represented a small but growing segment of the System's portfolio (see "System Funding for Other Lenders" below).

As required by law, borrowers own stock or participation certificates in System institutions. The FCS had nearly 1.262 million loans and nearly 503,000 stockholders in 2014. Approximately 85.0 percent of the stockholders were farmers or cooperatives with voting stock. The remaining 15.0 percent were nonvoting stockholders, including rural homeowners and other financing institutions that borrow from the System. Over the past five years, the number of System stockholders has increased gradually, rising 3.3 percent since year-end 2010.

Total loans outstanding at FCS banks and associations (net of intra-System lending) increased by $16 billion, or 8 percent, during the year that ended December 31, 2014. This compares with increases of 4.8 percent in 2013 and 9.9 percent in 2012, a decline of 0.4 percent in 2011, and an increase of 6.4 percent in 2010. Since year-end 2010, total System loans outstanding have increased by $41.7 billion, or 23.8 percent.

Table 3

FCS Gross Loans Outstanding, 2010–2014

As of December 31

Dollars in Millions

	2010	2011	2012	2013	2014	Percent change from 2010	Percent change from 2014
Production agriculture							
Long-term real estate mortgage loans	78,021	80,658	88,263	94,194	98,681	26.5%	4.8%
Short- and intermediate-term loans	40,584	41,276	43,861	45,412	48,991	20.7%	7.9%
Agribusiness loans[a]	29,581	24,734	27,090	27,242	32,758	10.7%	20.2%
Rural utility loans[b]	15,091	15,606	18,702	19,615	21,410	41.9%	9.2%
Rural residential loans	5,475	5,832	6,210	6,557	6,799	24.2%	3.7%
Agricultural export finance	4,036	3,834	4,674	4,588	4,571	13.3%	-0.4%
Lease receivables	2,021	2,139	2,415	2,706	2,976	47.3%	10.0%
Loans to other financing institutions	542	585	689	746	868	60.1%	16.4%
Total	**175,351**	**174,664**	**191,904**	**201,060**	**217,054**	**23.8**%	**8.0**%

Sources: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

a. At December 31, 2014, agribusiness loans consisted of $14.7 billion in loans to cooperatives, $14.6 billion in loans to processing and marketing operations, and $3.4 billion in loans to farm-related businesses.

b. At December 31, 2014, rural utility loans consisted of $16.4 billion in loans to energy and water/wastewater utilities and $5.0 billion in loans to communication utilities..

The increase in 2014 was driven by increases in real estate mortgage, production and intermediate-term, agribusiness, processing and marketing, and energy and communication loans. Real estate mortgage loans increased $4.5 billion, or 4.8 percent, primarily because of the continued demand for cropland. Short- and intermediate-term production loans also increased, going up $3.6 billion, or 7.9 percent, primarily because of advance purchases of 2015 inputs (such as fertilizer, seed, and fuel) for tax planning purposes and a greater utilization of operating lines of credit.

Loans to agribusiness cooperatives (which mostly include farm supply and grain marketing businesses) increased $3.2 billion or 27.5 percent during 2014, primarily as a result of increased lending to food and agribusiness companies and, to a lesser extent, higher levels of seasonal demand for financing from grain marketing cooperatives. Processing and marketing loans increased $1.9 billion or 14.7 percent during 2014, resulting primarily from advances on existing loans within certain industries.

Loans to energy and water or wastewater utilities increased by $904 million, or 5.8 percent, largely because of increased lending to electric distribution and power supply sectors. Communication loans increased $891 million or 21.5 percent during 2014 because of growth in lending to new and existing customers. The other categories also posted significant increases for the year; however, agricultural export loans once again fell slightly—by 0.4 percent from 2013.[8]

System Funding for Other Lenders

Other Financing Institutions

Under the Farm Credit Act, System banks may further serve the credit needs of rural America by providing funding and discounting services to certain non-System lending institutions described in our regulations as "other financing institutions." OFIs include the following:

- Commercial banks
- Savings institutions
- Credit unions
- Trust companies
- Agricultural credit corporations
- Other specified agricultural lenders that are significantly involved in lending to agricultural and aquatic producers and harvesters

System banks may fund and discount short- and intermediate-term loans for OFIs that demonstrate a need for additional funding to meet the credit needs of borrowers who are eligible to receive loans from the FCS. OFIs benefit by using the System as an additional source of liquidity for their own lending activities and by capitalizing on the System's expertise in agricultural lending.

As of December 31, 2014, the System served 24 OFIs, down from 26 in 2013, 2012, and 2011, and down from 28 in 2010 and 2009. Outstanding loan volume to OFIs was $868 million at year-end, up $122 million from 2013. OFI loan volume continues to be less than half of one percent of the System's loan portfolio. Over three-quarters of the System's OFI lending activity occurs in the AgriBank district.

Syndications and Loan Participations with Non-FCS Lenders

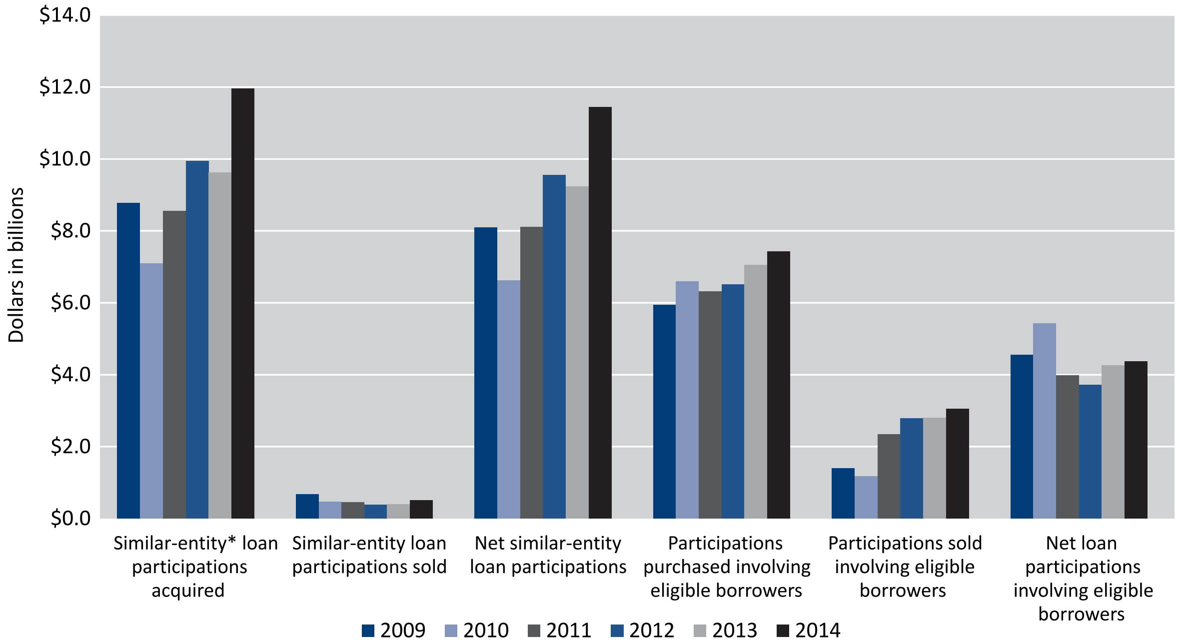
In addition to the authority to provide services to OFIs, the Farm Credit Act gives System banks and associations the authority to partner with financial institutions outside the System, including commercial banks, in making loans to agriculture and rural America. Generally, System institutions partner with these financial institutions through loan syndications and participations.

- A loan syndication (or "syndicated bank facility") is a large loan in which a group of financial institutions work together to provide funds for a borrower. Usually one financial institution takes the lead, acting as an agent for all syndicate members and serving as a liaison between them and the borrower. All syndicate members are known at the outset to the borrower.

- Loan participations are large loans in which two or more lenders share in providing loan funds to a borrower. One of the participating lenders originates,

8. A large portion of the System's agricultural export loan portfolio is guaranteed by the Commodity Credit Corporation through the U.S. Department of Agriculture's GSM-102 and GSM-103 export credit programs. Overall, 40 percent of the System's agricultural export finance transactions on December 31, 2014, carried a guarantee from the Commodity Credit Corporation.

Figure 5
Loan Participations with Non-System Lenders, 2009–2014
As of December 31



Sources: Farm Credit System Call Reports.

*A similar-entity borrower is not eligible to borrow directly from an FCS institution, but because the borrower's operation is similar in function to that of an eligible borrower, the System has authority to participate in some of these loans (the participation interest must be less than 50 percent).

services, and documents the loan. Generally, the borrower deals with the institution originating the loan and is not aware of the other participating institutions.

Financial institutions primarily use loan syndications and participations to reduce credit risk and to comply with lending limits. For example, a financial institution with a high concentration of production loans for a single commodity could use participations or syndications to diversify its loan portfolio, or it could use them to sell loans that are beyond its lending limit. However, institutions also use them to manage and optimize capital, earnings, and liquidity.

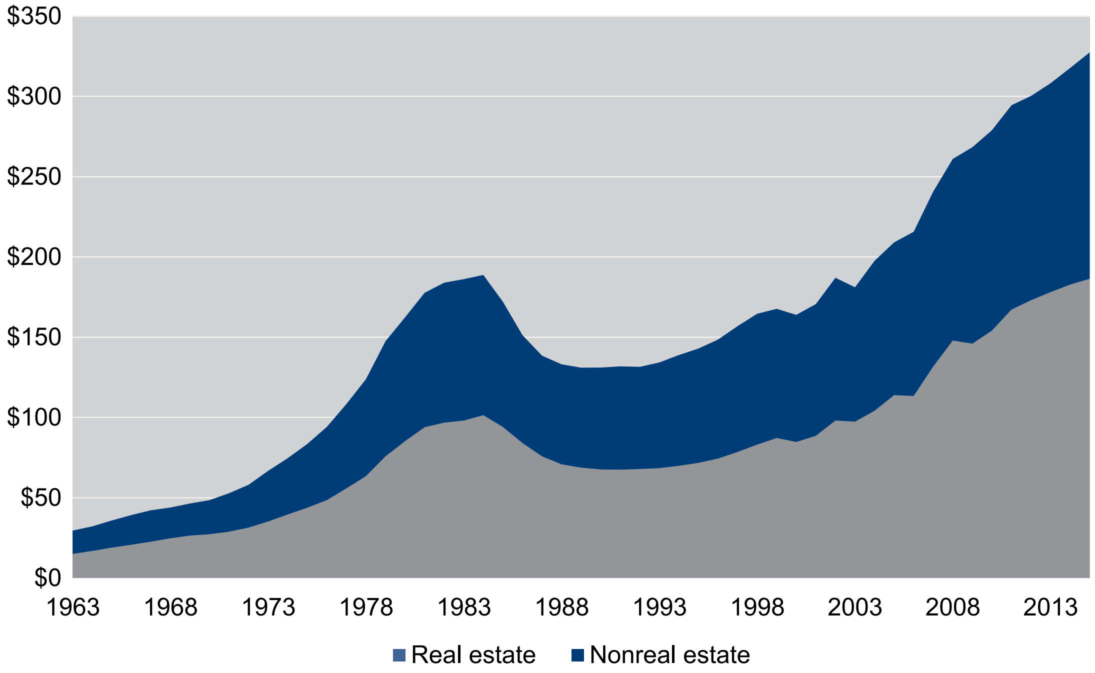
The System's gross loan syndication volume has grown by more than $2 billion over the past three years to $13.5 billion at year-end 2014. However, FCA's Call Report does not break out the portion that is associated with non-FCS institutions.

In addition to participating in loans to eligible borrowers, FCS institutions have the authority to work with non-System lenders that originate "similar-entity" loans. A similar-entity borrower is not eligible to borrow directly from an FCS institution, but because the borrower's operation is similar in function to that of an eligible borrower's operation, the System has authority to participate in the borrower's loans (the participation interest must be less than 50 percent).

The System had $11.4 billion in net similar-entity loan participations as of December 31, 2014, up from $9.2 billion the prior year. As figure 5 indicates, the volume of similar-entity participations that System institutions sell to non-System institutions is relatively small, amounting to half a billion dollars or less each year over the past four years.

However, the volume of eligible-borrower loan participations purchased from non-System lenders has been rising; it grew from $5.9 billion in 2009 to $7.4 billion in 2014. The volume of eligible-borrower loan participations sold to non-System lenders has also grown in recent years, rising from $1.4 billion in 2009 to $3.0 billion in 2014. Net eligible-borrower loan participations peaked in 2010 at $5.4 billion when sales of these participations were at a low point. At year-end 2014, the System had $4.4 billion in net loan participations involving eligible borrowers.

Figure 6
U.S. Farm Business Debt, 1963–2013
Dollars in Billions



Source: USDA, Economic Research Service.

AgDirect, LLP

AgDirect is a point-of-sale agricultural equipment financing program developed by Farm Credit Services of America, ACA, which is affiliated with AgriBank, FCB. AgDirect facilitates the financing or leasing of equipment for farmers and ranchers through participations in retail installment loans or leasing contracts originated by equipment dealerships. The program enhances financial options for customers and institutions, and provides a new revenue stream to AgDirect owners and AgriBank.

In 2014, FCA approved one additional investment by a System association, bringing the total number of institutions participating in AgDirect to 16. AgDirect financing is now available in many states. As of December 31, 2014, the total outstanding participation interests in loans purchased was nearly $3.0 billion.

Farm Debt and Market Shares

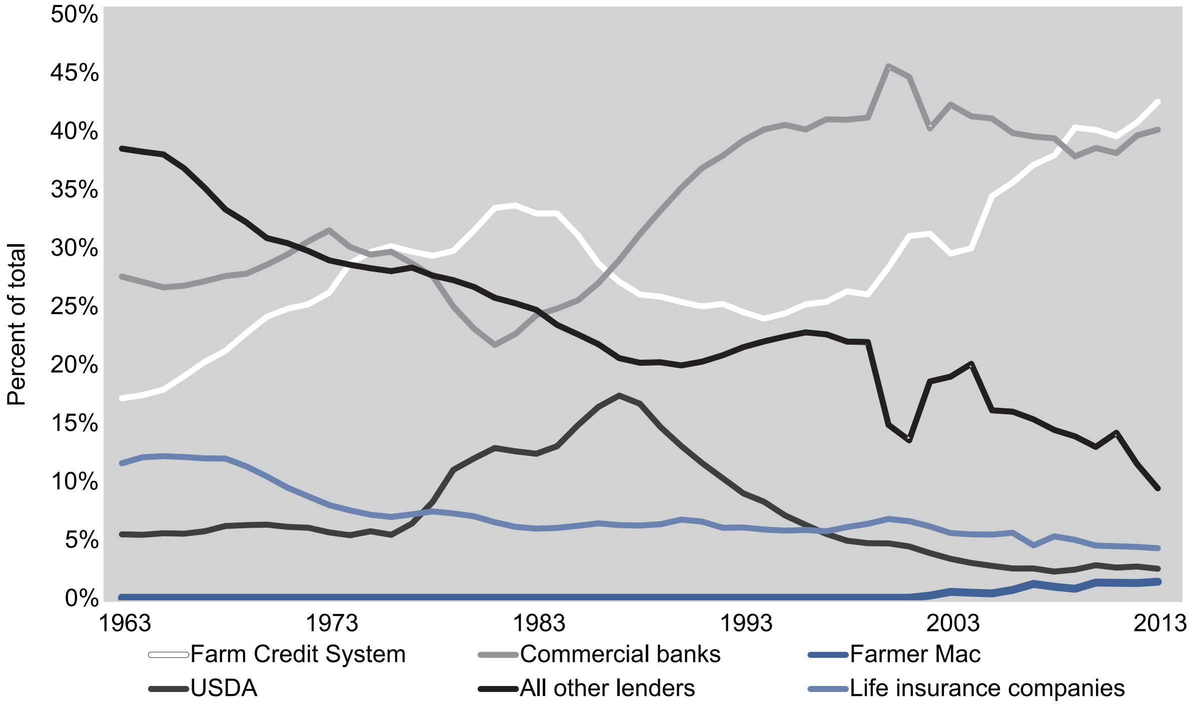
The U.S. Department of Agriculture's forecast of total farm business debt for the year ended December 31, 2014, was $318 billion, up 3 percent from its $308 billion estimate for year-end 2013. However, USDA's February farm debt estimates could be revised later in the year because subsequent farm loan data reported by the Farm Credit System and commercial banks show that their total farm loan portfolios grew by 5.8 percent and 8.5 percent, respectively, during 2014.[9]

The farm real estate debt portfolios of FCS institutions and commercial banks grew more slowly in 2014 as farm real estate markets cooled because of lower crop returns. Nonreal estate lending debt portfolios rose more quickly in 2014 because the need to finance annual production expenses grew and some producers continued to make capital purchases. Lower prices for major crops in 2014 discouraged crop producers from investing in equipment, farm structures, and farmland, but strong revenue gains in the livestock industry spurred more investment there.

USDA estimates that, from 2004 to 2014, total farm business debt rose by more than $120 billion or 61 percent (See figure 6). In inflation-adjusted dollars, this is a $72 billion increase

9. USDA calculates market share for farm business debt only (i.e., debt that is used for farm production and real estate purposes). The estimate for 2014 debt held by the various lender groups will be released in August 2015 estimate revisions. Market share information is not available for the other portions of the System's portfolio, such as agribusiness lending, rural utility lending, or rural home lending.

Figure 7
Estimated Market Shares of U.S. Farm Business Debt, 1963–2013



Source: USDA, Economic Research Service.

or a 32 percent increase. During this period of relative prosperity, farmers invested heavily in new capital items, and they needed more credit to cover rising farm production costs. Much of this new debt is owed by relatively few farms. Census of Agriculture data for 2012 shows that nearly two-thirds of farms reported no interest expense being paid that year, meaning they did not incur debt during that year. In contrast, just 9 percent of all U.S. farms accounted for more than two-thirds of the total farm interest that U.S. farm operators paid that year.

On the supply side, lenders had ample funds to lend in 2014 because demand for credit remained below their capacity to lend. Despite the competitive lending environment, credit underwriting practices remain relatively conservative. Indebted producers benefited from historically low farm loan interest rates throughout the year.

Even with the prospect for further erosion in crop revenues, demand for credit could be strong again in 2015 because of a relatively strong outlook for livestock incomes, an improving nonfarm economy, and a rising need to finance farm production expenses. A significant rise in farm interest rates during the year could also affect debt levels. A change in one or more of these factors could change the outlook for credit demand.

The most current market share information from USDA is for year-end 2013. USDA's estimate of debt by lender shows that the System held 42.5 percent of total farm business debt, while commercial banks held 40.1 percent (see figure 7). In recent years, the System's market share for farm business debt has grown more than the commercial banks' share.

Except for brief periods, the FCS has typically had the largest market share of farm business debt secured by real estate. At year-end 2013, the System held 48.7 percent of this debt, compared with 33.9 percent for commercial banks. Commercial banks have historically dominated non-real estate farm lending—the market share of commercial banks in this category increased to 48.5 percent at the end of 2013, while the System's share increased to 33.9 percent.

Serving Young, Beginning, and Small Farmers and Ranchers

The Farm Credit Act requires Farm Credit System banks and associations to have programs to provide financially sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers. Loans to YBS borrowers can help individuals enter the agriculture industry, and they can help smooth the transition of farm businesses from one generation to the next. They also allow System institutions to serve a more diversified customer base—from very small to very large operations, from producers of grain staples for export to producers of organic foods for local and regional food markets.

At FCA, we are strongly committed to ensuring that the System fulfills its responsibility to serve all creditworthy producers, including those who are young, beginning, or small. We support the YBS mission through our regulatory activities, data collection and reporting, disclosure requirements, and examination activities.

We define young farmers as those who are 35 years of age or younger, beginning farmers as those who have 10 years or less of experience at farming or ranching, and small farmers as those who normally have gross annual sales of less than $250,000. These criteria apply to the date on which a loan is made.

Characteristics of YBS Producers

Generally, the shares of Systemwide total farm lending going to the three separate YBS categories have been consistent with the shares of these farmer segments in the total farmer population. The smallest share of total System farm lending goes to the young farmer segment, and the largest share goes to the small farmer segment. Before we discuss the System's lending to YBS borrowers, let's look at some trends in these categories.

