FARM CREDIT ADMINISTRATION

Quarterly Report

Risk Analysis of Farm Credit System Operations

In This Issue:

Second Quarter 1997

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PREFACE

The Risk Control Division (RCD) of the Office of Policy Development and Risk Control (OPDRC) publishes an analysis of the condition and performance of the Farm Credit System (FCS or System) each quarter (Quarterly Report). The analytical focus of these reports is the identification of risk, both from within the System and from the economic and policy areas.

This Quarterly Report presents an analysis of the overall financial performance and condition of the System as of June 30, 1997, and two special reports on loan growth and on allowance for loan losses in the System. In addition, this Quarterly Report presents a review of corporate restructuring activity among System institutions from July 2 to October 1, 1997, and it presents a summary of major financial indicators for the System.

The Quarterly Report uses a variety of information sources, including quarterly Farm Credit Administration (FCA or Agency) Call Report data, System quarterly reports, U.S. Department of Agriculture (USDA) reports, and other Federal, state, and commercial information sources. Unless otherwise indicated, projections and analyses are those of Agency analysts. They do not necessarily reflect the opinions of the FCA Board or management.

The figures and tables on financial performance use information from reports filed by System institutions with the Agency by the close of business September 1, 1997. Additional information on other agricultural lenders and financial markets is maintained by the RCD.

System institutions are required to make certain disclosures to stockholders, investors, and the general public. Disclosure to investors in Systemwide securities is made by the Federal Farm Credit Banks Funding Corporation (Funding Corporation) on behalf of the issuing banks and by individual System institutions in reports to their respective stockholders. The quarterly *Summary Report of Condition and Performance of the Farm Credit System,* published by the Funding Corporation, provides a detailed set of tables showing the financial results for the Farm Credit banks combined with their affiliated associations.

Questions regarding the content of this report may be directed to C. Edward Harshbarger, Division Director, RCD, or to John C. Moore, Jr., Senior Economist, RCD.

EXECUTIVE SUMMARY

The System's loan volume continued to grow, with gross loans outstanding of $62.6 billion at June 30, an increase of 2.4 percent from the previous year and an increase of 18.8 percent from 4 years earlier. Clearly, most of this growth can be attributed to the healthy farm sector and the 3- to 4-percent growth rate in overall farm debt. But the System's enhanced marketing efforts, its competitive pricing programs, and its development of more efficient credit delivery systems for loans under $100,000 have also been important factors. Loans to cooperatives have been growing more rapidly than the System's overall portfolio, mostly because of expansion in lending to rural utilities. Cooperative lending now represents 26.7 percent of the portfolio. The only decreases in loans outstanding are in international lending, primarily loans to Mexico and Russia, reflecting paydowns in loans to those countries.

System income fell slightly to $303.9 million for the second quarter, because of small declines in net interest income and increases in operating expenses. Because of credit quality deterioration in a small number of processing and marketing cooperatives, nonaccrual loan volume as a percentage of total loans increased to 1.54 percent, compared with 1.24 percent a year earlier. However, this percentage is a substantial decline from slightly over 4 percent at June 30, 1992. Delinquencies over 30 days declined to 0.36 percent of accrual loans, compared with 0.48 percent a year earlier. System capital grew to $11.1 billion, or 14.5 percent of total assets. Surplus, the type of capital that counts toward two recently approved capital standards, grew at a slightly faster rate and now makes up 72 percent of total capital in the System.

The article on loan growth trends in System Banks and associations describes 1995 and 1996 System lending by type of loan, and by pricing type—variable or fixed. According to USDA, the System's market share increased from 24.4 to 25.6 percent during 1995 and 1996, after more than a decade of decline.

Agricultural real estate lending increased in 1996, with loans outstanding increasing by 6 percent after a 2-percent decline in 1995. One factor in this growth was the decline in borrower interest rates in 1996. The decline in 1996 average rates paralleled the System’s decline in its average funding costs of 50 basis points (.5 percent) as compared to 1995. An interesting point is the wide variation among districts in the percentage of real estate loans that are priced on a variable-rate versus fixed-rate basis. The number of variable rate loans ranged from a low of 60 percent in one district to a high of 98 percent in another district as of December 31, 1996.

The System continues to be predominantly a real estate lender, with 63 percent of its Title I and Title II loans secured by first liens on agricultural real estate as of year-end 1996.[1] However, loans made for non-real estate purposes are growing more rapidly than real estate lending, leading to a decline in the real estate share of the portfolio from 67 percent, 3 years earlier. Agricultural real estate and non-real estate loans continue to represent the bulk of the portfolio, at 93 percent of all loans outstanding at the end of 1996 and 92 percent of the new loans made during 1996. Since the end of 1994, rural home loans have declined slightly in their share of the overall portfolio, to about 4 percent. Average loan size increased slightly, to $51,000 for non-real estate loans and $96,000 for real estate loans as of the year-end 1996.

One article in this Quarterly Report provides an overview of trends in the System's allowance for loan losses in relation to nonperforming and nonaccrual loans. Despite the significant reduction in nonaccrual loans in System portfolios over the past 4 years, allowances as a percentage of total loans have remained in the narrow range of 2.86 to 2.99 percent. A shift in risk has occurred from the banks to the System's associations, and these direct lenders are now the largest holders of the System's nonaccrual loans. This trend follows the System's restructuring, especially the transfer of long-term real estate loans to Agricultural Credit Associations (ACAs) and Federal Land Credit Associations (FLCAs). The article also makes comparisons to the same data for commercial agricultural banks. Commercial banks maintain a lower level of allowance relative to loans than do System institutions. This finding is not surprising, considering the System's nearly 100-percent concentration in agriculturally related loans, compared with only about 45 percent for commercial agricultural banks.

As of October 1, 1997, there were 206 System associations, 21 fewer than existed a year earlier; all of the decline was the result of mergers. Federal Land Bank Association mergers in the Texas District accounted for most of the merger activity. There have been no mergers among the eight banks in the System since April 1995.

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[1] Data in this article refers only to agricultural lending in the FCS under Titles I and II of the Farm Credit Act, including lending by associations affiliated with CoBank. Loans made to Cooperatives under Title III are not included here.

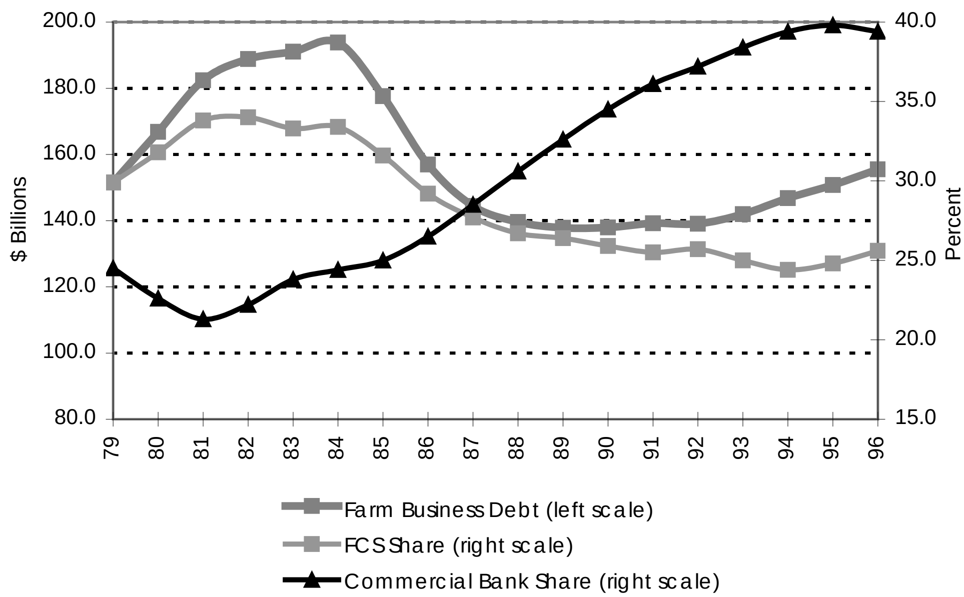
Financial Performance of the Farm Credit System for the Second Quarter 1997

Thomas R. Risdal

Overview: FCS Financial Indicators Point to a Healthy Agricultural Economy

The System is experiencing increased volume as total farm business debt has expanded since 1989 and the System's market share has increased slightly during the last 2 years, as shown in Figure 1.

Figure 1
Farm Business Debt



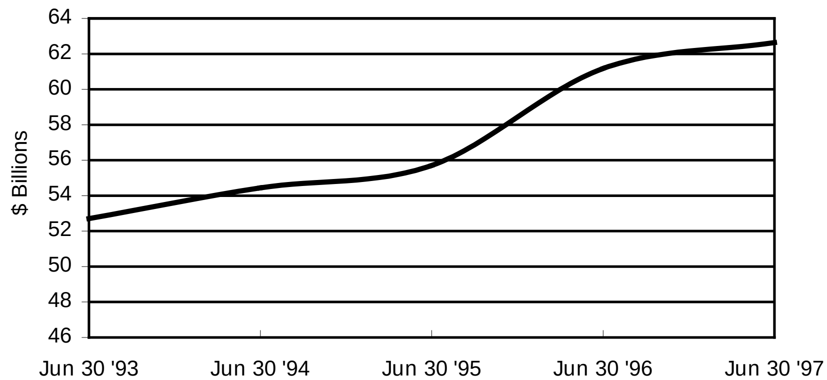
Source: USDA "Agricultural Income & Finance," February 1997.

This article summarizes changes since June 30, 1996, and identifies trends over the past 4 to 6 years.

FCS Loan Volume Growth Trend Continues

Gross loan volume outstanding at June 30, 1997, was $62.6 billion, a 2.4-percent increase from $61.2 billion at June 30, 1996 (Figure 2). This gain is due to the use of more debt by the farm sector, to the System's increased marketing efforts, and to competitive pricing programs over the past 12 months. The growth spurt of a year earlier, June 30, 1995, to June 30, 1996, was due to an 18-percent increase in domestic loans to cooperatives and a 13.9-percent increase in short- and intermediate-term production loans. The growth rate from June 30, 1996, to June 30, 1997, indicates a return to the more moderate steady increases experienced since 1993. Since June 30, 1993, gross loan volume has increased 18.8 percent.