Young

The rising average age of principal farm operators (from 50.3 years in 1982 to 58.3 years in 2012) has led to concerns about aging farmers and the ability of young farmers to enter agriculture. There are a number of likely explanations for the increase in the average age of farmers. In general, people are living longer lives. Also, advances in technologies have reduced the physical requirements of the profession, allowing farmers to work longer. Other factors include demographic trends within society, such as an aging baby boomer generation.

According to the 2012 Census of Agriculture, less than 6 percent of all principal farm operators and just over 8 percent of all operators (primary, secondary, and tertiary operators) were under 35 years of age in 2012.[10] These percentages have held relatively constant from 2002 to 2012. Demographic data generally show the age trends of U.S. farmers to be consistent with age trends among other U.S. business owners and within the U.S. workforce and the general population. In other words, the share of those under 35 within these populations has been relatively stable over the past decade, while median or average ages have generally been rising.

Beginning

The Census of Agriculture data show a steady decline in the share of principal farm operators who have been on their farms for less than 10 years. Of the 2.1 million principal operators in 2012, 22 percent had been on their farms for less than 10 years. Thirty years ago, that percentage was much higher: 38 percent of all principal operators in 1982 had been on their farms for less than 10 years.

In 2012, the Ag Census also asked about total years of farm experience, regardless of whether those years were associated with the current farming operation. These data indicate that 18 percent of principal operators and 22 percent of all operators had less than 10 years of farming experience. These percentages may be lower because some operators started their careers as employees of other farming operations or began by working on their families' operations.

10. FCA's definitions of a young farmer and a beginning farmer differ slightly from the Ag Census measures. See the note below table 4B.

Small

U.S. farms have been consolidating for generations as new technologies have increased productivity and reduced the number of farmers needed. From 1982 to 2012, the share of total farms considered to be small farms—those with $250,000 or less in farm sales—declined from 96 percent to 88 percent. Commodity price inflation, particularly since the mid-2000s, has contributed to this decline, with total farm revenues and average sales per farm nearly doubling.

Because of their great diversity, the 1.9 million small farms in the United States are difficult to characterize. Many small farmers report little, if any, in farm sales, and many consider themselves to be retired or semiretired from their farming operations. In 2012, 600,000 farms, or 28 percent of all farms, generated less than $1,000 in farm sales that year. Small farms such as these typically have negative farm incomes and small amounts of farm debts.

Those who operate small farms generally seek credit for consumer, rather than farm, products. Within this large segment are farming operations that are growing in size or producing higher-margin agricultural products for local markets, often on a seasonal basis.

FCS Lending to YBS Borrowers

The Farm Credit Act stipulates that each System bank must have written policies that direct each association board to have a program for furnishing sound and constructive credit and financially related services to YBS borrowers. Associations must also coordinate with other Government and private sources of credit in implementing their YBS programs. In addition, each institution must report yearly on the lending volume, operations, and achievements of its YBS program. (See the YBS Programs section on page 30.)

FCA regulations require each System lender's YBS program to include a mission statement that describes the program's objectives and specific means to achieve the objectives. The regulations also require each program to include annual quantitative targets for credit to YBS producers; these targets should be based on reliable demographic data for the institution's lending territory. YBS programs must also include outreach efforts and annual qualitative goals for offering credit and related services that are responsive to the needs of YBS farmers.

The association's board oversight and reporting are integral parts of each YBS program. Each association's operational and strategic business plan must include the goals and targets for YBS lending. And each association must have an internal control program to manage the YBS program; it must also have methods in place to ensure that credit is provided in a safe and sound manner and within the lender's risk-bearing capacity.

FCA's oversight and examination activities encourage System institutions to assess their performance and market penetration in the YBS area. This self-assessment increases each institution's awareness of its mission and prompts it to earmark resources to serve the YBS market segment. In addition, we continuously consider ways to support and strengthen the System's YBS programs. For example, we issued an Informational Memorandum to System associations in 2014 to outline ways they can enhance their service to YBS producers through loan programs provided by USDA's Farm Service Agency.

YBS information is reported separately to FCA for each of the three borrower categories because the YBS mission and statutory guidance are focused on each borrower group separately. Also, loans cannot be added across categories because some loans belong in more than one category. If, for example, a borrower is less than 35 years old, sells less than $250,000 in farm products per year, and has farmed for less than 10 years, the borrower's loan would be included in each category. Therefore, adding the categories together would produce a misleading measurement of the System's YBS lending involvement.

Table 4A

YBS Loans Outstanding

As of December 31, 2014

	Number of loans	Percentage of total number of System farm loans	Dollar volume of loans in millions	Percentage of total volume of System farm loans	Average loan size
Young farmers/ranchers	**181,736**	**17.9**	**$25,542**	**11.2**	**$140,542**
Beginning farmers/ranchers	**263,277**	**26.0**	**$38,986**	**17.1**	**$148,079**
Small farmers/ranchers	**490,425**	**48.4**	**$45,673**	**20.0**	**$93,129**

Table 4B

YBS Loans Made During 2014

As of December 31

	Number of loans	Percentage of total number of System farm loans	Dollar volume of loans in millions	Percentage of total volume of System farm loans	Average loan size
Young farmers/ranchers	**59,145**	**16.9**	**$8,729**	**11.3**	**$147,587**
Beginning farmers/ranchers	**74,099**	**21.2**	**$11,358**	**14.8**	**$153,280**
Small farmers/ranchers	**140,608**	**40.2**	**$10,737**	**13.9**	**$76,359**

Sources: Annual Young, Beginning, and Small Farmer Reports submitted by each System lender through the Farm Credit banks.

Note: A "young" farmer/rancher is defined as 35 years old or younger when the loan is made; a "beginning" farmer/rancher has been operating a farm for not more than 10 years; and a "small" farmer/rancher generates less than $250,000 in annual sales of agricultural or aquatic products. Since the totals are not mutually exclusive, one cannot add across young, beginning, and small categories to count total YBS lending. Also, the totals listed in tables 4A and 4B include loans, advancements, and commitments to farmers, ranchers, and aquatic producers, and exclude rural home loans, loans to cooperatives, and activities of the Farm Credit Leasing Services Corporation. In 2014, the Farm Credit System made 349,353 new farm loans, totalling $76.984 billion. As of December 31, the System had 1,012,793 farm loans outstanding, amounting to $228.589 billion.

System's YBS Lending in 2014[11]

The number and volume of loans made during the year is an indicator of the extent to which System institutions are serving YBS producers. Table 4A contains information on loans made in each category during the year; table 4B provides information on loans outstanding at the end of 2014. Loans and commitments to YBS farmers include real estate mortgages and production and intermediate-term credits, but do not include rural home loans.

Relative to 2013, the dollar volume of new loans made and the number new loans made in 2014 to young and beginning farmers rose, while the dollar volume and number of loans made to small farmers declined.[12] The number and dollar volume of loans outstanding in all three YBS categories increased in 2014 from those of 2013.

Young—The System made 59,145 loans, amounting to $8.7 billion, to young farmers in 2014. The dollar volume and the number of new loans made to young farmers rose 5.0 percent and 2.0 percent from 2013, respectively. The average size of a new young farmer loan increased 2.9 percent in 2014 to $147,587.

Beginning—The System made 74,099 loans, amounting to $11.4 billion, to beginning farmers in 2014. The dollar volume and the number of new loans made to beginning farmers rose 3.2 percent and 1.8 percent from 2013, respectively. The average size of a new beginning farmer loan increased 1.3 percent in 2014 to $153,280.

Small—FCS institutions made 140,608 loans, totaling $10.7 billion, to small farmers in 2014. The dollar volume and number of new loans made fell 5.2 percent and 1.4 percent, respectively. Because of the larger drop in loan volume, the average size of a new small farmer loan fell 4.0 percent to $76,359.

Comparing the System's YBS Lending with Overall Lending

In 2014, the pace of new lending to young and beginning farmers exceeded the pace in overall System lending to farmers.[13] Therefore, the share of new total System farm loan volume made to these two YBS categories rose slightly from that of 2013 (see figures 8A and 8B). The percentage of the total dollar volume of System farm loans that went to young borrowers increased to 11.3 percent, while the percentage that went to beginning farmers increased to 14.8 percent.

In recent years, the total share of new System farm loan volume made to young and beginning borrowers has been relatively stable. This is particularly true for young borrowers, whose share has been around 11 percent since 2001. The share to beginning farmers dipped during the last recession but has recovered somewhat recently.

The decline in new small farmer lending volume in 2014 caused a decline in the share of total System farm loan volume that was made to these borrowers (see figure 8C). The share of total System farm loan volume to these borrowers has been declining since 2003. The loans made in 2014 to farmers in this category accounted for 13.9 percent of the total dollar volume, down from 15.0 percent in 2013.

Reasons for the downward trend in the small farmers' share of the System's total lending volume include the growth in farm incomes and the rise in the credit needs of larger farms since the mid-2000s. From 2005 to 2014, gross cash farm income rose from $280 billion to an estimated $407 billion—a 45 percent increase. As a result, more farms now have gross farm sales in excess of $250,000 and therefore no longer qualify as small farms.

Assessing YBS Results for Individual Associations

Factors Affecting Results from One Institution to the Next

The results for individual associations reflect farmer demographics in each institution's territory and the strength of each institution's YBS program. Differences between farmer demographics make comparisons among individual associations difficult. For example, one institution's territory may have a larger

11. System data on service to YBS farmers and ranchers cover the calendar year and are reported at year-end. The statistics show loans made during the year (both number of loans and dollar volume of loans), as well as loans outstanding at year-end (both number and dollar volume). The volume measure includes loan commitments to borrowers, which typically exceed actual loan advances. Borrowers may have more than one loan; thus the loan numbers reported here do not directly measure the number of borrowers.
12. The loan number and dollar volume data for 2013 were revised slightly after FCA's 2013 Annual Report on the Farm Credit System was issued last year.
13. The volume of all System farm loans made (including commitments) during the year was $77 billion, up 1.8 percent from 2013. However, the total number of farm loans made in 2014 (349,353) was down 1.4 percent from 2013.

Figures 8A, 8B, and 8C

Loans Made to, and Loans Outstanding for, YBS Farmers and Ranchers, 2001–2014

As of December 31

Figure 8A

Young Farmers and Ranchers

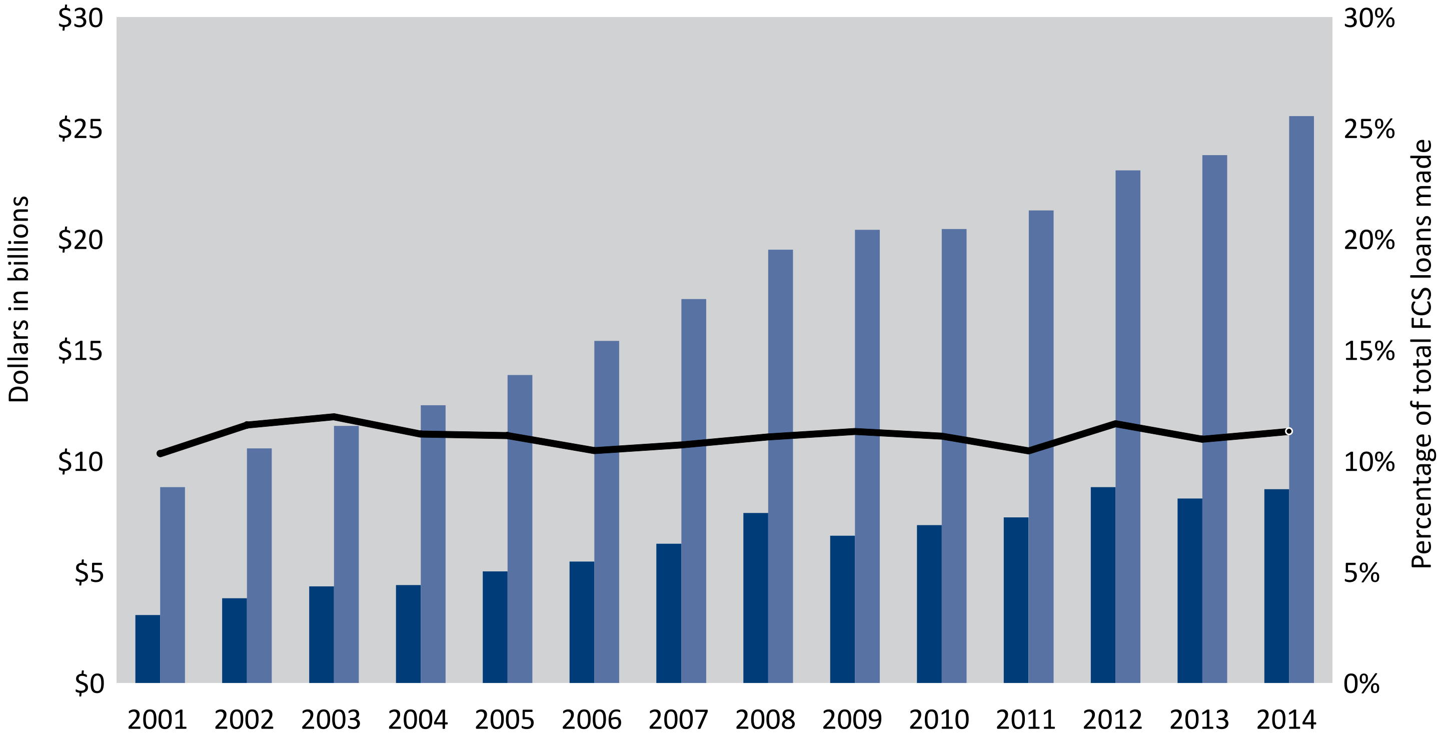


Figure 8B

Beginning Farmers and Ranchers

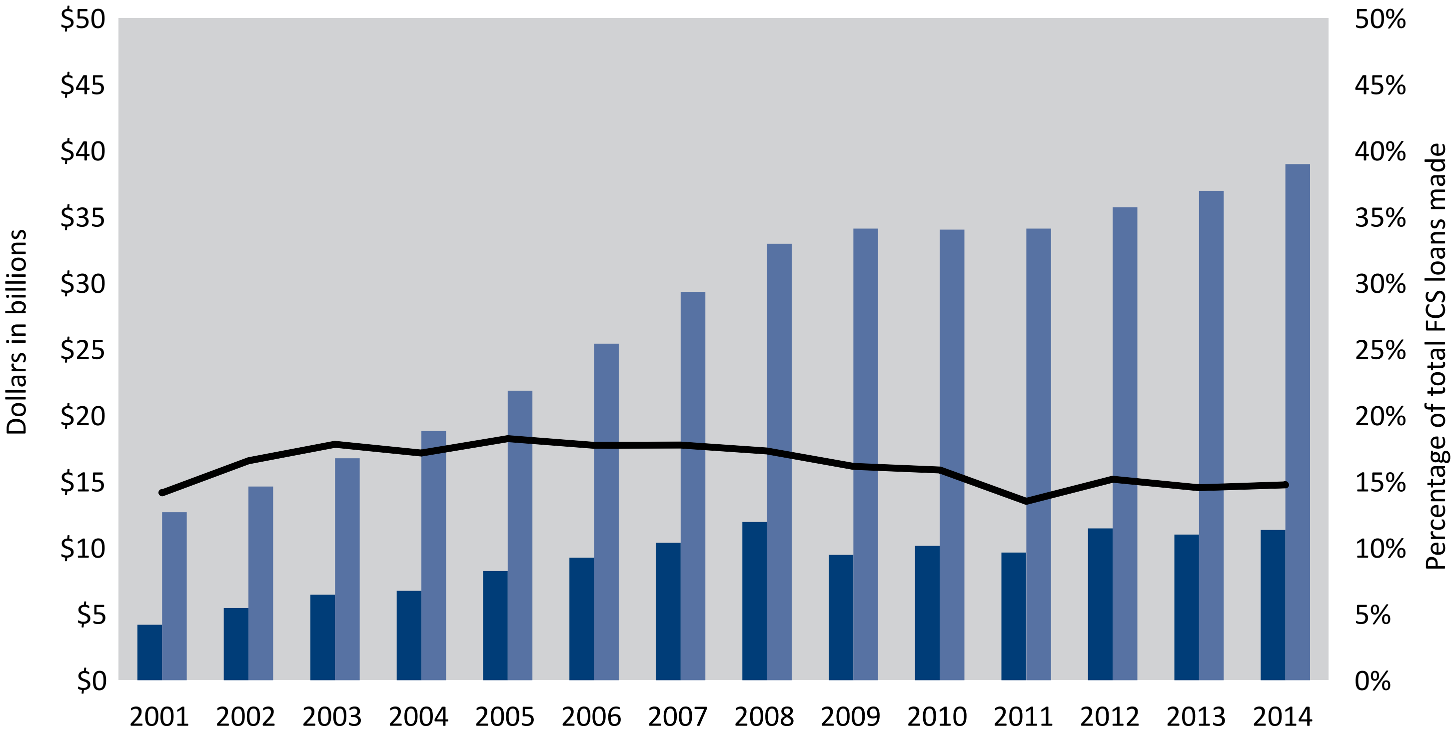
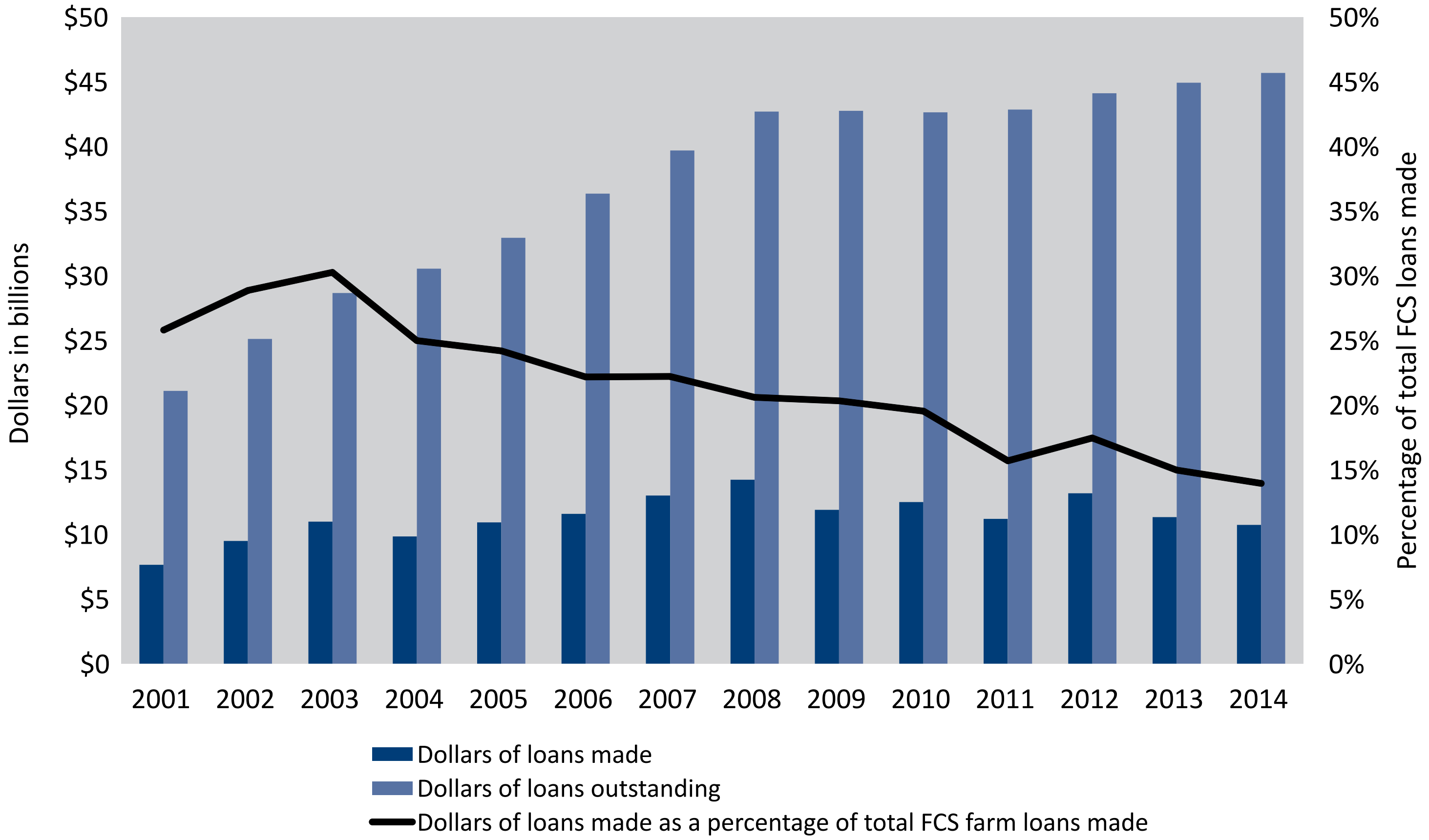


Figure 8C
Small Farmers and Ranchers



population of beginning farmers than another institution's territory. That is why YBS regulations do not specify fixed goals but, instead, require individual institutions to set YBS targets that are appropriate for their lending territories. Other factors—such as the competitiveness of the local lending market and local economic conditions—can also affect YBS results for individual associations.

Individual YBS Results Versus the System's Average YBS Results

As a result of the factors described above, YBS lending varies considerably across FCS associations. Some institutions may have a high number or dollar volume of loans in one category and be low in another, while activity levels for other institutions may be just the opposite. Activity can vary considerably from one year to the next, especially for institutions with a small lending base. Outstanding volumes and loan numbers are more stable from one year to the next, especially for larger institutions.

While the share of total outstanding System farm loans to young farmers was 18 percent, this share ranged from 5 percent to 25 percent at individual associations. The ranges in the share of total outstanding loans to beginning farmers were even greater. Whereas 26 percent of the System's total farm loans outstanding were to beginning farmers in 2014, this share ranged across associations from as little as 12 percent to as much as 64 percent.

The ranges for the small farmer category are greater still. In 2014, 48 percent of the System's total farm loans outstanding went to small farmers, but the percentage for individual associations ranged from less than 13 percent to more than 85 percent. For this YBS category, almost half of all associations had lending shares that exceeded the Systemwide average.

With the general increase in loan numbers and loan volume to young and beginning customers, most associations experienced gains in the share of their total farm lending to these groups. For example, the share of total loans and total volumes made in 2014 to young and beginning farmers rose in nearly two-thirds of the associations. And even though new small farmer lending as a share of total farm lending was down Systemwide in 2014, it actually grew in nearly half of the associations.

YBS Programs

Delivering Credit Services

As a Government-sponsored enterprise with a statutory YBS mandate, the FCS is in a unique position to assist the next generation of American farmers, and System institutions have developed and cultivated YBS programs to provide this assistance.

Using these programs, System associations may offer lower interest rates and less stringent underwriting standards, such as higher loan-to-value ratios or lower debt coverage requirements, to allow potential YBS borrowers to qualify for loans. Associations also offer training through their YBS programs to help these borrowers be successful.

In 2014, System institutions used the following methods to help them make loans to young, beginning, or small farmers.

- **Interest rate concessions—**offered by 53 percent of associations to young farmers, by 55 percent to beginning farmers, and by 47 percent to small farmers. These percentages were about the same in 2013
- **Exceptions to underwriting standards—**offered to young and beginning farmers by 60 percent of associations and to small farmers by 53 percent. These percentages were unchanged from 2013
- **Concessionary loan fees—**offered to young and beginning farmers by 40 percent and by 34 percent of associations to small farmers. All of these percentages increased slightly from 2013
- **Specifically designed loan covenants—**offered to young and beginning farmers by 17 percent of associations and by 14 percent to small farmers. These percentages were about the same in 2013
- **Extended repayment terms—**offered to young and beginning farmers by 17 percent and by 14 percent of associations to small farmers in 2014

As required by the Farm Credit Act, System institutions coordinate their YBS programs with other Government programs whenever possible. Several State and Federal programs provide interest rate reductions, guarantees, or loan participations for YBS borrowers. By partnering with these Government programs, FCS institutions are able to better mitigate the credit risk to these borrowers.

In 2014, 26 percent of System institutions used Government loan participations for loans to young and beginning borrowers, and 21 percent used these participations for loans to borrowers in the small category. Also, System institutions continued to use guarantee programs from Federal, State, and local sources for YBS lending. About three-fourths of associations indicated they had obtained loan guarantees for YBS loans made in 2014, up from two-thirds of associations in 2013.

YBS Program Management

FCS institutions are using various approaches and sources of information to more effectively manage and assess their YBS programs. They continued to develop mission statements that describe program objectives and quantitative measures for achieving those objectives.

Over the past five years, 20 institutions have modified their YBS mission statements. Modifications include adding references to outreach towards diversity and inclusion using demographics, geography, and types of agriculture practiced; the goal is to ensure that the institutions reach out to all creditworthy farmers who meet YBS criteria. Associations primarily measure their performance by goals in loan volume and the number of loans made each year.

Many associations used advisory committees composed of a variety of stakeholders—both internal and external. YBS advisory committees were used by 43 percent of all associations, up 2 percentage points from 2013. In 2014, these stakeholders consisted of the following:

- Current YBS borrowers (36 percent)
- Potential YBS borrowers (20 percent)
- Association board members (22 percent)
- Government organizations (10 percent)
- Representatives from other ag-related groups and organizations (20 percent)

Of the associations with YBS advisory committees, approximately 60 percent of them used these committees to provide input to their board members more frequently than annually.

FCS institutions continued to provide training to staff on their YBS programs. In 2014 and 2013, 88 percent of associations provided training at least annually. In addition, more associations now link YBS performance criteria to the performance evaluations of management and lending staff. The percentage of institutions that do so increased from 33 percent in 2013 to 39 percent in 2014.

Training, Outreach, and Other Services

System institutions offer many opportunities to educate existing and potential YBS borrowers. System associations offer online training programs for YBS farmers, which in some cases include mentoring. Associations coordinate with state and national agricultural organizations and educational centers to offer training and, in some cases, to provide funding to allow YBS borrowers to attend training.

Examples of training opportunities provided by System associations include the following:

- Next Generation Program
- AgLeadership Institute
- Emerging Entrepreneurs' Conference
- Ag Biz Planner
- Farm Credit University
- Young Farmer and Rancher Executive Institute

In 2014, System associations continued to market to potential YBS borrowers. Many associations attended or helped sponsor local trade shows, fairs, and training workshops specifically targeting YBS borrowers, including local/regional YBS food producers and supporters of local food systems.

Associations also continue to conduct outreach and marketing activities in partnership with state or national young farmer groups, colleges of agriculture, land-grant extensions, state or national cooperative association leadership programs, and local chapters of 4-H and of the National FFA Organization. In addition, many FCS associations provide financial support for college scholarships and for FFA, 4-H, and other agricultural organizations.

Regulatory Policy and Approvals

As the regulator of the Farm Credit System, we issue regulations, policy statements, and other guidance to ensure that the System, including its banks, associations, Farmer Mac, and other related entities, complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission. Our regulatory philosophy is to provide a regulatory environment that enables the System to safely and soundly offer high-quality, reasonably priced credit and related services to farmers and ranchers, agricultural cooperatives, rural residents, and other entities on which farming depends.

We strive to develop balanced, well-reasoned regulations whose benefits outweigh their costs. With our regulations, we seek to meet two general objectives. The first is to enhance the System's relevance in the marketplace and in rural America while ensuring that System institutions comply with the law and with the principles of safety and soundness. The second is to promote participation by member-borrowers in the management, control, and ownership of their System institutions.

Regulatory Activity in 2014

The following paragraphs describe some of FCA's regulatory efforts in 2014, along with several projects that will remain active in 2015. Full text for the items below is available on the FCA website.

To access Board Policy Statements, FCA Bookletters, and Informational Memorandums, go to www.fca.gov/law/guidance.html. To access proposed rules and final rules whose effective dates are pending, go to www.fca.gov, under the Law & Regulations tab select FCA Regulations, then from the menu on the left select FCA Pending Regulations and Notices.

Governance

Advisory Vote—The FCA Board adopted an interim final rule in March 2014 and a final rule in June to remove requirements for a nonbinding, advisory vote on compensation for an institution's chief executive officer or other senior officers. Adoption of this rule effectively addressed the petition from the Farm Credit System requesting FCA to repeal the advisory voting rule.

Standards of Conduct—The FCA Board approved a proposed rule in January 2014 that would modify the standards-of-conduct regulations to clarify the rules, strengthen responsibility and accountability, require System institutions to establish a Code of Ethics, and enhance the role of the standards-of-conduct official.

Mergers, Consolidations, and Charter Amendments—The FCA Board approved a proposed rule in December 2014 to amend the regulations pertaining to mergers, consolidations and charter amendments of System banks and associations. The amendments would clarify processes and incorporate existing practices into the rule.

Pension Benefits Disclosure—The FCA Board approved a proposed rule in October 2014 and a final rule in February 2015 to amend the rules for the disclosure requirement regarding the summary compensation table. The amendment would exclude certain employees and their associated compensation amounts from the reporting requirement.

Institution Stockholder Voting Procedure—The FCA Board approved a proposed rule in August 2014 to clarify and enhance voting procedures related to the tabulation of votes, the use of teller committees, and the handling of ballots.

Farm Credit System Operating Expenses—We issued an Informational Memorandum in July 2014 to System institutions to provide guidance on the importance to safety and soundness of properly managing operating expenses.

Cybersecurity Framework and Other Recent Guidance—We issued an Informational Memorandum to System institutions in December 2014 to ensure that they are aware of best practices and recent guidance for managing cybersecurity risk. All System institutions should be taking appropriate actions to monitor and maintain awareness of cybersecurity threats and vulnerabilities.

Portfolio Management in Volatile Times—We issued an Informational Memorandum to System institutions in January 2015 to discuss emerging risks and areas we will be examining to determine how institutions are responding to the volatile environment.

Guidelines for Requesting Certificates of Good Standing, Authenticity, and Merger or Consolidation—We issued an Informational Memorandum in January 2014 to System institutions providing guidelines for requesting certificates. The document describes the types of certificates we issue and explains how to submit requests.

Compensation for 2015—We issued an Informational Memorandum in February 2015 to communicate the annual adjustment in the maximum annual compensation payable to FCS bank directors. The adjustment reflects the change in the Consumer Price Index.

Lending

Flood Insurance—The FCA Board approved a proposed rule in November 2014 to require System institutions to escrow premiums and fees for flood insurance for any loan secured by residential improved real estate or a mobile home. The amendments also addressed forced placement of insurance and detached structures.

Lending, Training, and Outreach Opportunities with the Farm Service Agency—We issued an Informational Memorandum to System institutions in November 2014 to provide information on lending, training, and outreach opportunities available through the Farm Service Agency of the U.S. Department of Agriculture. These opportunities may benefit an institution when trying to reach a broader segment of the agricultural community.

Social Media: Consumer Compliance Risk Management Guidance—We issued an Informational Memorandum in April 2014 on the applicability of Federal consumer protection and compliance laws, regulations, and policies to activities conducted via social media.

Increased Maximum Flood Insurance Coverage for Other Residential Buildings—We issued an Informational Memorandum in May 2014 to notify System institutions of the coverage increase and to provide them with a copy of the "Interagency Statement on Increased Maximum Flood Insurance Coverage for Other Residential Buildings."

Loan Syndications and Assignment Markets Study—We continued to study loan syndications and assignment markets to determine whether our regulations should be modified to reflect significant changes in the markets.

Capital and Investments

Capital Requirements—The FCA Board approved a proposed rule in May 2014 to modify the regulatory capital requirements for System banks and associations. The purpose of the rule is to modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a Government-sponsored enterprise. The rule would ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the Federal banking regulatory agencies have adopted, but would also recognize the cooperative structure and the organization of the System.

Margin and Capital Requirements for Noncleared Swaps—The FCA Board approved an interagency proposed rule in August 2014 that would establish margin and capital requirements for FCS institutions, including Farmer Mac, that engage in noncleared swaps and noncleared security-based swap transactions. The rulemaking would fulfill a requirement of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Investment Eligibility—The FCA Board approved a proposed rule in July 2014 to amend the regulations regarding investment eligibility for System institutions.

Farmer Mac

Farmer Mac Board Governance and Standards of Conduct—The FCA Board approved an advance notice of proposed rulemaking in February 2014 to solicit comments on possible regulatory changes related to board governance and standards of conduct at Farmer Mac. Then, in February 2015, the Board approved a proposed rule that would enhance existing regulations on Farmer Mac board governance and standards of conduct, including director election procedures and conflicts of interest.

Other

National Oversight and Examination Program for 2015—We issued an Informational Memorandum in September 2014 that summarized the National Oversight Plan for 2015. The plan detailed strategies for addressing critical risks and other areas of focus in the System.

Regulatory Burden, Final Notice—The FCA Board approved a final notice in July 2014 to respond publicly to comments we received from the 2013 Regulatory Burden Solicitation.

Corporate Activity in 2014

In 2014 and early 2015, we analyzed and approved six corporate applications.

- On January 1, 2014, two ACAs affiliated with CoBank, ACB, merged their operations following stockholder approval. The PCA and FLCA subsidiaries associated with the ACAs also merged.
- On January 1, 2014, four ACAs affiliated with the Farm Credit Bank of Texas, merged their operations into two continuing ACAs following stockholder approval. The PCA and FLCA subsidiaries associated with the ACAs also merged.
- On January 1, 2014, a FLCA and an ACA affiliated with CoBank, ACB, merged their operations following stockholder approval. In addition, the names of the continuing ACA and its subsidiaries were changed.
- On January 1, 2014, an ACA affiliated with AgriBank, FCB, changed its name. The names of the subsidiaries also changed.
- On October 1, 2014, two ACAs affiliated with CoBank, ACB, merged their operations following stockholder approval. The PCA and FLCA subsidiaries associated with the ACAs also merged.
- On January 1, 2015, two ACAs affiliated with the Farm Credit Bank of Texas merged their operations following stockholder approval. The PCA and FLCA subsidiaries associated with the ACAs also merged.

The total number of associations as of January 1, 2015, was 76 (74 ACAs and 2 FLCAs), compared with 78 associations a year earlier. Figure 9 shows the chartered territory of each FCS bank. Details about specific corporate applications are available on FCA's website at www.fca.gov/info/mergers.html.

Note: As of January 1, 2015, CoBank was funding 26 associations in the indicated areas and serving cooperatives nationwide; Farm Credit Bank of Texas was funding 14 associations; AgriBank, FCB, was funding 17 associations; and AgFirst Farm Credit Bank was funding 19 associations. The FCS contains a total of 80 banks and associations.

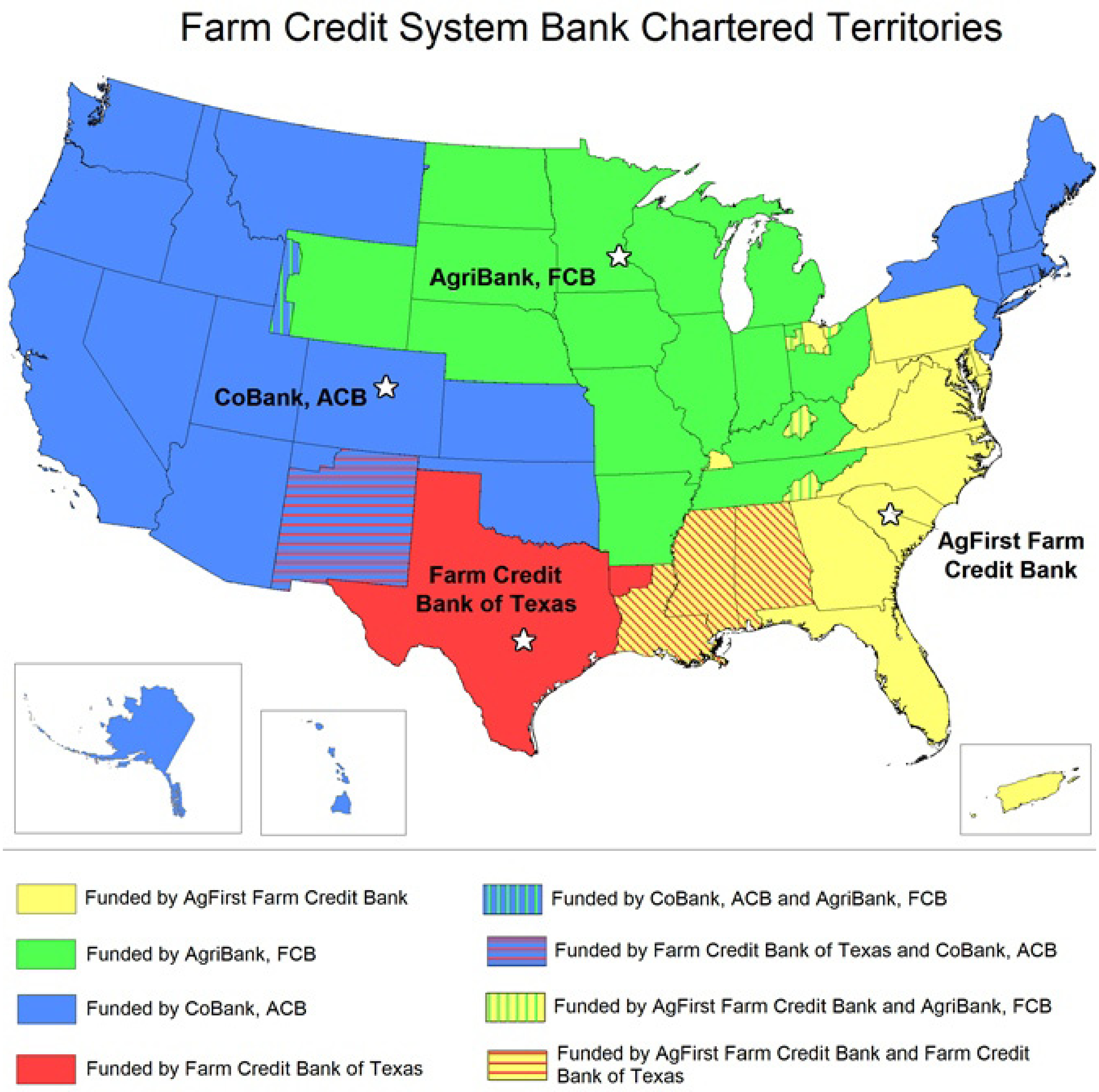
Funding Activity in 2014

During 2014, the System maintained reliable access to the debt capital markets. Investors were attracted by the System's status as a Government-sponsored enterprise, as well as its long-term financial performance and strength.

Even as the Federal Reserve concluded its quantitative easing policy near the end of 2014, risk spreads and pricing on System debt securities remained favorable relative to corresponding U.S. Treasuries. Also, because of the substantial reduction in debt issuances by the two housing-related Government-sponsored enterprises,[14] which are in conservatorship, investors have turned to

14. The Government-sponsored enterprises are the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Figure 9
Chartered Territories of FCS Banks
As of January 1, 2015



Note: As of January 1, 2015, CoBank was funding 26 associations in the indicated areas and serving cooperatives nationwide; Farm Credit Bank of Texas was funding 14 associations; AgriBank, FCB, was funding 17 associations; and AgFirst Farm Credit Bank was funding 19 associations. The FCS contains a total of 80 banks and associations.

the System as a desirable alternative. As a result, the System was able to continue to issue debt on a wide maturity spectrum at very competitive rates.

The System funds loans and investments primarily with a combination of consolidated System- wide debt and equity capital. The Funding Corporation, the fiscal agent for the System banks, sells debt securities such as discount notes, bonds, and designated bonds on behalf of the System.[15] This process allows funds to flow from worldwide capital-market investors to agriculture and rural America, thereby providing rural communities with efficient access to global resources. At year-end 2014, Systemwide debt outstanding was $225.4 billion, representing an 8.7 percent increase from the preceding year-end.[16]

Several factors contributed to the $17.9 billion increase in Systemwide debt outstanding. Gross loans increased $16.0 billion in 2014, while the System's combined investments, Federal funds, and cash balances increased by $5.9 billion during the year.