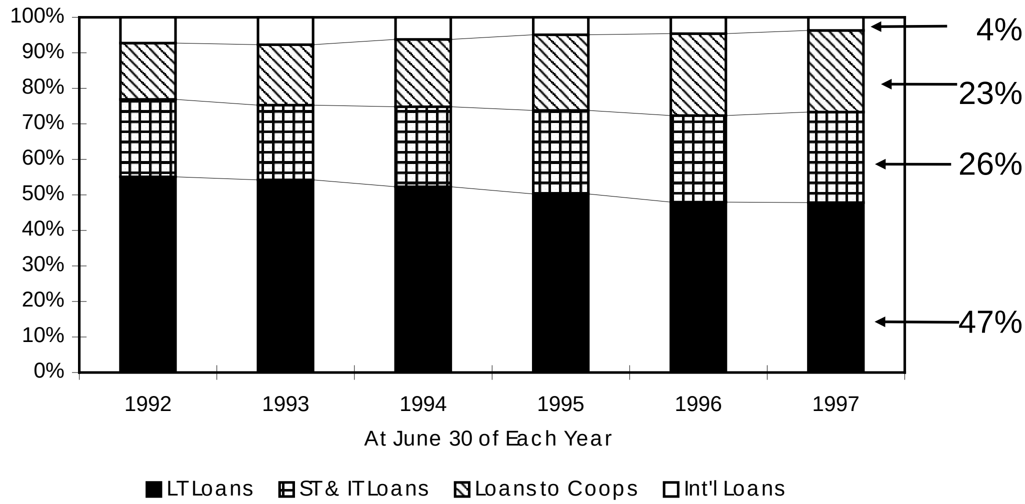
Figure 2
FCS Gross Loan Volume



All loan sectors except export financing grew between June 30, 1996 and June 30, 1997, although at a slower rate than a year earlier. Long-term real estate loans (excluding loans to cooperatives) grew from $29.4 billion at June 30, 1996, to nearly $30 billion at June 30, 1997–a growth rate of 2.1 percent. Short- and intermediate-term loans to agricultural producers grew more than 7.3 percent, from $14.9 billion to nearly $16.0 billion. Domestic loans to cooperatives grew nearly 2 percent, from $14.1 billion to $14.4 billion, thanks to expansion in inventory and in receivable financing and lending to rural utilities. Loans made in connection with international cooperative transactions were reduced 17.9 percent, from $2.8 billion at June 30, 1996, to $2.3 billion at June 30, 1997. This decrease in international transactions resulted primarily from reduced lending to Mexico and Russia. Since 1992, loans made in connection with international transactions have declined 39 percent.

The percentage mix of the System's loans is continuing a trend that has been evident for several years. Generally, long-term real estate loans and international loans are declining, while loans to cooperatives and short- and intermediate-term loans to producers are increasing (Figure 3).

Figure 3
FCS Loan Portfolio



Source: Federal Farm Credit Banks Funding Corporation Quarterly Information Statement.

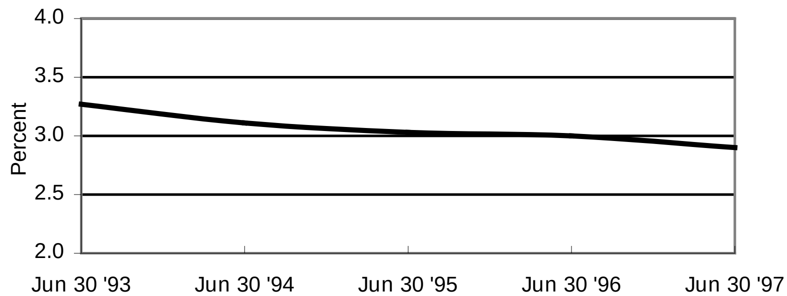
Net Income Down 2.2 Percent

Net income for the quarter ended June 30, 1997, was $303.9 million, a 2.2 percent reduction from the quarter ended June 30, 1996. The decline reflects a reduction in net interest income, increases in salaries and employee benefits, and increases in other operating expenses. Net interest income decreased to $537 million for the quarter ended June 30, 1997, compared with $543 million for the quarter ended June 30, 1996. Net interest income declined because the spread between the yield on interest-earning assets and the cost of interest-bearing debt declined by 18 basis points, from 2.19 percent (annualized) in the second quarter of 1996 to 2.01 percent (annualized) in the second quarter of 1997. Competitive loan pricing pressures explain most of the shrinkage in the spread.

Net Interest Margin Continues to Shrink

As shown in Figure 4, the net interest margin at June 30, 1997, was 2.90 percent, a 10 basis point drop from June 30, 1996.[2]

Figure 4
FCS Net Interest Margin



Quarter Ended

Since June 30, 1993, the net interest margin has steadily declined by 37 basis points because of competitive loan pricing pressures and because of the decrease in interest income recognized from payments on cash-basis nonaccrual loans as these loans have been reinstated to accrual status.

Total operating expenses as a percentage of total loans increased from 1.33 percent (annualized) at June 30, 1996, to 1.37 percent (annualized) at June 30, 1997 (Figure 5). Compared with the second quarter of 1996, salaries and employee benefits increased 3.8 percent, and other operating expenses increased 10.4 percent. The annualized operating expense rate has tended to decline over the past 5 years, because the growth in total loans has outpaced the increase in total operating expenses.

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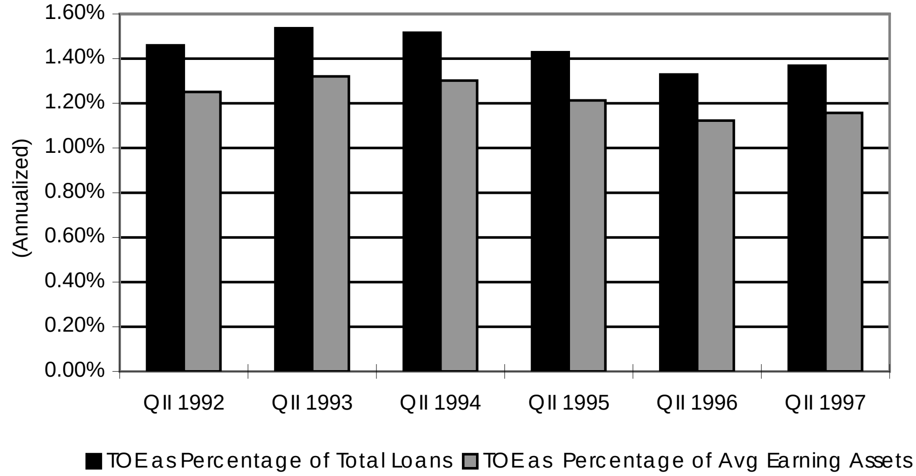
[2] The net interest margin is the spread on total investable funds, both borrowed and non-borrowed.

Figure 5
Total Operating Expenses (TOE) as a Percentage of Total Loans and as a Percentage of Average Earning Assets, Second Quarters 1992 to 1997

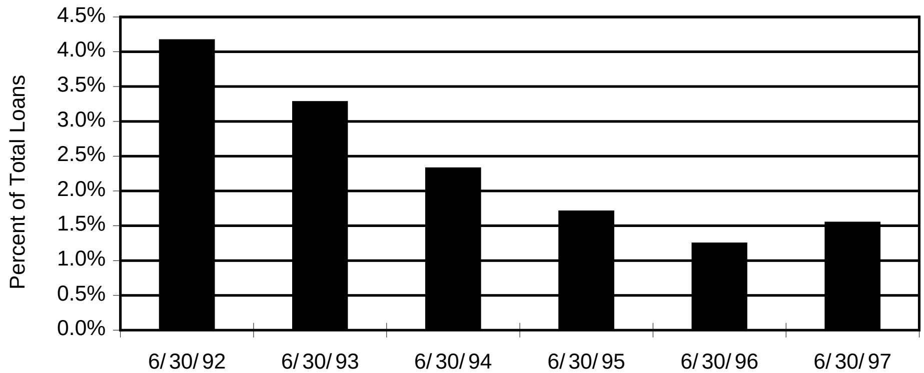


Source: Data derived from Federal Farm Credit Banks Funding Corporation Quarterly Information Statements - Second Quarters 1992 - 1997.

Nonaccrual Loans Increase Slightly

Nonaccrual loans (where accrual of interest has been suspended because of doubts about the collectibility of principal and interest) are a small percentage of total loans, but they have increased over the past 12 months, from 1.24 percent to 1.54 percent (Figure 6). Nonaccrual loans were $965 million at June 30, 1997, compared with $759 million at June 30, 1996, an increase of 27.1 percent. This increase is due primarily to deterioration in the credit quality of loans to a limited number of processing and marketing cooperatives.

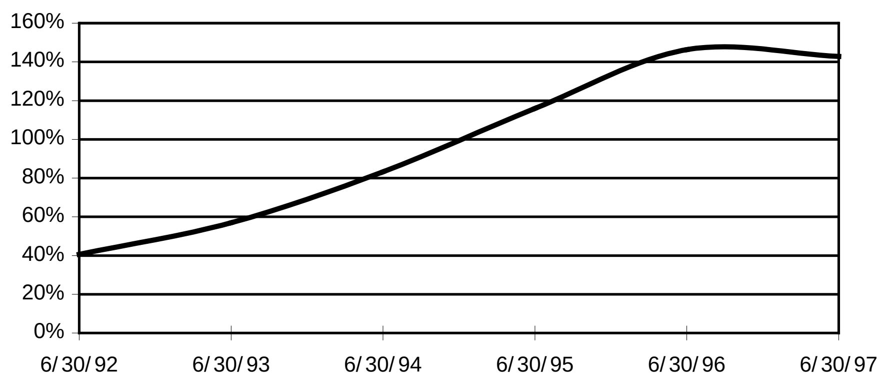
Figure 6
Nonaccrual Loans as a Percentage of Total Loans,
1992 to 1997



Source: Data derived from the Federal Farm Credit Banks Funding Corporation Quarterly Information Statements, Second Quarters 1992 to 1997.

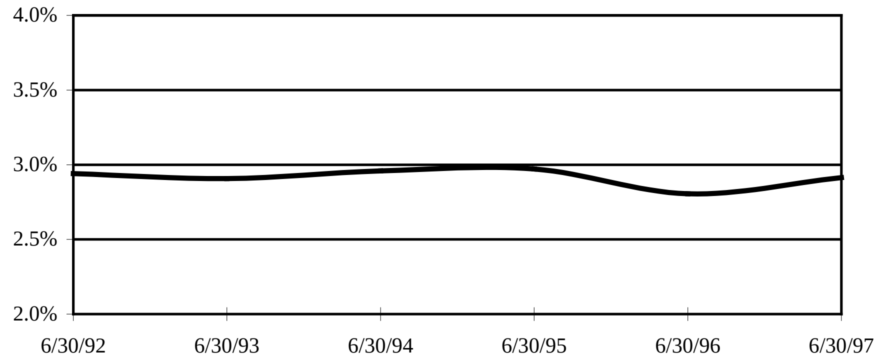
The allowance for loan losses (ALL) increased to $1.825 billion as of June 30, 1997, a 6.3 percent increase from June 30, 1996. Although the System's allowance as a percentage of nonperforming assets has grown from 40 percent to more than 140 percent over the past 5 years (Figure 7), it has remained constant at nearly 3 percent of total loans (Figure 8).

Figure 7
FCS Allowance for Loan Losses
as Percentage of Nonperforming Assets
1992 to 1997



Source: Data derived from the Federal Farm Credit Banks Funding Corporation Quarterly Information Statements, Second Quarters 1992 to 1997

Figure 8
FCS Allowance for Loan Losses
as Percentage of Total Loans
1992 to 1997

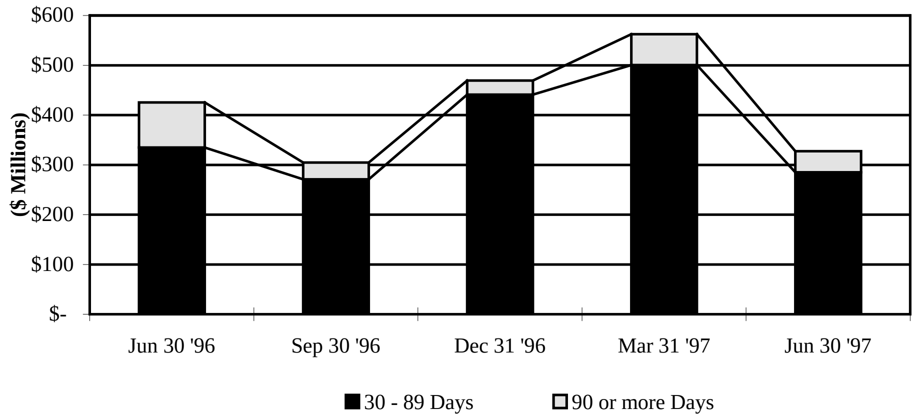


Source: Data derived from the Federal Farm Credit Banks Funding Corporation Quarterly Information Statements, Second Quarters 1992 to 1997.

The provision for loan losses made during the second quarter of 1997 was $27 million, compared with $39 million for the second quarter of 1996. However, provisions made by the System for the 6 months ended June 30, 1997, were 17.5 percent higher than provisions made for the 6 months ended June 30, 1996. The provision indicates the System's recognition of slightly increased risk in its loan portfolio.

Delinquencies are often used as an early warning indicator of emerging credit difficulties. When compared with total accrual loans, total delinquencies (loans over 30 days past due) declined by 12 basis points during the year, from 0.48 percent at June 30, 1996, to 0.36 percent at June 30, 1997. At June 30, 1997, the number of loans delinquent 90 days or more was half that of June 30, 1996 (Figure 9). The decline in total delinquencies from a year earlier indicates that the System continues to enjoy positive financial trends.

Figure 9
FCS Delinquencies on Accrual Loans
1996 to 1997

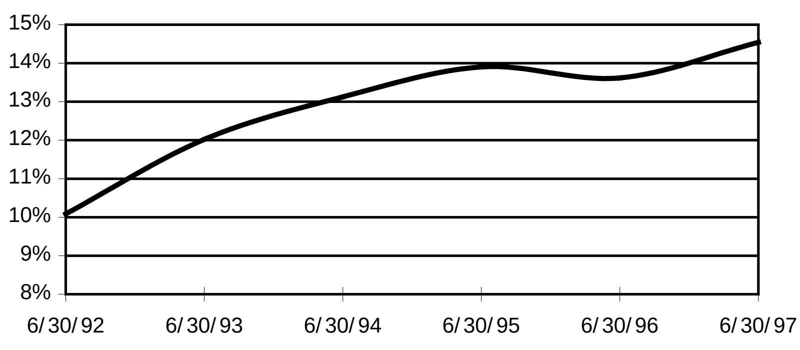


Source: Farm Credit Administration CRS Database

FCS Capital Growth at Nearly 9 Percent

The System's capital at June 30, 1997, was $11.1 billion, compared with $10.2 billion at June 30, 1996, an 8.8 percent increase. Surplus (retained earnings) grew from $7.1 billion at June 30, 1996, to $7.9 billion at June 30, 1997, a gain of 11.4 percent. As a percentage of total assets, System capital was 14.5 percent at June 30, 1997, compared with 13.6 percent at June 30, 1996, and 10.1 percent at June 30, 1992 (Figure 10).

Figure 10
FCS Total Capital
as Percentage of Total Assets
1992 to 1997



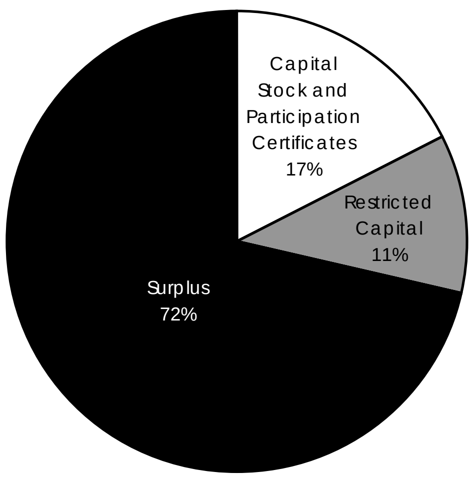
Source: Federal Farm Credit Banks Funding Corporation Quarterly Information Statements, Second Quarters 1992 to 1997.

New capital regulations, which became effective in March 1997, added standards for the total surplus ratio, the core surplus ratio, and (only for the Banks) the collateral ratio. At June 30, 1997, all System institutions reported compliance with these standards except for one bank and one association that did not meet the core surplus notes standard.[3]

Net Worth

At June 30, 1997, 72 percent of the Farm Credit System's capital was surplus, compared with 59 percent at June 30, 1992 (Figure 11). Seventeen percent of the capital at June 30, 1997, was in capital stock and participation certificates, and 11 percent (over $1.2 billion) was restricted capital (aggregate assets in the Farm Credit Insurance Fund).[4] This positive trend in net worth is a result of a good agricultural economy, more efficient institution management, strong earnings over a sustained period by practically all FCS institutions, and the availability of better tools to identify, analyze, and project business operations.

Figure 11
Net Worth June 30, 1997



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[3] Core surplus, as defined in 12 CFR § 615.5301(b), is required to be at least 3.5 percent of risk-adjusted assets.
[4] Assets in the Insurance Fund and the capital related thereto are designated as restricted assets and restricted capital, respectively. The classification of the Insurance Fund as restricted capital is based on the statutory requirement that the amounts in the Insurance Fund, which is under the control of the Farm Credit System Insurance Corporation, are to be used solely for the purposes specified in the Farm Credit Act of 1971, as amended, all of which benefit System institutions directly or indirectly.

Loan Growth Trends in System Banks and Associations in the Farm Credit System, 1994 to 1996[5]

Janet Goktepe

Summary and Implications

After more than a decade of stagnation or decline, the Farm Credit System's market share is growing again. The System's market share of total farm debt declined from a high of 34 percent in 1982 to a low of 24 percent in 1994 before increasing slightly in 1995 and 1996. Commercial banks increased their share of total farm loans for 14 years straight, from 21 percent in 1982 to 39.8 percent in 1995, and then declining slightly to 39.4 percent in 1996.[6] The System Banks and associations continued a pattern of loan growth in 1995 and 1996, with total loans outstanding increasing in all districts during this period. Total loans outstanding grew 2.7 percent and 7.5 percent in 1995 and 1996, respectively. New loans did not increase very much during 1995, but increased sharply during 1996, rising 34 percent.

A combination of the following factors has influenced loan growth in recent years:

- favorable agricultural and economic conditions in most districts
- less aggressive competition from other agricultural lenders in several districts
- increased marketing efforts
- more efficient credit delivery systems (e.g., scorecard lending), requiring less borrower information and faster response time
- improved customer service
- more competitive and attractive interest rates
- reduced borrower stock requirements in some associations
- payment of patronage dividends in some associations
- increased demand for certain commodities (e.g., poultry and pork products in the AgFirst District), leading to existing borrower expansion in a few districts

Several institutions implemented new credit delivery systems. The use of scorecard lending increased, requiring less documentation from the borrower and providing quicker response time from the lender. The increase in agricultural real estate and non-real estate loan volume is partly attributable to scorecard lending. Credit scoring tools are used primarily for equipment and operating, and to a lesser extent for real estate loans (usually limited to loans of $100,000 or less).

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[5] Data in this article refer only to agricultural lending in the FCS under Titles I and II of the Farm Credit Act, including lending by associations affiliated with CoBank. Loans made to Cooperatives under Title III are not included here.

[6] Source: USDA, "Agricultural Income & Finance," February 1997.

Competitive pricing programs attracted borrowers shopping for lower mortgage interest rates. For example, the weighted average variable interest rates charged on new farm real estate loans declined in all districts in 1996. Partly as a result, new farm real estate loans increased 50 percent over the prior year and amounted to $4.5 billion. In 1994, 1995, and 1996 the number and dollar volume of variable rate loans (which are typically priced at lower rates than fixed rate loans) were significantly larger than for fixed rate loans in most districts.

Total non-real estate farm loans increased 13.6 percent and 11.2 percent in 1995 and 1996, respectively. New non-real estate farm loans increased 8.6 percent and 15.8 percent during 1995 and 1996, respectively. Competitive pricing programs help explain the growth, as variable rates on both total and new farm non-real estate loans in all districts declined sharply in 1996 from 1995 levels. The number and dollar volume of variable-rate, non-real estate farm loans were significantly larger than for fixed-rate loans in all districts.

Average loan size increased for all types of loans from 1994 and 1995 to 1996. Farm non-real estate and rural home loans had the smallest average sizes in 1996, at $51,000 and $37,000, respectively.

It is interesting that farm non-real estate loan volume grew significantly, especially in the AgriBank District, yet the average loan size remained small. One explanation is that "on-the-spot" financing and other loans based on scorecards available in the district were instrumental in increasing loan volume, yet the average loan remained small because of the limits on loan size permitted under such programs. The average size of rural home loans has stayed level because such loans are limited by statute to moderately priced dwellings in rural areas that may include a town or village with a population of not more than 2,500 persons, and because inflation has been under control over the past several years.

Clearly, the major areas of FCS lending continue to be in farm real estate and farm non-real estate. About 93 percent of the loan volume at yearends 1994, 1995, and 1996 was concentrated in loans for farm real estate and farm non-real estate purposes. The other 7 percent of loan volume was divided among rural home loans, processing and marketing loans, farm-related business loans, aquatic loans, and "other" loans (e.g., housing and domestic purposes to eligible farmers). About 92 percent of new loans outstanding at yearends 1995 and 1996 was concentrated in loans for farm real estate and farm non-real estate purposes, compared with 94 percent in 1994.

The volume of farm-related business loans is small as a percentage of all loans (0.5 percent of total and 1.0 percent of new loans). Therefore, growth in these categories can show significant changes in a year. These loans (totaling $245 million at yearend 1996) grew the fastest of all the loan types—almost 50 percent in 1995 and 35 percent in 1996.