As the System's regulator, we have several responsibilities pertaining to System funding activities. The Farm Credit Act requires the System to obtain our approval before distributing or selling debt. We make it a high priority to respond as quickly and efficiently as possible to the System's requests for debt issuance approvals. For example, we have a program that allows the System to issue discount notes at any time up to a maximum of $60 billion as long as it provides us with periodic reports on this activity. In addition, we approve the majority of longer-term debt issuances through a monthly "shelf" approval program. For 2014, we approved $141.5 billion in longer-term debt issuances through this program.

The amount of debt issued by the System decreased significantly in 2014. For the 12 months ended December 31, 2014, the System issued $330 billion in debt securities, compared with $377 billion for 2013, $371 billion for 2012, $563 billion for 2011, and $534 billion for 2010. The System has continued to exercise call options on higher-cost debt because global events have shifted the yield curve downward for limited spans. However, the System has exercised far fewer call options than it did when the yield curve dropped precipitously immediately after the financial crisis.

Investor appetites and continued low yields on the full spectrum of debt instruments allowed the System to access a wide range of debt maturities. Their weighted average of remaining maturity decreased by just under four months during 2014 to 2.7 years. Also, the weighted-average interest rates for insured debt continued to decrease, going from 0.93 percent as of December 31, 2013, to 0.87 percent as of December 31, 2014.

To participate in the issuance of an FCS debt security, a System bank must maintain, free from any lien or other pledge, specified eligible assets (available collateral) that are at least equal in value to the total amount of its outstanding debt securities. Securities subject to the available collateral requirements include Systemwide debt securities for which the bank is primarily liable, investment bonds, and other debt securities that the bank may have issued individually.

Furthermore, to ensure safety and soundness, our regulations require each System bank to maintain a net collateral ratio (primarily assets divided by liabilities) of not less than 103 percent. We require certain System banks to maintain higher minimum net collateral ratios. All System banks have kept their net collateral ratios above the required minimum, with 105.9 percent being the lowest for any single bank as of December 31, 2014.

15. The primary function of the Funding Corporation, whose headquarters are in Jersey City, New Jersey, is to issue, market, and handle debt securities on behalf of the System's four banks. In addition, the Funding Corporation assists the banks with a variety of asset/liability management and specialized funding activities. The Funding Corporation is responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

16. Payment of principal and interest on Systemwide debt securities is insured by the Farm Credit System Insurance Corporation's Farm Credit Insurance Fund to the extent provided in the Farm Credit Act. Investors in Systemwide debt securities are also protected by a joint and several liability provision that applies to all System banks. If a bank is unable to pay the principal or interest on a Systemwide debt security and if the Farm Credit Insurance Fund has been exhausted, then FCA must call all nondefaulting banks to satisfy the security. However, an FCS bank may issue debt individually, as well. Debt issued by an individual bank is uninsured, and the issuing bank is solely liable for the principal payments.

All System banks have kept their respective days of liquidity above the required minimum levels. The lowest liquidity levels at any single bank as of December 31, 2014, were as follows:

- 20 days (15 days regulatory minimum) of Level 1 assets
- 41 days (30 days regulatory minimum) of Level 1 and 2 assets
- 57 days (90 days regulatory minimum) of Level 1, 2, and 3 assets
- 147 days overall (including the supplemental liquidity buffer)

In addition to the protections provided by the joint and several liability provision, the Funding Corporation and the System banks have entered into the following voluntary agreements.

- The amended and restated Market Access Agreement, which establishes certain financial thresholds and provides the Funding Corporation with operational oversight and control over the System banks' participation in Systemwide debt obligations.[17]
- The amended and restated Contractual Interbank Performance Agreement, which is tied to the Market Access Agreement and establishes certain measures that monitor the financial condition and performance of the institutions in each System bank's district. For all of 2014, all Farm Credit banks maintained scores in excess of the benchmarks in the Contractual Interbank Performance Agreement.

Mission-Related Investments

In January 2005, we issued guidance that gave System institutions an opportunity to participate in pilot programs supporting investments in rural America (see FCA Informational Memorandum dated January 11, 2005, Investments in Rural America—Pilot Investment Programs). The pilot programs were intended to provide FCS institutions greater flexibility to partner with Government agencies and other agricultural and rural lenders in fulfilling FCS mission objectives.

On November 14, 2013, the FCA Board voted to conclude, effective December 31, 2014, each pilot program approved after 2004 as part of the Investments in Rural America program. The Board's action permits each System institution that is participating in a pilot program to continue to hold its investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although we concluded the pilot programs, we will consider investment requests on a case-by-case basis under our existing investment regulations.

Because of the Investments in Rural America pilot programs, we now have a better understanding of the diverse financing needs of agriculture and rural communities and the ways System institution investments can help increase the availability and efficiency of funds to these markets. The information gathered and experience gained through the pilot programs will be useful as we evaluate future investment requests.

17. The banks and the Funding Corporation entered into the Amended and Restated Market Access Agreement in the late 1990s. The agreement is periodically updated to adjust financial targets, economic incentives, and other matters. In 2011, FCA approved the draft of the Second Amended and Restated Market Access Agreement. The agreement became effective on January 1, 2012.

Maintaining a Dependable Source of Credit for Farmers and Ranchers

As federally chartered cooperatives, the banks and associations of the Farm Credit System are limited-purpose lenders. According to Congress, the purpose of the FCS is to "improve the income and well-being of American farmers and ranchers" by providing credit and related services to them, their cooperatives, and to "selected farm-related businesses necessary for efficient farm operations."

Making loans exposes the System to risk. To manage this risk, System institutions must have both sufficient capital and effective risk-management controls.

As the independent regulator of the FCS, the Farm Credit Administration examines and supervises System institutions. We monitor specific risks in each institution; we also identify and monitor risks that affect the System as a whole.

Through our risk-based examination and supervisory program, our examiners determine how issues facing an institution or the agriculture industry may affect the nature and extent of risk in that institution.

Our examiners also evaluate whether each institution is meeting its public mission. They do so by determining whether each institution is complying with laws and regulations and whether it is serving the credit needs of eligible agricultural producers and cooperatives, including young, beginning, and small farmers and ranchers.

Conducting a Risk-Based Examination and Oversight Program

As required by the Farm Credit Act, FCA examines each FCS institution at least once every 18 months. In the interim between these statutory examinations, we also monitor and examine institutions as risk and circumstances warrant. This approach allows us to customize our examination activities to each institution's specific risks. In addition, we develop a National Oversight Plan every year that takes certain systemic risks into account.

We have designed our examination and oversight program to monitor and address FCS risk as effectively and efficiently as possible. Therefore, we assign highest priority to institutions, or the parts of an institution's operations, that present the greatest risk. This approach also considers the ability of an FCS institution to identify and manage both institution-specific and systemic risks. When institutions are either unable or unwilling to address unsafe and unsound practices or to comply with laws and regulations, we take appropriate supervisory or enforcement action.

Through our oversight, we require FCS institutions to have the programs, policies, procedures, and controls to effectively identify and manage risks. For example, our regulations require FCS institutions to have effective loan underwriting and loan administration processes. We also have specific regulations requiring FCS institutions to maintain strong asset-liability management capabilities. Our oversight program also requires compliance with laws and regulations.

We use a comprehensive regulatory and supervisory framework for ensuring System safety and soundness. FCS institutions, on their own and in response to our efforts, continue to improve their risk management systems.

Identifying and Responding to Potential Threats to Safety and Soundness

Because of the dynamics and risks in the agricultural and financial industries, FCA assesses whether FCS institutions have the culture, governance, policies, procedures, and management controls to effectively identify and manage risks. We employ various processes for evaluating certain systemic risks in both agriculture and the financial services industry that can affect an institution, a group of institutions, and the System as a whole.

Currently, we are emphasizing the following areas:

- **Portfolio Management in Volatile Times.** Volatility in the agricultural sector and the potential for reduced profitability and increased borrower stress are expected over the next several years. Proactive and diligent portfolio management is particularly important and will require close attention from both FCS institutions and FCA examiners.

- **Allowance for Loan Loss in Volatile Times.** Many FCS institutions have reversed allowances in recent periods, which may be inconsistent with changing and more volatile agricultural conditions. In the current environment, the boards and management should be increasingly conservative to ensure that allowances appropriately reflect credit and collateral risks. They should complete detailed analysis and documentation to support allowance levels.

- **Large, Complex, and Shared Assets.** The System is increasingly involved in large, complex, and shared assets. These assets are widely participated throughout the System to achieve various institutional objectives including portfolio diversification and business plan goals. FCA examiners plan to evaluate loan conditions, covenants, and other credit and portfolio controls on these assets to determine if risks are managed properly.

- **Board Governance and Nominating Committees.** The quality of System institutions' boards and operations is vital to the success of individual institutions and the System as a whole. Our examiners plan to evaluate institutions' board operations and director training programs, as well as the effectiveness of their nominating committees.

When we identify systemic issues, we inform institutions about those issues by producing the following:

- Reports of Examination
- FCA Board Policy Statements
- Informational Memoranda
- Bookletters

We keep an online library of these documents. Go to our website at www.fca.gov, click on the Law & Regulations tab, and select Info Memos, Bookletters, and Other Guidance from the dropdown menu.

Measuring the System's Safety and Soundness

FCA uses the Financial Institution Rating System (FIRS) to indicate safety and soundness threats in each institution. Similar to the systems used by other Federal banking regulators, the FIRS is a CAMELS-based system, with component ratings for capital, assets, management, earnings, liquidity, and sensitivity, all factoring into an overall composite rating. The FIRS process includes quantitative benchmarks for evaluating institution performance, qualitative rating criteria for evaluating risk management practices, and outlook ratings for evaluating risks.

Our examiners assign component and composite ratings to each institution on a scale of 1 to 5. A composite rating of 1 indicates an institution is sound in every respect. A rating of 3 means an institution displays a combination of financial, management, or compliance weaknesses ranging from moderate to severe. A 5 rating represents an extremely high immediate or near-term probability of failure.[18]

Through our monitoring and oversight program, our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions. We use both quantitative and qualitative benchmarks to help examiners apply FIRS ratings consistently from one institution to the next. We disclose the FIRS composite and component ratings to the institution's board and CEO to give them perspective on the safety and soundness of their institution.

We also disclose these ratings to each institution's funding bank to ensure that the bank takes any actions necessary to address any safety and soundness issues as it administers its direct loan with the institution.

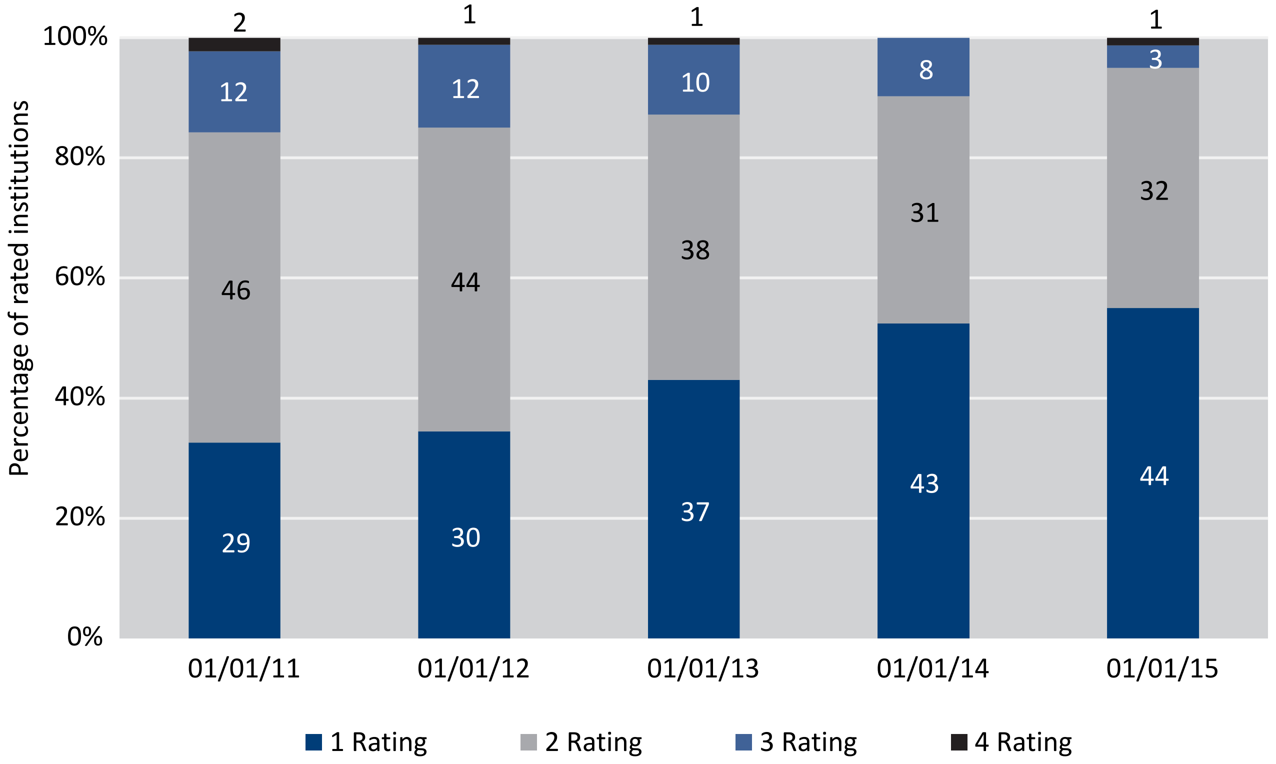
18. See the Glossary for a complete description of the FIRS ratings.

In addition, we issue examination reports and other communications to provide the institution board with an assessment of management's performance, the quality of assets, and the financial condition and performance of the institution.

As figure 10 shows, risks were higher in 2010 when stresses from the general economy, the credit crisis, and volatility in commodity prices surfaced and affected some institutions. The ratings have gradually improved each year, and the FIRS ratings for 2014 show that the financial condition and performance of the FCS was relatively strong. The System's strength reduces the risk to investors in FCS debt, to the Farm Credit System Insurance Corporation, and to FCS institution stockholders.

At December 31, 2014, 44 FCS institutions were rated 1 (55 percent), 32 were rated 2 (40 percent), 3 were rated 3 (4 percent), and 1 was rated 4 (1 percent). Most of the institutions rated 3 or 4 were relatively small and collectively represent about 1 percent of the System's total assets. There were no institutions with a 5 rating. (FCA applies FIRS ratings only to the banks and associations of the FCS, not to the System's service corporations. It also applies a FIRS rating to Farmer Mac, but Farmer Mac is not included in figure 10.)

Figure 10
Financial Institution Rating System (FIRS) Composite Ratings for the FCS, 2011–2015



Source: FCA's FIRS Ratings Database.

Note: Figure 10 reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers shown on the bars reflect the total number of institutions with a given rating; please refer to the y-axis to determine the percentage of institutions receiving a given rating.

Providing Differential Supervision and Enforcement

FCA uses a risk-based supervisory and enforcement program to respond to the risks and particular oversight needs of each FCS institution. Risks are inherent in lending, and managing risks associated with a single sector of the economy—in this case, agriculture—presents an additional challenge for FCS lenders. If we discover unacceptable risks, we require institutions to take corrective action to mitigate the risks. Some corrective actions include reducing risk exposures, increasing capital and enhancing earnings, and strengthening risk management.

We use a three-tiered supervision program: normal supervision, special supervision, and enforcement actions.

Institutions under normal supervision are performing in a safe and sound manner and are complying with laws and regulations. These institutions are able to correct weaknesses in the normal course of business.

For those institutions displaying more serious or persistent weaknesses, we shift from normal to special supervision, and our examination oversight increases accordingly. Under special supervision, we give an institution clear and firm guidance to address weaknesses, and we give the institution time to correct the problems.

If informal supervisory approaches have not been or are not likely to be successful, we will use our formal enforcement authorities to ensure that FCS institutions are safe and sound and that they comply with laws and regulations. We may take an enforcement action for a number of reasons:

- A situation threatens an institution's financial stability.
- An institution has a safety or soundness problem or has violated a law or regulation.
- An institution's board is unable or unwilling to correct problems we have identified.

Our enforcement authorities include the following powers:

- To enter into formal agreements
- To issue cease-and-desist orders
- To levy civil money penalties
- To suspend or remove officers, directors, and other persons

If we take an enforcement action, the FCS institution must operate under the enforcement document and report back to us on its progress in addressing the issues identified. Our examiners oversee the institution's performance to ensure compliance with the enforcement action. As of December 31, 2014, we had formal written agreements with three associations, whose assets totaled $1.2 billion. The written agreements require the associations to take corrective actions in such areas as financial condition and performance, portfolio management, asset quality, and institution management or governance.

Protecting Borrower Rights

Agricultural production is risky for many reasons—adverse weather, changes in Government programs, international trade issues, fluctuations in commodity prices, and crop and livestock diseases. These risks can sometimes make it difficult for borrowers to repay loans.

The Farm Credit Act provides System borrowers certain rights when they apply for loans and when they have difficulty repaying loans. Tthe act requires FCS institutions to notify borrowers of the right to seek restructuring of loans before the institutions begin foreclosure. It provides borrowers an opportunity to seek review of certain credit and restructuring decisions. When a System institution acquires agricultural property through liquidation, the Farm Credit Act also provides borrowers the opportunity to buy or lease back their former properties. FCA examines institutions to make sure that they are complying with these provisions.

We also receive and review complaints from borrowers who believe their rights have been denied. In 2014, we received 29 borrower complaints. The number of complaints has declined in recent years because of less financial stress on System borrowers and improved application of borrower rights.

Generally, borrowers who contact us with complaints are seeking clarification, additional information, and options to redress their concerns. If we find violations of law or regulations, we have several options to bring about corrective action.

Condition of Farmer Mac

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States and an institution of the System. Created in 1988, Farmer Mac provides a secondary market for agricultural real estate mortgage loans, rural housing loans, and rural utility cooperative loans. This secondary market is designed to increase the availability of long-term credit at stable interest rates to America's rural communities and to provide rural borrowers with the benefits of capital markets pricing and product innovation.

Farmer Mac conducts activities through four programs:

- **Farm & Ranch** (formerly Farmer Mac I), which involves mortgage loans secured by first liens on agricultural real estate and rural housing
- **USDA Guarantees** (formerly Farmer Mac II), which involves certain agricultural and rural loans guaranteed by the U.S. Department of Agriculture, including farm ownership loans, operating loans, and rural business and community development loans
- **Rural Utilities Program,** which involves loans to finance cooperatively owned rural electrification and telecommunications systems
- **Institutional Credit,** which involves Farmer Mac's purchase or guarantee of collateralized bonds known as "AgVantage" securities. AgVantage bonds are general obligations of lenders that are secured by pools of eligible loans.

Farmer Mac purchases eligible loans directly from lenders, provides advances against eligible loans by purchasing obligations secured by those loans, securitizes assets and guarantees the resulting securities, and issues long-term standby purchase commitments (standbys) for eligible loans. Securities guaranteed by Farmer Mac may be held either by the originator of the underlying assets or by Farmer Mac, or they may be sold to third-party investors.

FCA regulates Farmer Mac through the Office of Secondary Market Oversight (OSMO), which was established by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991. This office provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires OSMO to be a separate office within our Agency and to report directly to the FCA Board. The law also stipulates that OSMO's activities must, to the extent practicable, be carried out by individuals who are not responsible for supervising the banks and associations of the FCS.

Through OSMO, we perform the following functions:

- Examine Farmer Mac at least annually for capital adequacy, asset quality, management performance, earnings, liquidity, and interest rate sensitivity
- Supervise and issue regulations governing Farmer Mac's operations
- Oversee and evaluate Farmer Mac's safety and soundness and mission achievement

OSMO reviews Farmer Mac's compliance with statutory and regulatory minimum capital requirements and supervises its operations and condition throughout the year. Table 5

Table 5
Farmer Mac Condensed Balance Sheets, 2009–2014
As of December 31
Dollars in Millions

	2009	2010	2011	2012	2013	2014	Percentage growth rate 2013–2014
Total assets	$6,138.8	$9,479.9	$11,883.5	$12,622.2	$13,361.8	$14,287.8	6.9%
Total liabilities	$5,798.4	$9,001.0	$11,329.0	$12,029.2	$12,787.3	$13,506.0	5.6%
Net worth or equity capital	$196.2	$478.9	$554.5	$593.0	$574.5	$781.8	36.1%

Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

summarizes Farmer Mac's condensed balance sheets at the end of each year from 2009 to 2014.