Examples of farm-related services are large-animal veterinary services, farm equipment repair, sorting and boxing of oranges for orange growers, and custom harvesting of grain for farmers. The growth of farm-related business loans may be attributed to optimism in export markets, "freedom to farm" legislation, favorable economic conditions, all of which provide opportunities for farmers to expand their businesses and for System institutions to grow and diversify their portfolios. Even after the impressive percentage gain of 1996, farm-related business loans represent only .6 percent of all FCS loans outstanding under Title I and Title II lending.

Total Loan Volume Outstanding in System Banks and Associations

The total Title I and II loan volume outstanding in System banks and associations grew by $3.1 billion, or about 7.5 percent, between December 31, 1995, and December 31, 1996, to $44.3 billion. This growth compares with $1.1 billion, or about 2.7 percent growth, between December 31, 1994, and December 31, 1995. Ranking of loan types by size did not change, even though some of the smaller portfolio types showed the fastest growth (Table 1).

Table 1
Total Loan Volume Outstanding
System Banks and Associations
($ millions)

				Percent Change	
Loan Types by Purpose	**12/31/94**	**12/31/95**	**12/31/96**	**1994-95**	**1995-96**
Agricultural Real Estate	$26,710.9	$26,193.8	$27,779.7	-1.9	6.1
Agricultural Non-Real Estate	10,627.6	12,073.4	13,422.7	13.6	11.2
Rural Home	1,695.6	1,610.2	1,578.5	-5.0	-2.0
Processing and Marketing	205.8	260.2	285.6	26.4	10.0
Farm Related Business	121.2	181.0	245.1	49.3	35.4
Aquatic	74.1	72.4	80.9	-2.3	11.7
Other[1]	700.3	811.7	884.9	15.9	9.0
Total	$40,135.5	$41,202.7	$44,277.4	2.7	7.5

[1]Any loans not included in the other classifications used to finance needs of farmers, housing and domestic needs.

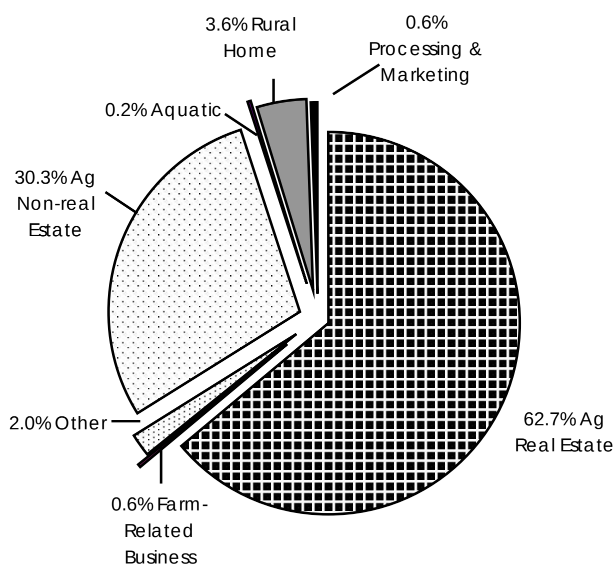
Source: FCA's LARS (Loan Account Reporting System) database. Includes all agricultural lending in the FCS under Titles I and II of the Farm Credit Act. Excludes loans made to cooperatives under Title III.

Total Volume and Types of Loans Made by System Banks and Associations

Farm-related business loans grew the fastest of all loan types, growing almost 50 percent in 1995 and 35 percent in 1996 (Table 1). However, when compared with farm real estate loans, farm non-real estate loans, or even rural home loans, the total volume is very small—$245 million at December 31, 1996. Processing and marketing loans grew 26 percent in 1995 and 10 percent in 1996, to a volume of almost $286 million at yearend 1996. Rural home loan volume declined 5 percent in 1995 and 2 percent in 1996.

About 93 percent of loan volume at December 31, 1996, was concentrated in loans for farm real estate or non-real estate purposes, the same percentage share of loan volume at December 31, 1995, and December 31, 1994 (Figure 1). The other 7 percent of loan volume was in loans for rural homes, "other" loans (e.g., housing and domestic needs), processing and marketing loans, farm-related business loans, and aquatic loans.

Figure 1
Share by Loan Type of Total Volume Outstanding
System Banks and Associations, December 31, 1996
($44.3 billion)



Source: FCA's LARS database at December 31, 1996. Includes all agricultural lending in the FCS under Titles I and II of the Farm Credit Act. Excludes loans made to cooperatives under Title III.

Average Loan Size

At December 31, 1996, the Farm Credit System farm loan portfolio held 603,811 Title I and Title II loans, for a total of about $44.3 billion outstanding and an average loan size of about $73,000. This compares with 592,386 loans and $41.2 billion outstanding at December 31, 1995, an increase in 1996 of about 1.9 percent in the number of loans and 7.5 percent in dollar volume.

Though the Farm Credit System lends to all sizes of farm businesses, at December 31, 1996, the average size of real estate loans was about $96,000 and the average size of agricultural non-real estate loans was about $51,000 (Table 2). Due to the effects of inflation and the continually increasing size of the average U.S. farming enterprise, average loan size in the System increased for all types of lending over years 1994 through 1996.

Table 2
Average Loan Size by Type of Loan
System Banks and Associations
($ thousands)

Loan Types	**12/31/94**	**12/31/95**	**12/31/96**
Agricultural Real Estate	$ 86	$ 90	$ 96
Agricultural Non-Real Estate	46	49	51
Rural Home	36	36	37
Farm-Related Business	84	114	143
Processing and Marketing	403	340	413
Aquatic	79	79	90
Other	131	165	176
Average Loan Size, All Loans	**67**	**70**	**73**

Source: Derived from FCA's LARS database at December 31, 1994, 1995, and 1996. Includes all loans outstanding in the FCS under Titles I and II of the Farm Credit Act. Excludes loans made to cooperatives under Title III.

Some of the smallest average loan sizes were in loans for rural homes, for agricultural non-real estate, and for aquatic purposes. Not surprisingly, processing and marketing loans, farm-related business loans, and "other" types of loans were the largest in average loan size at December 31, 1996. Processing and marketing loans tend to be larger than other types of loans because of the size and cost of machinery and facilities used in such operations.

Total Loan Volume Outstanding of System Banks and Associations by District

The AgriBank, AgFirst, and AgAmerica Districts had the largest loan volume outstanding at December 31, 1996, with $15.2 billion, $8.2 billion, and $6.9 billion outstanding, respectively (Table 3). During 1996, loan volume outstanding grew the most in the AgriBank (11.7 percent), Wichita (11.4 percent), Western (6.9 percent), and AgAmerica (6.9 percent) Districts. The CoBank, AgFirst, and Texas Districts grew at 2.7 percent, 2.7 percent and 2.5 percent, respectively (Table 3).

Table 3
Total Loan Volume Outstanding by District
System Banks and Associations
($ millions)

District	12/31/94	12/31/95	12/31/96	Percent Change 1994-95	Percent Change 1995-96
AgAmerica	$ 6,416	$ 6,432	$ 6,873	0.3	6.9
AgFirst	7,794	7,944	8,160	1.9	2.7
AgriBank	12,933	13,598	15,186	5.1	11.7
CoBank[7]	1,739	1,740	1,787	0.1	2.7
Texas	3,587	3,701	3,794	3.2	2.5
Western	4,412	4,451	4,759	.9	6.9
Wichita	3,255	3,337	3,718	2.5	11.4
Total	**40,136**	**41,203**	**44,277**	**2.7**	**7.5**

Source: FCA's LARS database. Includes all agricultural lending in the FCS under Titles I and II of the Farm Credit Act. Excludes loans made to cooperatives under Title III.

Figure 2 shows the chartered territories of the six Farm Credit Banks and associations, as well as the associations in the Northeastern United States (formerly associations in the Springfield District) served by CoBank, ACB. Percentage increases in total loan volume outstanding by district are reflected by geographic location.

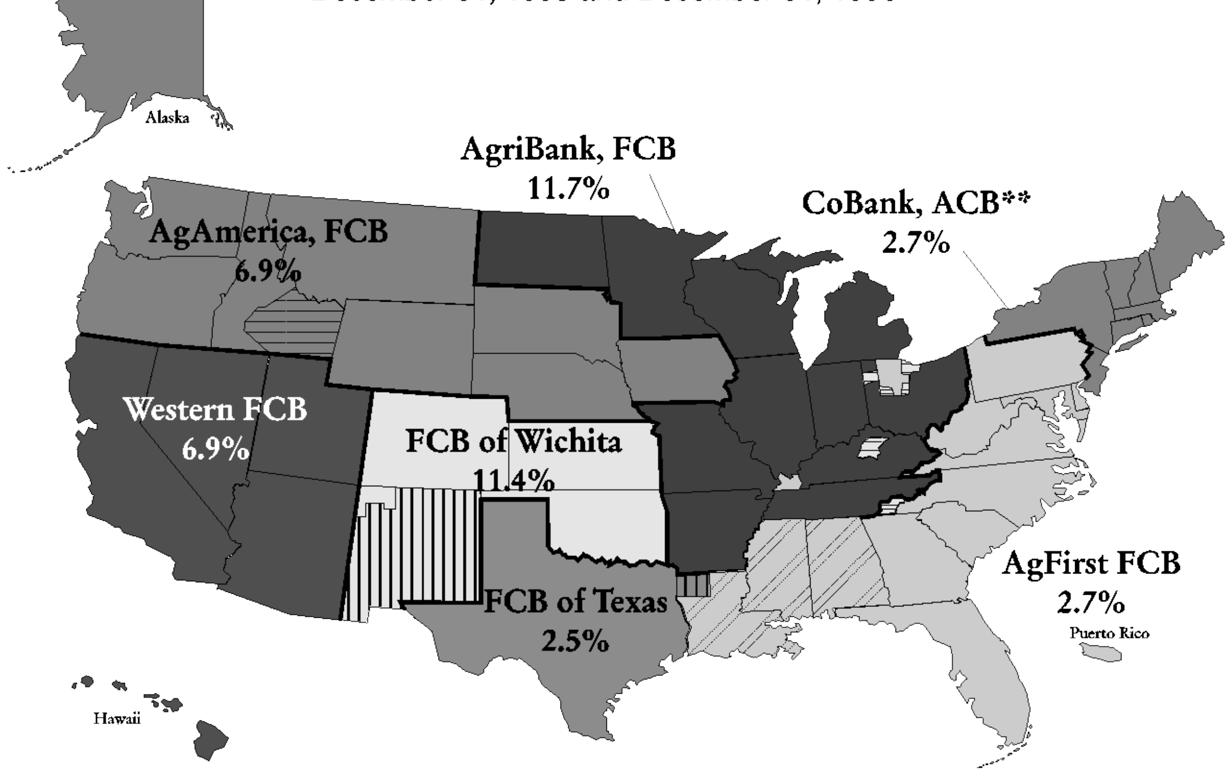
[7] References to lending in the CoBank District refer to loans made by the ACAs funded by CoBank.

Figure 2

Farm Credit Banks and Associations by Chartered Territory

(as of January 1, 1997)

Percentage Increase in Total Loans* Outstanding Between December 31, 1995 and December 31, 1996



AgAmerica, FCB	Western FCB	FCB of Wichita	FCB of Texas	AgriBank, FCB	CoBank, ACB	AgFirst FCB
1 ACA	5 ACAs	22 FLBAs	38 FLBAs	11 ACAs	5 ACAs	39 ACAs
1 FLCA	11 FLCAs	18 PCAs	16 PCAs	19 FLCAs		1 PCA
1 PCA	10 PCAs			19 PCAs		

* Includes all agricultural lending in the FCS under Titles I and II of the Farm Credit Act. Excludes loans made to cooperatives under Title III.

** The CoBank, ACB serves cooperatives nationwide and ACAs in the indicated area.

The Albuquerque and Eastern New Mexico PCAs are funded by the FCB of Texas. The Southern New Mexico PCA is funded by the FCB of Wichita.

The FLBAs in Alabama, Louisiana, and Mississippi generate and service loans for the FCB of Texas. The First South PCA is funded by AgFirst FCB.

The Northwest Louisiana PCA is funded by the FCB of Texas.

The AG CREDIT, ACA (Ohio), Central Kentucky ACA (Kentucky), Chattanooga ACA (Tennessee), and Jackson Purchase ACA (Kentucky) are funded by the AgFirst FCB.

The Mid-America ACA, funded by AgriBank, FCB, is also authorized to lend in this territory.

The Eastern Idaho ACA is funded by the Western FCB.

New Volume and Types of Loans Made by System Banks and Associations

This section focuses on volume and types of new loans made during the year instead of loans outstanding at year-end. While annual percentage changes in type of new loans made vary considerably, the largest volume of new lending continued to be in farm real estate and farm non-real estate loans, with $4.5 billion and $3.9 billion, respectively, in new loans made during 1996. New processing and marketing loans, farm-related business loans, and "other" loans grew fastest in 1995; however, in 1996, "other" loans and real estate loans grew fastest. While new processing and marketing loans declined almost 11 percent in 1996, all other types of loans grew significantly (Table 4).

Table 4
New Loan Volume[1]
System Banks and Associations
($ millions)

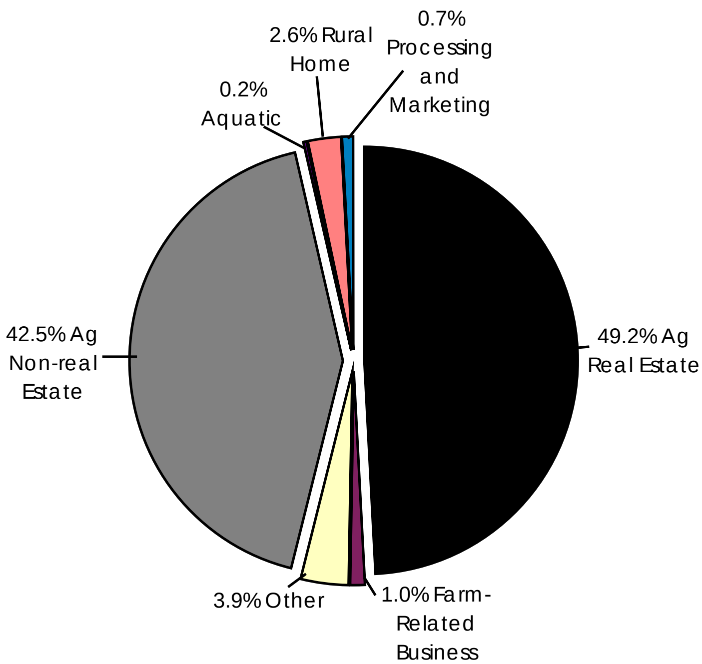
				Percent Change	
Loan Types by Purpose	**1994**	**1995**	**1996**	**1994-95**	**1995-96**
Agricultural Real Estate	$3,304	$2,941	$4,507	-11.0	53.3
Agricultural Non-Real Estate	3,095	3,362	3,893	8.6	15.8
Rural Home	210	163	234	-22.4	43.6
Processing and Marketing	36	75	67	108.3	-10.7
Farm-Related Business	34	65	90	91.2	38.5
Aquatic	11	14	19	27.3	35.7
Other[2]	130	213	354	63.9	66.2
Total	**$6,820**	**$6,833**	**$9,164**	**0.2**	**34.1**

[1] New loans are all loans originated between January 1 and December 31 of each year, excluding refinancings and renewals that are still outstanding on December 31.
[2] Any loans not included in the other classifications used to finance needs of farmers, including housing and domestic.

Source: FCA's LARS database. Includes all agricultural lending in the FCS under Titles I and II of the Farm Credit Act. Excludes loans made to cooperatives under Title III.

New farm real estate loans grew from $2.9 billion in 1995 to $4.5 billion in 1996, an increase of 53 percent. These loans accounted for almost 50 percent of the total new loan volume in 1996 (Figure 3). New farm non-real estate loans grew from $3.4 billion for 1995 to $3.9 billion for 1996; they accounted for 42.5 percent of all new loan volume made during 1996.

Figure 3
Share of New Loans Made during 1996, by Loan Type[1]
System Banks and Associations
($9.2 Billion Total)



[1]New loans are all loans originated between January 1 and December 31, excluding refinancings and renewals, that are still outstanding on December 31.

Source: FCA's LARS database. Includes all agricultural lending in the FCS under Titles I and II of the Farm Credit Act. Excludes loans made to cooperatives under Title III.

Agricultural real estate and agricultural non-real estate loans made up about 92 percent of new loans (Figure 3) in 1996, compared with 92 percent in 1995 and 94 percent in 1994. The smaller portfolios (e.g., rural home loans, farm-related business loans, processing and marketing loans, aquatic loans, and "other" loans) accounted for about 8 percent of the new loan portfolio in 1995 and 1996. One reason for the level of activity in agricultural non-real estate loans may be new marketing efforts, including scorecard lending programs for farm equipment and operating loans, particularly in the AgriBank District.

Table 5
Average Loan Size of New Loans, by Loan Purpose[1]
System Banks and Associations
($ thousands)

Loan Types	**1994**	**1995**	**1996**
Agricultural Real Estate	$ 134	$ 159	$ 180
Agricultural Non-Real Estate	45	48	49
Rural Home	48	50	51
Farm-Related Business	81	167	186
Processing and Marketing	229	438	584
Aquatic	94	97	136
Other[2]	153	242	266
Average Loan Size, All New Loans	**69**	**74**	**82**

[1]New loans are all loans originated between January 1 and December 31 of the calendar year, excluding refinancings and renewals, that are still outstanding at December 31.
[2]Any loans not included in the other classifications used to finance needs of farmers, including housing and domestic.

Source: FCA's LARS database. Includes all agricultural lending in the FCS under Titles I and II of the Farm Credit Act. Excludes loans made to cooperatives under Title III.

In 1996, average loan sizes for new loans were largest for processing and marketing loans ($584,000), "other" loans ($266,000), and farm-related business loans ($186,000) (Table 5). Processing and marketing loans tend to be larger than other types of loans because of the size and cost of equipment used in such operations.

The average size of new agricultural real estate loans was $180,000, or almost double that of total real estate loans outstanding, $96,000 (Table 2). This difference may be explained by the fact that some mortgage loans are on the books for as long as 30 years, and average loan size of loans outstanding is reduced as principal balances decline over the years. However, because of rising land prices, real estate loans are larger than in previous years, and, of course, a few are very large, which increases the average loan size. System average loan size for all new loans in 1996 was $82,000, compared with an average loan size of $73,000 for total loans outstanding as of the end of 1996.

Use of Variable versus Fixed Interest Rates[8]

Most FCS loans are made using variable interest rates, although associations typically offer a mix of both fixed and variable rate loans. In 1996, variable interest rates accounted for over 83 percent of the total non-real estate loan volume in all districts except one. Four districts held over 96 percent of their loans in variable rates for these

[8] Data from FCA's LARS database includes all agricultural lending in the FCS under Titles I and II of the Farm Credit Act. Excludes loans made to cooperatives under Title III.

production- and intermediate-term loans. The percentages of new loans for non-real estate purposes made using variable rate loans during 1996 was slightly lower than it was for total outstanding non-real estate loans in four districts. In these districts, the percentage using variable rates was 87 percent or higher, while in the other three districts the percentages were between 63 and 78 percent. In most districts over the 1994 – 1996 period, there has been some decline in the use of variable rate loans and a slight increase in use of fixed rate loans.

It was interesting to note that the use of variable rates for real estate loans was only slightly lower than for non-real estate loans. The use of variable rates for real estate loans ranged from a low of 60 percent of total real estate loans in one district in 1996 to 98 percent in another. In four of the seven districts, associations were making a lower percentage of variable rate new loans for real estate in 1996 than existed in their overall portfolio, again indicating a slight move toward fixed-rate loans.

Variable rate loans shift the risk of changing interest rates from the lender to the borrower and allow the lender to fund such loans with shorter maturity debt. Due to the normally positive yield curve, variable rate loans typically have lower interest rates. However, when interest rates rise, borrowers' interest expenses rise and their profits are reduced.

The significant amount of variable rate debt in the Farm Credit System indicates that lenders should monitor the potential effects of interest rate changes on borrowers' capacity. The institutions should assess such risks through various stress-testing techniques and make necessary changes to address these risks in their loan underwriting standards, allowance for loan loss accounts, and capital plans.

Allowance for Loan Losses of the Farm Credit System and Comparisons with Commercial Agricultural Banks

Staff of the Office of Examination and the Office of the Policy Development and Risk Control

All financial institutions are required to maintain an adequate allowance for losses (ALL). Neither statutes, regulations or generally accepted accounting principles (GAAP) provide precise guidance on the method to be used or the definition of adequacy. Instead, each institution must develop its own process for determining the ALL. Two of many visible indicators of the quality of a financial institution's loan portfolio are the amount of the portfolio that is classified as nonperforming or nonaccrual. Farm Credit System (FCS or System) nonaccrual loans have declined over the last 5 years, from 3.7 percent of total loans at yearend 1992 to 1.5 percent at June 30, 1997. However, System ALL as a percentage of total loans has remained almost flat over the same period, at 2.9 percent of total loans. This article reviews System trends in ALL, nonperforming, and nonaccrual loans for the period between December 31, 1992, and June 30, 1997. Comparisons between System banks and direct lender (DL) associations and between the System and commercial agricultural banks are also included.[9]

FCA Examiners' Role and Responsibility

System institutions are required by law to comply with GAAP. Also, Farm Credit Administration (FCA) regulation 621.5 requires that each System institution maintain at all times an ALL that is adequate to absorb probable and estimable losses that may reasonably be expected to exist in the loan portfolio. Each institution is also required to develop, adopt, and consistently apply policies and procedures governing the establishment and maintenance of the ALL. Finally, System institutions must charge off loans, wholly or partially as appropriate, at the time they are determined to be uncollectible.