Capital

On December 31, 2014, Farmer Mac's net worth (that is, equity capital determined using generally accepted accounting principles [GAAP]) was $781.8 million, compared with $574.5 million a year earlier. Net worth was 5.5 percent of on-balance-sheet assets as of December 31, 2014, compared with 4.3 percent at the end of 2013. The ratio's increase was driven by the issuance of $150 million in preferred stock during 2014 and a $32 million increase in retained earnings. When Farmer Mac's off-balance-sheet program assets (that is, essentially its guarantee obligations) are added to its total on-balance-sheet assets, net worth was 4.3 percent as of December 31, 2014, compared with 3.3 percent in 2013. As of December 31, 2014, Farmer Mac continued to be in compliance with all statutory and regulatory minimum capital requirements.

At year-end 2014, Farmer Mac's core capital (the sum of the par value of outstanding common stock, the par value of outstanding preferred stock, paid-in capital, and retained earnings) remained above the statutory minimum requirement. Its regulatory capital (core capital plus allowance for losses) exceeded the required amount as determined by the Risk-Based Capital Stress Test[19] Farmer Mac's core capital as of December 31, 2014, totaled $766.3 million, exceeding the statutory minimum capital requirement[20] of $421.3 million by $345.0 million.

Farmer Mac's regulatory capital totaled $776.4 million as of December 31, 2014, exceeding the regulatory risk-based capital requirement of $121.6 million by $654.8 million. Regulatory capital was 6.1 percent of total Farm & Ranch and rural utility program volume (including both on- and off-balance-sheet agricultural and utility program volume but excluding USDA Guarantees). Risk exposure on USDA Guarantee loans is extremely low because they are guaranteed by the U.S. Department of Agriculture. Table 6 offers a historical perspective on capital and capital requirements for 2009 through 2014.

We published a final rule in January 2014 to revise regulations governing Farmer Mac's capital planning activities. The final rule requires annual stress testing of Farmer Mac's capital position; it also requires Farmer Mac to adopt an internal economic capital model that conforms to guidance issued by the Basel Committee on International Banking Supervision or comparable guidance issued by U.S. regulators.

We published a proposed rule in March 2015 on Farmer Mac's corporate governance and standards of

Table 6

Farmer Mac Capital Positions, 2009–2014

As of December 31

Dollars in Millions

	2009	2010	2011	2012	2013	2014
GAAP equity	$196.2	$478.9	$554.5	$593.0	$574.5	$781.8
Core capital	$337.2	$460.6	$475.2	$519.0	$590.7	$766.3
Regulatory capital	$351.3	$480.7	$492.7	$535.9	$604.0	$776.4
Statutory requirement	$217.0	$301.0	$348.6	$374.0	$398.5	$421.3
Regulatory requirement	$35.9	$42.1	$52.9	$58.1	$90.8	$121.6
Excess core capital over statutory requirement*	$120.2	$159.6	$126.5	$145.0	$192.2	$345.0
Capital margin excess over the minimum	55.4%	53.0%	36.3%	38.8%	48.2%	81.9%

Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

* Farmer Mac is required to hold capital at or above the statutory minimum capital requirement or the amount required by FCA regulations as determined by the Risk-Based Capital Stress Test, whichever is higher.

19. See the FCA website at www.fca.gov/info/farmer_mac_test.html for more information about the Risk-Based Capital Stress Test.
20. The statute requires minimum capital of 2.75 percent for on-balance-sheet assets and 0.75 percent for off-balance-sheet obligations.

conduct. The proposed rule requests public comment on provisions related to board nominations and elections, conflicts of interest, and risk governance, among other topics.

Nonprogram investments provide liquidity in the event of a short-term disruption in the capital markets that would prevent Farmer Mac from issuing new debt. Nonprogram investments consist of investment securities, cash, and cash equivalents. We intend to publish a proposed rule in 2015 to revise regulations governing eligible nonprogram investments.

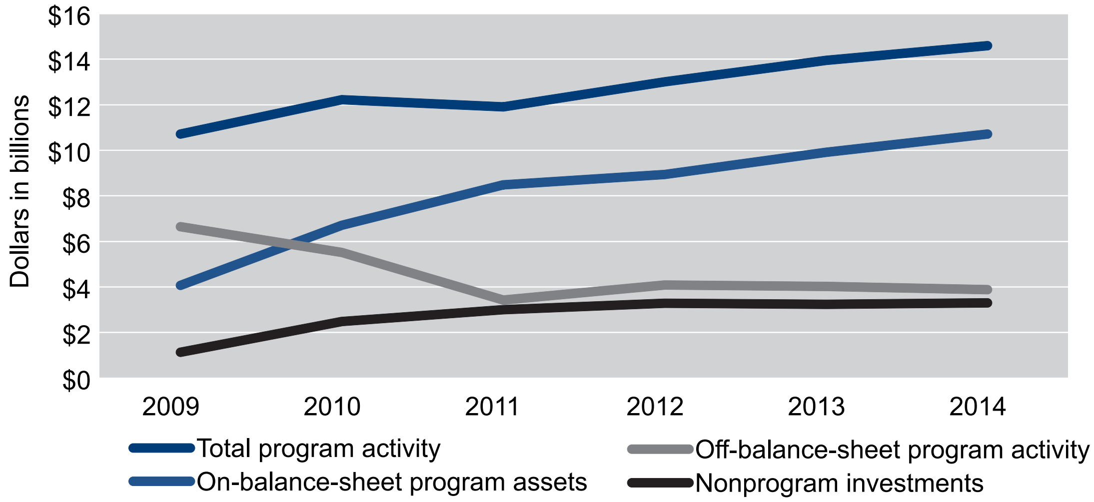
Program Activity

Farmer Mac's total program activity increased to $14.6 billion on December 31, 2014, from $14.0 billion a year earlier (see figure 11). Farmer Mac experienced steady growth in its Farm & Ranch loan purchases, as well as its AgVantage products. AgVantage transactions are general obligations of the issuing financial institution that are purchased or guaranteed by Farmer Mac. In addition to the general obligation of the financial institution, each AgVantage security is secured by eligible loans under one of Farmer Mac's programs in an amount at least equal to the outstanding principal amount of the security.

Farmer Mac's Long-Term Standby Purchase Commitment product is similar to a guarantee of eligible pools of program loans. Under the standbys, a financial institution pays an annual fee in return for Farmer Mac's commitment to purchase loans in a specific pool under specified conditions at the option of the institution. As shown in figure 12, standbys represented 15.4 percent of Farmer Mac's total program activity in 2014.

Off-balance-sheet program activity consists of standbys, certain AgVantage securities, and agricultural mortgage-backed securities (AMBS) sold to investors. At the end of December 2014, 26.6 percent of program activity consisted of off-balance-sheet obligations, as compared with 28.9 percent a year earlier.

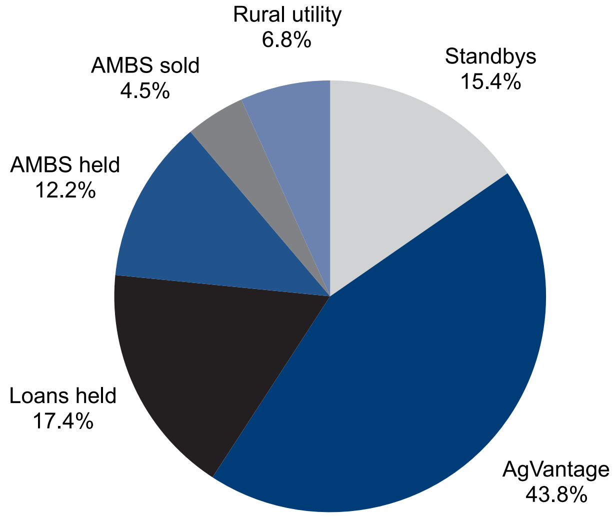
Figure 11
Farmer Mac Program Activity and Nonprogram Investment Trends
As of December 31



Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Figure 12
Farmer Mac Total Program Activity

Total=$14.60 billion



Source: Farmer Mac's Annual Report on Securities and Exchange Commission Form 10-K.

AMBS=agricultural mortgage-back securities

Asset Quality

On December 31, 2014, $132.6 million of the Farm & Ranch program portfolio was substandard, representing 2.45 percent of the principal balance of Farm & Ranch loans purchased, guaranteed, or committed to be purchased.[21] This compares with $194.9 million, or 3.78 percent, on December 31, 2013. Assets are considered to be substandard when they have a well-defined weakness or weaknesses that, if not corrected, are likely to lead to some losses.

As of December 31, 2014, Farmer Mac's 90-day delinquencies improved for the fourth consecutive year to $18.9 million, or 0.35 percent of non-AgVantage Farm & Ranch loans, compared with $28.3 million, or 0.55 percent, as of December 31, 2013. Real estate owned as of December 31, 2014, was $0.42 million, down from $2.6 million a year earlier. Farmer Mac reported no delinquencies in its pools of rural utility cooperative loans.

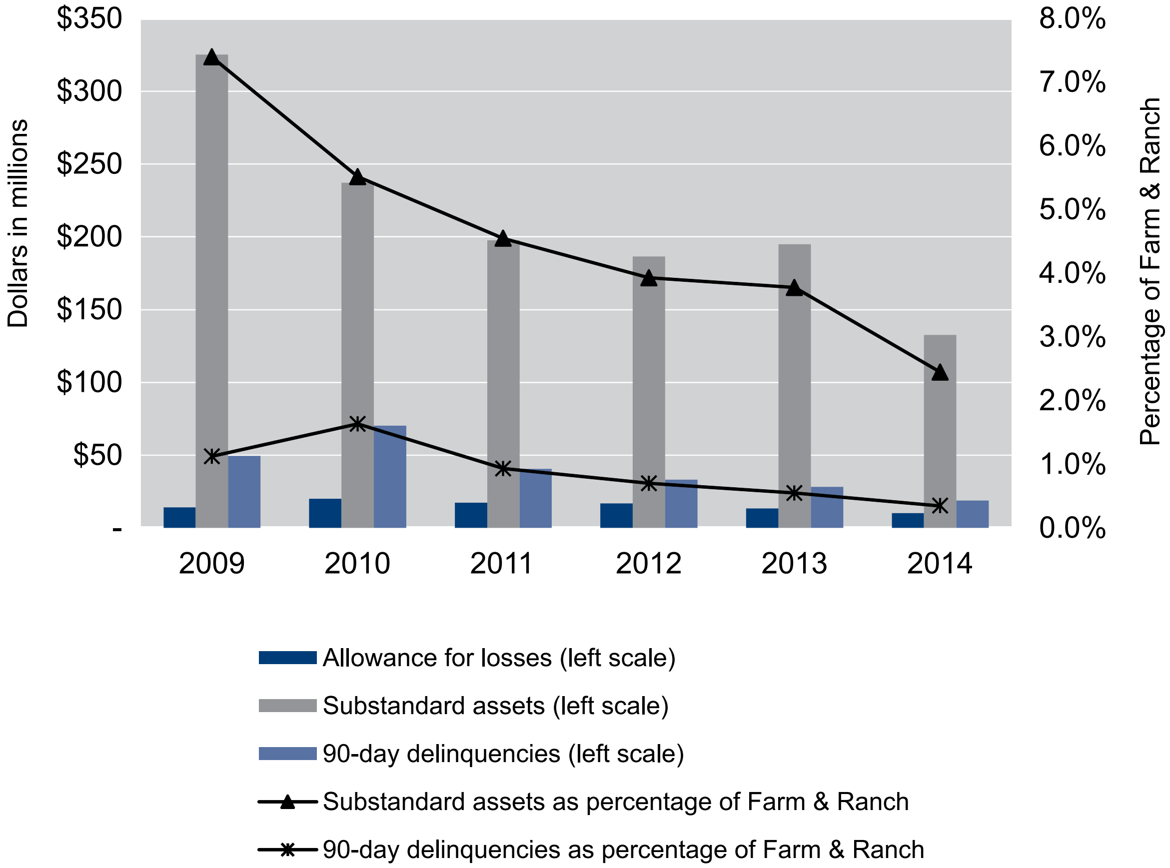
On December 31, 2014, Farmer Mac's allowance for losses totaled $10.1 million, compared with $13.3 million on December 31, 2013. Figure 13 shows the levels of Farmer Mac's substandard Farm & Ranch assets and its 90-day delinquencies relative to outstanding program volume, excluding AgVantage loan volume.

Earnings

Farmer Mac reported net income available to common stockholders of $38.3 million (in accordance with GAAP) for the year ended December 31, 2014, down from $71.8 million reported at year-end 2013. Core earnings for 2014 were $53.0 million, compared with $54.9 million in 2013.[22] Net interest income, which excludes guarantee fee income, was $60.8 million in 2014, down from $98.6 million in 2013. Guarantee fee income was $25.2 million, compared with $27.0 million in 2013. Table 7 shows a six-year trend for the basic components of income.

21. We have excluded AgVantage volume from the Farm & Ranch loan volume because AgVantage products carry significantly less risk.
22. Core earnings provide a non-GAAP measure of financial results that exclude the effects of certain unrealized gains and losses and nonrecurring items. Farmer Mac reports core earnings to present an alternative measure of earnings performance. The components included in core earnings calculations are at Farmer Mac's discretion.

Figure 13
Allowance, Nonperforming Asset, and Delinquency Trends, 2009–2014



Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Table 7
Farmer Mac Condensed Statements of Operations, 2009–2014
As of December 31
Dollars in Millions

	2009	2010	2011	2012	2013	2014	Growth Rate 2013–2014
Total revenues	$181.8	$99.1	$73.3	$122.0	$164.4	$103.6	-37%
Total expenses	$99.5	$77.0	$59.5	$78.1	$92.5	$65.4	-29%
Net income available to common shareholders	$82.3	$22.1	$13.8	$43.9	$71.8	$38.3	-47%
Core earnings	$16.1	$25.4	$42.9	$49.6	$54.9	$53.0	-3%

Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.


USDA
ars
Agricultural
Research
Service

Challenges Facing the Agricultural Economy and the Farm Credit System

The following paragraphs identify the key factors or events that challenge the ability of the Farm Credit System and Farmer Mac to fulfill their missions. The factors include the farm economy, the macroeconomy, foreign trade, Government policies, international events, and weather. As the regulator of the System, we will continue to closely monitor and evaluate the implications of these risks.

The Farm Economy

The U.S. farm economy entered 2014 in sound financial condition following a year marked by record net farm income and farmland values. However, early in 2014, USDA was already projecting a drop in farm income because of a rebound in production both at home and abroad. . During the year, concern grew about inflated land values and the possible end to the recent period of farm prosperity.

While USDA's mid-year survey showed record farm real estate values in much of the country, by the end of the year other farmland surveys showed farmland values leveling off or declining slightly in response to record grain and soybean harvests and lower crop prices.

Livestock producers benefited from strong product prices and low feed costs throughout most of 2014 although profit margins began to narrow toward the end of 2014 as supplies began to outstrip demand. The livestock sector faced a number of challenges in 2014 that affected the export market: the labor contract dispute that caused a slowdown at the West Coast port, Russia's import ban on livestock products in retaliation for economic sanctions, and the strengthening of the U.S. dollar against the currencies of key trade partners.

While the hog industry overcame the impacts of the PED virus by the fall of 2014, the poultry industry may spend much of 2015 dealing with the trade effects of avian influenza. The disease was discovered in U.S. turkey operations in late January 2015 and in poultry operations in early February 2015.

Drought

According to the U.S. Drought Monitor, drought conditions improved across the Midwest and Central Plains in 2014, while droughts worsened or continued in the Southern Plains, Southwest, and in the far West, particularly in California. California is the largest agricultural producing state in the country by value, and it accounts for the largest share of the System's total loan volume. By December 2014, 99 percent of the state was in drought. The U.S. drought footprint (moderate to exceptional) was 33.0 percent on January 7, 2014, peaked at 40.1 percent in early May, and ended the year at 28.7 percent.

As a result of the drought, an estimated 420,000 acres of California farmland lay fallow in 2014, or about 5 percent of the total. Harvested cropland in California is down 24 percent since 2011. Acreage and yields are down for most crops, as well as many fruit and nut varieties. About 40 percent of the state's water is used for agriculture, 10 percent for urban use, and 50 percent for environmental uses, according to data from the Public Policy Institute of California. A University of California report released in July 2014 projected that the 2014 drought will cost the state $2.2 billion in agricultural economic loss and 17,100 jobs.

While some drought relief came to parts of California over the winter, the drought entered its fourth year in 2015, and its intensity will continue to be a major challenge to farmers and ranchers throughout the state. As of April 7, 2015, nearly 67 percent of California was in the two worst drought designations (extreme and exceptional), and 44 percent of the state was in exceptional drought. Because California is one of the world's largest suppliers of fruit, vegetables, tree nuts, dairy products, and wine, the drought has significant implications worldwide for both supplies and prices.

Farm Income

During 2014, the Midwest's nearly ideal growing conditions produced a record harvest of corn and soybeans. With already large global inventories, the increase in production led to sharply lower crop prices by harvest.

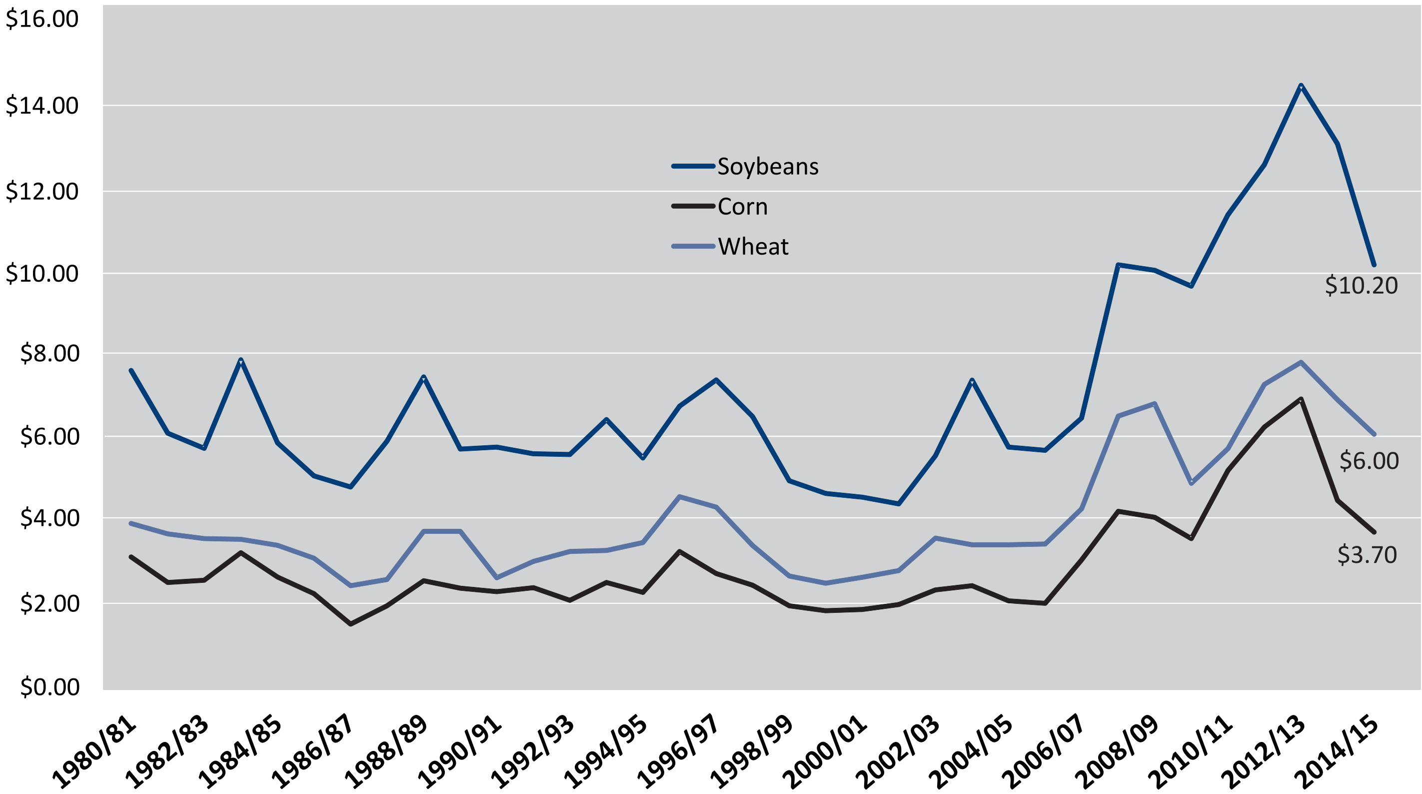
Wheat production for 2014, while not a record, was still large enough to sharply raise stocks-to-use levels and to weigh down wheat prices. As a result, the season average price received by farmers for the 2014/15 marketing year is projected at $3.70 for corn, $10.20 for soybeans, and $6.00 for wheat, down 17 percent, 22 percent, and nearly 13 percent, respectively, from the previous marketing season. See figure 14.