Neither GAAP nor FCA requires a specific process for determining the adequacy of the ALL. However, institutions must have a sound analytical process in place for estimating the amount of inherent loss in the loan portfolio. Because of the amount of management judgment involved, the process and its application should be consistently applied and well documented.

FCA examiners evaluate the institution's process for maintaining the ALL to determine whether it is logical, appropriate, and consistently applied. They also determine whether the institution's recorded ALL is adequate to absorb estimated losses inherent in the loan portfolio. If not, they require the institution to take appropriate action.

Accounting for ALL

GAAP requires financial institutions to maintain a reasonable ALL applicable to all

[9]Direct lender associations include Agricultural Credit Associations (ACAs), Federal Land Credit Associations (FLCAs), and Production Credit Associations (PCAs). Commercial agricultural banks are commercial banks whose agricultural loans make up 25 percent or more of their total loans.

categories of loans through periodic adjustments to income. When the ALL is less than the current estimate of future loan losses, GAAP requires a current period charge to income (loan loss provision) of an amount sufficient to increase the ALL to the level of estimated losses inherent in the loan portfolio. Similarly, when the ALL is greater than the current estimate of future loan losses, GAAP requires a current period credit to income (loan loss reversal) of an amount sufficient to decrease the ALL to the level of expected losses.

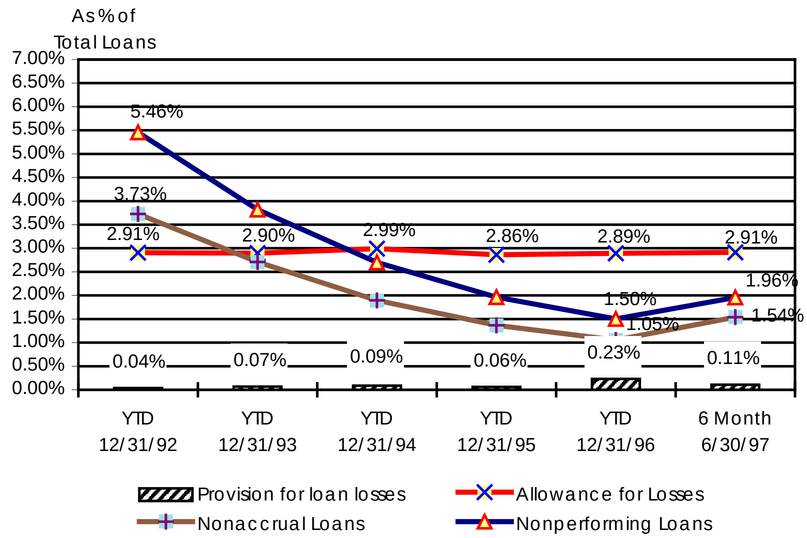
The ALL represents management's estimate of the losses inherent in the loan portfolio, based on information available at the time of evaluation. The ALL should be reevaluated at least once each quarter or sooner if new or additional information becomes available. The ALL is reported in the balance sheet as a valuation (contra) account that reduces the gross loan volume. The ALL does not directly affect the net income of the reporting institution. Rather, the institution's net income is affected directly when a provision for loan losses is charged or credited to current operations.

FCS ALL and Loan Performance

The quality of the System's loan portfolio as represented by the volume of nonperforming and nonaccrual loans has improved considerably since 1992.[10] (Figure 1) The ALL as a percentage of total loans has been relatively stable during the period of improving loan quality.

Figure 1
Allowance for Loan Losses and Provision for Loan Losses, Nonaccrual Loans, and Nonperforming Loans as a Percentage of FCS Total Loans

[10]Nonperforming loans reported by the System include nonaccrual loans, accruing restructured loans, and accruing loans that are 90 days or more past due.



Source: Data derived from the Federal Farm Credit Banks Funding Corporation Annual and Quarterly Information Statements.

Nonperforming loans held by the System declined from 5.46 percent of loans outstanding at December 31, 1992, to 1.50 percent at December 31, 1996. Nonaccrual loans also declined significantly, from 3.73 percent to 1.05 percent, over the same period. During the 5-year period, the ALL held by the System remained relatively stable—ranging from 2.86 percent to 2.99 percent of total loans—and equaled 2.89 percent of loans outstanding at December 31, 1996.

Figure 1 also shows that the System's annual provision for losses was at a low level from 1992 – 1996, but increased significantly in 1996. In addition, the System's downward trend of nonaccrual loans was subsequently reversed in 1997. At June 30, 1997, the System's nonaccrual loans as a percentage of total loans increased from 1.05 percent at the end of 1996 to 1.54 percent. This in turn pushed up nonperforming loans as a percentage of total loans from 1.50 percent to 1.96 percent over the same period. However, from December 31, 1996, to June 30, 1997, the ALL increased only slightly, from 2.89 percent to 2.91 percent of total loans.

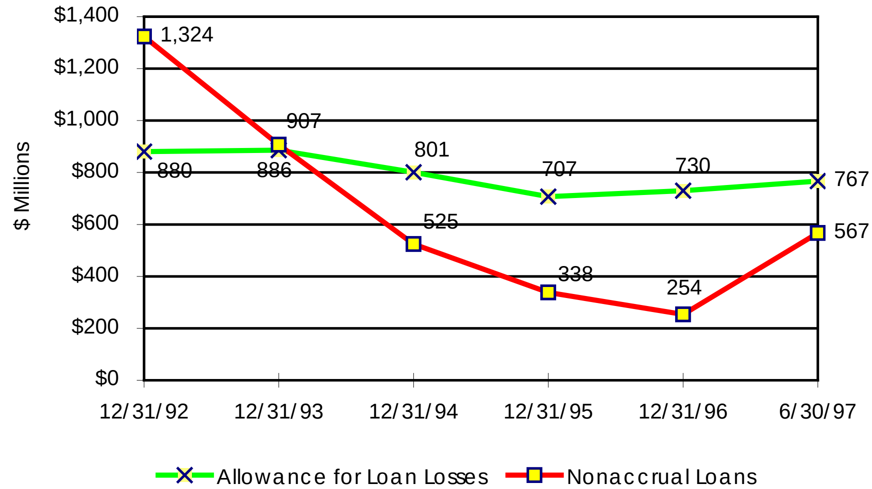
The increases in loss provisions during 1996 and the 6-month period ended June 30, 1997, and the lagging increase in nonaccrual loans were due primarily to operating weaknesses faced by a limited number of processing and marketing cooperative borrowers that had significant loss exposure associated with hedge-to-arrive contracts.

Distribution of ALL Between System Banks and Direct Lender Associations

Below are financial data for the ALL and nonaccrual loans held by FCBs and DL associations. Figures 2 and 3 show the trends on the amount of ALLs and nonaccrual loans in System banks and DL associations from 1992 to June 30, 1997.

Figure 2

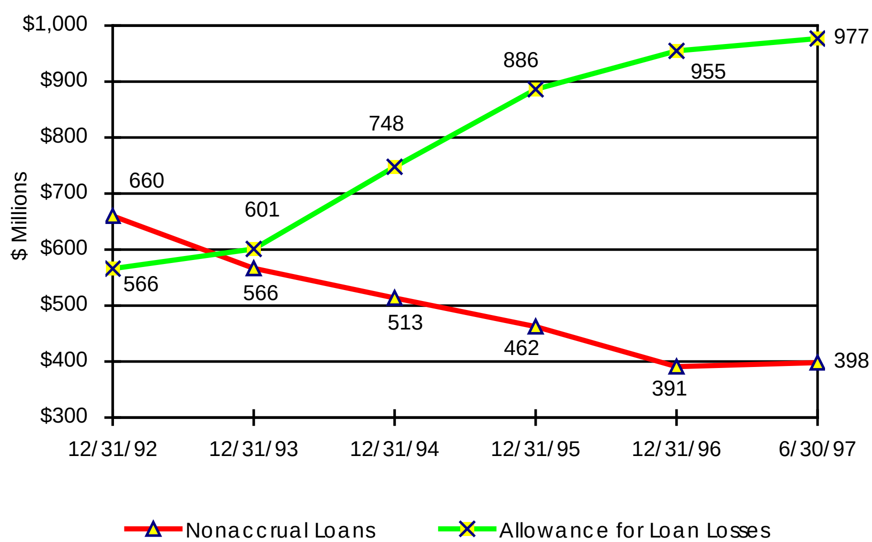
Allowance for Loan Losses and Nonaccrual Loans
Farm Credit System Banks



Source: Call Reports and FCA Quarterly Reports.

Since 1993, the ALLs of both Farm Credit Banks and DL associations have exceeded the amount of nonaccrual loan volume, indicating a relatively sound position of risk coverage in the FCS. Adding to this position of comfort was the FCS's substantial improvement in its capital levels. Unlike other federal financial regulators, FCA does not allow any portion of the ALL to qualify for minimum regulatory capital purposes.

Figure 3
Allowance for Loan Losses and Nonaccrual Loans
FCS Direct Lender Associations

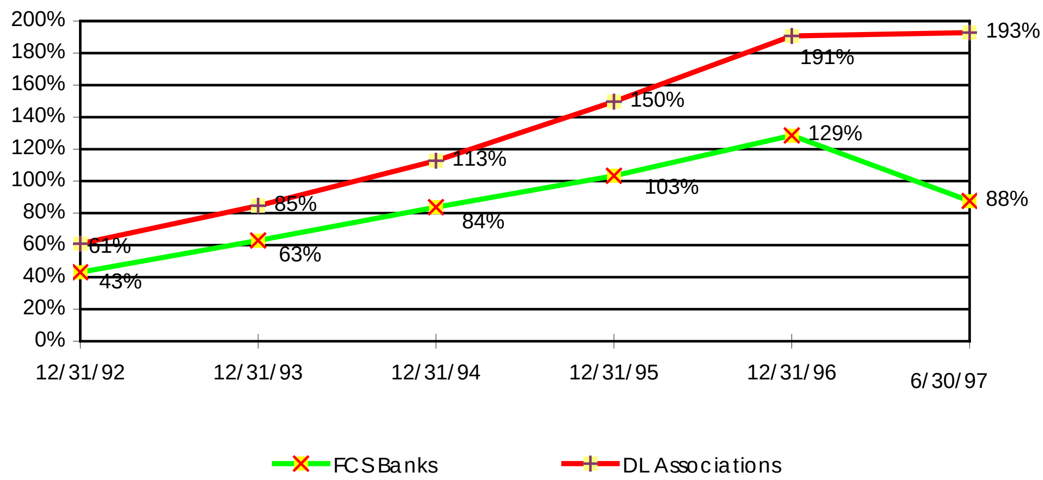


Source: FCA Call Reports and Quarterly Reports.