For some producers, the price declines pushed gross revenues below the cost of production despite the gains from the bountiful harvest. Corn, soybeans, wheat, and other cash grains are the largest commodity group financed with System loans, accounting for 18.3 percent of the total loan portfolio at the end of 2014.

While crop producers were watching their profit margins get squeezed through 2014, livestock producers were getting a break from the high feed cost years of 2012 and 2013 and enjoying generally strong prices for their products. This resulted in strong profit margins for the dairy, livestock, and poultry sectors for 2014. Cow-calf producers enjoyed particularly strong pricing and were rewarded with historically high profit margins during the year.

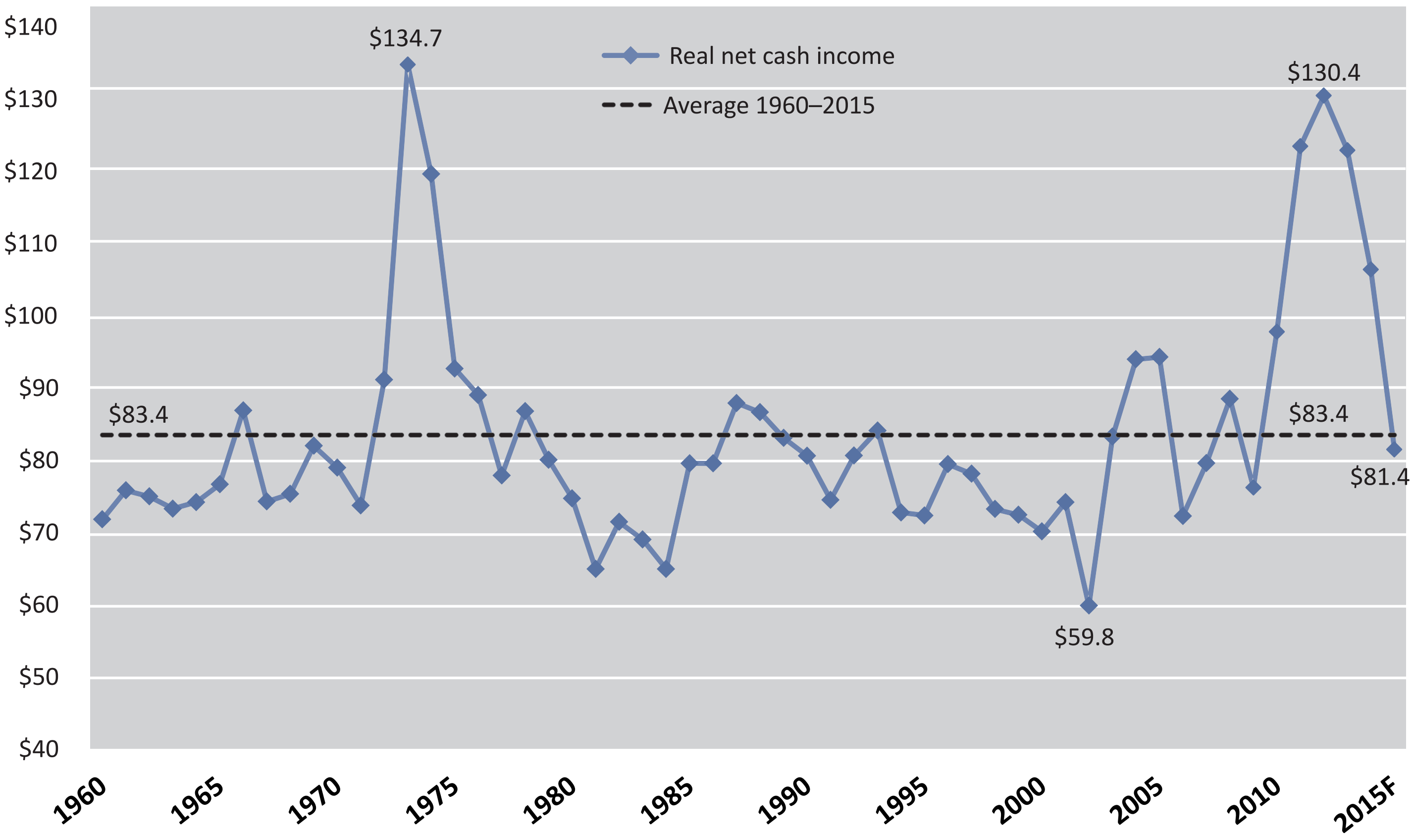
The 14.4 percent rise in 2014 livestock cash receipts was offset by the 9.3 percent decline in cash receipts for crops, declines in Government payments and farm-related income,

Figure 14
Soybean, Corn, and Wheat Prices per Bushel from 1980/81–2014/15



Source: USDA.

Figure 15
Inflation-Adjusted Farm Sector Net Cash Income
Dollars in Billions



Source: USDA.

and higher production expenses. As a result, net cash income for the farm sector declined to $115.1 billion in 2014. Because of the sharp drop in crop prices, lower values for crop inventories contributed to the 16 percent drop in net farm income to $108 billion for 2014.

USDA's February outlook for 2015 projects net cash income to drop as much as 22 percent to $89.4 billion on lower cash receipts for both crop and livestock products due to a broad base fall in commodity prices from large supplies relative to demand. Net farm income for 2015 is projected to drop as much as 32 percent to just $73.6 billion on lower cash receipts as well as lower values for crop inventories. This would be the lowest level of net farm income since 2009.

According to the USDA, average net cash incomes are expected to fall for the first time in four years for businesses that specialize in livestock production. Farms specializing in dairy production are expected to see the largest declines in net cash income, followed by hog production enterprises.

Production expenses, after increasing around 5 percent for 2014, are expected to increase only fractionally if at all in 2015 mostly because of the significant drop in the cost of petroleum fuel and oil and the decline in fertilizer costs. Feed costs are projected to decline further for 2015 but only by about half as much as they declined in 2014. Total interest expenses are projected to be up about 6 percent for 2015 on the expectations that the Federal Reserve will begin to raise interest rates later in 2015.

Although farm income fell significantly in 2014 and is forecast to fall sharply in 2015, it is important to remember that it is falling from a record high. After adjusting for inflation, net cash income is forecast to be only slightly below the average real net cash income for the past 50 years. As figure 15 shows, real net cash income has largely moved sideways, roughly around the $80 billion mark (2009 dollars). The graph suggests that the boom in farm income of the past few years and the one that occurred in the early 1970s were aberrations in the historical farm income trend. Time will tell whether this sideways trend will continue.

Planted Acreage for Major Crops

The U.S. Department of Agriculture released its Prospective Plantings Report for the 2015 crop year on March 31, 2015. This report shows the number of acres that producers of various crops expect to plant in 2015.

In response to lower prices for major crops, producers are reducing acres or shifting production to other crops, often to crops that require fewer inputs. Some of the acreage cuts are occurring in areas that were drawn into production in recent years by high crop prices. These shifts in production and input usage affect local farm input businesses.

Most of the decline in corn acreage (1.4 million acres or 2 percent) is expected to occur in South Dakota, with 600,000 fewer acres of corn in 2015. Most of the rest of the decline is expected to come from cuts in corn acreage in Illinois, Missouri, and Ohio. The drop in corn acreage is expected to be largely offset by increased plantings of other feed grains—mostly sorghum, barley, and oats.

Soybean growers intend to expand acreage about 1 percent, or 934,000 acres, to a new record high of 84.6 million acres.

The number of acres in wheat is also projected to drop 1.45 million acres, or 3 percent, with the largest amount, 540,000 acres, coming out of North Dakota.

The largest acreage decline for 2015 is expected for cotton, which is projected to drop 1.49 million acres, or 13 percent, to 9.55 million acres. Most of the adjustment is expected from Texas, with a drop of 502,000 acres, followed by Georgia, with a drop of 280,000 acres.

Projected acres for hay production were expected to remain unchanged.

Cropland Values

Based on USDA's annual June 2014 farm real estate survey, the average value of U.S. cropland rose 7.6 percent to $4,100 per acre for 2014. The booming cropland market, however, has cooled somewhat from the double-digit increases of the previous three years. Sharply reduced grain and soybean prices for 2014 have been weighing on farm income and, in turn, on cropland markets.

The number of states with cropland values growing by 20 percent or more fell from four in 2013 (Colorado, North Dakota, South Dakota, and Utah) to just one in 2014 (South Dakota). The number of states with cropland value growth rates between 10 percent and 20 percent also declined—from 12 in 2013 to 5 in 2014 (Kansas, Minnesota, Montana, North Dakota, and Texas). New York and the New England states experienced slight declines in cropland values.

The growth in cropland values may have temporarily come to an end. Federal Reserve surveys of agricultural bankers, as well as other data sources, suggest a slowdown in farmland price appreciation and even declines by the fourth quarter of 2014, particularly in the Corn Belt. Weaker farmland markets carried over into early 2015 when prices for major crops remained near or below profitable levels.

Farmland values for the Chicago Federal Reserve district declined 3 percent during the fourth quarter of 2014 from a year ago, the first annual decline since the 4 percent decline in the third quarter of 2009. Despite solid harvests for Minneapolis district farmers, lower crop prices led to lower cropland values for 2014. However, improved financial conditions for beef and dairy producers provided some support to ranchland values. Farmland values in the Kansas City Federal Reserve district generally held steady for 2014 despite declines in farm income. The Dallas district reported moderate increases in value for farm and ranchland, reflecting both the easing of the long drought in the district and the improved profitability of cattle ranching.

The sharp rise in farmland values in recent years has raised some concerns about a possible asset bubble in the farm sector. The two consecutive years of large crops in 2013 and 2014, which cut prices and cash flows for crop producers, have added fuel to the debate. However, the farm sector has several strengths and advantages that may soften a correction in farmland values. These include the following:

- The Renewable Fuel Standard program will keep up the demand for corn for ethanol production.
- Both the domestic and foreign livestock sectors are rebounding from the high feed cost era and are consuming greater quantities of grains and oilseeds.
- Fast-growing economies in countries like China and India should continue to provide a robust export market for U.S. grains, soybeans, livestock, and horticultural products.
- As indicated by historically low debt levels, the farm sector has

strong liquidity following three back-to-back years of record earnings.

- Interest rates are expected to remain stable or increase only slowly later in 2015; the low rates will continue to stimulate the economy and expand employment.
- A restrained lending environment, coupled with risk management tools such as crop insurance and Government commodity programs, will help many producers weather an economic downturn.

The Farm Credit System is the largest supplier of credit for U.S. farmland purchases. To address the risks associated with farmland values, FCA has issued guidance on collateral risk management to System lenders through a series of Informational Memorandums. Many System institutions are improving underwriting standards and appraisal guidelines on farmland collateral. They are also stress testing their portfolios to determine how changes in land values may affect credit quality.

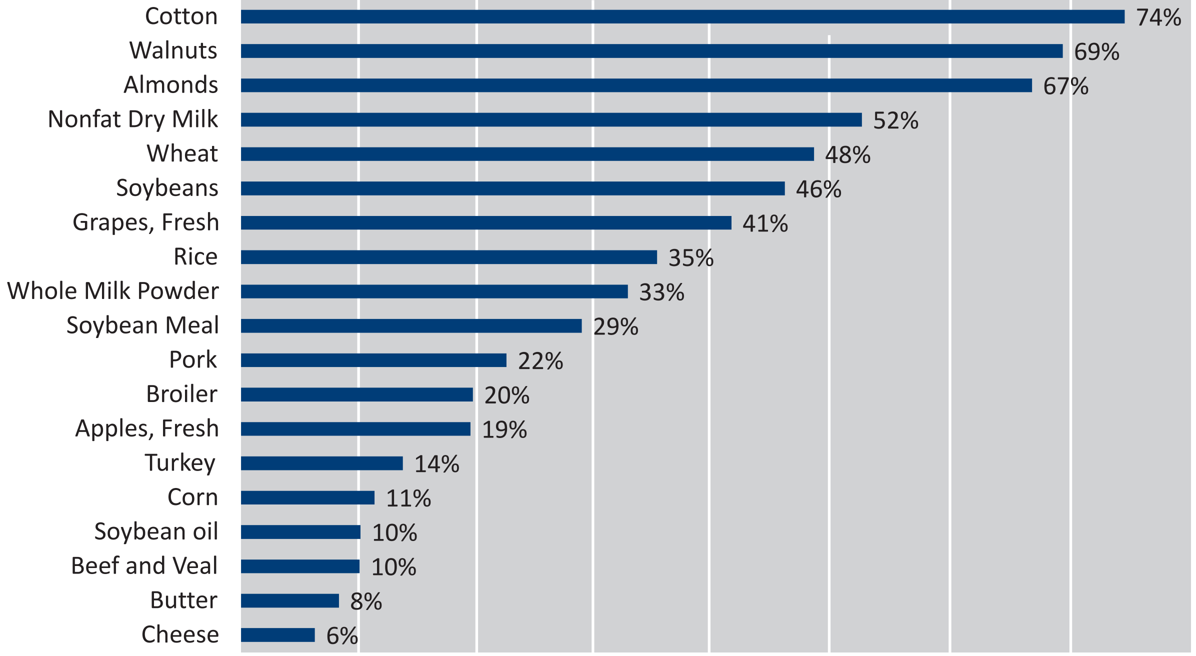
U.S. Agricultural Exports

U.S. agricultural exports reached a new high in FY 2014 (October 2013 to September 2014), increasing 8.2 percent to a record $152.5 billion. U.S. agricultural trade value has more than doubled since the mid-2000s, making trade very important to the economic well-being of many U.S. farmers.

Some U.S. products are more exposed to the variability of the international market. Nine commodities relied on the export market for a third or more of their production from 2012 to 2014, while three commodities (cotton, walnuts, and almonds) shipped more than two-thirds of their production abroad (figure 16). In some years, 80 percent or more of cotton, whole milk powder, and almond production are exported, as well as over 60 percent of wheat production, 49 percent of soybean production, and 40 percent of rice production.

While export markets provide great income opportunities for U.S. agriculture, they come with inherent risks, including importer buying

Figure 16
U.S. Agricultural Exports: Percentage Share of Production*



* For crops, the numbers reflect the average percentage share of production for marketing years 2012/13 to 2014/15. For livestock, the numbers reflect average percentage share of production for calendar years 2012 to 2014.

behavior, exchange rate changes, and changes in Government policy that might restrict U.S. products because of quality or safety concerns (real or imagined). The recent Russian ban on products from countries imposing economic sanctions for its incursions in Ukraine is an example of trade disruptions that can have serious consequences for U.S. agricultural producers.

The U.S. agricultural export picture can be quickly altered when a single country has an outsized role in the world market for a commodity. In fiscal 2014, China remained the dominant market for U.S. agricultural exports, a position it took over from Canada in fiscal 2011. China accounted for 17 percent of U.S. agricultural exports in FY 2014, up from 8 percent in FY 2005, and less than 3 percent in FY 2000.

World economic growth is a key to export growth for many U.S. commodities, particularly those in the protein sector. The International Monetary Fund projects world economic growth to increase to 3.1 percent for 2015, up from 2.6 percent in 2014. This should bode well for U.S. agricultural exports; however, the outlook for U.S. agricultural exports is to actually decline 7.2 percent to a projected $141.5 billion. Double-digit percentage declines in the export of grains and feeds and oilseeds and products are projected, while livestock, poultry, and dairy products are projected to decrease about 6 percent. On the positive side, U.S. exports of horticultural products are projected to increase 8 percent to $33.4 billion. About a third of the increase is attributed to larger exports of tree nuts, mainly almonds and walnuts.

The decline in U.S. agricultural export sales projected for FY 2015 is due in large part to the rising value of the dollar, which makes U.S. goods more expensive to importers. In addition, other exporters enjoy a competitive advantage when the dollar strengthens against their own currencies. For the period July 1, 2014, through the end of February 2015, the U.S. dollar appreciated 27 percent against the Brazilian real, 20 percent against the euro, and around 16 percent against the Japanese yen and the Canadian dollar. The dollar's appreciation since the summer of 2014 is expected to continue through 2015 and will dampen demand for U.S. agricultural products despite their lower prices.

Interest Rate Environment

Interest expenses for U.S. production agriculture totaled $16.3 billion for 2014, accounting for around 5 percent of total cash expenses. Interest on real estate mortgages accounted for 62 percent of the total interest expenses. Changes in interest rates can materially affect the funding cost of Farm Credit System borrowers, depending on the interest rate product and structure of the loans. The System's banks and associations, Farmer Mac, and their borrowers continue to benefit from extremely low interest rates. Three-month Treasury bills yielded an average of just 0.03 percent for 2014, while the 10-year Treasury bond had an average annual rate of 2.54 percent.

Interest rates have been at historic lows in recent years to help stimulate a sluggish economy. With a slow but improving economy expected for 2015 and beyond, the Federal Reserve has indicated that it will likely begin to slowly raise interest rates sometime in 2015. However, if interest rates begin to rise more than anticipated, farmland values could come under additional pressure.

The General Economy

Real gross domestic product (GDP) grew 2.4 percent in 2014 compared with 2.2 percent in 2013. The increase in real GDP in 2014 reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports, State and local government spending, private inventory investment, and residential fixed investment that were partly offset by a decrease in Federal Government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The price index for gross domestic purchases increased 1.4 percent in 2014, compared with an increase of 1.3 percent in 2013. Current-dollar GDP increased 3.9 percent, or $650.8 billion, in 2014 to a level of $17,418.9 billion, compared with an increase of 3.7 percent, or $604.9 billion, in 2013.

The consensus forecast from Consensus Economics projects real GDP for the U.S. economy to expand 3.1 percent for 2015. Real personal consumption is projected to increase by 3.3 percent, real Government consumption is projected to increase by 0.8 percent, and real business investment is projected to increase by 5.2 percent. The U.S. trade deficit is projected to widen an additional $36 billion, or 8 percent, to $490 billion for 2015 due to sluggish growth abroad and a significantly stronger dollar, which discourages exports and encourages imports.

Employment Prospects

The labor market strengthened further during 2014 as employment rose and the unemployment rate declined. Payroll employment increased an average of about 280,000 jobs per month in the second half of 2014, almost 40,000 jobs per month faster than in the first half of 2014. The gain in payroll employment for 2014 was the largest since 1999. However, in March 2015, 126,000 jobs were created, well below the monthly average for the preceding 12 months of 269,000 new jobs. The unemployment rate continued to fall throughout 2014, declining to a low of 5.6 percent for December 2014. The unemployment rate fell to a new low of 5.5 percent in February 2015 and remained at that level for March, a rate more than 4 percentage points below its peak in 2009. A substantial portion of the decline in unemployment over the past year came from a decrease in the number of individuals reporting unemployment spells longer than six months.

Because many unemployed people got discouraged and dropped out of the labor force, the labor force participation rate continued to decline not only during the recession, but also during much of the recovery period when most other indicators of labor market health were improving. The labor force participation rate remained low in early 2015, with a rate of 62.7 percent for March matching the monthly lows of September and December 2014. Another sign that the labor market remains weaker than indicated by the unemployment rate alone is the still-elevated share of workers who are either marginally attached (discouraged) or employed part time but would like to work full time. The more comprehensive U-6 measure of labor underutilization remains quite elevated at 10.9 percent for March 2015, nearly double the more widely reported U-3 measure of 5.5 percent (total unemployed as a percent of the civilian labor force).