From 1992 to 1996, the FCB’s nonaccrual loans declined (from $1.3 billion to $254 million, a decrease of almost 81 percent) much more rapidly than did nonaccrual loans in DL associations (from $660 million to $391 million, a decrease of almost 41 percent). By the end of 1995, DL associations' nonaccrual loans exceeded nonaccrual loans in System banks, $462 million vs. $338 million. The shift of credit risk from the banks to the associations is largely due to the System's restructuring over the past 10 years, specifically the creation of Agricultural Credit Associations (ACAs) and FLCAs and the transfer of long-term real estate loans from the banks to the DL associations.

Reflecting the shift in credit risk, the ALL coverage has increased more at the DL associations than at the FCBs. The difference in this measure between the DL associations and the System banks has widened—from 18 percentage points at December 31, 1992, to 62 points at December 31, 1996 (see Figure 4).

Figure 4
ALL as a Percentage of Nonperforming Loans,
by FCS Lender Type

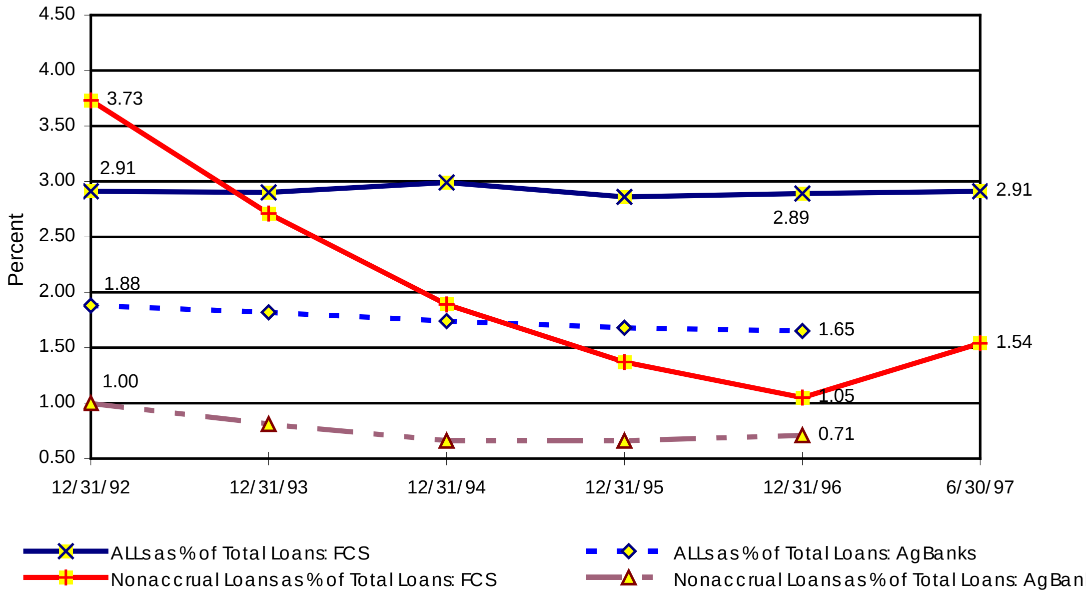


Source: FCA Call Reports.

ALL and Nonaccrual Loans in the Farm Credit System as Compared to Commercial Agricultural Banks

Figure 5 shows that between 1992 and 1996, the System maintained a higher level of ALL as a percentage of total loans than that maintained by commercial agricultural banks. The System's ALL may reflect the concentration of System loans in the agricultural community and its single-purpose restrictions. Considering that commercial agricultural banks' average concentration in agricultural loans is only about 45 percent of their total loans, while the System's is nearly 100 percent, the higher System ALL levels are not surprising. The inherent risk caused by the System's single purpose mandate as a Government-sponsored enterprise is one reason for the higher ALL level when compared with other lenders.

Figure 5
Allowance for Loan Losses and Nonaccrual Loans
Farm Credit System vs. Commercial Agricultural Banks



Source: FCA Call Reports, Sheshunoff Information Services.

The level of ALL as a percentage of total loans maintained by the System and by commercial agricultural banks has been relatively stable over the past 5 years. However, the level of ALL in commercial agricultural banks tracks nonaccrual loans fairly closely. Other factors influence System management's determination of an adequate allowance. Over the past 5 years, the allowance as a percentage of nonaccrual loans in commercial agricultural banks did not steadily increase, but ranged from 183 to 263 percent. (Table 1) In the FCS, the allowance as a percentage of nonaccrual loans for the last 5 years has steadily increased from 78 percent at December 31, 1992, to 274 percent at December 31, 1996. As previously noted, this trend changed with a decline in this ratio during the first half of 1997.

Table 1 shows selected 5½-year comparative ALL, nonaccrual, and nonperforming data for the System and commercial agricultural banks:

Table 1
Comparative ALL, Nonaccrual, and Nonperforming Data
System and Commercial Agricultural Banks
(Percentages)

	12/31/92	12/31/93	12/31/94	12/31/95	12/31/96	3/31/97	6/30/97
ALL as Percentage of Total Loans:							
Farm Credit System	2.91	2.90	2.99	2.86	2.89	2.92	2.91
Commercial Ag. Banks	1.88	1.82	1.74	1.68	1.65	1.80	N/A
Nonaccrual Loans as Percentage of Total Loans:							
Farm Credit System	3.73	2.71	1.89	1.37	1.05	1.57	1.54
Commercial Ag. Banks	1.00	0.81	0.66	0.66	.71	.77	N/A
ALL as Percentage of Nonaccrual Loans:							
Farm Credit System	77.99	106.99	157.92	209.36	274.42	185.93	189.12
Commercial Ag. Banks	182.75	220.02	263.30	252.72	231.05	218.91	N/A
ALL as Percentage of Nonperforming Loans:							
Farm Credit System[1]	75.63	104.97	153.33	202.05	263.00	174.98	181.41
Commercial Ag. Banks	132.36	156.62	178.47	163.69	145.42	137.80	N/A

[1] To be compatible with commercial agricultural banks' nonperforming loans data, which includes only nonaccrual loans and accruing loans 90 days or more past due, the System's nonperforming loans have been adjusted to exclude accruing restructured loans.

Sources: Farm Credit System data derived from Reports to Investors of the Farm Credit System. Agricultural banks data from Sheshunoff Information Services, Inc.

Observations

Trends in System ALL do not appear to be totally related to trends in System nonacccural loans. Typically, readers of financial reports expect that if nonaccrual loans increase in the current period, expectations of "losses inherent in the portfolio"—and hence the ALL—should likewise increase. Similarly, if management reduces nonaccrual loans in the current period, its expectations of "losses inherent in the portfolio"—and the ALL—should decrease. Consequently, changes in nonaccrual loans should indicate, at least, whether management's expectations about future losses and the ALL are improving or deteriorating. Why has the System's ALL coverage of nonaccrual loans increased over the past 5 years?

There is a logical explanation for at least some of the differences. Some nonaccrual loans have been restructured and are current on their payments—representing little likelihood of future loss. Another interpretation of the data is that management estimated the appropriate future losses several years ago and that the declining levels of nonaccruals do not reflect reductions in expected future losses but reductions in cash-basis nonaccrual loans. There is some support for this interpretation. The proportion of System nonaccrual loans current with respect to principal and interest remained relatively constant at around 60 percent between 1992 and 1996. However, at June 30, 1997, such loans made up 73 percent of total nonaccrual loans. This relatively high portion of "current" nonaccrual loans was not likely to be considered a future loss, so reductions in this portion of the nonaccrual loan portfolio would not be expected to reduce overall portfolio losses.

The loss potential in the remainder of the System's nonaccrual loan portfolio is more difficult to analyze. For instance, net charge-offs have been very low over the past 5 years, declining from 0.13 percent of gross loans in 1992 to 0.10 percent in 1996.

The processes by which System institutions assess the losses inherent in their loan portfolio do not appear to rely solely on either the nonaccrual or the broader nonperforming loan classifications. Among other things, the lack of a specific or uniform process to measure future losses precisely and the variations in the degree of risk tolerance among management of individual institutions affect the level of the ALL. Other factors that influence the level of ALL in the System include the growth in loans originated using new credit-scoring techniques; the cyclical nature of the agricultural economy, which would lead institutions to use longer term, or worst-case, loss expenses; and stable credit classifications, which indicate that despite declining nonaccruals, the inherent losses have not changed much in the past 5 years.

Corporate Restructuring of Farm Credit System Institutions

Elna Luopa

At October 1, 1997, there were 21 fewer Farm Credit System (FCS or System) lending institutions than there had been a year earlier. The decrease reflects a sustained level of association mergers in the third quarter of 1997, with mergers of Federal Land Bank Associations (FLBAs) in Texas accounting for most of the activity. At October 1, 1997, the System comprised 6 Farm Credit Banks (FCBs), 1 Agricultural Credit Bank (ACB), 1 Bank for Cooperatives (BC), and 206 associations. The associations are as follows: 64 Production Credit Associations (PCAs), 51 FLBAs, 60 Agricultural Credit Associations (ACAs), and 31 Federal Land Credit Associations (FLCAs). At October 1, 1997, there was a total of 214 banks and associations, compared with 235 at October 1, 1996. Detailed information on corporate restructuring activity during the first half of calendar year 1997 appeared in the previous Quarterly Report.

Table 1 summarizes the active System institutions.

From July 2, 1997, through October 1, 1997, the Farm Credit Administration (FCA) Board granted preliminary approval to a merger involving two FLBAs in the Texas District. Final approval is contingent on stockholders' approval of the proposed merger. Five mergers that had been approved by the FCA Board took effect during this period—four in the Texas District and the fifth in the AgriBank, FCB District. An amendment to the charter of an FLCA affiliated with AgriBank, FCB also took effect during the third quarter of 1997.

Associations Affiliated with the FCB of Texas

On July 16, 1997, the FCA Board preliminarily approved the merger of the Western FLBA of Marfa into the Southwest Texas FLBA. Stockholders have since voted to approve the merger and the effective date is November 1, 1997.

Stockholders of other FLBAs voted to approve three mergers that had received the FCA Board's preliminary approval earlier. The merging associations and the effective dates of the actions are (1) the FLBA of Corsicana into the FLBA of Waco on September 1, 1997; (2) the FLBAs of Brownwood, Coleman, and Haskell into the FLBA of San Angelo, the continuing association, renamed the FLBA of Texas, also on September 1, 1997; and (3) the FLBAs of Kerrville and Mason into South Central Texas FLBA of San Marcos, the continuing association, renamed Capital of Texas FLBA, on October 1, 1997.

At October 1, one merger proposal from three FLBAs was being processed for FCA Board review and consideration.

Associations Affiliated with AgriBank, FCB

The FCA issued a final approval for the merger of the PCA of Southeast Wisconsin into Farm Credit Services of Western Wisconsin, ACA, effective August 31, 1997. As the continuing association, the ACA is now known as Harvestland Farm Credit Services, ACA. Concurrent with the merger, the FCA amended the charter of Farm Credit Services of Southeast Wisconsin, FLCA, to add 13 counties to its territory, change its name to Harvestland Farm Credit Services, FLCA, and relocate its headquarters to Baraboo, Sauk County, Wisconsin, also effective on August 31, 1997. Both Harvestland associations will have common staff, common territory, and will operate under a joint management agreement.

As of October 1, 1997, a request for an amendment to its charter from an FLCA was being processed for FCA Board review and consideration.

Table 1
Active System Institutions[1]
at October 1, 1997

Bank Affiliation	PCAs	FLBAs	ACAs	FLCAs	ACB	FCBs	BC	Total
AgFirst FCB	1	–	39	–	–	1	–	41
AgriBank, FCB	18	–	11	19	–	1	–	49
FCB of Wichita	18	22	–	–	–	1	–	41
FCB of Texas	16	29	–	–	–	1	–	46
Western FCB	10	–	5	11	–	1	–	27
AgAmerica, FCB	1	–	1	1	–	1	–	4
CoBank[2]	–	–	4	–	1	–	–	5
St. Paul BC[3]	–	–	–	–	–	–	1	1
10/1/97	64	51	60	31	1	6	1	214
10/1/96 Total	66	69	60	32	1	6	1	235
Changes	(2)	(18)	–	(1)	–	–	–	(21)

[1]Service corporations are not included since they do not make loans.
[2]CoBank, ACB, has authority to serve cooperatives nationwide and ACAs in CoBank's Northeast Region.
[3]The St. Paul Bank for Cooperatives has authority to serve cooperatives nationwide.

Quarterly Comparisons of Major Financial Indicators by System[1]

Thomas R. Risdal

Dollars in Thousands	At and For the 3 Months Ended				
	Jun 30 '97	Mar 31 '97	Dec 31 '96	Sep 30 '96	Jun 30 '96
Farm Credit System Banks[2]					
Gross Loan Volume	57,782,928	57,044,815	56,466,631	56,587,082	56,778,256
Formally Restructured Loans[3]	296,403	273,632	307,530	328,813	314,345
Accrual Loans 90 or More Days Past Due	11,529	16,818	6,283	15,220	45,244
Nonaccrual Loans	567,088	583,049	253,869	292,989	303,742
Percentage of Nonperforming Loans[4]	1.51%	1.53%	1.01%	1.13%	1.17%
Cash and Marketable Investments	11,221,146	11,088,751	11,274,574	10,797,050	11,368,932
Total Capital/Total Assets[5]	8.56%	8.54%	8.46%	8.57%	8.39%
Total URE/Total Assets	4.00%	3.94%	3.87%	3.96%	3.83%
Total Net Income	165,058	155,501	120,947	154,142	160,344
ROA[6]	0.96%	0.93%	0.71%	0.90%	0.94%
ROE	11.15%	10.79%	8.23%	10.57%	11.18%
Percentage of Net Interest Margin	1.55%	1.62%	1.60%	1.62%	1.71%
Operating Expense Rate[7]	0.52%	0.52%	0.73%	0.60%	0.61%
Associations (excluding FLBAs)					
Gross Loan Volume	35,546,444	33,779,492	34,062,673	33,792,140	33,105,217
Formally Restructured Loans	77,216	83,062	87,959	90,451	94,413
Accrual Loans 90 or More Days Past Due	31,134	44,947	21,775	18,345	45,157
Nonaccrual Loans	398,212	391,334	390,935	442,427	455,525
Percentage of Nonperforming Loans	1.43%	1.54%	1.47%	1.63%	1.80%
Total Capital/Total Assets	16.36%	16.82%	16.35%	16.18%	16.26%
Total URE/Total Assets	12.41%	12.65%	12.06%	12.11%	12.02%
Total Net Income	151,526	166,927	160,551	142,343	149,676
ROA	1.65%	1.90%	1.76%	1.57%	1.75%
ROE	9.70%	11.02%	10.46%	9.44%	10.28%
Percentage of Net Interest Margin	3.41%	3.50%	3.39%	3.28%	3.50%
Operating Expense Rate	1.83%	1.89%	2.01%	1.82%	1.91%
Total Farm Credit System[8]					
Gross Loan Volume	62,639,000	61,968,000	61,178,000	60,909,424	61,178,699
Formally Restructured Loans	220,000	230,000	246,000	264,543	272,723
Accrual Loans 90 or More Days Past Due	41,000	61,000	28,000	34,264	84,614
Nonaccrual Loans	965,000	974,000	645,000	735,411	759,227
Percentage of Nonperforming Loans	1.96%	2.04%	1.50%	1.70%	1.83%
Total Bonds and Notes	63,362,000	62,571,000	62,343,000	62,045,482	62,857,224
Total Capital/Total Assets	14.54%	14.33%	14.15%	14.06%	13.62%
Total Surplus/Total Assets	10.36%	10.19%	9.91%	9.82%	9.47%
Total Net Income	304,000	303,000	250,000	288,595	307,521
ROA	1.60%	1.61%	1.34%	1.54%	1.66%
ROE	11.11%	11.33%	9.51%	11.14%	12.21%
Percentage of Net Interest Margin	2.90%	2.91%	2.93%	2.90%	3.00%

[1]Some of the previously published quarterly data have been restated to include subsequent adjustments.
[2]Includes Farm Credit Banks, the Bank for Cooperatives, and the Agricultural Credit Bank.
[3]Excludes loans past due 90 days or more.
[4]Nonperforming loans are defined as nonaccrual loans, formally restructured loans, and accrual loans 90 or more days past due.
[5]Total capital does not include protected borrower stock. Previous Quarterly Reports included protected borrower stock.
[6]Income ratios are annualized.
[7]Defined as operating expenses divided by average gross loans, annualized.
[8]Cannot be derived through summation of above categories due to intradistrict and intra-System eliminations. Data rounded in Report to Investors starting with December 31, 1996.

Source: Call Reports and Reports to Investors

Major Financial Indicators by District, Second Quarter 1997[1]

Thomas R. Risdal

Dollars in Thousands	At and For the Quarter Ended June 30, 1997							
	Total Assets	Gross Loan Volume	Nonaccrual Loans	Allowance for Loan Losses	Cash and Marketable Investments	Capital Stock[2]	Earned Net Worth[3]	Total Net Worth
Farm Credit System Banks								
Wichita	4,878,765	4,043,951	43,055	132,284	818,889	346,254	328,560	674,814
Texas	4,267,061	3,738,916	38,803	47,540	436,691	98,863	252,573	351,436
Western	5,199,997	4,380,622	0	22,977	717,823	198,729	177,774	376,503
AgriBank	17,119,240	13,793,348	122,419	217,568	3,239,362	565,752	796,066	1,361,818
AgAmerica	7,075,997	6,214,369	35,213	50,295	763,830	561,848	390,835	952,683
AgFirst	9,663,783	8,080,705	0	8,767	1,429,557	303,284	335,404	638,688
CoBank	18,785,032	15,264,859	207,535	223,709	3,462,165	844,146	489,583	1,333,729
St. Paul BC	2,672,879	2,266,158	120,063	63,688	352,829	236,428	39,370	275,798
Total	69,662,754	57,782,928	567,088	766,828	11,221,146	3,155,304	2,810,165	5,965,469
Associations (excluding FLBAs)								
Wichita	879,729	806,221	7,636	25,119	11,706	53,315	153,011	206,579
Texas	892,963	828,553	14,812	24,989	3,344	62,369	150,087	212,606
Western	5,222,424	4,925,556	63,821	110,196	29,531	153,240	656,975	810,215
AgriBank	13,737,754	12,867,729	97,583	242,957	111	343,102	1,725,508	2,074,071
AgAmerica	6,302,331	5,757,471	84,859	278,085	18,810	89,729	858,764	1,002,539
AgFirst	8,959,917	8,576,799	99,231	246,754	3,766	226,499	1,378,079	1,644,584
CoBank	1,908,275	1,784,115	30,270	48,598	11,660	72,119	286,764	358,883
Total	37,903,393	35,546,444	398,212	976,698	78,928	1,000,373	5,209,188	6,309,477
Farm Credit System Totals								
	76,281,000	62,639,000	965,000	1,825,000	11,942,000	1,937,000	7,918,000	11,208,000

[1]Aggregations of data may not equal totals due to eliminations.
[2]Does not include protected borrower stock.
[3]Includes net unrealized gains/losses on investments available for sale.

Glossary

Terms have the following meanings as used herein:

ACA—Agricultural Credit Association, the successor association resulting from an FLBA/PCA merger
ACB—Agricultural Credit Bank, the successor Bank resulting from a BC/FCB merger
Agency—FCA
Associations—FLBAs, FLCAs, PCAs, and ACAs
Banks—The FCBs
banks—The FCBs, the ACB, and (sometimes) the BC
BC—Bank for Cooperatives
Consolidated Bank Debt Securities—debt securities issued by a combined Bank group pursuant to Section 4.2(c) of the Farm Credit Act
DL—direct lender
Farm Credit Act—Farm Credit Act of 1971, as amended
FCA or Agency—Farm Credit Administration
FCB—Farm Credit Bank
FCS or System—Farm Credit System
FLBA—Federal Land Bank Association
FLCA—Federal Land Credit Association, an FLBA that has been granted direct lending authority
Funding Corporation—Federal Farm Credit Banks Funding Corporation
GSE—Government-sponsored enterprise
Insurance Corporation—Farm Credit System Insurance Corporation
Insurance Fund—Farm Credit Insurance Fund, maintained by the Insurance Corporation pursuant to the Farm Credit Act
OPDRC—Office of Policy Development and Risk Control
PCA—Production Credit Association
RCD—Risk Control Division
ROA—Return on assets
ROE—Return on equity
System—The FCS
Systemwide Debt Securities—Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes, Federal Farm Credit Banks Consolidated Systemwide Discount Notes, and any other debt securities that may be issued by the Banks pursuant to Section 4.2 (d) of the Farm Credit Act
URE—Unallocated retained earnings
USDA—U.S. Department of Agriculture

Copies available from
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