Nevertheless, most broad measures of labor market health have improved. With employment rising, the employment-to-population ratio climbed noticeably higher in 2014 and early 2015 after moving more or less sideways for much of the recovery. The quit rate, which is often perceived as a measure of worker confidence in labor market opportunities, has largely recovered to its pre-recession level.

Even as the labor market has been improving, most measures of labor compensation have continued to show only modest gains. The employment cost index (ECI) for private industry workers, which measures both wages and the cost of employer-provided benefits, rose 2.25 percent in 2014, only slightly faster than the gains of about 2 percent that had prevailed for several years.

Two other prominent measures of compensation—average hourly earnings and business-sector compensation per hour—increased slightly less than the ECI over the past year and have shown fewer signs of acceleration. Over the past five years, the gains in all three of these measures of nominal compensation have fallen well short of their prerecession averages and have only slightly outpaced inflation. That said, the drop in energy prices has pushed up real wages in recent months.

Employment in Nonmetropolitan Areas

The recovery of the job market from the Great Recession in nonmetro areas has lagged behind that of metro areas. Over the past several years, urban areas of the United States have seen moderate employment growth. By the second quarter of 2014, urban employment was slightly above the level it held at the onset of the Great Recession in late 2007. Urban employment rose by 5.0 percent between the second quarters of 2010 and 2014.

However, over the same four-year period, employment grew by just 1.1 percent in rural America, and it remained more than 3 percentage points below prerecession levels as of mid-2014, despite a slight uptick recently. Employment losses persisted in many rural areas, including much of the South, Appalachia, Northwest, and Mountain West.

Housing Sector Recovery

After advancing reasonably well in 2012 and early 2013, the recovery in residential construction activity has slowed markedly in 2014. Single-family housing starts only edged up in 2014, and multifamily construction activity was also little changed. And sales of both new and existing homes were flat, on net, last year. In all, real residential investment rose only 2.5 percent in 2014, and it remains well below its prerecession peak. The weak recovery in construction likely relates to the rate of household formation, which, notwithstanding tentative signs of a recent pickup and the improvement in the labor market, has generally stayed very low.

Lending policies for home purchases remained tight overall although there are some indications that mortgage credit has started to become more widely accessible. Meanwhile, for borrowers who can qualify for a mortgage, the cost of credit is low. After rising appreciably around mid-2013, mortgage interest rates have since lost much of that increase. The average 30-year fixed mortgage rate declined roughly 60 basis points in 2014, and it has edged down further in 2014 to a level not far from its all-time low in 2012.

The gains in house prices slowed in 2014. For example, the CoreLogic national index increased only 5 percent after rising more substantially in 2012 and 2013, while the Case-Shiller U.S. National Home Price Index increased by 4.6 percent.

Movements in home prices showed clear regional patterns in 2014. The western half of the nation plus Miami and Atlanta enjoyed year-over-year increases of 5 percent or more. San Francisco and Miami were the strongest. Dallas, Denver, Las Vegas, and Atlanta also experienced solid gains. Phoenix was an exception to the western strength, with only a 2.4 percent increase. San Diego was a bit under 5 percent at 4.8 percent. The Midwest and Northeast lagged. Boston was the strongest among this weak group, with prices up 3.8 percent.

Consumer Price Inflation

Inflation affects agriculture by raising input costs and by curbing consumer demand for high-value products like dairy, meat, and processed foods; it also curbs consumption of food away from home. Inflation remained low in 2014, with the core personal consumption expenditure (PCE) price index (or prices of PCE goods and services excluding food and energy) increasing at an annual rate of about 1.25 percent. Falling import prices likely held down core inflation; lower oil prices, and easing prices for commodities more generally, may have played a role as well. In addition, ongoing slack in labor markets has reinforced the low-inflation environment. Though with the improving economy, increased labor force utilization could push wages higher, contributing to a more inflationary environment.

For the overall basket of items that people consume, price increases remain muted and below the Federal Open Market Committee's (FOMC's) longer-run objective of 2 percent. The central tendencies of the projections of the committee's participants indicate that core PCE inflation will move down somewhat in 2015. However, almost all participants project that PCE inflation will rise gradually, on balance, from 2015 to 2017, getting close to, if not reaching, the committee's 2 percent objective. Amid signals from the Federal Reserve that current economic conditions are still not ripe for an interest rate increase, Treasury market expectations for the timing of a rate hike shifted from June 2015 to September.

International Trade

The broad nominal value of the dollar has increased markedly since the middle of 2014, with the U.S. dollar appreciating against almost all currencies. The increase in the value of the dollar was driven largely by additional monetary easing abroad and rising concerns about declines in foreign growth—forces similar to those that drove benchmark yields lower. The dollar is also strengthening as a result of expectations of solid U.S. growth and the anticipated start of monetary tightening in the United States later this year.

Both the euro and the yen have depreciated about 20 percent against the dollar since mid- 2014. Despite the sharp nominal appreciation of the dollar since mid-2014, the real value of the dollar, measured against a broad basket of currencies, is somewhat below its historical average since 1973 and well below its peak in early 1985.

U.S. exports of goods and services increased $65.2 billion, or 2.9 percent, in 2014 to $2.28 trillion, the highest on record. Exports of foods, feeds, and beverages ($144.2 billion); capital goods ($550.0 billion); automotive vehicles ($159.5 billion); and consumer goods ($199.2 billion) were the highest on record in 2014.

Imports rose at an even faster pace, increasing $93.9 billion, or 3.4 percent, to a record $2.76 trillion. Imports of food, feeds, and beverages ($125.8 billion); capital goods ($591.4

billion); automotive vehicles ($327.8 billion); and consumer goods ($558.0 billion) also set record highs in 2014. However, imports of petroleum in 2014 ($334.1 billion) were the lowest since 2009 ($253.7 billion).

The trade deficit increased $28.7 billion, or 6.0 percent, to $505 billion in 2014. The trade deficits with China ($342.6 billion), the European Union ($141.1 billion), and South Korea ($25.1 billion) were the highest on record, while the deficit with Mexico ($53.8 billion) was the lowest since 2009. The 2014 surplus with South and Central America ($34.4 billion) was the highest on record.

Household and Business Borrowing

Household debt increased in 2014 despite a continued decline in residential mortgage debt outstanding. In contrast to mortgages, consumer credit continued to expand through late 2014 because auto and student loans remained available even to borrowers with lower credit scores. In addition, credit cards became somewhat more accessible to individuals on the lower end of the credit spectrum, leading to a moderate increase in credit card debt in 2014.

The financial condition of large nonfinancial firms generally remained solid in the second half of 2014; profitability stayed high, and default rates on nonfinancial corporate bonds were generally very low. Nonfinancial firms have continued to raise funds through capital markets at a robust pace, given sturdy corporate credit quality, historically low interest rates on corporate bonds, and highly accommodative lending conditions for most firms.

Bond issuance by investment-grade nonfinancial firms and syndicated lending to those firms have both been particularly strong. However, speculative-grade issuance in those markets, which had remained elevated for most of 2014, diminished late in the year because volatility increased and spreads widened. Perhaps another reason for the decline in issuances was the heightened scrutiny that regulators gave to syndicated leveraged loans with weaker credit quality and lower repayment capacity.

Credit also was readily available to most bank-dependent businesses. According to the October 2014 and January 2015 Senior Loan Officer Opinion Survey reports, banks generally continued to ease price and nonprice terms on commercial and industrial loans to firms of all sizes in the second half of 2014. That said, in the fourth quarter, several banks reported having tightened lending standards for oil and gas firms; in some cases, banks tightened lending standards more broadly, citing legislative, supervisory, or accounting changes as their reason for doing so.

In addition, although banks reported substantial increases in commercial and industrial loans in the second half of 2014, loans to businesses in amounts of $1 million or less (which generally indicate lending to small businesses) increased only modestly. The weak growth in these small loans appears largely due to sluggish demand; however, bank lending standards to small businesses are still reportedly somewhat tighter than over the past decade despite considerable loosening over the past few years.

Federal Deficit

Other factors that may limit economic growth are the Federal budget deficit and the Federal debt held by the public. The annual deficit for fiscal year 2014 fell 29 percent to $483.35 billion, the lowest deficit since 2008. It amounted to 2.8 percent of the country's gross domestic product.

However, the Congressional Budget Office (CBO) estimates that the Federal deficit will increase for FY 2015. For the first half of FY 2015 (October 2014 to March 2015), the CBO estimates that the Federal Government ran a budget deficit of $430 billion, or $17 billion more than the shortfall recorded in the same period last year. While tax receipts were up in the first half of FY 2015, outlays expanded by a greater amount because of larger outlays for Fannie Mae, Freddie Mac, Medicaid (mostly for provisions of the Affordable Care Act), and Medicare payments to prescription drug plans.

While the deficit has been declining in recent years, the accumulation of annual deficits continues to raise the Federal debt held by the public, which increased 6.5 percent to $17.82 trillion in FY 2014. This amounts to almost double the level of 2007. Ongoing deficits and debt of these magnitudes can lead to imbalances in capital and credit markets, which in turn can undermine the confidence of market participants, leading to inflation and higher interest rates.

Farm Credit System Portfolio[23]

System loan volume grew almost 8 percent in 2014 despite lingering stress in a few sectors. While loan volume continued to grow in many areas where cash grain is produced, it also grew in other regions and sectors of agriculture. Lending to finance production inputs, inventories, machinery, and real estate purchases increased as high commodity prices continued. Mortgage loans grew because of continued demand for higher valued farmland and continued high commodity prices. Also, cooperatives, marketing and processing operations, and utilities contributed significantly to loan growth.

Although weather conditions were challenging, yields increased nearly enough in a large part of the Midwest to offset lower prices for most crops. Also, many producers benefited from Government support programs that helped mitigate the impact of reduced crop revenues. These revenue sources combined to maintain high farm income and stable agricultural real estate values through the middle part of the United States where most grain producers are located.

Improved commodity prices for producers in the animal-based protein sectors combined with reduced prices for corn and other feedstuffs to improve the profits and financial condition of producers in stressed sectors, such as animal protein and biofuels. As a result, the quality of loans to these sectors improved significantly this past year.

Sectors with a direct tie to housing, such as horticulture and forestry, are recovering as housing demand and the overall economy slowly improve. However, these sectors still have some borrowers who are having difficulty recovering from reduced demand, a high debt burden, or dramatically reduced borrowing capacity.

Nonaccrual loans in the cattle, dairy, poultry, forestry, horticulture, and biofuel sectors together accounted for about 41 percent, or $0.6 billion, of the System's $1.4 billion in total nonaccrual loans. The System also reported $21 million in charge-offs on loans to these sectors. This represented about 30 percent of all of the System's net charge-offs. These sectors accounted for $56.6 billion, or 26 percent, of all System loans. See table 8 for a breakdown of financial information by sector.

Cattle

The System's loans outstanding to the cattle industry totaled $20.9 billion at year-end 2014, up about 13 percent from year-end 2013. Cattle prices rose in response to reduced production during the year. As a result, some producers were able to remain profitable, but the high costs

Table 8

Stressed Sectors of the System's Loan Portfolio

As of December 31, 2014

Dollars in Billions

	Loan Dollar Volume	Change from Prior Year-end	Percentage of System's Total Loan Volume	Percentage of System's Nonaccrual Loan Volume
Cattle	$20.9	13%	10%	10%
Dairy	$14.3	(6%)	7%	7%
Poultry	$5.5	5%	3%	4%
Forestry	$12.6	3%	6%	7%
Horticulture	$2.5	(2%)	1%	12%
Biofuels	$0.8	(25%)	<1%	<1%

Source: Farm Credit System Annual Information Statement.

23. When referring to the Farm Credit System in this section, we mean only the banks and direct-lending associations of the System, excluding Farmer Mac.

of feeder calves cut into the profits of feedlot operators, and drought conditions in the Southwest reduced the profits of some cow-calf operations. However, profits for cow-calf operators in most other regions were very good.

The System's nonaccrual cattle loans declined 20 percent from 2013 to $141 million at year-end 2014. These loans accounted for 10 percent of the System's nonaccrual loans. Loans to cattle operations totaled almost 10 percent of the System's loan dollar volume and 46 percent of its capital.

Dairy

System loans outstanding to the dairy sector totaled $14.3 billion in 2014, down 6 percent from a year earlier. Producers continued to benefit from higher milk prices as well as lower feed costs. Most producers reduced their debt or improved their financial standing in 2014 although some drought-affected areas saw less profit improvement.

The System's nonaccrual dairy loans declined 69 percent from 2013 to $103 million at year-end 2014. The System recognized $11 million in net charge-offs on loans to this sector. Improved conditions allowed some distressed borrowers to refinance or pay down more debt than expected. Loans to this sector totaled 7 percent of the dollar volume of all System loans and 31 percent of its capital. Dairy accounted for 7 percent of the System's nonaccrual loan volume as of December 31, 2014.

Poultry

System loans outstanding to the poultry and eggs sector totaled $5.5 billion, up 5 percent from a year earlier. Most producers reported good profitability as a result of continued high poultry and egg prices and reduced feed costs. For the most part, producers used improved profits to pay down debt although many began to expand production near the end of the year.

The System's nonaccrual poultry loans fell 43 percent from 2013 to $49 million at year-end 2014. Loans to this sector totaled about 3 percent of the System's loan dollar volume and 12 percent of its capital.

Forestry

System loans outstanding to the forestry sector totaled $12.6 billion, up 3 percent from a year earlier. Improved demand for housing and higher prices for some lumber products spurred loan volume higher, and most regions of the United States saw improved demand.

The System's nonaccrual forestry loans fell 35 percent from 2013 to $91 million at year-end 2014, and the System recorded $1 million in recoveries on prior charge-offs. Loans to this sector totaled about 6 percent of the System's loan dollar volume and 27 percent of its capital.

Horticulture

Loans outstanding to horticulture operations declined 2 percent from last year to $2.5 billion. The decline reflected debt reduction and continued soft demand for landscaping material in the housing sector. Because many of these operations have specialized facilities and are located in and around urban areas, these properties continued to suffer from distressed values for real estate.

The System's nonaccrual horticulture loans declined 16 percent from 2013 to $170 million at year-end 2014. Despite this reduction, these loans accounted for 12 percent of System nonaccrual loans and $4 million in charge-offs. Loans to horticulture totaled just over 1 percent of the System's loan dollar volume and 6 percent of System capital.

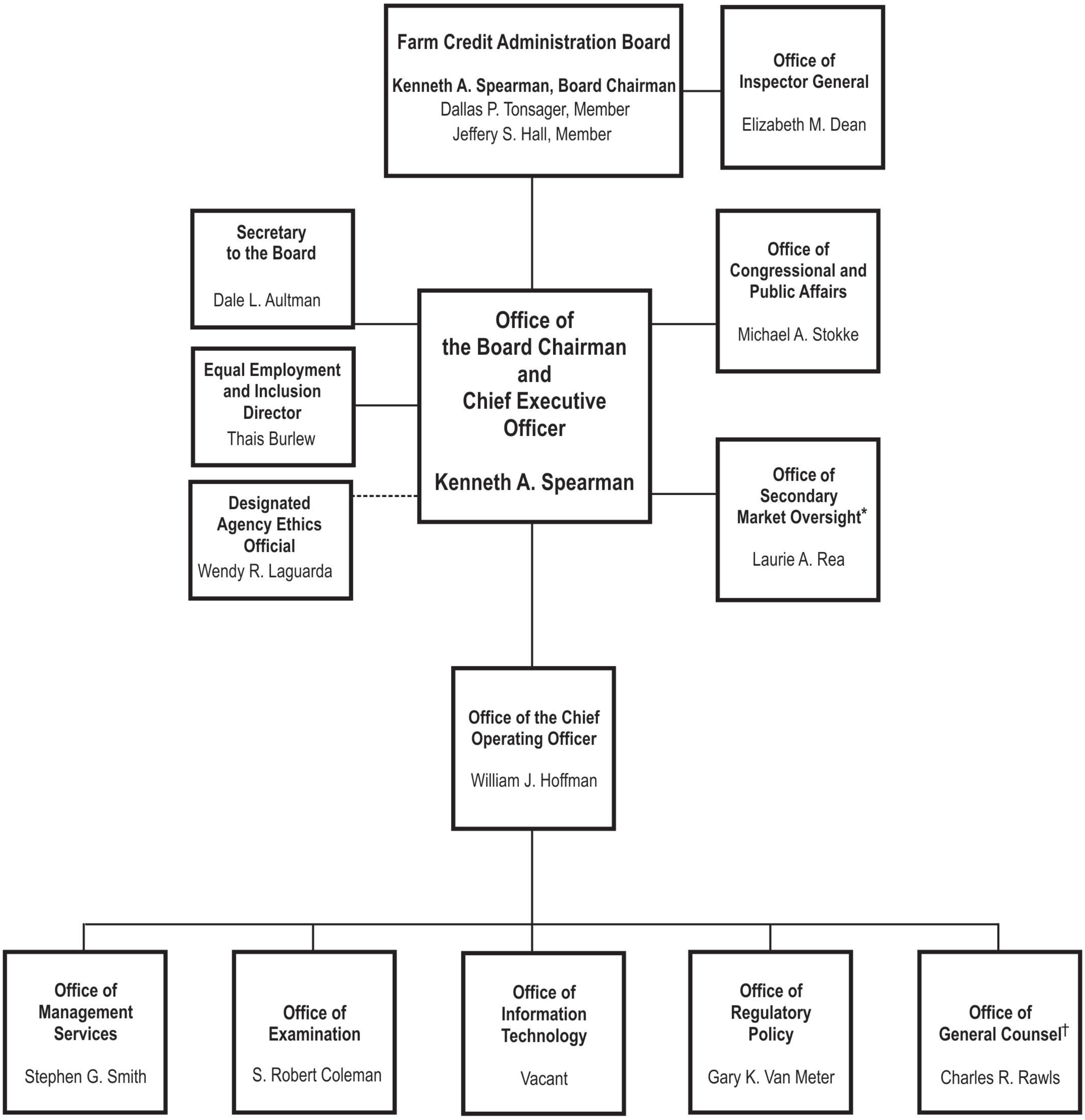
Biofuels

At the end of 2014, loans outstanding to the biofuels (primarily ethanol) industry totaled $0.8 billion, down 25 percent from a year earlier. Most plants were profitable and generated ample cash flow to pay down debt although a few plants remained idle.

The System's nonaccrual biofuel loans totaled only $9 million at year-end 2014, a drop of 70 percent from a year earlier. Furthermore, $2 million in recoveries of prior charge-offs occurred. Biofuel loans outstanding represented only 2 percent of capital and less than 1 percent of the System's total dollar volume, both of which are small numbers when compared to the System's exposure to other industries or commodities.

Appendix

Figure 17
FCA Organizational Chart
As of May 2015



***Reports to the Board for policy and to the CEO for administration.**
†Maintains a confidential advisory relationship with each of the Board members.

Farm Credit Administration

Offices

As of December 31, 2014, FCA had 278 full- and part-time employees. These employees are divided among the following offices, with the majority serving in the Office of Examination.

The FCA Board manages, administers, and establishes policies for FCA. The Board approves the policies, regulations, charters, and examination and enforcement activities that ensure a strong FCS. The Board also provides for the examination and supervision of the FCS, including Farmer Mac, and oversees the activities of the FCS Building Association, which acquires, manages, and maintains FCA headquarters and field office facilities.

The Secretary to the Board serves as the Parliamentarian for the Board and keeps permanent and complete records of the acts and proceedings of the Board. He or she ensures that the Board complies with statutory, regulatory, and internal operation reporting requirements. The Secretary to the Board also serves as Secretary to the Farm Credit System Insurance Corporation Board. In addition, he or she serves as the Sunshine Act Official for the FCA Board.

The Chairman of the FCA Board serves as the chief executive officer (CEO). The CEO enforces the rules, regulations, and orders of the FCA Board. He or she directs the implementation of policies and regulations adopted by the FCA Board. The Office of the Chief Executive Officer plans, organizes, directs, coordinates, and controls FCA's day-to-day operations and leads the Agency's efforts to achieve and manage a diverse workforce.

The Office of Congressional and Public Affairs (OCPA) serves as the Agency's principal point of contact for Congress, the media, other Government agencies, FCS institutions, employees, System borrowers, and the public. OCPA develops and monitors legislation pertinent to FCA and the FCS, serves as the Agency's congressional liaison, facilitates intergovernmental relations, and prepares testimony for the Chairman and other Board members. The office also provides information to external audiences through news releases, fact sheets, reports, and other publications. It cultivates relationships with media representatives who report on matters related to agriculture and rural credit, and it manages the content of the FCA website. OCPA also organizes special meetings, briefings for international visitors, and field hearings.

The Office of Examination is responsible for examining and supervising each FCS institution in accordance with the Farm Credit Act and applicable regulations. The office develops oversight plans; conducts examinations; monitors the System's condition and current and emerging risks to the System; and develops supervisory strategies to ensure that the FCS operates in a safe and sound manner, complies with the law and regulations, and fulfills its public policy purpose. For more information about the role of the Office of Examination, go to www.fca.gov/law/guidance.html and click View Board Policy Statements to read "Examination Policy" (FCA-PS-53).

The Office of General Counsel (OGC) provides the FCA Board and staff with legal counsel as well as guidance on the Farm Credit Act and general corporate, personnel, ethics, and administrative matters. OGC supports the Agency's development and promulgation of regulations, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. The office represents and advises the Agency on civil litigation. It also serves as the liaison to the Federal Register, administers the Agency's ethics program, and handles Freedom of Information Act requests.

The Office of Information Technology (OIT), which was created in June 2015, manages and delivers the Agency's information technology, data analysis infrastructure, and the security supporting Agency technology resources. The office is responsible for the planning and control of information technology investments and leading change to improve the efficiency and effectiveness of Agency operations. OIT is responsible for continuing to leverage FCA's investment in technology by collaborating across Agency offices to identify and re-engineer business processes. OIT provides strategies to collaborate across offices on business intelligence tools to develop analysis models to meet the strategic needs of the Agency.

The Office of Inspector General provides independent and objective oversight of Agency programs and operations through audits, inspections, investigations, and the review of proposed legislation and regulations. The office promotes economy and efficiency within FCA and seeks to prevent and detect fraud, waste, abuse, and mismanagement in the Agency's programs and operations.

The Office of Regulatory Policy (ORP) manages policy and regulation development activities that ensure the safety and soundness of the FCS and support the System's mission. Policy and regulation development activities include the analysis of policy and strategic risks to the System on the basis of economic trends and other risk factors. ORP also evaluates all regulatory and statutory prior approvals for System institutions on behalf of the FCA Board, including chartering and other corporate approvals as well as funding approvals.

The Office of Management Services (OMS) manages and delivers the Agency's financial, human capital, and administrative services. The office coordinates planning efforts, including information resources management, security, human capital, and financial plans for the Agency. By centrally planning, managing, and delivering resource services, OMS enables the Agency's program offices to fully focus their time and attention on their respective mission-related responsibilities.

The Office of Secondary Market Oversight (OSMO) provides for the examination, regulation, and supervision of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. OSMO also ensures that Farmer Mac complies with applicable laws and regulations, and it manages FCA's enforcement activities with respect to Farmer Mac.

Agency Officials

William J. Hoffman is Chief Operating Officer. Before accepting this position in July 2008, Mr. Hoffman was Executive Assistant to Board Member and former Chairman and CEO Nancy C. Pellett. Prior to this, he served as the Associate Director for Examination and Supervision in the Office of Secondary Market Oversight, which oversees the Federal Agricultural Mortgage Corporation. He began his career as a credit representative in the Louisville Farm Credit District. Mr. Hoffman first joined FCA in 1976 as a credit and operations officer. In 1984 he was named Associate Deputy Governor for the Office of Examination and Supervision. In 1986 he joined the St. Louis Farm Credit Bank as Vice President of Risk Assets. He later was the CEO of PennWest Farm Credit, ACA, which served western Pennsylvania. Before rejoining FCA in 2004, he was involved in agricultural finance in the private sector and several international projects.

Samuel Robert Coleman is Director of the Office of Examination. Before accepting this position in October 2010, he was Director of the Agency's Office of Secondary Market Oversight for five years. Mr. Coleman joined FCA in 1986 as an examiner in the Office of Examination. He held various positions in that office, providing technical support to FCA field offices and to the Policy Development and Planning Division. During this period, Mr. Coleman completed the commissioning program and became a commissioned examiner in 1990. In 1994, he transferred to the Office of Policy and Analysis, where he served as a policy analyst specializing in regulation development, and then as a senior policy analyst. Mr. Coleman was named Director of the Regulation and Policy Division in June 2003. He holds the Chartered Financial Analyst designation, which the CFA Institute awarded him in 2000.

Elizabeth M. Dean is Acting Inspector General. Before assuming this position in 2013, Ms. Dean was the Deputy Inspector General and Counsel to the Inspector General since 1989. As Deputy IG and Counsel, she directed the investigative function of FCA's OIG, periodically conducted inspections and evaluations, performed legal duties, and comanaged the OIG. From 1986 to 1989, Ms. Dean served as a senior attorney in FCA's Office of General Counsel, Litigation and Enforcement Division. Ms. Dean served on active duty as a U.S. Navy Judge Advocate from 1982 until 1986; she retired from the U.S. Naval Reserves in 2000. Upon completing law school in 1981, she worked for the Attorney General of the State of Ohio in the Criminal Activities Branch.

Charles R. Rawls is the FCA General Counsel. Before joining FCA in March 2003, he was general counsel and vice president for legal, tax, and accounting at the National Council of Farmer Cooperatives. During the consideration of the 2002 farm bill, he served as the General Counsel of the Senate Committee on Agriculture, Nutrition, and Forestry. From 1998 to 2001, he was General Counsel for the USDA, and from 1993 to 1998 he was Chief of Staff to the Deputy Secretary of Agriculture. From 1988 to 1993, he was Legislative Director and then Administrative Assistant to Congressman Martin Lancaster. From 1985 to 1988, he was Associate General Counsel of the House Committee on Agriculture. He was Counsel to the House Agriculture Subcommittee on Forests, Family Farms, and Energy from 1983 to 1985.

Laurie A. Rea is Director of the Office of Secondary Market Oversight (OSMO). She was named to this position in January 2011. Ms. Rea joined FCA in 1986 after graduating from San Diego State University. She has held several positions with the Agency, beginning with the Office of Examination where she became a commissioned FCA examiner in 1989. In 1992, she joined the Office of Policy and Analysis (now the Office of Regulatory Policy), where she gained experience in policy and regulation development. From 2005 until 2011, Ms. Rea served as associate director and finance and capital markets team leader in the Office of Regulatory Policy, where she managed the approval of Systemwide debt securities and led the Agency's regulatory capital and investment policy development. Ms. Rea is a Chartered Financial Analyst from the CFA Institute and a Certified Risk Professional.

Stephen G. Smith is the Chief Financial Officer and Director of the Office of Management Services. Previously, from 2001 to 2005, he served as the Agency's Inspector General. He joined FCA in 1981 as a technical specialist. He is a commissioned FCA examiner and served in several leadership roles including Associate Regional Director for the Albany New York field office, Senior Staff Director for the Chief Examiner, and Director of the Technical and Operations Division. In 1993, he assumed new responsibilities as Director of the Information Resources Division. He was named Chief Information Officer in 1996, directing all technology and information operations for FCA. Before joining the Agency, he worked at the North Central Jersey Farm Credit Associations.

Michael Stokke is Director of the Office of Congressional and Public Affairs. Prior to joining FCA, Mr. Stokke was founder and president of Prairie Strategies, a consulting firm based in Illinois, where he advised corporations and nonprofit organizations. He served as Deputy Chief of Staff to former Speaker of the House Dennis Hastert from February 1998 to October 2007. Prior to this, Mr. Stokke served as Chief of Staff for the Office of the Speaker in the Illinois House of Representatives from 1995 to 1998. He served as Chief of Staff for Representative Thomas W. Ewing of Illinois from 1991 through 1994. From 1987 to 1991, he was Assistant Director of Personnel for the Office of the Governor of Illinois. He also served as Assistant to the Secretary of the Illinois Department of Transportation from 1985 to 1987.

Gary K. Van Meter is Director of the Office of Regulatory Policy (ORP). He was named to this position in November 2010 after having served as the Deputy Director of ORP for five years. Prior to this, he served in the Office of General Counsel (OGC) for 17 years. In OGC, he served as a senior attorney and later as senior counsel before joining ORP. Mr. Van Meter holds a J.D. from West Virginia University College of Law and a master of law in taxation from Georgetown University Law Center. He is also a certified public accountant. From 1972 to 1974, Mr. Van Meter was an enlisted member of the U.S. Marine Corps, and he was an officer in the U.S. Navy Judge Advocate General's (JAG) Corps from 1981 to 1986.

Dale L. Aultman became Secretary to the FCA Board in January 2011. He began working at FCA in 1988. For the first 10 years, he worked in the Office of Examination, where he became a commissioned examiner. Then for 12 years, he was a policy analyst in the Office of Regulatory Policy. Mr. Aultman is a member of the National Association of Parliamentarians. In 2010, he became Virginia's eighth electronic notary. In 2007, he completed FCA's Supervisory Development Program. Mr. Aultman graduated with distinction from Southwestern Graduate School of Banking at the Southern Methodist University and holds a finance degree from the University of Oklahoma.

Thais Burlew is Director of Equal Employment Opportunity and Inclusion. Before joining FCA in September 2011, she served as Executive Manager in the Office of EEO and Inclusiveness at the U.S. Postal Service. From 2001 to 2008, Ms. Burlew held several positions at the U.S. Equal Employment Opportunity Commission, including attorney advisor to Chair Naomi Churchill-Earp and Acting Chief for the Intake and Compliance Branch. Prior to this, she served as Advocate for the Housing and Consumer Law Clinic and for the Juvenile Special Education Clinic. Ms. Burlew earned a J.D. magna cum laude from David A. Clarke School of Law at the University of the District of Columbia, where she served as managing and associate editor of the school's law review. She also holds a B.S. in criminal justice from Middle Tennessee State University.

Wendy R. Laguarda is the Designated Agency Ethics Official (DAEO). As DAEO, Ms. Laguarda administers the ethics program for FCA and the Farm Credit System Insurance Corporation. This involves providing for the review of financial disclosure reports, creating and conducting ethics training programs, counseling Agency staff on ethics issues, and monitoring compliance with ethics rules. In addition to her responsibilities as DAEO, Ms. Laguarda serves as assistant general counsel in the Office of General Counsel and administers the Agency's Alternative Dispute Resolution Program. Before coming to FCA in 1990, Ms. Laguarda was an attorney advisor at the Office of Thrift Supervision and its predecessor Agency, the Federal Home Loan Bank Board. A graduate of Tufts University and George Washington University National Law Center, she is a member of the Maryland and District of Columbia Bars, as well as a mediator certified by the Supreme Court of Virginia.

Glossary

A

Agricultural Credit Association—An ACA results from the merger of a Federal Land Bank Association or an FLCA and a PCA and has the combined authority of the two institutions. An ACA borrows funds from an FCB or ACB to provide short-, intermediate-, and long-term credit to farmers, ranchers, and producers and harvesters of aquatic products. It also makes loans to these borrowers for certain processing and marketing activities, to rural residents for housing, and to certain farm-related businesses.

Agricultural Credit Bank—An ACB results from the merger of a Farm Credit Bank and a Bank for Cooperatives and has the combined authorities of those two institutions. An ACB is also authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. CoBank is the only ACB in the FCS.

B

Bank for Cooperatives—A BC provided lending and other financial services to farmer-owned cooperatives, rural utilities (electric and telephone), and rural sewer and water systems. It was also authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. The last remaining BC in the FCS, the St. Paul Bank for Cooperatives, merged with CoBank on July 1, 1999.

F

Farm Credit Act—The Farm Credit Act of 1971, as amended, (12 U.S.C. §§ 2001–2279cc) is the statute under which the FCS operates. The Farm Credit Act recodified all previous acts governing the FCS.

Farm Credit Bank—FCBs provide services and funds to local associations that, in turn, lend those funds to farmers, ranchers, producers and harvesters of aquatic products, rural residents for housing, and some agriculture-related businesses. On July 6, 1988, the Federal Land Bank and the Federal Intermediate Credit Bank in 11 of the 12 then-existing Farm Credit districts merged to become FCBs. The mergers were required by the Agricultural Credit Act of 1987.

Farm Credit Leasing Services Corporation—The Leasing Corporation is a service entity owned by CoBank, ACB. It provides equipment leasing and related services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit System Insurance Corporation—FCSIC was established by the Agricultural Credit Act of 1987 as an independent U.S. Government-controlled corporation. Its purpose is to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks and to act as conservator or receiver of FCS institutions. The FCA Board serves ex officio as the Board of Directors for FCSIC. The chairman of the FCSIC board of directors must be an FCA Board member other than the current Chairman of the FCA Board.

Federal Agricultural Mortgage Corporation—Farmer Mac was created with the enactment of the Agricultural Credit Act of 1987 to provide a secondary market for agricultural real estate and rural housing mortgage loans.

Federal Farm Credit Banks Funding Corporation—The Funding Corporation, based in Jersey City, New Jersey, manages the sale of Systemwide debt securities to finance the loans made by FCS institutions. It uses a network of bond dealers to market its securities.

Federal Intermediate Credit Bank—The Agricultural Credits Act of 1923 provided for the creation of 12 FICBs to discount farmers' short- and intermediate-term notes made by commercial banks, livestock loan companies, and thrift institutions. The Farm Credit Act of 1933 authorized farmers to organize PCAs, which could discount notes with FICBs. As a result, PCAs became the primary entities for delivery of short- and intermediate-term credit to farmers and ranchers. The FICBs and the Federal Land Banks in all Farm Credit districts merged to become FCBs or the ACB. Thus, no FICBs remain within the FCS.

Federal Land Bank—The Federal Farm Loan Act of 1916 provided for the establishment of 12 Federal Land Banks to provide long-term mortgage credit to farmers and ranchers, and later to rural home buyers. All Federal Land Banks and FICBs have merged to become FCBs or part of the ACB. Thus, no Federal Land Banks remain.

Federal Land Bank Association— These associations were lending agents for FCBs. Federal Land Bank Associations made and serviced long-term mortgage loans to farmers, ranchers, and rural residents for housing. The associations did not own loan assets but made loans only on behalf of the FCB with which they were affiliated. As of October 1, 2000, there were no remaining Federal Land Bank Associations serving as lending agents for FCBs.

Federal Land Credit Association— An FLCA is a Federal Land Bank Association that owns its loan assets. An FLCA borrows funds from an FCB to make and service long-term loans to farmers, ranchers, and producers and harvesters of aquatic products. It also makes and services housing loans for rural residents.

Financial Institution Rating System—The FIRS is similar to the Uniform Financial Institutions Rating System used by other Federal banking regulators. However, unlike the Uniform Financial Institutions Rating System, the FIRS was designed to reflect the nondepository nature of FCS institutions. The FIRS provides a general framework for assimilating and evaluating all significant financial, asset quality, and management factors to assign a composite rating to each System institution. The ratings are described below.

- **Rating 1—**Institutions in this group are basically sound in every respect; any negative findings or comments are of a minor nature and are anticipated to be resolved in the normal course of business. Such institutions are well managed, resistant to external economic and financial disturbances, and more capable of withstanding the uncertainties of business conditions than institutions with lower ratings. Each institution in this category exhibits the best performance and risk management practices for its size, complexity, and risk profile. These institutions give no cause for regulatory concern.

- **Rating 2—**Institutions in this group are fundamentally sound but may reflect modest weaknesses correctable in the normal course of business. Since the nature and severity of deficiencies are not material, such institutions are stable and able to withstand business fluctuations. Overall risk management practices are satisfactory for the size, complexity, and risk profile of each institution in this group. While areas of weakness could develop into conditions of greater concern, regulatory response is limited to the extent that minor adjustments are resolved in the normal course of business and operations continue in a satisfactory manner.

- **Rating 3—**Institutions in this category exhibit a combination of financial, management, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory. When weaknesses relate to asset quality or financial condition, such institutions may be vulnerable to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting the areas of weakness. Institutions that are in significant noncompliance with laws and regulations may also be accorded this rating. Risk management practices are less than satisfactory for the size, complexity, and risk profile of each institution in this group. Institutions in this category generally give cause for regulatory concern and require more than normal supervision to address deficiencies. Overall strength and financial capacity, however, still make failure only a remote possibility if corrective actions are implemented.

- **Rating 4—**Institutions in this group have an immoderate number of serious financial or operating weaknesses. Serious problems or unsafe and unsound conditions exist that are not being satisfactorily addressed or resolved. Unless effective actions are taken to correct these conditions, they are likely to develop into a situation that will impair future viability or constitute a threat to the interests of investors, borrowers, and stockholders. Risk management practices are generally unacceptable for the size, complexity, and risk profile of each institution in this group. A potential for failure is present but is not yet imminent or pronounced. Institutions in this category require close regulatory attention, financial surveillance, and a definitive plan for corrective action.

- **Rating 5—**This category is reserved for institutions with an extremely high, immediate or near-term probability of failure. The number and severity of weaknesses or unsafe and unsound conditions are so critical as to require urgent external financial assistance. Risk management practices are inadequate for the size, complexity, and risk profile of each institution in this group. In the absence of decisive corrective measures, these institutions will likely require liquidation or some form of emergency assistance, merger, or acquisition.

G

Government-sponsored enterprise—A GSE is typically a federally chartered corporation that is privately owned, designed to provide a source of credit nationwide, and limited to servicing one economic sector. Each GSE has a public or social purpose. GSEs are usually created because the private markets did not satisfy a purpose that Congress deems worthy—either to fill a credit gap or to enhance competitive behavior in the loan market. Each is given certain features or benefits (called GSE attributes) to allow it to overcome the barriers that prevented purely private markets from developing. In some cases, the GSE receives public assistance only to get started; in other cases, the assistance is ongoing. The FCS is the oldest financial GSE.

P

Participation—A loan participation is usually a large loan in which two or more lenders share in providing loan funds to a borrower to manage credit risk or overcome a legal lending limit for a single credit. One of the participating lenders originates, services, and documents the loan. Generally, the borrower deals with the institution originating the loan and is not aware of the other participating institutions.

Production Credit Association—PCAs are FCS entities that deliver only short- and intermediate-term loans to farmers and ranchers. A PCA borrows money from its FCB to lend to farmers. PCAs also own their loan assets. As of January 1, 2003, all PCAs were eliminated as independent, stand-alone, direct-lender associations. All PCAs are now subsidiaries of ACAs.

S

Syndication—A loan syndication (or "syndicated bank facility") is a large loan in which a group of banks work together to provide funds for a borrower. Usually one bank takes the lead, acting as an agent for all syndicate members and serving as the focal point between them and the borrower. All syndicate members are known at the outset to the borrower and they each have a contractual interest in the loan.

Acronyms and Abbreviations

ACA—Agricultural Credit Association
ACB—Agricultural Credit Bank
CAMELS—capital, assets, management, earnings, liquidity, and sensitivity
CEO—chief executive officer
Farm Credit Act—Farm Credit Act of 1971, as amended
Farmer Mac—Federal Agricultural Mortgage Corporation
FCA—Farm Credit Administration
FCB—Farm Credit Bank
FCS—Farm Credit System
FCSIC—Farm Credit System Insurance Corporation
FIRS—Financial Institution Rating System
FLCA—Federal Land Credit Association
GAAP—generally accepted accounting principles
OFIs—other financing institutions
PCA—Production Credit Association
USDA—U.S. Department of Agriculture
YBS—young, beginning, and small (farmers and ranchers)

Additional Information

The Farm Credit Administration 2014 Annual Report on the Farm Credit System is available on FCA's website at www.fca.gov. For questions about this publication, contact FCA:

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With support from the system banks, the Federal Farm Credit Banks Funding Corporation prepares the financial press releases, the System's Annual and Quarterly Information Statements, and the System's combined financial statements. These documents are available on the Funding Corporation's website at www.farmcreditfunding.com. For copies of these documents, contact the Funding Corporation:

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The Farm Credit System Insurance Corporation's annual report is available on its website at www.fcsic.gov. To receive copies of this report, contact FCSIC:

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